



# USAID | PERU

FROM THE AMERICAN PEOPLE

## Country Development Cooperation Strategy 2012-2016



## Recommended Citation

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## Cover photos:

*Top row (left to right):*

1. Children using the citizens' module at USAID's booth in CADE (Annual Executives Conference) 2010. The citizens' module is a touch screen computer designed by USAID/Peru/Comun@s project to facilitate transparency in public information and citizens' oversight.
2. Employees from Agromantaro S.A.C. in Junín process new varieties of artichoke. USAID's Poverty Reduction and Alleviation activity provided assistance to expand investments in processing facilities and to train hundreds of small farmers. The assistance helped develop this crop in the regions of Huánuco, Ayacucho, and Huancavelica, and improved livelihoods for hundreds of families.
3. USAID contributed to build capacity and create social capital with its Title II Program by helping in the development of small industries, strengthening mothers' abilities in production and marketing to generate income that contributes to improving the quality of life of their families.

*Second Row (left to right):*

4. Using a "self-diagnostic" method promoted by the Manuela Ramos Movement and supported by USAID from 1994-2004, more than 300,000 Peruvian women were able to speak openly about their roles in society. The individual concerns raised were used to develop a strategy for addressing problems of domestic violence and gender discrimination.
5. In 1961 U.S. President John F. Kennedy founded USAID. The Agency's activities began in Peru the following year, in 1962. Since that time, USAID has maintained an uninterrupted presence, working alongside the Government of Peru and civil society to reaffirm democratic values, expand the benefits from economic growth to marginalized populations, and to provide humanitarian assistance to people affected by natural disasters.
6. Husband and wife entrepreneurs Macedonio Palomino and Luzmila Huaranca have developed a network of women artisans who produce beautiful and distinctive textiles in rural Ayacucho, Peru (March, 2011).

*Third row (left to right):*

7. A member of a growing female producer group supported by USAID's Alternative Development Program in Peru harvests a cacao pod on her farm. In the San Martin region, 30,000 hectares of cacao have been planted, replacing illicit crops.
8. USAID donated a fully-equipped ambulance through the Coverage with Quality Project to La Oroya Health Center.
9. USAID built this bridge in Uchiza, San Martin to support the surrounding communities' transition to a licit lifestyle. Project infrastructure is now helping previously isolated communities to connect markets.

*Bottom row (left to right):*

10. USAID implemented initiatives to work with sub-national governments using information technology to promote transparency in public administration through computerized information modules. In this picture some of the sub-national authorities trained in the use of the modules pose with the "tool kits" used with the modules.
11. The USAID ApreNDes project promoted a competitive and inclusive primary education in rural areas.
12. Children using the ApreNDes active schools approach, participating in interest groups.

*Far Left:*

13. Waiting houses and vertical births are two health strategies with an intercultural focus that the Ministry of Health and USAID have promoted to considerably lower maternal mortality rates in Peru.



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# Acronyms

AD	Alternative Development
AIDSESEP	Inter-Ethnic Development Association of the Peruvian Jungle
APEC	Asia-Pacific Economic Cooperation
CAF	Andean Development Cooperation
CDCS	Country Development Cooperation Strategy
CEPLAN	National Strategic Planning Center
CITES	Convention on International Trade in Endangered Species
CN	Counter-Narcotics
CN/AD	Counter Narcotics/Alternative Development
CNC	Crime and Narcotics Center
CONAP	Confederation of Amazonian Nationalities of Peru
CSR	Corporate Social Responsibility
DA	Development Assistance Fund
DCA	Development Credit Authority
DEVIDA	Peru's national drug control commission
DHS	Demographic Health Survey
DI	Democratic Initiatives
DLI	Development Leadership Initiative
DO	Development Objective
EIU	Economist Intelligence Unit
EU	European Union
FAA	Foreign Assistance Act
FAS	Foreign Agricultural Service
FCPF	Peru Forest Carbon Partnership Facility
FO	Mission Front Office
FSL	Foreign Service Limited
FSN	Foreign Service National
FSO	Foreign Service Officer
FY	Fiscal Year

GDP	Gross Domestic Product
GFC	Global Financial Center
GHG	Greenhouse Gas Emissions
GOP	Government of Peru
HIV	Human Immunodeficiency Virus
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IDB	Inter-American Development Bank
INDEPA	Amazonian and Afro-Peruvian People's Development Institute
IPR	Implementation and Procurement Reform
IR	Intermediate Result
IS&T	Innovation, Science and Technology
IT	Information Technology
LAC	Latin American and Caribbean Bureau
LEDS	Low Emission Development Strategy
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MINAM	Peruvian Ministry of the Environment
MRV	Measurement, Reporting, and Verification
MSMEs	Micro, Small and Medium-sized Enterprises
MSRP	Mission Strategic Resource Plan
NAS	Narcotics Affairs Section
NGO	Non-Governmental Organization
OAS	Organization of American States
ODA	Official Development Assistance
OE	Operating Expenses
OECD	Organisation for Economic Co-operation and Development
PAS	Public Affairs Section
PASA	Participating Agency Service Agreement
PFOCs	Program Funded Operational Costs
PMP	Performance Management Plan
PPD-6	President Obama's Policy Directive on Global Development
PTPA	Peru Trade Promotion Agreement
R-PP	Readiness Preparation Proposal

REDD	Reducing Emissions from Deforestation and Forest Degradation
REO	Regional Environment Office
SAR	South American Regional
SUMA	Education Project at USAID/Peru
TCB	Trade Capacity Building
UN	United Nations
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UNICEF	United Nations Children’s Fund
UNODC	United Nations Office on Drugs and Crime
USAID	United States Agency for International Development
USDHs	U.S. Direct Hires
USG	U.S. Government
VRAEM	Apurimac, Ene, and Mantaro River Valley
WHO	World Health Organization





# Executive Summary

On September 22, 2010, President Barack Obama signed a Presidential Policy Directive on Global Development. This policy directive marked the first time a U.S. Administration has formally addressed the significance of international development for U.S. national security and as “a strategic, economic, and moral imperative for the United States.” It also charges USAID with leading the formulation of results-oriented country development strategies that will help host countries to be more stable and prosperous.

During his March 2011 speech in Santiago, Chile, President Obama addressed U.S. foreign policy towards Latin America. He outlined the three most important issues facing the region where the United States has a shared responsibility: (1) security (specifically crime and drug trafficking); (2) economic growth; and (3) the environment (global climate change).

This Country Development Cooperation Strategy (CDCS) reflects a long history of close development cooperation between the U.S. Government (USG) and the Government of Peru (GOP). During the five decades that USAID has provided development assistance, Peru has made tremendous progress, notwithstanding setbacks attributed to hyperinflation, terrorism, natural disasters, and other political and economic challenges. The benefits of these joint USG-GOP investments include reduced maternal and infant mortality rates, more effective and accountable democratic institutions, and sustained, robust economic growth. The challenge now is to consolidate and sustain Peru’s development progress through targeted cooperation, leading to repositioning USAID’s role within the next ten years. This document outlines the development priorities and strategy that USAID/Peru has identified in order to achieve the goals laid out in President Obama’s Policy Directive; address all three foreign policy priorities for Latin America; increase the Mission’s focus on equal partnership and shared responsibility with the GOP; and help Peru sustain and capitalize on the progress and development realized over the last ten years.

**Development Challenge:** Despite a decade of impressive economic growth and democratic progress, many Peruvians—particularly outside of the coastal urban areas—have yet to see tangible benefits from these advances. Many feel that they receive few or inadequate basic services from the government and have not seen their incomes increase commensurate with the country’s growing economy. This perceived disparity between the economic “boom” of the coastal areas and continued poverty in Peru’s mountain and jungle regions has, in some cases, fostered a sense of social, economic, and political exclusion. To strengthen democracy and maintain trade-led economic growth, Peru must broaden economic opportunities and strengthen government capacity to provide social services in environmentally sensitive and coca-vulnerable areas. Otherwise, illegal activity (e.g., drug trafficking and illegal logging/mining), environmental degradation, and conflicts (mostly related to natural resources, the extractive industries, and terrorism fueled by narcotics trafficking) might weaken Peru’s potential future economic growth and democratic consolidation.

The CDCS Goal is that **Peru’s stability and democracy are strengthened through increased social and economic inclusion and reductions in illicit coca cultivation and the illegal exploitation of natural resources.**

President Ollanta Humala ran on a campaign of social and economic inclusion of all Peruvians. Broader inclusion is realized when all citizens have the opportunity and resources necessary to fully participate in the economic, social, and political life of the society in which they live.<sup>1</sup> Social and economic exclusion relate to the alienation or disenfranchisement of segments of the population from society at large. Since assuming the Presidency in July 2011, President Humala and his Administration have focused their attention on programs that improve the quality of life of marginalized populations, such as the very young, the elderly and the poor. USAID’s strategy will support the Humala Administration’s social inclusion goals.

Given Peru’s development context, the challenges and opportunities it faces, and the evidence that supports potential success, USAID’s strategy focuses on realistic results within its manageable interest. The Mission has prioritized three integrated Development Objectives (DOs):

**DO-1: Alternatives to illicit coca cultivation increased in targeted regions**

**DO-2: Management and quality of public services improved in the Amazon Basin**

**DO-3: Natural resources sustainably managed in the Amazon Basin and glacier highlands**

**Development Hypothesis:** USAID’s strategy asserts that by mitigating two drivers of conflict—narco-trafficking and illegal natural resource exploitation—while improving the management and quality of public services and fostering social inclusion, Peru will remain a stable democracy and productive partner for the United States. By broadening economic opportunities, improving the management and quality of public services, and promoting social inclusion in the regions where illicit coca and environmental threats exist, conflicts will decrease and private investment will increase. In such an environment, families will be able to escape poverty, the quality of life of marginalized populations will improve, and the environment will be more sustainably managed.

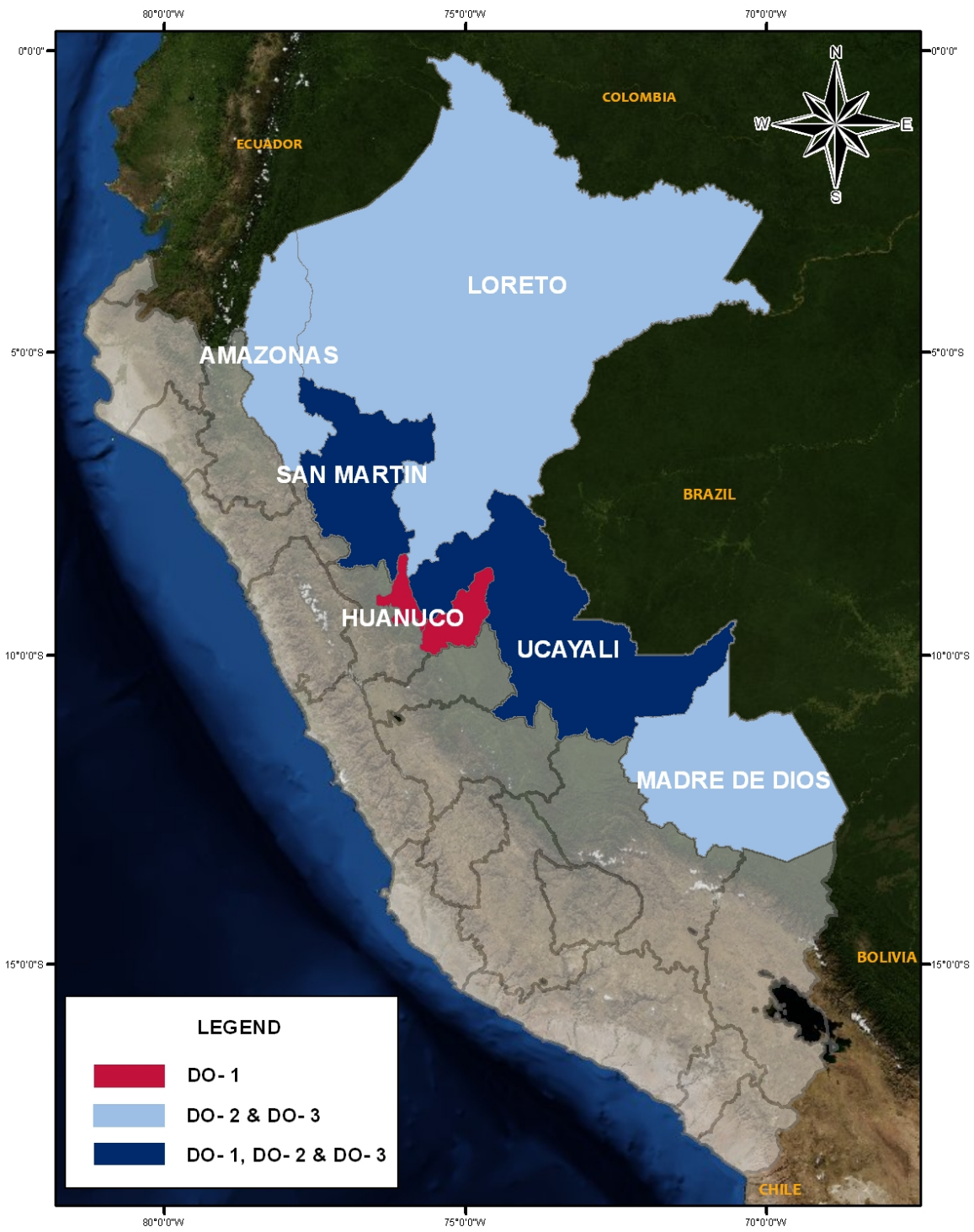
**Geographic Focus:** To achieve the CDCS Goal and Development Objectives, the Mission will prioritize the five Peruvian Amazon regions of San Martín, Ucayali, Amazonas, Loreto, and Madre de Dios.<sup>2</sup> These regions have become hubs for many of Peru’s illegal activities, including coca cultivation, narco-trafficking, and illegal logging and mining. The three primary focus regions for assistance under DO-1 will be San Martín, Ucayali and, to some extent, areas within the Upper Huallaga Valley area of Huánuco, depending on eradication efforts and security conditions there. DO-2 and DO-3 will provide assistance to all five of the regions of the Peruvian Amazon, with DO-3 focusing on areas with high forest concentration.

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<sup>1</sup> Social Inclusion for the United States, Heather Boushey, Center for Economic Policy and Research; Shawn Fremstad, Rachel Gragg, and Margy Waller.

<sup>2</sup> The presidents of each of these regions are members of the Interregional Council of the Amazon (CIAM), a coordinating body that promotes integrated, sustainable development in the Amazon.

Figure 1: Map of CDCS Priority Geographic Regions



This strategy supports specific Humala Administration policies and programs, including plans to promote social inclusion by improving infrastructure and services in these regions. USAID will also help strengthen national-level GOP policies and programs to promote alternative development, improve governance and social inclusion, and strengthen natural resource management. In addition to the five focus regions, other geographic areas of Peru may be included under individual DOs as described in Section III.

In large part, this strategy is based on success to date. With USAID support, Peru's San Martín region has made tremendous strides in reducing coca cultivation, while simultaneously reducing poverty and improving basic services such as education. Under DO-1, USAID will continue to work with the regional government of San Martín to consolidate these gains while seeking to replicate this model in Ucayali and the Upper Huallaga Valley in Huánuco, following programmed eradication. USAID may engage in alternative development (AD) activities in other coca-growing regions where unique targets of opportunity for collaboration with the GOP, other USG agencies, or third parties present themselves. USAID will also strongly encourage the GOP to adopt, finance, and replicate the proven "San Martín Model"<sup>3</sup> throughout Peru.

Good governance is the operating system upon which sound economic and social development can be built. Through DO-2, USAID will focus on improving governance and social inclusion in the Peruvian Amazon Basin so that regional and local governments can improve the management and quality of public services (including health and education) and better represent their constituents. This should help increase local economic opportunities and reduce the tendency to rely on illicit and environmentally damaging livelihoods or to resort to social conflict.

DO-3 focuses on the forest and the glacier highlands, regions of environmentally critical, global importance. USAID will spend approximately 80 percent of all environmental funding on forest-related sustainable landscapes and biodiversity programs in the Peruvian Amazon Basin. The remaining 20 percent of environmental resources will go toward global climate change adaptation programming to address threats, including water management issues associated with glacier melt in the Andean regions of Piura, Ancash and Arequipa.

