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THIRD QUARTERLY REPORT

PERU POLICY AND INSTITUTIONAL DEVELOPMENT COMPONENT
ALTERNATIVE DEVELOPMENT PROGRAM

January 1 - March 31, 2006

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Table of Contents

EXECUTIVE SUMMARY	1
1. DEVIDA STRENGTHENING	2
2. CONTROL OF CHEMICALS INPUTS	2
3. COCA LEAF CONTROL	3
4. LICIT COCA LEAF CONTROL IMPLEMENTATION	5
5. ADMINISTRATIVE ISSUES	6

**PERU POLICY AND INSTITUTIONAL DEVELOPMENT COMPONENT
Of the Alternative Development Program**

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EXECUTIVE SUMMARY

This report describes the progress made during the First Quarter of Calendar Year 2006 (the third quarter of project implementation). The project continues to follow four primary lines of action, as detailed in the October 2005 Work Plan, to support the Peruvian Government on counter-narcotics issues. They include:

1. DEVIDA Strengthening
2. Precursor Chemical Control
3. Licit Coca Control Policy, and
4. Licit Coca Control Implementation

In order to implement actions in each of these categories, the project has focused on a strategy of information dissemination, training and information dissemination related to new law and regulations, and institutional strengthening.

Due to the sensitivity of counter-narcotics issues and coca production in Peru, the PIDC has worked to provide political actors and opinion leaders with the best credible, up-to-date information on drug production and consumption and the role of coca in drug production in Peru. PIDC consultants have relied on their personal and professional contacts to disseminate data and reports produced with PIDC support. They have also made presentations at a variety of seminars and conferences, written articles for publication in the national and international media, and given interviews to journalists on these issues. With regard to public opinion, the PIDC has surveyed perceptions of the coca issue and drug production and consumption in strategically important cities in Peru. The results of these surveys have been released to the media, and were used to inform political candidates in the pre-election period (December 2005 - April 2006).

The PIDC has also carried out training and information dissemination activities related to a new Peruvian law for the control of Chemical Inputs, and its associated Regulations (Statue 28305). Here, actions were continued to allow the effective implementation of the new law, including the preparation of materials and the delivery of training for the public and private sectors in events held in Lima, Cuzco, and Tarapoto. Related to the new law, the PIDC continues to support the development of a management information system for precursor chemicals, which will be hosted by SUNAT. PIDC consultants have worked to facilitate the

coordination and cooperation that implementation of the new information system will require.

Finally, the PIDC continues to provide technical assistance to FONAFE, at the request of its Executive Director, on options for implementing control of the legal market for coca. This involves preparations for institutional strengthening to modernize ENACO. Institutional strengthening of this state institution will most likely include providing recommendations on human resources issues (including staffing and training), policy (related to coordination between FONAFE/ENACO and other GOP state institutions), and information systems.

The project continues to consolidate the advances made in 2005 and in the first months of 2006. A reevaluation of the Work Plan is planned for April, 2006, and will be modified as necessary pending the results of the Peruvian presidential elections.

1. DEVIDA Strengthening

The hire of full-time PIDC consultant Jaime Antesana, a specialist on the cocalero movement, drug trafficking and security, ensured the provision of detailed, up to date information on these issues to the project. This information is regularly shared with DEVIDA during USAID Alternative Development Communications coordination meetings, attended by representatives of USAID, DOS, DEVIDA, PIDC, other USAID projects, and GOB institutions implementing counter-narcotics activities and AD in Peru.

DEVIDA strengthening activities that are identified in the DAI PIDC proposal and Work Plan include:

- The hire of an advisor to strengthen DEVIDA's capacity to work in counter narcotics areas and to build cooperative relations with counter narcotics institutions, particularly the Ministry of Interior.
- Developing Jaime Antesana's role to include providing direct advice to DEVIDA on potential and actual conflict situations in the coca valleys and prevent or manage conflict.
- The hire of 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.

To date, it has not been feasible to provide advisory assistance to DEVIDA, aside from the information provided to DEVIDA indirectly through the USAID Communications Coordination meetings and ongoing communications between Chief of Party Jaime Garcia and the Executive President and the General Manager of DEVIDA, Nils Ericsson.

2. Precursor Chemical Control

Over the first quarter of 2006, the PIDC project worked with the Ministry of Production and GOP institutions such as SUNAT, DINANDRO, FISCALIA and DEVIDA to facilitate the agreements and commitment necessary to implement Precursor Chemical Control. The approach has followed two basic lines of action: support for the new PCC Statute; and the development of a new management information system, to be hosted by SUNAT, for PCC control. The GOP political decision on whether SUNAT will implement the information system was achieved in March of 2006.

Dissemination of Statute 28305 procedures and regulations. The PIDC, through its subcontractor ConsultAndes, held seminars for participants from the public and private sector about the Precursor Chemical Control Statute and Regulations and to train participants in new paperwork and procedures related to the new law. ConsultAndes planned and publicized the events, which were held in the cities of

Tarapoto, Cuzco and Lima. They also prepared all the educational materials for the seminars, and delivered the training to seminar participants.

