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**Educating on a Budget:**  
**The Subsistence Model of Low-fee Private Schooling in Peru**

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**Abstract:** Over the last decades, Peru has experienced an extraordinary rise of low-fee private schools (LFPSs). While global debates on the quality of this modality of schooling have been gaining currency, research on the organizational practices of LFPSs remains comparatively underdeveloped. This paper aims at identifying and describing the managerial, business and organizational practices exhibited by Peruvian LFPSs— and at understanding them in relation to the social norms and institutional arrangements specific to the context in which they operate. The study draws on a combination of archival analysis, interviews with decision-makers, and interviews with school owners and principals. The results of our research show that the specificities of the socioeconomic, cultural and regulative environments in which Peruvian LFPSs operate have led to the consolidation of a particular subsistence model of LFPS where profit-making appears to play a limited role. This model is also characterized by the low formalization of management routines, the impossibility to generate economies of scale, and the reliance on interpersonal trust as a means to reduce risk – in a context of low bureaucratization and limited regulatory oversight. We argue that, in view of the distinctly low achievement levels of Peruvian LFPSs, gaining a fine-grained understanding of their organizational practices (and the incentives they respond to) remains a relevant task, and a necessary step to devise effective policy strategies.

**Keywords:** Peru; Low-Fee Private Schools; Subsistence markets; Organizational analysis

### **Educar con un presupuesto: El modelo de subsistencia de la educación privada de bajo coste en Perú**

**Resumen:** Durante las últimas décadas, Perú ha experimentado un aumento extraordinario de las escuelas privadas de bajo coste (LFPSs). Si bien los debates globales sobre la calidad de esta modalidad escolar han cobrado relevancia, la investigación sobre las prácticas organizativas de las LFPS está comparativamente menos desarrollada. Este artículo se propone identificar y describir las prácticas de gestión, comerciales y organizativas de las LFPSs peruanas – a la vez que entenderlas en relación con las normas sociales y arreglos institucionales específicos a los contextos en que estas escuelas operan. El estudio se basa en una combinación de análisis documental, entrevistas con autoridades y decisores clave, y entrevistas con propietarios y directores de LFPSs. Los resultados de la investigación muestran que las especificidades del contexto socioeconómico, cultural y regulatorio en que operan las LFPSs han dado lugar a la consolidación de un modelo de subsistencia en que la voluntad de lucro tiene un peso limitado. Este modelo se caracteriza también por la limitada formalización de las rutinas de gestión, la imposibilidad de generar economías de escala, y la dependencia de las relaciones de confianza interpersonales como forma de reducción de riesgos – en un contexto de baja burocratización y supervisión limitada. Sostenemos que, en vista del bajo rendimiento educativo del sector LFPS, lograr una mejor comprensión de sus prácticas operativas (y los incentivos a los que responden) es una tarea de especial relevancia, a la vez que un paso clave para diseñar políticas públicas eficaces.

**Palabras clave:** Perú; escuelas privadas de bajo coste; mercados de subsistencia; análisis organizacional

### **Educar com um orçamento: O modelo de subsistência da educação particular de baixo custo no Peru**

**Resumo:** Nas últimas décadas, o Peru experimentou um aumento extraordinário nas escolas particulares de baixo custo (LFPSs). Embora os debates globais sobre a qualidade dessa modalidade escolar tenham ganhado relevância, pesquisas sobre as práticas organizacionais do

LFPS são comparativamente menos desenvolvidas. Este artigo tem como objetivo identificar e descrever as práticas de gestão, comerciais e organizacionais dos LFPSs peruanos - enquanto as compreende em relação às normas sociais e arranjos institucionais específicos para os contextos em que essas escolas operam. O estudo é baseado em uma combinação de análise documental, entrevistas com autoridades e principais tomadores de decisão e entrevistas com proprietários e diretores de LFPSs. Os resultados da pesquisa mostram que as especificidades do contexto socioeconômico, cultural e regulatório em que os LFPSs operam resultaram na consolidação de um modelo de subsistência no qual a vontade de lucrar tem um peso limitado. Esse modelo também é caracterizado pela formalização limitada das rotinas de gestão, pela impossibilidade de gerar economias de escala e pela dependência das relações de confiança interpessoal como forma de redução de risco - em um contexto de baixa burocratização e supervisão limitada. Mantemos que, tendo em vista o baixo desempenho educacional do setor de LFPS, alcançar uma melhor compreensão de suas práticas operacionais (e os incentivos a que respondem) é uma tarefa de especial relevância e um passo fundamental na elaboração de políticas públicas eficazes.

**Palavras-chave:** Peru; escolas particulares de baixo custo; mercados de subsistência; análise organizacional

## Introduction

One of the most distinctive elements in the process of globalization has been the redefinition of the role of the State in the provision of public services, along with the displacement of bureaucratic government systems with new forms of governance that combine the goals and organizational characteristics of the public, private and third sectors. Such changes have entailed a “functional and scalar division in the labor of education” (Robertson, 2007, p. 216) in which the governance and provision of public education services have increasingly assumed market-like forms or have been directly outsourced to private providers. An almost blind trust in the efficiency of competition and demand behavior as regulators and drivers of educational quality has replaced the old trust in State bureaucratic control.

The privatization of education that has taken place in this context comes in many guises - from the earlier introduction of market mechanisms in public education, to the outsourcing of public education provision to private actors, including the increasing participation of non-state providers in many aspects of educational provision (such as curriculum development, school texts, infrastructure, etc.). While privatization modalities may vary, their justification in terms of the quality and equity gains that may be achieved through market competition is widespread.

The specific form of privatization that constitutes the focus of this paper is that in which states, through deregulation and often through passivity, have enabled the growth and consolidation of private education markets where providers often operate on a for-profit basis, and count neither with public funding nor, often, with appropriate State regulatory controls – hence its description as a form of “default privatization” (Caddell & Ashley, 2006; Rose, 2005). Such markets tend to be characterized by the presence of very diverse providers – from high fee schools catering to socioeconomic elites, to low-fee private schools (LFPSs) targeted to poorer families in more marginal urban and rural areas.

In countries where processes of default privatization have unfolded, private education markets have grown exponentially, both in terms of supply and demand. The rise of LFPSs as a specific sub-segment of such markets has received increasing scholarly attention since the days when

Tooley and Dixon (2005) proclaimed that low-cost “private education is good for the poor” (p. i). However, and as discussed below, claims regarding the superiority or quality advantage of the LFPS sector remain highly contested, and a number of researchers have drawn attention to the many challenges posed by the LFPS modality. According to a wide range of accounts, the reality of LFPSs is far from unproblematic.

Such debates on the quality or added-value of LFPSs have been paralleled by a growing body of research that focuses on the political, economic and regulatory forces enabling the emergence and consolidation of this schooling modality. Within this line of inquiry, research on LFPS chains, as well as on the role of powerful international actors who have promoted them, features prominently (cf. Verger, Fontdevila, & Zancajo, 2018). However, less attention has been paid to the organizational and management practices of LFPSs – even if this was the focus of key seminal works on the LFPS theme (cf. Srivastava, 2007). This has contributed to a certain neglect of the internal heterogeneity of the LFPS sector – to the point that there is limited understanding of the organizational specificities of such schools as shaped by context-specific social norms and institutional arrangements, and by the specific (and sometimes contradictory) expectations that emerge in their midst. This is problematic in that these organizational specificities have crucial implications for the quality of the services provided.

In this paper, we aim at adopting a meso-level of analysis in order to gain a better understanding of the LFPS segment within the Peruvian education market. More specifically, we focus on the organizational particularities of an institutional modality that we shall refer to as the “subsistence model” of LFPSs - a term originally proposed by Balarin, Kitmang, Ñopo and Rodríguez (2018). As we argue in this paper, this is the modality that appears to prevail within the Peruvian LFPS sector. This subsistence model contrasts with the more organized and standardized chain model of LFPSs, and is characterized by the existence of small-sized schools which take advantage of the absence of effective State regulation, often resorting to informal and irregular practices – not in order to secure profits, but in order to ensure the subsistence of the school and the remuneration of its core personnel.

This paper aims thus at identifying the managerial, business and organizational practices exhibited by Peruvian LFPSs – and understanding them in relation to the social norms and institutional arrangements specific to the context in which they operate. The paper draws on a case study conducted in San Juan de Lurigancho, one of the poorest and most densely populated districts of the city of Lima, which displays also one of the highest share of LFPSs in the country (Balarin et al., 2018). Methodologically speaking, it combines the analysis of documentary data and public databases, with qualitative work carried out in 27 LFPSs, where interviews were conducted with school owners and principals. Our analysis is guided by a sociological perspective, specifically that of the sociology of markets, complemented with more context-sensitive notions developed from within the literature on emerging and subsistence markets.

By characterizing and describing the specificities of LFPSs’ organizational and management strategies, we aim also at gaining insight into one of the possible determinants of their persistently low results in national standardized tests. Through our analysis we aim thus at questioning the unproblematic link often made between market competition and educational quality and equity, and at highlighting the fundamental role that regulatory controls (or their absence) play in shaping educational markets. We argue that the distinctly low achievement levels of Peruvian LFPSs cannot be dissociated from their highly idiosyncratic organizational features and modes of operation – more specifically, the limited formalization of management routines, distinctly low levels of bureaucratization, the reliance on quasi-affective commitments and loyalty bonds as means to

prevent deviant behaviors, a limited observance of regulations in place, and the impossibility to generate economies of scale.

The paper is organized as follows: in the first section, we provide a brief overview of recent advances and debates on the subject of LFPSs, highlighting those areas of investigation that, comparatively speaking, have received more limited attention and to which this paper aims to contribute. The following section presents the theoretical approach and the empirical strategy that guided the research. Then we provide some contextual background by describing the main transformation experimented by the Peruvian education system – particularly, those relative to the growth and diversification of the private education market. In the fourth and main section, we discuss the main results of our analysis, examining the specificities of Peruvian LFPSs as subsistence businesses. We conclude by summarizing the main findings of the research and discussing some of their potential policy implications.

### **Researching Low-fee Private Schools: Recent Advances and Blind Spots**

Researchers interested in school privatization began documenting the rise of LFPSs in the early 2000s. In contrast to the more deliberate or purposive re-design of school markets observed in high-income countries, LFPSs emerged as a more spontaneous, bottom-up response in various countries in the Global South where states, as a consequence of their lack of capacity and/or through lenient regulation, had “defaulted” from their responsibility to provide good quality public schooling for all citizens. Private schools charging low fees affordable to poorer segments of the population have been proliferating in many parts of Africa and South Asia, as well as in some Latin American countries like Peru (Verger, Fontdevila, & Zancajo, 2016). In consonance with such trends, research into LFPSs – a term successfully coined by Srivastava (2006) – has only been gaining traction over the last decade, as various authors have endeavored to document their existence in a wider array of contexts and to open up the black box of this modality of schooling.

To be sure, research into this distinct modality of schooling was pioneered by James Tooley – who became also one of its greatest global advocates, making blanket statements on how such low-cost schools were outperforming state-funded schools (see for instance Tooley, 2009; Tooley & Dixon, 2005). However, and discussed elsewhere (Verger et al., 2018), these celebratory accounts were met with skepticism from the academic community. A range of authors highlighted the problematic nature of Tooley’s methodological approach, noting that too-optimistic accounts frequently failed to appropriately take into account the influence of socio-economic and compositional variables over school results (Ashley et al., 2014; Sarangapani & Winch, 2010; Watkins, 2004).

Similarly, a number of authors documenting the rise of LFPSs in the Global South have drawn attention to other challenges and issues specific to the LFPS modality - such as the narrowing of the curriculum that results in the standardization strategies of some LFPSs (GCE, 2016) or the limited labor rights and preparation of teachers working in such schools (see Andrabi, Das, & Khwaja, 2008; Edwards, Klees, & Wildish, 2017). In addition, a range of researchers have drawn attention to the problematic nature of school-choice patterns among poor families whose ability to navigate the system might be limited and unevenly distributed (Balarin, 2015; Caddell, 2006; Fennell, 2013; Härmä, 2009). In connection to such findings, a range of researchers have showed that the emergence of low-cost and low-quality private schools for the poor are likely to reinforce and deepen school segregation (for an overview of these debates, see Macpherson, 2014). Finally, different authors have addressed the shortcomings of the LFPS modality in relation to regulatory practices, and recent accounts have made it clear that the nature, quality and effective application of

existing regulations is a key element explaining the specific characteristics of LFPSs in different contexts (Baum, Cooper, & Lusk-Stover, 2018; Härmä, 2019).

