ANKER LIVING INCOME REFERENCE VALUE

RURAL PERU 2020

LIVING INCOME

2,050 PEN
PER MONTH
(US$612)

Anker Research Network | GLOBAL LIVING WAGE COALITION

The Anker Reference Values are endorsed by the Global Living Wage Coalition (Fairtrade International, Rainforest Alliance, Social Accountability International and ISEAL Alliance). Development of the methodology was initiated and supported by Fairtrade International and German Federal Ministry for Economic Cooperation and Development (BMZ). Further support was received from Rainforest Alliance, Social Accountability International and Clif Bar & Company.

Anker Living Income Reference Value[1]

Rural Peru 2020

1. Anker Living Income Reference Value for Rural Peru in 2020

The Anker Living Income Reference Value for rural Peru is 2,050 PEN (612 USD)[2] per month for 2020, with a 95% confidence around this of 1,863 PEN to 2,256 PEN. This is the estimated cost of a basic but decent standard of living for a typical rural family in Peru.

> *"Living income is the net annual income required for a household in a particular place to afford a decent standard of living for all members of that household. Elements of a decent standard of living include: food, water, housing, education, healthcare, transport, clothing, and other essential needs including provision for unexpected events" (The Living Income Community of Practice).*

2. Anker Reference Value Methodology

Anker Living Income Reference Values utilize a new methodology developed by Richard Anker and Martha Anker. This methodology is based on a statistical analysis of 40 internationally comparable, quality-assured Anker methodology living wage or living income studies spread across low-income and middle-income countries carried out primarily under the auspices of the Global Living Wage Coalition. Anker Reference Values are internationally comparable, consistent with results from existing Anker living wage and income benchmark studies, and easy to update every year, and so are especially valuable for countries where it has not yet been possible to organize and fund a full quality-assured Anker methodology living wage or living income study.

Anker Living Income Reference Values represent living expenses for typical size families in rural (urban) areas of developing countries. Since they are based on statistical analysis, they have a margin of error for typical rural or urban areas of a country which is approximately +/- 10 % using a 95% confidence interval. Since Reference Values are not location-specific within countries and represent the situation in typical rural (urban) locations, the margin of error is likely to be larger for unusual locations with atypical living costs within a country such as large cities with high living costs or poorer (richer) areas with lower (higher) living costs.

3. Country context: Peru

Geography and demographics

Peru is a large country in South America located just south of the equator that is more than twice the size of France. It has a population of around 33 million, and It has three ecological regions – a semi-arid coastal region with around half of its population (which includes Lima, the capital, with

---

[1] Prepared by: Sally Smith, Richard Anker, Martha Anker, and Ian Prates.
[2] Exchange rate used to convert to US dollars is 3.40. This is the average exchange rate for the three-month period from November 2019 through January 2020 (www.xe.com).

a population of 10.7 million), a mountainous Sierra region with a temperate climate and around one-third of its population, and a large but sparsely populated tropical jungle Selva region. Peru is to a large extent an urban country as 78% of its people live in an urban area. Women in rural Peru are having more than 3 children at present as the rural total fertility rate is around 3.1 births.

Economy

Peru is an upper-middle income country according to the World Bank with a gross national product per capita in 2018 of $13,710 in internationally comparable dollars[3] and $6,410 in USD using the Atlas method. Its economy grew rapidly between 2002-13 with real per capita income increasing by over 5% per year on average with minerals and metals playing a big role. Since 2013, real per capita income growth has slowed to a modest 1-2% per year in part because of weakness in commodity prices. Exports represent 25% of GDP with the main exports being copper and other ores, precious metals such as gold, and oil and gas as these metals and minerals comprise over 60% of the value of exports. The main agricultural products for export include grapes, avocado, mango, coffee, asparagus, quinoa, and bananas.

Poverty

Peru's poverty rate is roughly 21% (2018) at the official government national poverty line and 26% (2017) at the World Bank poverty line for upper-middle income countries. Poverty is much higher in rural areas according to government statistics, as the poverty rate is 46% in rural areas compared to around 15% in urban areas. Official government poverty lines differ across Peru. The rural poverty line (253 PEN in 2018) varied from 242 PEN in Silva region, to 253 PEN in Sierra region, and to 275 PEN excluding Lima in Coastal region.

Living conditions

Rural housing conditions are relatively poor for an upper-middle income country - providing further evidence of relatively high levels of poverty in rural areas. Only 56% of people in rural areas use at least basic sanitary services and only 76% use at least basic drinking water services.

4. Family income ladder and gaps to a living income, rural Peru

Figure 1 below provides a family income ladder where the Anker Living Income Reference Value for 2020 for rural Peru is compared to other indicators of family income for rural Peru.[4] Comparator measures in figure 1 are the monthly income a typical size family would have at: (i) the World Bank poverty line, (ii) the national rural poverty line, (iii) the minimum wage, and (iv) the average rural wage. To calculate values for these comparators, a family size of 5 (2 adults and 3 children) with 1.72 full-time workers per family was used (see notes to figure 1).

---

[3] "Purchasing power parity conversion factor is the number of units in a country's currency required to buy the same amount of goods and services in the domestic market as U.S. dollar would buy in the United States." https://datacatalog.worldbank.org/2005-ppp-conversion-factor-gdp-lcu-international-1
[4] The family income ladder is analogous to a wage ladder that is in common use. Only in this case, different measures of family income are used rather than different measures of wages to observe gaps to living income.

