

DRAFT 28 APRIL 2003

UK

DEPARTMENT FOR INTERNATIONAL
DEVELOPMENT

PERU

COUNTRY ASSISTANCE PLAN

2003-2006

Peru: Progress Towards Millennium Development Goals

- Halving extreme poverty: not on track;
- Universal primary education: net enrolment only 70%;
- Health targets: most on track; maternal mortality is main challenge;
- Gender equality: educational target broadly achieved;
- Environmental sustainability: not on track.

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A. SUMMARY

A1. Peru (population 27 million) is a middle-income country (GNP \$2100 per head) but it is highly unequal, with many people suffering deprivation. One half of Peruvians live in income poverty and a fifth in extreme income poverty. Most of the extreme poor are indigenous people living in the rural areas of the *sierra* and *selva*. Their lives are subject to multiple exclusions, with few links to wider markets, poor access to state services and ineffective political representation.

A2. The causes behind these high levels of inequality, poverty and exclusion are complex and multi-layered. Proximate causes include past failings in economic and social policies. Underlying explanations include the absence yet of mature processes of democratic governance responsive to the poor majority. The deep causes include racial and ethnic discrimination.

A3. The overarching objective of President Toledo's Government is the fight against poverty, to be pursued through improved governance, including decentralisation, macro-economic stability, pro-market policies and expanded social services. The international community is important to Peru in tackling poverty, as a source of knowledge, as an important financier, and as a global trading partner and investor.

A4. With the support of the international community, Peru should make progress in reducing poverty but there are risks to achievement of the Millennium Development Goals. The country needs a clearer, more comprehensive strategy to tackle poverty, effective donor co-ordination behind this, a strong commitment to constructive and inclusive governance, a continued search for quality growth benefiting poorer producers and better resourced and targeted social services.

A5. The purpose of the DFID partnership is to help the international community support the government's aim of achieving inclusive and equitable development, so that Peru achieves the Millennium Development Goals. We will seek in particular, to work with the World Bank, the IDB and the EC. We will work with both government and with representatives of the poor, particularly indigenous people, to help articulate their voice. We will support (1) implementation of a comprehensive strategy for tackling poverty, backed by donors (2) improved accountability to the poor and the realisation of their human rights (3) more inclusive economic policies and (4) more inclusive social services.

A6. We will maintain a small office in Lima, capable of managing our relationship with the international community, government and civil society on poverty reduction policies and practices. The in-country office will work closely with LAD Advisers in London, responsible for regional work, for supporting DFID policy work and for links with HMG. The country programme is projected at about £3.5 million per year, complemented by central programmes, and FCO resources. The UK funds 18% of EC resources and is a major financier of multilateral institutions.

B. THE CHALLENGE

Nature of Poverty

B1. Peru has 27 million inhabitants. It is a middle-income country with an average income of \$2100. But it is deeply unequal. A few people live very well and half live reasonably. But large numbers suffer multiple forms of deprivation: economic, social and political. World Bank income indicators (1996) put 12 million people (41% of the population) on less than \$2 a day, of which some 4.5 million (16%) live on less than \$1 a day. National measures (2001) estimate some 15 million (54%) below the national poverty line, of which 6.5 million (24%) live in extreme poverty, unable to satisfy food needs.

B2. Peru is a hugely diverse country, but the extreme income-poor are mainly people of indigenous origin whose lives are centred in rural areas, primarily in the Andean *sierra*, but also in the Amazonian *selva*. Many are non-native Spanish speakers; one third are monolingual in one of Peru's 42 indigenous languages. Typically they make a subsistence living, in isolated communities. They are among the quarter of Peruvians who do not access modern health care. Maternal mortality is particularly high. Only about two-thirds of the children regularly attend primary school. Adults do vote but the political system does not represent them effectively. Most of these people are significantly excluded – politically, economically and socially – from mainstream Peru, and frequently suffer discrimination. They are in some ways 'semi-citizens'. The Human Development Index for the poorer Departments is similar to many Sub-Saharan African countries (0.44-0.52).

Voices of Peruvians living with Extreme Income-Poverty

The world of work:

- In the rural sites, agriculture has stagnated, *minifundizacion* has increased insecurity, prices are volatile and getting goods to market has not improved. The preferred strategy is consumption agriculture, combined with income from temporary migration.
- Rural-urban strategies are important to the urban poor: they often maintain ties with their rural communities for food security. Versatility, multiple income activities, long hours and a quick response to the volatile labour market are a necessity.