Such debates on the regulation, quality and added-value of LFPSs have recently been complemented by other lines of analysis focusing on the changing macro-level forces and the interests lying behind the emergence and consolidation of this modality of schooling. Questioning initial depictions of LFPSs mainly as a spontaneous response to demand-side pressures (Walford, 2013), such accounts have traced the role played by powerful international actors and supply-side factors in the diffusion of this schooling modality in many low-income countries (for an overview, see for instance Verger et al., 2018). In the past, international players such as the World Bank or the UK Department for International Development have advocated and directly promoted the expansion of LFPSs (Baum, 2012), and the rise of LFPS chains is now well documented in the literature (Junemann, Ball, & Santori, 2016; Srivastava, 2016). Evidence also points to a rising modality of public-private partnerships (PPPs) between governments and local or international LFPSs – which has been documented for countries such as India, Pakistan, Uganda and Liberia (cf. Verger et al., 2016). In synthesis, a number of authors have shown LFPSs are increasingly the product of intentional policy designs – rather than a spontaneous response (Srivastava, 2010). This point has led organizations such as Educational International or the Global Campaign for Education to focus their research and advocacy agendas on the chain-model LFPSs or its integration within PPP arrangements (see for instance ; EI-KNUT, 2016; GCE, 2016; Riep, 2014).

Debates on LFPSs, thus, have tended to revolve either around the ultimate impact of such schools (in terms of quality, equity or efficiency), or around the political, regulatory and economic forces enabling and shaping the spread of this modality of schooling. Conversely, studies adopting a meso-level approach and oriented at describing LFPSs' organizational strategies appear to be sparser, even if such themes constituted the focus of some seminal works on LFPSs – most notably, Srivastava's (2007) research on Indian LFPSs, where she described their management and operation strategies in a progressively marketized environment. Comparatively speaking, research on the managerial and organizational strategies of LFPSs remains largely underdeveloped and undertheorized. This is problematic in that it leaves unquestioned many assumptions as to how private educational providers operate and behave in an open, deregulated and scarcely formalized market. In addition, a neglect of this meso-level of analysis risks obscuring or overlooking the internal heterogeneity of the LFPS market segment. Going beyond catch-all and sweeping generalizations remains a key step in order to better understand the challenges posed by such schools, and to devise appropriate policy strategies.

It is thus necessary to examine the reality of LFPSs operating in specific contexts and as impacted by distinct cultures and institutional arrangements. The more organized LFPS chains that feature prominently within recent literature are but one example of the types of schools operating within this growing modality of provision. A different and still highly relevant type of LFPS is that of bottom-up schools that often operate as subsistence micro-businesses, hardly making any profits, and merely providing a source of income for their staff. As we discuss below, it is this *subsistence model* of LFPS the one characterizes the Peruvian case.

Unlike schools in the *chain model* of LFPS, those in the *subsistence model* cater for a small number of families and tend to exhibit very loose (that is, scarcely formalized) organizational practices (Balarin et al., 2018). Like other subsistence enterprises, they function as “tiny operations that do not grow into larger firms but merely provide an alternative employment opportunity to the entrepreneur and potentially their family members” (Schoar, 2010, p. 59). The organizational and managerial particularities exhibited by these businesses have key implications in terms of the investments, the infrastructure or the teacher profiles they can afford. Given the impact of such

elements over the quality of the education provided by Peruvian LFPSs, describing their organizational, business and management practices, as well as understanding the social norms and institutional arrangements that produce and shape them, remains a relevant endeavor.

## Theoretical and Methodological Considerations

### Understanding the Subsistence Model of Peruvian LFPSs: Theoretical Insights

Since the introduction of market mechanisms in public education systems, research have been concerned with understanding how educational markets work – as well as under which circumstances they do not (Lauder & Hughes, 1999). Much of the literature on the subject has addressed such questions by focusing on demand side factors and on the question of choice (Waslander, Pater, & Van der Weide, 2010)<sup>1</sup>. However, a more recent (and hence comparatively less developed) line of inquiry has addressed the question of competition by focusing on the behavior of education providers and how they respond to competitive dynamics. Examples of this line of analysis include Van Zanten's (2009) and Ball and Maroy's (2009) seminal work on schools' logic of action in different European urban areas; and Woods' (2000) conceptualization of producers' modes of engagement, informed by empirical research focusing on six English local education authorities<sup>2</sup>; and, more recently, Jabbar's (2016) study of how New Orleans' school leaders respond to market pressures.

This line of research is influenced by a sociological perspective. Jabbar (2016), for instance, refers to the key insights provided by the *sociology of markets*, one of the main branches of economic sociology which highlights the fact that markets are socially constructed and that their characteristics are therefore embedded in existing social structures. From this perspective, the behaviors of different actors (individuals and firms), as well as their prevalent modes of relating, are understood as being influenced by their different social positions within a specific field or market, as well as by existing formal and informal rules and by the availability of technological devices (Fourcade, 2007; Smelser & Swedberg, 1994). Rather than expecting that all educational markets will produce similar outcomes through their tendency to reach a supply-demand equilibrium, the sociology of markets highlights the specificity of market configurations in contexts with different structural constraints. Although the sociology of markets does not constitute a unified perspective or a clearly structured research agenda, the growing volume of scholarship explicitly adopting this perspective has coincided in highlighting the role played by cultural constructions and the connectedness among social actors in any structure of exchange (Fligstein & Dauter, 2007). Studies guided by such perspective seek thus to illuminate how market dynamics and business behavior are distinctly shaped by social norms and institutional arrangements, and by the specific expectations that emerge in their midst.

Given the purpose of our research, we consider these are key assumptions that need to be taken into account when approaching the behavior of private-education providers within a competitive environment. The managerial responses and operational modes displayed from educational businesses cannot be understood simply as rationalistic, mechanic or automatic reactions

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<sup>1</sup> Various authors have thus highlighted the limitations that parents from different socio-economic backgrounds face in making school choices, and how such decisions are underpinned by families' access to different forms of capital. While the range of studies addressing such questions is very broad, remarkable contributions from a cross-country or comparative perspective include Alves et al. (2015) and Ball (2003).

<sup>2</sup> For a comprehensive review of the specialized literature, see *Supply side mechanisms: schools and competition* in Waslander et al. (2010).

to supply-and-demand dynamics. Rather, they need to be approached as modulated by social norms, institutions and expectations. However, one limitation of adopting the perspective of the sociology of markets to understand LFPSs is that much of the research and theorization on the behavior of private providers within a competitive environment has focused on relatively institutionalized (i.e. clearly regulated and governed) education markets, often in the context of high-income countries (cf. Waslander et al., 2010). Theoretical contributions on such questions have thus drawn largely on research conducted in European and Anglo-Saxon settings – even if recent accounts focusing on Argentina (Moschetti, 2018), Chile (Zancajo, 2017) or Colombia (Termes, Bonal, Verger, & Zancajo, 2015) have contributed to a significant diversification in this line of inquiry. However, when it comes to less-effectively regulated education systems (as those in which LFPSs typically operate), the analytical tools provided by existing theoretical approaches might be insufficient to capture and explain the responses and strategies deployed by education providers. This is particularly the case of those running schools as small business or micro-enterprises, and operating in a context in which education authorities enjoy limited regulatory and enforcement capacity.

Over the last decade, indeed, different scholars have challenged the generalizability of market research approaches originated in high-income economies (Burgess & Steenkamp, 2006; Gau, Jae, & Viswanathan, 2012; Mendoza-Ramírez & Toledo-López, 2014). Some of these authors have drawn attention to the specificities of so-called subsistence markets – which include significant resource scarcity, high degrees of uncertainty, the prevalence of one-to-one relations and a large share of small businesses (Viswanathan, Sridharan, & Ritchie, 2010). The analytical framework and conceptual tools developed by this line of research constitutes a useful entry point for a sociologically-oriented study of market dynamics within the Peruvian education market.

Our approach to the analysis of Peruvian LFPSs thus takes into account key insights from the sociology of markets and combines them with more context-sensitive notions developed within the literature on emerging and subsistence markets. More specifically, our analysis is organized along the three analytical dimensions put forward by Burgess and Steenkamp (2006) in the institutional analysis of emerging markets, and adapted by Ingenbleek, Tessema and van Trijp (2013) for the study of subsistence markets. These authors suggest that subsistence markets can be analyzed along three different dimensions – namely, the regulative, socioeconomic and cultural dimensions; and that, for each one of them, special attention needs to be paid to certain features specific to such environments. For our purposes, we rely on these three dimensions as entry points to the particularities of subsistence marketplaces.

The *regulative dimension* (or subsystem) captures the formal rules that seek to establish and preserve a certain degree of stability and order (Burgess & Steenkamp, 2006). When it comes to subsistence markets, this dimension is characterized by the profusion of institutional gaps (that is, legal pitfalls and blind spots) as well as a limited observance of the regulations in place (Ingenbleek et al., 2013). Consequently, these are questions that deserve particular attention when analyzing the management practices of subsistence business.

The *socioeconomic dimension* captures resource availability and distribution, as well as the demographic profile of the population groups involved that compose specific markets, and the effects of political and economic dynamics over market-oriented behaviors. Distinctive features of subsistence markets that require especial attention include limited access to investment capital as well as the scarcity of resources among the families to which they cater (Ingenbleek et al., 2013).

Finally, the *cultural dimension* aims at capturing informal rules and principles of hierarchy and solidarity, as well as the nature of the social relationships and networks along which such markets are organized (Burgess & Steenkamp, 2006). In the case of subsistence markets, one of their most salient features is their particular embeddedness within the community, the relevance of inter-

personal and face-to-face relationships (Viswanathan, Echambadi, Venugopal, & Sridharanl, 2014) and the central role played by personalized trust as a means to minimize risks. These are thus questions that need to be analyzed and examined in depth when characterizing subsistence businesses.

## Empirical Strategy

Methodologically speaking, our case study of Peruvian LFPSs relies on a combination of different data-collection methods, associated to specific analytic strategies – including documentary analysis, interviews with decision-makers, and interviews with school owners and principals. We provide further detail on each of them in the following lines.

We first conducted a documentary analysis of official documents and databases generally available in publicly-accessible repositories and archives – including laws, resolutions and normative frameworks, school census and registers, and data on student achievement. This information was then contrasted and complemented with a series of interviews ( $n=11$ ) conducted with key decision-makers and senior civil servants within the Ministry of Education during the 2013-2017 period. These interviews provided key insights for the contextualization and interpretation of the data. More explicitly, they allowed us to better understand the actual enactment and enforcement of existing regulations. Given the limited levels of institutionalization and State control over the LFPS sector, gaining a precise understanding of such dynamics was of particular relevance.

In the second stage of the research process we conducted a total of 27 semi-structured interviews with owners and principals from LFPSs offering primary education. The interviews (which were recorded and lasted approximately 45 minutes, on average) were conducted during July and August 2017 in the San Juan de Lurigancho district, in Lima<sup>3</sup>; they were later transcribed verbatim and thematically coded. The analysis followed a flexible coding approach oriented at identifying and discerning recurrent, general patterns (Deterding & Waters, 2108). The analysis and presentation of our results, thus, focuses on those features observed across the sample of interviews – as opposed to other methods which risk reifying extraordinary cases<sup>4</sup>.

The selection of schools followed a purposive sampling design oriented at capturing the heterogeneity of the sector in relation to a number of variables, including: lifetime/year of foundation, size (number of students and teachers), enrolment trends (as a proxy of the position within the local school market), and monthly fees (in order to capture possible variations in target population or costumers). We considered both licensed schools and so-called “informal schools” –

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<sup>3</sup> The San Juan de Lurigancho district, in the municipality of Lima, was selected as it is considered to be representative of the economic, demographic and education dynamics observed at a national level (Balarin et al., 2018). Given the purposes of our research, the identification and selection of school focused on three localities within the district (*comunas distritales*) that present a high density of LFPSs (in relation to both public and other private schools) and in which LFPS enrolment has experienced sustained growth over the last decades (see Table A1 in the Appendix).

