



EUROPEAN COMMISSION

PERU

COUNTRY STRATEGY PAPER

2007-2013

11.04.2007 (E/2007/582)

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0. EXECUTIVE SUMMARY

The 2007-2013 Country Strategy Paper analyses Peru's development potential based on an analysis of the different factors that contribute to its development (the objectives and legal framework of cooperation, the political programme, its political, economic, social and environmental situation, and past and current cooperation). The results of this analysis serve to identify the main thrust of EC cooperation with Peru in the years to come, in close consultation with local organisations and the Member States.

The general principles of EU cooperation as set forth in Article 177 of the EC Treaty are the sustainable economic and social development of the developing countries, the smooth integration of the developing countries into the world economy and the campaign against poverty. At the last EU/Latin America Summit held in Vienna in May 2006, the 58 countries taking part in this political forum reaffirmed their wish to act within a framework of multilateralism and undertook to strengthen social cohesion and promote regional integration.

Analysis of Peru's political, economic and social situation shows that the main problems include serious institutional weakness and unequal distribution of resources and wealth resulting in widespread poverty, which affects more than half the population. In the National Agreement (Acuerdo nacional) signed in 2002, the main political forces and the representatives of civil society examined the Government's broad policy guidelines and gave priority to combating inequality and poverty until 2022.

The 2004-2006 National Plan for Poverty Reduction is a key reference as it attempts to bring together the National Agreement proposals, the Millennium Goals and the Government's general poverty reduction policy. Because of its consensual and long-term nature, the National Agreement has played an important part in formulating the EC's 2007-2013 strategy. Peruvian civil society was involved in the process of preparing the strategy.

The analysis of the country's situation, the State's strategies at national and sectoral level and the cooperation under way and that programmed by the EC and the Member States support an EC intervention proposal, in the principal areas of development cooperation:^[2]

- a) Support for modernisation of the state, strengthening of governance and social inclusion - 20%
- b) Support for integrated social development in specific regions by strengthening social cohesion – 80%.

^[2] The principal areas of cooperation are those established by the ALA Regulation: Financial and technical assistance and economic cooperation.

1. EU/EC COOPERATION OBJECTIVES

1.1. LEGAL FRAMEWORK OF EU COOPERATION WITH PERU

Under Article 177 of the Treaty establishing the European Community, EC cooperation policy must foster the sustainable economic and social development of the developing countries, their smooth and gradual integration into the world economy and the campaign against poverty. Community policy in this area must also contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms.

Under Article 179 of the same Treaty, a new Development Cooperation Instrument (DCI) was adopted in December 2006. Peru is eligible to take part in cooperation programmes financed under the DCI (Regulation of the European Parliament and the Council (ECC) No... of December 2006 establishing a new financing instrument for development cooperation).

The EU structures its relations with Peru under the Framework Agreement establishing cooperation between the EU and the Andean Community countries, which was signed in 1993 and became effective in 1998. The political dialogue is based on the Rome Declaration signed in 1996. Political relations were strengthened and institutionalised through the signing of a Political Dialogue and Cooperation Agreement between the EU and the Andean Community in December 2003. Once ratified, it will replace the Rome Declaration and the Framework Agreement. The new Political Dialogue and Cooperation Agreement will broaden the scope of the political dialogue between the two regions in order to cover such subjects as conflict prevention, governance, migration and terrorism. Both the EU and the Andean Community countries agreed as of 2004 (EU-LAC Guadalajara Summit) that their "common strategic objective" was the conclusion of an Association agreement that includes a free trade area between both regions. The last Summit held in Vienna has confirmed the objective of the conclusion of an Association agreement between the two regions.

1.2. JOINT DECLARATION ON DEVELOPMENT POLICY "THE EUROPEAN CONSENSUS" (2005)

The EU strategy with Peru for the period 2007-2013 is based on the "European consensus on development" adopted by the Commission communication on 22 November 2005^[3]. This declaration focuses mainly on poverty eradication in the context of sustainable development and the Millennium Development Goals. It highlights the importance of relations based on a partnership with the developing countries and promoting governance, respect for human rights and democracy in order to achieve fair globalisation. The declaration advocates an approach that varies

^[3] The text of the European consensus on development is published on the website of the European Commission's Directorate-General for Development
http://europa.eu.int/comm/development/body/development_policy_statement/index_en.htm

according to the context and needs, and proposes a common thematic framework that includes social cohesion and trade and regional integration among the priorities for EC cooperation. This declaration also calls for the participation on non-state actors in the development process in order to ensure the viability, efficiency and impact of development strategies and programmes.

Note also that the declaration contains a separate chapter on the need to include certain cross-cutting issues in the implementation of its development policy - promotion of human rights, gender equality, democracy, good governance, rights of children, rights of indigenous people, conflict prevention, sustainable environment, combating HIV/Aids. These cross-cutting issues are both objectives in themselves and also vital factors for reinforcing the impact and sustainability of cooperation.

1.3. COMMISSION COMMUNICATION "A STRONGER PARTNERSHIP BETWEEN THE EUROPEAN UNION AND LATIN AMERICA"

On 8 December 2005 the European Commission adopted a communication on a renewed strategy to strengthen the EU's strategic partnership with Latin America^[4]. Following the summit of heads of state of the European Union, Latin America and the Caribbean, that has been held in Vienna in May 2006, the Commission analyses the current challenges and makes practical recommendations for giving new impetus to this partnership. For example, it proposes stepping the political dialogue between the two regions, stimulating economic and commercial exchanges, encouraging regional integration, tackling inequality and tailoring its development and aid policy more closely to real conditions in Latin America.

2. THE PERUVIAN GOVERNMENT'S POLITICAL AND DEVELOPMENT AGENDA

2.1. NATIONAL POLICY AGENDA

The democratic consolidation process passes right now a critical phase en Peru. The new GVT took over after a turbulent election process in April 2006 culminated by a narrow second tour in June. Elections rendered evident the deep divisions prevailing in the country, in particular among the different regions and called for urgent action in the fight against social, political and economical exclusion.

The Government has accepted that challenge and asked the civil society to participate in strategies of social inclusion and policies to fight poverty, overall goals have been set and some programmes and projects are already in the planning stage but have not been concreted yet.

4.The communication is published on the website of the European Commission's Directorate-General for External Relations:

http://www.europa.eu.int/comm/external_relations/la/news/ip05_1555.htm#text

Important GVT goals are related with (a) reduction of chronic infantile malnutrition, (b) reduction of illiteracy (c) strengthening productive capacities in the southern highlands of the Andes, (d) support to the decentralization process.

During November Peru celebrated regional and municipality elections. The results reconfirmed the political divisions of the whole country and showed again the fragility of classical political parties which facilitates several local political movements with little perspective to establish consolidated parties with long-term perspectives.

Since the Fujimori government dismantled the existing planning structure in the 1990s, there has been no central planning body in Peru. However, the political process of the National Agreement (NA) facilitated the setting-up of the National Strategic Planning System and the National Strategic Planning Centre (CEPLAN), established by a law adopted in May 2005.

President Alan Garcia has put tackling inequalities at the centre of his government's programmes at the same time as fostering orthodox monetary and budgetary policies.

The main tasks of Mr Garcia's government are to:

- reduce poverty, which affects more than 50% of Peruvians;
- avoid budgetary slippage;
- face up to the opposition in the Congress^[5] and in disadvantaged regions;
- strengthen democratic institutions;
- pursue regional integration^[6].

2.2. PERU'S DEVELOPMENT COOPERATION POLICY

The Peruvian International Cooperation Agency (APCI) has produced two key documents laying down the Peruvian government's guidelines for international cooperation: the National Policy for International Cooperation and the Annual Plan for International Cooperation. Both documents were approved by APCI in June 2006 and ratified by the new government in September.

These documents establish four strategic areas in which Non-reimbursable International Cooperation can complement tasks carried out by the Peruvian state: a) Human security, contributing to secure universal access to drinking water and sanitation, as well as eliminating all forms of exclusion and discrimination; b) governance, contributing to a democratic, transparent and efficient state, guaranteeing

^[5] As the APRA has less than a third of the seats in Congress, it will have to align itself with other parties/coalitions. The fact that 5 members of Congreso have already abandoned Ollant Humala's UPP can only make the task easier.