The world of institutions:

- Government officials discriminate against and mistreat them - in the police station, school or hospital - and are widely suspected of corruption. The poor have a strong sense of powerlessness about the state.
- Health is a big concern but the high cost of treatment and medicines is prohibitive – and the main source of stress. Traditional health care is the only option for many.
- The poor's own community based organisations are consistently assessed as indispensable in the fight against poverty in rural areas. But they lack capacity and are often unable or unwilling to represent women or the very poor.

The world of the family:

- The nuclear and extended family and kinship ties are vital in managing crises.
- Traditional gender roles remain rigidly defined, though women think that the male voice in the home has declined due to gender awareness work by NGOs.
- Lack of safety and security is a major concern, particularly in urban areas.

Source: World Bank-DFID Participatory Poverty Assessment, 2001; 2000 people in 9 sites.

B3. Following the huge migrations of the last half-century, Peru has become very urbanised (70%) and most of the income-poor are people living in urban shantytowns (*pueblos jóvenes*), largely on the coast, particularly in Lima where 30% of Peruvians live. Nearly 90% eke out a livelihood in low productivity jobs in the 'informal economy', many as independents or in micro-enterprises. Children and the elderly are often expected to work. Their access to social services is better than for the extreme income-poor, but the services are generally of low quality. Their political voice is also louder. But these people live in an informal world – in work, in their organisation of security and justice, in their conjugal relations – in many ways outside, and excluded from, formal institutions, undermining their rights, and responsibilities, as citizens.

Causes of Poverty

B4. The causes explaining the inequality, high levels of poverty, exclusion and discrimination in middle-income Peru are complex and multi-layered. When Peruvians focus on proximate causes, they point towards failures in economic and social policies. In the last decade macroeconomic stability has been restored to Peru, but this followed disastrous macro-management in the 1980s. Structural policies have also been subject to swings. Following a quarter century of state interventionism and import substitution, the economy was sharply liberalised in the early 1990s. A majority agree that this has provided the basis for more sustainable growth, but many question whether adequate attention has been paid to economic opportunities for the income-poor, in both rural and urban areas.

B5. Analysts also point to the sustained low levels of expenditures on health and education in Peru, compared to similar countries. This low level – funded from a low tax base equivalent to 12-13% GDP – has often been accompanied by low quality and regressive targeting, particularly in education, and particularly rural education, with serious long-term implications for human capabilities.

B6. In attempting to explain the underlying causes for Peru's failure to become a more equitable society with less poverty, many point to the country's relatively recent experience of democratic governance. After centuries of rule by and for an elite, it is only in the last half century - accompanied by urbanisation - that democratic processes and a more effective and responsive state have begun to emerge. But the political party system is volatile, personalised and only weakly based around issues. The relationship between the Peruvian state and its citizens is weak, as exemplified by the low tax base. The 1980s saw the rise of wide-scale terrorism, due in part to continued processes of exclusion (and in part to the drugs trade). The 1990s saw a step backwards in democratic governance, with authoritarian hyper-centralism, large-scale corruption, clientelism, and the undermining of citizenship and rights.

B7. This continued weakness of the representative democratic system means that direct action remains the preferred means of exerting rights for

many Peruvians, including the income poor. They favour action through their own community based organisations and social movements, though these were badly damaged through the terrorism of the 1980s and the authoritarianism of the 1990s. The Churches, widely respected by the income poor, also work on their behalf, though not through a rights-based lens.

B8. Some people look to the deep causes of inequality, poverty and exclusion in Peru, in the history and culture of the country. They argue that pre-Colombian authoritarian government, the Conquest's savage repression of the indigenous population and the maintenance of European institutions since Independence have contributed to the deep divisions in society, the lack of a collective sense of national identity, multi-layered violence and racial and ethnic discrimination.

Policies to Tackle Poverty

B9. The Government of President Alejandro Toledo assumed power in July 2001, facing multiple challenges. Toledo needed to form a government from the broad based opposition movement that brought him to power; to re-establish democratic governance; to confront a weakly performing economy and pent-up social demands; and to tackle the continuing long-term structural problems of poverty.