**Repositioning of USAID's Role in Peru:** USAID has had an active, uninterrupted Mission presence in Peru for 50 years. Over that time, many successful programs have helped improve Peruvian democracy and governance, economic growth, health, education and natural resource management. Although development is a continuous process, there comes a time when direct bilateral assistance is no longer warranted, as a country makes the transition from donor recipient to development partner. Social and economic trends and progress over the past decade demonstrate that a gradual reduction in U.S. development programs is justified as development indicators continue to improve and/or as the GOP and other domestic actors sustain key programs previously supported by USAID or other development partners. With this CDCS, USAID is laying the groundwork for a new partnership over the next 10 years, with the GOP assuming greater ownership through an increased focus on the use of host-country systems and through local capacity development. This CDCS outlines plans for USAID to conclude its support in many "traditional" development sectors over the next five years: health, trade capacity building and labor, elections,

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<sup>3</sup> This model is described in *El Modelo de Desarrollo Alternativo de la Region San Martín, Un estudio de caso de Desarrollo Economico Local*, UNODC 2011.

and education. For those sectors in which USAID intends to maintain engagement during the CDCS period, USAID will continually assess how to shape its assistance in order to further transition out of direct support. During annual portfolio reviews, the Mission will recommend program adjustments as appropriate, based on sectoral and programmatic performance; national and regional political and development contexts; partner and stakeholder input; changing critical assumptions; and U.S. foreign policy interests. Continually taking stock of development progress will enable USAID to make informed and strategic decisions regarding repositioning our role in Peru following the conclusion of this five-year strategy period.

*Program Closeouts:* USAID has focused efforts in areas where there is a convergence of U.S. foreign policy priorities with Peru's own development challenges. These areas include: sustainable, trade-led growth; environmental protection; and the mitigation of drug-related security threats. To achieve these goals, the Mission has made strategic choices and realigned resources to better focus development assistance, achieve measurable results, and adapt to the reality of reduced funding levels.

*Health:* USAID/Peru will close out its bilateral health program by the end of 2013. While limited health interventions may be included as part of USAID's community-based development package in the jungle regions, these will be small in scale, focused on basic service delivery, and funded by other USAID programs.

*Economic Growth:* United States-Peru Trade Promotion Agreement (PTPA) trade capacity building and labor programs will close out by the end of 2014. These programs have been highly successful in ensuring not only the proper implementation of the PTPA, but also in inspiring poverty reduction through small business growth in marginalized populations increasing their economic and social inclusion.

*Democracy and Governance:* USAID closed out its election support to Peru at the end of 2011. Additionally, it will significantly reduce anti-corruption activities previously funded by the Millennium Challenge Corporation, focusing instead on transparency within the judiciary and effectively addressing corruption via the court system, ultimately closing out this support in 2015.

*Education:* Education resources will focus on primary school literacy programs in the CDCS target regions and will respond to the needs of communities that adopt coca-free economies and lifestyles and work to eliminate illegal activities that threaten the environment. These activities will contribute directly to the USAID Education Strategy goal of improving primary grade-level reading skills. USAID/Peru will close out education activities toward the conclusion of this CDCS, at the end of 2016.



# Section I. Development Context, Challenges and Opportunities

This Country Development Cooperation Strategy (CDCS) reflects a long history of close development cooperation between the U.S. Government (USG) and the Government of Peru (GOP). During the five decades that USAID has provided development assistance, Peru has made tremendous progress, notwithstanding setbacks attributed to hyperinflation, terrorism, natural disasters, and other political and economic challenges. The benefits of these joint USG-GOP investments include reduced maternal and infant mortality rates, more effective and accountable democratic institutions, and sustained, robust economic growth. The challenge now is to consolidate and sustain Peru's development progress through targeted cooperation, leading to repositioning USAID's role within the next ten years.

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**Country Context:** In a polarized region, Peru has proven to be a vital partner for the United States—one with the political will to consolidate democracy and pursue equitable economic growth in a way that conserves the environment. This strong commitment and mutually supportive USG-GOP relationship, affirmed by a meeting between Presidents Obama and Humala at the November 2011 Asia-Pacific Economic Cooperation (APEC) summit in Hawaii, offers an opportunity to make a significant, positive impact on Peru's future and on the region. Peru serves as one of the strongest examples in Latin America of how a democratic, lower-income country can emerge from poverty through trade-led growth, responsible environmental stewardship, and sound macroeconomic policies.

Peru is characterized by diverse cultures and one of the most varied geographies in Latin America. Its half-million square miles are divided into three distinct zones: the arid coastal desert, the rugged Andean mountains, and the tropical Amazon jungle. The differences are most pronounced between the coastal desert, which covers only 16 percent of the territory but holds 60 percent of the population and 70 percent of the wealth, and the Amazon Basin, which covers 50 percent of the territory, yet contains only 12 percent of the population and 7 percent of the wealth. The varied terrain and cultures and rich natural resources present both opportunities and challenges for Peru's development.



Peru has come far since the early 1990s, when it was almost a failed state. It has undergone three orderly presidential transitions (2001, 2006 and 2011), and is in the midst of a major decentralization effort to transfer authorities and resources to regional and local governments. Today, 29 million Peruvians inhabit 1,838 municipalities in 25 geographic and political regions. Although the majority of Peruvians support democratic principles, when compared to other Latin American countries Peruvian support for democratic institutions ranks among the lowest. Peru's lack of a professional civil service system also hinders efficiency and weakens institutional capacity. As in many Latin American countries, corruption also limits government effectiveness and contributes to the lack of faith in democratic institutions. Nevertheless, Peru's active civil society and free press demonstrate that, in many ways, the country is on a transparent development path.

Despite the recent world financial crisis, Peru has logged 12 consecutive years of positive economic growth. *The Economist Intelligence Unit* (EIU) estimated that economic growth would slow to 6.2 percent in 2011 after reaching 8.8 percent in 2010. Under successive administrations, Peru's economy has proven resilient, driven by free markets and grounded in sound macroeconomic policies. Peru has a forecasted trade balance of \$6.8 billion in 2011,<sup>4</sup> driven by traditional products such as gold, copper, zinc, fishmeal, and coffee, and non-traditional exports such as natural gas, textiles, copper wires, seafood, asparagus, artichokes, avocados, grapes, and mangoes. Free trade agreements with the United States, China, Canada, South Korea, and the European Union (EU), among others, will continue to support rapid growth. In 2010, gross fixed investment [25 percent of Gross Domestic Product (GDP)] and private savings rates (17.7 percent of GDP) were comparable to other upper-middle income countries (EIU, 2011). Foreign direct investment reached \$5.3 billion in 2010 (Peru Central Bank, 2011). International reserves in 2011 reached \$50 billion, providing evidence of Peru's macroeconomic stability and ability to defend its currency and maintain high investment ratings.

In 2009, Peru became an upper middle-income country with a Gross National Income per capita of \$3,990. In 2010, Peru's GDP per capita grew to \$5,224 (Peruvian Central Bank, 2011), with total GDP of \$154 billion (Peru Central Bank 2011), continuing as one of the strongest economic performers in Latin America. However, Peru's Gini coefficient (income disparity measurement) of 0.51 remains relatively high by developing country standards (UNDP, 2010). Peru experienced an impressive reduction in poverty rates, from 54 percent in 2001 to 31.3 percent in 2010 (Peruvian National Statistics Office, 2010); nonetheless, poverty levels and social indicators still place Peru behind many countries in the region (World Bank, 2011).

Peru has achieved mixed results in its progress towards meeting the Millennium Development Goals (MDGs). Some targets—such as a reduction in the proportion of people living in extreme poverty and the reduction in mortality among children under five—have already been met in terms of national averages. However, Peru's advances hide inequalities, and the sustainability of progress depends on political will and the effectiveness of public management, especially at the sub-regional levels. It is likely that Peru will meet the MDG 2015 targets to reduce malnutrition. Malnutrition fell by five percentage points nationwide between 2005 and 2010. Given that progress had been slow in rural areas for many years, it is especially encouraging that malnutrition fell by 10 percentage points in rural areas during this time period. Peru is very close to meeting its goal of universal access to primary education; however, quality issues and disparities in equal access to secondary and tertiary

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<sup>4</sup> Economist Intelligence Unit (EIU), Peru Country Report, December 2011.

education continue to plague the education system. Limited progress has been made to increase gender equality and eradicate gender-based violence, and the target for achieving universal access to reproductive health services has only been partially met. Only half of women of fertile age use modern methods of contraception. Peru is on track to reduce the spread of malaria, and despite gaps in the health logistic systems, there is progress on access to HIV/AIDS treatment for all. Regarding the objective of guaranteeing the sustainability of the environment, Peru has improved its policy framework to reduce emissions. Still, deforestation and protection of biodiversity and water resources remain problematic. In addition, progress toward universal access to potable water and sanitation has been slow.

Contributing to Peru's recent economic growth is the increasing proportion of the population reaching its prime working years, and the accelerating participation of women in the workforce. In 2010, 64 percent of the population was aged 15 to 64. Additionally, due to falling birth rates, there are fewer minor dependents per family, and a relatively small percentage of the population is of retirement age (DHS, 2010).

In 2010, one in ten Peruvians received remittances—amounting to \$2.53 billion—from relatives living in the United States, Europe, and other Latin American countries. An estimated 531,000 Peruvians live in the United States (U.S. Census Bureau 2010), not counting undocumented workers.

With strong domestic-driven economic growth, Peru's private sector is increasingly engaging in corporate social responsibility (CSR). The business sector is keenly aware that the country's continued development and stability rest on a concerted effort to increase productivity and efficiency by investing in human capital. A major source of CSR is the mining sector's Solidarity Fund (or *Aporte Voluntario*) which, since its creation in 2007, has disbursed \$596.7 million for education, health, and economic growth projects. In addition, as part of their concession contracts, some mining companies have established development funds that have disbursed \$266 million for social investment and income-generation programs. This growing interest in CSR has helped USAID develop private sector alliances and leverage close to \$25 million in private sector resources over the last three years.

The agreement between the GOP and the mining industry that established the Solidarity Fund (under which the GOP refrained from imposing windfall taxes on the industry) expired with the election of a new government. The GOP, under President Humala, negotiated higher tax rates with the mining industry. Despite being formally released from Solidarity Fund commitments, many mining firms are expected to continue funding CSR programs in order to retain their "social license" in the communities where they work.

Peru is a growing political force within Latin America. It hosted three major gatherings of world leaders and ministers in the last two years: the APEC Forum, the Latin America and Caribbean-European Union Summit, and the Organization of American States (OAS) General Assembly. It continues to pursue economic integration with its neighbors, particularly through the Trans-Pacific Partnership Integration initiative and separately with Brazil. Companies in Brazil, Peru's largest trading partner in South America, are investing heavily in Peruvian infrastructure. Peru's economic ties with Chile remain strong, as Chilean companies own many major retail chains in Peru. Nevertheless, border issues remain an irritant to their diplomatic relations.

Peru continues to be a reliable advocate of democracy and open markets amidst the alternatives proposed by some of its regional neighbors. Barring major setbacks, Peru is poised to achieve further development and to be an anchor of democracy and stability in the region. Staying on this democratic, free-market development trajectory is in Peruvian and U.S. interests.

Peru's national elections in 2011 were considered free, fair and credible, and saw former army officer Ollanta Humala elected president, with 51.5 percent of the vote, over Congresswoman Keiko Fujimori (daughter of former President Alberto Fujimori). During the elections, Mr. Humala campaigned as a center-left candidate committed to more equitable distribution of wealth while keeping the country on its trajectory of market-led growth. Since taking office, President Humala has made "social inclusion" his top priority, creating a new Ministry of Development and Social Inclusion. Some of the Administration's plans to extend opportunities to marginalized Peruvians include: expanding quality daycare and preschool; increasing rural access to electricity, telecommunications, internet, clean water, and sanitation; increasing the availability of need-based scholarships; and establishing a universal pension for Peruvians over 65.

### **Challenges and Opportunities:**

*Narco-Trafficking:* Drug trafficking is a threat to Peruvian democracy and stability, especially in ungoverned or weakly governed areas in the Peruvian Amazon Basin. Peru is one of the world's largest coca cultivators and the number one cocaine producer and exporter. The narcotics economy in Peru is estimated at \$1.5 billion per year, including the value of exports and local consumption (MacroConsult, 2011). Narcotics money feeds corruption and other illicit activities, such as illegal mining, illegal logging, and contraband, taking advantage of the lack of licit economic opportunities in the area. Intertwined with narcotics trafficking and money laundering is the continued presence of the Sendero Luminoso (SL or Shining Path) terrorist organization, and the increasing presence of violent Mexican and Colombian narcotics organizations. Failure to address the narco-trafficking threat through USAID-supported Alternative Development (AD) programs and joint USG-GOP security and law enforcement actions could lead to a costly, dangerous, and politically destabilizing security situation, especially in the Peruvian Amazon Basin. Table 1 outlines Amazon Basin coca-vulnerable regions, their poverty rates, hectares of coca, hectares deforested, and the number of conflicts registered in 2010.<sup>5</sup>

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<sup>5</sup> Note: The coca-growing areas of the Ayacucho, Junín and Cusco regions lie within the Valle del Río Apurímac, Ene y Mantaro, or VRAEM, which is unsafe for USAID to operate in at this time.

**Table 1: Poverty Rates, Hectares of Coca Production, Percent Budget Disbursement, Hectares Deforested, and Number of Conflicts for Coca-vulnerable Regions in Peru**

<b>Coca Regions in Peru</b>	<b>Poverty Rate 2010</b>	<b>Hectares of coca 2010</b>	<b>Percent of Regional Budget Disbursed 2010</b>	<b>Hectares Deforested 2005</b>	<b>Number of conflicts 2010</b>
<b>Amazonas</b>	50.1	400	67.8	35,589	3
<b>Ayacucho</b>	55.9	10,359	76.9	672	12
<b>Cajamarca</b>	49.1	110	49.7	15,341	16
<b>Cusco</b>	49.5	18,122	67.3	14,175	23
<b>Huánuco</b>	58.5	17,976	46.6	6,816	1
<b>Junín</b>	32.5	1,642	70.3	11,141	13
<b>Loreto</b>	49.1	699	74.1	30,752	10
<b>Pasco</b>	43.6	847	46.2	1,466	5
<b>Puno</b>	56.0	3,425	56.9	4,468	25
<b>San Martín</b>	31.1	321	98.0	2,765	4
<b>Ucayali</b>	20.3	1,677	79.4	7,931	4

*Social Conflicts:* Social conflicts have recently surged. Leaving them unchecked could threaten Peru's future economic and political stability. As of October 2011, the Ombudsman's Office registered 217 conflicts, of which 109 have had at least one violent episode and 154 are still active. Of the total conflicts, 57 percent are related to the environment and use of natural resources. Mostly concentrated in Andean and Amazon Basin regions, conflicts are fueled by: perceptions that not all Peruvians are sharing fairly in Peru's prosperity; discontent that the government has not enforced laws equitably; misinformation; and/or frustration that the government has fallen short in delivering public services. Addressing underlying issues, and allaying negative perceptions and discontent are among Peru's greatest development and political challenges.

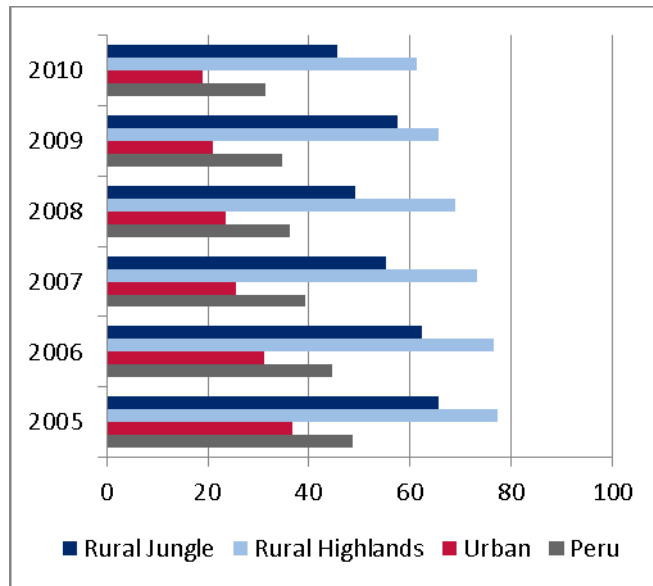
*Environmental Threats:* Achieving a balance between economic growth—especially infrastructure and extractive industry development—and the conservation of Peru's fragile ecosystem is a challenge for Peru. The Ministry of Environment (MINAM) has estimated that more than 20 percent of Peru's GDP is attributed to the exploitation of natural resources. As the world's fourth largest tropical forest and one of the most bio-diverse, the Peruvian Amazon Basin is a global public good. MINAM estimates the value of environmental services (such as food and water production; energy; natural control of climate and disease; replenishment of nutrient cycles and crop pollination; and important tourism and recreational benefits) provided by protected areas to be in the range of \$1 billion per year.<sup>6</sup> The Amazon Basin is increasingly threatened by illegal logging and mining practices, corruption, weak state presence, slash-and-burn deforestation, narcotics and human

<sup>6</sup> CEPLAN 2010. Plan Bicentenario.

trafficking, exploitative labor practices, money laundering, and pollution. Despite the legal framework governing the use of forest resources, the impunity with which illegal activity is often carried out makes it very difficult for legitimate, sustainably managed forest enterprises to compete in the marketplace. Compounding the problem, indigenous Amazonian peoples often lack the administrative and technical skills to benefit economically from sustainable livelihoods, leading them to sell valuable or even illegal commodities at extremely low prices.