The Anker Living Income Reference Value for rural Peru is 42% higher than family income at the World Bank poverty line for upper-middle income countries such as Peru, and 62% higher than family income at the national rural poverty line. The Anker Living Income Reference Value for rural Peru is 28% higher than family income when members earn the minimum wage. The Anker Living Income Reference Value for rural Peru is 68% higher than typical family income when its members earn the average rural wage.

Since incomes, poverty rates and poverty lines differ across Peru (see discussion above in poverty section), living income and so gaps to living income will also vary across Peru. To better understand and measure location-specific living income gaps within Peru, new quality-assured Anker methodology living income/living wage benchmark studies are needed. As a first approximation, we suggest using the Reference Value upper confidence limit of PEN 2,256 as the living income target for the rural Coastal region (where bananas are grown), since average household consumption and the poverty line are considerably higher and the poverty rate is considerably lower in rural Coastal region compared to rural Peru as a whole. The rural Reference Value for the Sierra region (where coffee is grown) should not need to be adjusted from PEN 2,050, since average household consumption per capita and the poverty line are almost identical for rural Sierra as for rural Peru as a whole.

Figure 1

Peru rural family income ladder (Pen per month), 2020
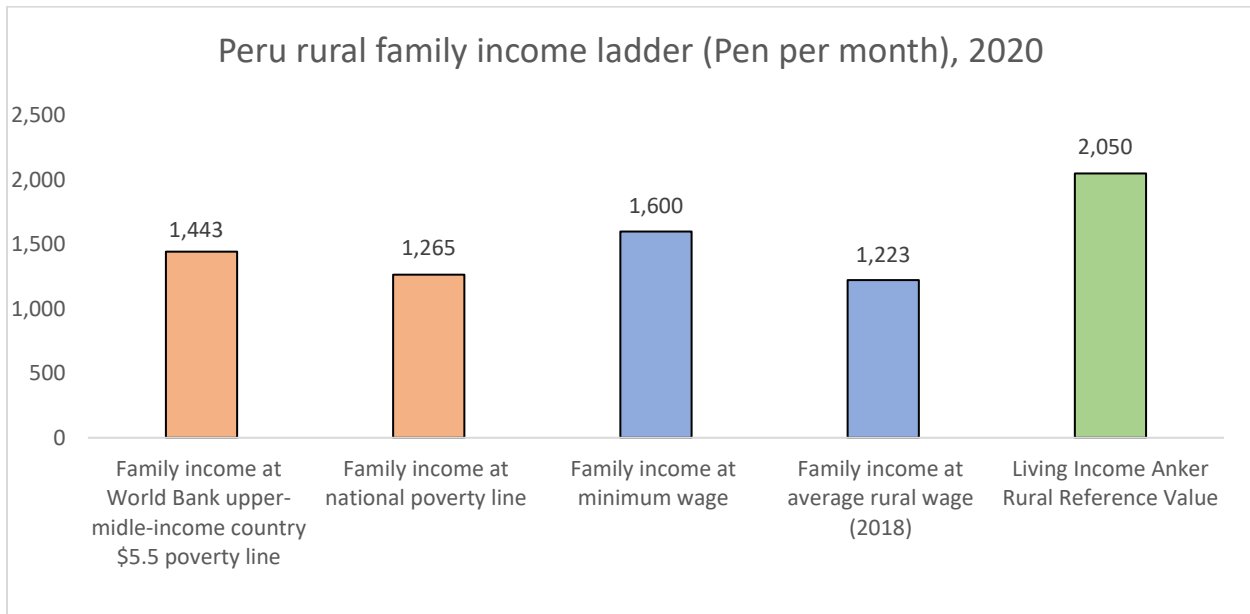
Notes: [a] Peru's rural poverty line and the World Bank poverty line (which are per person) were multiplied by 5 to convert them into income for a typical rural family of 2 adults and 3 children. [b] National poverty line is for 2018; there has been around 4% inflation since then. [c] The World Bank $5.50 poverty line for an upper-middle-income country such as Peru was estimated for 2020 using a formula suggested by the World Bank, latest available PPP from the World Bank, and inflation rate data from the IMF for Peru and the United States. [d] Family size of 5 (2 adults and 3 children) was used for expositional purposes to calculate the national rural poverty line wage and the World Bank poverty line wage. This family size is in between: (i) rural average household size of 4.7 when single-person households (that do not have

children) and very large households (that are likely to be extended families with more than 2 adult workers) are excluded considering that this 4.7 average is biased downward by a relatively high percentage of female-headed households that are generally smaller in size (25.7% of households are female-headed according to World Bank), and (ii) family size of around 5 implied by the 2018 rural total fertility rate adjusted for rural child mortality rate of 3.04 based on 2018 Demographic and Health Survey data. [e] Number of full-time equivalent workers per family of 1.72 is used for expositional purposes to calculate family income at the poverty line, minimum wage and average wage. It was estimated using micro data from the 2017 household survey on labor force participation rates, unemployment rates, and part-time employment rates for rural males and rural females ages 25-59. Rural Peru has high male and female labor force participation rates along with low unemployment rates and high part-time employment rates. [f] Minimum wage was last increased in 2018. There has been around 4% inflation since them. [g] Average rural wage estimate is for 2018. There has been around 4% inflation since then. [h] The Anker Living Wage Reference Value is estimated directly based on statistical analysis and therefore does not have an explicit number of full-time workers per family or reference family size (although note that rural reference family size falls from 6 to 4 with development in Anker living wage studies).

Sources: Instituto Nacional de Estadistica (2018) for average rural wage. wageIndicator.org and ILOSTAT for minimum wage. World Bank World Development Indicator database for purchasing power parity (PPP) and IMF for inflation rates. National poverty line from Instituto Nacional de Estadística e Informática publication at
https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1646/libro.pdf.