

RELATIONS BETWEEN PERU AND THE UNITED STATES IN THE 1990s: THE ROLE OF DEVELOPMENT COOPERATION THROUGH USAID

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"Our policy is directed not against any country or doctrine, but against hunger, poverty, desperation and chaos. Its purpose should be the revival of political and social conditions in which free institutions can exist"

Secretary of State George Marshall, 1947

SUMMARY

United States development assistance to Peru is money well spent. Since the 1950s, the United States Agency for International Development (USAID) and its predecessors have invested more than \$2 billion in Peru. With approximately \$100 million dollars in direct United States government aid this year, Peru currently receives more than any other country in the hemisphere, with the exception of Haiti. In the post-Cold War environment of increasing public scrutiny and discussion in the United States over levels of funding, there is also an increasing need to justify foreign assistance programs and to demonstrate that they are achieving their intended results.

USAID's current program in Peru is a good case study showing how foreign assistance supports the United States national interests: in strengthening democratic institutions, in promoting broad-based economic growth, and in encouraging licit economic activities for people previously involved in the production of illicit drugs. In addition, the program can point to tangible results, specifically in such areas as the reduction of poverty, greater citizen participation in political processes, reduction of hectares under the cultivation of illicit coca crops, and improved child survival. Two factors are fundamental in explaining these successes and can be strengthened even further to maintain and realize even greater progress. First, a macro-economic policy framework is in place in Peru, which is conducive for sustainable development. Second, there is close cooperation between USAID and both public and private sector partners in designing and implementing these assistance programs.

I. INTRODUCTION

The people of Peru and the United States of America have been working together towards Peru's development for more than fifty years. Since the establishment of the United States Agency for International Development (USAID) in 1961, the levels of assistance to Peru have reached the amount of \$2.3 billion¹, encompassing grants for development projects (\$657 million), soft loans (\$394 million) and food assistance (\$1.2 billion). The cooperation from the United States (U.S) in the nineties has evolved from emergency humanitarian assistance to a development partnership for addressing national, regional and global concerns, responding to both Peruvian and American interests.

II. HISTORICAL CONTEXT OF USAID'S MANDATE

USAID is one of the most important United States Government (USG) foreign policy instruments. Established by President John F. Kennedy, it is the modern day successor of one of the longest existing foreign assistance programs in the world.

U.S. foreign assistance policy traces its roots from the days of the Marshall Plan, which was launched in 1948 to stabilize Europe and restart its economy in the aftermath of the World War II. The success of this first major foreign assistance endeavor laid the groundwork for subsequent U.S. efforts to promote democracy and economic growth in the developing world. In 1949, President Truman expanded U.S. foreign assistance to the underdeveloped world through a program called "Point Four", which formalized the conviction that continued U.S. economic and moral leadership was vital to a peaceful and prosperous world.

During the 1950s, U.S. foreign assistance was provided through different mechanisms. In 1951, military and economic aid were united with technical assistance programs under the Mutual Security Agency, followed by the creation of the International Cooperation Agency in the mid 1950s. In 1954, the Food for Peace Act was passed making America's agricultural surplus available to feed hungry people in other countries. Finally, in 1961 President Kennedy established USAID, based on the 1961 Foreign Assistance Act, to achieve a new mandate for assistance to developing countries.

The new focus of development was to help achieve economic growth and political stability in the developing world to combat both, the perceived spread of ideological threats, such as communism, and the threat of instability arising from poverty. The new approach most emphatically stressed a dedication to development as a long-term effort requiring country-by-country planning and commitment of resources on a multi-year, programmed basis. USAID was established to unify assistance efforts, to provide a new focus on the needs of a changing world, and to assist other countries in maintaining their independence and become self-supporting.

¹ Assistance figures throughout this document are expressed in nominal terms as officially recorded, unless otherwise noted.

USAID's development cooperation entered the nineties with a different perspective. The Cold War had ended and there was an increasingly worldwide embracement of the principles of democracy and the market economy. Underlying this change in thinking there was another emerging worldwide consensus: the realization that real development must come from the bottom up, not the top down.

The experience of successful and failed states in the developing world also brought a new understanding of development. This was one focused on the efforts of men and women working for their own economic and social improvement, with governments expanding their opportunities, investing in people, and encouraging human development that ensures participation by all economic and social classes.