Climate change adaptation and mitigation present Peru with another formidable challenge. Andean glaciers provide water to millions in the productive and population centers in the coastal deserts and generate 60 percent of the country's electricity. Global climate changes directly affect Peru through the melting of the Andean glaciers. As water becomes scarce, competition over its use is bound to fuel more social conflicts. The potential political and economic consequences of environmental collapse due to climate change could not be starker. For example, 60 percent of Peru's agricultural exports come from Ica—a desert region—and more than half the agricultural lands in Ica are at risk of water shortage.<sup>7</sup> In addition, while the three inter-oceanic highways crossing Peru and connecting the Atlantic and the Pacific will offer tremendous economic growth, they also threaten to exacerbate environmental degradation, conflicts, and the spread of infectious diseases.

**Figure 2: Peru Poverty Rates (2005-2010)**



*Poverty and Inequality:* Recent dramatic poverty reductions in Peru follow decades of stagnating, sometimes even decreasing, wages for the poor. Following a period of disastrous economic experiments in the 1980s, the return to orthodox economic policy in the early 1990s brought macroeconomic stabilization, but did not reduce poverty until the mid-2000s. Poverty rose from 46.4 percent in 1997 to 52.6 percent in 2000 and then to 54.3 percent in 2003. It finally began to decline in the second half of the 2000s, falling to 31.3 percent by 2010. Poverty reductions have recently expanded into areas of the country with the most severe poverty. In rural areas, poverty fell by 6.1 points to 54.2 percent in 2010, while in urban areas it declined by two percentage points to 19.1 percent.

Inequality is still a problem in Peru though not as extreme as in many neighboring countries. Peru's Gini Index ranks seventh out of 17 Latin American countries. Peru is the 22nd most unequal country in the world according to the United Nations.<sup>8</sup> Inequality, as measured by the Gini Index, is

<sup>7</sup> Foreign Agriculture Service, Bimonthly Agriculture Update, March 2011.

<sup>8</sup> The Gini Index is the most commonly used measure of income inequality. The Gini Index takes into account the percent of national income earned by each segment of society to summarize the concentration in income as a single

falling throughout Latin America due to improved access to education and conditional resource transfer programs such as Brazil's *Bolsa Familia* and Peru's less-ambitious *Juntos* program.

While the Gini is a good indicator of overall income inequality, it can be driven by the distribution of income among the middle classes, masking extreme poverty at the lower end. In Peru, social exclusion typically refers to the poorest 10 percent of the population, who earned a mere 1.3 percent of national income in 2009. This is worse than in much of Latin America, with only the poor in Guatemala, Bolivia, Honduras, Colombia and Brazil earning a smaller percentage of national income. Peruvian government statistics show that middle-income families in Peru have benefited the most from recent economic growth, while the poorest 20 percent of the population have earned a share of the enlarged economic pie commensurate with the very tiny slice they have always received.

**The Public Sector:** According to the Ministry of Economy and Finance (MEF), the 2012 GOP budget of \$35 billion includes \$3.4 billion in *Canon* resources, which are taxes on mining, oil and gas industry profits that are transferred to local governments. Although the public coffers are relatively healthy, the GOP, especially at sub-national levels, lacks the systems and qualified human resources needed to spend money effectively and efficiently. In 2010, the national government expended only 78 percent of its investment budget, while regional governments spent only 60 percent of their respective investment budgets, reflecting limited capacity to execute programs effectively and MEF directives to hold down spending to combat inflation. Peru's public-sector wealth presents both a challenge and an opportunity for USAID to leverage government and private resources to collaboratively implement programs.

The public sector fails to provide quality services to much of the country. For example, the quality of Peru's primary education is amongst the worst in the world; it ranked 138<sup>th</sup> out of 144 countries in the 2011 Global Competitiveness Report—ahead of only Haiti, Paraguay and the Dominican Republic in the region. The education system is not only bad, but, according to a Brookings Institution report, “Peru's education system is one of the most unequal in Latin America as measured by learning achievement on international tests.” Peru also has the most unequal access to water and the third most unequal access to electricity in Latin America, ahead of only Bolivia and Honduras.

To transform Peru into a modern, participatory and effective state, the GOP must demonstrate through financial commitments that development is a priority. While the GOP has transferred authorities and increased resources to regional and local governments (64 percent of the GOP's 2010 public investment budget) to improve service delivery, it has not always decentralized decision-making authority over the use of those resources, leaving the process of decentralization incomplete. The GOP's commitment to continue to decentralize and modernize represents an opportunity to strengthen democracy and simultaneously improve service delivery.

**Linkage to Government of Peru Priorities:** USAID's strategy will support the Humala Administration's overarching goals, as outlined in President Humala's strategy (*Hoja de Ruta*), his inauguration speech, and the Prime Minister's presentation of the Administration's plan to Congress.

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metric. A Gini value of zero expresses total equality and a value of one represents maximal inequality. Any shift in percentage of national income from a wealthier segment of society to a less wealthy segment reduces the country's Gini Index.

This new GOP vision is based on a goal of social inclusion and expanding infrastructure, economic opportunities, and state services to the country's poorest regions, particularly to rural areas. President Humala has emphasized that democracy requires economic and social equality, and he has made poverty reduction a key tenet of his government. USAID's efforts to expand licit economic opportunities and support improved governance and service delivery in rural jungle areas directly support these GOP goals. This CDCS is aligned not only with the national development plan, but also with various sector, regional, and local development plans.

The Humala Administration has also identified narco-trafficking as a major problem for Peru. The GOP's counter-narcotics (CN) strategy includes plans to continue with eradication and expand the AD model, which has shown success in San Martín, to other regions. USAID will directly support the AD component of Peru's CN strategy by joining the GOP in implementing an integrated, multi-sectorial development program in key areas affected by illicit coca cultivation.

USAID will also support President Humala's priorities of expanding government services to reach Peru's marginalized populations and reducing public sector corruption. By strengthening local government capacity and transparency, helping citizens more effectively participate in governance processes, and working to mitigate social conflict, USAID will help ensure that the economic opportunities the Humala Administration seeks to create will be sustainable and supported by national and local governments.

The GOP has also identified natural resource management and environmental protection as priorities, indicating that it would focus on guaranteeing water resources and reforestation targeted areas. USAID will directly assist the GOP in achieving specific goals related to natural resources and biodiversity (in the Amazon basin), and adaptation to climate change (in selected watersheds).

This CDCS is directly linked to the Humala Administration's plan for social inclusion, which is designed to expand economic opportunities and government services to areas that have not benefited significantly from Peru's economic growth. The primary linkage comes from the support under the CDCS to the integrated development of Peruvian areas affected by illicit activities and environmental threats. By helping consolidate and expand the Peruvian model of integrated and sustainable alternative development to new geographic areas, USAID will help transform illicit producers into participants in and beneficiaries of the legal economy. Likewise, by supporting rational and equitable natural resource management (including by creating sustainable economic opportunities) and preservation of biodiversity, water resources and glaciers, USAID will help reduce poverty and social conflict and protect assets vital to Peru's future. An additional way in which USAID will support the social inclusion objectives of the Humala Administration will be by working on national level governance issues that impact GOP's effectiveness to deliver social services and programs to improve quality of life in marginalized populations. Such support will consider coordination with the GOP using existing or new projects and mechanisms that support governance in target areas, but which will also address national level policies and institutions that impact in public service delivery.

**Aid Effectiveness:** Consistent with the Paris Declaration on Aid Effectiveness, the subsequent Accra Agenda for Action, and the recent Busan Partnership for Development Cooperation, this strategy will deepen country ownership through consultations and policy dialogues, capacity development, and the use of country systems. USAID will build strong partnerships with the GOP

and other donors (bilateral and multilateral) through the current sector roundtable system. It will also continue to work with the private sector to increase efficiencies and leverage resources.

In 2010, international cooperation agencies provided \$500.2 million (including \$69 million from multilateral sources) in official development assistance (ODA), concentrated primarily in water and sanitation, health, education, governance and civil society. In addition, loan disbursements from major development banks such as the World Bank, the Inter-American Development Bank (IDB), and the Andean Development Corporation totaled \$661 million in 2011 (MEF, 2012). Peru also received \$328.8 million in loans from German and Japanese development agencies in 2011.

In addition to aligning this CDCS with the Humala Administration's stated priorities, USAID provided opportunities for the new administration, donors and local partners to comment on our draft CDCS. Results of this round of feedback have been incorporated into the final draft. To achieve further harmonization among donors, USAID will continue to lead various roundtables in nutrition, health, and education, phasing out the USG's leadership role as USAID graduates from working in these sectors. USAID also plans to convene a gender advisory committee, composed of some of the country's leading female politicians, businesswomen, civil society representatives, and academics, to help ensure that CDCS implementation effectively addresses gender gaps and promotes women's empowerment.

**Gender:** In recent years, Peru has seen important advancements in gender equality. Legislation provides for equal rights to men and women and, since 2000, criminalizes discrimination. Despite such advances, long-standing social prejudice and discrimination against women have resulted in women experiencing higher levels of poverty and unemployment than men. Women earn only 62 percent of what men earn doing similar work. Domestic violence is also an issue, and women's political participation is still low. During the 2010 local elections, only 4 percent of the elected mayors and regional presidents were women. In addition, there are few women holding senior positions in both the public and private sectors. Notably, however, Congresswoman Keiko Fujimori placed second in the 2011 Presidential elections. Outside Lima, gender inequities are higher than the national average. There is parity in access to health and education services; however, there are still gaps in the quality and responsiveness of those services to the specific needs of boys, girls, men and women. Modern contraceptive use is only 43.3 percent in rural areas. In the Amazon Basin, the adolescent pregnancy rate is 26.2 percent, and only 59 percent of births take place in health facilities (DHS, 2010). In keeping with the USAID Gender Policy, this CDCS will work to reduce gaps between men and women and to increase women's participation in economic activities, decision-making processes, and political representation and oversight, with emphasis on those living in rural, indigenous areas.

**Marginalized Populations:** This CDCS emphasizes activities that benefit and strengthen the capacity of traditionally marginalized populations, including indigenous people, women, persons with disabilities, and at-risk youth. The overall goal is to enhance their ability to participate as actors in their own development. All of these groups face a unique set of social, economic and political barriers that at time excludes them from decision-making. As the state is nearly absent in many rural villages in coca-vulnerable areas, and these areas tend to lack quality public services such as running water, reliable electricity, paved roads, health clinics, schools, and police, USAID will engage with marginalized groups to give them the tools needed to successfully transform their lives through the licit economy. USAID will target assistance to ensure that the Peruvian government at all levels improves outreach to these groups by encouraging dialogue between sub-national governments and



these communities. Simultaneously, efforts will be undertaken to strengthen the capacity of these populations to participate meaningfully in government processes and influence decisions that affect them. Environmental management activities will also ensure that marginalized groups learn how to become effective stewards of the environment, all the while training them to manage the environment in a sustainable fashion.

**Foreign Assistance Act (FAA) Sections 118/119:** The recent update of the Tropical Forestry and Biodiversity Conservation report found that Peru's biological and tropical forest conservation efforts have positively evolved over the last decade, although threats have increased. Peru now has several conservation-oriented government entities and non-governmental institutions. These institutions have nascent conservation, protection and management strategies as well as the early stages of an appropriate legal framework to address major environmental issues. These strategies are the result of stakeholder participation and input at the international, national, regional and local levels. Over the last few years, the GOP has strengthened its institutions to manage the environment and natural resources with the creation of the Ministry of Environment, the National Parks Service, and the National Water Authority. Although communication and collaboration with regional and local entities continue to be weak, they can be improved through support to the current decentralization process.

The FAA 118/119 Tropical Forestry and Biodiversity Conservation assessment included four recommendations to conserve tropical forests and biodiversity. First, USAID should support efforts to reduce threats to biodiversity, including conservation within and outside natural protected areas. Second, it should promote institutional strengthening for the decentralization of policy and actions associated with biodiversity conservation and management. Third, the Mission should strengthen and broaden stakeholder participation in conserving and managing biodiversity and tropical forests. Fourth, it should support initiatives that encourage conservation-oriented projects from the private sector and indigenous groups. With these recommendations, USAID designed new activities and used this assessment to better prepare the CDCS.

# Section II. Development Hypothesis

USAID’s strategy asserts that by mitigating two drivers of conflict—narco-trafficking and illegal natural resource exploitation—while improving governance and fostering social inclusion, Peru will remain a stable democracy and productive partner for the United States. By broadening economic opportunities, improving governance and promoting social inclusion in the regions where illicit coca and environmental threats exist, conflicts will decrease and private investment will increase. In such an environment, families will be able to escape poverty, the quality of life of marginalized populations will improve, and the environment will be more sustainably managed.



# Section III. Results Framework

***CDCS Goal: Peru's stability and democracy strengthened through increased social and economic inclusion and reductions in illicit coca cultivation and the illegal exploitation of natural resources***

Given Peru's development priorities, the challenges and opportunities it faces, and the evidence that supports potential success, USAID has adopted the above overall goal statement for this CDCS. To achieve this goal over the FY 2013 through FY 2017 CDCS implementation period, the Mission has prioritized three interrelated DOs to help Peru continue on its trajectory toward developed country status.