^[6] President Garcia is very keen to reinforce the Andean Community and in the long term to implement an effective South American Community.

universal access to justice and assisting the decentralisation process.; c) human development, through universal access to quality education and improved health and nutrition; d) sustainable competitiveness, through the promotion of national competitiveness, appropriate work conditions and abundant work opportunities, sustainable use of natural resources and the protection of the environment, scientific and technological development and the integration of Peru in the world economy.

3. ASSESSMENT OF PERU'S POLITICAL, ECONOMIC, SOCIAL AND ENVIRONMENTAL SITUATION

3.1. POLITICAL SITUATION

3.1.1. The legacy of the past and democratic transition

Peruvian society consists of many diverse ethnic and cultural groups that make it one of most heterogeneous societies in the American continent. *Throughout its history it has undergone profound political and social conflicts, generating a situation of chronic instability that hinders the expression of a genuine national identity.*

Peru underwent serious civil hardship during the 1980s and the first part of the 1990s because of the political terrorism perpetrated by violent groups such as the *Shining Path and the Tupac Amaru Revolutionary Movement*. In addition to countless deaths, this state of affairs gave rise to huge economic losses in the form of infrastructure destruction, the onset and exacerbation of poverty, and social exclusion involving large groups of the population, such as indigenous peoples, women and children.

Alberto Fujimori, who defeated terrorism and managed to reinsert the country into the international economy, governed the country during the 1990s. However, his policy also came at a very high cost which had an impact on social indicators (increased underemployment and inequalities) and institutional stability (breakdown of institutionalisation, increased State-led corruption, and authoritarianism).

President Fujimori resigned in November 2000 following exposure of a widespread corruption network among high-ranking Government officials. The democratic transition was led by a Government presided by Valentín Paniagua, who attempted to restore democratic institutions, reinsert the country into the international democratic community and pave the way for open and free elections. Alejandro Toledo, one of the leaders of the fight against the authoritarian regime led by Alberto Fujimori, was elected president in June 2001. The new President, Mr Garcia, took office on 28 July 2006. Former President Fujimori has been held since November 2005 in Chile. An application for his extradition to Peru was sent to Chile on 3 January 2005.

The **Truth and Reconciliation Commission (CVR)**, set up by the transition government in 2001 and revalidated by Alejandro Toledo's government, researched in depth the consequences of the period of violence and its effects on the population.

In its final report of August 2003 it indicated a total of some 70 000¹ dead and disappeared, for the most part Quechua-speaking indigenous people. A programme of “collective reparations” has now formally commenced via social investment in the affected regions, but direct individual compensation or other non-monetary individual reparations are not offered and psycho-social care for victims is minimal. At the end of the 2005 a threat campaign was launched against several of the Commissioners, including its president, and other defenders of human rights.

In 2005 a law recognising the right of victims of political violence to compensation was approved although it was only put into force as of July 2006. The new government has created a National Reparations Council, directed by Sofía Macher, ex-member of the CVR and a human rights activist. The Council has the task of creating a single register of victims that will permit allocating compensation.

3.1.2. The rule of law and the legal framework

From his first day in power, President Garcia took as central planks of his policy a frontal attack on poverty, corruption and drug trafficking.

State decentralisation, currently one of Peru's main public policies, is considered an irreversible process although there are still many obstacles to be overcome. The current process began in November 2002 with the election of regional governments constituted in January 2003 on the territorial basis of the departments. Decentralisation is faced with numerous practical problems relating to the lack of local capacities of public administration in regions that have always depended on the central government for decisions. The political, cultural and economic divides in Peruvian society continue to generate tension and social conflicts. In this framework, it is worth noting the participative character of the process and the recovery of planning as a management instrument of regional and local development.

The new Government of Mr Garcia has undertaken to finalise the process of transferring sectoral functions to the regional Governments by 31 December 2007.

According to recent UN data, Peru is currently the world's second biggest cocaine producer. The surface area for growing cocaine increased by 14% between 2003 and the beginning of 2005, i.e. up by 50 300 hectares. Although there is no law on growing cocaine for traditional use, the Government recognises its use for such purposes. In June 2004, the Executive sent Congress a bill aimed at regulating the production of coca leaf for traditional use. The "cocaleros" – over 120 000 – insist that a study on the real production of coca leaf should be carried out, and that laws protecting its traditional cultivation should be passed. Under President Toledo's Government, relations between the central Government, especially the anti-drugs

⁷ This figure is a statistical projection carried out by the CVR. The official relation of victims will be determined by the National Council for Reparations.

body – DEVIDA – and the "cocalero" movement worsened. In the April 2006 elections, two representatives of "cocalero" organisations were elected for Congress and the Andean Parliament in the UPP list. In November's municipal elections some mayors linked to the "cocaleros" were also elected.

For Mr Garcia, tackling drugs is a priority and DEVIDA, with a new President, wants to redefine itself as a strong body that will focus more on alternative development than forced eradication.

Indigenous peoples, approximately one third of the Peruvian population, are at a clear disadvantage. Almost all of them live in the poorest regions of the country, with limited and deficient access to basic services. The Quechua-speaking population was the hardest hit during the period of political violence, representing, according to the CVR, 80% of all victims. Although these people's rights are guaranteed by the constitution, actual circumstances show that they suffer social and political exclusion and their particular needs are generally overlooked. President Toledo's Government included indigenous peoples among its priorities, in December 2004 it set up the national institute for Andean and Amazonian peoples – INDEPA – giving it ministerial ranking. The results of this initiative are not yet clear. So far, Mr Garcia's policy on indigenous peoples is not clearly defined.

The antiterrorist laws enacted by the Fujimori Government have been amended and tailored to the Constitution and international standards by Mr Paniagua's transitional Government. Since 2001, because of attacks attributed to the Shining Path, the Government has been obliged to declared a state of emergency in several towns^[8] showing the existente of certains remnants of terrorists groups. Attempts to reform the national intelligence system, after it was dismantled in 2001, have come to nothing.

3.2. REGIONAL AND INTERNATIONAL CONTEXT

International relations have changed significantly since Fujimori. Important initiatives have been undertaken in order to reinsert the country into the international community. These initiatives include the signing of the International Penal Court's Rome Statute, the signing of the OAS Convention on forced disappearances, acknowledgment of the contentious jurisdiction of the Inter-American Human Rights Court, and the signing of the Convention on the Elimination of All Forms of Discrimination against Women.

Relations between Peru and Chile have sometime been very strained in recent years. Apart from the question of former President Fujimori's arrival and detention in Chile in November 2005, a last point of conflict concerns the delimitation of the territorial

^[8] The most recent attack occurred in December 2005 when 8 policemen were killed in the Ayacucho region.

waters between the two countries^[9]. Since Mr Garcia's new Government came to power, relations between Peru and Chile have markedly improved. On 22 August 2006, Chile and Peru signed an Economic Complementarity Agreement, a historical milestone in relations between the two countries.

After the peace treaties with Ecuador (Brasilia Agreements, 1998) a Bi-national Plan of social development and integration in the border zone between both countries was established. The EC, one of its main donors, is an observer member in the Monitoring Committee of the Plan.

The Amazonian Cooperation Treaty, which includes Peru, has been strengthened after the establishment of its permanent Secretariat in Brasilia and its development into the Amazonian Cooperation Organisation, OTCA, a process also supported by the EU. The Lake Titicaca Authority is a bi-national regulating body (Peru – Bolivia) that seeks to regulate the conservation of resources found in the lake's basin.

Peru has been an active member of the Andean Community of Nations (CAN) since its inception, hosting its General Secretariat in Lima. In December 2004 a South American Integration Summit was held in Cuzco, which represented a further step towards setting up a South American Community of Nations (CSN) and negotiating the Association Agreement with the EU via the CAN.

3.3. ECONOMIC AND SOCIAL SITUATION

With a surface area of some 1.3 million km², Peru is the fourth largest country in Latin America. Peru's geography is extremely diverse: the costal area (11% of the surface area), the Andean region (34%) and the Amazonian basin (55%), each comprise a distinct entity with individual characteristics. Like other Andean countries, Peru is a multi-ethnic country. Although there is no consensus at national level on the figures for the indigenous population,^[10] according to data from different sources roughly speaking the population is made up of 45% indigenous peoples, 37% *mestizos* (mixed race) and 15% whites.