The nineties also brought new challenges. The increasingly interdependent world provided more opportunities- for trade, investment, communications exchange—but also new threats for peace, stability and the well being of the world. Global warming, overpopulation, narcotics, terrorism, infectious diseases, mass migration, natural and man-made disasters, lack of broad-based growth, oppression of minorities and women, ethnic and religious hostilities, and failed states are threats that have regional and global repercussions, but that development addresses directly.

USAID had to redefine its mission and the programs it used to meet the new development challenges, but with increasingly more limited resources. It needed to perform its role—development cooperation—differently. USAID recognized that it cannot “develop” nations, but rather can help them unleash their productive potential and deal effectively with the challenges of development in a sustainable manner.

In 1994, President Clinton established sustainable development —understood as “broad-based economic growth, which protects the environment, enhances human capabilities, upholds democratic values and improves the quality of life for current generations, while preserving that opportunity for future generations”— as the cornerstone of development assistance efforts and a key element of U.S. foreign policy. Based on decades of experience, the mandate that USAID is now implementing supports sustainable and participatory development; places an emphasis on partnerships; and the use of integrated approaches to promoting development.

USAID's strategy entails participation that fosters empowerment and local ownership. It requires a broad participation of the ordinary people in the economic, political and social decision-making processes. Success of the assistance depends on development programs that are relevant to the needs, priorities and commitments of the men and women to whom the development efforts are directed. Sustainable development must involve, respond to, and be accountable to the men and women who will live with the results of the development effort after the assistance is gone.

The new role of USAID's assistance is also based on partnerships. It implies a collaborative effort between USAID and the host nation, and USAID and other donors, to increase the local capacity—government, private sector, non-governmental organizations (NGOs) grassroots,

individuals—to do things for themselves. As agreed by the international donor community, including the U.S., joined under the Development Assistance Committee (DAC), development cooperation does not try to do things *for* developing countries and their people, but *with* them.

Finally, USAID's integrated approach for development cooperation takes into account the totality of development problems confronting the host nation for the development of integrated country strategies, and integrates them with overall U.S. foreign policy at the bilateral, regional and global levels. Accordingly, USAID coordinates its assistance in Peru with all other USG agencies operating in the country.

Peru's political, economic, and social stability is important to long-term U.S. interests in the Latin American region for a number of reasons. Peru is one of the largest sources of cocaine consumed within the U.S. It has become an increasingly important trading partner, as many U.S. and Peruvian investors are returning to Peru to invest in this once terrorism-ravaged country. Peru is home of one to the largest tropical forests in the world and one of the richest environments in terms of biodiversity. Peru's fragile democracy is still threatened and is vital to the region's stability. There are clearly important U.S. interests in extending the benefits of economic growth to the poor and increasing citizen participation in the political life of the country.

The foreign assistance budget enacted for fiscal year 1998 is \$12.8 billion. USAID's own worldwide budget is around \$7 billion, of which Egypt and Israel receive one third. The rest goes to 60 countries in the developing world, including the former Soviet Union. Peru's share is around \$100 million, one of the largest in the Latin America and the Caribbean region.

