



UNITED STATES  
DEPARTMENT OF STATE



**USAID**  
FROM THE AMERICAN PEOPLE

## PERU

# U.S. FOREIGN ASSISTANCE PERFORMANCE PUBLICATION Fiscal Year 2009

### **FY 2009 FOREIGN ASSISTANCE GOALS**

The United States Government (USG) and the Government of Peru (GOP) share the same long-term vision of a stable, democratic, and prosperous Peru. A key USG ally in Latin America, Peru is among the most dynamic, with an economy that has grown continuously for the past seven years. In 2008, despite the beginning of the global economic crisis, its GDP expanded by 9.8 percent. In FY 2009, though by a small margin, Peru joined the ranks of upper middle-income countries.

Although Peru's macroeconomic fundamentals remain strong, forecasters predict that GDP growth in 2009 will be between 0.5 percent and 2 percent, which could hamper progress in improving the status of the 36.2 percent of Peruvians who still live in poverty. Furthermore, structural obstacles and institutional weaknesses remain, compounded by the presence of narco-trafficking in areas with limited state presence. This year also saw several resource-related conflicts in areas populated by indigenous groups in the Amazon region.

The USG's assistance aims at helping establish a Peru that is firmly anchored in its democratic institutions, successfully converting the advantages of economic openness into broad social benefits, and strengthening state presence within its territory. Strong macro-economic management, reductions in poverty, and political will for reform are all causes for optimism. USG assistance is channeled primarily through the U.S. Agency for International Development (USAID) and the State Department, complemented by the Millennium Challenge Corporation, the U.S. military, and others. South American regional programs in health, economic growth, and education supplement USAID/Peru's bilateral programs. The USG seeks to leverage limited resources by reinforcing or supplementing GOP and private sector efforts to shore up critical institutional and structural weaknesses in various areas. USAID's heightened pursuit of public-private partnerships, for example, brought new resources and resulted in many indicator targets being far exceeded.

## HIGHLIGHTS BY PROGRAM OBJECTIVE

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### Peace and Security

**Counternarcotics:** Peru is the world's second largest coca producer; 9 out of 10 coca leaves are used for cocaine production. Drug cartels actively encourage farmers to expand coca cultivation. Narcotrafficking is a major roadblock to good governance at all levels, and drives away the private investment needed to propel development and reduce poverty in coca-growing regions. It also threatens security and fuels crime and violence. The USG addresses this important foreign policy priority by working closely with the GOP to implement a three-pronged counternarcotics assistance program – eradication, interdiction, and alternative development (AD) – creating space for licit economic development to flourish in key coca-growing regions. USAID implements the AD program, and the State Department's Narcotics Affairs Section (NAS) handles the interdiction activities that complement Drug Enforcement Administration efforts.

**Eradication:** An important accomplishment under this rubric is supporting the GOP successfully to rid the region of San Martín of coca, allowing the GOP to reorient efforts into the hard-core region of Huánuco, where coca cultivation has been unchecked for two decades. In 2009, the USG helped the GOP eradicate 9,551 hectares of coca, and nearly 16,000 square meters of seedbed in San Martín and Huánuco. Coca eradicated in these 2 regions is equivalent to 43 metric tons (MT) of cocaine, had it been harvested and processed.

**Interdiction:** With USG assistance, the GOP's Anti-Drug Police seized more than 23 MT of drugs and 395 MT of precursor chemicals, and destroyed 2,553 cocaine bases and 25 cocaine hydrochloride laboratories. Of the drugs interdicted, two MT were seized in foreign countries as a result of Peru's international cooperation efforts. In addition, new non-intrusive detection equipment and an increase in the canine corps allowed the GOP's tax and customs agency to intensively screen 5,124 export containers nationwide.

**Drug Demand Reduction:** In FY 2009, NAS financed 27 drug prevention programs, 25 of which are community-level anti-drug coalitions located in 11 districts of Peru. It also supported a national anti-drug media campaign that reached an estimated 15 million people.

**Alternative Development:** USAID's AD Program implements integrated economic and social development activities in communities that have eradicated their coca, and that are committed to licit and coca-free lifestyles.

- The program worked with 460 communities in social capital strengthening, resulting in significant community development progress. The program also targeted the youth as agents for progress within their families and communities and addressed gender-related issues, including gender-based violence.
- In FY 2009, the AD program promoted sustainable licit agriculture by helping farmers plant 12,013 hectares of new crops and maintain 23,219 hectares of existing crops. Using USAID's Development Credit Authority (DCA) loan guarantee program, local financial institutions made 1,384 loans valued at \$1.6 million to cacao farmers. Beneficiaries of the program generated \$16.5 million in sales and created 10,629 full-time-equivalent jobs.

- The USG also promotes national policy reforms and works to inform the national debate on coca policy. The activity provided technical assistance to key GOP institutions, enabling them to formulate sound policies affecting AD. Additionally, the program uses various communications media to raise awareness of the benefits of licit lifestyles.