B10. The Government Plan (August 2001) set the government's overarching aim as the frontal attack on poverty, supported by three main objectives (1) putting the state at the service of the people (2) productive employment and (3) health, education and culture for all. During its first year, the government also achieved agreement with the major political parties and civil society on a National Accord (*Acuerdo Nacional*) that set out 29 long-term policies for governance, development and poverty reduction. In early 2003, it also published the outlines of a Strategy for Overcoming Poverty (*Bases para una Estrategia de Superación de la Pobreza y Oportunidades Económicas para los Pobres*), which is to be developed into a full strategy. All these documents reflect sound policies, backed in many cases by performance indicators. The challenge is to make them happen.

B11. Governance reform is heavy on the agenda, as a reaction to the authoritarian 1990s. Political reform, including revision of the 1993 Constitution, and anti-corruption work have occupied much Congressional time. The government has also committed to, and is introducing, a phased process of decentralisation to Departmental and Municipal levels, a very significant policy challenge. Greater citizen participation and transparency in government have also been given significant attention.

B12. Some stimulus was provided to the economy on taking power, including the introduction of an emergency employment programme. But this has been done while preserving macro-economic stability, within the framework of an IMF Standby Agreement. The government has committed itself to market- and investor-friendly policies, the development of a

competitiveness agenda and improvements to the enabling environment for small- and micro-enterprises.

B13. Government policy is to expand access to, and the quality of, basic social services, within available resources. In health, the emphasis has been on expanding the coverage of a free basic package of attention. In education, the initial agenda focused on improving services in rural areas. Social assistance programmes are also being reorganised. Tax administration is being improved to increase government revenues.

B14. Civil society – the churches, NGOs and networked community organisations – are generally supportive of this agenda, in particular the governance reforms and participation. Some NGOs are active in pushing for improvements in health and education policies. The main area of disagreement is over economic policies, where there have been pressures for more expansionary policies and state interventionism.

B15. In the private sector the main concern of big business is the maintenance of economic stability. Most are committed to liberalised markets, though some analysts note the absence of an economic elite with a clear long-term vision for the country. The long tail of micro-enterprises, mostly operating informally, wish to see less bureaucratic, less corrupt government. The demands of the rural extreme income-poor focus on improved access to markets (roads, finance) and more stable prices.

B16. Due to Peru's middle-income status, the presence of the international community is less than in poorer countries. But the three main MDBs – the World Bank, IDB, and CAF (Andean Development Corporation) – lend nearly \$1 billion per year, or some of 10% of public expenditures. A good proportion is for fast disbursing policy-based loans, and between them MDB investment loans cover most sectors. The World Bank is seen as an important source of advice and underwriter of sound policies and has the strongest social focus. The IDB leans towards the economic agenda, and enjoys a privileged position on issues of democratic governance. CAF is becoming increasingly important and is broadening its interest beyond the economic. The UN agencies are well represented, playing an advocacy and technical assistance role for effective and accountable government.

B17. EC commitments are set to decline from to €25 million per year (2002-2006), focused on socio-economic, border infrastructure and governance issues; but owing to a backlog of projects, tackling urban and rural poverty, disbursements should be higher. Bilateral assistance of about \$300 million a year comes from a mixed group of donors: the US, Japan, Germany and Spain are the largest. Bilateral agencies have varied interests - political stability, the fight against drugs, the promotion of commerce and cultural objectives, as well as development and poverty reduction – and programmes are often project driven. Broad-based co-ordination beyond sectors has been limited.

Regional and International Dimensions

B18. Improving the country's access to international markets is important for the current government. Peru is heavily indebted - 40% of exports of goods and services and 22% of fiscal outlays go on external debt service – and there are no prospects for significant debt forgiveness. Securing the approval of the IMF has thus been important to Peru both to allow the government to access the international bond market, and to promote the environment for foreign direct investment.

B19. On the trade front, the government has pursued the alignment of Peru with the Andean Community. However it is the 2002 APTDEA (trade and drugs) agreement with the US that is already beginning to reap dividends for the cotton and textiles sector. The EU provides preferential trade arrangements for many exports (again as a measure to discourage illegal crop cultivation). Phytosanitary aspects are a constraint for a number of agricultural exports.

B20. Peru's return to more democratic government, in a region troubled with political instability, has also encouraged it to play an active role in international fora to support the international rule of law, and respect for human rights.

C. RISKS TO SUSTAINED POVERTY REDUCTION

C1. Looking ahead over the medium term, we would expect to see progress in reducing poverty in Peru, to bring the country back on track to achieving the Millennium Development Goals. But various risks have been identified by Peru analysts.