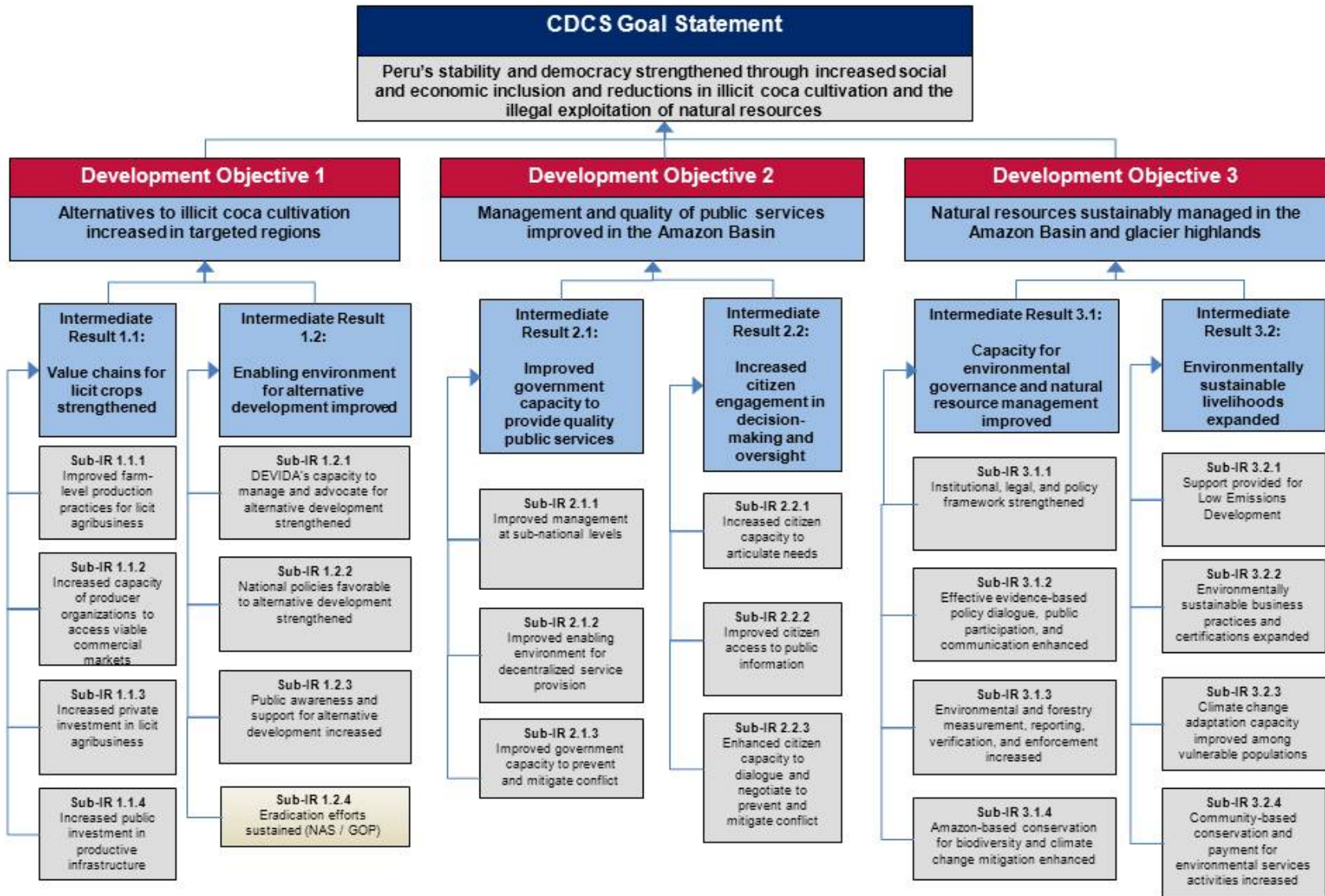
***DO-1: Alternatives to illicit coca cultivation increased in targeted regions***

***DO-2: Management and quality of public services improved in the Amazon Basin***

***DO-3: Natural resources sustainably managed in the Amazon Basin and glacier highlands***

The CDCS Goal, Development Objectives, and corresponding Intermediate Results (IRs) are represented graphically in the following Results Framework (Figure 2). This framework shows the relationship between the different results and how they contribute to the achievement of the objectives, and eventually the overall CDCS Goal for Peru. It should be noted that, although the relationships are not detailed and explicit in this Results Framework, achieving this goal is highly contingent on activities and results being achieved by the GOP, other donors, the private sector, civil society, other USG entities in Peru (e.g., NAS), and other development actors.

Figure 3: USAID/Peru CDCS Results Framework



## Development Objective 1: Alternatives to illicit coca cultivation increased in targeted regions

**Background and Rationale:** Despite a decade of sustained economic growth, democratic governance and overall poverty reduction, the socio-economic benefits of Peru's development have not reached certain segments of the population, including the Amazon Basin where coca is grown. Narco-trafficking, conflict and violence in these areas could threaten to undermine Peru's stability and its remarkable economic and democratic gains. Illicit coca cultivation has continued or expanded in poverty-ridden rural areas where state presence and law enforcement are limited; infrastructure is deficient; human capability is low; and sub-national governments often fail to provide adequate social services to their populations. These conditions exist in many parts of the Peruvian Amazon Basin and have helped make Peru the world's largest cocaine supplier.

USAID AD activities are essential components of the USG's CN support to Peru. By working closely with the GOP, coordinating with USG-supported eradication efforts for optimum timing, and employing an integrated development approach, USAID has achieved significant success in the San Martín region. Once a drug-infested region, illicit coca crops in San Martín have been drastically reduced from 22,000 hectares in 1996<sup>9</sup> to 1,725 in 2010.<sup>10</sup> Additionally, regional and local governments in San Martín have become far more effective and responsive and farmer incomes and quality of life have improved. As President Obama noted in an April 2011 letter to then Peruvian President Alan Garcia:

“Our joint work in Peru's San Martín state is one of the most successful alternative development programs in the world. Started nearly a decade ago with U.S. development assistance, the program serves as a model of how an integrated strategy that combines security, governmental, and economic elements can bring real change to our communities. The ‘San Martín Miracle’ transformed a veritable ungoverned space into a region generating millions in legitimate revenue from organic coffee and cacao production. In San Martín, there is almost no illicit crop cultivation, and extreme poverty has been cut in half.”

Despite remarkable success in San Martín, Peru's overall coca cultivation has steadily increased from 48,200 hectares in 2005 to 61,200 in 2010,<sup>11</sup> as coca planting in other regions has more than offset achievements. Over the next five years, USAID will consolidate gains in San Martín; build on the success of its integrated development approach<sup>12</sup> by expanding to new areas; and encourage the GOP to replicate the USAID AD approach in coca-growing regions not directly supported by USAID to trigger a nationwide reduction in coca cultivation. USAID will also further transfer responsibility for AD activities to DEVIDA,<sup>13</sup> which coordinates the Peruvian CN strategy and

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<sup>9</sup> Crime and Narcotics Center (CNC).

<sup>10</sup> UNODC, Peru - Monitoring of Coca Crops 2010, July 2011.

<sup>11</sup> UNODC, *ibid.*

<sup>12</sup> The integrated development approach involves community-level economic and social interventions, with the GOP taking a leading role at various levels. Sustainable income generation, improved governance and increased security concur to create conditions that sustain eradication of illicit crops.

<sup>13</sup> Spanish acronym for National Commission for Development and Life without Drugs; references to DEVIDA should be understood as referring to the lead GOP's CN coordinating agency, even if its name and specific functions vary in the future under a new GOP Administration.

budget with several ministries, regional governments and municipalities. As part of the integrated approach, USAID will continue to support the process of fiscal and administrative decentralization (see DO-2) as regional and municipal governments become increasingly more accountable for the financing and management of local infrastructure, security, and basic social services.

**Hypothesis:** USAID’s development hypothesis for DO-1 is that as former coca growers enter and benefit from the licit economy, build their own capabilities, production networks and institutions, and receive improved services from their governments, the likelihood that they will participate in illicit activities decreases. As licit value chains are strengthened and local governance improves, it will become increasingly more difficult for narco-traffickers to exploit farmers for coca cultivation. As government becomes progressively more effective, transparent and responsive to citizen needs, the public in turn will be more supportive of government programs and more inclined to turn away from illicit activities. In turn, the coca-vulnerable Amazon Basin will enjoy more of the advantages of Peru’s economic growth and will contribute to Peru’s stability.

**Description:** *Alternatives to illicit coca cultivation increased in targeted regions.* USAID will achieve this objective as communities adopt a sustainable, coca-free economic and social model built on viable, licit economic opportunities. Under this model, households, communities and local institutions—financed primarily by national and local resources—can provide for their members’ socioeconomic needs (including livelihoods, health, education, security, and other basic services) without damaging the environment or engaging in illegal activity. Adoption of this model implies a transformation so complete that a “tipping point” will have been reached, such that individuals and communities are unlikely to return to illicit activities, while neighboring communities demand access to comparable AD programs. Many actors play a role in the success of this approach: the GOP at all levels, local economic agents (including individual farmers and their organizations), communities and civil society entities, and the private sector. Achieving this DO requires government, civil society leaders and average citizens to recognize the severe damage illicit crops and drug trafficking cause to security and quality of life,

### **Women as Change Agents**

The 2010 Alternative Development Program evaluation found that women played a critical role in the household decision to maintain a coca-free licit livelihood. Women in many cases took the initiative to choose a licit lifestyle and often pressured their husbands to abandon coca production. Women, far more than men, openly reaffirmed their decisions regarding coca production, citing reduced violence, improved security, and the potential to create wealth in the medium to long run. Women’s empowerment and increased participation in economic and social decision making increased program impact.

Women typically took care of the first plots of alternative crops by taking charge of the agricultural production, while many of the men sought work elsewhere to maintain family income. Women’s participation in Farmer Field Schools was a decisive step in their empowerment. Today, many male participants consider women equally able to comprehend technical information and, as a consequence, many women participate in management and investment decisions for their farms. This helps women become better acquainted with production costs and able to more accurately project household revenue from farm sales.

The AD Program also provided training to female leaders to develop and fortify their individual capacities. Newly established female leader networks have promoted women’s rights and their position in their respective households and communities. In participating local governments, the program also provided training to female regidoras (members of a municipal council) to better represent their communities. As a result, a network of regidoras was formed in Tocache and San Martín, helping members focus their actions to create and formalize regulation and ordinances on issues such as violence against women, support for literacy programs, more comprehensive health services, and identity cards for women (the cards are required for land titles). Female empowerment and networking opportunities fostered cooperation among women in promoting public issues, which was critical to preserving tranquil, safe, and coca-free communities.

and to remain committed to ensuring that illicit activities do not resurface in recovered areas.

Implementing DO-1, USAID and the actors mentioned above will consolidate and extend the past success of the USAID integrated development approach in San Martín, targeting both coca-vulnerable and post-eradication communities. USAID will partner with the GOP, local governments, civil society groups, and the private sector to ensure that communities have viable economic alternatives to coca and that their commitment to licit lifestyles remains firm. Simultaneously, USAID will strengthen national government capacity (particularly that of DEVIDA) to design and enforce CN policies and effectively manage and replicate AD projects. This support will be progressively more dependent on political will, and a substantial increase of national resources allocated to AD and CN purposes. Increased political will and resources will allow a replication of the AD approach in areas beyond those receiving direct USAID support, and create the conditions for sustaining AD interventions in the future. Such an approach—focused heavily on building GOP capacity and leveraging private sector partnerships—is designed to maximize sustainability and ensure future ownership by the GOP, a priority of the USAID Forward agenda and in line with the goal to reposition the role of USAID in Peru within 10 years.

It is expected that by the end of the five-year CDCS period, the value of licit activities in AD targeted areas will have increased substantially, both in absolute terms and relative to the value of coca production. In addition, among participant families, the percentage of households living under the poverty line will have substantially decreased, economic and social indicators will have improved, and the GOP will have strengthened its institutional capacity and resource commitment to replicate the program nationwide. The following illustrative indicators will measure progress towards achieving DO-1:

- Value of production of licit activities as compared with value of coca production in target areas
- Percentage of participating households living below the poverty line
- Number of communities and families included in the integrated development model in target areas

### **Synergy with Other DOs:**

*DO-2 – Management and quality of public services improved in the Amazon Basin:* DO-2's support for good governance, including the delivery of quality public services such as health care and education, is an essential contributor to DO-1's objectives in coca-vulnerable areas. DO-2's governance activities will also support DO-1 by strengthening Peru's capacity to prevent and mitigate conflicts related to illicit coca production and the influences of narco-trafficking. DO-2 activities are essential to the expansion of the San Martín model to new geographic regions.

*DO-3 – Natural resources sustainably managed in the Amazon Basin and glacier highlands:* The environmental benefits of traditional cacao cultivation have been documented by Rainforest Alliance in Africa. Cacao cultivation provides important environmental services: bird habitat; erosion reduction; carbon fixation; aquifer reloading; biodiversity and landscape conservation; among others. It has been proven that a mature cacao plantation contains from 100 to 150 metric tons of carbon per hectare. Fostering the planting of cacao in areas where coca, using slash and burn techniques,



had previously been planted will increase the amount of carbon in the forest and provide added benefits to conserve local biodiversity.

**Geographic Focus:** The three primary focus regions for direct USAID assistance under DO-1 will be San Martín, where past success will be consolidated, and Ucayali and some areas within Huánuco, where the integrated AD approach is currently being expanded following programmed eradication. On a limited basis, USAID may engage in AD activities in other coca-growing regions where opportunities for effective collaboration with GOP entities, other USG agencies, or third parties present themselves (e.g., in Loreto, Puno, Cusco, Ayacucho, Junín, or Madre de Dios). USAID will strongly encourage GOP entities to adopt, finance, and replicate the integrated AD approach throughout Peru.

Figure 4: Map of Geographic Focus Regions for Development Objective 1



**Intermediate Results, Causal Logic and Development Hypotheses:** The DO-1 Results Framework includes two Intermediate Results (IRs) and associated Sub-IRs.

**IR 1.1: Value chains for licit crops strengthened**

- Sub-IR 1.1.1: Improved farm-level production practices for licit agribusiness
- Sub-IR 1.1.2: Increased capacity of producer organizations to access viable commercial markets
- Sub-IR 1.1.3: Increased private investment in licit agribusiness
- Sub-IR 1.1.4: Increased public investment in productive infrastructure

**IR 1.2: Enabling environment for AD improved**

- Sub-IR 1.2.1: DEVIDA's capacity to manage and advocate for AD strengthened
- Sub-IR 1.2.2: National policies favorable to AD strengthened
- Sub-IR 1.2.3: Public awareness and support for AD increased
- Sub-IR 1.2.4: Eradication efforts sustained (NAS/GOP)

The hypotheses supporting these IRs are described below.

***Intermediate Result (IR) 1.1: Value chains for licit crops strengthened***

The generation of adequate and reliable incomes from licit crops is an essential factor in a farmer's decision to give up coca cultivation and adopt a licit lifestyle. A recent evaluation of the AD program found that, for a farmer to remain committed to licit crops, his/her income could be less than the household previously earned with coca, if it was sufficient to meet basic needs and provide a surplus that the family could invest in its farm to create long-term wealth.<sup>14</sup> USAID has to date focused income-generation alternatives in AD communities around three crops—cacao, palm oil and coffee—and has worked to strengthen market channels that can absorb large numbers of new entrants successfully, thus encouraging new communities to leave coca in pursuit of licit livelihoods. The referenced evaluation recommended that USAID focus on these three crops, adding other primary crops only where there is clear evidence that ready and willing buyers are available; that markets can accommodate new entrants; that tested and proven production packages are accessible; that producers can verify success; and that the crops are suited for the local growing conditions.

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<sup>14</sup> Weidemann Associates, Inc. *Lessons for Future Programming, USAID's Alternative Development Program*. June 2010.

Accordingly, USAID will work with farmers and their associations, the private sector, and the GOP to strengthen value chains for cacao, palm oil, coffee, and potentially other agribusiness as the primary means to ensure adequate and reliable incomes for families in communities willing to give up illicit coca cultivation. Illustrative indicators include:

- Licit income of participant families
- Sales generated through AD-supported value chains
- Jobs generated by AD-supported value chains (male and female)

Strengthening value chains requires four sub-intermediate results (Sub-IRs):

*Sub IR 1.1.1: Improved farm-level production practices for licit agribusiness.* USAID will support farmers and farmer organizations to improve the production levels, productivity, and quality of their cacao, palm oil and coffee crops, thus creating a supply base that meets identified buyer requirements. Other agribusiness and rural economic activities will also be considered, in particular those that engage women in income-generating activities. Local leadership and farmer communities that have undergone recent eradication of coca and commit to remain coca free will receive support to plant licit crops. Additionally, current USAID-supported AD communities will add new hectares to their existing crops, increase productivity and improve production quality. Illustrative activities include:

- Agricultural inputs and technical assistance for validated planning and processing techniques provided by cooperatives, buyers, and qualified local technical experts
- Technical assistance and loan guarantees to increase access to credit and other financial services
- Private sector partnerships to foster agribusiness-related research and development in production value chains

*Sub IR 1.1.2: Increased capacity of producer organizations to access viable commercial markets.* USAID will support existing and new cooperatives, farm enterprises and farmer associations to increase their market linkages and overall sales and to improve the efficiency of marketing channels. Illustrative activities include:

### **Value chain development focuses on high-potential products**

From: *Peru Palm Oil Study – Status, Perspectives and Development*; UNODC, December 2010

Peru is well-positioned to develop a vibrant and globally competitive palm oil industry which can dramatically transform the country's agricultural sector and empower rural communities. While Peru's plantation industry is currently small (only about 50,000 hectares compared to over 300,000 hectares in Colombia, 4.5 m hectares in Malaysia, and 6.0 m hectares in Indonesia), it has world-class fresh-fruit bunch quality and industry leading oil extraction ratios . . . these high ratios are clear evidence that palm grows exceedingly well in the tropical Peruvian Amazon Basin and that Peru can be a global low-cost producer of edible oils for local and international markets.

