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# ANNUAL REPORT

(Including 4<sup>th</sup> Quarterly Report)

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Photo Cover Page: The USAID Assistant Administrator for Latin America and the Caribbean, Mark Feierstein heads a US delegation on a visit to the community of Virgen del Carmen, Ucayali, where they had an opportunity to see some of the ADP’s post-eradication work (September 26, 2011)

# EXECUTIVE SUMMARY

This report summarizes performance for the first of the ADP option years (October 2010 to September 2011) and incorporates the 4<sup>th</sup> Quarterly Report for the fiscal year (FY) covering the period from July to September 2011. This reporting period was characterized by first-rate implementation and client service. Indeed, the ADP has demonstrated 98% average achievement of targets for its entire portfolio of indicators (27 in all) after just one year. More fundamentally, it reflected a significant reinvention of the Program and the need to maintain relevance: to the client, to the country and to the Peruvian stakeholders who make up the ADP's platform of key collaborators and beneficiaries. The beginning of this process of "reinvention" has been most visible in five areas:

## **Consolidating the Peruvian Cacao Industry**

Most USAID-financed Alternative Development (AD) programs support the agricultural sector. Some of these support many thousands of farmers. A few have worked extensively with farmer cooperatives and producer associations. None have contributed in significant measure to building an entire industry. And not just that, but an industry that is fast becoming "the darling" of international buyers for both its exotic Amazonian roots and its exceptional quality.

Welcome to Peru's cacao sector and the ADP's critical role in its development. Between 2003 and 2010 the Program was responsible for supporting 52,000 hectares of cacao (more than half of this being new planting) and in the two option years it will add another 4,500 hectares. Given that official estimates put total Peruvian cacao production at between 60 and 70,000 hectares, one could conservatively credit USAID for at least 50% of this.

However, once the production component was under control, focus needed to shift to post harvest management and quality control and consolidating sales. This enshrined the changing focus for consolidation for this reporting period, which resulted in the initiation of projects to develop 27 new fermentation and drying units<sup>1</sup>, as well as generating over US\$ 37,000,000 in sales over the past 12 months.

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<sup>1</sup> In addition to these, 33 additional units (most pertaining to the San Martin-based cacao producer association, ACOPAGRO) were rehabilitated during the year.



The ADP at Mistura 2011

Four groups of women chocolate producers from San Martín and Ucayali, the Amazonian Cacao Consortium (made up of ACOPAGRO from Juanjui, La Divisoria from Tingo María, Oro Verde from Lamas and the Tocache Cooperative), Industrias Mayo, the Naranjillo Cooperative, the Central Café Peru and the National Coffee Board all participated in the Mistura gastronomic event in Lima with support from the ADP. According to their representatives, Mistura is a terrific opportunity to sell their products to more than 10,000 visitors, as well as making commercial contacts. The *Rincón del Cacao y Chocolate* (literally, the cacao and chocolate corner), where these groups could be found with many other chocolate producers, was inaugurated by the United States Embassy representative, Michael Fitzpatrick and the celebrity chef Astrid Gutsche.

## Developing a New “Post-Eradication” Intervention Model

The “miracle of San Martín” - USAID’s most credible global experience to date in embedding a licit culture in an entire region – still represents the gold standard for United States Government (USG) AD initiatives. Likewise, it represents the ADP’s most visible illustration of broad-scale success and has been a key reference point for the development of the entire program<sup>2</sup>. That is all well and good, but times change and the challenge for the Program in October 2010 was to move beyond replicating the San Martín “miracle”.

The task at hand was to implement a new model in Ucayali, and furthermore, do it in a post-eradication context (prior to 2006/07, all eradication in San Martín had been voluntary). This involved a number of strategic changes, with a key focus on improving the response time to develop projects with post-eradication communities from a historic average of some three months to thirty days (from socialization to formally signing a community agreement), with the first project inputs (typically bags, seed and technical assistance) being delivered in just 48 hours following sign-up. The impact on program credibility has been immense.

## Continuing Commitment to the Environment

There exists the belief in some quarters that broad-scale agricultural expansion is synonymous with environmental degradation. This would be a mistake, particularly in the case of the ADP which has supported almost 76,000 hectares of licit crops up to and including this last quarter (cacao, coffee, plantain and palm heart), all of which have been developed in compliance with both Peruvian environmental legislation, USAID Regulation 216 and PERSUAP. In the case of cacao in particular, Peru is the world’s second largest organic producer, the bulk of which has been developed by the Program. Indeed, 25% of all ADP-supported crops are now covered by organic and fair trade certifications that promote both good environmental stewardship and improved social conditions for workers.

### The ADP Environmental Focus from a USAID Perspective

“I am very impressed with all the good work that has been done. I can see the enthusiasm and commitment of producers to the environment.”

*Words of Victor H Bullen, USAID’s  
Environmental Officer for Latin America, during a  
visit to the Program in February 2011*

The ADP worked hard over the previous twelve months to further embed an environmental perspective to its work, culminating in September in the development of three new grants for Ucayali to plant 140,000 native tree species in recently developed cacao projects.

## Strengthening Local Capacity

Most development projects espouse strengthening local capacity as an objective. This is laudable in principle, but hard to do in practice. Even though USAID grants programs purport to strengthen local grantees, there is often a competing pressure to ensure that the work is done perfectly. These two concerns frequently collide, resulting in technically sound projects with little real space for the kind of learning that allows local organizations to develop. This was the challenge that faced the ADP at the close of 2010.

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<sup>2</sup> This was evident during the visit to San Martín by the new head of DEVIDA, Ricardo Soberón, to see for himself the impact of the San Martín “miracle”. He left stating that a similar approach should be used in VRAE.

The response was threefold: (i) overhaul the grants program – including the instigation of a grants review committee and more direct involvement in the grants development program by senior management - to ensure that the approach was consistent with local development; (ii) develop a new evaluation tool to more systematically guide the strengthening of producer associations, with the support of an experienced Colombian consultant, and (iii) initiate a new community-level, competitive grants process (via an Annual Program Statement, APS) to support small projects (up to US\$ 20,000) in “model communities” in Ucayali. The positive impact of this is already being seen within the ADP intervention areas and has been well received by USAID/Peru’s Contracts Office.

### **Responsive Program Management**

Good strategy still needs to be implemented and the last year has presented some important management challenges for the ADP. Firstly, the USAID decision that the Program would not implement activities in Bolson Cuchara, which was taken at the start of 2011, effectively meant the beginning of the end for operations in Huánuco. From March onwards, the program was downsized and the Tingo Maria office officially closed at the end of September. In parallel, the shift away from production to commercial activities in San Martín led to a reorganization and slimming down of staff, while in Ucayali the effort was firmly on strengthening capacity in post-eradication<sup>3</sup>; the transfer of the ADP Regional Director in Huánuco to Ucayali improved focus and operational cohesion and this was reinforced by the movement of some of the Program’s strongest operational staff from San Martín and Huánuco to Pucallpa, Neshuya and Aguaytia.

In Lima, a new DCOP was appointed, the expatriate Program Officer’s role was eliminated and key tasks (reporting, etc.) assumed by senior management. Senior technical leaders were given clearer responsibilities and regional directors were formally integrated into the senior management team. Capable members of staff at the middle management level were promoted. The final outcome was a slimmed down staff structure (the number of ADP employees fell from 212 in October 2008, to 146 in October 2009 and currently stands at 96) and a more efficient and responsive management capability.

Over the course of the year, the Program implemented 73 grants with a total value of US\$ 7,366,166, as well as a further US\$ 1,466,760 in direct investment.

