

**Peru Policy and Institutional Development Component  
for the Alternative Development Program**

**Quarterly Report: July 14-September 2005**

**Submitted to USAID/Peru  
Alternative Development Office**

***Development Alternatives Inc.***

**September 30, 2005**

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## **Activity Report: July 14- September 30, 2004**

### **Introduction**

For the better part of two decades, the U.S. Government has pursued a counter-drug strategy in Peru comprised of interdiction, eradication and alternative development. Since 2002, USAID has provided over \$175 million to support the alternative development program. Among a host of other strategic changes<sup>1</sup>, USAID initiated two new programs at the beginning of the current phase of the ADP: 1) a strategic communications program to increase the willingness of people to reject coca (change behaviors of population in the coca-growing areas) and to influence the attitudes of the general public and key decision makers; and 2) a policy reform activity to shape the legal and regulatory environment for AD and counter-narcotics (CN) and improve the institutional capacity of relevant GOP and non-governmental organizations to develop and execute effective counter-drug policies and programs.

Coca has long been produced in Peru and Bolivia for traditional use by segments of their native populations. More recently, coca produced in Peru has also been commercialized, via a State-held monopoly (La Empresa Nacional de Coca, ENACO), as coca is consumed locally, and exported for processing into medicinal and beverage products. Since the late 1970s, however, coca has also been produced on a large-scale for processing into cocaine paste and cocaine hydrochloride that is sold illicitly by narcotics traffickers – plausibly linked with terrorist elements – in international, and increasingly, in local markets.

Peru's outdated legal and regulatory structures have resulted in a dangerously inadequate control of the legal market for coca, which has failed to establish a clear distinction between legal and illegal coca. Coca farmers selling to narcotraffickers have thus been able to hide behind the system's ambiguity to claim that their crops are legal. This apparent legal ambiguity has allowed cocalero groups to apply tremendous pressure on the government through violent and socially disruptive activities while simultaneously maintaining the public's sympathy by successfully positioning their image of poor farmers with no alternative income-producing opportunities aside from coca.

Peru's cocaleros are much less powerful than those in Bolivia, where they played a key role in forcing Gonzalo Sánchez de Lozada to abandon the presidency in that country, but they have become politically active in recent years in Peru, and their influence appears to be expanding. Perhaps the most significant political act of cocalero groups in Peru was an April 2003 march to Lima, where an audience with President Toledo led to his

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<sup>1</sup> Changes to the program include: a voluntary eradication program, a concerted operations research initiative, a shift in focus of productive activities to developing commercial demand and increased investment in sustainable forestry and natural resource development.

proclamation of Supreme Decree 044-2003-PCM, which provides broad policy guidance for vital reforms in Peru's licit and illicit coca industries. Recent cocalero successes forced the Government to set up commissions to negotiate with cocaleros as well as to resolve social conflicts in coca regions, all designed to focus public attention on their cause and demands.

Reform is required on two fronts. The first is to strengthen Peru's ability to distinguish between legal and illegal inputs into the production of cocaine. The key inputs are coca leaf and precursor chemicals. Major legislative and/or regulatory reforms are required to clarify and define limits to coca production. The same needs to be done with precursor chemicals since in general they are essential as inputs into the production of numerous industrial and consumer products. With regard to chemical control, recent legislation has been passed and regulations are being prepared. The implementation of the law and its effectiveness now need to be tracked. Dealing with coca legislation and regulation is substantially more volatile and subject to the direct intervention of strong advocates (cocalero groups and some politicians) for lifting all restrictions on growing and selling coca.

The second front is to strengthen the institutional capacities of the Government of Peru agencies that are charged with implementing counter-drug policies and legislation. Once called CONTRADROGAS, the GOP counter-drug agency had its name changed to DEVIDA and its authorities broadened in May 2002 (Supreme Decree No. 032-2002-PCM). It is now the primary governmental institution charged with establishing counter-drug policy as well as coordinating the implementation of this policy among government entities, bilateral and multilateral donors and NGOs. It is struggling with this rather sprawling agenda, lacking the resources and stature to effectively dispatch its responsibilities. In practice, most of the resources that the institution has are directed at finding agricultural solutions to the coca-growing problem. DEVIDA needs to focus more on the coordination of interdiction, alternative development and more effective coca control policies while exerting a leadership role in coordinating with larger, more prestigious ministries like Agriculture, Interior and Economy and Finance.