From: *Peruvian Cacao Value Chain Analysis* by Whitmore Miller and George Loquvam; March 2010

Cacao is an excellent alternative for small farmers in Peru and especially in areas of specific interest to USAID's Alternative Development program. Cacao is very forgiving in terms of requiring very low levels of technology to generate at least a minimum return and offering significantly higher incomes through the application of technologies that are accessible to most small farmers. Evidence shows that the internal market works well enough to provide very good farm gate prices... There appears to have been a significant impact on the Peruvian cacao sector already from USAID assistance. The San Martín region, which has been the focus of USAID programs, has higher yields than the national average and produces higher quality than in the South (Cusco region) generally. The agronomic potential for expansion into the Ucayali region seems very good.

- Technical assistance to farmer associations on improved business practices, service provision, and market linkages
- Market research and other commercial studies that provide critical information to associations, farmers and business sector allies
- Supporting farmer and agribusiness participation in fairs, commercial missions and other mechanisms that create and strengthen linkages to new markets

*Sub IR 1.1.3: Increased private investment in licit agribusiness.* Investment from the private sector is needed to overcome production bottlenecks, add value, and ensure sustained access to markets beyond the support from USAID, other donors, or the GOP. USAID will promote increased private investment in focused value chains in AD target areas. Illustrative activities include:

- Build business alliances with local and international private enterprises willing to invest in focused value chains
- Use public-private partnership models to advance investment, address key bottlenecks, and create value in prioritized agribusiness sectors

*Sub IR 1.1.4: Increased public investment in productive infrastructure.* USAID will facilitate public investment in productive infrastructure, particularly in roads that reduce transportation costs to markets in target areas. Local, regional and national governments must leverage resources to secure additional investments that will benefit AD communities and licit production areas. Two sources of public funding for these productive infrastructure investments include the public budget for CN projects coordinated by DEVIDA, and resources available to regional and municipal governments for public infrastructure projects. USAID technical assistance and seed capital will be used to facilitate the use of these public resources by supporting public investment project design and assist in the preparation of assessments and studies to ensure their feasibility. This result will be supported by actions under IR 1.2 and DO-2, as described below. Illustrative activities include:

- Productive infrastructure project design for rural roads, irrigation systems, electrification, and post-harvest facilities
- Feasibility studies and technical documentation (while simultaneously training local officials) that make public budget allocation and expenditure more efficient

### ***IR 1.2: Enabling environment for AD improved***

The success of the integrated AD approach requires a supportive political environment. To promote this environment, improvements need to be made to strengthen institutions (particularly DEVIDA) and CN/AD policy, inform public opinion, and provide security to facilitate coca-free economies and social models in the targeted areas. As evidenced in the evaluation of the AD program, adequate and reliable incomes, security conditions that make communities free of violence and terrorism, and public infrastructure and social investments that improve living conditions are requisite factors for sustained AD program success. USAID will strengthen national institutions and policies to encourage the already growing flow of public resources to AD communities, enhancing

government effectiveness and improving the regulatory framework to allow public and private investment in AD focus regions. USAID and GOP partners will raise public awareness of the economic, social and environmental harm done by coca cultivation and increase support for development interventions among national and local leaders, targeting communities and strategic segments of public opinion. USAID will coordinate security issues with the GOP and other USG agencies to successfully consolidate, expand and replicate the integrated development model. Illustrative indicators include:

- GOP budget allocation and execution for AD and CN projects
- Percentage of population recognizing coca as a national security problem

Improvements in the enabling environment for AD will require four Sub-IRs:

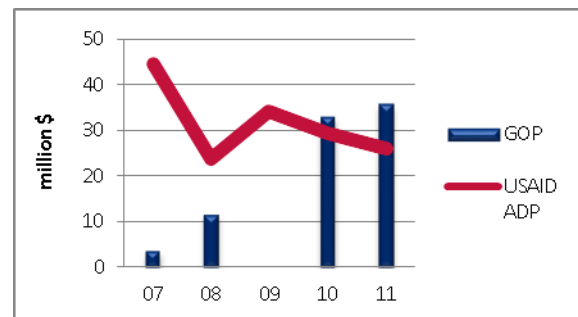
*Sub-IR 1.2.1: DEVIDA’s capacity to manage and advocate for AD strengthened.* USAID will work closely with DEVIDA to strengthen its capacity to coordinate the implementation of Peru’s national CN strategy, in particular the AD component. DEVIDA’s capacity to identify, fund and coordinate AD projects and activities and work closely with a variety of governmental entities, in particular regional and local governments, are fundamental to increasing the allocation of GOP resources for such activities. Illustrative activities include:

- Specialized technical assistance to DEVIDA and other relevant GOP entities
- Targeted technical assistance to address institutional bottlenecks that limit CN strategy success

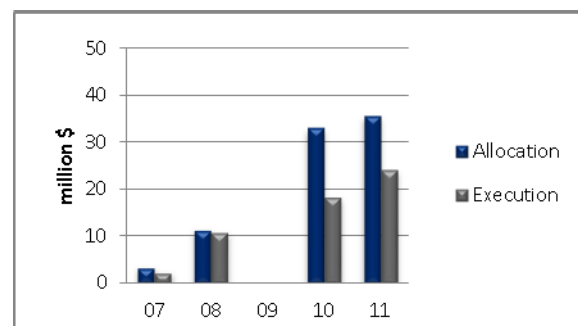
*Sub-IR 1.2.2: National policies favorable to AD strengthened.* USAID will assist DEVIDA and selected ministries, the Peruvian Congress, and other government and private actors to formulate and implement sound CN policies. These policies will improve the regulatory environment for farmer associations in AD regions, develop the linkage between development and law enforcement actions in coca areas, and create the conditions for increased allocation of GOP resources for CN/AD actions. Illustrative activities include:

**Figure 5: GOP highs and lows on AD resources**

Annual allocation of GOP budget for AD and CN projects has steadily increased.



However, actual execution of such GOP resources has lagged.



Capacity improvement is needed in DEVIDA and in regional governments and municipalities for effective implementation of GOP-funded AD projects.

- Technical assistance to GOP entities and civil society organizations involved in proposing and evaluating AD/CN policy initiatives
- Support for research, evaluation, events and publications related to key policy issues

*Sub-IR 1.2.3: Public awareness and support for AD increased.* USAID will work with public opinion and civil society leaders in Lima and in targeted coca-growing areas to be more proactive in supporting Peru's CN/AD objectives. At the local level, by leveraging the work of existing and new community networks and civil society organizations, USAID will reinforce consultative and inclusive dialogue around CN/AD topics. Activities will generate a sustained social commitment to coca-free living in participant communities. Illustrative activities include:

- Partnership with DEVIDA and other national and local organizations to prepare and disseminate information on the negative impact of narco-trafficking and the benefits of the AD Program to key audiences, including formal communications campaigns
- Engagement with communities and local organizations in AD target areas that mobilize community support for licit lifestyles

*Sub-IR 1.2.4: Eradication efforts sustained (NAS/GOP).* Forced coca eradication is essential to the success of USAID/Peru's AD programs and helps convince communities that coca production cannot guarantee sustainable livelihoods. Eradication also serves to remove or reduce the effectiveness of pro-coca leadership, and to make it possible for the AD program to effectively support the transition to licit production. Future eradication efforts will be managed by the GOP, with support from NAS. USAID will coordinate closely with the GOP and NAS in the implementation of all post-eradication programs.

**Aid Effectiveness, GOP, and Other Actors:** This DO supports the GOP's CN and AD strategy and builds on USAID's partnerships with DEVIDA, the Office of the Prime Minister, the Ministry of Economy and Finance, the Peruvian Congress, the Ministries of Health and Education, the Judiciary, and regional and local governments. The activities within this DO are designed to build GOP capacity to take ownership and manage AD programs, while promoting good governance. USAID currently provides funding directly to DEVIDA and, under this CDCS, will aim to increase this support as well as funding to sub-national governments to reinforce Peruvian ownership of AD programs and increase host government institutional capacity to better manage donor and GOP resources. This effort is consistent with the Paris Declaration, the Accra Agenda for Action, the Busan Partnership for Development Cooperation and USAID Implementation and Procurement Reform.

USAID will continue to coordinate with other donors—including the UN, the European Union, and the German, Spanish, Canadian, and Swiss governments—to maximize impact, avoid duplication of effort, and strengthen Peruvian systems. USAID is the main donor involved in AD, and the USG is the only donor funding eradication in Peru. In addition to supporting specific AD projects, the European Union will begin to provide budget support to the GOP to implement CN programs under a budgeting-by-results approach that will create new synergies with USAID.

## **Development Objective 2: Management and quality of public services improved in the Amazon Basin**

**Background and Rationale:** The provision of public services, particularly in poor and conflict-prone communities in the Peruvian Andes and Amazon Basin, has not improved commensurate with Peru's macro-economic growth. While decentralization of priority services, such as health and education, has been a central tenet of state reform over the last decade, it remains a work in progress. The newly elected Humala Administration has affirmed its commitment to continuing this process as a means of improving social inclusion. Progress to date has been noteworthy, including such milestones as the creation of public participatory processes, the transfer of authority to sub-national levels, and the recent creation of a new Ministry for Development and Social Inclusion. However, for many Peruvians, decentralization has yet to produce results that directly affect their daily lives and enable them to benefit fully from Peru's economic growth.

Since 2000, Peru has been undergoing a process of decentralization and sector reform. The government has promoted regional development planning and has increasingly provided financial resources directly to sub-national governments, thereby enabling local solutions. However, decentralization began quickly without a plan to ensure the public sector capacity needed at sub-national levels. Consequently, regional and local governments have not been able to effectively plan and manage increased financial resources, resulting in poorly designed and implemented social and economic development activities. This has led to inefficiencies and limited responsiveness to citizen needs.

With ineffective and/or limited state presence, many communities in the Amazon Basin lack confidence in their government's ability to effectively represent them or to reliably deliver public services. Many areas are sparsely populated and difficult to access. Extending state presence and services to these citizens has proven challenging. In addition, traditionally marginalized populations, specifically women and indigenous groups, remain disconnected from government representation and service delivery.

Not surprisingly, significant disparity in health services based on socio-economic status, rural/urban residence, and ethnicity or cultural identity persists. These differences are driven by a decentralized system currently falling short in providing equitable services. The education sector, though less decentralized, is in a similar state, unable to provide high-quality education at the sub-national levels.

Improvements in public service delivery cannot be realized without effective citizen participation and oversight to ensure that these services match the needs of citizens and are managed in such a way as to prevent fraud, waste and abuse. While some transparency, control, and participatory processes have been established, as a whole they have fallen short. Citizens are not empowered to hold government accountable, and governments are often unable or unwilling to combat corruption.

Peru's incomplete decentralization efforts have contributed to a lack of trust in government and restrained economic growth at the micro-level. This has fueled illegal activity and social conflict, particularly in areas vulnerable to illicit coca growing. While DOs 1 and 3 seek to improve licit, environmentally sustainable livelihoods in the Amazon Basin, DO-2 seeks to fortify decentralization through improved capacity to plan and manage health and education resources, and improve



communications between government officials, citizens, and civil society groups. Strengthened decentralization, and in particular improved sub-national government capacity to plan and manage education and health activities will increase social inclusion and, in turn, prevent and mitigate conflict. Development assistance in support of social inclusion includes strengthening governance, citizen participation and decentralized delivery of priority social services in health and education sections.

**Hypothesis:** Effective decentralization is characterized by dynamic inter-governmental communications, active citizen participation, access to information, and quality social services. The lack of social inclusion in Peru has contributed to poor economic growth, illicit use of natural resources, amplified illicit coca production, and increased social conflict. In order for governance to improve in Peru's Amazon Basin, public sector institutions at all levels must develop greater capacity to provide transparent and equitable public services, while citizens must play a greater role in government decision-making and oversight. Strengthening decentralization, including citizen participation, will improve governance and extend quality social services and economic opportunities to more Peruvians.

**Description:** *Management and quality of public services improved in the Amazon Basin.* Governments are responsible for providing basic services and responding to needs of citizens. DO-2 strives to ensure that Peruvians living in target regions enjoy the benefits of a strong national and local economy, including improved public service delivery and representation. Together with DOs 1 and 3 (which focus on economic inclusion and sound environmental stewardship through licit economic activity), DO-2 will directly contribute to the CDCS goal of strengthening stability and democracy and increasing social inclusion in Peru.

To achieve this DO, USAID will partner with both national and sub-national government institutions to strengthen state presence and improve the delivery of public services, including health and basic education. This will be achieved by providing strategic technical support and by leveraging existing GOP resources. USAID will also partner with civil society to promote citizen engagement in the decentralization process and oversight of the delivery of government services.

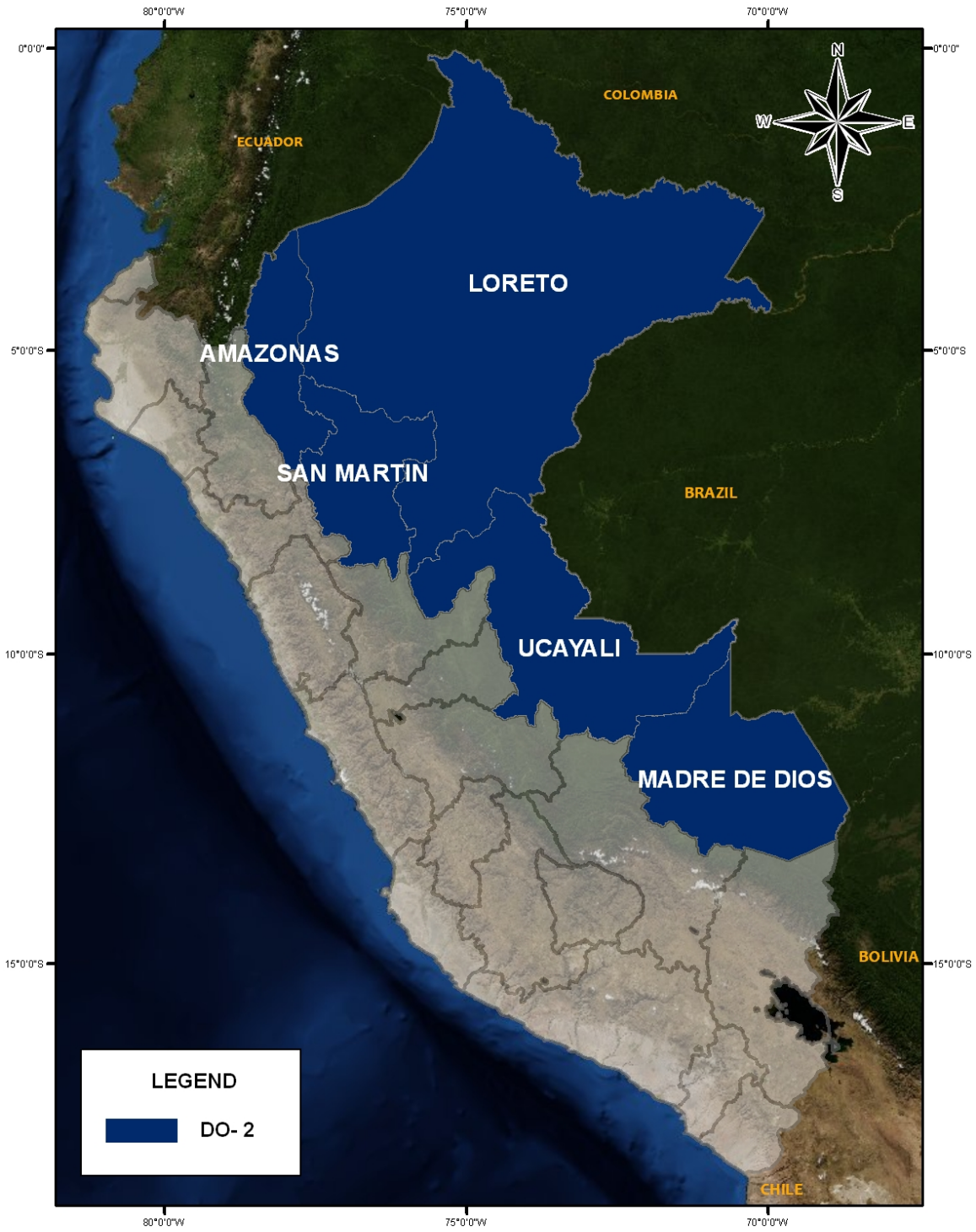
It is expected that, by the end of the five-year CDCS period, a more efficient and accountable government, particularly at the sub-national levels, will have increased public access to quality social services; contributed to a variety of social and economic development objectives; and become more responsive to citizen priorities and needs. A greater percentage of citizens will have access to quality health and basic education services. More local government decisions will be made with citizen input, and governments will be more transparent. The following illustrative indicators will measure progress towards achieving DO-2:

- Percentage of citizens in target regions who are satisfied with the quality of public services they receive from sub-national government (regional and/or municipal)
- Percentage of second-graders in USAID supported schools meeting reading standards for their grade
- Number of local governments in target regions that have increased investment in health promotion and disease prevention

**Synergy with Other DOs:** DO-2 support for good governance, including the delivery of quality public services such as health care and education, will provide an essential contribution to the expansion of DO-1's San Martín Model to new coca-vulnerable areas and DO-3's objectives in environmentally sensitive regions. DO-2 governance activities will also support DO-1 and DO-3 by strengthening Peru's capacity to prevent and mitigate conflicts that form around the expansion and construction of water retention systems, dams, mines, and forestry concessions.