### **Report Structure and Format**

In keeping with the Program’s new style of reporting introduced last quarter, this report is deliberately concise and focuses on the link between activity performance and new strategic focus (as outlined in the ADP Work Plan, 2011-12). Likewise, the reporting format is the same as Q3.

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<sup>3</sup> By July 2011 it became apparent that USAID plans for the Program to enter Huipoca would not be feasible and activities were reprogrammed. This included the development of a new “Plan Tocache” to strengthen licit culture in light of concerns over reported increases in coca planting. In light of this, staffing was increased in the Tocache Zonal Office.

# I. PERFORMANCE AGAINST INDICATORS

Table 1 below presents a summary of the ADP's new indicator set (October 2010 through September 2012) agreed upon with USAID.

**Table 1. ADP Performance Indicators (Option Years)**

	Indicator Description	Target	Unit	Progress Current Quarter	Total to Date	Percentage of Target Achieved
1	New licit crops established.	5,655	Hectares	2,114.4	4,582.5	81%
2	Families receiving assistance in productive activities.	3,270	Families	0	3,162	97%
3	Employment generated.	14,000	Jobs	460.72	13,177.9	94%
4	Sales generated.	37,184,280	US\$	17,560,097	37,619,019	101%
5		Cacao: 800	Kg/ha.		733.5	92%
6	Productivity of licit crops established.	Coffee:17	Qq/ha.		19.7	116%
7		Oil Palm: 15	T/ha.		15.8	105%
8	Communities defined as "precarious" ascend to an "intermediate" development category.	30% (11 from 36 communities)	Community	12	12	111%
9	Communities defined as "intermediate" ascend to a "strengthened" development category.	10% (4 from 38 communities)	Community	0	0	0%
10	Governments ascend from "low" to "intermediate" category in their management capacity.	50% (6 from 10 governments)	Government	5	5	91%
11	Governments ascend from "intermediate" to "high" category in their management capacity.	30% (1 from 3 governments)	Government	0	0	0%
12	Female participation in productive activities.	30% (981 from 3,270 beneficiaries)	Women		984	100%
13	Leveraged investment by public and private sectors.	12,500,000	US\$	3,758,199	11,816,876	95%
14		Tingo Maria (45%)			53.7	118%
15		Pucallpa (60%)			63.3	106%
16	Public perception: percentage of population that consider illicit crops	Aguaytia (45%)			42.1	94%
17	(coca) to be an impediment to	Tocache (65%)	%		62.4	96%
18	development.	Lamas (80%)			87.0	109%
19		Juanjui (70%)			78.3	112%
20		Tarapoto (70%)			76.9	110%
21		Tingo Maria (40%)			48.0	120%
22		Pucallpa (65%)			71.6	110%
23	Public perception: percentage of	Aguaytia (35%)			43.7	125%
24	population that consider the ADP to be	Tocache (70%)	%		83.9	120%
25	a development promoter.	Lamas (80%)			92.5	116%
26		Juanjui (75%)			90.4	121%
27		Tarapoto (75%)			87.6	117%

- Notes:
1. All information is generated by the ADP Monitoring & Evaluation (M&E) System.
  2. Productivity figures are collected yearly, not quarterly.
  3. Leveraged public funds amount to US\$ 6,848,604, while private funds sum to US\$ 4,968,272 (including US\$ 3,107,345 accounted for by private credit to ADP beneficiaries)
  4. Measures of Public Perception are collected independently once per year (the figures above correspond to March 2011)

Overall performance at this stage of the Program is first-rate. After just one year of the two-year option period, the average rate of final target achievement is 98%, significantly above expected levels of performance at this juncture. Particularly worthy of note are:

- The total level of sales (US\$ 37.6 million), which has just sneaked past the final target one year ahead of schedule, reflecting both an aggressive campaign by Economic Development staff and strong international cacao prices for the bulk of the period<sup>4</sup>. Despite falling cacao prices at present, the Program is cautiously confident of adding a further US\$ 12 million in sales over the next twelve months.
- Solid progress on new cacao planting and beneficiary families, with the Program well on the way to achieving its final targets (81% and 97% achievement, respectively).
- Important movement of fragile communities and weak local governments (101% on average) up the development ladder, indicating overall improvements in leadership, participation and accessing resources; a key requisite for sustainable, licit development.
- Major leverage of private and public funding, which at this stage has risen to 98% of the target figure and is expected grow by another 50% over the coming year.
- Significant improvement on positive public perception of the ADP and in turn USAID, with an average rating of 18% above targets, including places such as Tingo Maria and Aguaytia that have been historically “anti-ADP”. This reflects both an effective communications presence and a significant improvement in program credibility arising from the new post-eradication intervention model<sup>5</sup>.

The ADP expects this solid level of performance to continue through program close-out.

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<sup>4</sup> The international FOB price for cocoa beans during the reporting period was US\$ 3,200/MT. The average price received by the ADP-supported producer associations and cooperatives was US\$ 3,600/MT. The US\$ 400/MT difference is explained by premiums for quality, organic, free trade certifications, etc.

<sup>5</sup> These figures may fall during 2012 as Program presence is reduced.

## II. TECHNICAL DISCUSSION

### I. Post Eradication

The new ADP post eradication model was successfully “ground tested” during the course of the year. Internally, the decision to field a new Ucayali Regional Director who had “cut his teeth” leading the ADP’s challenging program in Huánuco provided stronger leadership and more energy at an important time. The Ucayali effort was further strengthened by moving 16 of the Program’s strongest operational staff from San Martín (7) and Huánuco (9) to Pucallpa, Neshuya and Aguaytia. During the reporting period both zonal coordinators were also changed. Furthermore, a “quick productive response” focus that had been successfully used in Paraiso was embedded in the Ucayali team psyche, resulting in: (i) the reduction of downtime between initial contact with communities post-eradication and signing commitments from 2 to 3 months in some cases to just 30 days, and (ii) the delivery of the first project inputs to communities within just two days of signing-up. The positive impact on Program credibility and ADP/USAID image in the region has been impressive.

In addition, stronger integration of field teams was soon reflected in a more integrated program in the field, which was quickly picked up on by key stakeholders, particularly local and regional governments and communities. In the same vein, Ucayali staff responded to USAID requests to improve communications with the Regional Government and this was reflected in several positive comments by Ucayali Regional Government staff during official visits, as well as an increasingly “pro-licit” public stance by the region’s President.

Outside of Ucayali and at the specific request of USAID, a special “Plan Tocache” was developed towards the end of the period to strengthen licit culture. As a result, the Tocache Zonal Office, which had originally been downsized, was beefed up again to support the new activities. At the same time, the Huánuco office - which had played a key role in the ADP success story up to 2010 - was closed during the period following USAID’s decision to task the United Nations (UN) program in Peru with the Bolson Cuchara initiative. A limited number of on-going productive projects (particularly in Paraiso) will be managed from Tocache and two commercial initiatives (working with the Naranjillo and Divisoria cooperatives) will be supervised from Lima.