Design of a Management Information System for Precursor Chemical Control.

Throughout the first quarter of 2006, PIDC consultants worked to facilitate communication and coordination among GOP officials at the highest political levels. The purpose of this communication was to ensure the support necessary for this initiative. To date, a conceptual design for the PCC information system has been developed, with the input of various stakeholders. Work was also carried out to promote SUNAT as the GOP institution most apt for hosting such a system. An agreement in March between the Ministry of Production and SUNAT created a technical team that consists of representatives from the Ministry of Production, DIANDRO, DEVIDA, and SUNAT. This team will review the information needs of all the institutions according to the new legal framework, and draft the information system model. The project hired consultant Carlos Carranza to provide direct support to the Ministry of Production and the technical team, to coordinate the work of all the institutions involved, and to ensure the advances of this project.

3. Licit Coca Control Policy

This objective area includes a) advocacy, media and analysis to promote policy decisions for a practical solution to control the licit coca market based on the current legal framework; and b) providing support and analysis to partners and to USAID.

PIDC advocacy, media and analysis activities are ongoing. These activities are all directly related to disseminating the empirical data on coca regulation that has been established through previous USAID/DAI studies, as well as communications efforts to promote better control of the legal coca market and to discourage bad coca legislation.

During the third quarter of project implementation, the PIDC carried out the following Licit Coca Control Policy-related activities:

Support to the Transparencia and Participation in Electoral Events.

At USAID's request, the PIDC project supported the Transparencia project by providing it with up-to-date information on public opinion. The source of this information was a public opinion survey carried out by a PIDC sub-contractor in November and December of 2005. This survey asked questions on issues of narco-trafficking and coca as related to the elections.

The PIDC Chief of Party also participated in a Forum at the University of Lima, organized by the Economist magazine on March 11th. The COP was a panelist in the Forum, presenting an analysis of UPP (Ollanta Humala's political party) politics, the drug issue, and coca.

Media Activities: Public opinion survey and related media outreach. In March of 2006, CPI released selected results of a USAID-financed opinion survey regarding narco-trafficking and coca as a theme in the elections to a wide range of national media. All of the major daily print media included pieces on the survey results, which strongly support the conclusion that the electorate considers narco-trafficking to be an important electoral theme that has not been adequately addressed by the candidates.

This rapid survey follows another PIDC-supported survey (conducted in November of 2005) that generated broad media coverage based on unexpectedly strong respondent opinions regarding the danger that narco-trafficking poses and the importance of this theme in the elections. Its express purpose was to increase the profile of narco-trafficking and illegal coca as electoral themes and to communicate to candidates the importance of publicly declaring their positions on these issues. To achieve this, six questions were embedded in a larger national survey commissioned by private sector clients of CPI.

Media coverage was both extensive and positive given the small scale of the activity, including articles in *El Comercio*, *La Republica*, *El Correo* and *Peru 21* as well as coverage by *RPP noticias* on two occasions on the day of the survey's release. The survey was cited in an editorial as well as during an interview of Ollanta Humala, and was distributed through a network of journalists in the coca growing regions, resulting in at least two additional articles. The results were also disseminated to opinion leader contacts of both USAID and PAS.

The results of the survey reached the press in a summarized format designed to tell the most powerful story possible: In a national survey that is statistically representative at the national level for urban and rural areas, 2,100 respondents provided the following answers to five questions:

	National	Lima	Non-Lima
1. The issue of narcotrafficking is, or is not, an important theme that should be debated by candidates in their 2006 presidential campaigns?			
Yes it should be an important theme	93.0	95.2	91.0
No, it shouldn't be an important theme	5.1	3.9	6.1
2. Would whether or not a candidate has considered the issue of narcotrafficking in their 'plan de gobierno' influence your vote?			
Yes, it would influence my vote	62,0	66,5	58,1
No, it wouldn't influence my vote	32,9	30,4	35.1
3. In your opinion, have one or more candidates given the proper importance to the fight against narcotrafficking in their campaign and 'plan de gobierno'?			
Some candidate has...	25.9	26.7	25.3
No candidate has...	59.3	61.6	57.3
4. What do you believe is the principal destination of coca production in our country?			

The vast majority/majority to narcos	72.0	78.7	66.3
50/50 to narcos and traditional uses	8.3	6.4	9.8
The vast majority/majority to traditional use	12.5	10.7	13.9
5. Is cocaine or cocaine paste consumption a problem in the 'localidad' where you live now?			
Yes, it is a problem	83.0	86.2	80.2
No, it is not a problem	15.6	13.3	17.6

Other Media Activities. During the third project quarter, PIDC consultants continued to prepare reports, articles and commentary for journalists reporting on counter-narcotics issues, opinion leaders, and the general public. These materials appeared in publications such as Correo, El Comercio, La Republica, Peru 21, Expreso, La Primera, TV news shows such as La Hora N, as well as national and local radio shows.