C2. The first is lack of a comprehensive plan for poverty reduction. President Toledo has repeatedly made it clear that tackling poverty is the overarching aim of his government. But he governs a diverse country, facing a wide variety of problems, which are being tackled by a broad range of institutions, within a political context that in historic terms has only recently concerned itself with the rights of poorer, excluded Peruvians. One consequence of this is the potential loss of focus on the main objective of poverty reduction. It is in this context that the government's publication of its outline Strategy for Overcoming Poverty is so important. The development of a full strategy would permit a clear vision, a basis for prioritising policy development and an improved framework for co-ordination between institutions. Such a strategy would be an important first step towards achieving an effective focus on poverty reduction.

C3. Action. It is for the Government to lead the development of a full strategy, but it would be for the rest of Peruvian society and the international community to get behind it. DFID would support access to international experience on poverty reduction strategies, in particular advice on participatory aspects of strategy development.

C4. A second risk is the lack of effective donor co-ordination. Donors are used to coordinating within sectors, but there has been little experience of overall or 'macro-level' coordination. As with government, this may lead to some lack of clarity in direction, to the misdirection of resources, to duplication and inefficiency. A clear national poverty reduction strategy would help provide a framework for much more effective macro-level coordination.

C5. Action. It is for the Peruvian Cooperation Agency (APCI) working closely with the Ministry of Economics and Finance (MEF), to lead the way on improving coordination. DFID will be very supportive of this and play an active role in coordination within the European Union.

C6. A third risk relates to the democratic process. Peru is re-democratising following a period of authoritarian rule. The ruling *Peru Posible* party needs support from other parties to govern, and so far consensus politics has ruled. But there are risks that the consensus could break down, and politics might revert to more authoritarian and/or clientelistic forms of government, undermining democratic governance and the prospects for respect of the rights of more marginalized and vulnerable people. Equally there are risks that even if a successful democratic transition continues, more of the benefits will accrue to the middle classes than to the poor.

C7. Action. The government is seeking to avoid this. The international community can help by ensuring that its programmes work to support democratic governance, and consensus processes where appropriate. DFID will support this with a particular focus on pro-poor political and governance reforms.

C8. Closely associated with this are the risks of a poorly handled process of decentralisation. Many analysts have pointed to the both the fiscal risks from devolution and the lack of capacity at regional and local level. The government has taken these observations into account and is proceeding gradually. An associated structural risk with decentralisation is that on balance it could be anti-poor in the short to medium term, given the lack of established governance and accountability mechanisms in local government.

C9. Action. The government, supported by the World Bank, IDB and others, is seeking to ensure gradual and controlled decentralisation. DFID working with these partners will seek to promote effective processes of participation and inclusion of poorer, excluded indigenous people in local and regional government.

C10. In the economy, social pressures could lead to fiscal expansion and macro-economic instability, but so far the Government has shown its strong commitment to maintaining sound management. A greater risk is that economic growth may be too low, or of too low quality, to have much impact on poverty levels. There is little chance that Peru could go backwards towards 'low income' status. But the economy is very dependent on exports of primary products, for which prices are volatile, and on the mining industry, which directly generates few jobs. The country needs to continue a process

of broadening its economic base and adding value to its exports. To ensure that poorer producers benefit, there is a need to focus on the enabling environment for their access to markets.

C11. Action. The international community, particularly the US and EU (including the UK) has an important role to play in ensuring a free and fair rules based trading system as it affects Peru (and other developing countries), in the WTO, FTAA and bilateral negotiations. The Banks and other donors will provide considerable support for competitiveness and economic growth objectives. The IDB and EC will provide capacity building for trade negotiation. With these partners, DFID will review how to incorporate the poverty reduction agenda into trade policy considerations and support a focus on economic opportunities in the poverty reduction strategy.

C12. A significant risk to effective poverty reduction could be the absence of sufficient public resources for health and education targeted at the poorer, excluded indigenous peoples in the *sierra* and *selva*. The tax effort is low in Peru, undermining the scope for a stronger state and the provision of public services in general. The government is improving tax administration and would like to introduce tax reforms, but the risks of inadequate resources remains great. Equally there is a huge need to target improvements in education and health services in rural areas, but these could be threatened by the lack of political voice of the rural poor and excluded.

C13. Action. The government will need to press ahead with its commitment to raising revenues, and to keep the health and education rights of poor, excluded people high on its agenda. The World Bank, IDB, EC and others are ready to support this agenda. DFID will also support such an effort, with a particular focus on the rights of the poorest in the *sierra* and *selva*.