III. PAST USAID ASSISTANCE IN PERU

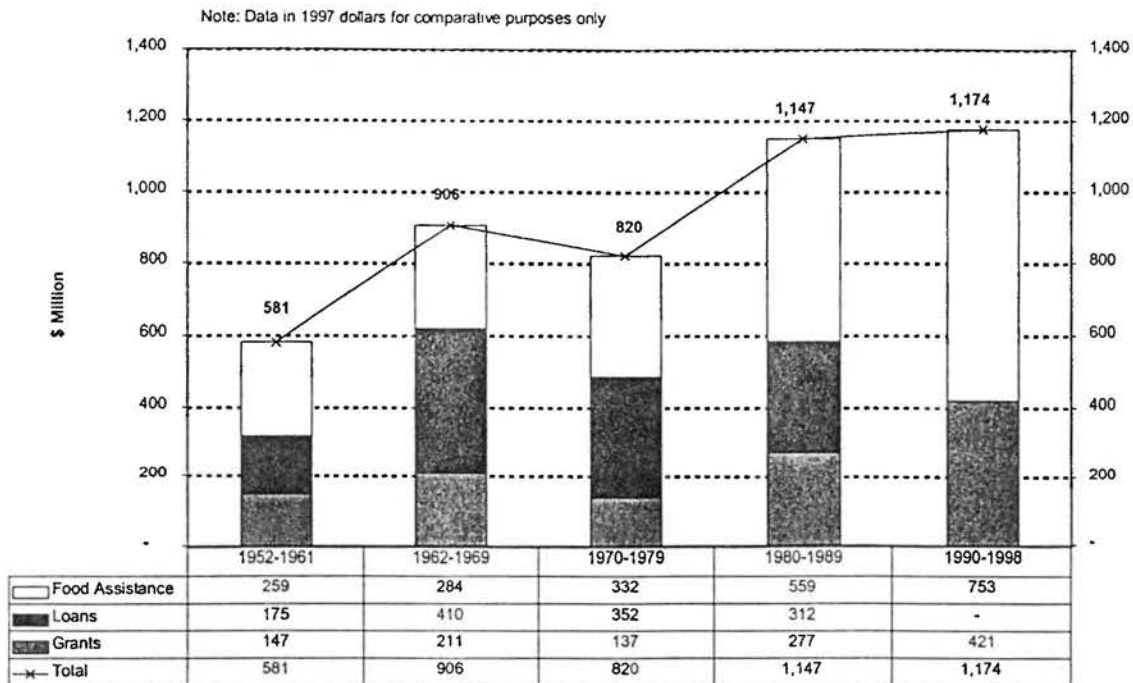
Prior to the creation of USAID, cooperation between the USG and the Government of Peru (GOP) had been in operation since 1933 when Franklin D. Roosevelt's "Good neighbor Policy" inspired the United States to seek opportunities for technical exchanges with Latin America. Official U.S. government assistance to Peru began in 1942 with programs such as the Cooperation Services for education, health and food production, and continued under the Point Four Program. Bilateral assistance to Peru provided through USAID's predecessors (1946-1961) amounted to \$96 million, through both loans and grants.

The programs initiated in the 1940s and 1950s had an impact that lasted for decades. In agriculture, the cooperation helped the GOP in the establishment of an extensive agricultural research program to develop the agricultural potential of the country. These efforts were institutionalized into a number of Peruvian agricultural universities that still exist today throughout the regions of Peru. In health, the U.S. assistance helped in the establishment of numerous health centers in the jungle and the north coast, now major regional hospitals, and initiated nurse training and industrial hygiene programs. Loans were devoted to the improvement or construction of penetration roads, such as the highway that links the capital city, Lima, with

the hinterlands, or to facilitate migration from the highlands to high jungle valleys as the Apurímac.

With the establishment of USAID in 1961, the cooperation to Peru increased considerably. The emphasis of the cooperation, however, changed throughout time, depending on U.S.- Peru relations, and U.S. foreign assistance policy directions (see figure below).

USAID Cooperation to Peru 1952-1998
(In 1997 dollars)



The sixties were marked by relatively massive U.S. funding. USAID's initial years were accompanied by the launching of the Alliance for Progress program, a Kennedy initiative calling for a concerted economic and political effort to overcome poverty, extremes of income distribution and dictatorships in Latin America, a region which was a Presidential priority. Peru was one of the countries that, after years of military dictatorship, turned to a more democratic system with the election of President Fernando Belaúnde.

During the Belaúnde period (1963-1968), Peru was among the four largest USAID programs in Latin America. USAID provided assistance of \$134.5 million, among loans and grants. The main loans were for infrastructure, such as roads and hydroelectric power, and agriculture development. USAID loans helped construct major sections of the principal north/south highway in the jungle region (*Carretera Marginal*) and other key east/west links, which opened up potentially rich agricultural areas. USAID assisted in the establishment of the National Agrarian

University at La Molina, and helped to found the International Potato Research Center, which has enjoyed worldwide renown for its impact on improving the quality of potato production. Likewise, one of the most successful activities was the creation of the Graduate School of Business Administration (ESAN). In addition, USAID administered a successful housing guarantee program, with private U.S. long-term loans, which resulted in the construction of nearly 8,000 housing units for middle income families in Lima and elsewhere.

During the military regime of the seventies, overall U.S. assistance decreased considerably. Nevertheless, in spite of strained US-Peru relations, USAID continued its food assistance programs and provided significant cooperation for the reconstruction after the disaster of the earthquake of 1970, following its humanitarian mandate.