#### a. Expanding Cacao Coverage

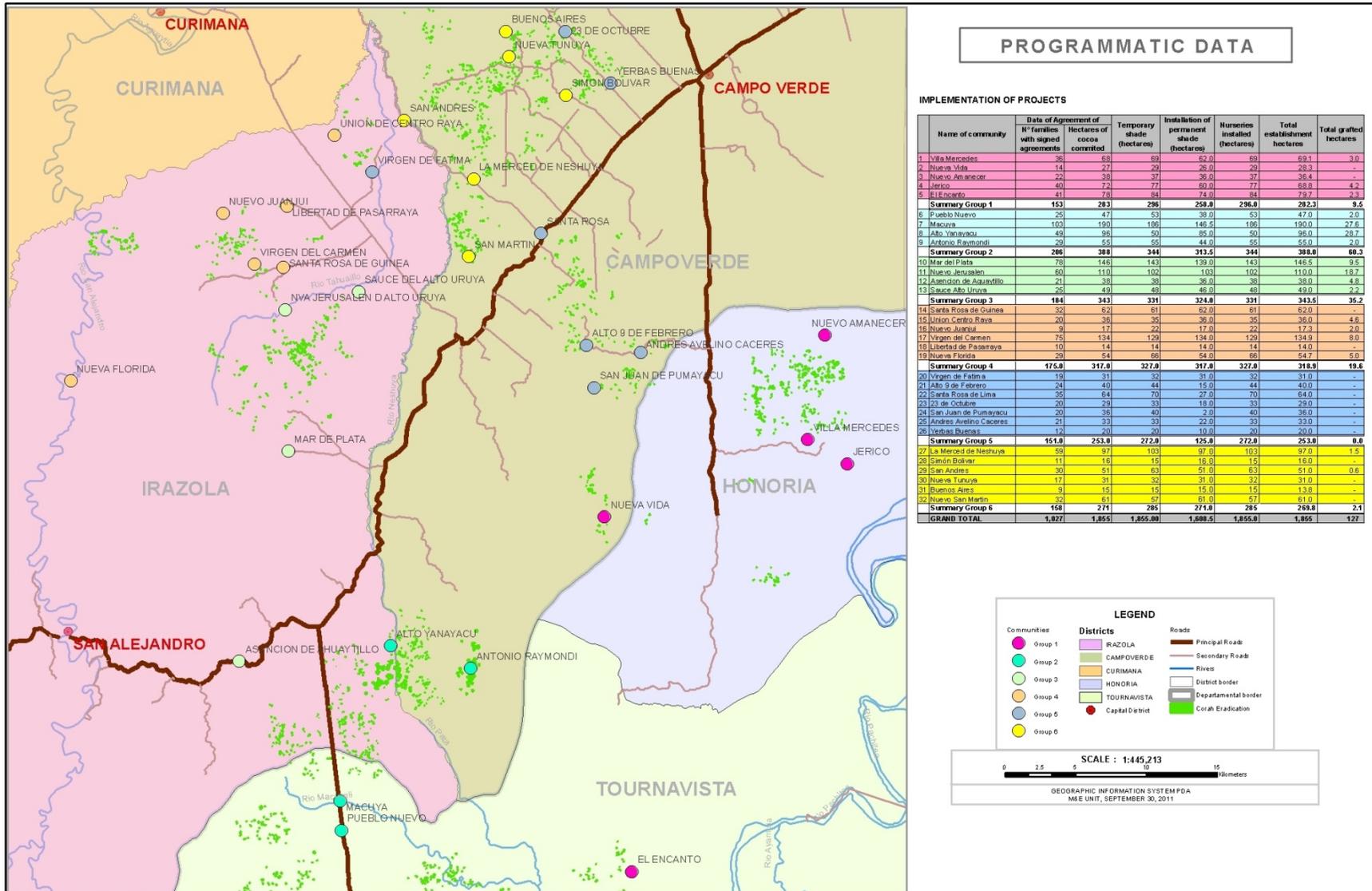
This reporting period saw significant progress in meeting the overall target of 3,455 hectares of new cacao<sup>6</sup>. At the halfway point of the option year period, 74% of cacao has now been planted, amounting to 2,541 hectares. Planting in Irazola – Campo Verde was completed during the quarter (100%), while an extra 551 hectares were planted in Aguaytia, taking the total to almost half of the final target (678 hectares).

Significant effort also went into a new activity to plant 600 hectares of cacao with 10 communities along the main highway between Huipoca and San Alejandro. During the last quarter this resulted in the establishment of almost 90% of the nurseries and more than half the temporary shade. In-field planting will start in October (see Table 2 and Maps 1 to 3 for more details of these three projects).

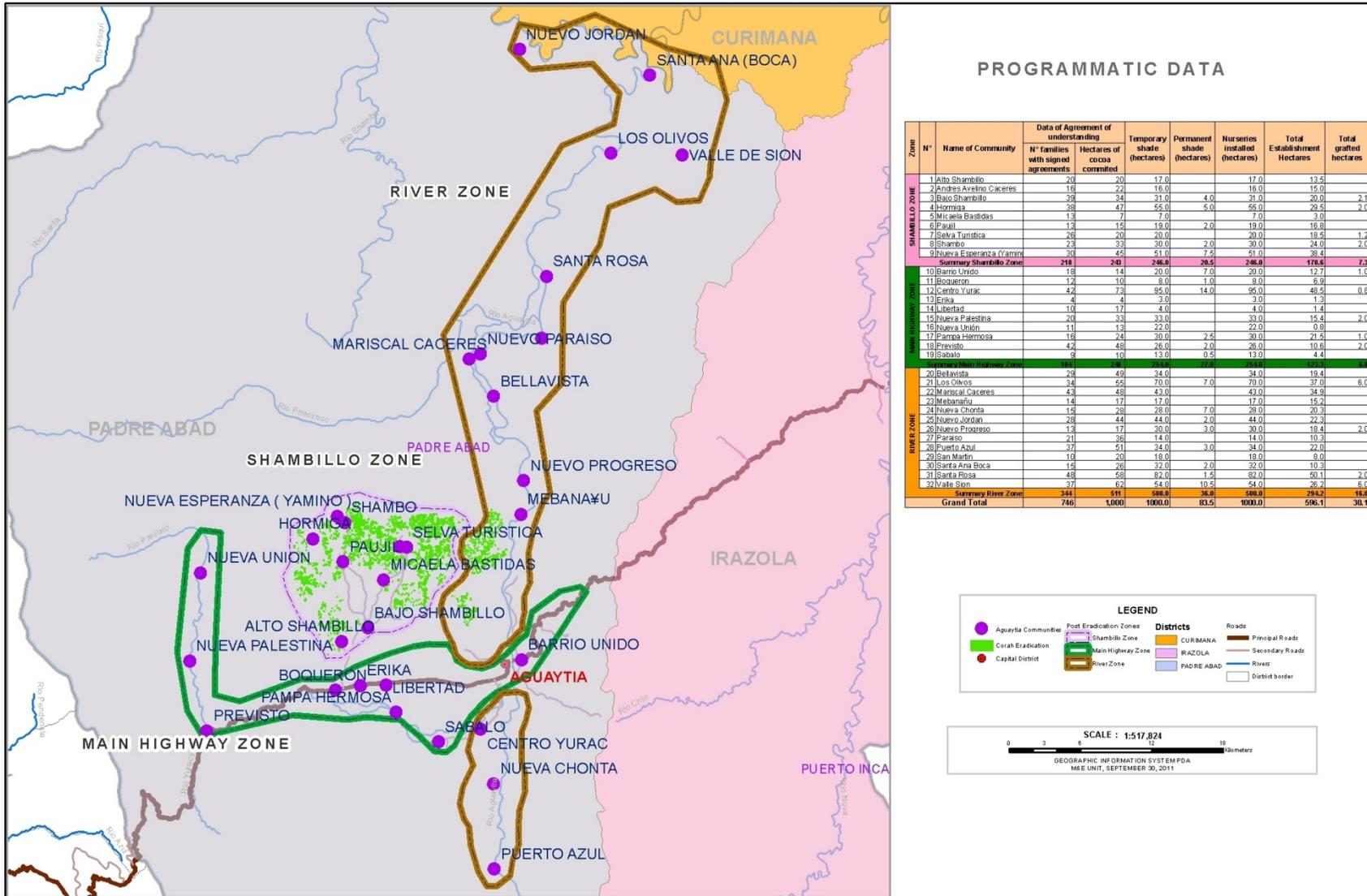
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<sup>6</sup> The ADP is also improving an additional 200 hectares of existing cacao in Aguaytia.

