

Building Urban Economic Resilience
during and after COVID-19

Latin America and the Caribbean Region

Case Study: Lima, Peru

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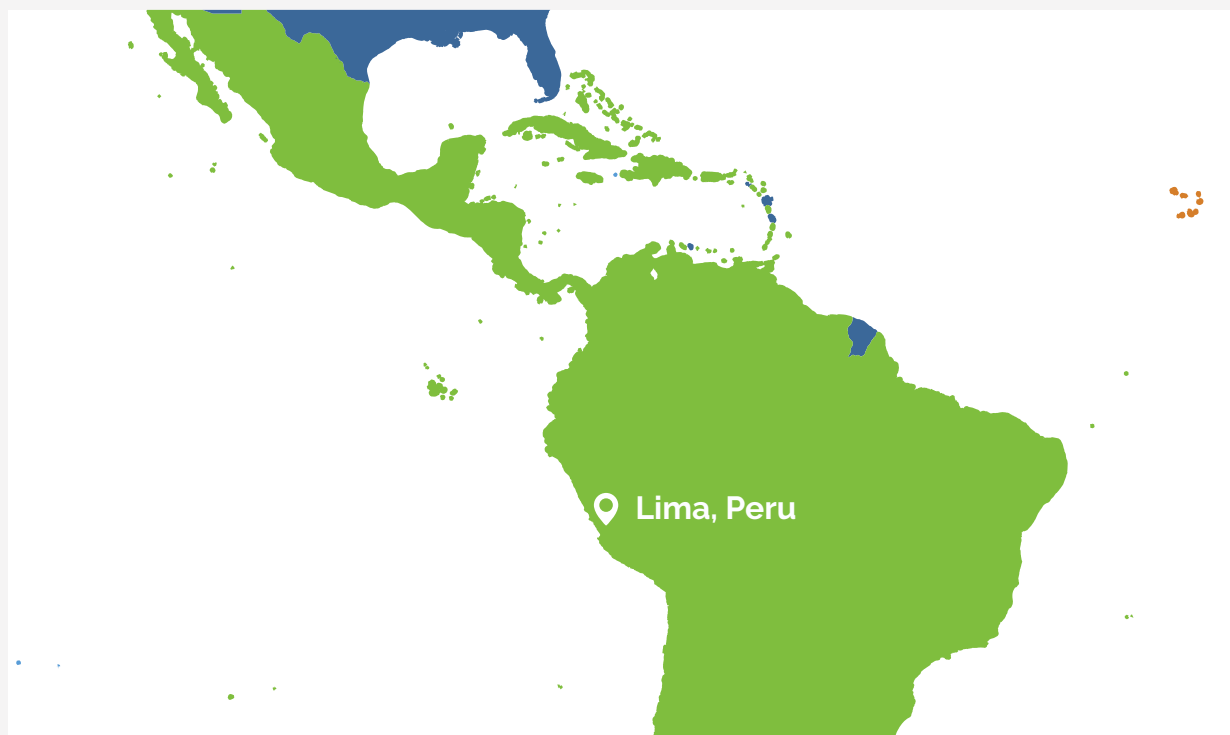
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Status	Primary, Capital
Area	2,672 km ²
Number of inhabitants	9,600,000 (2020)

Pre-existing Challenges

Hosting about 30% of the population of Peru, the city of Lima grew and urbanized spontaneously, which determined its inherent vulnerability. Some of the structural challenges the city faces are poverty and inequalities, lack of social cohesion among its inhabitants, precarious and incipient groups of population, weak institutions, and institutional disregard for the risks the city might face. The latter is partly related to building in areas of the city that should not be inhabited—not only in those areas traditionally considered unsafe, associated with the poorest places in the city, but also those where the wealthiest segments of population live (Malecón de la Costa Verde and its adjacent area). Apart from this, the city is also facing diminishing public space due to a tendency for public space privatization as a result of a real estate boom, predominance of personal transport modes, and saturated drainage and sanitation networks.



Source: Lima City Council.