Peru's population density is low, but there are 7.5 million inhabitants in its capital, Lima, (out of a total population of 27 million, i.e. 29.2%). Peru's major socio-economic indicators are shown in Annex 3.

^[9] Chile and Peru's positions diverge on the maritime delimitation between the two countries. Chile maintains that the delimitation is as results from the 1952 and 1954 treaties whereas Peru thinks that these treaties only referred to fishing activities and that there has not yet been a maritime delimitation.

^[10] The Afro-Indigenous Institute (INDEPA), set up in December 2004, does not yet have its own studies on the indigenous population. Official figures refer to the census conducted by INEI in 1993. At the time of writing, the results of the 2005 census are not yet available.

3.3.1. Economic situation

In 2006 Peru ranks as the seventh economic power in Latin America. The Peruvian economy is characterised by a wide disparity among regions as regards the degree of economic development. With respect to the business fabric, microenterprises account for 90% of formal establishments.

Economic growth prospects are good: in 2005, the Gross Internal Product grew by 6.4% (INEI). The Camisea Gas project and other large projects such as the Las Bambas copper project and the Interoceanic Highway might increase growth. In parallel to these macroeconomic indicators with clearly positive tendencies others present a less favourable scenario, e.g. the rise in unemployment from 8% to 10% in 2005. Informal employment is a permanent feature, which represents 60% of the economy of the country.

One of the major challenges is to improve the tax system, whose principal weaknesses are: low tax pressure centred on indirect taxes; collection concentrated on a limited number of taxpayers; erosion of the tax basis owing to the proliferation of legal changes; and weakness of tax collection (many exemptions, high degree of evasion). In this context it is important for Peru gradually to build an effective system of information exchange between the relevant administrations, following international standards established, for example, in the OECD.

3.3.2. Structure of trade

In the last few years exports have grown strongly, increasing by 36.8% between 2004 and 2005, reaching USD 17 billion. The greatest growth is in traditional products (44% compared with 2004 and 18.8% for non-traditional products).

Imports grew from USD 10.100 billion in 2004 to USD 12.502 billion in 2005. Since 2000, the trade balance has improved substantially with a deficit of USD 602.4 million in 2000 and a surplus of USD 4.498 billion in 2005.

Peruvian trade integration policies are not only geared towards South America as the free trade treaties under negotiation will encourage the growth of trade with the United States (it is currently in first place for the origin of imports - 19.6% of the total - and destination of exports - 28.8% of the total), with Asia (Singapore, Thailand and China, which currently occupies second place as country of destination) and the EU. The free trade agreement with the USA was signed in December 2005^[11]. The Peruvian Congress has already ratified it. The US Congress now needs to ratify it for it to enter into force.

^[11]

The Free Trade Treaty is expected to be ratified by the US Congress in 2007.

3.3.3. Social situation

The social sector includes education, health, nutrition, access to natural resources in a context of sustainable development, and social and community assistance programmes. According to the 2005 budget, total social expenditure will be 7.5% of GIP.^[12] This is a little higher than the 7% average reached during the 2001-2004 period. A large part of the budget for the social sector is intended for current expenditure (administrative management, payrolls, pensions, social charges, etc.) while investment expenditure is very low (6% of the health sector budget goes to investment). It is estimated that the accumulated deficit in infrastructure and medical equipment investment is USD 120 million and 79% of hospital equipment is in disuse for want of repair. The priority in the social sector is to reduce poverty by means of job creation and universal access to basic, good-quality services in health, nutrition and education. Under the 2006 budget there will be an increase in education spending but a decrease in health spending.

The percentages of the population living in poverty and extreme poverty in the last two decades have remained practically constant, although in absolute terms the population in this situation has increased considerably, especially in the cities. In 2003 around 14.7 million people, i.e. 54.7% of the population, were considered poor, 56.8% in rural areas (8.34 million) and 43.2% in urban areas (6.35 million). An estimated 15.5% of the total population is in a situation of extreme poverty, which is worse in rural areas (4.8 million people in rural areas and 1 million in urban areas).

The regions with the highest rates of poverty and extreme poverty are in the Central mountain range (Huancavelica, Huánuco, Apurímac and Ayacucho). The rates are also high in Cajamarca, Cusco and Puno and in the forest regions (Amazonas, Loreto and Ucayali). The relatively low percentages of poverty in Lima nevertheless conceal a high incidence of poverty and extreme poverty in absolute terms.

The extensive agricultural reform that took place in the 1970s (under the military government) resulted in a certain amount of redistribution (with more satisfactory effects in mountain areas), a decline in intensive agriculture and exportation and a precarious legal situation of much expropriated land which has still not been resolved. Agricultural reform has led to excessive parcelling of land with 85% of the population owning less than one hectare of land.

With an average Human Development Index of 0.762^[13], Peru comes mid-way in the world ranking (79 out of a total of 177 countries). Of the Andean countries, Peru comes after Venezuela and Colombia, and in terms of Latin America it comes after Argentina, Chile, Uruguay and Brazil. The level of development shows marked geographical inequalities that reflect the unequal economic context: the highest indices are focused in Metropolitan Lima, in the provinces of Costa, in areas of

^[12] S/.18.7 billion or €4.7 billion.

^[13] 2005 UN Development Report (2003 data).

greatest demographic concentration, in the most urban areas, and in areas nearest the capitals. With a Gender-related Development Index of 0.767, Peru is in 82nd position.

As regards attainment of the MDGs in 2015,^[14] it is essential to integrate economic growth policies, income redistribution policies^[15] and specific social policies. While it seems very probable that Peru will achieve the aims of primary education for all, promotion of gender equality and a reduction in maternal and infant mortality, achieving the objectives of poverty and hunger reduction seems a more difficult task. (See table in Annex 5). Even if most of the population can get primary education, and therefore the MDG could be attained, recent UN reports on Latin America put Peru in bottom place in terms of the quality of education. The Ministry for Women and Social Development (MIMDES) is the organisation responsible for coordinating actions to combat poverty. The Ministry works on proposals contained in the National Agreement. There is a need for a radical restructuring as regards the implementation of social programmes.

3.3.4. Environmental situation

The links between poverty indices in Peru and its environmental context advocate a joint solution to both problems. Peru's environmental problems are evident in severe deterioration of its ecological systems and serious risks affecting the natural balance and the economy and health sectors of the different ecological-geographical regions that form part of the Peruvian territory. Since Peru is a major producer of raw materials - natural, mineral, fishing and forest resources - environmental degradation is a particular concern for its economy. Peru is the biggest country of the Andean Community and its topography is dominated by the "cordillera andina" which causes three types of areas in the country: the Pacific coast, "la sierra" and the Amazon forest. The great diversity of these economic-geographic zones means that Peru is a country with a rich biodiversity which offers unique opportunities in terms of natural resources – provided that they are used sustainably. 58.9% of the country is covered in forests. The basic problems facing Peru on the environment are as follows: deforestation, inappropriate farming methods, soil erosion due to flooding. In Peru, different bodies have responsibilities for the environment, e.g. Ministry of Agriculture, INRENA etc. Coordination between these bodies is not always very efficient. The imbalance between the environment and mining industries is another relevant aspect and its inadequate handling could eventually be an important source of conflict, as well as the state's deficit in policies that deal with the environmental effects of mining activities.

In this context, a law setting up the National Council for the Environment, which is responsible for implementing municipal, district and regional environment plans, was recently adopted (see Peru's environmental profile in Annex 11).

^[14] Objetivos de Desarrollo en el Perú: Alcanzando las metas, December 2004.
www.pnud.org.pe

^[15] Gini Index 49.8. (Source: Human Development Report, 2004)

It is important to underscore Peru's vulnerability to a range of natural and recurrent disasters, such as the consequences of the "el Niño" phenomenon (storms, floods, cold snaps) or its liability to earthquakes. In this situation, EU cooperation is necessary both as regards preparedness for natural disasters and disaster mitigation and prevention

3.4. CROSS-CUTTING ISSUES

3.4.1. Human rights and democracy, including children's rights

Peru has ratified most international treaties on human rights, incorporating them into their national legislation. The human rights situation in Peru has improved in recent years, especially considering that only some of the recommendations of the Truth and Reconciliation Commission (CVR) have been put into practice, while many more have yet to be implemented. On 14 September 2006 Peru ratified the optional protocol of the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. The cooperation will pay special attention to the issue of human trafficking. The fight against human trafficking will be taken into account in all the cooperation projects of this strategy.