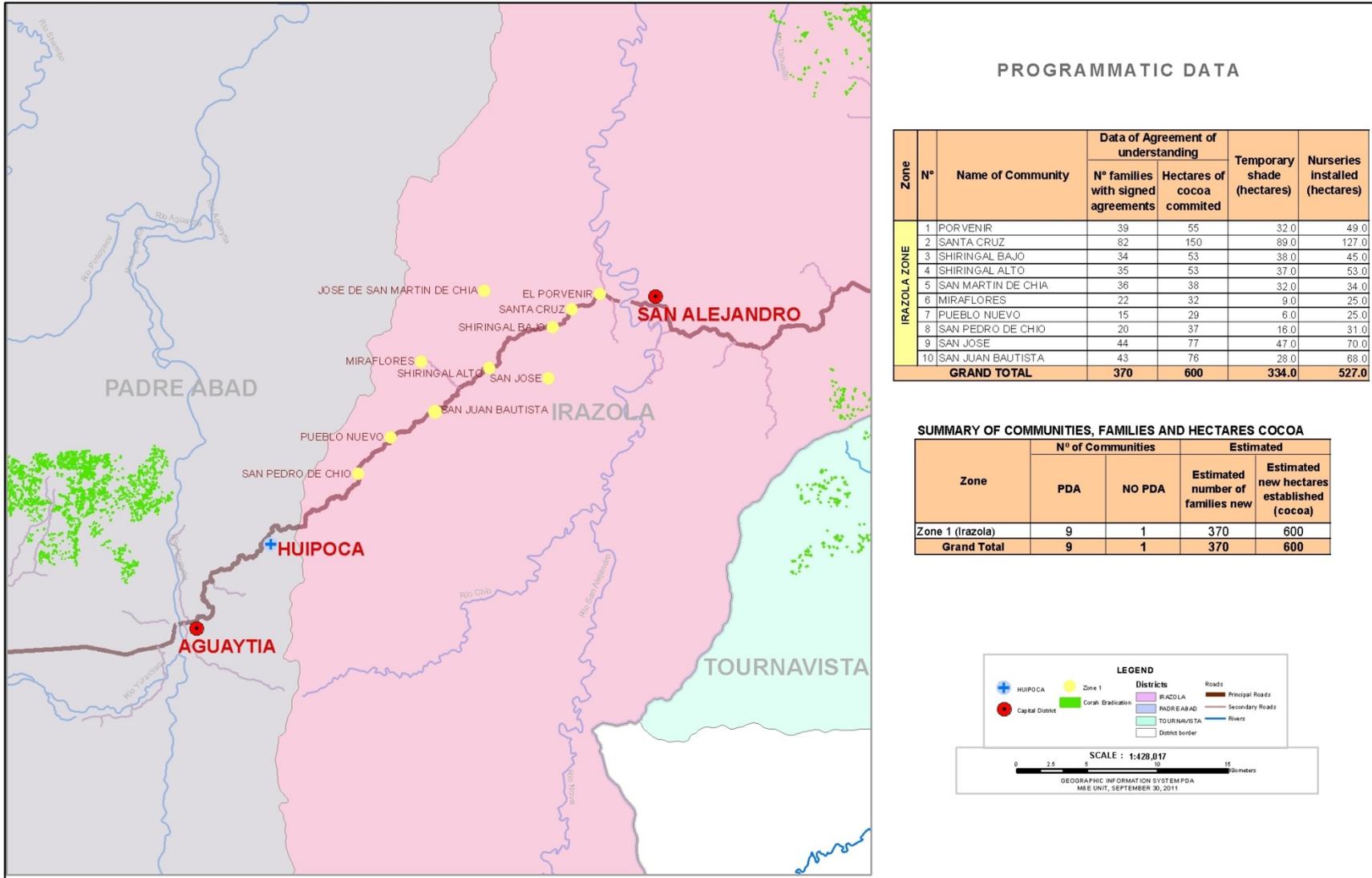
Map 1. Progress in Post Eradication (Irazola - Campo Verde) to September 30, 2011



Map 2. Progress in Post Eradication (Aguaytia) to September 30, 2011



Map 3. Post Eradication (Cercos Huipoca) to September 30, 2011



Establishing a licit economic presence in these 104 communities - particularly those in Aguaytia and around Huipoca - has been critical in improving USAID image in the region. More so, as forced eradication commenced in Huipoca towards the end of the reporting period.

**Table 2. Progress in Establishing New “Post Eradication” Cacao in Ucayali**

Location	Target (ha)	Previous Quarter (ha)	Current Quarter (ha)	Total for Year	% Progress
Aguaytia	1,000	127	551	678	68%
Irazola - Campo Verde	1,855	1,711	152	1,863	100%
Cerco Huipoca	600	0	0	0	0%
<b>Totals</b>	<b>3,455</b>	<b>1,838</b>	<b>703</b>	<b>2,541</b>	<b>74%</b>

**b. Planning Post Eradication Interventions in Huipoca**

A technical scoping study in Huipoca to guide activities in anticipation of planned eradication was undertaken during the period. In addition, forced eradication began in Huipoca in July/August. Despite this, USAID decided that minimum security conditions for ADP entry did not exist, and plans were shelved to commence post-eradication work within Huipoca itself.

**c. Creating Social and Business Farmer Field Schools**

The “new and improved” farmer field schools (known by their Spanish acronym as ECASEs) continue to be the ADP’s best reflection of an integrated social, productive and commercial vision that brings communities and producer groups far closer together than was previously the case. They also have the additional advantage of generating a more sustainable, knowledge-sharing dynamic that has the potential to continue long after the Program has ceased operating. In fact, some of San Martín’s most dynamic producers are the product of the original field schools (ECAs) implemented a number of years back.

Over the course of the year, 51 of the 66 ECASEs planned for post-eradication areas where successfully initiated (77% of the target), with 32 new initiatives launched in the last quarter alone. Of this total 30 are underway in Campo Verde-Irazola, 10 in Aguaytia and 11 in the Cerco Huipoca area<sup>7</sup>. In addition to this, and with a few to future sustainability, the ADP is working with the grantee Café Peru to train an group of 180 producer-leaders in the ECASE methodology, permitting future dissemination to a further 3,600 producers. In addition to the ECASEs, 200 person days of direct technical assistance (TA) was invested during the period.

**d. Strengthening Ucayali Producer Associations**

Institutional capacity in Ucayali, like many coca-producing areas the world over, is weak. This is particularly the case with its nascent producer organizations (with the possible exception of oil palm). However, if the licit economy is to progress and farmers are to have a stake in this development, producer associations have to exist, function and grow. With that in mind, the ADP began work with four<sup>8</sup> organizations in Ucayali - the *Cooperativa*

<sup>7</sup> An additional 17 ECASEs are underway in marginal areas, bringing the total number of ECASEs in implementation to 68, the total number of participants to 1,185 and the total number of days invested in the activities to 304.

<sup>8</sup> One more organization than the figure reported last quarter.

*Campos Verdes, the CAC San Alejandro, the Asociación de Productores Tecnificados Cacaoteros del Valle de Shambillo<sup>9</sup> and the Comité Central de Cacaoteros de Curimana.*

The strengthening process involves a strong “learning-by-doing” philosophy as all four have implementation responsibilities as grantees. This is bolstered by additional activities with other grantees (VSF-CICDA and SUMAQAO-PRONATEC) to improve the organizations’ administration and financial capability and their market linkages. A final element, launched late in the year, was a more sophisticated analysis of their strengthening needs using the new producer association strengthening tool (known as VEO by its Spanish acronym).