<sup>4</sup> In most occasions, the interviews were complemented with observations of the school facilities. Additionally, promotional materials collected during these visits, as well as a revision of the schools’ profile in social media platforms (Facebook pages), provided complementary insights into the managerial and promotional strategies pursued by the sampled schools, as well as of the selling points more commonly emphasized. When possible, these sources were used in order to contrast and complement insights gained through interviews – but have not been subjected to a systematic analysis given their limited availability for certain schools.

that is, those not registered as education institutions and consequently absent from Ministerial records. An overview of the schools included in the sample can be found in Table 1 below.

Table 1  
*Characteristics of the sample. School profiles according to official data*

ID	Monthly fee	Enrolment fee (one-time payment)	Student enrolment (2016)	Number of teachers (2016)	Students per class (average) (2016)
1	S/. 150	S/. 100	20	5	3
2	S/. 245	S/. 245	109	6	18
3	<i>Unregistered school</i>				
4	n/d	S/. 150-300	104	9	17
5	n/d	n/d	160	7	26
6	S/. 168	S/. 150	286	13	15
7	S/. 220	S/. 180	182	10	20
8	S/. 140	S/. 50	152	10	19
9	S/. 149	S/. 95	55	6	9
10	S/. 160	S/. 160	201	6	16
11	S/. 100	S/. 20	47	6	7
12	S/. 250	S/. 200	152	7	23
13	S/. 140	S/. 140	108	8	15
14	S/. 160	S/. 150	90	7	15
15	S/. 200	S/. 170	267	10	16
16	S/. 200	S/. 200	76	5	12
17	S/. 200	S/. 100	87	6	14
18	S/. 200	S/. 200	292	13	26
19	<i>Unregistered school</i>				
20	S/. 170	S/. 150	72	6	12
21	S/. 90	S/. 50	174	6	29
22	S/. 185	S/. 0	87	6	14
23	S/. 150	S/. 150	55	6	9
24	S/. 220	S/. 220	74	7	12
25	S/. 220	S/. 200	147	6	24
26	S/. 80	S/. 0	68	5	11
27	S/. 160	S/. 110	62	7	10

Source: Authors, based on MINEDU (2017a).

*Note:* Unregistered schools were identified as LFPSs on the basis of considerations from the district educational authority (UGEL) as well as other school owners.

## The Growth and Diversification of the Private Education Market in Peru

Since the 1990s Peru has experienced a steady growth in both the supply and demand of private education. While this growth trend can be traced back to the 1980s, it became considerably stronger and more rapid since the approval of Legal Decree N° 882 in 1996 (Balarin, 2015). The decree sought to promote private investment in education and it authorized private for-profit investment – which, until then was not permitted – while providing tax exemptions for those institutions that reinvested their profits in school improvements.

The approval of LD 882 took place with considerable ease and little public debate or scrutiny. This can be explained by the increasing concentration of power in the government of Alberto Fujimori, which had control of both the executive and the legislative branches of government, and by the skillful way in which the reform was sold to the public.

Fujimori came into power in 1990 in the context of a major national crisis: public services had nearly collapsed under the weight of hyperinflation, and the internal war with the insurrectionist movement Sendero Luminoso had escalated out of control. Fujimori soon embraced a package of structural adjustment reforms that sought to stabilize the economy. The first two years of Fujimori's government were tumultuous as his reforms faced opposition both from Congress and civil society. In the case of education, the government was soon to embark on two failed reform attempts that aimed to introduce markets in education, following the Chilean model of municipalized provision and demand-led funding. These reforms, however, were met with strong opposition from teachers' unions, civil society groups and even the Catholic Church, and were subsequently abandoned (Arregui, 1994).

In 1992, in what is often described as an auto-coup, the government closed Congress and installed a Constitutional Assembly charged with re-writing the country's 1979 Constitution. This moment marked the beginning of the government's increasing authoritarianism as well as its commitment to a new, minimal vision of the State. In 1995, Fujimori won a second election and an overwhelming majority in Congress. This also marked the rise of the government's increasing use of tactics to manage public opinion through control of the media and the growth of corruption at all levels of government.

In this context, the approval of LD 882 was met with little or scarcely articulated opposition. Aside from the government's increasing concentration of power, this can be explained by the way in which the reform was sold to the public as being mostly about expanding access to higher education in the context of the government's limited financial and institutional capacity to increase the number of public universities. The decree was written hand in hand with some of the highest profile private educational investors in the country, who went on to create some of the new private universities after LD 882. There was little public discussion about the ways in which the decree might impact school education, nor of how to properly regulate and ensure the quality of provision in such a free market for educational investment.

While initial discussions about quality assurance included some consideration about the need to create an independent supervisory agency, steps taken in this direction were limited or non-existent. In the case of higher education, LD 882 was accompanied by the creation of an autonomous body (CONAFU, for its acronym in Spanish)<sup>5</sup> responsible for authorizing new universities and characterized by its dysfunctionality and limited capacity to guarantee basic quality standards. In the case of school education, little was done to establish and ensure basic quality assurance processes for the creation and operation of schools. Established procedures for the creation of new schools remains largely bureaucratic and formalistic to the date and, as we shall discuss in the following pages, the overall governance of the private education sector is plagued with problems.

In the years after LD 882 was passed, between 1998 and 2016, private enrolments in education almost doubled, from 15 to 26% of all national enrolments (see Figure 1 below). The growth of the private education market took place most prominently in urban areas – in the case of Lima, participation in non-state education shifted from 29% in 2004 to 50% in 2014, and a similar trend can be observed in other major cities (Balarin, 2015).

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<sup>5</sup> Consejo Nacional para la Autorización de Funcionamiento de Universidades.

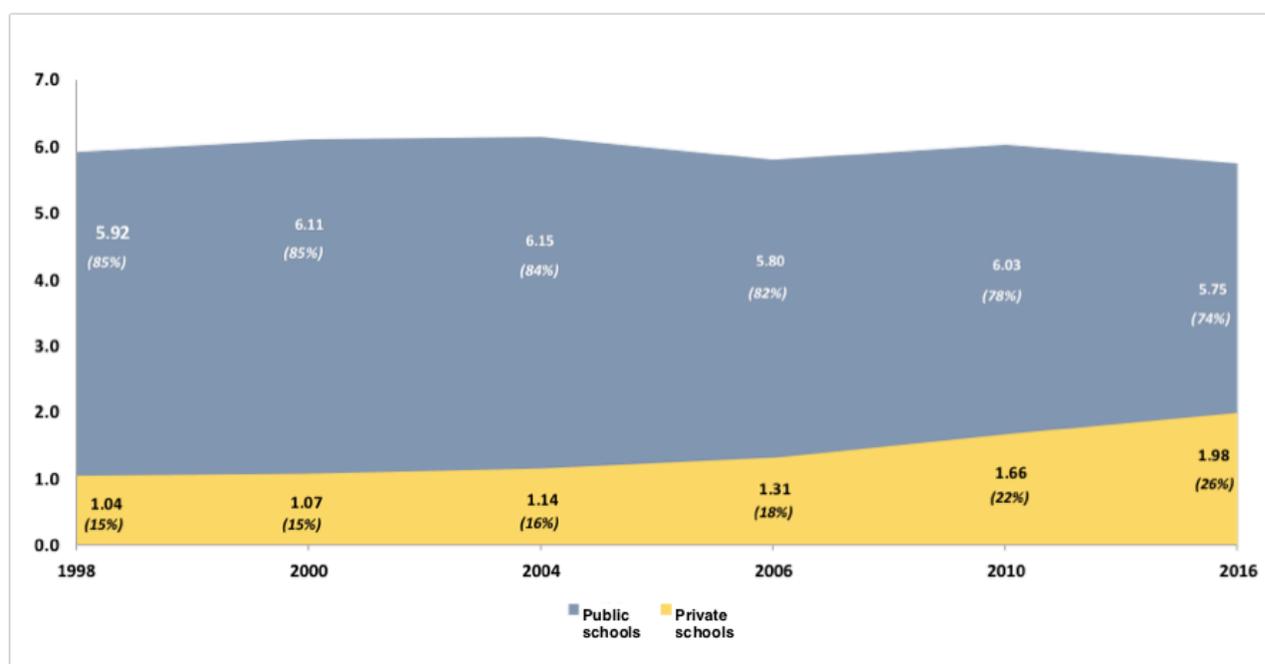


Figure 1. Evolution of enrolment – national level (1997-2016)

Source: Authors, based on MINEDU (2017c).

The growth of the private education market entailed a progressive diversification of both providers and consumers. Until the 1990s, private education was the choice of upper- and middle-class urban families. But since the passing of LD 882, the supply and demand for private education has been growing throughout the social spectrum. As shown in the graph below, there is a very small percentage of schools (1%) that charge very high fees of over 1,000 soles and cater for economic elites. As shown by Figure 2 below, large proportion of private schools (33%) charges mid-range fees and cater for middle and emerging-middle class students. But the overall majority of schools (63%) are LFPSs charging less than 200 soles per month (which amounts to approximately one quarter of the national minimum wage, a sum equivalent to 53 EUR or 61 USD) (MINEDU, 2017a).

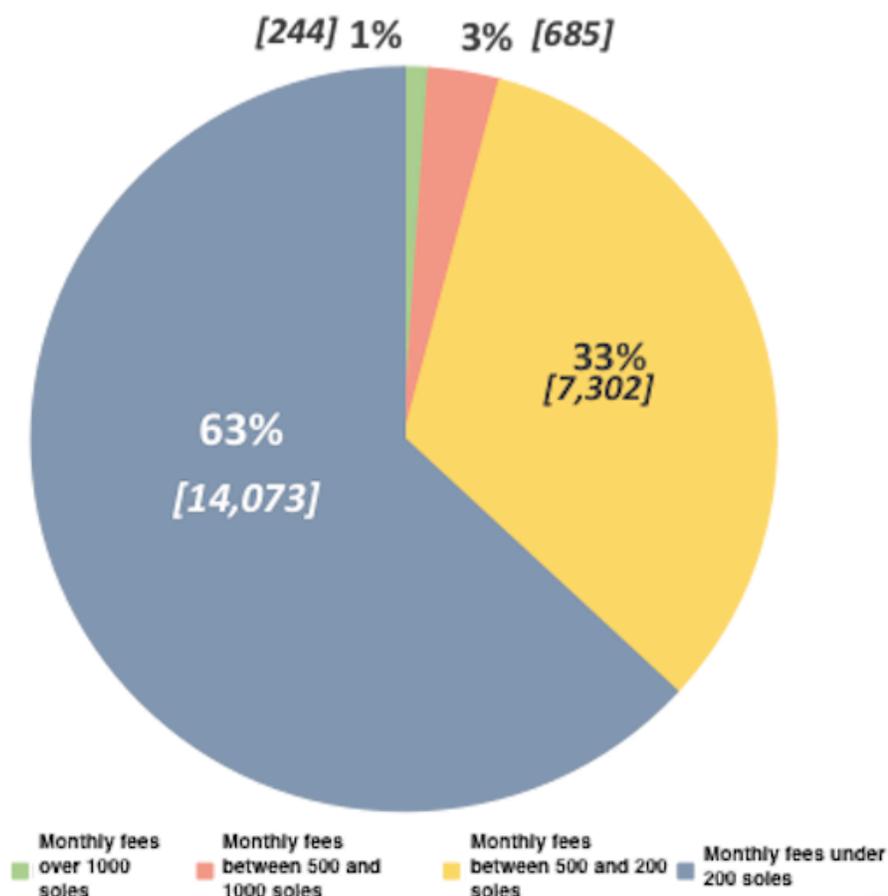


Figure 2. Number of private schools by fee-group, 2017 – absolute figure, [percentage]  
 Source: Authors, based on MINEDU (2017c).