**Geographic Focus:** To accomplish DO-2, USAID will partner with national and sub-national governments to improve public service delivery and enhance the role of citizens in the Upper Huallaga River Valley and the five Amazon Basin regions: San Martín, Ucayali, Loreto, Amazonas, and Madre de Dios.

Figure 6: Map of Geographic Focus Regions for Development Objective 2



**Intermediate Results, Causal Logic and Development Hypotheses:** The Results Framework includes two Intermediate Results (IRs) and associated Sub-IRs.

**IR 2.1 Improved government capacity to provide quality public services**

- Sub-IR 2.1.1: Improved management at sub-national levels
- Sub-IR 2.1.2: Improved enabling environment for decentralized service provision
- Sub-IR 2.1.3: Improved government capacity to prevent and mitigate conflict

**IR 2.2: Increased citizen engagement in decision-making and oversight**

- Sub-IR 2.2.1: Increased citizen capacity to articulate needs
- Sub-IR 2.2.2: Improved citizen access to public information
- Sub-IR 2.2.3: Enhanced citizen capacity to dialogue and negotiate to prevent and mitigate conflict

The hypotheses and logic supporting these IRs are described below.

**Intermediate Result (IR) 2.1: Improved government capacity to provide quality public services**

While the GOP has transferred many authorities and significant resources to regional and local governments, it has not fully decentralized decision-making authority over the use of those resources, leaving the decentralization process incomplete. Moreover, national institutions with a presence at regional and municipal levels (e.g., the Judiciary, the Comptroller General, the Ombudsman’s Office) often fail to devote sufficient attention and resources to effectively carry out their responsibilities. Lack of local administrative and technical capacity, poor accountability systems, inadequate legal frameworks, funding restrictions, and social conflicts also hamper service delivery and the decentralization process. The GOP’s commitment to continue to decentralize and modernize represents an opportunity to improve governance and, therefore, public service delivery.

USAID will work with the Ministries of Health, Education, and Economy and Finance, as well as other GOP institutions, to identify sector gaps and weaknesses in laws and regulations as they pertain to decentralization. The Mission will provide technical assistance to promote the development and implementation of national and sub-national reforms and ensure they have the desired impact. USAID will coordinate targeted assistance to address bottlenecks that hinder progress in GOP’s decentralization and social inclusion objectives. The Mission will also work with local, regional, and national government institutions to build local capacity to provide for quality social services, promote transparency and the rule of law, foster communications, and protect the environment. Illustrative indicators include:

- Own-source revenue as a percentage of local government budgets in targeted areas
- Number of targeted sub-national governments that include a professional development component in their plans and budgets

- Percentage of target regional health and education budgets expended
- Number of target sub-national governments that improve performance of students in national communication (reading) performance tests
- Percentage of pregnant women in targeted regions who deliver in health facilities
- Proportion of target sub-national governments that decrease the number of social conflicts in their jurisdiction

*Sub-IR 2.1.1: Improved management at sub-national levels.* A core assumption underlying DO-2 is that effective decentralization allows subnational governments to more efficiently and transparently provide social services and access to public information. In order for sub-national institutions to provide services, however, they must improve public administration, i.e., financial, human, technical, and information management capacity and resources.

Successful decentralization is possible upon development of organizational and technical capacity at each level of government to carry out new functions associated with increased authority, enhanced accountability requirements, and improved generation and use of local information. Decentralized management requires capable public servants at sub-national levels. The capacity of sub-national governments to provide social services is largely determined by financial resources and the ability to manage those resources to respond to citizen demands. The process requires substantial capacity building and training in performing new responsibilities, assistance in building institutional capacity to hold public servants accountable for performance, and investment in information systems and human capacity. Hence, a primary USAID activity will be to strengthen human resource capacity to manage administrative and financial systems, generate local revenues, and execute public investments. USAID will also support leadership development and efforts to re-orient local government culture with a focus on citizen satisfaction.

Because effective and responsive governance at the local level also requires national-level institutions with a local presence (e.g., the judiciary) to improve performance, USAID will build management capacity and promote transparency within the judiciary until ultimately closing out this support in 2015.

USAID funding for health development assistance to Peru will come to an end in 2013. The USAID health transition is focused on two fronts: (1) advance decentralization of the health sector through health systems strengthening in six key areas: (a) service delivery; (b) human resources; (c) information; (d) medical products, vaccines and technology; (e) health financing; and (f) leadership; and (2) transfer and institutionalize legacy tools within the GOP and sub-national authorities.

In education, USAID will support systemic reforms in basic education that focus on improving management capacity and teaching quality. The expected outcome will be improved primary school reading. Assistance will help regional governments obtain and manage funds for public education and improve teaching quality by leveraging successful and sustainable programs previously supported by USAID. Illustrative activities include:

- Training and technical assistance in strategic planning, budgetary processes, budgeting for results, evidence-based decision-making for local planning, investment and procurement, and conflict prevention and management
- Training and technical assistance to improve quality of health and education services
- The design and implementation of participatory systems that contribute to and evaluate public services based on customer satisfaction and quantitative performance measures
- Technical assistance in improved tax collection systems to increase local revenue

*Sub-IR 2.1.2: Improved enabling environment for decentralized service provision.* In many cases, the policies governing the transfer of resources and authorities to sub-national governments are insufficient or not fully implemented. Sub-national governments frequently are unable to fully and effectively implement national policies and reforms because guidelines are difficult to understand. In addition, decentralization has created uncertainty among officials at regional and local levels regarding their roles and authorities, impeding the full execution of public investments and hindering the integration of sectors. Under this Sub-IR, USAID will help regional authorities to define sub-national roles and responsibilities related to public services, and secure the authority to raise and disburse revenues. At the central level, USAID will support national entities to create guidelines for implementing select decentralization policies and reforms.

Decentralized service provision carries the risk of compromising quality and/or national uniformity and standardization of services. USAID has worked to reduce this risk in the health sector by helping the Ministry of Health improve its national guidelines for health care providers, including technical standards and manuals on family planning, HIV/AIDS care, and reproductive health. USAID has also helped the Ministry of Education to replicate proven curricula and teaching methodologies. Under this Sub-IR, USAID will continue supporting these ministries and sub-national authorities to develop and/or implement standards and tools to improve the quality of locally managed services. Improving the national policy environment will also be critical to strengthening democratic institutions.

USAID will continue to provide policy reform and regulatory assistance to advance fiscal and administrative decentralization. Furthermore, USAID will support independent entities, such as the Controller General, the Human Rights Ombudsman, and the Judiciary, to promote transparent and accountable governance and reinforce the rule of law. Illustrative activities include:

- Technical assistance to simplify and improve national budgeting and financial systems, such as the *Sistema Nacional de Inversión Pública* and the *Sistema Integrado de Administración Financiera*
- Technical assistance to improve public administration involving municipal associations and the Inter-Regional Amazon Council, among others
- Technical assistance targeted at civil service reform, fiscal decentralization and the transfer of authorities to sub-national levels
- Development of national standards, training materials, and curricula for use at the sub-national levels

- Support to sub-national authorities to define sector roles, responsibilities and lines of communication and authority

*Sub-IR 2.1.3: Improved government capacity to prevent and mitigate conflict.* According to the Peruvian Ombudsman, social conflicts in Peru have more than tripled in the past three years, with conflicts related to environmental matters representing more than half of such cases. Weak and ineffective governance in many areas of Peru are major obstacles to successful development, as well as to Peru's ability to combat illegal activities and mitigate conflict. To offset these conditions, government institutions at the national, regional and municipal level, and civil society organizations, need to be strengthened to prevent, manage and mitigate conflicts.

At the GOP's request, USAID helped establish Peru's Office of Social Conflict Management and supported government efforts to develop and disseminate a national conflict strategy, which was approved in June 2011. Targeted regional governments received training and assistance to implement the national strategy and to establish conflict offices. USAID assistance has led to an increase in dialogue on conflictive issues related to extractive industry activity, with the expectation that participants will contribute to manage and prevent conflict at national levels and in targeted regions.

USAID will continue strengthening the capacity of both the Office of Social Conflict Management and regional and local governments to effectively address social conflict. In particular, USAID will help governments promote dialogue among key actors, including public authorities, civil society and private sector representatives, and marginalized groups (often indigenous communities) directly involved in conflicts. Special emphasis will be given to areas where natural resource use has created or could create social tensions. Illustrative activities include:

- Technical assistance and training for the Office of Social Conflict Management in strategic planning, monitoring and evaluation
- Technical assistance and training for sub-national governments and civil society representatives, and marginalized groups, related to the prevention, transformation, management, and resolution of conflicts
- Building trust among stakeholders through dialogue and consensus

### **Intermediate Result 2.2: Increased citizen engagement in decision-making and oversight**

In order for governments to provide effective services, citizens must effectively communicate their individual and collective needs, participate in decision-making, and monitor performance.

Citizens become more engaged in government when they have access to information regarding government policies and performance, and when they are able to organize to communicate more effectively with government officials. Civil society plays a crucial role in fostering effective and responsive decentralized governance while promoting transparency in public administration. Strengthening the capacity of civic leaders to participate constructively in decision-making and build partnerships between civil society and independent oversight bodies (e.g., the Office of Judicial Oversight, the Comptroller General, and the Ombudsman) will lead to improved government performance and decreased social conflict.

USAID will strengthen civil society's ability to play a constructive role in monitoring the performance of governmental institutions, ensuring useful citizen input, while promoting transparency and accountability in public administration. For example, USAID will support citizen and civil society oversight of regional and municipal health and education services (e.g., through community health or parent-teacher associations). USAID will prioritize the full involvement of community leaders, including women, youth, indigenous people, and disadvantaged groups. Illustrative indicators include:

- Number of civil society councils or oversight committees effectively functioning (such as *Consejos de Coordinación Regional, Consejos de Coordinación Local, Comites de Vigilancia* or others)
- Percentage of schools in target regions with active community and/or parental participation (*Asociación de Padres de Familia, Comites de Aula*, etc.)

*Sub-IR 2.2.1: Increased citizen capacity to articulate needs.* Citizens can most effectively articulate their needs when they are able to organize, prioritize, and communicate with authorities. To date, sustained citizen participation in public processes has been limited. Some public servants at sub-national levels and civil society actors have minimal understanding of these processes and their own roles, even though they are vital to the quality and type of public services provided. USAID will focus on improving the understanding and capacity of government officials to conduct transparent budgeting and priority setting processes, while working with civil society to increase public interest and participation.

Under this Sub-IR, USAID will build the capacity of civil society groups and community members to organize and effectively communicate with authorities. USAID will also help to create and/or strengthen forums for dialogue between regional and municipal officials and their constituents. Particular attention will be given to ensuring women's participation in these processes. Illustrative activities include:

- Building relationships between targeted regional and municipal governments and their citizens
- Training social leaders and civil society organizations in budgeting and planning processes
- Training provided to women and native organizations in leadership, civic engagement and public participation

*Sub-IR 2.2.2: Improved citizen access to public information.* According to Transparency International's Corruption Perceptions Index 2011, Peru ranks 14 out of 32 countries in the Americas in perceived levels of public sector corruption. There is now national attention focused on the issue. According to one study, Peruvians consider corruption to be the top national concern, surpassing poverty, unemployment and citizen insecurity.

While certain transparency and control mechanisms and participatory processes have been established, they have fallen short of holding government accountable and inspiring citizen confidence in government's ability to combat corruption and deliver services. Citizens want their government officials to serve the public interest and properly manage public resources.



To improve institutional accountability and financial systems, USAID will provide training and technical assistance to targeted sub-national governments. Efforts will encourage the adoption of innovative technological tools and communication strategies to improve transparency and facilitate public access to planning and budgetary information. In addition, USAID will enhance and expand public participation through participatory processes and oversight committees within service delivery sectors such as health and education. USAID will also support the two main independent control entities, the Ombudsman and Comptroller General, both of which have offices at the sub-national level. USAID will strengthen the Ombudsman's capacity to monitor service delivery and effectively channel public complaints. In parallel, the Comptroller General will receive assistance to improve its oversight and auditing systems in targeted regions. Illustrative activities include:

- Technical assistance and training for regional and local governments in information and communication practices that promote transparency and provide the public with information on budget, public investment, extractive concession management, and acquisition plans, among others
- Promotion of responsible media engagement in the dissemination of information
- Training civil society representatives on Transparency and Access to Information Law
- Training community groups on sector specific rights and responsibilities

*Sub-IR 2.2.3: Enhanced citizen capacity to dialogue and negotiate to prevent and mitigate conflict.* Improving government capacity, while important, is not sufficient to fully address the phenomenon of conflict. Citizens must also be able to effectively dialogue and negotiate their concerns with the government and the private sector (such as extractive industry entities) to resolve tensions before they escalate. USAID has successfully engaged civil society and indigenous populations in conflict prevention in eight regions. To date, the Mission has strengthened the internal capacity of more than 50 sub-national civil society organizations and 140 participants from traditionally marginalized minority groups to engage in constructive dialogue. Under this Sub-IR, USAID will build on this experience to further strengthen consensus-building skills and reconciliation practices among these groups, the private sector, local labor organizations (such as teacher and health worker unions), and local officials. Illustrative activities include:

- Technical assistance and training for indigenous communities and other civil society organizations in leadership, negotiation and priority setting
- Facilitation of dialogue practices and consensus-building processes to build trust among stakeholders at national and sub-national levels
- Provision of accurate information on social conflicts
- User-friendly and culturally and gender relevant guidelines, procedures, and/or training materials developed for marginalized populations on negotiation and resolution practices

**Aid Effectiveness, GOP, and Other Actors:** This DO supports GOP and civil society objectives to promote transparency and efficiency, increase accountability, and strengthen citizen participation in decision-making processes. This DO builds on USAID's partnerships with the Office of the

Prime Minister, the Ministry of Economy and Finance, the Peruvian Congress, the justice system, the Comptroller, the Human Rights Ombudsman, regional and local governments, and civil society organizations. Under this DO, GOP stakeholders are involved in activity design, the proposal evaluation, and program implementation and oversight. In the spirit of USAID Implementation and Procurement Reform (IPR), USAID currently provides funding directly to several local civil society organizations and, under this CDCS, intends to provide direct support to the Comptroller and the Human Rights Ombudsman to strengthen internal controls and oversight, particularly at sub-national levels. These efforts are consistent with the Paris Declaration, the Accra Agenda for Action, the Busan Partnership for Development Cooperation and USAID IPR.

USAID coordinates closely with other donors—including the UN, the World Bank, the Inter-American Development Bank, the European Union, and the German, Spanish, Canadian, and Swiss governments—to maximize impact, avoid duplication of effort, and strengthen Peruvian systems. USAID also participates in donor roundtables related to social conflict, public finance, and administration of justice.



## **Development Objective 3: Natural resources sustainably managed in the Amazon Basin and glacier highlands**

**Background and Rationale:** DO-3 will contribute to the responsible use and conservation of essential natural resources of regional and global significance located within Peru's borders, including the Amazon Basin, which harbors biodiversity and captures carbon, and the Andean tropical glaciers, which are critical assets in the region's water cycle. This program will also promote sustainable livelihoods for populations living in environmentally sensitive areas. DO-3 will thus balance the priorities of environmental conservation with the economic needs of local communities, while contributing to enhanced governance and social and political stability.

Peru faces potential environmental catastrophes that loom in the near-to-medium term. Home to 64.6 million hectares of tropical forest, Peru has the fourth-largest tract of tropical forests in the world. Although Peru still enjoys a reputation as a highly forested, low-deforestation country, illegal logging and mining activities compounded by weak forest management threaten to substantially alter this landscape. These threats have increased rapidly in recent years as a consequence of new roads, weak forest governance institutions, and the expansion of the agricultural frontier. Informal mining activities in the Amazon Basin have resulted in significant environmental degradation (e.g., mercury contamination), public health issues, human rights abuses, and conflicts that threaten to destabilize large sections of the country.