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As of August 2020

Brief description of COVID-19 in the city

First reported case	6 March 2020 (National)
Confirmed	177,617 (Metropolitan Lima)
Deaths	5,497 (Metropolitan Lima)

✓ Data from 3 August 2020

Lockdown specifics: The national lockdown continued for 107 days from 15 March to 30 June 2020. After the national lockdown ended, it was still maintained in 7 provinces of the country. From 1 July, public transport resumed its operations, and a gradual restart of commercial activities began. From 15 July, interprovincial transport and airports restarted their activities. However, despite the gradual reopening, the healthcare system experienced a collapse on 21 July. As of 3 August, according to the Ministry of Health, the number of confirmed cases on Peru reached 433,100.

Main economic and financial impacts

The tourism sector of Peru contributes 3.9% of GDP, with internal tourism potentially representing another 5%. The economy is also highly reliant on private investment, which accounts for 80% of the country's total investment and around 20% of the national GDP. Micro and small companies play a central role in the development of the national economy, and according to official data, constitute more than 99% of business units in Peru, create around 85% of total jobs and generate approximately 40% of GDP.



Labour Market

Around 70% of the employed population in Peru works in the informal sector. The economy is also characterised by low levels of bancarization, with only about 38% of Peruvian adults having a bank account, making digital payments largely impossible. Many of the formal sectors are highly feminized, while in the informal sector, it is estimated that 7 out of 10 Peruvian women generate income every day.



Business Environment

Before the start of the pandemic, the decreasing rate of the country's economic performance was already worrying, with an annual GDP growth of just 2.16% in 2019. With the exception of agricultural activity, all productive sectors recorded sharp falls: fishing (-33.7%), mining and hydrocarbons (-21.3%), manufacturing (-25.7%), construction (-41, 4%), commerce (-27.4%), and services (-10.4%). The Institute of Economics and Business Development of the Lima Chamber of Commerce estimates that the GDP would fall 3.7% for this year due to contraction of private domestic demand. Micro and small companies (mypes) in this new scenario are the most affected. In the first quarter of 2020, private investment fell by -16.8%, and private consumption by -1.7%. Exports and imports fell by -13.6 and -6.4%, respectively. In the first five months of 2020, the national economy registered a fall of -17.3%, compared to the same period of 2019.



Financial Environment

At the beginning of the crisis (March 2020), the balance of the public debt of the non-financial public sector stood at 26.2% of GDP, while its fiscal deficit stood at -1.1%. However, a deterioration in both indicators of public finances is predicted due to the issuance of bonds for up to USD 4 billion, of which USD 3 billion have already been placed, as authorised by the Ministry of Economy and Finance on 1 May 2020. In addition, in the first half of the year, the current revenues of the General Government fell 20.4%; in the same period, its non-financial expenses advanced 1.3%, mainly due to concepts such as salaries (+4.2%) and transfers (+43%), which includes the bonds granted to households estimated at S/4749 millions. The Peruvian securities market has been strongly affected by the crisis. The General Stock Market Index of the Lima Stock Exchange accumulated a fall of 32.3% thus far this year.



Economic Governance

In June, two milestones were marked in the country's public investment: (1) local governments were endowed with huge resources (around S/3.9 billion) to finance the maintenance of the local and national road network, and (2) their functions as managers of important infrastructure works were transferred to the British government after the Executive Branch signed an agreement from Government to Government (around S/7000 million) for technical assistance in the execution of infrastructure works in the north of the country. In addition, during fiscal year 2020, regional governments are authorized to make budget modifications, in order to finance the hiring of personnel for the prevention, control, diagnosis, and treatment of COVID-19.

Crisis Response and Recovery Measures

Peru has allocated up to 12% of its GDP to help people who lost their jobs and companies that lost income due to closure measures. The Executive Branch authorized a transfer of S/311,011,313 to local governments to finance essential operating expenses, due to the lower revenue collection they have been registering. Measures for S/120,080 million (15.8% of GDP) have been approved, with resources for four key areas: emergency funds (S/3,263 million), support for families (S/23,971 million), support for companies (S/12,608 million), and support to the economy (S/80,238 million). However, there have also been issues in terms of the proper use of these funds, and the lack of collaboration with business unions or other institutions that make up civil society in order to support the vulnerable population and alleviate health and economic damage.

