

USAID/Peru

Annual Report

FY 2005

June 16, 2005

Please Note:

The attached RESULTS INFORMATION is from the FY 2005 Annual Report and was assembled and analyzed by the country or USAID operating unit identified on the cover page.

The Annual Report is a "pre-decisional" USAID document and does not reflect results stemming from formal USAID review(s) of this document.

Related document information can be obtained from:
USAID Development Experience Clearinghouse
8403 Colesville Road, Suite 210
Silver Spring, MD 20910
Telephone: (301) 562-0641
Fax: (301) 588-7787
Email: docorder@dec.cdie.org
Internet: <http://www.dec.org>

Portions released on or after July 1, 2005

Peru

Performance:

Background: Throughout the 1990s, Peru made significant progress combating terrorism, reducing the production of coca, stabilizing its economy, and increasing access to social services. Since 2001, under President Toledo, the Government of Peru has pursued an ambitious program to re-establish democracy and promote a market-based economy that will provide benefits to all of Peru's citizens. While Peru has maintained unprecedented economic performance of over 4% growth for almost three years, the reality is that even higher growth rates for many years will be necessary to reduce poverty, which stubbornly limits the quality of life of over 50 percent of the population or 14 million Peruvians.

While Peru's 2003 economy out-performed most of Latin America (Peru experienced 3.8% GDP growth in 2003 with 4.5% projected in 2004), the government remains politically weak and social discontent prevails. Per capita gross domestic product (GDP) of approximately \$2,150 for 2003 is the same in real terms as it was in 1967, a result of years of flawed economic policies. Income remains unevenly distributed, with over 50% of the population living below the poverty line, almost half of whom live in extreme poverty. The country's total debt servicing requirement is expected to represent 29.5% of exports in 2005. Unemployment and underemployment rates remain very high (approximately 10% and 50%, respectively). To move forward, Peru must accelerate structural economic reforms, take full advantage of the recent extension and expansion of tariff-free entry of Peruvian products to the U.S. market under the Andean Trade Promotion and Drug Eradication Act (APTDEA), conclude negotiations of a free trade agreement with the United States, and conclude trade agreements in the LAC region and with Asia to stimulate economic growth and reduce poverty levels.

To bolster democratic institutions and increase citizen confidence after revelations of large-scale corruption in the prior Fujimori administration, starting in 2001, Peru embarked on a series of democratic reforms. These included an ambitious decentralization program, restructuring weakened justice system institutions, and setting up mechanisms for citizen access to information and greater governmental transparency. Decentralization began in 2002 with elections of regional and local governments, followed by the gradual transfer of resources and responsibilities in line with government capacity. In 2004, local governments managed 8% of central government resources, compared to less than 4% the year before. At the same time, the Peruvian Truth and Reconciliation Commission investigated two decades of political violence, issuing a final report in 2003 that outlined the structural causes, societal divisions, and institutional weaknesses that contributed to the deaths of more than 69,000 people, the majority of them ethnically Indian inhabitants of rural areas. Among other measures, the Commission recommended greater presence of a more inclusive state, to include justice reform, increased decentralization, improved citizen participation mechanisms and strengthened political parties, to address the factors that contributed to past violence.

The USAID Program: In the Toledo Administration, the U.S. Government has a partner that is committed to advancing mutual national interests of building the infrastructure of democracy, promoting sustainable development, and defeating narco-terrorism. U.S. assistance is playing a decisive role in addressing the obstacles of corruption and conflict where there is a lack of state presence and of economic competitiveness. USAID works as an integral part of the U.S. Country Team in Peru and collaborates with Peruvian partners, other donors, non-governmental organizations, and the private sector to help Peru achieve a secure, democratic, and prosperous future for its citizens. USAID facilitates both Peru's international and national integration, thereby contributing to the mutual U.S. and Peruvian goals of good governance, security, and prosperity.