Peru has taken important steps towards normalising the operation of the democratic system, as shown by the increased participation of citizens in decision-making processes, the decentralisation process, promulgation of the Political Party Law, the establishment of institutions such as the ombudsman and greater openness and accessibility of others such as the constitutional court, plus freedom of expression for the press, etc. Although children's rights are protected constitutionally, child labour is a fact, especially in rural areas and among the indigenous communities. Even though the laws on labour standards have been ratified they are not widely implemented, above all in areas of the Amazonian region and the Sierra.

3.4.2. Conflict prevention and settlement

The social and political situation in Peru is complex and there are many potential causes of conflicts of a social, economic, political, geographic, ethnic, and cultural nature. However, practically all conflict situations seem to share three common structural roots: exclusion, poverty and inequality affecting a large part of the population; institutional weakness and consequent lack of instruments to cope with any crisis.

3.4.3. Risk prevention and natural disasters

It is very important to take this dimension into consideration in type of cooperation measure with Peru. Peru is basically a "vulnerable" country (for example, consequences of "el Niño" or risk of earthquakes). There needs to be a cross-cutting element running through all risk reduction programmes with the aim of achieving greater sustainability.

3.4.4. Indigenous communities and ethnic minorities

According to a recent World Bank report^[16] between 25% and 48% of all Peruvian families are indigenous. The lower limit corresponds to families in which one or both family heads uses an indigenous language (Quechua, Aymara or a native language of the Amazonian region) more frequently than Spanish. The upper limit corresponds to families in which the parents of one or both family heads speak an indigenous language. In 2000, an estimated 62.8% of indigenous families lived in conditions of poverty while 22.2% of them could be categorised as living under extreme poverty conditions, compared with 43% and 9.5% of non-indigenous families, respectively. The situation of villages that have chosen to live in isolation (settlements in the “Madre de Dios” region) has been denounced by several human rights and environmental organisations. In December 2004, the Peruvian Congress, as part of its institutional framework, approved the creation of the INDEPA, an autonomous organisation entrusted with formulating national policies for indigenous peoples, to replace the flagging CONAPA.

3.4.5. Gender equality

Peru’s poverty problem has a strong gender component. The level of women’s participation in the labour world is low and their access to health and education is still inadequate, particularly in rural areas, especially those inhabited by indigenous or native peoples.

In Peru the people hardest hit by poverty are the indigenous population and women. The aim of the National Equal Opportunities Plan 2006-2010^[17] is to guarantee the economic, social and political rights of women. Its strategic objectives include making gender equity a cross-cutting issue in public policies.

3.4.6. Culture

The National Institute of Culture is a decentralised public body dependent on the Education Ministry. It is responsible for formulating and implementing State policies and strategies on cultural development and the protection, conservation, dissemination and research of the Cultural Heritage of the Nation. Peru’s cultural policy is mainly focused on conserving its heritage. Peru is without question a multi-cultural and multi-ethnic country and it is beginning to acknowledge the reality of its situation, trying to integrate all its population equally without losing respect for the country’s different cultures.

^[16] Indigenous Peoples, Poverty and Human Development in Latin America: 1994-2004, published November 2005.

^[17] Supreme Decree 009-2005 of 12.9.2005.

4. OVERVIEW OF CURRENT AND PAST COOPERATION, COORDINATION AND COHERENCE

4.1. OVERVIEW OF CURRENT AND PAST COOPERATION

4.1.1. EC cooperation with Peru up to 2001

EU aid via the main projects implemented between 1990 and 2001 was channelled into four main areas: irrigation and rural development; support for micro- and small enterprises; vocational training; and support for the democratic process. Peru has also received considerable humanitarian and emergency aid linked to natural disasters or the consequences of social violence (Shining Path) and food aid.

The fight against poverty has been one of the main areas of cooperation, with the approval of two important projects, one in the rural area, the Cordillera Negra Programme (1997-2004), and the other for the marginal urban areas of Lima, PROPOLI (2002-2008).^[18] As regards the environment, the EU supported Government operations in the Manú Programme, which finished at the end of 2004.

From 1998 to 2001, cooperation was frozen because of the country's political situation. Only measures linked to food security, humanitarian aid (Directorate-General for Humanitarian Aid - ECHO) and aid via DIPECHO and NGOs were approved, for a total of €22.6 million in 1999 and €20 million in 2000. In 2001, in view of the change in the situation, the launch of projects already approved before 1999 was approved and a package of four projects, for €61 million, was commenced in 2002 (PRODELICA, AMARES, PROPOLI and PRODAPP) and these are currently being implemented. Since 1991 a third of the budget has been set aside for food security programmes (some €35 million).

4.1.2. Programming under way 2002-2006

4.1.2.1. EC- Peru programming

The Memorandum of Understanding (MoU) of December 2002 on the programming of EU-Peru bilateral cooperation 2002-2006,^[19] with a total amount of €86 million, identifies the following areas of intervention: support for the rule of law and institutional reform (around 15%), socio-economic development (around 60%) and regional integration (around 25%).

Within these areas, seven projects have been approved. The project on support for the Truth and Reconciliation Commission (CVR) has already finished and three are under way: strengthening of the Peruvian International Cooperation Agency (APCI); support for the Regional Governments of Ayacucho and Huancavelica (AGORAH);

^[18] The difficult political scene prevented the launch of the PROPOLI project and implementation began in 2002.

^[19] 2002-2006 programming means that up to 31 December 2006 projects can be committed for their implementation.

and support for the improvement of the Piura-Guayaquil highway. Another three projects (support for reform of the justice system, trade-related technical assistance and vocational training) began implementation in 2005.^[20]

The EC's portfolio in 2005 was roughly €200 million in projects in progress. Aside from programmable cooperation, the EC Delegation in Lima manages projects financed by thematic lines, in particular cofinancing projects with NGOs, projects with the Andean Community, and projects at regional level in Latin America.

The start-up of major projects in the areas of combating poverty in marginal urban areas (PROPOLI), health sector reform (AMARES), alternative development to coca production (PRODAPP) and regional socio-economic development (PRODELICA) have gone in parallel to implementation of 2002-2006 programming, strengthening the EC's image as an important partner in cooperation. The general impression, as confirmed by the various monitoring and evaluation exercises, is of a generally positive performance of cooperation in Peru, with very few examples of projects needing major adjustments.

4.1.2.2. Sub-regional projects - Andean Community

In the context of the **Andean Regional Strategy 2002-2006** reviewed in 2004, there are 5 projects open or under development for a total amount of €29 million, from which Peru also benefits. These projects and their aims are:

- **Andean Community Statistics:** harmonisation of statistical methodology (EC contribution, €5 million);
- **Natural disaster risk prevention:** establishment of coordination mechanisms and exchange of experience among the competent national authorities (EC contribution, €0.45 million);
- **Technical assistance to trade (I and II):** strengthening of the economic integration process, i.e. construction of an Andean common market (EC contribution, €8 million);
- **Civil society:** greater involvement and participation of civil society in the process of Andean regional integration (EC contribution, €4.1 million);
- **Synthetic drugs:** tackle the problem of this type of drugs, not as serious in the Andean countries as the traditional drugs problem, but with strong signs of development.

Other projects, programmed before the period 2002-2006, have just finished in 2005: “**Granadua**” on customs cooperation, “**Quality**” in the field of national and Andean quality systems and “**Competition**”.

4.1.2.3. Thematic line projects

^[20] As regards 2002-06 programming for Peru, following a decision to fund an initial action in the vocational training field, a complementary action still needs to be formulated. This initial cooperation action should produce results in terms of basic data on the structure of vocational training, stakeholders and their inter-relations and links between existing training schemes. Recommendations for a complementary action (estimated EC contribution of €20 million) are also planned. This action, which should be committed in 2006, will conclude programming for Peru for the period in question.