D. WHAT DFID HAS LEARNT

D1. Since the 1990s DFID has maintained a modest development programme with Peru. The previous country strategy (1998-2001) focused the programme on DFID's overarching goal of eliminating poverty, concentrating on health and educational outcomes for the poor, and alternative development. But the establishment of a small in-country office, more in-depth knowledge of Peru, experimentation with new ways of working, the results of project evaluations and a Country Strategy Performance Review (2002) have provided a rich set of lessons over the last few years.

D2. First, it is clear that Peru could and should achieve the Millennium Development Goals. It has the institutional capacity and human resources to do so. But if it is to be successful, successive governments need to find the way to promote more equitable and inclusive development.

D3. Second, the international community has an important role to play in helping Peru achieve the MDGs. It has a clear responsibility for supporting improved international conditions for development. Within Peru, as an

DRAFT 28 APRIL 2003

important adviser on public policies and financier of public expenditures, it also has to ensure that it supports inclusive development and that its assistance is not captured by narrower interests.

D4. Third, DFID should not run its own bilateral projects, but seek to add value to the activities of the principal international institutions, in particular the World Bank, IDB and EC.

D5. Fourth, the key areas of DFID 'comparative advantage' are our sharp attention to inequality, poverty and exclusion; our focus on overall strategies and policies; our concern for strengthening the relationship between poor and excluded people and the state; and our growing knowledge and experience of supporting inclusion, participation, representation and rights-based approaches.

D6. Fifth, we should structure our assistance so that some of it is quick and flexible and able to support fast moving policy processes. At the same time, we should maintain at least two or three longer-term programmes, in part to keep us firmly rooted in reality and knowledgeable of Peru.

D7. Sixth, we should organise our in-country human resources so that they have time 'free of project management' to engage with others in the international community and with policy processes. We should also strengthen our regional human resources so that they are more able to engage with Washington (the World Bank and IDB) and Brussels (the EC) in particular, and with other HMG government departments in Whitehall, in particular the Foreign Office and the Department of Trade.

E. UK DEVELOPMENT PARTNERSHIP

E1. The goal of the partnership is to help Peru achieve the Millennium Development Goals, including the key target of reducing income poverty by half by 2015.

E2. The purpose is to work with the international community, to support the government's aim of achieving more equitable and inclusive development. The partnership will help the government promote the political, social and economic inclusion of poor, excluded and marginalized people – particularly the indigenous peoples of the sierra – so that they are more able to exercise their rights and responsibilities as citizens of Peru.

Strategy

E3. To achieve this purpose, our strategy will be to work with both the government and with poorer, excluded indigenous people - and their representatives - to build the bridges between them. This support for strengthening state-society relations will help articulate the voice of poor people to government. There will be a strong focus on helping the poor and their representatives participate in the development and oversight of public

policies and programmes. The strategy will help government become more responsive and accountable.

Working with the International Community

E4. In taking forward the strategy, we will work closely with the international community in all our activities, in particular with the World Bank, the IDB and the EC. These agencies are particularly important to development in Peru, and we will seek to complement them and add value to their activities. We will seek to work with them at a number of levels:

- Building a shared understanding of poverty reduction objectives; for example around the Millennium Development Goals, Peru's progress against these and promotion of the goals (also with UNDP);
- Working at a strategic level to support Peru's poverty reduction strategy, and macro-level co-ordination behind this strategy, to promote joint working on poverty and exclusion;
- Supporting (non-lending) analytical work; for example on how best to provide international support to middle-income Peru;
- Supporting knowledge sharing processes; on issues such as inclusion, participation and right-based approaches;
- Sharing staff; possibly including secondments;
- Providing support for policy-based loans; for example on work for better governance in the World Bank's social reform loans;
- Working together on specific programme activities; for example in health, education and social protection activities, with both Banks and the EC.

Instruments

E5. Our in-country staff will allocate significant time free of 'project management' to knowledge dissemination, alliance building and support for advocacy for pro-poor change. Activities will be directed at raising the profile of poverty reduction, and building support for achieving this with government, civil society and the international community. In-country staff will link with regional staff working at an institutional level with the World Bank, the IDB and the EC and other important regional organisations such as PAHO and other UN agencies.

E6. To achieve this, flexible short-term funds will support innovative small-scale activities that contribute to the development of pro-poor policy and practice, working on state-society issues, with the government, and with the international community. This effort will be supported by longer-term programmes that will provide both a solid basis of reality, knowledge and lessons for our activities, as well as yielding direct benefits to poor people. The programmes will provide a platform for our engagement in dialogue on pro-poor policy and practice in Peru with both the international community and government.