In the Andean highlands, retreating glaciers create a paradox for natural resource management. On the one hand, mountain and coastal communities reliant on glacial runoff currently enjoy expanded flows of fresh water for agriculture and domestic consumption. On the other hand, the retreating glaciers leave behind unstable alpine lakes in areas susceptible to landslides and flooding. By the year 2030, some scientists predict that the runoff will diminish significantly. The scenario will also have ramifications in terms of hydropower (the source of over half of Peru's energy supply), social conflict, migration, and agriculture.

USAID will focus its efforts on helping the GOP implement a new, groundbreaking forestry law that will move Peru to a low-emission, high-sequestration development path. This activity will be coordinated with the Peruvian forest authorities, the Ministry of Environment, and the World Bank Forest Carbon Partnership Facility, and will assist the GOP in implementing its Readiness Preparation Proposal for "Reducing Emissions from Deforestation and Forest Degradation" (REDD) programs and other national climate change initiatives.

USAID intends to achieve this DO through enhanced multilateral cooperation with GOP entities at national and sub-national levels, through an approach designed to improve environmental management and monitoring coupled with Low Emission Development Strategy (LEDS)<sup>15</sup> activities

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<sup>15</sup> Low Emission Development Strategies (LEDS) is a U.S. Government initiative to support developing countries' efforts to pursue long-term, transformative development and accelerate sustainable, climate-resilient economic growth while slowing the growth of greenhouse gas emissions. The initiative will build capacities in partner countries, provide targeted technical assistance, and build a shared global knowledge base on LEDS. This program is country-driven;

for vulnerable populations. These complementary approaches will ultimately reduce carbon emissions, prevent environmental contamination (e.g., mercury contamination due to illegal gold mining practices), mitigate threats to biodiversity (e.g., reducing illegal logging that destroys plant and animal habitats), and address the root causes and impacts of global climate change.

This DO directly supports U.S. Congressional priorities reflected in the United States-Peru Trade Promotion Agreement's (PTPA) Environmental Chapter and Forestry Annex, President Obama's Climate Change Agenda, and the U.S. Embassy's Strategic and Resources Plan (MSRP) goals. It also supports the USG's commitment in Copenhagen to help countries manage the impact of global climate change.<sup>16</sup>

**Hypothesis:** For the Peruvian government and civil society to conserve natural resources effectively, there must be both a robust system of governance in place and economic opportunities that promote sensible use of resources. In addition to the specific components of environmental governance, which include regulations, policy, and civil society engagement, there is a broader system that supports overall conservation efforts. The keys to this system's success are the degree to which Peru decentralizes responsibilities, resources, and authority; builds the capacity of regional and local governments; and develops the professional skills of the Peruvians who will analyze, govern, and operate public services and private industries. Activities under DO-2 will complement efforts with DO-3 to strengthen the capacity of national and targeted decentralized local governments.

**Description:** Environmental conservation and natural resource management are significant USG priorities. USAID is committed to building the capacity of the GOP to better manage and conserve its forest, mineral, and water resources. USAID assistance will focus on the following interrelated issues.

*Forestry:* Assistance will support the implementation of the Environmental Chapter of the PTPA and its Forest Sector Governance Annex by building GOP capacity to enact and enforce environmental laws and prosecute environmental crimes. Additionally, USAID will strengthen environmental governance by supporting science and applied environmental research and training, which are essential to effective environmental and natural resources policy and regulatory decisions.

*Biodiversity Conservation:* Assistance will support the GOP and its institutions to sustainably mitigate Convention on International Trade of Endangered Species (CITES) threats, such as those to big-leaf mahogany, and to implement a national timber and wildlife management information system.

*Climate Change Mitigation:* Within the framework of a REDD strategy, USAID's work with the GOP on forestry management will prepare the country to participate in international carbon markets.<sup>17</sup>

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support for creating and implementing a LEDS will be tailored to each country's unique capacity, technical, analytical, and policy needs.

<sup>16</sup> See USAID REDD Strategy:

[http://www.usaid.gov/our\\_work/environment/climate/docs/UnitedStatesREDD+Strategy.pdf](http://www.usaid.gov/our_work/environment/climate/docs/UnitedStatesREDD+Strategy.pdf)

<sup>17</sup> International carbon markets are a market-based approach to reducing greenhouse gas (GHG) emissions. In a carbon market, GHG emissions are capped at an overall level. Entities must then purchase the rights to emit GHGs, so long as the overall cap is collectively met. Thus, these rights are commoditized in units called carbon credits for market trading. Certain forestry management techniques can reduce net GHG emissions, potentially generating carbon credits for sale and trade. The international community is currently negotiating a framework for a future mandatory international carbon market.

Activities such as forest mapping will strengthen forest governance and enhance measurement, reporting, and verification (MRV) of carbon stocks. This type of activity will be especially important in the Amazon Basin along the interoceanic highway running through Madre de Dios, where deforestation risks are greatest. At the local level, USAID will engage communities directly to implement community-based conservation activities that advance conservation efforts and set the stage for sustainable development through payment for ecosystem services.

*Climate Change Adaptation:* USAID will implement adaptation activities with populations vulnerable to changes in hydrologic cycles resulting from the loss of Andean glaciers. Activities will be consistent with key GOP strategy documents, including Peru's first and second communications to the United Nations Framework Convention on Climate Change. It should be noted that the different impacts of climate change on women and men are of particular concern due to women's often greater responsibility for using and managing water for the benefit of their families. However, participation in decision-making, water management associations, and the like, has been traditionally relegated to men. Water-related legislation does not often recognize the different effects of such legislation on men and women.

This program will also establish participatory monitoring systems that allow Peruvians to better understand how to protect their environment and why it is important. USAID will help the GOP introduce new technologies, such as satellite-supported systems that monitor protected areas and mercury capture devices, to help informal miners and gold value chain enterprises comply with Peruvian and international standards. USAID and the GOP will also build the capacity of local populations to play an active role in monitoring, evaluating and validating the results of these improved practices, ensuring buy-in and sustainability.

The following illustrative indicators will measure progress towards achieving DO-3:

- Number of hectares in areas of biological significance under improved management as a result of USG assistance
- Quantity of greenhouse gas emissions reduced or sequestered as a result of USG assistance

### **Synergy with Other DOs:**

*DO-1 – Alternatives to illicit coca cultivation increased in targeted regions:* Illicit coca production and processing cause major damage to environment, including clearance of forests for coca cultivation, soil erosion from cultivation on slopes, contamination of soil and waters from agrochemicals and drug-processing inputs, and damage to biodiversity inside and outside of protected areas.<sup>18</sup> In areas subject to such environmental threats, DO-3 will promote environmentally sustainable livelihoods that present viable alternatives to illegal activities. The DO-3 program will thus help reduce migration of illegal coca growing from the areas where DO-1 is supporting coca eradication. DO-3

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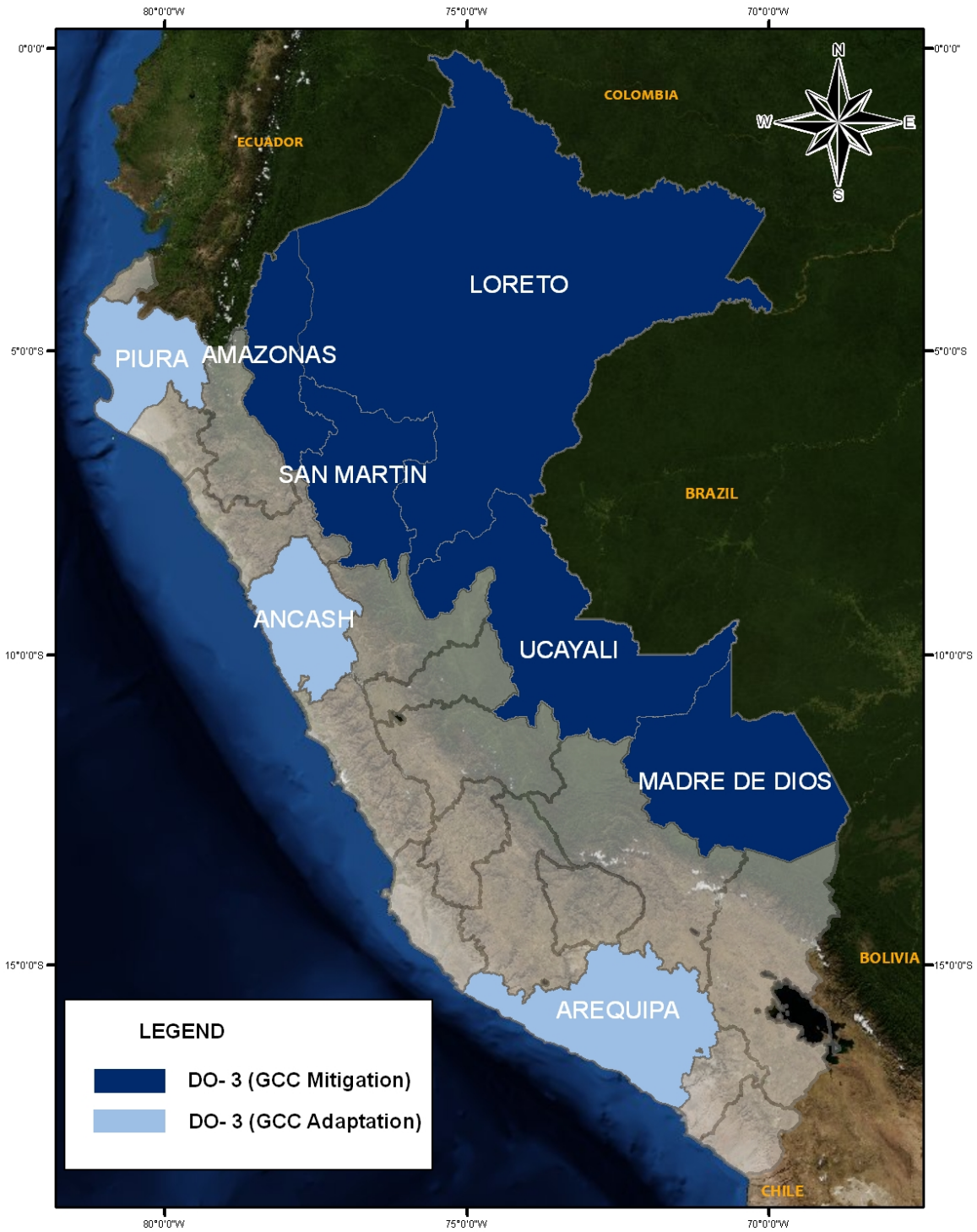
<sup>18</sup> UNODC, *Coca Cultivation in the Andean Region*, June 2006

livelihood activities are also consistent with the DO-1 approach of strengthening alternative product value chains.

*DO-2 – Management and quality of public services improved in the Amazon Basin:* DO-2 support for good governance, including the delivery of quality public services such as health care and education, is an essential contributor to DO-3’s objectives in environmentally sensitive areas. DO-2 governance activities will also support DO-3 by strengthening Peru’s capacity to prevent and mitigate conflicts that form around the expansion and construction of water retention systems, dams, and mines, as well as forestry concessions. Notably, the National Plan for the Formalization of Artisanal Mining includes an element “to establish social programs in villages where artisanal mining takes place, including occupational health programs, environmental management and eradication of child labor programs.”

**Geographic Focus:** DO-3 focuses on the Amazon forest and the glacier highlands. The three most critical Amazon regions in Peru are Madre de Dios, Ucayali (a shared focus region with DO-1), and Loreto. Of secondary emphasis are the tropical forest regions in Puno, Cusco, Pasco, Amazonas, San Martín, and Junín. USAID will spend approximately 80 percent of all environmental funding on forest-related sustainable landscape programs. USAID will spend the remaining 20 percent of environmental resources on global climate change adaptation activities to address the threats associated with glacier melt. Andean glacier focus regions include Piura, Ancash, and Arequipa.

Figure 7: Map of Geographic Focus Regions for Development Objective 3





**Intermediate Results, Causal Logic and Development Hypotheses:** The Results Framework includes two Intermediate Results (IRs) and associated Sub-IRs.

**IR 3.1: Capacity for environmental governance and natural resource management improved**

- Sub-IR 3.1.1 Institutional, legal, and policy framework strengthened
- Sub-IR 3.1.2 Effective evidence-based policy dialogue, public participation, and communication enhanced
- Sub-IR3.1.3 Environmental and forestry measurement, reporting, verification, and enforcement increased
- Sub-IR 3.1.4 Amazon-based conservation for biodiversity and climate change mitigation enhanced

**IR 3.2: Environmentally-sustainable livelihoods expanded**

- Sub-IR 3.2.1 Support provided for Low Emissions Development
- Sub-IR 3.2.2 Environmentally-sustainable business practices and certifications expanded
- Sub-IR 3.2.3 Climate change adaptation capacity improved among vulnerable populations
- Sub-IR 3.2.4 Community-based conservation and payment for environmental services activities increased

The hypotheses and logic supporting these IRs are described below.

***IR 3.1: Capacity for environmental governance and natural resource management improved***

Peru faces significant environmental governance and natural resource management challenges, such as illegal logging and mining, corruption, deforestation, contamination, coca cultivation, and environmental impacts attributed to global climate change. Successfully confronting these challenges requires: (1) increasing local capacity to study and manage one of the world's most bio-diverse countries; (2) reducing conflict related to natural resource management decision making; and (3) building national commitment to environmental stewardship. Illustrative indicators include:

- Percent of institutions in the system of forest sector governance at national, regional, and local levels that have achieved operational effectiveness

To achieve this IR, USAID will pursue four Sub-IRs.

*Sub-IR 3.1.1 Institutional, legal, and policy framework strengthened.* To ensure sound environmental governance in Peru, there must be a strong legal and regulatory framework that encourages institutions to manage natural resources effectively. Part of this framework also includes systems to monitor environmental conditions and enforce environmental laws and regulations.

A successful forest management system must be capable of inventorying trees and tracking timber from critical tree species, especially those outlined in the Forestry Annex of the PTPA (e.g., mahogany). By tracking specific species information, the GOP will be in a better position to adhere to PTPA and CITES requirements governing management of and trade in endangered species.

This national forest inventory and timber and wildlife tracking system will be one of the cornerstones of Peru's national carbon stock MRV system, enabling the country to enter international carbon markets. Benefits from these markets could take the form of payments to communities to offset their carbon emissions, in exchange for conservation of carbon stocks (i.e., forest resources). Illustrative activities include:

- Technical assistance for natural resource management and enforcement policy and regulatory reforms, and support for the decentralization process (closely coordinated with governance and decentralization work under DO-2)
- Development of REDD-readiness policies and activities to address deforestation
- A national forest management system within key GOP institutions (MINAM, Ministry of Agriculture and regional governments), as well as support institutions such as universities and NGOs
- MRV system built and institutionalized

*Sub-IR 3.1.2 Effective evidence-based policy dialogue, public participation, and communication enhanced.* Effective environmental governance hinges on public policy that is both evidence-based and reflective of the communities that it affects. Conservation challenges in Peru are compounded by the fact that the country lacks reliable data and scientific knowledge to make sound policy related to natural resource management, and to inform and encourage public dialogue. Foreign scientists still conduct most research on Peru, and findings from environmental and scientific investigations are neither effectively nor systematically shared with decision makers, academia, or the general public. Illustrative activities include:

- Promote Peruvian-led research and development efforts and professional training programs in forest carbon and biodiversity mapping, forest inventories and other technical areas contributing to better natural resource management
- Support campaigns to build community leader (especially women), media, and civil society awareness and knowledge base
- Promote environmental education campaigns designed to engage a wide range of Peruvian students and raise awareness of natural resource management and global climate change issues

*Sub-IR 3.1.3 Environmental and forestry measurement, reporting, verification, and enforcement increased.* In addition to the systems and policies necessary to foster effective environmental governance and natural resource management, public institutions must have the capacity and authority needed to enforce laws and regulations. This Sub-IR aims to ensure a sustained supply of trained professionals at national, regional and local levels to implement best practices in compliance with forestry

regulations, operate under a decentralized system, design and implement REDD-readiness policies that address deforestation, and conduct innovative forest carbon and biodiversity mapping. Illustrative activities include:

- Appropriately equip and train environmental and forestry authorities at national and local levels
- Train environmental authorities in MRV
- Strengthen relevant Peruvian professional training institutions

*Sub-IR 3.1.4 Amazon-based conservation for biodiversity and climate change mitigation enhanced.* To effectively conserve biodiversity within the Amazon Basin and contribute to the GOP's overall capacity to manage natural resources, GOP programs must employ an area-based conservation approach. Recognizing the complex interaction between different species and their physical environment (i.e., ecosystems), this method focuses on the conservation of an entire landscape or watershed, as opposed to individual species. By conserving essential landscapes, the GOP will also enhance public sector capacity to implement climate change mitigation activities, which will in part offset carbon emissions through forest conservation. Illustrative activities include:

- Technical assistance to enhance government, local universities and other institutions to design and implement sustainable wildlife management activities
- Training for local staff and community members to better understand CITES threats and how to better protect endangered species

### ***IR 3.2: Environmentally sustainable livelihoods expanded***

Helping Peruvians to generate adequate income from environmentally responsible activities is a core element of USAID's approach to promoting sustainable natural resource management. USAID will assist in the development of private industries that are both commercially competitive and environmentally sound through assistance at the enterprise level, and through support for infrastructure and other public services. In particular, USAID will support the design and implementation of LEDS activities to ensure that economic growth and poverty reduction interventions contribute to environmental conservation, including compliance with environmental laws and regulations. Illustrative indicators include:

- Increase in sales of environmentally sustainable goods and services produced by assisted micro, small, and medium enterprises (MSMEs) or communities in the targeted regions, including ecotourism
- Number of men and women with increased economic benefits derived from sustainable resource management and conservation

To achieve this IR, USAID will pursue four Sub-IRs.