Under these projects, basically subsidising NGOs, since 1976 the EU has financed around 220 projects for an estimated amount of €90 million. At June 2005 a total of 42 projects were open for an estimated amount of €42 million.^[21] The 32 which are active include 18 cofinancing projects with NGOs, 5 on tropical forests, 4 on human rights and democracy, 1 on gender and 1 on decentralised cooperation (see Annex 7.8.). There is a specific chapter on the food security programme already referred to in point 4.1. Two projects are particularly important: totalling €3.1 million, they form part of the Andean Human Rights Programme designed to promote knowledge of and respect for human rights in each country of the Andean Community and raise awareness of democratic values.

4.1.2.4. Regional programmes

The **EUROSOCIAL** Programme, with a European contribution of €30 million, was approved in line with the guidelines laid down at the Summits of Heads of State of the EU and Latin America (Rio de Janeiro 1999 and Madrid 2002), which include reducing inequalities, combating exclusion and improving social cohesion.

Various Peruvian institutions take part in horizontal regional programmes in Latin America: **AL-INVEST**, **@LIS**, **ALFA**, **ALBAN** and **URB-AL**.

The **AI-INVEST** Programme: In Peru there are 2 Eurocentres (the Lima Chamber of Commerce - since the start of the programme in 1994 - and recently the National Society of Industries). Under phase III of the programme, the activities of these centres have been given new impetus.

The **ALFA** programme for the promotion of cooperation between higher education establishments is very famous among Peruvian academic institutions that are members of different networks, which to date have taken part in around 50 projects.

Peru participates very actively in the different networks of the **ALIS** programme for the promotion of information technologies and the elimination of the digital divide. Of the total of grants awarded annually through the **ALBAN** programme 6% are for Latin American students and professionals for master's or doctorate studies (postgraduate) in EU universities.

Various municipalities of Lima province are members of the different networks of the **URB-AL** programme of cooperation between local organisations.

^[21] At June 2005, there were several calls for proposals under different thematic lines whose results are still pending, and it is envisaged that next year the number of this type of projects will increase. There are also 13 additional projects in their closing phase for a total amount of €16 million.

4.2. INFORMATION ON MEMBER STATE AND OTHER DONOR PROGRAMMES

4.2.1. EU Member States

The EU Member States have maintained close bilateral relations with Peru for decades, but cooperation with Peru began in 1980. At November 2004 total cooperation from the European Union (EC and 13 Member States) totalled €1.265 billion. Spain is the country with the biggest total budget (€403 million), followed by Germany (€30 million) and Italy (€182 million). “During the period 2003-2005, European cooperation registered an average growth of 20.5%. EU aid represents 2.4% of the national budget, just over 14% of public investment and almost 7% of expenditure in education, health and social assistance. European cooperation being carried out up to April 2006 amounts to 1.376 million Euros.

The main priorities of European cooperation are the fight against poverty and the strengthening of State institutions, democracy and civil society. The EU Delegation in Lima and the Member States hold periodic coordination meetings and have implemented solid information mechanisms and mutual consultations activities. An important initiative launched in 2003 was the preparation of a donor matrix which facilitates analysis of the cooperation flows of the European countries that are active in Peru.^[22] ^[23]

The area that enjoyed the highest degree of consensus and cooperation between the Member States and the EU, and with the other donors, was the support for the "Comisión de la verdad y reconciliación nacional" and the follow-up of its recommendations. This support was given both at the level of political actions and other levels of cooperation.

4.2.2. Other donors

The publication of the EU Cooperation Matrix was the inspiration and basis for the development of a similar database that includes practically all bilateral and multilateral cooperation present in Peru. This initiative was led and financed by the World Bank, and was published in July 2005. The APCI has also developed (November 2005) a database that includes both official and non-governmental cooperation.

The European Commission maintains close relations with the other bilateral and multilateral donors of reimbursable and non-reimbursable aid. With the UNDP, for example, work was undertaken jointly on projects related to the CVR. The EC also encourages coordination and information exchange with donors that implement

^[22] This was an initiative of the Spanish presidency of the EU in 2002. During the Italian presidency in 2003, the EC Delegation in Peru worked on the optimisation, updating and permanence of this tool. The first optimisation and updating process took place in 2003 with the support of the UK Department for International Development (DFID) and the EC Delegation. The second update and improvements were made in 2004 and a further updating exercise is under way.

^[23] http://www.delper.cec.eu.int/es/eu_and_country/2005-cooperacion/Presentacion.htm

projects in the same sectors.^[24] In this respect it's necessary to refer to the governance group, along with the working groups on decentralisation, Justice and Human Rights, as a coordination area open to non-European donors and multilateral organisations that carry out important work.

During 2005, the APCI convened the Forum of Donors^[25] that has regularly met and continued under the new administration to coordinate actions with international cooperation, evaluate the results of international cooperation, regularly update cooperation priorities and agree on actions.

The strategic areas of Peru's international cooperation policy as Developed by APCI indicate that there is alignment with the analysis, aims and strategy of the EC. Overall, the MECI assesses the role of international co-operation in accompanying the process of State decentralisation as very positive. Peru signed the Paris Declaration in June 2006.

4.2.3. Lessons learnt

In general it can be concluded that it has been difficult to work within the framework of true programmes of support for sectoral policies, for several reasons: no general framework agreed with the international community, lack of own national policies (above all concerning indicators and predictability of financing sources), insufficient coordination of ODA suppliers and in particular of donors and multilateral financing agencies, etc. Also, the amounts available for international cooperation and European cooperation in particular are very limited if compared with an assessment of needs or the headings of the national budget available.

Intervention via the project method continues to generate tension regarding ownership and durability of operations versus effectiveness, control of deadlines and quality of expenditure. Since the entry into force of the NFR (which provides that project management is the responsibility of the beneficiary administration) the problem of compatibility of European and national financial and contract procedures has been exacerbated.

However, the benefits of cooperation are continuing to increase thanks to its size in relation to the public investment budget and qualitatively owing to its capacity to encourage or consolidate work in thematic or geographical areas traditionally neglected by the State.

Significant progress is being made in the definition of the Strategic Framework for International Cooperation and of national development priorities as well as in the dissemination of guidelines and will make it possible to harmonise and enhance the

^[24] Such is the case with the World Bank and the current support project for the reform of the Justice System.

^[25] The Forum of Donors includes both bilateral and multilateral cooperation, financial and technical cooperation donors and multilateral banks or financial agencies.

effectiveness of external aid which will undoubtedly apply in the next programming cycle. Integration of these measures into sectoral policies and their systematic coordination with all sources of ODA must be maintained and intensified. The systematisation currently under way will help to highlight the lessons learnt.

The PASA food security programme – an innovative programme in the fight against poverty – launched in Peru in 1996, offered alternatives other than the classical approach/model. For the last ten years the programme has taken a multisectoral approach and reinforced public policies by means of budget support.

It is important to point out that under the previous programming exercise, sectoral support was planned for vocational training in Peru. The Project APROLAB has been approved in 2004 and its implementation has been doing by the classical Project approach.

4.3. COHERENCE WITH OTHER EU POLICIES^[26]

The following EU policies primarily affect Peru: trade policy, agricultural policy, the common fisheries policy, conflict prevention, fight against drugs, action against mines and the environment.

The aim of EU trade policy in the Andean Community is to encourage an Andean common market and the process of regional economic integration; facilitate Andean Community exports to the EU (especially through the new GSP+ and by encouraging trade and the adoption of international standards like those of the WCO designed to facilitate and make world trade more secure) and support these countries in meeting their commitments within the WTO.

The Common Agricultural Policy has little impact on most of the products imported into the Community from Peru. However, Peru continues to press publicly for the need to pursue CAP reform and the dismantling of remaining tariff barriers. Under the project for Technical Assistance to trade under way in Peru, specialised cooperation is being set up in the agriculture field to support Peru in the marketing and export of agricultural products.

The Community and the Peruvian authorities have expressed their interest in stepping up cooperation on fisheries.

European phytosanitary policy is often perceived as a measure to protect the market.

EU environmental policy (6th Environment Action Programme 2002-2011) can affect Peru very positively if it encourages efforts in this field.

^[26]

See Annex 6 for more details.

In its communication on conflict prevention (April 2001) the EC announced its intention to focus its cooperation programmes on the causes of conflicts in an integrated way. In this context the EC considers that drugs and poor social cohesion are a destabilising factor for the region.