ENACO, the National Enterprise for the Commercialization of Coca, by failing to meet its institutional responsibilities since inception, is largely responsible for the ambiguity regarding legal coca production and presents a complex challenge to the counter-narcotics efforts in Peru. In 1978, Legal Decree 22095 established ENACO as a government monopoly for the sale and distribution of coca. The law envisioned that production for traditional and legal markets would transition from independent coca farmers to a system tightly controlled by the State. ENACO has never fulfilled its responsibilities under the law. In recent years it has illegally bought coca from 6,000 new coca producers. It never properly established a registry of coca producers, nor has it maintained the registry since its inception.

The technical assistance provided under the Alternative Development Program, aimed at achieving an adequate policy framework and institutions capable of implementing the

Government's counter-drug strategy, is considered essential to the long-term success and the sustainability of the overall Program's objective of reducing illicit coca production.

To implement the policy and institutional development component of the ADP, USAID, in July of 2005, contracted the services of Development Alternatives Inc. (DAI) under a MOBIS Indefinite Quantity Contract (IQC) Task Order with an end date of July 13, 2007 with an Option Year. The total value of this contract is \$4,113,544 plus an option \$2,083,371 for an optional year.

## **I. Activities**

The following activities were carried out during the project's first quarter of implementation, July-September, 2005. Activities 2-6 were taken directly from the PIDC project Work Plan, developed by acting COP Symantha Holben and approved by CTO Ian Maxwell in October of 2005.

### **1. Project Start-Up and Staffing**

The project office remained at its former address at Calle Redi 321, San Borja, Lima. Implementation started in late July with the hire of the following technical team members and a review of the planned project activities:

1. Manuel Estela, Anti-Drug Senior Policy Advisor and Project local technical lead
2. Francisco Durand, Policy Advisor to serve as spokesperson for the Informal Coca Market Study, the ENACO study and the policy reform recommendations derived from both.
3. Jesus Antesana, Advisor on Social Conflict Management and the Cocalero Movement
4. Amador Meza, Advisor for the Implementation of the Information System for the Control of Precursor Chemicals
5. Luis Cruz and Yalile Martinez, Congress advisors hired under a subcontract with CEDRO to promote legislative or non-legislative solutions to the narcotics problem in Peru.
6. Luis Martín Medina – Information consultant in charge of maintaining the ENACO derived data base and combining it with other data bases as required to meet project objectives
7. Nilo Espinoza – Communications advisor to provide advise and support FONAFE and the DAI chief of party on communications strategy
8. Juan Zarate - Security and Intelligence Advisor to Support the Design of Counter-Narcotics Programs

Project COP Peter Orr was removed per USAID request in September 2005.

### **2. DEVIDA Strengthening**

The following positions were included in DAI's PIDC proposal, based on the experience with DEVIDA and the institutional assessment.

- An Advisor-TBD- to strengthen DEVIDA's capability to work in counter narcotics areas and to build cooperative relations with counter narcotics institutions, particularly the Ministry of Interior. Developing DEVIDA's ability to play its designated role. Precursor chemicals control falls under this general assistance area.
- Jaime Antesana - social conflicts advisor, to improve DEVIDA's capability to understand potential and actual conflict situations in the coca valleys and prevent or manage conflict.
- A legislative advisor – to advise DEVIDA on how to better manage relations with congress.
- An inter-institutional coordination advisor - to improve DEVIDA's ability to work with other government institutions responsible for aspects of counter-narcotics and alternative development programs.

**Current Status:** To date, it has not been feasible to provide advisory assistance to DEVIDA.

**Activities Planned for next Quarter:**

Activity 1.1. Work with USAID and DEVIDA to determine their institutional strengthening and technical assistance needs.

### **3. Precursor Chemical Control**

**Current Status:** The project is waiting for the GOP to make the necessary political decision regarding the information system – deciding to go with SUNAT as the implementer, at which time DAI will move forward on three basic lines of action.