USAID programs mutually reinforce each other and aim to improve the democratic, social and economic

governance that will help Peru limit corruption, reduce conflict and improve competitiveness. Programs include: 1) national-level assistance related to policy reform and institutional strengthening; and 2) health, education, environment, infrastructure, business development, and governance activities in geographic areas that have been prone to conflict, and thus present obstacles to investment, economic growth and employment generation. These areas are: 1) the Peru-Ecuador border region, where USAID efforts will help ensure a lasting peace between the two countries; and 2) the seven regions that include Peru's major coca-growing valleys, where USAID and other U.S. agencies work to combat the flow of illicit narcotics to the United States and other markets to ensure that these areas are no longer a breeding ground for crime, terrorism, and economic and social unrest.

USAID emphasizes decentralization as a general process leading to more representative and responsive government, as an approach to better allocate and manage resources, and as a means to encourage economic development nationwide, especially in the conflict-prone areas where the USG has special interests. USAID also emphasizes participation and oversight from civil society, constituency building, accountability, transparency, and enforcement of laws and policies in all its programs. All USAID programs address indigenous groups and gender concerns, to ensure that women have equal access to information and decision-making mechanisms at the community, local, regional and national levels and can participate in viable income-generating endeavors; can access quality health services; and receive quality basic education, especially for girls in rural areas.

USAID programs also support improving key Millennium Challenge Account (MCA) goals, potentially making Peru eligible for candidacy in 2006, when the program expands to lower-middle income countries. USAID analysis of Peru's eligibility based on the 16 MCA indicators shows that Peru is in good stead, meeting the requirement of performing above the median in at least half of the indicators in each of the three policy categories: ruling justly, investment in people and economic freedom. Nevertheless, Peru is markedly deficient in five indicators. These are the number of days to start a business (98 in Peru vs. a median of 44); public primary education spending (1.03% of GDP in Peru vs. a median of 1.4%); public health expenditure (2.6% in Peru vs. a median of 3.47%); government effectiveness (on a scale of 0 to 1, Peru scores 0.38 vs. a median of 0.49); and rule of law (on a scale of 0 to 1, Peru scores 0.41, vs. a median of 0.48). To enhance Peru's competitiveness for the MCA, USAID is pursuing interventions that will address weaknesses where performance is deficient, or consolidate performance where it is at or above the median.

Challenges: Peru's national government faces significant challenges, with presidential approval ratings of around 10 percent, a fragmented Congress, and a justice system that has dragged its feet on implementing needed reforms. The limited state presence in large portions of the country's interior challenges the Government's ability to ensure broad-based development for all Peruvians. Social services, especially in isolated, conflict-prone regions in Peru's highlands and jungles, are inadequate (e.g., in USAID's geographic focus areas, 36% of children under five are malnourished, 27% of women are illiterate, 50% of the population do not have access to electricity, and 69% do not have access to sanitation services). Peru's tropical forests are the fourth largest in the world, but they are increasingly threatened by unsustainable exploitation of the forest and the destructive environmental impact of illicit coca production and processing. The lack of state presence allows drug trafficking, illegal logging, terrorism and other criminal practices to flourish, creating a corrupt, violent and conflictive environment that discourages investment, limits economic opportunities, and prevents sustainable economic growth and development.

For the future, Peru must continue to move forward with decentralization to facilitate more representative and effective governance throughout the country, increase the dispersion of economic activity, and provide appropriate and effective health and education services. Comprehensive and systematic approaches to fighting corruption and narco-trafficking, and to improving the efficiency of the justice system are also important to creating the conditions for growth of public and private investment, as well as improved citizen confidence in their government. Sustaining consistent economic growth while meeting the requirements of competing in the world economy provides another set of challenges. At the same time, Peru must continue to champion critical policy reforms, and broaden citizen understanding of the importance of these reforms to Peru's sustained and sustainable development. Maintaining

momentum in all of these areas is expected to become more complex as attention turns to the 2006 presidential, congressional, regional and local government elections.