The fight against drugs: In Peru the increase in the production of coca leaf and cocaine continues. Coca products are transported by air, land and sea while opium latex and morphine is moved across the northern borders to the countries of South America and the USA. The 2005-2012 EU Drugs Strategy is the reference framework for EU action in this field. The strategy includes a chapter on international cooperation that establishes the principle of co-responsibility in the fight against drugs. This integrated focus has obvious effects on cooperation policy with Peru, the area of alternative development being its clearest expression.

Action against mines: in the 2005-07 multiannual indicative programming on EC mine action, Peru (and also Ecuador) feature among the countries most affected by anti-personnel mines. In Peru, mines are mainly concentrated in three areas: in the north on the border with Ecuador; on the territory inland of the Pacific coast up to the Andean plateau; in the south on the border with Chile. By supporting a mine clearance programme in the Peru-Ecuador cross-border area, especially in the Condor mountain area (EC contribution €1 million), the 2005-07 strategy contributes to international efforts to eliminate anti-personnel mines from this area along the border between Peru and Ecuador. This type of action is very important for enhance regional integration and confidence building.

The migratory phenomenon is a major issue for many of the Latin American countries, including Peru. Until now, the subject of migration has mainly been addressed at political dialogue level where the States have recognised the pressing need to tackle this matter jointly. This was the case in the Inter-American Summit held in Montevideo in November 2006 which had migration as a central Tepic.

The research and development actions under the 7th framework programme (2007-2013) seek to strengthen cooperation with the countries of Latin America. A number of instruments have been put in place, especially to encourage exchanges between scientists and promote a bi-regional dialogue in which Peru could play a part.

In the field of higher education, participation by Peru's higher education establishments, students and teachers in the ALFA programme is high. As regards the AlBan programme, 5% of grants were awarded to Peruvians to study for master's or doctorates and other postgraduate training in the European Union. The Erasmus Mundus programme (2004-2008) also offers students from Latin America the possibility of studying for a master's in Europe.

As for the information society, the IVth EU-LAC information society ministerial forum took place in April 2006. The information society is a topic covered in the regional strategy of Latin America and the @LIS programme.

4.4. COHERENCE WITH THE REGIONAL INTEGRATION PROCESS

The risk of overlaps between regional programming and programming for Peru has been taken into account throughout the programming process in order to ensure that strategies complement one another at the different levels. One of the general objectives of the Andean strategy is to develop an integrated social policy in the context of social and economic cohesion (which can include the fight against poverty, social exclusion, equality and job creation) that abides by the same principles as the strategy adopted at national level. In this way there will be increases synergies. More specifically, the Andean strategy will promote trans-national and cross-border projects by improving social and economic cohesion and regional development by strengthening cross-border contacts between the Andean countries. It is likely that the initiatives taken at bilateral level will be boosted by initiatives taken in the regional context. The cooperation actions planned in the Andean regional strategy complement regional cooperation actions.

5. RESPONSE STRATEGY

5.1. EC COOPERATION OBJECTIVES

Peru, is currently considered the most stable country of the Andean region, a region that aspires to negotiate an Association Agreement with the European Union,. Nonetheless, democracy remains fragile in Peru. It coexists with a serious problems of inequality and lack of social cohesion. The most important challenges that Peru faces are democratic stability and institution building, poverty alleviation and improved social cohesion by fostering better distribution of wealth. Both the National Agreement and the current Government programme have focused on these areas as priorities. The proposed activities aim to strengthen social cohesion and regional integration. The EU has different instruments, including cooperation, to support Peru in these challenges. Other instruments include political dialogue, in the framework of EU-Andean Community relations or trade relations, dominated by GSP+ under which 90% of Peruvian products are given preferential access to the EU. Peru's strategic objective is to negotiate an Association Agreement between the EU and the Andean Community as soon as possible. The fight against drugs is one of the biggest challenges that Peru faces now and the EU will give specific support in this area in Sector 2 cooperation (support for integrated social development).. Also, in view of Peru's enormous biodiversity and the major challenges of protecting the environment, EC strategy will consider this area as a cross-cutting issue in Sector 2 actions and very specifically in the context of "integrated social development" it will involve giving support to environmental protection and promotion of sustainable management of natural resources in the areas selected.

The EC's response strategy takes into account the Government's programme and its priorities, Peru's international cooperation policy as well as its own past experience in cooperation initiatives. The Peruvian Government's programme proposes economic, social and political challenges (see political programme) all of which Community cooperation intends to address.

The EC's strategy will be established in areas where the Community has the widest experience and the greatest credibility: aid for the rule of law and strengthening of governability, and support for integrated social development in specific regions, by supporting the decentralisation process in Peru. These two priorities are also those of the Government. The country analysis means that Peru's main problems can be identified and the way in which cooperation can help to resolve them.

The Forum of Donors regularly organized by APCI during 2005 and some of the projects presented and discussed there include the Strategic Framework of International Cooperation and the Diagnosis of International Cooperation in Peru. Coordination between the Member States present in Peru will also be fostered, implementing guidelines for coordination of aid approved by the EU, such as drawing up road maps.

5.2. GENERAL RESPONSE STRATEGY

European cooperation strategy seeks to contribute an instrument that can provide responses to various concerns. It should:

- fit in with the framework policies of the State, in particular the National Agreement and its developments contributing to the processes of State modernisation and decentralisation by means of support for administrative capacity building ;
- help respond to the main problems: poverty and social inequality (based on gender, ethnic and cultural origins) and geographic inequality in line with the follow-up of the MDGs, the Strategic Poverty Reduction Plan and the CVR's recommendations;
- contribute to a sustainable environment, greater social cohesion and regional integration;
- maintain a reduced number of focal aid sectors but ensure the consideration of important cross-cutting issues (environment, drugs, indigenous people, gender, etc.);
- maintain coherence and complementarities with European policies with an impact on cooperation policy such as the fight against drugs, action against mines and explosive residue, organised crime, including the fight against trafficking and illicit spread of small arms and light weapons and the corresponding ammunition, migration, trade, people trafficking etc;
- take into account the experience acquired in programme management and new guidelines concerning harmonisation and effectiveness of external aid, which implies the strengthening of local capacities for the definition and management of sectoral and budgetary support programmes;
- maintain coherence and strengthen alignment with the principles and parameters established by the National Cooperation Policy and the Strategic Framework of Cooperation, by promoting coordination and complementarity with all the donors present in Peru, especially the Member States, in line with the principles of effectiveness of aid confirmed in the Paris Declaration on the effectiveness of development aid, particularly in the context of programming, preparing and implementing programmes, in order to achieve avoidance of duplication and search for complementarity;

- - design a flexible framework given the long period to be programmed and the changes foreseeable in the national and regional political context.

The multilateral nature of the EU, its experience of work and collaboration with the Member States and organisations such as the UNDP, the World Bank and the IMF in Peru, allows it to play a significant role in the coordination and linking of cooperation strategies undertaken by the Peruvian Administration (in particular the APCI and the MEF). In this context, the EC is obviously an active promoter of these principles and supports the necessary leadership of the national authorities

Tackling Aids has been included as a cross-cutting element in the programming process by analysing the Government's policy on Aids and reproductive and sexual health in particular, and the scale of this problem in Peru. An analysis of the risks and advisability of combating Aids and other diseases as a cross-cutting element under sector 2 of this strategy.

In the light of the foregoing, an EC intervention proposal is warranted in the following two principal sectors:

5.2.1. Support for modernisation of the State, strengthening good governance and social inclusion

(a) Support for modernisation of the State and strengthening good governance (CAD 15010 Policy/economic and development planning)

The aim here is to support the Government in its efforts to modernise and reform the public administration. This support could be given to ministries or bodies, which the Government wants to reform for the purposes of modernising the State. Similarly, Community support could also be given to bodies responsible for the shaping and structuring of Peru's policies and their translation into sectoral policy support programmes with the participation of the **APCI** and the **MEF**. Incorporation of cross-cutting issues such as gender equality, the environment, respect for the rights of indigenous communities will be encouraged. Particular attention might be paid to the National Agreement and its Permanent Secretariat (the NA is an on-going process of dialogue on the Peruvian State's major long-term policy lines up to 2022). The National Agreement is a model of good practice for the EU and Community cooperation might include the possibility of promoting this Peruvian model in other countries of the region.