The immediate commercial impact of the ADP-SUMAQAO-PRONATEC alliance during the reporting period is evidenced by the sale of 340 metric tons of cacao with a total value of US\$ 924,000 by four organizations (see table 3 below). This in itself has been a hugely important motivating factor for the region’s cacao sector, particularly in light of traditional claims by the region’s coca growers that the region “is not apt” for cacao cultivation.

**Table 3. Production and Sales from Ucayali Cacao Producer Organizations**

<b>Producer Organization</b>	<b>Sales Volume (MT)</b>	<b>Value of Sales (US\$)</b>
<i>Asociación de Cacaoteros Tecnificados de Padre Abad</i>	224	623,611
<i>Comité Central de Cacaoteros de Curimana</i>	79	215,373
<i>Cooperativa Campos Verdes</i>	36	84,586
<b>Totals</b>	<b>339</b>	<b>923,571</b>

*Note: Cacao from the Asociación de Cacaoteros Tecnificados del Valle de Shambillo is sold through the Asociación de Cacaoteros Tecnificados de Padre Abad*

In addition to its work with the organizations mentioned above, the ADP formed 15 cacao producer committees and continued with activities to strengthen a further 17. This work with base-level producer groups is arduous but important to the future development of the cacao industry in Ucayali.

**e. Motivating “Model Communities”**

One of the most important lessons from the USAID Andean AD experience is that communities, not individuals, make the move from an illicit culture to a licit one. With that in mind, the ADP developed a new approach to community development at the start of 2011 and invited 34 communities (out of a total of 64 that work with the ADP) to present participatory, community development projects as part of a competitive grants process (via an Annual Program Statement, APS). A rigorous selection process was applied to the 28 applications that were received and 13 successful communities have begun a process that will culminate in the award of small grants (of up to US\$ 20,000) to implement their projects. The first 8 grants will be sent to USAID for approval in October.

<sup>9</sup> It should be noted that a fifth organization – the *Asociación de Cacaoteros Tecnificados de Padre Abad* – is being helped commercially, via its sale of produce through the *Asociación de Cacaoteros Tecnificados del Valle de Shambillo*.

#### f. Supporting Governments to Respond to Local Needs

Another critical AD learning is that without enhanced State presence, it is difficult to promote behavior change in areas influenced by illicit crops and narcotics activities. This being the case, ADP continued to work hard during the year to identify opportunities to strengthen government capacity to access national funding (which is an acknowledged bureaucratic nightmare). This is typically achieved through the provision of skilled consultants who work with government counterparts to access investment from the Ministry of Economy and Finance's (MEF) Public Investment System (SNIP) and COMPITE fund, or by way of PIR (Rapid Impact Program) funding from USAID's main counterpart, DEVIDA. From a programmatic perspective, the cost-benefit is roughly in the order of 1 to 250 (comparing US\$ 1 of USAID funds invested to the return in terms of the US\$ equivalent in Peruvian investment). During this year alone, 7 activities of this type, which have been developed at a cost of just US\$ 10,857, have resulted in almost US\$ 250,000 in state funding. Additionally, US\$ 2.7 million has been accessed from the DEVIDA rapid public investment fund (PIR), on top of US\$ 2.8 million arising from the 2012 participatory budgeting exercise. Impressive results indeed! On another level, the ADP has managed a series of very effective interchanges between government officials (at both the local and regional level) from Ucayali and San Martín.

#### g. Embedding a Pro-Licit Culture

By definition, embedding a pro-licit culture in areas negatively affected by illicit crops, highly vocal coca unions and narcotics influence is a multi-faceted venture. Ever larger areas of licit crops, more responsive local government, public statements of support by regional leaders, expressions of licit progress in beneficiary communities, etc. are all part of the package. More specifically however, the ADP has targeted two groups of activities with a specific "cultural change" objective. The first involves community and district fairs (*caravanas comunitarias*) that have proved to be a highly effective vehicle for promoting values (honesty, hard work, collaboration, etc.) linked to a culture of cacao, which stand in stark contrast to those of the coca culture (individualism, short-term gain, illegality, etc.). Over the course of the year 31 fairs took place.

The second initiative uses communications as a key instrument of change. At the community level, the most tangible expression of this has been the formation of 286 local, voluntary communications promoters (145 in Ucayali and 141 in Huánuco). These have been supplied with basic public announcement equipment that literally "magnifies" licit communication within the community. This, linked to the use of community news boards



Government to Government

Officials from the Ucayali Regional Government (GOREU) travelled to San Martín to see at first hand the regional experience with cacao. Over three days they visited producer organizations in Juanjui, Sapasoa and Lamas and shared experiences with their government counterparts on public investment in cacao, implementing productive projects and hosting regional trade events. And the key lessons learned? Firstly, that cacao is indeed a viable licit economic alternative. Secondly, that for public investment in cacao to be effective, governments have to work closely with the private sector. Carlos Henderson, Vice President of GOREU, stated: *"San Martín has shown that agricultural products with secure markets generate real community development."*



Rejecting Narcotics in Ucayali

During an event to mark the donation by USAID of 75 tons of rice seed to flood victims in Ucayali and attended by the USAID Director Richard Goughnour, the Ucayali Regional President, Jorge Velásquez, delivered a resounding rebuke to the narcotics presence in the region. Making reference to the importance of the Memorandum of Understanding (MOU) signed between USAID and his government he said: *“When we sign an MOU we make a commitment. Their commitment is to help us with technical assistance and support us in difficult moments such as this, and ours is to attack extreme poverty and eradicate narcotics from our region.”*

in public venues, guarantees effective communications at its most basic level. Later in the year, community communications specifically linked to cacao took a step forward with the implementation of “communications work sessions” (*faenas comunicacionales*) in which short videos form the basis for a broader discussion of the social and productive attributes of cacao; to date 21 events have been undertaken in 21 communities.

On top of this, and via a sub-contract with Inforegión, the Program developed a coherent, pro-licit media communications platform in Ucayali (2 radio news slots per day, 1 TV news item per day, 2 weekly radio programs and 1 monthly newspaper). This significantly changed the way the ADP and USAID in turn was treated by the press. By way of example, by August 2011 the Program was able to position its work with Aguaytia media who less than a year before had rejected all attempts to do so for fear of reprisals by coca growers. Major progress indeed!

## 2. Increased Presence in Marginal Areas

During the previous year, the Program continued to support the expansion of cacao outside Ucayali, as well as plantain both in Ucayali and elsewhere. These are “complementary activities” to the current Work Plan (WP) strategy carried over from the previous contract period. When finished, they will add 1,396 new hectares<sup>10</sup> that increase licit presence in communities previously influenced by coca. Progress is detailed in Table 4. Additionally, the ADP manages 488 on-farm demonstration plots<sup>11</sup>.

**Table 4. Progress in Establishing New Hectares in Marginal Regions**

Location	Crop	Target (ha)	Previous Quarter (ha)	Current Quarter (ha)	Total to Date (ha)	% Progress
Paraiso	Cacao	560	205	230	435	78%
Paraiso	Plantain	80	44	47	91	114%
Aguaytia	Plantain	400	314	179	493	123%
Uchiza	Cacao	356	67	151	218	61%
<b>Totals</b>		<b>1,396</b>	<b>630</b>	<b>607</b>	<b>1,237</b>	<b>87%</b>

<sup>10</sup> The ADP is also improving an additional 289 hectares of existing cacao and plantain.