Starting 1973, the U.S. foreign assistance policy called for assisting to meet "basic human needs". With the improvements of bilateral relations during president Morales Bermúdez (1975-1980), USAID supported such shared GOP objectives as agriculture development and the education reform. For example, USAID provided the foundation for what is today a flourishing dairy industry in Arequipa and Cajamarca, and assisted in the development of the pre-school education system. USAID also provided support for the needed urban development, exacerbated by the massive migrations to the capital city, for the construction of basic urban infrastructure to the shantytowns.

During the 1980s, the mandate for USAID emphasized policy dialogue, institution building, technology transfer, private sector development and child survival. The country's infant mortality and fertility rates—among the worst in the region—led to the selection of the Peru as one of the priority countries in Latin America for child survival and population assistance. Food assistance also was directed for child survival purposes. The impressive gains shown recently in these areas prove the impact of the large investments in human resources during this decade.

The human resource base in Peru was also enhanced by the establishment of the Andean Peace Scholarship program. Over the years, more than 5,000 professionals, technicians, managers, local leaders and others have received training and higher education in overseas courses with U.S. assistance. The vast majority of these people have occupied or risen to important decision-making positions in Peruvian society. In addition, there was greater emphasis in strengthening private sector or non-governmental institutions. Private sector support led to the establishment of the Peruvian Confederation of Private Enterprises (CONFIEP) and the Institute for Liberty and Democracy (ILD), both of which received substantial USAID assistance.

USAID assistance also responded to several others of Peru's development challenges. USAID was the major donor (\$180 million) providing assistance for rehabilitation and reconstruction after the El Niño disaster of 1983-1984. The drug problem started to arise and the Center for Drug Education and Prevention (CEDRO) was founded. In addition, USAID provided assistance to the GOP in its first projects to promote rural development in coca growing areas and in other high jungle areas. In 1986, USAID initiated the first major activity for strengthening democratic institutions with the Administration of Justice (AOJ) project, which

by working directly with the Public Ministry, judiciary and Ministry of Justice, aimed to reform the severely constrained and inefficient judiciary system.

The cooperation of USAID and the donor community during the 80s and previous decades addressed some development needs of Peru. However, it could not stop the country from falling into the fiscal crisis of the late 80s. Political mismanagement and resistance of the GOP to honor external debt halted most of external economic assistance. Nevertheless, USAID continued providing food aid and assistance for human resource development through NGOs. At the end of the eighties, the country was suffering from a rampant hyperinflation and political violence. Narco-trafficking was ravaging the country, significantly feeding political instability and corruption. Peru entered the nineties with its worst crisis in history, but also with a desire for change.

IV. ROLE OF USAID COOPERATION IN THE NINETIES

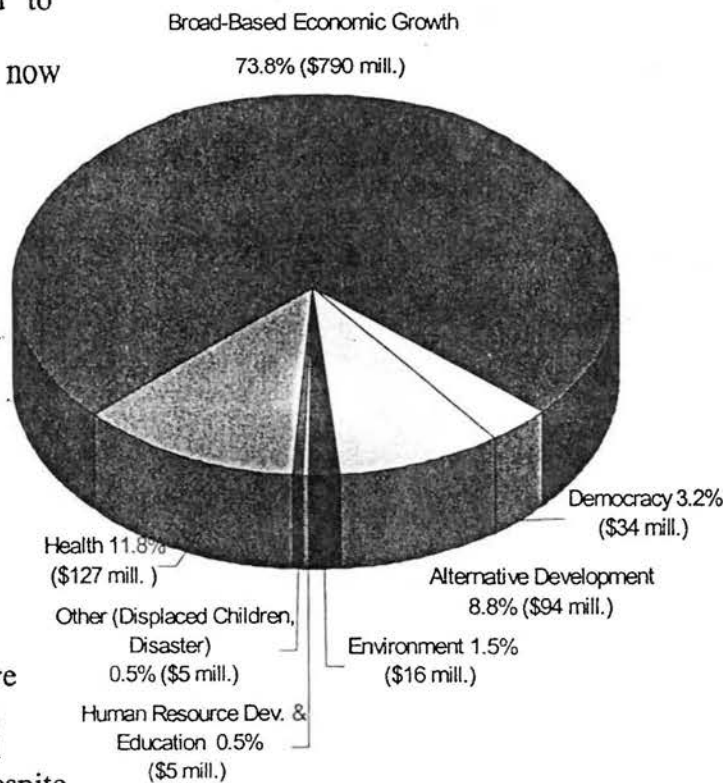
The role of USAID in the nineties has been pivotal in many aspects of Peru's remarkable transformation. The assistance provided during this period (1990-1998) has also been meaningful: \$1.1 billion – all of them in grants, mostly directed to support economic growth (see figure) — which have contributed to Peru's efforts to recover from the ashes of near total collapse to a now modernizing and flourishing state.