**Activities Planned for next Quarter:**

Activity 2.1. Support SUNAT to develop necessary software in coordination with other partner institutions; train key personnel as necessary

- This is a tentatively planned activity, contingent on the necessary political decisions occurring.
- PIDC Consultant Amador Meza, ex-Chief of Informatica at SUNAT, will work with SUNAT and the other institutions to develop the software necessary for the info systemwork, under Manuel Estela, working with Armando Arteaga, SUNAT.
- Meza was one of the experts who designed SUNAT system. Amador worked with
- Armando Arteaga (Aduana), and current Jefe of Informatica of SUNAT to evaluate the capacity of the SUNAT to implement the PC control system. The working relationships are already established – they are waiting on the political decision.
- Partners: SUNAT, Ministry of Production, DEVIDA, MinInter

- We estimate that this is about a 5 month job.

#### Activity 2.2. Facilitate the design of the precursor chemical information system among the GOP institutions responsible for the PCC system

- This activity is also contingent on the appropriate political decision.
- At the invitation of the precursor chemical control technical coordination committee, a PIDC advisor (TBD) will provide technical assistance to the committee as the responsible institutions design the PCC system as well as facilitate their taking the necessary measures to be able to process and use the information it will provide.
- Priorities would be set per committee needs
- USAID facilitation is requested to ensure the committee's request for assistance
- Define needs for additional external (NAS) assistance
- Partners: USAID, DEVIDA, Ministry of Production, MinInter, SUNAT, ConsultAndes
- This also would be about a 5 month effort

#### Activity 2.3. ConsultAndes subcontract – ongoing

- This activity supports the implementation of the new PCC law, according to the timeline set by the regulations.
- Goal: to educate the business community, public officials and others affected by the implementation of the precursor chemicals regulation.
- 8 seminars are planned – 1 in Lima, 7 throughout Peru (2 to be financed by the GOP)
- Beneficiaries: Public and Private sectors, those affected by precursor chemicals law
- In the meantime, the project will monitor PCM handling of regulation approval to try and expedite.

### **4. Licit Coca Control Policy**

This objective area includes a) advocacy, media and analysis to promote a policy decision for a practical solution to controlling the licit coca market based on the current legal framework, ENACO and SUNAT; b) providing support and analysis to partners and the client, with the objective of achieving an optimal outcome in the post Tribunal Constitucional ruling coca policy environment; and c) in the event that new legislation become inevitable, supporting partners to achieve a minimum damage legislative solution in congress that will still allow a practical control reform.

**Current Status:** Advocacy, media and analysis activities are ongoing. The recent ruling of the Tribunal Constitucional has declared the unconstitutionality of the regional ordenanzas. While it does not recommend new legislation, the strong reaction by congress and increasing cocalero pressure for a new law keeps the issue on the table. Activities 3.1-3.4 are all directly related to disseminating the empirical basis for coca regulation that has been established through previous USAID/DAI studies, as well as communications efforts promoting better control and discouraging bad coca legislation. These activities all target key audiences using effective methods, including the targeting of the scientific/academic community that over the medium and long- term serves as a resource on these issues to policy makers, the press, and the public –effectively limiting the creation of anti-control “cocologos”.

#### **Activities Planned for next Quarter:**

##### Activity 3.1. Media Activities – ongoing

- Articles – facilitate the publication of articles advocating for good coca policy; provide information data to reporters writing the articles. Ex. Recent articles in the Comercio.
- Production of reports – An article written by Francisco Durand will appear in the journal, *Debate Agrario* next month.
- Continue media activities emphasizing increasing citizen rejection of cocalero tactics and objectives.
- These activities will be coordinated with USAID and the Embassy.
- Planned, ongoing and completed activities will be reported to the CTO in a weekly brief, transmitted via email.
- Audience: general public, academic, international community, decision-makers

##### Activity 3.2. Direct communication with the press – ongoing

- Jaime Antesana will provide an interview commenting on the Tribunal ruling for the Comercio
- JA will provide a television news interview on Hilda Sandoval’s upcoming presentation to Congress
- Other articles and interviews as needed, in coordination with USAID and the Embassy
- Planned, ongoing and completed activities will be reported to the CTO in a weekly brief, transmitted via email.
- Audience: general public, decision-makers
- PIDC Consultant: Jaime Antesana