Available evidence also shows that most private schools are small, catering for 100 students or less, and that most low-cost schools are located in peripheral urban or peri-urban districts and informal settlement areas with high concentrations of poverty and rapid demographic growth (Fontdevila, Balarin, Marius, & Rodríguez, 2018; MINEDU, 2017b). Such trends can be clearly observed in Figure 3 below (see also Table A2 in the Appendix).

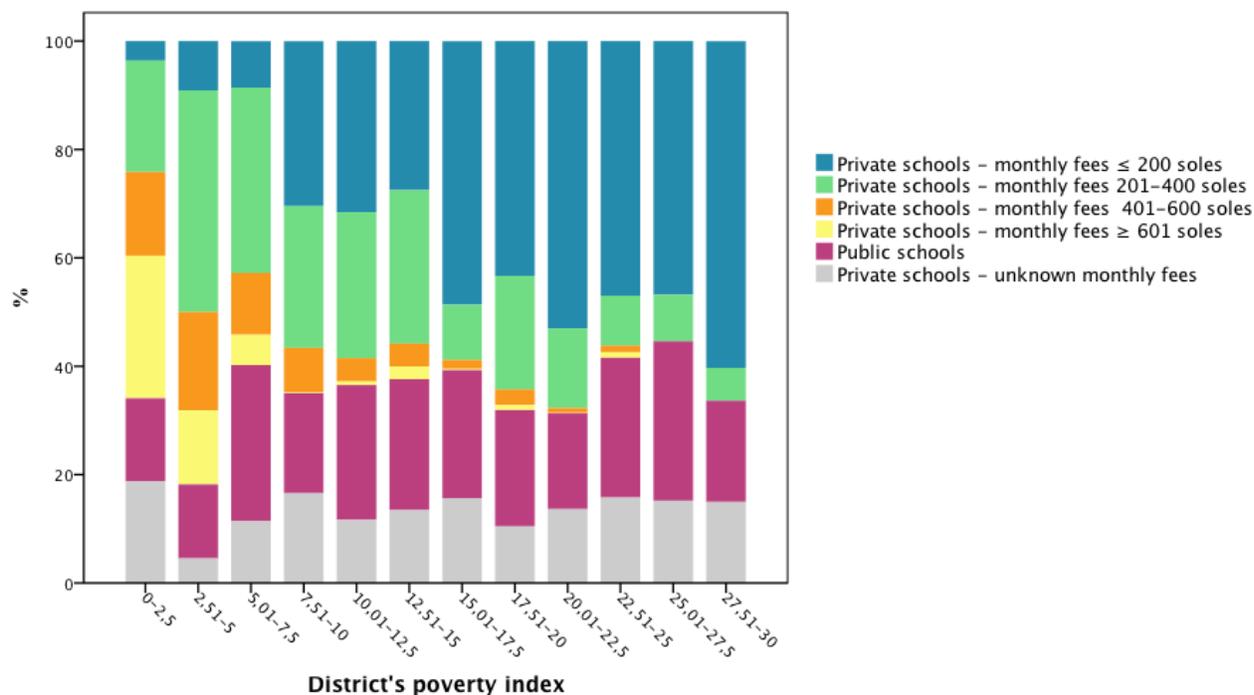


Figure 3: *Distribution of schools by monthly fees and district's poverty level (Lima, 2017)*

Source: Authors, based on MINEDU (2017b, 2017c) and INEI (2015).

According to official data from the Regional Education Direction of Lima, approximately 23% of schools in Lima are unlicensed. But an even more problematic issue is that until 2017, most schools in the city obtained their license through the application of an “administrative silence” – that is, the license was automatically granted after the licensing body did not manage to respond and assess the application within the legally defined timeframe.

There are at least two complementary explanations for the rise of LFPS segment in Peru. The first and most well-known one has to do with the decline of investment in public education throughout the 1980s and the 1990s – a period in which school enrolments also grew exponentially – and the consequent erosion in the quality of services. At the end of the 1990s Peru had one of the lowest levels of public education investment in the region (World Bank, 2001). This led to a widespread perception that private education was better than public education, which was initially supported by the publication of national test results which presented simple comparisons between achievement in public and private schools, without showing internal variation within each of these sectors and did not take into account the school-composition variables affecting results (Cuenca, 2013). Another explanation, which is not so often referred to, is the lack of consistent growth of public education supply precisely in those marginal, peri-urban areas with the fastest rates of population growth since the 1980s and where the demand for education was also increasing.

In any case, with the passage of time the problematic nature of this specific segment has become increasingly apparent. As we have discussed elsewhere (Fontdevila et al., 2018) Peru is a clear case against generalizations regarding the superior quality of LFPSs as compared to public schools<sup>6</sup>.

<sup>6</sup> See for instance Dixon, Tooley, & Schagen (2013). Also see Ashley et al. (2014) for an overview of the debate.

Data from the 2016 national standardized assessment (*Evaluación Censal de Estudiantes [ECE]*), which are conducted for primary and secondary education, supports this point. In the primary level, the global results obtained by students in public schools are consistently better than those of students in private schools. There is a larger proportion of public-school students who reach the highest (satisfactory) level of performance in both language and mathematics – the proportion being much higher in the latter. When results are disaggregated taking into account private school fee levels it becomes apparent that the lower the fees, the lower students’ results (see shown by Figure 4a and 4b below).

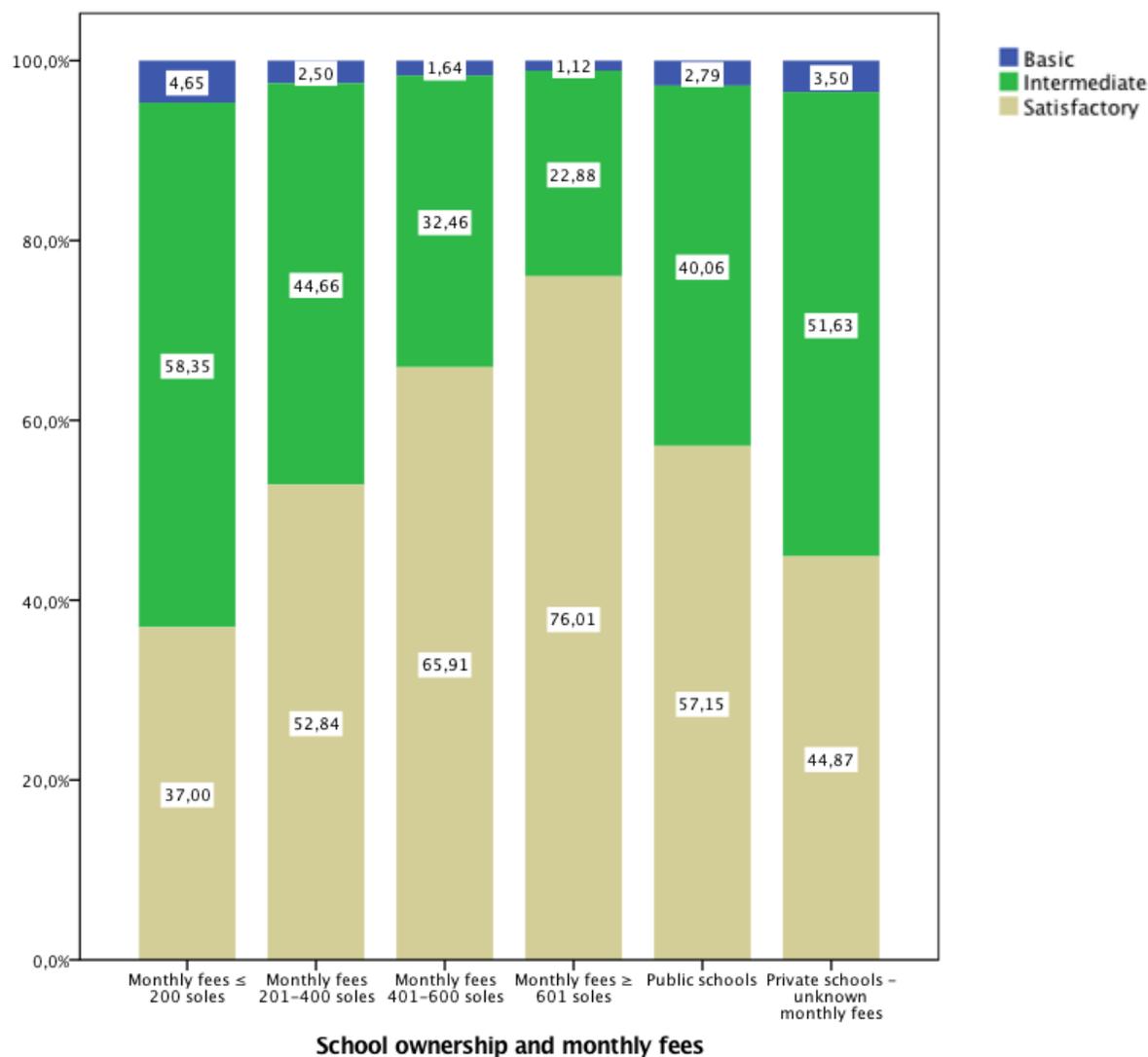


Figure 4a. Performance of Grade 2 students (primary education) in Reading ECE tests (2016) – distribution according to school ownership and monthly fees. Source: Authors, based on MINEDU (2017b, 2017c).

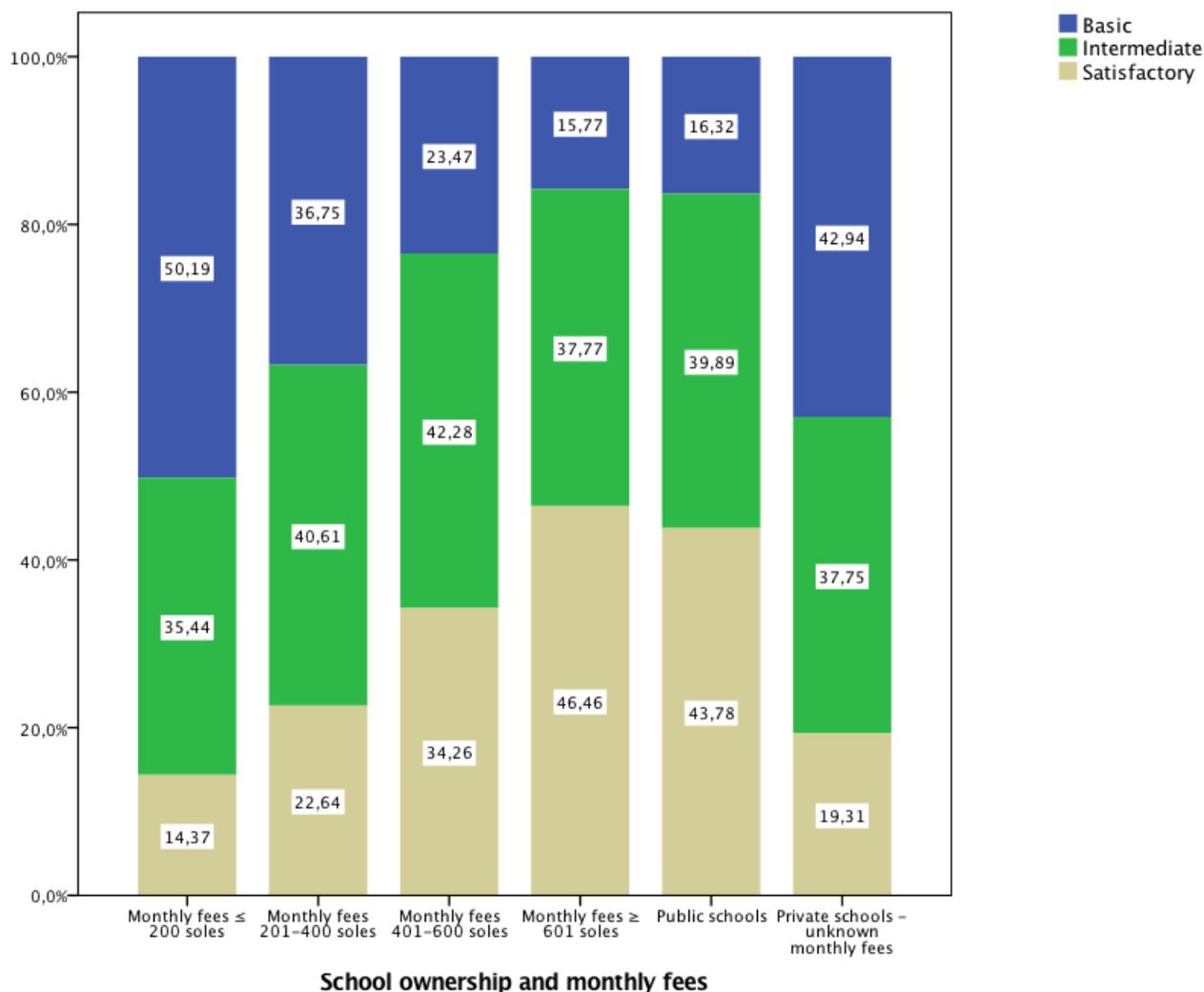


Figure 4b. Performance of Grade 2 students (primary education) in Math ECE tests (2016) – distribution according to school ownership and monthly fees. Source: Authors, based on MINEDU (2017b, 2017c).