1990-1992: The initial years

With President Alberto Fujimori coming into office in July 1990, the new administration gave highest priority to cut hyperinflation, ending terrorism and reintegrating Peru into the international financial community. The GOP's new policy agenda was consistent with many U.S. foreign policy concerns, which included the severe inequities and widespread poverty, the corrupted judicial system, and the narcotics industry. Thus, despite Peru's isolation from the international financial community, USAID was upfront cooperating

USAID Assistance to Peru by Sectors

FY 1990-1998
(\$ Million)



with the GOP to pursue its bold stabilization and macroeconomic adjustment program.

One major mechanism for this initial support was provided through the Andean Counterdrug Initiative. The \$2.2 billion Andean Counterdrug Initiative, which included the Andean Trade and the Enterprise for the Americas Initiatives, was launched by President Bush in 1989 to strengthen counternarcotics efforts of the key Andean source countries—Peru, Colombia and Bolivia. The five-year Initiative included military, economic, law enforcement and intelligence assistance. USAID was responsible for planning and managing the economic cooperation for Alternative Development, to strengthen the legal economies of the Andean countries. The Alternative Development strategy, developed in 1990, included the following elements: sustained, broad-based growth; evolution of stable democratic societies; and international cooperation in addressing the previous two elements. The first two were considered indispensable for achieving the US counter-drug objectives in the Andean region, including Peru.

The objective of the Alternative Development strategy in Peru was to revitalize the Peruvian economy and provide viable alternatives to the illegal economy, consistent with the new GOP Administration's approach to the drug problem. A stable growing economy would provide legal employment opportunities for the poor and attract labor force entrants away from the coca industry.

The strategy supported Peruvian stabilization efforts on two fronts: a \$50 million balance of payments assistance, geared to support an IMF program; and policy dialogue, through the \$7 million Policy Analysis, Planning and Implementation Project (PAPI), to assist the GOP with technical expertise and training in the design and implementation of sound economic policies towards a market-based economy.

The Alternative Development strategy also included projects for the generation of licit job opportunities and foreign exchange earnings in coca growing areas and nation-wide. In addition to the existing projects in coca-growing areas, USAID started a \$20 million export promotion project with the Association of Exporters (ADEX) to encourage investment, job creation, enterprise development, and expansion of non-traditional exports by the private sector. Furthermore, assistance also included projects to create the necessary conditions for alternative development to succeed and ensure sustainability in the long run. These were activities to increase drug awareness and build a national consensus on the needs to suppress the narcotics industry in Peru; improve the administration of justice (particularly against narco-traffickers); and strengthen democratic institutions.

USAID cooperation in the macroeconomic front was geared to significant results. In 1991, by virtue of its economic reform policies, mostly designed with PAPI assistance, and through the efforts of the international support group co-chaired by the U.S. and Japan, Peru obtained an International Monetary Fund (IMF) Rights Accumulation program, thus reestablishing itself in the international financial community. Inter-American Development Bank (IDB) loans and World Bank (WB) follow to assist Peru in its economic reform. The PAPI project helped the GOP to design key policies including those related to the elimination of price controls and

subsidies; legislation for the privatization of public enterprises; and rescheduling of the country's external debt.

USAID's role was also key in providing a social safety net to help over three million poor Peruvians adjust to the dislocations caused by the economic stabilization, and thus reduce the risk of social turmoil. Food assistance increased from \$31.6 in 1989 to \$60.8 in 1990 to a record amount of \$117.8 in 1991, and continued around the \$100 million level for three more years. Food aid was not only used for direct food distribution and the functioning of almost 5,000 soup kitchens (*comedores populares*), but also for the creation of temporary employment through food-for-work community-based activities that provided productive and social infrastructure. Additional assistance was furnished through the distribution of excess food rations from the Gulf War, which helped 30,000 indigents and hospital patients, whom were suffering from the GOP's social budget constraints.