**Transnational Crime:** In Peru, 83 percent of suspected laundered money is related to drug trafficking. To prevent money laundering, the USG helped Peru's Financial Intelligence Unit (FIU) perform its role as the anti-money-laundering and counterterrorist financing unit of the GOP. As of September 2009, based on suspicious activities and other financial information, FIU received 7,710 Suspicious Activity Reports and issued 781 Intelligence Reports to the Prosecutor's office for investigation. The program trained more than 2,500 Peruvian prosecutors, judges, police, and customs officials on investigating financial crimes, supervision of non-bank financial entities, terrorist financing, prosecution, and civil asset forfeiture.

**Stabilization Operations and Security Sector Reform:** The U.S. military funded technical training to increase the Peruvian military's capability to achieve strategic security objectives, to reinforce internal training to assist in furthering the Peruvian military's adherence to civilian authority, and to improve interoperability with the U.S. military. The USG also supports the Peruvian military in defeating terrorist remnants and narcotics traffickers, and increasing state presence to prevent criminal organizations from operating with impunity. In FY 2009, the USG trained 63 Peruvian military personnel. The USG also supported the Peruvian military's creation of secure communications systems, and assisted in developing a more capable military through equipment purchases.

### **Governing Justly and Democratically**

**Good Governance:** At the national level, the USG's decentralization program supports the GOP on policy reforms, and at the local level, helps create stronger local governments that can respond effectively to citizens' needs and deter drug trafficking, illegal logging, terrorism, and other criminal practices.

- As a direct result of USG support, local governance and service delivery improved in more than 100 municipalities, as they are now able to navigate complex systems for purchasing and acquisitions, enabling them to respond to the needs of their constituents more expeditiously
- USAID successfully responded to the Prime Minister's request to strengthen the GOP's ability to prevent and mitigate conflict – in response to violence and social conflict in the Amazon region – by providing technical assistance for a comprehensive GOP Conflict-Mitigation Action Plan and training officials from 16 new conflict units
- Through the Extractive Industry Transparency Initiative, USAID partnered with the International Finance Corporation and other donors to create a web platform that provides guidance on investments and other municipal governance issues through online consultations. Experts provided feedback to officials and citizens from 978 municipalities, of which 61 percent are in rural areas.

Political Competition and Consensus Building: USAID trained more than 1,200 political party leaders in internal democracy, transparency, political communication, and governance, thus successfully building momentum for reform. Activities helped political parties reach out to underrepresented populations, especially youth and women. USAID continued to support a multi-party women's parliamentary caucus to increase its representative and legislative capacity, and facilitated dialogue among key actors and stakeholders in amending the electoral code and political party law. Recommendations from USAID-sponsored activities also helped the National Office of Electoral Processes adopt a regulatory framework for elections contributions, improving electoral transparency.

## **INVESTING IN PEOPLE**

Health: Peru demonstrated an increased commitment to improved public health care services by passing a universal health insurance law, by increasing efforts to decentralize services and transfer functions to regional and local authorities, and by enhancing transparency and community involvement in public health investment decisions. The USG worked with the Ministry of Health (MOH) to support the decentralization of health services, improve public sector medicine distribution systems, and strengthen the Ministry's capacity for surveillance and response to infectious diseases such as malaria, tuberculosis (TB), and HIV/AIDS. USAID's community-level assistance works directly with poor and indigenous people to improve their health status by encouraging healthier behaviors and practices.

- A major program achievement in FY 2009 was the passage of a universal health insurance law with USAID assistance, which will be piloted in six regions
- USAID improved maternal and child health and nutrition practices in targeted regions, leveraging both public and private sector resources. Compared to 2008, USAID efforts in targeted communities increased the number of people drinking safe water, practicing good infant feeding, and giving birth in a health facility. Activities also contributed to the improved nutritional status of 5,800 children. Community-level activities led to widespread condemnation and reduction of domestic violence.
- In 500 rural communities, USAID helped over 17,000 women improve their knowledge of family planning and reproductive health (FP/RH), assisted the MOH to improve access to quality FP/RH services and commodities, and supported regional and local institutions in adopting 81 policies and guidelines to increase access to and use of FP/RH services
- USAID helped two regions implement multi-sector HIV plans and improve HIV/AIDS surveillance in four regions. USAID also helped public health personnel in 400 facilities implement improvements in service delivery.
- Through the U.S. Peace Corps, USAID supported 17 small community-based projects benefiting 2,717 persons

Education: Although Peru has achieved universal access to education, poor quality and inequity persist. An overwhelming majority of students fail to meet grade-level standards, especially in rural areas where a third of the population lives and poverty is highest. Recognizing education's importance, the GOP executed critical reforms to support decentralization, improve quality standards, and promote performance-based budgeting. These GOP efforts are showing results as learning begins to improve. USG programs work with the Ministry of Education (MED) and regional and local governments to enhance the quality of and access to rural primary schools, complemented by macro-level national reforms. USAID's bilateral program is supplemented by the Andean Center for Excellence in Teacher Training, a regional program focused on teaching reading and writing.