##### Activity 3.3. Provide Technical Assistance to the Executive Director of FONAFE

- Prepare Hilda Sandoval for her presentation of the Control System and Updating of ENACO's database, before the Congressional Committee for Defense/Security/Narcotrafficking, planned for October 19, 2005
- Work with Hector Buzaglo (FONAFE) to prepare presentation materials (ppt) for the presentation
- Provide editorial support to ensure that the messages in the presentation are clear, and understandable (Nilo Espinoza)
- Provide Hilda with a list of questions that the PIDC congressional advisors anticipate
- Rehearse the presentation and Q&A, per Hilda's request

Activity 3.4. Disseminate findings from DESCO Informal Market Study, GRADE Formal Market Study, the FONAFE Green Book, and the FONAFE Statistical Study

- This will be the first formal presentation of the 4 studies, together
- Four Desayunos de Trabajo are planned to disseminate findings with the goal of influencing public opinion
- To be held at a hotel in Lima, November, 2005
- Beneficiaries: 4 groups of opinion leaders
  1. foreign press
  2. national press – tv, radio, print
  3. experts from the Peruvian state – DeVida, FONAFE, ENACO
  4. International Technical Cooperation – EU, WB, IDB, USAID, Pacto Andino, CAN (community of Andean Nations)

Activity 3.5. Disseminate findings of DESCO/GRADE studies, in co-published book

- Formal book launch of integrated text
- DESCO and GRADE will cover all the costs of publication
- The DAI team – Paco, Nilo, Manuel will read it once and present comments - about 5 hours of work for each of them.
- The issue of branding will need to be addressed by USAID and DAI.
- The value added by this activity is that it provides another round of dissemination of findings to the wider academic and the NGO community, policy experts and researchers from NGOs similar to DESCO and GRADE, and Peru's universities.

Activity 3.6. Provide informational briefings to targeted congress members – Ongoing.

- Work through CEDRO congressional advisors and CEDRO to provide information to the Comision de Defensa/Seguridad/Narcotrafico in Congress
- Identify and cultivate additional spokespersons for improved coca control among members of congress,
- Beneficiaries: Congress members

### Activity 3.7. Support the development of a Ley Concordada

- This eventual implementation of this activity depends on the explicit authorization by USAID in the event that the passage of a coca law is deemed inevitable and an appropriate GOP agent requests the assistance.
- Such a law would address the perceived contradictions or gaps in the present legislation without introducing politically controversial provisions and protecting the current GOP prospects for implementing a control strategy through a reformed ENACO.
- A ley concordada would be especially attractive to congress and has a good chance of success in the pre-election period.
- PIDC consultants would provide support to congressional members and/or GOP institutions interested in developing and introducing a ley concordada.

### Activity 3.8. *Hoja de Coca – Narco-trafico – Programas Electorales* Seminal

- This seminar would inform and encourage candidate positions on coca/narcotrafico early in the election process.
- This will be a follow-on activity from the CADE panel on narco-trafficking, which Manuel Estela will organize.
- This seminar would help to cultivate additional spokespersons for improved coca control among candidates campaigning for the presidency and congress
- This activity should be coordinated (and maybe co-implemented) with USAID's DEM election activity.
- DAI will vet with USAID legal for compliance with existing laws and regulations on election-related activities.
- Invite the most important candidates, those who were invited to the CADE
- Request USAID, Embassy guidance on the format – open or closed sessions, themes for discussion, possibility of co-funding.

### Activity 3.9. CADE 2005 pre-conference desayuno Panel on Narcotrafico y Actividad Empresarial

- Beneficiaries: Most active participants from the Private Sector, Public Sector, Political figures, this year the most important Electoral candidates are invited
- Manuel Estela has been asked to organize a panel for the 2005 CADE conference
- This activity is an opportunity for the cost-effective engagement of the private sector and presidential candidates.
- Preparation of handouts, presentation materials mid-October to mid-November
- PIDC Consultants: Manuel Estela, Francisco Durand, a panelist (TBD) to discuss the Colombian experience

### Activity 3.10. Monitor and follow the cocalero movement in all the major coca growing areas of Peru – Ayacucho, Cuzco, Huanuco, Junin, Pasco, San Martin, and Ucayali.