Donor relations: Official international technical cooperation to Peru for 2004 was over \$506 million, including both bilateral and multilateral assistance. The United States is the largest bilateral donor and contributes almost 40% of all bilateral assistance. Other bilateral donors include: Germany (in democracy, environment, education and health, economic growth and water and sanitation); Canada (in economic growth, education, health, environment, natural resources management, water and sanitation, and democracy); Switzerland (in economic growth, natural resources and democracy); the United Kingdom (in democracy, education, economic growth and health); and Spain (in democracy, education and health). The largest multilateral donor, the Inter-American Development Bank, provides almost 86% of all multilateral assistance. Other multilateral donors include the United Nations, the World Bank, the Andean Development Corporation, and the European Community.

Sectoral-level donor working groups share information, conduct analyses, and collaborate on program design and implementation in gender, basic education, decentralization, justice, counternarcotics, health, environment, and nutrition. Important policy-based coordination also took place in basic education, decentralization and justice.

Key Achievements:

USAID programs contributed to significant policy and institutional changes in the last year, as well as extensive impact in the geographic areas where USAID programs were active. To meet counternarcotics objectives, USAID programs contributed to exceeding illicit coca eradication targets, with voluntary eradication accounting for 35% of total eradication nationwide. With a USAID-supported media campaign and technical advice, USAID also helped to raise public awareness of the scale of illicit drug production, and the need to control the use of precursor chemicals. As Peru began to negotiate a Free Trade Agreement (FTA), USAID contributed to raising public awareness of the importance of the agreement for Peru's integration into the global economy; in a recent survey of Peruvian Congress members, 78% were favorable or neutral on signing the agreement.

USAID programs in health, education, democracy and nutrition / food security significantly contributed to the overall decentralization process. USAID health experience and lessons learned from field activities is guiding the decentralization of the health system, setting the stage for a smooth transition to decentralized health management in 2005-2006. In education, the San Martin region is being used as a pilot for the decentralization of the entire sector. Lessons learned from the Title II program guided the redesign and decentralization of GOP food aid activities for pregnant and nursing mothers and children less than three years of age, as they moved to municipal management.

In the social area, for the first time, the Peruvian Ministry of Health managed contraceptive procurement and supply without USAID support, budgeting for the additional cost and ensuring sustainability in the contraceptive availability to poor families. In another example, the first phase of the Peru/Ecuador Border program achieved a remarkable decline in the percentage of targeted highland populations with two or more unmet basic needs, reducing it from 63% to 53%. Other key results are noted below.

Democratic governance:

- In FY 2004, USAID helped put in place critical legislation for the decentralization process, including laws on participatory budgeting, incentives for regional investment, fiscal decentralization and the formation of regions. USAID strengthened the capacity of 340 local governments and six regional governments in USAID's geographic focus areas, reaching 19% of municipalities nationwide. Training covered compliance with Peruvian government requirements for participatory budgeting, the establishment of mechanisms for citizen involvement, and financial accountability. USAID also trained nearly 650 non-governmental organizations, including women's and indigenous organizations, to strengthen their participation in the local government decision-making processes.

- In a multi-donor effort, the Government of Peru produced a landmark national justice reform plan with technical assistance from USAID partners. This plan provides the framework for future justice system reform. In the criminal justice area, a new criminal procedures code was passed (to come into effect in 2006), and more than 13,000 prisoners in six prisons received support from public defenders in a transitory pilot program with the Ministry of Justice. To improve commercial case processing, USAID provided technical assistance to design specialized commercial courts that will be piloted in Lima in 2005. The commercial courts are expected to reduce case processing time from four years to 18 months.

Social Governance:

- In the Peru-Ecuador border highlands areas, chronic malnutrition was reduced from 32% to 28%, and the percentage of people who knew and were able to identify four to six basic human rights increased from 45% to 86%.