The government together with the Ministry of Economy and Finance (MEF) created economic measures to support SMEs through the programs of Reactiva Peru, which aims to guarantee the financing of the replacement of the working capital funds of companies that face payments and short-term obligations with their workers and suppliers; and the Business Support Fund for micro and small businesses (FAE-Mype), which aims to promote the financing of the SMEs through loans for working capital, as well as to restructure and refinance their debts. The Superintendency of Banking, Insurance and AFP (SBS) made the treatment of the provisions that apply to the loans granted in these programs more flexible. District governments such as Victoria promoted the proximity of financial entities by installing modules of financial entities such as Reactiva Peru and FAE-Mype close to the commercial emporium of Gamarra.

Contribution of different sectors in the management (e.g. planning, reallocation, and mobilisation) of relevant resources during the COVID-19 crisis

	Local government more important	Central government more important	Private stakeholders more important	All partners contribute equally
Labour markets	-	✓	-	-
Business environment	-	✓	-	-
Financial environment	-	✓	-	-
Economic governance arrangements	-	✓	-	-
Institutional responsiveness*	-	-	-	✓

* Local government business continuity, adequate fiscal space, and uninterrupted delivery of key public services

Crisis management plans at sub-national levels are still underdeveloped, and are mostly governed by the initiatives that the central government dictates. Lima's City Council response measures have centred primarily on supporting the markets and informal vendors, as one of potential primary spaces for contagion, since majority of the population frequently relies on them for stocking up due to the reported lack of refrigerators in the homes of almost 40% of the population of Peru. The measures included relocating street vendors to safer spaces and formalizing their activities, where possible; ensuring that vendors at the city markets are complying with biosafety protocols and providing them with necessary equipment; technical support and design of craftsmen products; and supporting mobile markets and running various digital support platforms for the entrepreneurs and micro and small businesses. The local government is also directing its work to bring humanitarian aid to precarious sectors through the approval of economic bonds for the vulnerable population, flexibility in the payment of basic household services, and support for the economic reactivation of different lines of business.

Mid- to Long-Term Recovery

In the longer term, the Ministry of Economics and Finance is working on 2 instruments in order to achieve economic reactivation:

1. the executive boards (coordination between the private and public sectors)
2. the formation of the public investment monitoring team.

The country is focusing on infrastructure as a mechanism to reactivate domestic demand. In this sense, the institutionalization of the G2G contractual modality is an efficient mechanism for the construction of mega projects to the extent that it limits the addenda, reduces the execution period, and helps prevent corruption.

In order to contribute to the recovery, the Lima Chamber of Commerce (CCL) has made improvement proposals for economic reactivation, identifying the bottlenecks that affect its more than 15,000 associates. A positive aspect about this proposal is that it has identified the bureaucratic difficulties that need to be addressed according to the reactivation phases and by union activities.

Supporting markets and informal vendors



The Formalízate Lima programme of the local government has helped more than 300 street vendors to formalize their activity and get a formal selling point. The relocation of street vendors to Lima's zonal parks and later to galleries through a formalization process has benefited more than 2,500 street vendors. The initiative Lima Gastronómica for the selling take-away food generated more than 37,000 sales. The municipality also worked to ensure that city markets meet the necessary protocols for biosafety.

Promoting digital platforms



The Lima Chamber of Commerce (CCL) has launched two versions of Cyber Day, which allowed companies to increase their virtual sales. Another measure is the communication link that has been established with different companies to allow them to access financing programs with guarantees of the state.

The City of Lima also launched several digital platforms to help local businesses, such as a Web Portal for local businesses, a virtual educational platform to advise and mentor entrepreneurs in the light of COVID-19, a personal virtual business advisor service, and an online business incubator. The city increased flexibility in receiving permit for commercial activities online. Digital platforms for buying and selling have also been implemented.

Start Peru program



The Start Peru program has been launched as a temporary employment program that serves as a high-impact measure for the current economic crisis. This will create more than 1 million temporary jobs for the second half of the year with an execution that includes S/6,463 million in public investment projects.

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