- Missions – to coca producing areas to monitor cocalero protest and advocacy activities, such as the upcoming international indigenous congress (planned to be held in Puno in Oct., 2005) particularly as they may impact on legislative debate or GOP political concessions.
- Continually analyze political forces operating openly and behind the scenes on coca policy to determine and revise appropriate tactics for project team.

Activity 3.11. TIRONI subcontract. Measure the attitudes of distinct sectors of the public in Peru regarding counter narcotics policy, including alternative development.

- TIRONI will survey public opinion (an indicator of national communications success) in cities throughout Peru
- TIRONI will conduct a perception audit of opinion leaders in Congress and the Press – this activity is optional, per the needs of the client.
- The results of the surveys will be used to track the progress of the PIDC project
- The results will also be used as a feedback mechanism for project to make informed decisions about how to structure public opinion activities for the remainder of the contract, for maximum impact.
- PIDC Subcontract: TIRONI

Activity 3.12. TIRONI subcontract. Media Outreach on Alternative Development

- TIRONI will support USAID, DEVIDA and DAI communications objectives to educate the public about critical counter-narcotics policy issues, the importance of coca eradication efforts, the purpose and achievements of the alternative development program, and the need to regulate precursor chemicals.
- The primary agenda for outreach activities will be set by DEVIDA (Jorge Penny), USAID (Machi Cardenas), and TIRONI/DAI (Michael Patzl, Jaime Antezana, COP).
- Results will be reported weekly.
- Partners: USAID, DEVIDA, TIRONI/DAI

Activity 3.13. Provide administrative oversight and financing to DEVIDA for annual Impacto Survey.

- This activity will take place between September and December of each project year
- Support provided by DAI will include
- Expenses for training workshops for survey supervisors
- Printing and shipping of surveys
- Logistical expenses related to data collection
- Expenses related to reviewing, coding and data entry
- Expenses for data processing and análisis workshop.

## **5. Licit Coca Control Implementation**

**Current Status:** The first condition for this was met in early August with the replacement of the old ENACO board. The new board now has to take effective control of ENACO, starting with the replacement of the general manager, which is in the works. A specific early policy objective is getting ENACO to formally endorse the purged padron of producers that DAI and FONAFE prepared, and which is based on the work presented in the FONAFE supply study and ENACO's own data base.

In addition to working toward bringing some order to who is considered a legal producer, priority early on needs to be given to bringing order to the commercialization side by expanding, cleaning and beginning to formalize the private commercial side of the operation so that it becomes clear that ENACO can establish the capacity the capacity to develop a commercial network capable of handling the 9000MT of licit demand.

Work with the SUNAT side of the equation will depend on a political directive to SUNAT, which could occur independent of the policy scenarios mentioned above. Activities on the policy front above can be expected to occur concurrently with the early steps of the implementation phase, and team members working on policy will also be assisting with implementation.

#### **Activities Planned for next Quarter:**

Activity 4.1. Assist ENACO to develop a 2006 Plan Corporativo

- DAI will engage FONAFE during the ENACO reform planning process in coordination and with participation of the CTO.
- PIDC consultants will work with Enaco's new board to ensure that the policies and procedures crucial to implementing the licit coca control program are developed.
- Beneficiaries: FONAFE/ENACO
- PIDC Consultants: Manuel Estela

Activity 4.2. Other FONAFE/ENACO capacity building

- TBD. All FONAFE/ENACO capacity building activities will be identified by
- FONAFE/ENACO/USAID.
- Hilda is focused on her upcoming presentation before Congress.
- After October 19, she will meet with USAID and DAI to discuss technical support needs to support the reform of ENACO.

#### **6. Other Activities**

Activity 5.1. Reporting (these may be in addition to reporting detailed in the MOBIS contract)

- Submission of consultant reports summarizing their activities and their observations on key recent events – monthly
- Submission of results/issues summaries – weekly and as needed
- Submission of all media outreach results – weekly
- The consultants will participate in situation analysis meetings to share information and coordinate activities as needed to advance activities or as requested by USAID.

## **7. Money Laundering Initiative**

**Current Status:** On hold pending appropriate opportunity or mandate from the client.

### **Activities:**

- 1) Contract German Suarez to undertake assessment and preliminary recommendations for strengthening implementation of GOP capabilities to monitor, investigate and prosecute money laundering.
- 2) Follow-up activities to be determined based on above report and GOP receptivity on recommendations.