Risks

The main risk is that organizations and/or ministries will not ensure the reforms are implemented or the National Agreement might fail. These risks are minimal as the new Government has confirmed the importance of reforming a number of bodies and of monitoring work under the NA process.

(b) Social inclusion: support for organizations responsible for issuing identity cards to Peruvian citizens (CAD 15063: Human rights)

There is a huge number of people in Peru who do not possess any identity papers and cannot therefore exercise their fundamental rights. It is essential that public policy on identity rights be underpinned by partnerships between the public and private institutions involved in promoting the rights of the Peruvian people.

Peru has a national identity plan. It is estimated that there are 1.552 million over 18s and 10.445 million children and adolescents who do not have identity cards (43% of Peru's population).

Annex 13 of the CSP contains a description of the main reasons for and a more detailed analysis of this problem in Peru.

The project will seek to help the institutions dealing with this problem and ensure coordination between them and avoid duplication of work. These institutions include EL RENIEC, “Defensoría de Pueblo” and “Gobiernos Regionales y municipales”.

Priority will be given to support for the drawing of the register of victims created by Law PIR 28592.

In this area, cross-cutting issues such gender, indigenous people, and rights of children, are especially important. Indeed, these are the three categories of citizens that have suffered most from the period of violence.

The project to identify the impact of the Peruvian people's exercise of their civic rights will be accompanied by a large-scale social inclusion programme covering education policies in the broadest sense and health policies, including maternal health and child nutrition. The aim is to ensure that the measures undertaken are as coherent and coordinated as possible and incorporate these aspects in awareness raising campaigns on the benefits of citizenship.

Risks

The main risk is that there will be no coordination between the bodies carrying out the work which will result in the issuing of identity cards. The project must ensure that this risk is reduced by making coordination a key component.

5.2.2. Support for integrated social development in specific regions and strengthening social cohesion

(CAD 43040 Rural Development and 13030 Urban Development, with elements of e.g. 12220 Basic Health and 13020 Reproductive Health; 140, Water and Sanitation; 15040 Government Administration; 15050 Strengthening civil society; 331 Trade; 41010 Environmental Policy and Administrative Management; 43010 Multi-sectoral

Basic Services; 43050 Non-Agricultural Alternative Development; 31165 Agricultural Alternative Development; etc.).

In accordance with the decision taken at the Guadalajara summit on social cohesion the EC will propose in its strategy for Peru a second pillar covering measures to reduce poverty, and improve the quality of life and social cohesion under an integrated social development approach. Promotion of social cohesion is essential to combat poverty and inequality and to consolidate democracy and create an efficient economy and employment for all.

As has already been indicated, one of the major problems besetting Peru is the unequal distribution of wealth currently affecting the poor, who account for 50% of the country's population. Following an in-depth examination of Peru's poorest and least protected areas, it will be decided which geographical area(s) will be covered by the project. Priority will be given to those areas where poverty and extreme poverty are highest and where aid could have the strongest impact.

This type of intervention includes actions which, based on an integrated concept of social development, impinge on the different variables that affect poverty, quality of life and social cohesion, in specific regions where poverty and social exclusion are concentrated. The EC intends to contribute through cooperation initiatives via rural development projects with a integrated focus, that take into account the main problems faced by the geographical areas that will be prioritised; namely, problems related to health and nutrition, water and sanitation, drugs, border issues, the environment, the inter-cultural dimension, gender, education and productivity. A budgetary/sectoral or classic project approach will be used depending on the sectoral policies adopted by the Government.

In addition to social cohesion, the objective is to support, from the bottom up, Peru's decentralisation process by empowering local players and strengthening their position vis-à-vis the State. The EC will also promote participation by the regional and local authorities, decentralised sectoral bodies and civil society in the design, implementation and follow-up of the projects and actions defined. The purpose of this action is to develop an integrated social development model that takes into account every aspect mentioned here in a coherent and complementary fashion, so as to improve the integrated development of one or more specific geographical areas. With a view to improving the effectiveness of the actions and making allowance for corrective measures, encouragement will be given to analysing and establishing specific modules and indicators related to social cohesion that can be used to measure the priorities set for Peru and the Andean Community (e.g. decrease in the number of victims of people-trafficking, labour standards, etc). Depending on the geographical area(s) selected the project could incorporate the most relevant of the components described above for the area in question under a global integrated social development approach for the selected geographical areas.

The following components may be relevant for project definition:

(a) Productive activities (generating employment, training, marketing, infrastructure)

Depending on the geographical area selected the EC could promote productive investment to generate jobs and underpin human resource development.

These efforts could be targeted, for example, at crafts, small-scale agro-industry, the organisation and incorporation into the market of farmers, rural roads and productive infrastructure, aquiculture, tourism, etc. Emphasis will be given to including in productive processes groups marginalised for gender, ethnic, cultural, incapacity reasons. The development of microenterprises that can promote local development and the integration of the informal economy into the formal economy will be fostered. At a regional level, collaboration will be carried out through economic agents and associations or federations of several municipalities. If necessary, interventions will be coordinated with sectoral and regional plans implemented within the framework of the National Strategic Plan for Exports (PENX).

(b) Health (reproductive health, prevention, etc.)

In this context, consideration is being given to the possibility of developing interventions at geographical level aimed at improving basic health, including prevention, mother/child health, child nutrition, extension of basic care cover to the targeted populations, etc. Expertise developed under the Amares project could be applied in the geographical area(s) selected.

(c) Improving basic water and sanitation services

Along the lines of the European Water Initiative which prioritises water and sanitation in poverty alleviation and sustainable development projects, support will be given to access to and the quality of basic services and sanitation in the selected geographical area.

d) Environment

For the last few years Peru has made efforts to strengthen effective management of the environment, whose last stages have been the establishment of the National Environmental Management System and approval of the General Environment Law (Law 28611/2005). These measures seek to reduce the continuing fragmentation, centralisation and poor performance by national environmental authorities. This calls for an intervention to support environmental protection and sustainable use of natural resources in certain geographic areas and a decentralised implementation framework. Based on the principle of subsidiarity, support is considered essential for the local populations in matters relating to their management of natural resources, such as water management and quality, river basin management and reforestation, solid waste, co-administration of protected areas and dealing with environmental contamination issues and damage caused by economic activities, especially mining and the use of hydrocarbons. An environmental impact study could be undertaken in the project area if necessary.

(e) Alternative development

In keeping with the general EU drugs policy, a human and social development concept will be applied, in close collaboration with regional and local authorities and civil organisations. Some of the major elements to form part of an alternative development programme would include: support for decentralisation efforts; delegation of management capacity; an integrated approach to the problem; a national and regional perspective; and support by Peru for the Andean alternative development strategy (CADA), enlisting the participation of the Andean Community.

(f) Border integration

At regional integration level, EC interventions will take into account the guidelines adopted by the Andean Regional Programming, particularly, in terms of developing social cohesion strategies (PIDS) and economic integration, and will seek, where necessary, to complement initiatives financed with regional funds. One or more border regions will therefore be prioritised, with the aim of promoting regional integration.

(g) Intercultural aspects and inclusion of groups excluded for ethnic or gender-related reasons

Development of cultural identity with an integrated application in economic and social areas will be promoted: education and the fight against racism, citizenship, health, productive and agro-ecological aspects and the environment. Participation by the marginalised groups themselves in defining priorities, implementing and monitoring the programmes will be encouraged. In some of the geographical areas selected for this type of projects the indigenous peoples will be their main beneficiaries.

Risks

Given the country's high rates of poverty and exclusión, some of the risks that should be taken into account for all the actions in general re linked to the existente o fan underling social crisis, which is expressed in a spontaneous and chaotic way. Therefore it is necessary that the nacional and sub-national governments address conflict prevention and incluye these isues in their development policies. Since the strategy proposed in this document spans a long period of time, the mid-term review (2009/2010) required to determine the content of the second NIP, could also be the occasion for updating or revising the strategy.