Deliverables over the Period of the Country Assistance Plan – by 2006

E7. Given the above overall objectives (goal, purpose, strategy) and means of operating (international community, instruments), over the time period of the Peru Country Assistance Plan, we will contribute to the achievement of four government objectives:

- Objective 1: More co-ordinated action for poverty reduction;
- Objective 2: Institutions of state more responsive to poor;
- Objective 3: Enhanced economic opportunities for the poor; and
- Objective 4: More inclusive social services.

Objective 1: More co-ordinated action for poverty reduction

E8. We will support the government in its efforts to promote a more coordinated and coherent approach to poverty reduction. Assuming the government takes forward its Strategy for Overcoming Poverty (*Estrategia de Superacion de la Pobreza*), we will actively support this process, by offering access to international PRS experience, by providing further assistance with participatory poverty assessments, and through other aspects to be determined.

E9. The government is seeking to achieve greater coordination of donor support to Peru. If a comprehensive strategy for tackling poverty were pursued, this would significantly enhance the prospects for co-ordination of the international community. Whatever the outcome, more co-ordination of the international community at a macro level is required. DFID will be active in encouraging this.

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| <ul style="list-style-type: none">• CAP Objective 1 (a): Implementation of a comprehensive, coherent approach to poverty reduction;• CAP Objective 1 (b): Macro-level co-ordination of international community targeted on poverty reduction. |
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Objective 2: Institutions of state more responsive to poor

E10. Democratic reforms are underway to revise the constitution and the electoral and political party systems. The government is also seeking to bring government closer and more accountable to people, through decentralisation, transparency, public finance reform (including anti-corruption work), participation, and the social oversight of public services. A number of multilateral and bilateral agencies are supporting this agenda. The major concern for DFID will be to support these developments with a strong focus on promoting the inclusion of the poor and the poorest, within a rights-based framework.

E11. We will fund two longer-term programmes to support this objective. The first is the Southern Sierra Human Rights for the Poor Programme (2002 – 2007). This supports the participation and inclusion of poorer, excluded indigenous communities in local government, linked to regional and national

level, to strengthen economic, social and cultural, as well as political and civil rights. The programme will support WB and IDB loans for social policy reform and decentralisation.

E12. The second is a Political and Financial Accountability Programme. This is under design, reviewing options to support political system development, electoral reform, and public finance management to promote accountability to poor people. We are completing a 2002-2003 regional and municipal elections project supporting electoral rights and local governance education.

- CAP Objective 2 (a): development of political and electoral systems which are more responsive to the rights of the poor and excluded;
- CAP Objective 2 (b): strategies to enable poor indigenous people to realise their human rights more widely understood and supported;
- CAP Objective 2 (c): (aspects – to be determined – of) public finance management are more transparent and accountable to the poor.

Objective 3: Enhanced economic opportunities for the poor

E13. The Government is facing the task of promoting sustainable economic growth, which is also more equitable in its outcome. The administration will benefit from support from the MDBs on policy, infrastructure and competitiveness measures. We will seek to provide support, with systemic benefits to the poor, through activities that enhance their voice in economic policies and programmes.

E14. We will complete implementation of our support 2002-2003 for the government's Emergency Employment programme in poor rural Andean regions, linked to reforms to enhance the role of participatory local government in social protection, working with the IDB, EC and others. We will review the trade regime issues of specific interest to poor producers and support their incorporation into trade negotiation policies, working with other donors (EC, IDB).

- CAP Objective 3 (a): A functioning and improved social protection system;
- CAP Objective 3 (b): Enhanced focus on trade regime issues of specific relevance to poor producers.

Objective 4: More inclusive social services

E15. The government is committed to improving public sector management including the expansion of health and education services. The World Bank, IDB, EC and others are supporting this effort. DFID will complement these through a strong focus on strengthening the link between the service providers (mainly the state) and poor users (citizens), within a rights-based approach.

E16. We will fund one longer-term programme to support this objective. This is a five-year Health Rights programme (2003-2008) currently in design, working at local and regional level in the *sierra* and *selva*, linked to national level policies. The programme will support the expansion of free health services, support the participation of communities in health management, and co-finance World Bank-IDB support for health sector reform, to promote the right of the poor people to health services. We will also bring to completion an existing project in education (2003-2005) that has been re-focused on the participation of poor rural communities in school management, complementing World Bank and USAID support for rural education.