<sup>11</sup> The Program continues to manage 488 fertilizer demonstration plots for cacao in Ucayali (74 plots), San Martin (373 plots) and Huanuco (41), which are ongoing from the previous contract period. In addition, there are 102 fertilizer demonstration plots for coffee and 2 for *pijuayo*. Results will be published in May 2012.

Although progress was slow for the first half of the year, significant “catch-up” was achieved over the last two quarters. In plantain, targets are already surpassed by an average of 19%, and although cacao is still lagging somewhat (particularly in Uchiza, where there has been a far higher rate of “drop-out” than typically seen), overall performance is now at a healthy 87% of the final target.

### 3. Consolidation

Perhaps the biggest conceptual leap in the ADP during the previous twelve months was a clearer, more focused approach to consolidation. At its most fundamental this meant changing a largely productive focus to a commercial one. It also represented a geographical division with priority given to the San Martín region<sup>12</sup>. More specifically, the new consolidation focus involves:

1. Improving managerial capacity and strengthening the membership base of producer organizations and other entities, principally in cacao.
2. Enhancing market access and commercial viability for these organizations.
3. Brokering commercial alliances to increase investment in ADP-supported areas.
4. Promoting and positioning Peruvian products supported by the Program.
5. Helping municipal and regional governments to create a stronger enabling environment for licit economic development.



#### A Record Breaking Year for ACOPAGRO

With the words “*Our organization may not be big but it is great*” Gonzalo Ríos Núñez, the manager of ACOPAGRO, expressed his satisfaction with buying-in 2,500 tons of cocoa bean for export. He continued: “*The figures show that we are the first agricultural cooperative in Peru, exporting cacao, to sell more than the big private companies. Our buyers are very happy with the quality of cacao we offer.*” ACOPAGRO, based in Juanjui and counting many ex-cocoa growers among its membership base, has a long relationship with the ADP. Counting the French President, Nicolas Sarkozy, among the fan base for its chocolate, the organization continues with plans to expand and is looking to bring in around 3,000 tons of cacao from its 77 reception centers before the close of 2011.

#### a. Organizational Strengthening

The ADP worked with 13 producer organizations during the year, incorporating 2 new participants (CAC Huallaga and CAC Cristo Rey) in the last quarter. Via the grant agreement with Outspan, the Program is working with 3 cooperatives (CAS DORADO, CAC Cristo Rey and CAC Huallaga) and 2 coffee producer committees to strengthen their cooperative management focus and commercial capacity. In the same vein, the grantee VSF CICDA (PROCACAO alliance) is working with 9 other producer organizations. Initial studies have also been undertaken with 3 organizations in Tocache (ASPROC, CP CACAO and APCU) to sell carbon credits. New reception centers (2 for coffee and 2 for cacao) have been completed with the cooperative La Divisoria. Furthermore, the Program

<sup>12</sup> The hard division between a post-eradication focus in Ucayali and a consolidation effort in San Martín is a little more blurred in practice. For example, the new Plan Tocache although occurring in San Martín is largely “post-eradication” while some of the producer strengthening work in Huánuco and Ucayali is targeted on commercial consolidation. For the large part however, the division holds.

continues to work with 2 palm heart organizations (APROPAL and APROSAM), including co-financing their participation in the *Expoalimentaria 2011* Trade fair.

#### **b. Working with Women's Organizations**

Work began during the year on strengthening 5 women's groups involved in the production of artisanal chocolate. This activity was undertaken via the grantee CERCOMER and included business management, development of new recipes, production quality, brand development and packaging. Three of these groups – Mishki Cacao, Warmitech and ASPROC - were recipients of additional targeted assistance to facilitate their successful participation in the *Salon de Cacao y Chocolate* in July. Two of them - Mishki Cacao and ASPROC – joined the women of Campos Verdes to present their products at the *Mistura* gastronomic fair in September. A new grant to continue this activity (with a focus on upgrading equipment and product quality) is being finalized at present.

#### **c. Improving Associativity**

Individual producers have far greater possibilities of commercial survival/progress if they are linked to other producers. This typically gives them access to technical assistance (TA), credit and better prices. To this end, the ADP linked an additional 567 new producers became involved with committees, organizations or cooperatives in the last quarter, taking the total to 11,110.

#### **d. Strengthening Regional and National Entities**

Over and above the ADP's work with producer committees and organizations, strengthening regional and national entities is also an important component of the consolidation strategy over the long term. With this in mind, the creation of the Regional Technical Roundtable in Ucayali (*Mesa Técnica de Cacao de Ucayali*) this year marked an important step in the expansion of cacao production in the region. In the same vein, the ADP continued to consolidate the leadership potential of the Roundtable on Cacao in Tocache (*Mesa Técnica de Cacao de Tocache*) and the Roundtables on cacao, coffee and palm heart in San Martín. It is anticipated that these will assume a leadership role in promotional activities once the ADP closes.

In the same spirit, the Program continued to work with the National Coffee Board (JNC) and the Association of Peruvian Cacao Producers (APPCACAO) to consolidate the position of both organizations within their respective industries. The position of the APPCACAO, despite representing 22 of Peru's cacao associations, remains weak and it needs to carve out a stronger role for itself in the medium term.

With strong expressed interest from USAID, the ADP served as a key source of technical and financial support to the new Technological Innovation Center for Cacao (CITECacao). Over the course of the year this included:

- CITE start-up and payment for the first Executive Director.
- Accreditation with the Ministry of Production.
- Development of the *expedientes técnicos* and subsequent construction of a fermentation and drying module, training facility (*maloka*) and internal roads network as well as the organization of the 8.5 hectare plot and installation of perimeter fencing.
- Building plans and design model (*maqueta*) for the CITE installations.
- Visit by four of CITECacao's directors to Colombia to meet with the Colombian Cacao Federation, management and technical staff from Casa Luker, scientists from

the CENICAFE laboratory where cacao research is undertaken, as well as cacao producer associations from the Magdalena Medio region.

- Successful official launch of CITECacao in San Martín (June 30) with the presence of important Peruvian dignitaries, including the Ministers of Production and Agriculture and the President of Peru.
- The development of the CITE strategic plan.
- A study to determine cadmium and lead levels in Peruvian cacao (jointly with Technoserve).

To date, total investment has been in the order of US\$ 110,000 and the role of the ADP has been critical. The longer-term challenge is to stimulate a more proactive role for other stakeholders in CITECacao’s future development, particularly the Regional Government of San Martín where the installations are located and the private sector. That being said, most interested observers suspect that the short to medium term future of CITE is reliant on continued support from USAID.



**CITE Cacao Takes a Foothold**

During June 2011, the President of Peru, Alan Garcia, participated in the inauguration of the CITE Cacao alongside the Regional President of San Martín, the Ministers of Agriculture and Production, representatives of the supporting organizations and more than 1,000 cacao producers. The technological innovation center, based in Juanjui, is supported by the APPCACAO, the Association of Cacao Cooperatives, the Regional Government of San Martín (GOESAM), USAID, DEVIDA, the Tropical Crops Institute (ICT), as well as the Universities of San Martín and San Ignacio de Loyola. In his opening address, President Garcia made reference to President Obama’s acknowledgement of the progress in San Martín in reducing the influence of the narcotics business and his suggestion that this should become a model for other countries.

#### **e. Brokering Commercial Alliances and Private Investment**

The ADP worked with 11 private companies during the course of the year, of which the majority (8) are in San Martín. More than half (6) are linked to cacao. In addition, the Program facilitates 7 public-private alliances. Of these, 2 saw significant progress during 2011. The alliance ADP-ROMEX brought 187 producers into its organic certification effort, completed one fermentation and drying unit (Mojarras), and marketed 685 MT of cacao. The alliance ADP-SUMAQAO-PRONATEC saw agreements signed with 9 organizations during the year, representing 2,190 MT of cacao purchased through September 30, with a market value of US\$ 6,700,000. The total value of sales from ADP-supported producer organizations for the reporting period is presented in Table 5.