5.2.3. Possibilities of using thematic lines

EU strategy should use the new thematic lines for the EU cooperation strategy in Peru, as a complementary action is usually involved, in most cases carried on a proposal from and in association with actors like NGOs or international organisations. With particular regard to dovetailing and coherence, the following actions could be considered:

- Human rights. Issues could be tackled under this thematic line that require priority attention in Peru such as children's rights, with a special focus on child labour or the rights of the indigenous communities, whose concerns are vitally important for a fully democratic and socially cohesive Peru, and also gender issues.
- Environment. Priority attention could be given to the preservation of natural resources. As a general rule, the environmental thematic programme could incorporate activities which cannot be covered by geographical lines.
- The Food Security programme currently under way will finish at the end of 2006. The evaluations carried out confirm that it is a very successful programme and that it has managed to increase the development level of the priority areas. For this line to continue to serve cooperation in Peru, account must be taken of the lessons learnt when formulating and implementing new actions.
- NGOs. This line should continue to be used in Peru, at a juncture that is politically very conducive to the participation of NGOs in development programmes. The final objective of this cooperation should be to strengthen the concept of citizenship in Peru.
- Humanitarian aid could be mobilised through ECHO if it is needed to help people in the event of natural or man-made disasters.

5.2.4. Mid-term review: non-focal sector: regional integration

Peru's integration in the world economy and regional integration are essential factors in the diversification of its economy and equitable distribution of growth which contributes to social cohesion. The negotiation of an Association Agreement between the EU and the Andean Community will mark a new phase and involve new challenges for Peru. Reform of the regional integration agenda will be undertaken primarily through joint cooperation with the region as a whole. However, if it is to work this agenda requires a special effort to translate regional ambitions into national reform policies. This is why the Andean response must be reflected in a national response. The exact form such cooperation will take will depend on indicators such as the preparation of Peru for the regional integration process and the results of the TRTA project implemented in 2006 and to be extended to 2009. EC support will be for Peru's economic integration initiatives in the Andean region. Programming will also be undertaken on the basis of a Trade Needs assessment to be carried out in 2009 with funding from the current TRTA project.

6. NATIONAL INDICATIVE PROGRAMME

6.1. SUPPORT FOR THE RULE OF LAW AND STRENGTHENING OF GOVERNANCE

6.1.1. General Objective

Contribute to the modernisation of the State through support for bodies carrying out reforms.

Impact indicators:

- Consolidation of the rule of law through reforms required in ministries, State bodies and the National Agreement;
- Restoration of citizenship to as many people as possible.

6.1.2. Specific objectives

Modernisation of the State and strengthening of good governance

1. Support the Government in its modernisation efforts and improve the quality and provision of essential public services.
2. Support the Government in its efforts to consolidate State policies.
3. Help ensure the National Agreement leads to regional good governance agreements and, at national level, guarantees and oversees compliance with the consensus achieved and policies introduced to implement it.
4. Include cross-cutting aspects such as respect for human rights, gender equality rights of the indigenous communities and the environment in the process of policy planning and definition.

Social inclusion: support for bodies issuing identity cards to Peruvian citizens

1. Contribute to coordination of institutions issuing identity cards to Peruvian citizens to make their work more efficient.
2. Ensure most Peruvians possess identity cards once the project has been completed.
3. Undertake health projects especially in the field of maternal health, child nutrition and education.

6.1.3. Indicators

Some of the indicators to be taken into account are given below. Others will be defined at a later stage:

Modernisation of the State and strengthening of good governance and social inclusion

The expected indicative results will be the provision of better quality social services, more efficient public administration, reforms of ministries and bodies where required and implementation of policies under the National Agreement.

Indicative indicators: more efficient public administration, number of policies carried out efficiently at national level. Modernisation of the State; Formulation of policies by the APCI, MEF and beneficiary sectors, contacts with countries in the region to promote the good practice model and functioning of the National Agreement.

Social inclusion: support for bodies issuing identity cards to Peruvian citizens

Indicative indicators: support for the Government and institutions concerned to support national identity plan, increase number of persons obtaining identity cards, greater inclusion of cross-cutting issues such as the environment and human rights in sectoral policies.

6.1.4. Programmes designed to attain these objectives and type of assistance required

Cooperation required for this sector can be divided into several points:

- *Modernisation of the State*

The bodies and/or ministries concerned will receive logistical support and/or technical assistance to improve how they work. Support will also be given for policy formulation with the participation of the APCI, MEF and beneficiary sectors. Help will be given to the NA Secretariat for monitoring, development and updating of the consensus achieved on the decentralisation process (regional governance agreements) and to improve its capacity to guarantee and oversee (using appropriate indicators) compliance with the consensus achieved and resultant sectoral policies.

- *Social inclusion: support for bodies issuing identity cards to Peruvian citizens*

The project will provide help to institutions dealing with this matter and ensure they work in a coordinated fashion and avoid duplication. Technical assistance will form the project's main component. The identification mission will define in more detail the project's components. The project to identify the impact of the Peruvian people's exercise of their civic rights will be accompanied by a large-scale social inclusion programme covering education policies in the broadest sense and health policies, including maternal health and child nutrition. The aim is to ensure that the measures undertaken are as coherent and coordinated as possible and incorporate these aspects in awareness raising campaigns on the benefits of citizenship.

6.1.5. Integrating cross-cutting aspects

The following cross-cutting issues will be taken into account at all the stages of the project cycle, establishing the indicators needed to ensure proper follow-up of the progress made in these areas: human rights, indigenous peoples, conflict prevention, culture and environment. As regards the environment, it is important to take account of the recommendations made in Peru's environmental profile (Annex 11).

6.1.6. Budget

20% of the total amount earmarked for the period covered by the present strategy will be used in this sector

6.2. SUPPORT FOR INTEGRATED SOCIAL DEVELOPMENT IN SPECIFIC REGIONS BY STRENGTHENING SOCIAL COHESION

6.2.1. General objectives

- Contribute to poverty and extreme poverty reduction and to improved social cohesion in the targeted area(s) (see point 5.2.2).
- Contribute to bottom-up implementation of the decentralisation process.

6.2.2. Specific objectives

- - Contribute to bottom-up implementation of the decentralisation process through training for local stakeholders and strengthening their role of partnership with the State;
- Contribute to integrated development of region(s) selected by taking into account the components mentioned of relevance to the area(s) selected and other components if necessary;
- Integrate the guidelines resulting from Andean Regional programming, especially in the social cohesion strategies and strengthening of regional integration.

6.2.3. Indicators

The indicators defined must be supplemented by other indicators to be defined during project identification.

1.1. Increase number of investment projects and programmes implemented by decentralised Governments corresponding to joint and decentralised development plans.

1.2. Increase percentage of public expenditure committed by decentralised Governments under concrete development plans.

1.3. Increase number of governments with citizen participation in public administration.

1.4. Increase public expenditure committed at decentralised level under development plans.

6.2.4. Programmes designed to attain these objectives and type of assistance required

Cooperation implies making an analytical diagnosis of the selected area(s) to serve as the basis for an integrated cooperation plan that takes into account all previously mentioned aspects.

6.2.5. Cross-cutting issues

Cross-cutting issues such as gender equality, rights of the indigenous communities and human rights will be taken into account at all stages of the project cycle. By establishing appropriate indicators, the effects of these programmes on the cross-cutting issues concerned can be monitored accordingly. Integrated protection of children deserves special attention.

Environmental impact studies will be carried out if necessary and their results will be taken into account.

The cultural dimension, a salient characteristic of Peru's internal conflict, is also featured in CVR's Recommendations and in the Integrated Reparations Plan. Therefore, this aspect should form part of national programmes, if not specifically, at least horizontally.

6.2.6. Budget

Under this strategy, 80% of the global funds for Peru will be allocated to cooperation activities in this area.

6.2.7. Indicative timetable^[27]

NIP I = 65% of the total budget

Sector I – 20% of the total budget

Sector II – 80% of the total budget

	NIP I (65%)				NIP II (35%)
	2007	2008	2009	2010	2011-2013
Sector 1 Support for the rule of law and strengthening of governance	20% NIP				
Sector 2 Support for integrated social development in regions and strengthening social cohesion		40% NIP I		40% NIP I	

^[27] The table does not include support under regional integration. Envisaged as a non-focal sector, its design, allocation and exact content will depend on several factors or processes including: Peru regional integration process leading up to an Association agreement between the Andean countries and the EU, support measures in the EC Regional Strategy Paper, the results of the current TRTA project and a specific Trade Needs assessment undertaken no later than 2009.