- Transit times on a major highway through a coca-producing area were reduced from 12 to four hours based on USAID rehabilitation efforts, and transport costs declined by an estimated 25-30%. In alternative development zones, USAID supported over 50 productive activities, including 21,750 hectares of licit crops with the participation of 18,837 families. The program has initiated or completed construction of 266 social and economic infrastructure projects, including roads (205 km), schools, health posts, and water systems; land titling for almost 4,000 plots; youth scholarships and professional development activities with 65 rural communities; and 1,632 loans totaling \$1.5 million to agriculture, service industry, and business ventures in coca-growing areas.

- Alternative development communications activities successfully supported both voluntary eradication and policy reform, generating community support for the program that led to over 20,000 families entering agreements to eradicate illicit coca. In addition, policy activities are building a body of evidence to support a law for the effective regulation of coca production and commercial use.

- Efforts to increase economic opportunities for the poor generated an equivalent of 14,300 jobs, 39% of which were for women, and generated sales of \$29.4 million during the year. These efforts include the establishment of business contacts that generated \$3.6 million in sales in alternative development districts. USAID technical support and loan capital to microfinance institutions expanded financial services to a total of 215,176 clients in 2004, of whom 98% were poor and 70% were women. Title II programs provided nearly 16,850 families with access to new sanitary/health infrastructure works, including latrines and potable water systems.

- The GOP Natural Resources Agency granted sustainable timber forest concessions in five regions, covering 7.2 million hectares of forests in 528 concessions. 186 of these concessionaires received technical assistance for the management of 3.2 million hectares, which helped prevent illegal logging. In addition, five forest enterprises (512,123 hectares) completed key steps in pursuit of Voluntary Forest Certification (VFC). Under a GDA public-private partnership, \$9.5 million in lesser known species timber from licit concessions was sold.

- USAID's education program supported the development of more than 260 self-learning guides for primary grades, 11 school planning guides for school directors, and 12 student council manuals using the active schools methodology and best practices in teaching reading and writing. In addition, nine resource centers and 71 mini-libraries were opened in the areas where USAID is working. In the first year of implementation, USAID trained more than 2,800 teachers and school directors in San Martín and Ucayali.

- High maternal mortality showed signs of declining due to aggressive health interventions in the geographic focus areas, in a concerted effort with communities, regional authorities and the Ministry of Health (MOH). USAID provided support to upgrade maternal services and technical capabilities to respond to emergencies in 1,085 MOH facilities (covering 86% of total MOH facilities in those regions) and also in key facilities in the Peru-Ecuador border area. USAID provided support to improve the quality of health services, including traditional birth practices in medical services, training of traditional midwives, and establishing temporary homes for expectant mothers from isolated communities. In USAID

geographic focus areas, institutional births increased from 59% in 2000 to 70% in 2004. In the border highlands, the percentage increased from 16% in 2001 to 53% in 2004.

- USAID supported the installation of a low cost network for real-time data transmission via telephone in 189 MOH health facilities in of Ucayali. The system is being used for service statistics, epidemiological data, inventory, ordering, and patient referrals. During 2004, design work on additional experimental telecommunications interventions began under the Presidential "Last Mile Initiative."

Economic governance

- In close coordination with the Embassy, USAID is making major contributions towards the approval and implementation of the U.S-Peru FTA. Key Peruvian stakeholders leading the FTA negotiations (Ministry of Trade and Tourism, Business Associations, Unions, Congress) have been supported through a variety of outreach activities, which has significantly contributed to an improved understanding of the FTA in Peru. As a result of USAID assistance provided during on-going FTA negotiations, the GOP has launched and publicly announced a series of initiatives for improved enforcement of CITES II, decentralization of environmental management, and stronger GOP environmental accountability.

- USAID technical assistance helped Peru to ensure compliance with the International Ship and Port Facility Security (ISPS Code), securing the approval for 32 ports and partial approval for seven others. Without this security approval, Peruvian foreign trade would have been seriously compromised.

- In addition, as part of the efforts to improve the climate for business development, USAID implemented a system to rank and publish the effectiveness of municipal services for business registration and exports, and assisted two major municipalities in streamlining their business registration. These reforms will reduce business registration from up to 300 days to 60 days.