The project also carried out an analysis of pro-cocalero messages that appeared in print, radio and on television, from December 16 2005-January 16, 2006. The purpose of this analysis was to gain a clear understanding of the types of information that supporters of the cocalero movement are providing to the media, with the goal of devising and circulating effective counter-messages.

Finally, PIDC consultants drafted a document entitled "Diagrama Integral del Mercado legal de la Hoja de Coca: El Narcotráfico y la Política Antidrogas," on March 31st. The purpose of the document was to present an integrated picture of the complex problem of illicit coca and drug production, and the ways that different components of Peru's anti-drug policy are intervening in the problem, especially PIDC efforts. This document was developed with the important and up-to-date information provided by studies supported by the PIDC.

Direct Communication with the Press. Jaime Antesana continues to maintain an active presence in the media as a spokesman for Coca Control Policy, control, current information on the cocalero movement and counter-narcotics issues in general. During the third quarter of the project, Antesana provided interviews to journalists working for Correo (Lima), Al Dia (Ucayali), 24 Horas (Pucallpa), Ahora (Huanuco, Ucayali, and San Martin), Radio La Voz Campesina (Pucallpa), Diario Regional de Ucayali (Pucallpa), Programa Portal Educativo.com of Radio Super FM 95.5 (Aguaytia), Pulso Regional (Tingo Maria), Studio Light 102.3 (Aguaytia), Radio Shalom, Sembrando la Paz program (Alto Huallaga), Canal HP (Tingo Maria), Correo (Huanuco), La Hora N, Agencia Andina de Noticias, La Primera (Lima), Radio 1160 (Lima), Canal 5, and Presencia Nacional de Canal 7.

PIDC Chief of Party, Jaime Garcia, also interacted directly with the press. Garcia wrote articles commenting on the coca issue in Correo.

Technical Assistance to the Executive Direction of FONAFE. Ongoing contact and communications during the third quarter of the project, with Hilda Sandoval (FONAFE Director) and Hector Buzaglo (Advisor to the Director of FONAFE), in order to review ENACO's activities.

Provide informational briefings to targeted members of the Peruvian Congress. PIDC congressional advisors continue to provide information and support to Peru's Legislative Branch on issues related to control of the legal coca market and counter-narcotics. Throughout the project's third quarter, advisors Cruz and Martinez worked with Congressman Luis Iberico, president of the Congressional Commission for National Defense, Internal Order, Intelligence, Alternative Development and the Fight against Drugs. They also provided information and analysis to Congressman Manuel Merino and to the congressional sub-group on coca on the issues of production, marketing and use of drugs in Peru. Finally, they participated in a working group with José Miguel Morales, President of CONFIEP, on the risks posed to private sector by narco-trafficking.

In March of 2006, Yalile Martinez participated in a seminar entitled, "Studies in Defense: Defense Strategy and Policy." This invited seminar was hosted by the Center for Hemispheric Defense Studies at the National Defense University (Washington, DC). Martinez delivered a presentation at the seminar, entitled Narco-trafficking and Terrorism.

Monitor the Cocalero Movement in Peru's Coca Producing Regions. Monitoring and analysis of the cocalero movement is an ongoing activity, carried out by PIDC consultant Jaime Antesana.

Media Outreach on Alternative Development. The PIDC project continues to participate in a USAID working group on communications. Participants include representatives from the US Embassy, USAID Alternative Development projects, and DEVIDA. The goal group is to share information (public opinion data as well as updates on AD activities) as well as to set the primary strategy and agenda for media outreach activities.

4. Licit Coca Leaf Control Implementation

Support to FONAFE and providing Institutional strengthening to ENACO. These activities were largely on hold during the third project quarter, due to the political situation in Peru. At the end of this quarter, the PIDC prepared a general analysis of the coca issue and the advances that the PIDC has achieved to date working with FONAFE and ENACO, for USAID.

The project recommends implementing the following activities in the next quarter in order to shore up successes to date, and to ensure that ground will not be lost in these areas due to changes in policy when the new Peruvian government takes power:

- Work with FONAFE to identify ENACO's priority needs and problems
- Provide legal advice as requested by FONAFE/ENACO
- Develop TOR's for and support the selection of a new ENACO General Manager; Commercial Manager
- Work with FONAFE/ENACO to update ENACO's Management Information System
- Facilitate coordination between ENACO and CADA (for verification of coca producing properties)
- Carry out the pilot verification program for coca producers listed in the ENACO producer registry (producers and plots in Trujillo)

5. Other Issues

- Jaime Garcia was hired as the PIDC's new Chief of Party, as of January 3, 2006.
- A Work Plan for the next 6 months of project implementation will be developed in the second quarter of Calendar Year 2006.