A different picture emerges when we look at the secondary level (see Figure 5a and 5b). In aggregate terms, private schools clearly outperform public schools in both language and mathematics. However, when results are disaggregated taking into account school fees, public schools and LFPSs have very similar performance levels. Ultimately, the difference in results in the primary and secondary levels reflects the fact that most public-school improvement efforts in the past decades have focused on the primary level and it is only in recent years that the public sector has begun to seriously emphasize the need for improvements in secondary schools. In any case, however, there is no evidence to support the claim that LFPSs achieve better results than public schools in Peru (Fontdevila et al., 2018).

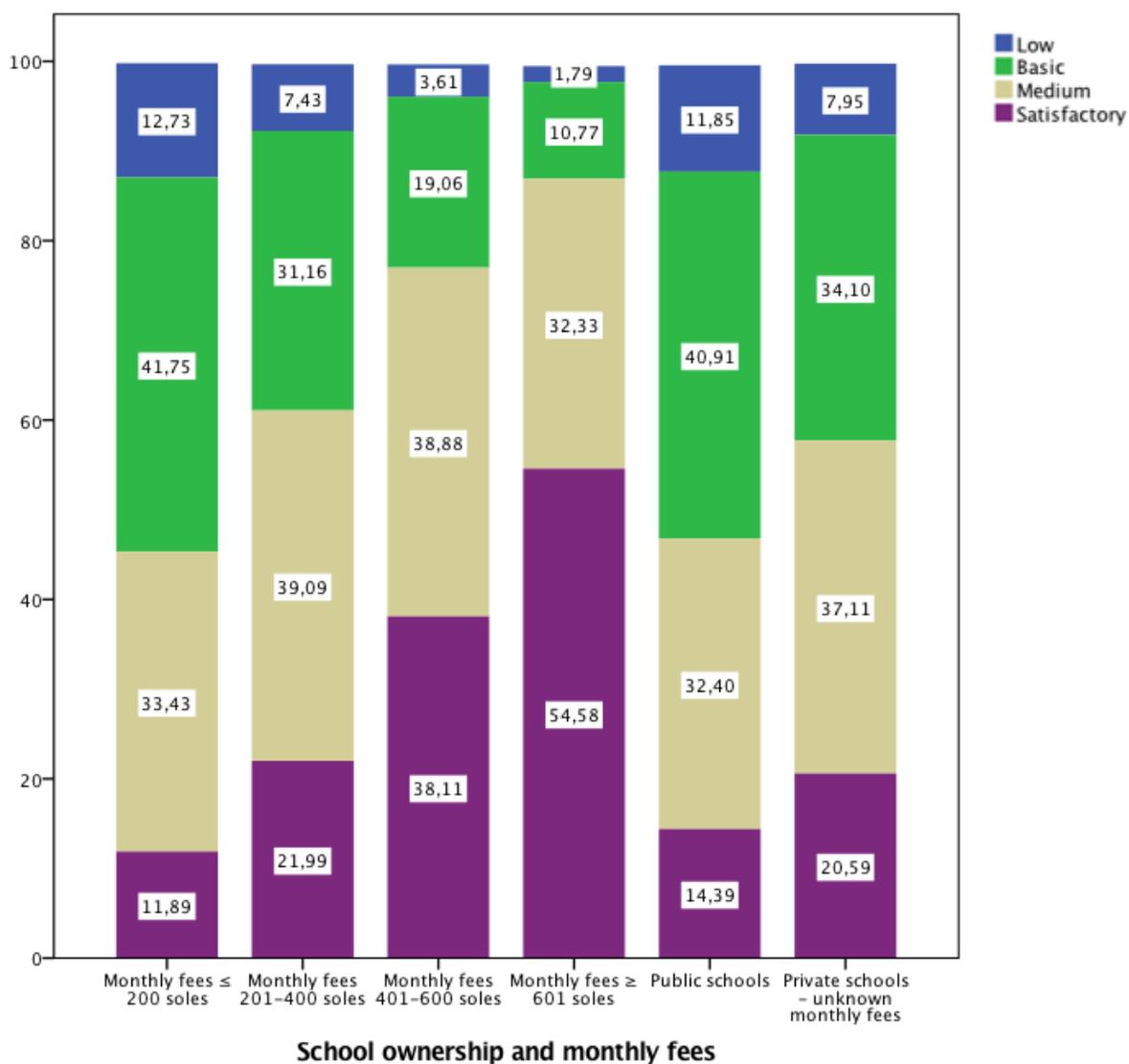


Figure 5a Performance of Grade 2 students (secondary education) in Reading ECE tests (2016) – distribution according to school ownership and monthly fees. Source: Authors, based on MINEDU (2017b, 2017c).

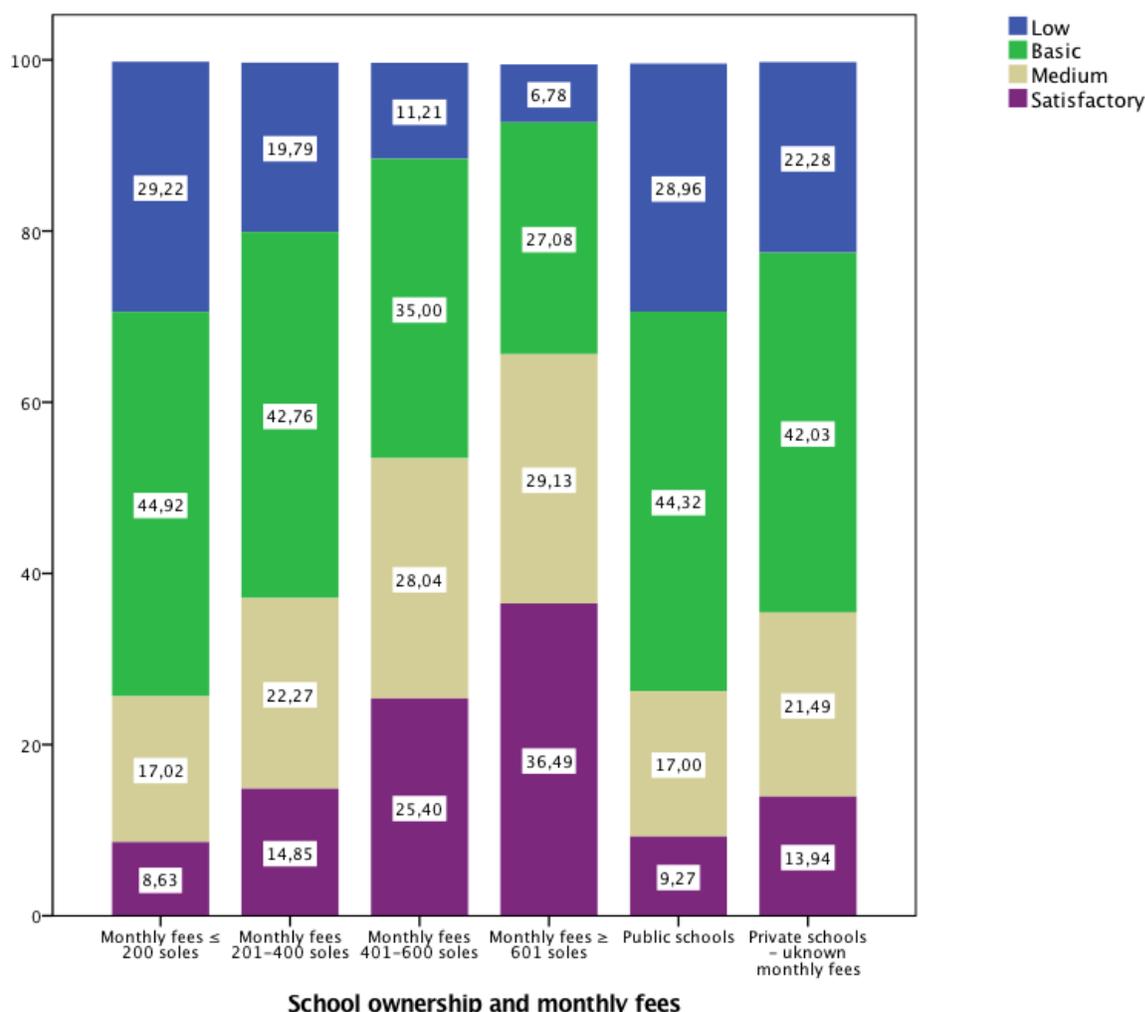


Figure 5b. Performance of Grade 2 students (secondary education) in Math ECE tests (2016) – distribution according to school ownership and monthly fees. Source: Authors, based on MINEDU (2017b, 2017c).

The low results obtained by LFPSs in Peru have been attributed to the limits of parental choice as a driver of quality (Sanz Gutiérrez, 2014), as well as to the loose organizational practices that are characteristic of this sub-sector (Balarin et al., 2018). In what follows, we aim at delving into this second line of inquiry by exploring the very particular subsistence business model of LFPS that has emerged in Peru, and the regulatory, socioeconomic and cultural dynamics that characterize it.

### LFPSs as Subsistence Businesses

As will be seen throughout the following discussion, LFPSs in Peru exhibit most of the features of subsistence businesses. We show this by describing the managerial, organizational and business strategies exhibited by Peruvian LFPSs – as well as the specific institutional arrangements and social norms that stimulate and modulate such practices. These questions are examined along the three analytical axis presented above, corresponding to three distinct entry points to the

particularities of subsistence market place – namely, the regulative, the socio-economic and the cultural dimensions.

### **Regulative Dimension**

As observed by Ingenbleek et al. (2013) one of the most defining feature of subsistence marketplaces is the limited influence that governments and legislation exert over them – a situation that creates severe institutional gaps and hinders both the enforcement of existing regulations and the development and articulation of an enabling infrastructure (Chen, 2007; Rivera-Santos, Rufin, & Kolk, 2012). Regulative institutions (responsible for rule-setting, monitoring, and sanctioning activities; Scott, 2001) tend to be weak and have a limited impact over subsistence business' strategic behavior.

Such dynamics can indeed be observed in the Peruvian LFPS sector, where the dysfunctional nature of existing regulatory and governance arrangements for private education have a key impact on the operating modes of LFPSs. Hence, we find that the private education sector is regulated by a series of outdated norms that do not tackle the main issues of quality and minimum standards in private schools' provision, and that even contradict each other when it comes to the distribution of administrative responsibilities on school supervision. On top of that, the almost exclusive focus that the Ministry of Education has had on public education has left a void in the governance of private school governance, leaving this responsibility to the public institution in charge of consumer protection – the National Institute for the Defense of Free Competition and the Protection of Intellectual Property (INDECOPI, for its acronym in Spanish<sup>7</sup>). Thus, the absence of the State as guarantor of quality and equity in the provision of private educational services is notorious.

The most important regulation in the existing legal framework is the Law of Private Education Institutions (No. 26549) established in 1995, which established the right of any natural or juridical person to promote and conduct private education institutions with pedagogical, organizational and economic autonomy. Soon after the approval of this law, LD 882 (passed in 1996, cf. *The growth and diversification of the private education market in Peru* section above) established that private education institutions could be run on a for-profit basis and introduced generous tax exemptions for schools that re-invested their profits in educational improvements. These two legal instruments, however, provided very little detail as to the limits of private activities in education and the supervisory role of the State.