- USAID provided key support to the Paracas Sustainable Development Commission to produce a sustainable development plan with the participation of stakeholders, including national and local governments, fishermen, industries and non-governmental organizations (NGOs). This was a condition established by the IDB for moving forward with a \$75 million loan for the Camisea Gas pipeline project.

For more information, please go to the following web address: <<http://www.usaidperu.org.pe>>.

Results Framework

527-001 Broader Citizen Participation in Democratic Processes

527-002 Increased Incomes of the Poor

527-003 Improved Health, Including Family Planning, of High-risk Populations

527-004 Improved Environmental Management of Targeted Sectors

527-005 Reduced Illicit Coca Production in Target Areas in Peru

527-006 Local Management of Quality Basic Education in Selected Geographic Areas

SO Level Indicator(s):

Ministry policies implemented in selected regions as related to decentralized local management

Primary school completion rate in San Martin intervention schools

IR 1 Policies implemented to promote decentralized management of quality basic education programs.**

IR 2 Local basic education programs in selected communities improved.**

527-007 Other Activities in Support of Country Development Strategy (PD&S/PD&L)

527-008 Improved Quality of Life of Peruvians Along the Peru-Ecuador Border Target Areas

SO Level Indicator(s):

1. Percentage of households with two or more unsatisfied basic needs (UBN)

3. Chronic malnutrition rate

IR 1 Increased capacity of sub-national governments to manage economic development processes

IR 2 Improved basic capacities for economic development

IR 4 Increased support to the Peace Accords

527-009 Democratic Processes and Institutions Strengthened in Critical Areas

SO Level Indicator(s):

1. Level of implementation of key constitutional reforms supportive of the democratic transition

2. Percentage of OAS-recommended reforms that are implemented

3. Citizen approval ratings of key government institutions

IR 1 Improved stakeholder participation in the adoption and implementation of key policy reforms supportive of the democratic transition

IR 2 Increased responsiveness of elected sub-national governments to citizens at the level in selected regions

IR 3 Congressional performance improved to be more independent, effective and representative of citizen interests

IR 4 Justice sector performance improved to be more independent, transparent and efficient in protecting fundamental rights

IR 5 Past human rights abuses addressed through the Truth and Reconciliation Commission

527-010 Increased Economic Opportunities for the Poor

SO Level Indicator(s):

1. Percentage of extremely poor in economic corridors

2. % of trade increase in nontraditional exports

IR 1 Improved enabling Environment to Promote Economic Growth, Trade and Investment

IR 2 Increased Availability of Financial Services

IR 3 Improved Access to and Participation in Markets

IR 4 Improved Capacity of the Extremely Poor to Participate in Economic and Social Life

527-011 Improved Health for Peruvians at High Risk

SO Level Indicator(s):

1. Infant Mortality Rate

2. Fertility Gap

3. Adolescent pregnancy rate

IR 1 Quality Services Accessible and Utilized

IR 2 People Practicing Healthy Behaviors

IR 3 Health Sector Policies and Programs More Responsive to Health Needs

527-012 Strengthened Environmental Management to Address Priority Problems

SO Level Indicator(s):

1. Number of hectares of production forests under concession system
2. Number of hectares of production forest with approved annual operational management plans
3. Hectares of selected protected areas and buffers zones under improved management systems
4. Income generated by sustainable management of resources

IR 1 National Environmental Policy and Institutional Framework Strengthened

IR 2 Local Environmental Management Implementation Strengthened

527-013 Sustained Reduction of Illicit Coca Production in Targeted Areas of Peru

SO Level Indicator(s):

1. Hectares of illicit coca in Peru
2. Hectares removed through voluntary eradication
3. AD clients who remain "coca free"

IR 1 Effective management of counternarcotics Issues

IR 2 Public willingness to reject coca increased

IR 3 Licit economic opportunities available

IR 4 Perceived value of government increased