*Sub-IR 3.2.1 Support provided for Low Emissions Development.* To expand environmentally sustainable livelihoods in areas affected by climate change and in close proximity to sensitive natural resources, communities will require economic support to adopt low-emissions development practices. This

approach is intended to accelerate sustainable, climate-resilient economic growth while slowing greenhouse gas emissions. Illustrative activities include:

- Policy design and advocacy support to the GOP to build a sensible and effective LEDS framework that provides support directly to indigenous communities
- Technical assistance to implement LEDS at the national and local levels

*Sub-IR 3.2.2 Environmentally sustainable business practices and certifications expanded.* Traditional products from the Amazon forest and glacier highlands, whether used for subsistence or traded, produce only modest standards of living that are not commensurate with the evolving aspirations of the local people or the income that can be realized in the short-term from environmentally irresponsible extractive activities. In contrast, there are substantial income-generation opportunities that are environmentally sustainable and that contribute to global interest in the preservation of tropical forests, biodiversity, and environmental values. By assisting local groups to learn about these opportunities and related best practices, USAID can help businesses to succeed in the competitive market. For example, forest or organic certifications can give producers access to high-value export markets. Illustrative activities include:

- Research and innovation to create new sustainable business opportunities in environmentally sensitive areas
- Strengthening sources of technical and professional training for leaders of environmentally sustainable enterprises
- Technical assistance to MSMEs in indigenous communities in environmentally sensitive areas
- Credit guarantee programs targeting clean technology and energy projects

*Sub-IR 3.2.3 Climate change adaptation capacity improved among vulnerable populations.* For communities affected by glacier melt and changing rainfall patterns, ensuring environmentally sustainable livelihoods requires adapting to the effects of a changing climate. USAID will work with vulnerable populations to adapt agriculture and other economic activities to changing water regimes. USAID will also work with vulnerable communities on disaster preparedness activities to mitigate the risks associated with hazards like landslides and flooding caused by glacier-fed lakes. Illustrative activities include:

- Community-level disaster risk reduction and mitigation activities
- Promotion of participatory dialogue along extended watersheds from the highlands to the coast, to ensure understanding as to how climate change is affecting populations
- Strengthening of research and professional training institutions to sustainably expand knowledge on the impact of climate change

*Sub-IR 3.2.4 Community-based conservation and payment for environmental services activities increased.* Ensuring that local communities have access to sustainable livelihoods is a key element of an effective REDD

strategy. Part of this approach involves sensitizing communities to the importance of environmental conservation and how responsible local natural resource management can contribute to economic stability. Illustrative activities include:

- Supporting indigenous communities with programs that fund MSME initiatives that promote licit and sustainable use of natural resources
- Building indigenous communities' capacity to protect natural areas

**Aid Effectiveness, GOP, and Other Actors:** The activities under this DO are meant to directly support GOP strategies and priorities for environmental and natural resource management, including the National Environmental Policy; the National Environmental Action Plan (2011-2021); the PTPA Environmental Chapter and Forestry Annex; the Peru Forestry Law; the Peru Forest Carbon Partnership Facility (FCPF) Readiness Preparation Proposal (R-PP); the National Climate Change Strategy; UNFCCC National Communications; the National Plan for the Formalization of Artisanal Mining launched on March 30, 2011; and the forthcoming Low Emissions Development Strategy (LEDS).

Furthermore, the activities are designed to build Peru's capacity to take ownership and professionally administer environmental management programs while promoting good governance in targeted institutions at both national and sub-national levels. USAID currently provides funding directly to MINAM and, under this CDCS, will aim to increase this support. The Mission will also fund targeted sub-national governments to reinforce Peruvian ownership of natural resource management programs and increase host government capacity to better manage donor and GOP resources, consistent with the Paris Declaration, the Accra Agenda for Action, and USAID Implementation and Procurement Reform.

USAID is the largest environmental donor in Peru and a key member of the *Mesa Verde*, the roundtable of environment donors, which includes Belgium, Canada, Switzerland, and Germany. These five donors are encouraging MINAM to take on a greater leadership role over the *Mesa Verde* and are collaborating on institution building. USAID and the other members of the *Mesa Verde* routinely share program design assessments, enabling more integration and focused cooperation, especially on activities related to REDD+.<sup>19</sup>

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<sup>19</sup> REDD+ is an international initiative similar to REDD ("Reducing Emissions from Deforestation and Degradation"), but instead of just covering deforestation and degradation, REDD+ includes other activities, such as conservation, the sustainable management of forests and the enhancement of forest carbon stocks. REDD+ calls on countries to develop national plans with benchmark emission levels, systems to monitor forests, and environmental and social safeguards, including the rights of indigenous communities.

# Section IV. Monitoring, Evaluation and Learning

As USAID/Peru further lays the groundwork for repositioning USAID's role for bilateral assistance, monitoring and evaluation efforts will focus on:

- Providing evidence to guide decisions about future programming in the context of reduced resources and a target timeframe for repositioning USAID's role.
- Learning through evaluations
- Developing models that can be replicated by GOP or local institutions
- Documenting USAID program results
- Building local capacity to monitor and evaluate programming

**Monitoring and Evaluation Process and Roles:** With the January 2011 issuance of the USAID Evaluation Policy, USAID/Peru established a Monitoring and Evaluation (M&E) Committee, led by the Program Office and composed of representatives from each technical team. The committee prepared a Mission Order that details how USAID/Peru will monitor and evaluate activities under this CDCS in compliance with the Agency's new Evaluation Policy. The Mission has designated two Mission Evaluation Officers, whose responsibilities include preparing and maintaining the CDCS and DO-level Performance Management Plans (PMPs), contributing to all project designs, and ensuring the quality and objectivity of performance and impact evaluations. The M&E Committee helps plan evaluations, shares findings and lessons learned, and helps ensure that these findings inform decisions.

**Performance Monitoring:** The USAID/Peru performance monitoring system reflects the structure and hierarchy of the Results Framework for each DO and will use indicators to track those results. The system will be based on a PMP, which will define indicators, data sources, method/approach of data collection and analysis, data quality assessments, and periodic and special evaluations, and will track baseline, target, and actual values for each indicator through FY 2016. The PMP will also include indicators to monitor regional and country context and critical assumptions. The PMP will be developed subsequent to CDCS approval. Annex 1 includes a list of illustrative indicators that will be finalized with the completion of the approved USAID/Peru PMP.

**Performance Indicators:** To measure CDCS results, illustrative, preliminary indicators have been either selected from the Foreign Assistance Framework Standard Indicators or custom-designed by DO teams. Indicator selection was informed by prior USAID programs, ongoing activities, and USAID or Presidential Initiative strategies. Most proposed indicators will be achieved through joint

USG-GOP efforts. As appropriate, indicators will be disaggregated by sex, geographic area, or target institution.

**Evaluation:** The USAID Evaluation Policy calls for more rigorous, unbiased evaluations to improve accountability and allow the Agency to learn from its programming. USAID/Peru's plan to implement the Evaluation Policy includes a new mechanism whereby external evaluators can be hired at project inception. This mechanism will improve baseline data collection, allow for proper design and planning of impact evaluations, and increase the analytical rigor and objectivity of evaluations. Statements of Work and draft final reports for all evaluations will be peer-reviewed by the M&E Committee, the Mission Evaluation Officers and, as appropriate, other stakeholders such as the GOP and/or experts from USAID/Washington.

In accordance with the Evaluation Policy, all large projects will be subject to either performance or impact evaluations. Any activity involving an untested hypothesis or new approach that is anticipated to be expanded in scale or scope will undergo an impact evaluation, if feasible. USAID/Peru is planning at least one impact evaluation under each DO.

**Engaging Local Counterparts, Stakeholders and Beneficiaries:** Consistent with the Agency Evaluation Policy and the CDCS principle of building Peruvian capacity to promote sustainable development, M&E activities will be carried out at all levels of the GOP. Through its budgeting-for-results reforms, the GOP has made significant advances in improving government efficiency and establishing clear indicators and targets for key government programs. However, there are opportunities to further improve the budgeting-for-results system, especially at the sub-national levels, by promoting evidence-based policy making and program accountability.

USAID will involve host country counterparts, stakeholders and beneficiaries in planning and implementing performance monitoring, assessing data quality, collecting baseline data, and establishing targets. Joint collaboration will be established through agreements or memoranda of understanding with host government counterparts detailing mutually determined indicators, targets and procedures for joint monitoring, complemented by joint site visits and periodic review meetings. USAID will take advantage of this process to build GOP capacities in M&E. Performance information and evaluation findings will also be shared with beneficiaries and other stakeholders, contributing to their capacity to use information for oversight and to enhance accountability.

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# Annex—Illustrative CDCS Indicators

<b>USAID CDCS Goal Statement: Peru’s stability and democracy strengthened through increased social and economic inclusion and reductions in illicit coca cultivation and the illegal exploitation of natural resources</b>
Number of violent social conflicts
Percentage of citizens that support democracy
Percentage of rural poverty disaggregated by region
<b>Development Objective 1: Alternatives to illicit coca cultivation increased in targeted regions</b>
Value of production of licit activities as compared with value of production of coca in target areas
Percentage of participating households living below the poverty line
Number of communities and families included in the integrated development model in target areas
<b>Intermediate Result 1.1: Value chains for licit crops strengthened</b>
Licit income of participant families
Sales from AD-supported value chains
Jobs generated by AD-supported value chains (male and female)
<b>Sub-IR 1.1.1: Improved farm-level production practices for licit agribusiness</b>
Number of farmers who have applied improved production practices
Amount of private financing mobilized through a DCA guarantee to male and female enterprise owners.
Number of private sector partnerships established to foster agribusiness-related research and development in the production value chains
<b>Sub-IR 1.1.2: Increased capacity of producer organizations to access viable commercial markets</b>
New markets accessed by producer organizations
Number of producer organizations who have applied improved management practices
<b>Sub-IR 1.1.3: Increased private investment in licit agribusiness</b>
Amount of private investment in focused value chains
Number of public-private partnership models established to advance investments in prioritized agribusiness sectors
<b>Sub-IR 1.1.4: Increased public investment in productive infrastructure</b>
Amount of public investment in AD facilitated rural roads, irrigation systems, electrification, and post-harvest facilities in targeted regions.
<b>Intermediate Result 1.2: Enabling environment for AD improved</b>
GOP budget allocation and execution for AD and CN projects
Percentage of national population recognizing coca as a national security problem
<b>Sub-IR 1.2.1: DEVIDA’s capacity to manage and advocate for AD strengthened</b>
Leadership and advocacy capacity score
<b>Sub-IR 1.2.2: National policies favorable to AD strengthened</b>
Number and type of policy initiatives favorable to AD/CN drafted with USG assistance
<b>Sub-IR 1.2.3: Public awareness and support for AD increased</b>
Percentage of population in target areas recognizing the benefits of AD
Percentage of population in target areas recognizing the negative consequences of illicit coca cultivation
<b>Sub-IR 1.2.4: Eradication efforts sustained (NAS / GOP)</b>
Number of drug crops eradicated in USG-assisted areas
<b>Development Objective 2: Management and quality of public services improved in the Amazon Basin</b>
Percentage of citizens in targeted regions who are satisfied with the quality of public services they receive from sub-national government (regional and/or municipal)

Percentage of second graders in USAID supported schools meeting reading standards for their grade
Number of local governments in targeted regions with increased investment in health promotion and disease prevention
<b>Intermediate Result 2.1: Improved government capacity to provide quality public services</b>
Own-source revenue as a percentage of local government budgets in targeted areas
Number of targeted sub-national governments that include a professional development component in their plans and budgets
Percentage of target regional health and education budgets expended
Number of target sub-national governments that improve performance of students in annual national communication (reading) performance tests
Percentage of pregnant women in targeted regions who deliver in health facilities
Proportion of target sub-national governments that decrease the number of social conflicts in their jurisdiction
<b>Sub-IR 2.1.1: Improved management at sub-national levels</b>
Number of sub-national governments that have developed a quality improvement plan for public service delivery
Number of target sub-national governments that include a professional development component in their plans and budgets
Own-source revenue as a percentage of local government budgets in targeted areas
<b>Sub-IR 2.1.2: Improved enabling environment for decentralized service provision</b>
Number of key reforms passed with USG support to improve decentralization and efficiency in local government
<b>Sub-IR 2.1.3: Improved government capacity to prevent and mitigate conflict</b>
Number of effective dialogue and consensus building mechanisms in place in targeted regions
<b>Intermediate Result 2.2: Increased citizen engagement in decision-making and oversight</b>
Number of civil society representation councils or oversight committees effectively functioning
Percent of schools in target regions with active community and/or parent-based oversight/engagement mechanisms
<b>Sub-IR 2.2.1: Increased citizen capacity to articulate needs</b>
Number of women, youth and indigenous population initiatives included in participatory budgets
<b>Sub-IR 2.2.2: Improved citizen access to public information</b>
Number of reports produced by the Ombudsman office and sub-national governments related to the use of public resources
<b>Sub-IR 2.2.3: Enhanced citizen capacity to dialogue and negotiate to prevent and mitigate conflict</b>
Number of civil society representatives from marginalized groups engaged in conflict prevention, constructive dialogue, negotiation, and consensus building initiatives.
<b>Development Objective 3: Natural resources sustainably managed in the Amazon Basin and glacier highlands</b>
Number of hectares in areas of biological significance under improved management as a result of USG assistance
Quantity of greenhouse gas emissions reduced or sequestered as a result of USG assistance
<b>Intermediate Result 3.1: Capacity for environmental governance and natural resource management improved</b>
Percent of institutions in the system of forest sector governance at national, regional, and local levels that have achieved operational effectiveness
<b>Sub-IR 3.1.1: Institutional, legal, and policy framework strengthened</b>
REDD-readiness policies and activities designed and implemented to address deforestation
<b>Sub-IR 3.1.2: Effective evidence-based policy dialogue, public participation, and communication enhanced</b>
Number of Peruvian-led environment research reports disseminated
Number of media articles discussing evidence-based policy reform initiatives
<b>Sub-IR 3.1.3: Environmental and forestry measurement, reporting, verification, and enforcement increased</b>
Measurement, reporting and verification system functioning within the central and sub-national governments
<b>Sub-IR 3.1.4: Amazon-based conservation for biodiversity and climate change mitigation enhanced</b>
Number of local institutions that have implemented sustainable wildlife management initiatives

<b>Intermediate Result 3.2: Environmentally-sustainable livelihoods expanded</b>
Increase in sales of environmentally-sustainable goods and services produced by assisted micro, small, and medium enterprises (MSMEs) or communities in the targeted regions
Number of men and women with increased economic benefits derived from sustainable resource management and conservation