**Table 5. Volume and Value of Sales from ADP-Supported Organizations**

Product	Unit	Volume	Value FOB (US\$)
Coffee Bean	qq	30,998	8,048,002
Cocoa Bean	MT	7,335	25,492,033
Other Cocoa Products	MT	543	2,517,645
Palm Heart	MT	606	1,641,339
<b>Total</b>			<b>37,699,019</b>

#### **f. Commercial Promotion and Market Positioning**

With strong leadership from USAID, the ADP has played an increasing role in improving the positioning of Peruvian products supported by the Program. This not only leads to

enhanced sales and income generation, but also provides a practical learning environment for the organizations themselves. These events also provide great opportunities to showcase the value of USAID investment in Peru to a broader audience<sup>13</sup>. The Program supported the following commercial events during the quarter<sup>14</sup>:

- First National Competition for Coffee *Baristas*
- (Peruvian participation in) the World Coffee *Barista* Competition
- Provincial Coffee and Cacao Festival, Tocache
- Cacao and Chocolate Festival, Juanjui
- Cacao Festival, Irazola
- Salon de Chocolate 2011
- International Seminar on Production Technology and Marketing of Cacao and its Derivatives
- Expoamazonica 2011
- Mistura 2011
- Expoalimentaria 2011

The last five on the above list constituted the “premier” events of the year. The *Salon de Chocolate* (July 7-10, 2011), is Peru’s own version of the successful Parisian event and this year had its largest turn out to date, with 33 businesses and organizations present, including 6 from France and 2 from Mexico. The event drew approximately 11,500 visitors and participating companies sold an average of US\$ 2,500 of products. Taking advantage of the *Salon*, the ADP organized an International Seminar as a “curtain raiser”, which included presentations by representatives from PRONATEC AG (Switzerland), Archer Daniel Midland (USA), Casa Luker (Colombia) and ANECACAO (Ecuador). The event was extremely well received by industry representatives.

The Program supported the *Rincon de Chocolate y Cacao* at *Mistura* (September 9-18, 2011) for the second year running, creating a higher profile for chocolate at Peru’s premier gastronomic event, attended by 10,000 visitors. Four, small women’s chocolate producers supported by the ADP (Campos Verdes, Mishki Cacao, ASPROC NBT and APRUDET) sold US\$ 7,000 worth of produce, as well as being exposed to more sophisticated chocolate preparation and marketing. At *Expoalimentaria* (September 28-30, 2011), the ADP participated in the USAID stand, showcasing its work in cacao, coffee and



#### Expoamazónica: from the Peruvian Jungle to the Rest of the World

The magic of the Peruvian Amazon was clearly felt by more than 10,000 visitors to the Expoamazónica 2011 Trade Fair, held in Tarapoto in July, 2011. The event, which was organized by the ADP-USAID and the Regional Government of San Martín (GORESAM), provided a venue for 100 exhibitors and 31 potential buyers to come together. Local producers had the chance to showcase their products to important national buyers such as Makro, Tottus, Alicorp and Supermercados Peruanos. In addition, visitors could sample authentic regional cuisine prepared by the 15 restaurants present. The event was inaugurated by the US Ambassador in the presence of four regional Presidents.

<sup>13</sup> This was evidenced during the recent Expoalimentaria 2011 event when the new head of DEVIDA, visiting the USAID stand for the first time, expressed his “pleasant surprise” at what was on display.

<sup>14</sup> In addition, the marketing company PRAGMA DDB, developed a new marketing and distribution strategy for the San Martin-based chocolate company, *Industrias Mayo*.

palm heart. The event also marked the launch of new Peruvian chocolates from USAID-supported companies, the *Consortio Amazónico* and *Industrias Mayo*.

In the context of an extremely successful “events season” it was perhaps the *Expoamazónica* (July 14-17, 2011) in Tarapoto that stood out. Not because it was bigger or better than the Lima-based events, more because: (i) few thought it possible to put together such a high-quality event in the provinces, and (ii) it provided an ideal venue to position USAID’s successful relationship with the San Martín Government with the presence of senior government representatives from Lima, Ucayali, Huánuco, Loreto and Amazonas. The event attracted 10,000 visitors, 100 exhibitors, 31 potential buyers and 14 event speakers. The projected value of business arising from the event was in the order of US\$ 1.5 million and an additional US\$ 0.5 million was generated by local businesses. The bar has been set high for next year’s event in Pucallpa!

#### **g. Helping Governments Create a Better Enabling Environment**

The consolidation of the ADP’s governance and social development work has focused on helping governments (and sometimes communities) better access funding and promote investment in licit, sustainable development. The results this year have been impressive and amounted to almost US\$ 12 million in state investment funding secured by way of:

1. MEF funds accessed by ADP-financed *expedientes* (US\$ 1.5 million).
2. New projects arising from the municipal “participatory budget based on results” exercise (US\$ 2.8 million).
3. ADP-supported municipalities accessing DEVIDA PIR funding to support cacao, coffee and plantain producers (US\$ 7.5 million).

In parallel, and with a view to help local governments develop stronger enabling environments for licit economic development, the ADP launched a new initiative to train 42 municipal government staff (via a grant to REMURPE). The first training event was undertaken in the last quarter with municipal-level technical managers, principally from economic development units. The result will be the development of local competitiveness agendas in the regions in which they work. This is the best current illustration within the ADP of stimulating public-private collaboration for licit economic growth.

A new work plan for Tocache (including support to coffee, women’s groups and a pro-licit communications campaign) will be rolled out by the Program in October. The plan responds to USAID concerns of coca-replanting in the Tocache area and the need to regain the “licit high ground”. Despite significant improvements in the relationship between the ADP and the Mayoress of Tocache, the continual “hiring and firing” of municipal staff (there have been 5 different Municipal Managers in ten months, for example) and the tense relationship between the mayoress and other local stakeholders, makes work in Tocache a big institutional challenge.

More generally, ADP communications staff maintained a positive media image for USAID in San Martín (Tarapoto and Tocache) and in particular took advantage of high profile events to generate significant media interest. For example, the signing of the new Memorandum of Understanding (MOU) between USAID and the Regional Government of San Martín and the *Expoamazónica* 2011 event, generated 20 newspapers reports and dozens of radio news items<sup>15</sup>.

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<sup>15</sup> The successful “consolidation” activity *Selva Ganadora* continues to be managed by the ADP as a grant, but is now implemented by the ACP group.

### III. CROSS-CUTTING AREAS

Although some activities pertaining to these work areas have been mentioned previously, all four are fundamentally cross-cutting and as such they are dealt with separately here in an attempt to capture their broader programmatic relevance. On a day to day basis of course, they are integrated into core technical activities.

#### I. Communications

One of the most important contributions of communications in the ADP is ensuring that high-profile events are well managed and presented, and that the USAID image and that of key Peruvian counterparts is positively positioned. During the year, the communications team played an active role in the following events:

- Inauguration of USAID stand in CADE 2010.
- Public launch of *Crónicas de un Cambio*.
- Inauguration of CITECACAO.
- Signing of new Memoranda of Understanding (MOU) between USAID and the Regional Governments of Ucayali and San Martín.
- Launch of the Salon de Chocolate 2011.
- Delivery of USAID-financed aid to flood victims in Ucayali.
- Launch of *Selva Ganadora* 2011.
- Launch of *Expo Amazónica* 2011.
- Inauguration of *Rincón de Cacao y Chocolate, Mistura* 2011
- Inauguration of USAID stand, *Expoalimentaria* 2011.
- Various VIP visits to USAID beneficiaries supported by the ADP.