- In late FY 2009, USAID concluded ApreNDes, its six-year flagship education program. ApreNDes improved student learning – in 2008, the latest data available, 17 percent of students in ApreNDes schools met grade-level standards in communication vs. 10 percent in control schools, while gender balance remained at parity. An important achievement this year is the MED's endorsement of ApreNDes as a preferred model for education reform.
- USAID also developed guides for applying ApreNDes in other regions and supported a nationwide policy dialogue on key decentralization reforms. In addition, USAID provided input to national education decentralization policy by providing technical assistance to the Prime Minister's Office to validate the draft Law of Organization and Functions for the MED, which outlines education responsibilities at various levels of government.
- In six regions, USAID provided assistance in designing public investment projects that generated \$12 million of additional resources. As a result, regions are now replicating ApreNDes – San Martin, for example, expanded the model to 298 schools.

## **ECONOMIC GROWTH**

Trade and Investment: Following a seven-year period of positive economic growth, Peru is facing an economic slowdown in the aftermath of the global financial crisis. Imports and exports are projected to decrease by more than 30 percent, slowing formal job creation and poverty reduction. Poverty reduction is a key U.S. priority and a significant challenge for Peru.

Trade-led economic growth is an important element of USAID's strategy to combat poverty. USAID helped micro, small, and medium-sized enterprises (MSMEs) compete in the formal economy and take advantage of export opportunities, especially under the United States-Peru Trade Promotion Agreement (PTPA), which took effect in February 2009. USAID programs provided incentives to reduce the barriers to business registration, improved the business climate, and stimulated economic development in Peru's poorest regions.

- In 22 municipalities that received USAID assistance, registration requirements were reduced by an average of 47 percent, and the number of businesses registered increased by 165 percent. These results contributed to Peru's rise in the 2010 World Bank Doing Business ranking by 9 places to 56 out of 183. A USAID-supported, web-based

registration system will also help the GOP harmonize business registration in 250 municipalities in FY 2010 and FY 2011.

- USAID promoted alternative financial mechanisms that led to over 1,000 loans made to MSMEs. USAID's work with the Superintendent of Banks resulted in the approval of a key regulation that recognizes DCA programs as guarantees under Peruvian law. This major achievement significantly increased the working capital available to MSMEs by leveraging \$18 million in working capital with a \$1 million USAID investment.
- Partly due to USAID's prior assistance, Peru topped the Economist Intelligence Unit's Microscope Index rankings for the second year in a row. The index measures the microfinance climate in 55 countries.
- In 2009, a success story in microfinance sustainability is "Financiera EDYFICAR," Peru's second-largest microfinance institution serving over 195,000 clients. Created by grantee CARE under USAID/Peru's former Food for Peace Title II program, EDYFICAR's financial soundness and value grew to a point where Peru's largest bank, Credit Bank of Peru, purchased it for \$92 million, enhancing EDYFICAR's sustainability.
- To strengthen Peru's technical capacities to meet safety and quality health requirements mandated by the PTPA, in FY 2009, 204 professionals were trained in "Better Process Controls" for canned foods. USAID also helped develop the Integrated Foreign Trade Information System, enabling more than 500 businesses to improve their competitiveness by accessing information on duties, rules of origin, restrictions, and quality certifications.
- USAID/Peru's Poverty Reduction and Alleviation activity partnered with two mining companies, Antamina and Buenaventura, to connect the country's smallest producers to local and international buyers to increase income, employment and equity. These efforts generated \$5.5 million in new sales, 3,000 new jobs, and \$335,000 in new investment.

Environment: To reduce poverty through trade-led growth – while conserving biodiversity – the USG designs programs that improve the GOP's environmental policy and build the capacity of environmental institutions to promote sustainable forest management, protect biodiversity, and comply with the Environmental Chapter and Cooperation Agreement of the PTPA. To accomplish this goal, USAID's programs promote natural resource conservation and sustainable management by the private sector, while strengthening the capacity of the GOP's environmental authorities to enforce laws and prevent illicit logging. The USG also supports the development of climate-change adaptation strategies that sustain vital ecosystem services in the highlands.

- USAID promoted the growth and consolidation of the Forest Stewardship Council's (FSC) voluntary certification for Peruvian forest concessions. These efforts resulted in eight forest concessions and wood product companies obtaining FSC chain-of-custody certification. Although the global economic slowdown reduced demand for certified timber, in FY 2009, USAID still helped certify 46,000 hectares of forests, bringing the total to 700,000 hectares.

- USAID played an important part in conserving biodiversity in FY 2009 by increasing the capacity of 665 people to manage local natural resources to protect biodiversity
- USAID provided training and technical assistance to local governments interested in environmental management certification for sustainable development. As of FY 2009, 109 municipalities throughout Peru have been certified, 57 of them in FY 2009.