- CAP Objective 4 (a): The right to health of poor, excluded – particularly indigenous – people more firmly established and respected;
- CAP Objective 4 (b): Successful participation of poor communities and parents in management of education services in rural areas.

DFID Policy and Management Objectives

E17. This partnership is guided by DFID policy papers, our Middle Income Countries statement and our priorities for Latin America. It will help DFID deliver on its Public Services Agreement III, to help reduce poverty in Latin America; IV, to improve the effectiveness of the multilateral system; and V, to develop evidence-based innovative approaches to international development. It will also support Service Delivery Agreements 5 to 7 in particular, including the development of a better policy environment within middle income Peru.

F. PROGRAMME RESOURCES

F1. The Country Plan envisages a country programme bilateral allocation of about £3.5 million a year. More than this was provided in 2001/02 as an exceptional response to the Government's special appeal for support for its Emergency Employment programme.

F2. The country bilateral programme is complemented by DFID central funding support from the Civil Society Challenge Fund, research funds, and other challenge funds, which has been running at about £1.5 million a year. These include support for innovative projects such as the Children of the Millennium child poverty research project, and others in human rights, which are co-ordinated closely with the bilateral programme. We will continue to encourage a complementary approach from these programmes, to maximise learning benefits for Peru.

F3. DFID support is complemented by FCO funding, particularly for political and civil human rights. The current focus is on support for a free media and for police reform. These projects are managed by the British Council and are worth about £0.3 million a year. HMG will continue to co-ordinate closely on this.

F4. The UK also funds about 18% of the EC development programme, estimated in disbursement terms at about £5 million per year. The UK is a 5% shareholder in the World Bank and 1% shareholder in the IDB.

Objective 1: Coordinated Action for Poverty Reduction

Government of Peru Objective (longer term)	DFID Country Assistance Plan Objective (by 2006)	DFID Annual Objective – Expected Change (2003/04)	DFID/HMG Instruments (2003/04)	Assumptions (2003/04)
Strategy for Overcoming Poverty (PRS)	<u>Objective 1 (a):</u> Implementation of a comprehensive and coherent approach to poverty reduction supported by DFID and international community	Development of full PRS underway, involving broad participation (from the poor to politicians), and support from international community Public discussion of poverty indicators and Millennium Development Goals	Support access to International experience on PRSS Provide support to follow on from 2002 Participatory Poverty Assessment Staff time to facilitate support for PRS	Government gives higher priority and commitment to Poverty Reduction Strategy
Effective co-ordination of donors	<u>Objective 1 (b):</u> 'Macro-level' coordination targeted on poverty reduction supported by DFID	Macro-level co-ordination begins Donors considering implications of middle income country status of Peru International community (including MDBs and EC) support development of PRS MDB (multi-sector) Policy Based Loans (eg World Bank Programmatic Social Reform Loan III) have significant and meaningful poverty reduction content	Staff time Applied analytical work Lessons drawn from programme activities	Multilateral agencies have time and interest to engage in co-ordination Peruvian International Cooperation Agency (APCI) is active

Objective 2: Institutions of State More Responsive to the Poor

Government of Peru Objective (longer term)	DFID Country Assistance Plan Objective (by 2006)	DFID Annual Objective – Expected Change (2003/04)	DFID/HMG Instruments (2003/04)	Assumptions (2003/04)
Democratic, participatory, decentralised government	<p><u>Objective 2 (a):</u> Development of political and electoral systems is more responsive to the rights of poor and excluded people</p> <p><u>Objective 2 (b):</u> Strategies to enable poor indigenous people to realise their Human Rights – through participation, inclusion and the fulfilment of state obligation – are better understood and more widely supported by the state, society and the international community</p>	<p>Emerging political party systems support political inclusion</p> <p>Debate on electoral reforms informed by rights of the poor and excluded</p> <p>Legal framework for Participation is pro-poor</p> <p>Participatory planning, budgeting and vigilance further reinforced, coordinated and institutionalised</p> <p>More coordinated donor support for decentralisation (IDB, USAID and others)</p> <p>MDB loans (eg WB PRSL III and IDB Decentralisation) supportive</p>	<p>Political Accountability and Responsiveness Programme (2003/07) in design</p> <p>Sierra-Sur Rights and Development programme (2002/07)</p> <p>Dissemination of lessons from 2002/03 Elections and Local Government project</p> <p>Dissemination of lessons from 2002/03 TA component of Foncodes project</p> <p>Short term activities to support development of legislative agenda</p> <p>Staff time for donor coordination</p> <p>FCO Human Rights support</p>	<p>Continued multi political party interest in reform and need for Political Party Law, and in electoral reform</p> <p>Continued government commitment to pluralistic government, to participatory mechanisms and to decentralisation</p>
Transparent, ethical government	<p><u>Objective 2 (c):</u> Aspects of public finance management are more transparent and accountable to poor and excluded people</p>	<p>Agenda for Action defined: possibly focused on taxation and/or fiscal transparency and accountability, linked to MDB activities</p>	<p>Staff time, scoping</p>	