It took two years after LD 882 was passed for the Ministry of Education (MoE) to approve the regulatory framework that typifies the infractions and sanctions that private schools may incur, but the procedures for its application were only established in 2004, that is, eight years later. As noted by a MoE official:

We now have various norms that operate at different levels. We have supreme decrees, ministerial resolutions, a number of norms, approximately nine... that regulate private education activities, the licensing, requirements, sanctions, who is in charge of supervision, who of sanctioning. All this has created some confusion, because there is not a single norm, but norms at different levels which are sometimes contradictory between them. (Interview with key decision-maker 4 - MoE official)

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<sup>7</sup> *Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual.*

A thorough revision of the various normative instruments that compose the existing regulatory framework are also indicative of the voids and problems left by LD 882. These include a law (N° 27665) oriented at protecting families from unexpected charges; a law (29694) that seeks to protect consumers from abusive practices in the selection and acquisition of school texts; a ministerial directive (2012) that prohibited the evaluation of applicants to early and primary years; as well as the attribution of responsibility to INDECOPI for sanctioning schools that charge irregular fees. Such measures emerged to counteract widespread practices such as cream-skimming on the basis of ability; indiscriminately requesting extraordinary payments from families; stopping children from families that were overdue in their payments from taking exams; and withholding student marks and end of year certificates. However, these legal changes had only limited efficacy – and most of the problems they intended to address still persist today. Aside from the aforementioned issues, families report on the existence of unregistered schools, whose legal status they only find out when they face problems getting official school certificates.

While the legal measures to counteract unfair practices may have been well intentioned, they have followed a “patchwork approach” – that is, they have tended to address existing issues in a piecemeal fashion and frequently relying on ad-hoc fixes. While solving specific flaws in the regulatory framework, such approach has left many issues untouched and has sometimes created new problems. MoE officials are now clear that a more comprehensive review of the regulatory framework for private schools is necessary, but recent attempts at doing so have met with resistance from organized private education providers.

Adding to the problems with existing regulations, there are serious issues with the sectoral governance of private education provision. The introduction of LD 882 was not accompanied by the definition of clear roles at the central (MoE), regional and local administrative levels with regards to private schooling. Between 1996 and 2011, there was no office in the MoE with direct responsibility for supervising and guiding developments in the private education sector. The decentralization process that began in the country in 2004 deepened governance problems, as it did not assign a clear role to regional and local administrations with regards to private schooling. This, moreover, occurred in a context of budgetary constraints and limited capacities and training in local education agencies, which restricted their ability to exert their existing responsibility *vis à vis* the private sector.

The lack of clarity regarding the role that the MoE should play in relation to the private education sector became evident in the context of public discussions in which Ministry officials suggested that the sector’s role was limited to guarantee the quality of public education services, while issues related to private education fell under the responsibility of INDECOPI. As for regional and local education authorities, they enjoyed no guidance from the MoE as to their role in relation to private schools and they had no regular personnel assigned to supervise private schools. The role of local education authorities was limited to authorizing the creation of new schools, but this often amounted to a mere formality.

The absence of supervision can also be attributed to the MoE’s lack of capacity and resources to carry out a national school supervision strategy that might include private schools, for its limited resources are directed to public schools. But this is also clearly related to the fact that the existing confusion about appropriate private school governance responsibilities at the national level is mirrored at the level of local education authorities. This explains why the latter’s supervisors lack training or even guidelines for private schools’ supervision. As an MoE official observed:

Private providers themselves often demand that the MoE should exercise a supervisory role [with regards to the sector], but the MoE [until recently] has not been able to do so, because [in the context of the decentralization process] this is

meant to be done by education authorities [UGEL, *Unidad de Gestión Educativa Local*]. But the UGEL are not able to do so and they want, in a way, for INDECOPI to perform this role because they are fully implemented to supervise [schools].

This quote shows that even local officials in charge of private school supervision believe that the National Institute for Consumer Protection might be able to do a better job supervising schools. Ultimately, the debate around which institution (the MoE or the National Institute for Consumer Protection) should exercise private school governance reveals a clash between two differing paradigms on the provision of private education: the consumption approach, which sees education as a private consumption good; and the rights-based approach, that education is a basic right and a public good, and therefore the State has an obligation to ensure quality and equity in the provision of both public and private educational services.

The MoE's absence from the governance of private education can also be attributed to its focus on improving the very low quality of public education provision. For a long time, especially during the 1990s, the MoE's main objectives were ensuring universal enrolment, reducing schools drop-out rates and reducing the educational infrastructure gap. In this context, private education supervision was not in the MoE's public agenda. As a former Education Minister interviewed in 2014 suggested:

[The issue of private education] is a difficult subject to discuss because we have more urgent issues: the big one is that we do not have a definition of what quality education is, there is also the debate about how the teacher training should be implemented, and many others. (Interview with key decision-maker 5 - former Education Minister)

Changes to this almost non-existent national governance strategy for the private education sector began to take place in 2011, when a new administration arrived in office and began revising existing norms and the governance role played by sectoral offices at different government levels. It became clear that during the time in which the demand and supply of private education had grown the most, the State had only played a marginal role. As stated by a MoE official:

[...] our intention was to rethink the role of the Ministry and the Regional Governments in this regulation [of the private sector] and as a first step we thought it convenient to look at existing regulatory instruments. We knew we couldn't change much either, but it could be an opportunity to make things explicit. The team assembled for this task proposed that we should have an internal proposal agreed by the different actors inside the MoE then start to take it out to the public (Interview with key decision-maker 2 - MoE official).

In 2015, the approval of a new regulatory framework for the organization of the MoE created a General Office for School Quality (DIGC, for its acronym in Spanish<sup>8</sup>) which was charged with overseeing the quality of both public and private schooling. It had taken almost 20 years since the education sector was liberalized (that is, reorganized along a market logics) for the MoE to assume such a role. The newly created office took charge of revising the existing normative framework for private schools, it created a new database (IDENTICOLE) that seeks to provide clear information to parents about school fees, infrastructure, as well as to their rights *vis à vis* private education

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<sup>8</sup> Dirección General de calidad de la Gestión Escolar.

providers. The office set in motion a series of dialogues with organized private providers who had also been demanding changes in the regulatory framework and more fluent communication channels with the MoE.

The newly created office also began collaborating closely with the Regional Education Office for Lima (DRELM, for its acronym in Spanish<sup>9</sup>) in order to strengthen its supervisory role in relation to private schools in the city. Evidence gathered by the DRELM showed that up to 23% of all private schools in Lima were operating “informally” without a license, or were engaging in illegal practices such as “renting” operating codes from other schools. Evidence also suggested that the lack of monitoring capacities at the local level had meant that most schools in the city had acquired their operating licenses through the “administrative silence” process described above (that is, without any supervision as to their infrastructure, curriculum, etc. from the local authorities, which were unable to process licensing requests in the short times established in existing regulations).

In any case, normative and governance weaknesses are still manifold and constitute one of the main explanations for the high degree of heterogeneity in the private school sector in Peru – as well as of the particularities displayed by the LFPS sector. Recent studies comparing LFPSs with schools that charge higher fees and cater for emerging middle-class families, such as the one recently published by Balarin et al. (2018), show that schools charging higher fees are somewhat more organized, formal and responsive to their parental constituencies than LFPSs. Ultimately, LFPSs providers appear to operate without much knowledge or guidance in relation to desirable school organizational and pedagogical strategies. However, many providers have been found to emulate and make use of resources available to public schools, and indeed many of them would welcome a stronger support from State authorities, for instance in terms of resources and teacher training.

### **Socioeconomic Dimension**

One of the most salient characteristics of subsistence marketplaces is resource scarcity, that is, a chronic shortage of key production factors including economic capital, physical infrastructure, communication and transaction technologies, skilled labor and specialized knowledge about existing regulations and macro-economic dynamics (Ingenbleek et al., 2013; Rogerson, 1996; Venugopal & Viswanathan, 2017). As a consequence, subsistence markets find it hard to develop economies of scale and foster “improvisation” dynamics oriented at keeping production and exchange costs low (Sheth, 2011). On a similar vein, scholarship on informal businesses has noted that firms operating in such contexts are forced to adopt drastic cost-cutting strategies in order to remain competitive by selling their product below the standard price (Ram, Edwards, Jones, & Villares-Varela, 2017).

Resource constraints are also at the origin of the specific profile and motivations displayed by entrepreneurs and micro-business owners typically operating in such contexts. Schoar (2010) notes that most of the entrepreneurs in developing contexts can be characterized as subsistence entrepreneurs as they are driven by the desire to ensure a minimum subsistence income. Similarly, Viswanathan, Rosa, and Ruth (2010) note also that in contexts affected by resource scarcity, entrepreneurship is essentially about survival. Subsistence entrepreneurship appears thus to constitute a “strategy of desperation” rather than one of “maximization” (Cross & Preston-Whyte, 1983). This is consistent with Prahalad’s (2006) observations on how the scarcity of job opportunities are central in the conversion of subsistence consumers into subsistence entrepreneurs. To put it differently, business entrepreneurs are *pushed* to enter the market out of necessity (as a self-employment strategy) rather than *pulled* by an expectation of profit.

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<sup>9</sup> Dirección Regional De Educación De Lima Metropolitana.

**Business strategies.** Such dynamics are evident in the business strategies exhibited by the analyzed LFPSs and, more particularly, by the logics orienting LFPS owners' decision to "enter" the education market. As noted by one of the principals:

I finished my studies and at the same time I saw the way to have my own business, so I wouldn't suffer in the future because I know Education is a difficult career in the society we live in (...) so I founded this school with the help of my parents. (Principal, school 9)

Similarly, another principal and school owner noted:

First of all, I'm an administrator by training... but you know, in the Peruvian society... when I finished my studies, I thought... well, there are no jobs in my area of specialization... You know, we the professionals remain jobless these days... Some of us start as taxi-drivers, other try other activities... So I said, I will go and try with education (...) So I started as a teacher, but I realized that it was easy to establish a school of my own. (Principal and school owner, school 23)

Interviews suggest that decisions to enter the market are frequently motivated by a "sense of opportunity" rather than by the identification of clear profit margins or the perception of some sort of competitive advantage. In this sense, the absence of a clear profit-driven motivation is worth noting. According to owners' own accounts, the establishment of LFPSs was essentially motivated by an interest in creating and securing a source of employment for themselves (or their closest relatives). Interestingly enough, this holds true both for LFPSs created in the 1990s and for more recent established institutions. Difficulties to enter public education as full-time employees<sup>10</sup> are frequently reported to be at the root of LFPS owners' interest in establishing their own business, rather than a genuine interest in entrepreneurship – let alone an expectation of profit or a lucrative career.

The consolidation and expansion process experienced by most LFPSs appear similarly to be guided by a trial-and-error logic, and is characterized by the absence of a formalized long-term strategy. As noted by one of the interviewees:

We have been growing and expanding grade by grade, and now we try to preserve our situation. We have a consolidated demand but there is limited space to grow, so far....(Principal and school owner, school 15)

Business decisions are thus characterized by their adaptive character. Intentions to expand the school are rare and essentially reactive in nature (that is, a response to intermittent episodes of over-enrolment) or, alternatively, motivated by a crowd-out effect rather than by a spontaneous interest to expand their market share. The limited share of owners that expressed an interest in creating a new branch in a neighboring area were generally those more directly affected by growing levels of competition or provider density – usually, late-comers to the LFPS education market.

Particular attention should also be paid to marketing practices<sup>11</sup> as a specific but key component of LFPSs' business strategies. It is first worth noting that differentiation efforts appear

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<sup>10</sup> The large surplus of teachers is a well-documented problem in Peru, which is attributed to an equally large surplus of teacher training institutes, many of which opened after the passing of LD 882 (cf. Pezo Castañeda, 2013).