Stories of Change

In celebration of USAID's 50th anniversary, USAID-Peru and DEVIDA edited a book containing 28 stories of change in the lives of ex-coca growers from San Martín, Huánuco and Ucayali. With the support of the ADP, these farmers tell of their journeys from the coca fields to the licit economy, growing cacao, coffee and palm heart. The official book launch took place on May 10, 2011 in Lima, where the US Ambassador was accompanied by the head of DEVIDA, USAID officials, Father Joaquín García, as well as a number of the protagonists of the book itself and other distinguished guests.

Well done public events inevitably create a positive image for USAID's AD program with visitors to the events. Over and above this however, they provide an opportunity to attract media interest for broader dissemination. It is noteworthy that the ADP-financed events calendar alone generated 50 press articles, 25 TV news reports and mentions in 100 web sites over the course of the year.

Outside of events management however, the communications group has played a less visible, but critically important role in community-level communications. By the end of September the ADP had 9 separate community-communications networks up and running, with more than 500 participants. These formed the human resource platform behind several communications initiatives outlined in Table 6.

**Table 6. Regional Participation in Community-Communications**

Activities	Number of Participants/Events		
	Ucayali	Huánuco	San Martín
Community-level communications promoters	145	141	218
Community spokespersons	39	37	48
Public announcement equipment	56	26	106
Community news boards	33	26	106
Mobilization actions	28	0	28

Clearly, the ADP has played a major role in maintaining the visibility of USAID in the press. The last year has seen more than 100 articles, news reports, or internet citations in national and regional media most quarters. Furthermore, over the course of the period there was a significant upturn in exposure in national media coverage with at least 20 media outlets (El Comercio, La República, Perú 21, América Televisión, ATV Noticias, RPP, among others) reporting on USAID AD impact. In addition, there is current interest from international news groups such as Time, Bloomberg and the BBC.

The ADP embarked on a more concerted effort during the year to produce and distribute information to its institutional clients. With this in mind, a new bi-weekly electronic bulletin, *Cambio*, was launched (producing 14 editions and 2 specials over the period) with a current distribution list of 623. A new monthly cacao bulletin, *Infocacao*, was also released (producing 8 editions to date) and distributed to 400 recipients. In addition, 6 Success Stories (in English and Spanish) were written for USAID. Finally, 8 videos were also produced over the period.

## 2. Credit

The main objective of the ADP credit initiative is to expand the involvement of the Peruvian financial sector in the regions in which the Program works and to extend new credit to producers, their organizations and the private sector. Over the course of the year, 1 additional organization commenced credit operations, taking the total of financial organizations that are active in ADP regions to 11. Of this total, 5 have opened new offices in ADP-supported areas, indicating a degree of sustainable interest in this new segment of the market<sup>16</sup>. These are: Caja Luren, Caja Maynas, Caja Nuestra Gente, Financiera Edyficar and Edpyme Proempresa.

Switching from supply to demand, an additional 3,722 families in ADP-supported areas accessed credit during the year, bringing the total to 7,469. It is of interest that 1,208 (16%) are women, and that the bulk of these beneficiaries (63%) are located in Tarapoto. The total value of credit for these 3,722 families is US\$ 8,425,000. This is not all however, since in addition to receiving credit, a significant number of these same families have become formal savers within the financial system; to date, 4,467 families have opened savings accounts with a total value of US\$ 6,337,000. This opens the possibility that these producers (since all credit to date has been agricultural) will be able to enjoy a more varied package of financial services in the future.

<sup>16</sup> This is despite a perennial difficulty of staffing changes that characterises all the organizations in question.

Moving from individuals to the private sector, 5 additional organizations/businesses accessed credit facilitated by the Program during the year, taking the total to 30. Of these 30, 3 organizations – ACOPAGRO, ORO VERDE and APAVAM – strengthened their own credit units. During the last quarter, significant level of effort (LOE) was invested in finalizing a US\$ 28 million development credit authority (DCA) from USAID in alliance with the Peruvian financial institution, Interbank. Unfortunately, plans to sign this agreement before the end of the FY 2010-11, were thwarted by Interbank’s request for additional time to internally review the proposed contract.

### 3. Gender

In light of a USAID request to bring more definition to its gender work, the ADP revised its gender strategy at the start of 2011, linking activities far more closely to its “core business” and focusing on a smaller set of projects designed to bring about more visible results. By way of example, in its post-eradication work, the new ECASEs became a key vehicle for broadly disseminating this focus and promote a more equitable participation of both men and women in cacao cultivation and marketing. In consolidation, effort was placed on making more visible the role of women entrepreneurs in local leadership and productive activities.

From an implementation perspective, this had two implications: (i) the sub-contract with DTS to manage the gender work ended in September 2011, and (ii) the grant with the National Network for Promotion of Women also came to an end. During the last year of ADP operations the gender work will be integrated directly into the Social Development component.

Despite a fairly significant conceptual shift in how gender is managed within the ADP this year, the initial results have been impressive and the reaction from Program field teams indicate that the new focus that is far easier to integrate within the ongoing work program, which was a historical concern. Some key indicators of impact include:

- 24% of ECASE participants are now women.
- Of all female entrants to ECASEs, 70% of women graduate from the program (which is a higher percentage than for male entrants).
- 16 women’s groups are now operational in cacao.
- Women entrepreneurs supported by the Program have formed 4 regional networks.
- 3,500 people (men and women) have received awareness training on violence against women.



Women Leading the Way

On March 28 and 29, 2011 a group of women leaders from San Martín, Huánuco and Ucayali met in Tocache to celebrate the First Inter-Regional Meeting of Women Leaders. The women came from a variety of backgrounds – entrepreneurs, graduates from farmer field schools, council members and local and regional government officials – and came together to share both successes and significant challenges that still need to be faced. Regardless of their background, they represented the value and potential of women everywhere and their key role as change agents in licit development.

- 9 pro-gender equality public ordinances have been issued in ADP-supported municipalities.
- 17 women council members have been trained in public administration and governance.
- Ongoing TA has been provided to the Network of Women Entrepreneurs in Tocache.
- 5 women's chocolate groups participated successfully in national trade events.

## 4. The Environment

The ADP environmental work contemplates three types of activity:

1. Incorporation of environmental best practice in the design of projects.
2. Ongoing monitoring to ensure compliance with pertinent norms and regulations (PERSUAP, etc.)<sup>17</sup>.
3. Broader environmental training and awareness raising among stakeholders.

Significant LOE was invested in environmental inspections over the course of the year, with 700 programmatic environmental evaluations undertaken by September 30. In addition to ensuring environmental compliance, the evaluations demonstrated that 75% of all ADP producers are aware of basic environmental concepts and are applying them in their productive activities. This is more surprising since the majority of these evaluations were undertaken in Ucayali (600), which suffers significantly from a fragile amazonic environment and migrant agricultural labor from other regions. As well as agricultural projects, environmental inspections were also carried out on the Almendras Bridge Project, the new installations in CITECACAO, and the recently completed fermentation units in San Martin.

With regard to environmental awareness and training, 100 activities were undertaken during the year with more than 4,200 participants. In addition, workshops were implemented to strengthen 3 provincial and 11 district environmental commissions. On top of this, the ADP formulated 12 environmental and natural resource management projects with 5 municipal governments and 6 producer associations. Without doubt, good environmental stewardship has been a major hallmark of ADP intervention this year.

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<sup>17</sup> These activities are coordinated and undertaken with DEVIDA.