Objective 3: Enhanced Economic Opportunities for the Poor

Government of Peru Objective (longer term)	DFID Country Assistance Plan Objective (by 2006)	DFID Annual Objective – Expected Change (2003/04)	DFID/HMG Instruments (2003/04)	Assumptions (2003/04)
Increased employment and incomes for the poor (reducing income poverty levels)	<p><u>Objective 3 (a):</u> Functioning and improved social protection</p> <p><u>Objective 3 (b):</u> Enhanced trade opportunities for the poor</p>	<p>Management of main social assistance programmes shared by municipal government</p> <p>National government is reviewing objectives and contents of social assistance programmes</p> <p>DFID assistance effectively co-ordinated with main donors: IDB, EC, Germany</p> <p>Agenda for action defined: probably focused on supporting representatives of poor to engage on trade policies; to complement EC and IDB support for</p>	<p>Foncodes Project, supporting 'A Trabajar' Rural Component</p> <p>Short term studies and support for review of programmes</p> <p>Staff Time</p> <p>Staff time for scoping studies</p>	<p>Calendar for decentralisation of social assistance programmes is respected</p> <p>MIMDES maintains momentum for reform of social assistance programmes</p> <p>IDB pursues Social Reforms policy based loan</p> <p>Potential exists among representatives of poor to engage effectively on trade issues</p> <p>EC and IDB project activities proceed</p>

DRAFT 28 APRIL 2003

Objective 4: More Inclusive Social Services

Government of Peru Objective (longer term)	DFID Country Assistance Plan Objective (by 2006)	DFID Annual Objective – Expected Change (2003/04)	DFID/HMG Instruments (2003/04)	Assumptions (2003/04)
Improved health outcomes	<u>Objective 4 (a):</u> Right of poor and excluded – particularly indigenous – people to health more firmly established and respected	Stronger capacities within government and civil society to understand and pursue health rights of poor people Channels re-established for public debate and monitoring of pro-poor health policies International community, in particular World Bank-IDB (Parsalud project) and EC, participates in debate on health policies Global Health Fund operating transparently and effectively	Health Rights Programme Specific support on applied research agenda Staff time Global Health Fund support for Peru	Ministry of Health reaffirms commitment to pluralistic discussion of health issues International community maintains commitment to health sector
Improved educational outcomes	<u>Objective 4 (b):</u> Successful participation of poor communities and parents in the management of education services in rural areas	Stronger Rural education Office in Education Ministry Piloting of community involvement in rural school councils and networks begun Effective coordination with key members of international community, in particular, World Bank (rural education project), IDB and USAID	Rural Education project Specific support for public debate of education policies for poor Staff time	Ministry of Education reaffirms priority of and commitment to rural education. World Bank Rural Education project proceeds

H. IMPLEMENTING THE COUNTRY PLAN

H1. To implement the Country Plan, we will maintain a small in-country office, to enable us to engage with Peruvian policy and practice. This will comprise a small group of policy capable advisers. The team will mix both international and national advisory staff, to balance international and local knowledge. Staff time will be divided between managing programmes, which both bring direct benefits, and give us knowledge and lessons, based on reality; engaging on policy with the rest of the international community, the Peruvian state and society; and two-way linkage with DFID.

H2. The advisory team will have local administrative support, and will be part of the British Embassy in Lima, to encourage a coherent HMG approach on international development policy issues, including governance and human rights, security issues and trade and investment.

H3. The in-country office will work closely with the LAD regional resources based in London to promote partnership with regional level institutions. The two will also have a two-way relationship with EMAP, IFID, EUD and Policy Division, both to draw down international expertise for the benefit of Peru and take the Peru lessons to the global level. LAD will continue to work closely with other Whitehall Departments, especially the FCO, to pursue policy coherence.