<sup>11</sup> For the purposes of this paper, we rely on a broad understanding of the notion of marketing along the lines of the analytical framework proposed by Zancajo (2018) for the study of schools' behavior in the Chilean

to be consistently informed by a sense of school competition that emphasizes public schools (rather than other LFPSs or private schools) as the main competitors. In coherence with this perception, differentiation efforts are primarily oriented at emphasizing private schools' quality advantage over the public sector. In order to do so, LFPSs often emphasize their "academic orientation" – that is, an emphasis on "hard subjects" (particularly mathematics and science), a reliance on higher standards, a greater number of courses (generally resulting from the division of the national curriculum into various sub-components), and the participation in mock tests as a means to familiarize students with high-stakes testing. For instance, as noted by the owner and principal of one of the schools (which non-coincidentally, claimed to display an exceptional performance in the national standardized test):

[We] hire a teacher that comes during the afternoon and students come to reinforce what they did not learn during morning hours. This is coordinated with the parents because students have to bring their lunch, they stay until 4 or 5 p.m. in the afternoon for six months. (Principal and school owner, school 15)

The promise of "more school" (longer school-days and week-days, shorter holiday periods – as opposed to the public sector) constituted also a frequent trope. Similarly, safety and discipline are also frequently emphasized. Low enrolment figures are strategically mobilized as a means to ensure students are appropriately kept under supervision –in contrast to public schools, portrayed as overcrowded and, consequently, unsafe.

Conversely, most of the interviewees paid only limited attention to the evolution of competition dynamics within the private sector, and they rarely identified a clear subset of competitors – rather, they refer to "schools in general" in the area, or, alternatively, to those schools perceived as stronger, even if they are targeted to another segment of the market<sup>12</sup>. Overall, concerns about competition within the private sector are rare and remain largely unarticulated. As noted by one school principal:

Yeah, there are many large schools, so I have seen some competition out there... they offer a lot of things that we don't have... but really, it depends... there is something for each school. Each school can increase their student intake according to what they offer and what parents see... but yes, there is competition. (Principal, school 5)

Discourses of differentiation in relation to other private schools, consequently, appear to be relatively rare, and almost exclusive to less-consolidated schools (usually, those having entered the market recently). Interestingly enough, these are more likely to emphasize selling points other than quality. Hence, some of these institutions draw attention to their "modern orientation", their commitment to individualized attention or the use of more sophisticated pedagogic methods that veer away from the "traditionalism" of other private schools. Such efforts seem the result of the

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context. The author relies on a comprehensive definition of marketing that encompasses any activity or strategy oriented at managing the school's external relationships and improving customer satisfaction, and identifies four different phases or process, namely: market position assessment, market scanning, diversification strategies, and promotional activities and materials.

<sup>12</sup> One school manager noted for instance "Yeah, there is a good deal of competition... also, now there is some heavy investment... these schools funded by banks, lie Innova Schools [school chain targeted to middle-class families]. So they are promoted by Interbank [bank], El Comercio [newspaper]... so they rely on a larger, stronger capital... and most of the schools in the district do not have the resources to engage in such investments, you know?" (Manager, school 3).

need to identify new market niches in a context of growing competition – by targeting students less likely to fit in more established institutions. Such dynamics are well captured in the reflections of the principal and school owner of one of the schools, who noted:

Well, we have a number of schools around and they offer the same education services... So, diversification is key here, eh? We put our focus on university, on integral education, and on the issue of values... and everything connected to social exclusion, you know? This is our plan. We try to ensure that our kids are doing well emotionally speaking [...] And through what kind of activities? Through artistic activity, workshops, sports [...] A key element is the relationship with the student, isn't it? The emotional dimension is a central part. So these are some of the key differences regarding other schools [...] we try to ensure that the child is fine and even happily learning, you know.... (Principal and school owner, school 22)

In addition, it is worth noting that marketing efforts are generally put into ensuring customer loyalty or retention rather than into increasing the school market share. LFPS owners and principals strive to ensure families' satisfaction with the school daily practices – rather than with longer-term results, including students' achievement or the school performance in the national standardized test (ECE)<sup>13</sup>. This well-being is pursued through the creation of a sense of school community – through the frequent organization of social events (school anniversary, seasonal or civic festivities). It is in such daily and relatively intimate interactions that the superiority of the schools over the public sector is communicated and emphasized to customers. As we discuss below, closeness and a sense of emotional bonding (between families, students and the school staff) are purposefully cultivated. As noted by one of the principals:

[we] work with the parents at a classroom committee level and meet periodically. This week they (parents and teachers) are meeting to receive academic information on their children, their grades certificate and to plan the actions for the 25th year anniversary of the school. (Principal, school 10)

Promotion strategies, conversely, remain relatively undeveloped. In fact, only a limited share of LFPSs engage in visibilization activities – usually, those having recently entered the market or facing high levels of competition as a consequence of their location in “high-street” areas (i.e. well-communicated venues, usually close to commercial areas). As schools get relatively established and have secured a minimum rate of enrolment, they tend to abandon or at least moderate their promotion efforts. For instance, when probed for promotional activities, one interviewee noted:

Oh no, not anymore. They already know us. I have the big banners, but nothing else. The banners have the figures of students that have just started, and display the start of the academic year... but that's all. I have not distributed brochures for the last 5 or 6 years. I think I have earned my prestige... I think I'm doing a good work. So, parents just come. During the holiday period, they start coming (...) they learn about the school through hearsay.... (Principal and school owner, school 23)

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<sup>13</sup> Such dynamics are however likely to differ for secondary schools. Given that one of the main selling points of such institutions' is access to higher education, greater attention is put in student achievement – what tends to articulate a longer-term vision.

**Management practices.** The socioeconomic specificities that characterize the LFPS segment also appear to affect management routines. Administrative and management strategies are rarely formalized and are primarily oriented at “making ends meet” or “balancing the books” to ensure that salaries can be paid to school employees. Remarkably, such objective is not always achieved – on occasion, running costs exceed schools’ revenues. In these cases, teachers’ salaries are the expenditure more likely to be “sacrificed”, and in fact delayed wages constitute an established practice.

Staff management practices are equally scarcely formalized or institutionalized<sup>14</sup>. Contracts and conditions are negotiated on an individual basis; and employer-employee relationships appear to be largely mediated by personal and family relations. One of the interviewees, for instance, noted “Oh contracts, right... one does what one can. The contract in an agreement, right? So some teachers work full-time, or only some days, and they charge their fees to the school... And then a large share of them, they are employees, they have benefits as established by the law, and so on” (School 18). Similarly, a school owner explained:

Five of them, they are employed, but the rest, they are contracted per hours... This has to do with the economic capacity of the school... Since I’m very flexible, some parents are late with the fees... so I cannot have all my teachers on the payroll. (School owner, school 21)

Likewise, micro-management practices are privileged over more institutionalized arrangements – when asked about staff management practices, most of the owners and principals refer to sporadic classroom observations and the “monitoring” of student notebooks (as a means to ensure teacher compliance with a pre-established syllabus). For instance, one principal mentioned that he supervised teachers every month “but teachers bring me their weekly and daily sessions so I can check the content and give my approval. I give it back to the teachers so they can start planning the sessions for next month” (Principal, school 1). Conversely, evaluation procedures, coordination and peer-exchange spaces are rarely mentioned. These dynamics tend to be reinforced by frequent teacher turnaround and the over-reliance on part-time staff – which complicate the establishment of coordination or follow-up devices.

### Cultural Dimension

As noted by Viswanathan, Sridharan and Ritchie (2010) in their early conceptualization of subsistence entrepreneurs, one of the most salient features of this group is its particular embeddedness within the community and the informal markets in which they operate. Such intertwining typically gives rise to the articulation of “intense interpersonal relationships and affective commitments” (Viswanathan et al., 2014, p. 2). There is indeed a general consensus within the specialized literature on the fact that the density and distinct nature of these social networks tend to compensate for or “fill in” the regulative gaps and the limited influence of legislation (Ingenbleek et al., 2013; Rivera-Santos et al., 2012). Also, a range of authors draw attention to the central role played by *trust* in such contexts as a means to cope with and minimize risks, reduce transaction and

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<sup>14</sup> The lack of formalization of management routines should not be equated to a lack of reflexivity or refinement. The prevalence of ad-hoc arrangements in lieu of bureaucratic dispositions appears in fact to give rise to sophisticated decision-making procedures that rely on accurate information retrieved through informal channels.

coordination costs and prevent opportunistic behaviors (Bruton, Ireland, & Ketchen, 2012; Darbi, 2016; Viswanathan, Sridharan, & Ritchie, 2010).

In this section, we examine this particular social texture in relation to two separate spaces in which social bonding occurs, namely, within-school relationships, and school-environment relationships.

**Within-school relationships.** Subsistence entrepreneurs' reliance on family resources is a well-documented phenomenon. Our research suggests that such pattern holds true in the Peruvian LFPS segment. In a number of cases, the school owner (or the individual responsible for the up-front investment) relied on close relatives to perform as principals and administrators. Likewise, school leaders frequently resorted to family members to fill in job vacancies. While most of the analyzed LFPSs do not fall within the family business (or so-called "mom-and-pop schools") category, the pervasiveness of such family ties tended to reinforce low levels of institutionalization in relation to a variety of procedures – including staff and resource management, internal communication and strategic decision-making. In addition, school managers tended to cultivate a sense of intimacy and closeness with their long-time employees – a dynamic facilitated by the reduced size of the institution. Overall, the strong loyalty bonds (and personal dependency ties) that resulted from the quasi-familial management of most institutions reinforced and, to some extent, counterbalanced, the limited level of formalization in the distribution of roles and responsibilities among the school personnel. Such bonds also contributed significantly to avoid possible conflicts that might emerge from delayed wages described above. As noted by one of the interviewed principals:

The policy of the school is to keep the teaching staff because they already know the politics of the schools. There are teachers who have been working here for a long time, 10, 11, 12 years of service (...) Parents are happy when the permanence of teachers is stable. (Principal, school 6)

Such dynamics, however, should not be equated to the prevalence of egalitarian relationships or the absence of hierarchical dispositions. Rather, informality and low levels of institutionalization tended to reinforce unequal and highly asymmetrical relationships, and school leaders (owners, principals) frequently relied on a paternalistic approach rather than on democratic and transparent decision-making practices. In addition, it is important to bear in mind that the close circle of kin and long-time employees frequently co-existed with a number of temporal (and frequently part-time) teachers that were often contracted through ad-hoc arrangements and remained in an essentially subordinate position. In this sense, work casualization and high levels of teacher turnaround contributed to and is reinforced by the underdevelopment of formalized staff management procedures. To put it differently, the sustainability of the quasi-familiar organization of many LFPSs is in fact conditional on the reliance on casualized teacher labor market, which plays thus a complementary role.

**School-environment relationships.** LFPS staff put considerable effort into cultivating a sense of familiarity and the establishment of quasi-emotional bonds with their users, that is, students and families or caretakers. As discussed above, this closeness is used by some school owners as a key selling point. However, the articulation of quasi-affective commitments cannot be solely understood as a promotional or loyalty tool – rather, it plays a crucial role in the reinforcement of both school owners and families' sense of obligation, and ensures a general compliance with social norms that are scarcely formalized (or unlikely to be enforced through a sophisticated bureaucratic apparatus). In the absence of more institutionalized mechanisms, intense personal relationships are pivotal for discouraging deviant behavior and fostering mutual trust.

Yeah, we have a good deal of arrears... But nevertheless... the principal has made an effort to be flexible with those families with more than one child... a reduction... to pay by instalments... They never shut the door. (School owner, school 20)

Among such deviant behaviors, late payment and fee defaults feature prominently. As a consequence of a series of legislative changes<sup>15</sup>, school owners and principals perceive themselves as “disempowered” to ensure school fees will be paid at some point in time – as families can switch schools with relative ease. In this scenario, close relationships between schools and families acquire a particular relevance as a means to ensure a sense of mutual obligation.

The reliance on scarcely institutionalized social norms tended to reinforce discriminatory practices – as the centrality of trust encourages schools’ efforts in selecting only “reliable” families in cases of high demand. A number of interviewees mention the need to conduct some form of interview with families – or even more informal “screening” practices in order to ensure they enjoy a positive reputation and, more importantly, the ability to pay. As noted by one of the interviewees:

Generally, we look into the conduct of the student and the economic capacity of the household. If they come from a private school, we ask for a certificate of conduct and a certificate of paid monthly fees from the previous school. If they don’t have them we call the school, they tell us they owe three, six months of monthly fees, unfortunately we cannot accept that. (Principal and school owner, school 15)

Much emphasis is thus placed on traits such as “respectability” and economic capacity – rather than on other attributes frequently reported by literature on cream-skimming, including students’ academic ability or social profile.

