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Why has Peru been so badly hit by COVID-19?

By Sandra Naranjo Bautista

COVID-19 has unveiled the strengths and weaknesses in the economic and political systems of different countries, as well as their ability to adequately respond to crisis. Arguably, the pandemic has reinforced the need for stronger, more efficient and more effective governments creating equal opportunities for all.

Peru is an interesting case. Despite responding with the most drastic measures in

Latin America and implementing the biggest fiscal stimulus package in the region (17% of GDP), it has been one of the worst-hit countries by the pandemic. As of 30 July Peru was one of the top ten countries worldwide for number of coronavirus cases and total deaths. What happened? While we cannot be certain about the causes of such a complex and multifaceted phenomenon, it would appear certain structural features of Peru have played a key role. I want to highlight five.

1. Income vulnerability

Peru imposed one of the strictest and longest lockdowns in the world. But compliance was a different story. More than a behavioural problem, it appears to be a reflection of the country's underlying structural challenges. Labour informality surpasses 70%, one of the highest rates worldwide and much higher than other countries at a similar level of economic development to Peru. Sectors like tourism, commerce and transport – which absorb a significant part of informal employment – have basically shut down since mid-March, meaning there are no jobs and therefore no income for these informal workers. For families that need their daily income to survive, suddenly stopping work is not an option. In a recent survey more people were worried about lost income than getting infected by the virus.

2. Poor living conditions

Income vulnerability and poor living conditions exacerbate the undermining of social distancing and preventive health measures. Peru's unplanned and rapid urbanisation has contributed to a large housing deficit, pushing families into low-quality informal housing without property titles and with poor services in the peripheral areas of cities. Living away from economic centres involves travelling further to work, to buy basic goods, and even to access government cash transfers. While basic service provision has improved substantially, quality and continuity of services is still deficient in rural and peri-urban areas. Moreover, water access, essential for the recommended hand-washing to fight the virus, can be five times more expensive in informal settlements compared to residential areas.

Markets have become a hotspot for the virus. Cultural factors, like a preference for fresh produce, have played a role, but the inability to stock up on food for many days due to income constraints or physical constraints (for example, 42% of the population do not have a refrigerator at home) has a bigger impact. Wrongheaded policies, like limiting shop opening hours, contributed to crowds.

3. Low-quality health system

Peru's health system was even less prepared for the pandemic than other health systems in Latin America. Despite being one of the best-performing economies in Latin America, Peru historically has among the lowest health expenditures in Latin America (5% of GDP), far below the region's average (8%). Peru is also well below the region's average in terms of hospital beds, intensive care units, doctors and nurses relative to the size of its population. The weaknesses of the health system are felt in Lima, but are even worse in other areas like Iquitos in the Amazon.

4. Lack of social systems to protect the most vulnerable

Despite an outstanding record on poverty reduction in recent decades, at least 40% of the Peruvian population is still vulnerable and inequality persists in terms of income and human development. Peru also has one of the lowest levels of social protection in the region. For example, a third of the population, concentrated among those working informally, still do not have access to health insurance systems. Social protection programs are focused on rural areas and have low coverage. The pandemic response required the state to identify vulnerable populations, particularly in urban areas, that were 'invisible' before. The lack of an adequate database of beneficiaries delayed the process, and transfer programs had to be adapted on the go. After a number of false starts, the government created a universal cash transfer for anyone earning below a certain income threshold (verified against the tax system and the bank regulator) in an effort to avoid excluding large numbers of vulnerable households and workers. Peru's extensive relief package simply lacked the systems needed to make transfers effectively and quickly.

Likewise, initial failures of payment mechanisms delayed the process further, and ended up creating virus hotspots in banks. Given that 58% of the population do not have a bank account, bank transfers were not always possible. Instead, citizens had to physically go to banks to receive the money. There is also evidence that the value of the cash transfers was insufficient to compensate for the potential labour income loss and therefore might have been insufficient to guarantee compliance with the lockdown. (While the transfer amount replaced the median income for the first quintile, it only compensated 23% and 14% of the potential income loss of the second and third quintile.)

5. A weak social contract

The complexity of a virus response also requires collective action and trust in government. At the first stages of the pandemic the President's approval rating reached 87% and the government's approval rating was 68%. The numbers have decreased since then to 65% and 45%, respectively.

However, the crisis didn't happen in a vacuum. There has been a growing disconnect between society and institutions, with low levels of trust in government and high dissatisfaction in public services, unusual considering Peru's level of development. The country is trapped in a vicious cycle of low-quality services, dissatisfaction and a low willingness to pay taxes, which has impacted its social contract. Tax revenues in Peru (16% of GDP) are below Latin America's average (22%). The nation's fiscal framework relies heavily on indirect taxes, which are regressive. According to the OECD, more effective fiscal policy is required to redistribute income and achieve a more equitable society.

On top of the challenges imposed by the social and economic consequences of the pandemic, Peru will also have to address structural problems like high levels of inequality and informality, as well as low levels of productivity, in order to return to its pre-COVID-19 rates of economic growth. This crisis could be a unique opportunity to not just go back to normal, but to rethink the country's development model and do things differently: a model focused on the most valuable resource, its people, and on creating equal opportunities for all as the basis for growth. The now-popular phrase 'no one is safe until everyone is safe' goes beyond the COVID-19 context. As a society, no one is well until everyone is well.

This post is part of the #COVID-19 and international development series.

About the author/s

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