At the same time, the centrality of social norms and trust encourages the establishment of cooperative relationships among LFPS owners. Different interviewees recalled on “information-sharing” practices oriented at identifying families with a reputation for fee-default. Similarly, the limited access to resources encourage similarly cooperative dynamics – as LFPS leaders tend to organize the use of communal courts. Ultimately, these observations are consistent with Viswanathan, Sridharan and Ritchie’s (2010) remarks on the key role of trust (emerging organically from social networks rather than as a product of firm reputation) in the context of scarcely institutionalized marketplaces.

### **Final Remarks: The Limits of “Best Intentions”**

Our research shows that Peruvian LFPSs display a series of highly idiosyncratic characteristics resulting from the specificities of the socioeconomic, cultural and regulative environments in which they operate. These have led to the articulation and consolidation of a particular subsistence model of LFPS, where profit-making seems to play a limited role. Such findings caution thus against the all-encompassing nature of the LFPS concept. As noted by other authors (Moschetti, 2015; Walford, 2011), while such label has the potential to signal some relevant continuities in the operating modes of a variety of schools, it also risks obscuring meaningful differences – making it more difficult to devise appropriate policy responses. Whereas this does not

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<sup>15</sup> Specifically, a law passed by Congress to protect families from abusive practices in relation to school fees – cf. *Regulative dimension* subsection above.

invalidate the utility of the concept, it has some implications for globalization studies - as it points to the need to complement the use of catch-all notions (able to capture the common origins shared by apparently isolated phenomena) with the necessary consideration for context-specific dynamics

The organizational specificities documented in this paper are also relevant in that they have a direct impact on the quality and nature of the education offered by Peruvian LFPSs. As we have shown above, LFPSs exhibit a distinctively poor performance in terms of learning outcomes and student achievement. Given the fact that these schools are disproportionately concentrated in high-poverty areas, such dynamics have particularly problematic implications in terms of equity. To be sure, there is limited evidence on the socioeconomic profile of those attending LFPSs – and it is unlikely that they are attended by the children of the lowest-income families in the area. However, the concentration of LFPSs in peri-urban areas with a fast-growing population suggests that these schools are likely to be attended by highly mobile families with a history of migration – and consequently with limited levels cultural and social capital (even if not necessarily the poorest ones).

The poor performance of the LFPS segment is the product of a number of factors that include the specifics of its student intake, the nature of families' decisions in a context where they enjoy very little official guidance and access to relevant information, as well as the weak organizational practices (in terms of curriculum development, pedagogical coordination and planning, teacher training, etc.) that are typical of these schools. Estimating the added value of the LFPS segment would thus require controlling for a variety of other factors, including classroom practices and the socioeconomic profile of students – and data on these areas remains largely unavailable or largely unreliable. However, our argument here is that the very business structure of these schools, and particularly their behavior as subsistence businesses, constitute *inherently* problematic features that interfere with the quality of the educational process – and consequently, with its final results in terms of academic achievement.

This is the consequence of different dynamics that we have analyzed throughout the paper. To start with, the limited access to economic resources, combined with low levels of formalization of management routines, make it impossible for Peruvian LFPSs to advance towards the kinds of economies of scale and standardization of certain procedures that have been shown as key cost-cutting strategies in the chain-model of LFPS – and which, problematic as they are, may at least help ensure some minimum standards of quality. In the Peruvian case, cost-reduction strategies simply rely on minimum levels of investment – in terms of infrastructure and materials but also in terms of human capital. In other words, *cutting costs* inevitably entails *cutting corners* and *cutting quality*.

Such dynamics are coupled with a limited observance or knowledge of existing regulations (which are, themselves limited), and compounded by the reliance on an unstable, casualized (and sometimes unprepared) workforce, the limited formalization of management routines, distinctly low levels of bureaucratization, and the reliance on quasi-affective commitments and loyalty bonds as a means to prevent deviant behaviors. Together, such dynamics contribute to explain the low achievement results among Peruvian LFPSs. Those cases in which performance is relatively acceptable appear to be largely the result of teacher and principal volunteerism (i.e., unpaid labor), of a specific school composition (as in the case of particularly small-sized institutions relying on a pool of carefully selected students), or to pedagogically questionable strategies, including curriculum-narrowing and teaching-to-the test practices. Therefore, the quality of the “product” appears to depend on a range of uncontrollable (and potentially undesirable) factors rather than on institutionalized procedures and predictable inputs.

In short, we argue that informality and resource scarcity, compounded by the impossibility of articulating an economy of scale, are problematic in its own terms – as schools are unable to meet minimum quality standards, regardless of the effort and willingness that teachers, principals and

owners may put in such endeavor. Our findings suggest that, when it comes to education, subsistence schools are not only ill-suited to deliver a quality service but also likely contribute to magnify and consolidate the social disadvantage of the groups they are expected to serve.

However, the organizational and institutional specificities of the Peruvian LFPS sector, as well as their business structure, open up a number of opportunities for policy intervention. The lack of a clear profit motivation or a genuine interest in entrepreneurship among school owners suggest that the regulation and eventual extinction of LFPSs might be a reasonable horizon – provided that those working and those using the services provided by the sector are offered an alternative. Some evidence exists that in view of recent improvements in the quality of public education, families, especially those from poorer backgrounds, might be willing to move back into public schools. In the meantime, hard questions need to be asked regarding the extent to which the State should simply allow these schools to operate as they do, or whether, in its constitutional mandate to ensure that all children have access to a good quality education, it should help improve the services that such schools provide by offering clearer guidance and supervision, and improving private school governance.

Our findings, however, also provide a note of caution when it comes to regulatory efforts. The limited influence that governments and legislation exert over the LFPS sector are likely to render useless any norm-setting exercise not accompanied by adequate means or incentives to foster school compliance. Likewise, the blunt prohibition or the mandatory closure of certain schooling modalities risks having a limited transformative effect if not accompanied by appropriate enforcement means or by the provision of quality public education services in the peri-urban areas where LFPSs have grown the most.

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## Appendix

Table A1

*Distribution of private schools and private school enrolment – San Juan de Lurigancho*

District locality	Private schools according to monthly fees (S/.)			Total private schools	Total public schools	Student enrolment in private schools (%)	Student enrolment in LFPs (%)	Student enrolment in LFPs over private enrolment (%)
	< 200	201-250	> 250					
Campoy	10	2	4	16	4	36,2	<b>15,5</b>	42,74
Huáscar, Huáscar L. Bajo	16	1	2	19	5	22,4	17	<b>75,72</b>
Las Flores, LF 78, LF de Lima	12	8	15	35	4	64,4	11,3	17,57
Mariscal Cáceres, MC. Luzuriaga	29	4	8	41	2	72	<b>53</b>	<b>73,46</b>
San Carlos	3	2	4	9	1	56,5	11	19,49
San Hilarión, San Hilarión Alto	12	3	2	17	4	32,4	<b>16,7</b>	<b>51,63</b>
Santa Elizabeth	5	1	2	8	2	34,1	<b>19,2</b>	<b>56,14</b>
Zarate, Zarate Ascurrun	11	11	13	35	4	43,8	17	38,04

Source: Authors, based on MINEDU (2017a, 2017b, 2017c).

Table A2  
 Distribution and share of private schools - data by district (Lima, 2017)

District	Private schools % of total	Schools with Monthly fees up to 200 soles - % of total	Schools with monthly fees up to 200 soles % of private schools	Ratio schools with monthly fees up to 200 soles: public schools	Poverty index - 2013	Private schools growth rate 2008-2016	Demographic growth 1995-2015
Jesús María	<b>92,59</b>	3,70	4,00	0,50	1,15	3%	11,27
San Miguel	<b>90,28</b>	4,17	4,62	0,43	1,90	4%	7,87
Santiago de Surco	<b>90,08</b>	9,09	10,09	0,92	2,00	-3%	56,49
San Isidro	<b>89,47</b>	0,00	0,00	0,00	0,15	-19%	-14,10
Lince	<b>86,36</b>	9,09	10,53	0,67	3,30	0%	-16,94
San Martín de Porres	<b>85,87</b>	<b>49,55</b>	57,70	<b>3,51</b>	10,45	11%	73,19
Miraflores	<b>85,71</b>	0,00	0,00	0,00	0,25	-15%	-5,55
Los Olivos	<b>85,28</b>	30,30	35,53	<b>2,06</b>	9,75	17%	37,42
La Molina	<b>84,85</b>	1,52	1,79	0,10	1,25	4%	<b>90,60</b>
Carabaylo	<b>83,42</b>	<b>59,30</b>	<b>71,08</b>	<b>3,58</b>	<b>23,15</b>	<b>54%</b>	<b>152,19</b>
Ate	82,58	<b>57,30</b>	<b>69,39</b>	<b>3,29</b>	15,55	<b>25%</b>	<b>107,33</b>
San Juan de Lurigancho	82,49	45,01	54,57	<b>2,57</b>	<b>22,05</b>	<b>28%</b>	71,92
Villa María del Triunfo	82,16	<b>61,00</b>	<b>74,24</b>	<b>3,42</b>	<b>20,70</b>	<b>29%</b>	55,92
Villa El Salvador	82,16	<b>56,02</b>	<b>68,18</b>	<b>3,14</b>	<b>22,80</b>	21%	62,64
Puente Piedra	81,31	<b>60,28</b>	<b>74,14</b>	<b>3,23</b>	<b>28,30</b>	<b>42%</b>	<b>188,02</b>
Chorrillos	81,29	31,58	38,85	1,69	13,20	21%	39,82
Santa Anita	79,41	44,12	55,56	<b>2,14</b>	11,05	19%	<b>78,16</b>
Comas	79,34	<b>48,85</b>	<b>61,57</b>	<b>2,37</b>	16,00	4%	22,98
Breña	79,17	4,17	5,26	0,20	5,90	-1%	-13,94
San Juan de Miraflores	78,57	43,33	55,15	2,02	18,20	8%	28,89
Pueblo Libre	78,13	6,25	8,00	0,29	1,05	-10%	4,68
Chaclacayo	77,78	30,56	39,29	1,38	9,70	19%	14,69
San Borja	76,92	3,85	5,00	0,17	0,60	-12%	4,69
San Luis	75,76	18,18	24,00	0,75	5,50	11%	14,88
Independencia	74,73	<b>47,25</b>	<b>63,24</b>	1,87	16,90	21%	12,92
Magdalena del Mar	74,07	3,70	5,00	0,14	2,05	-1%	13,80
La Victoria	72,84	12,35	16,95	0,45	11,35	-8%	-20,58
Lurín	72,73	43,64	<b>60,00</b>	1,60	<b>25,45</b>	<b>66%</b>	<b>119,30</b>
Surquillo	71,43	3,57	5,00	0,13	6,75	-4%	2,94
Rímac	70,37	23,46	33,33	0,79	13,55	13%	-14,04
Pachacamac	69,35	<b>54,84</b>	<b>79,07</b>	1,79	<b>23,20</b>	<b>72%</b>	<b>448,80</b>
El Agustino	68,89	41,11	59,68	1,32	17,05	23%	19,81
Ancon	68,42	<b>50,00</b>	<b>73,08</b>	1,58	<b>26,30</b>	<b>56%</b>	<b>76,87</b>
Cieneguilla	68,42	31,58	46,15	1,00	<b>22,75</b>	<b>55%</b>	<b>365,91</b>
Lurigancho	67,65	33,09	48,91	1,02	<b>24,00</b>	<b>32%</b>	<b>101,90</b>
Lima	62,41	20,30	32,53	0,54	10,05	-6%	-15,41
Barranco	58,33	8,33	14,29	0,20	7,45	-2%	-26,00

Source: Authors, based on MINEDU (2017a, 2017b, and 2017c), INEI (2015) and INEI (2017).

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