The strains that the GOP had during its initial phase of reform were aggravated by the cholera epidemic and natural disasters. Nonetheless, USAID leading role and continuous cooperation in health since the 80s contributed to the successful attainment of the 1991 cholera epidemic. The GOP's concern for expanding the health and reproductive services was curtailed by the lack of fiscal resources. USAID assisted in this regard by increasing coverage of preventive health, child survival and reproductive health services through the private and NGO sectors, particularly in peri-urban and rural areas, and with a special concern for sustainability of the services.

The Auto Golpe

Events in 1992 affected severely the USAID cooperation program, which eventually caused the cancellation of some new projects and changes in the implementation. In April 1992, President's Fujimori suspension of the congress and the judiciary-- "self-coup" (*auto-golpe*) led to USG freezing of most of new assistance to the GOP, including balance of payment support, reduction of future food programs, and slowdown or suspension of many activities. As actions were taken to return to constitutional order, the holds were lifted in October 1992, allowing new bilateral grants. However, because of U.S. Congress concerns over democracy and human rights, some already programmed funds were never released. New funding for the Alternative Development Strategy was suspended and the counternarcotics economic assistance reduced.

The upsurge of urban terrorism also affected the program. After the bombing of the U.S. Ambassador's residence (February, 1992) and one of USAID's partners -ILD- (July, 1992), the USG authorized departure of American USAID staff and suspended new assignments, as well as the travel of experts to Peru. This decision delayed the implementation of many projects, and caused the suspension or termination of others.

Nevertheless, during the hiatus, USAID managed to continue the cooperation to Peru with activities through the private sector. Policy analysis continued through CONFIEP, which started a collaborative dialogue with the public sector in the preparation of economic policy regarding legal and financial framework for private investment. ILD established a pioneer unified business

registry, that reduced radically the bureaucratic steps and time for registering businesses; created a simplified land titling system and registration of informal property; and set the basis for the administrative simplification law. Cooperation with ADEX led to the establishment of the first commercial arbitration center in the Chamber of Commerce. Moreover, revamped the fishing industry through the implementation of a quality control system (Hazards Analysis and Critical Control Point –HACCP) at the main fish and seafood processing plants, to improve the sanitary conditions and meet foreign markets strict quality standards.

In health, the work with the private sector and NGOs increased significantly the information on family planning, a GOP priority. Likewise, drug awareness activities led by CEDRO considerably increased public perceptions on the drug problem. The percentage of people that believed that drugs are a major problem in Peru and that the GOP needed to act upon it increased from less than 1% in 1986 to 43% in 1993.

USAID also continued democratic initiatives with NGOs. In fact, USAID provided technical assistance and financed local NGOs and Organization of American States' observers for the constituent assembly (CCD) elections in November 1992, and municipal elections in January 1993. Later on, several NGOs financed under various USAID projects provided input to the CCD on sections of the Constitution, such as those referred to the creation of the Judicial Academy, the Judicial Council and the Ombudsman; and on the drafting of a modern Criminal Procedures Code. Through NGO assistance, the Public Ministry was able to establish the National Detainees Registry (NDR); a system designed to track and provide information on persons detained for terrorism.

USAID efforts to foster democratic values increased throughout all the areas of assistance. For example, training programs abroad increased their focus to include judges, prosecutors, local leaders, mayors and municipal staff. In coca growing areas, USAID started, as pilot projects, pioneering activities in the strengthening of local governments. The pilot project validated the concept that democratic community involvement strengthens confidence in the government, promotes a more efficient use of public resources and helps to develop, with other sectors of the government, an environment conducive to private sector growth, and consequently, an abandonment of coca cultivation. It demonstrated that democratic governance provides increased opportunities for resolving difficult issues for development.

USAID's New Strategy for Peru

During the mid 1990s, as Peru was consolidating its stabilization and pacification program and the economic recovery started to take off, the GOP made poverty reduction its highest priority. It also has placed emphasis in modernizing its public sector for an efficient delivery of services, and deepening structural reforms for both increased investments and competitiveness to enter fully into the global world and the regional free trade partnerships. In sum, the GOP has placed emphasis in establishing the basis for sustainable development.

USAID's current role is directed to help Peru achieve broad-based sustainable development.

This role places emphasis in areas of USAID's comparative advantage: policy reforms, human capacity development and institution building. It seeks to enhance the capacity of the Peruvian nation to improve its quality life and enlarge the people's freedom of choice, without compromising the needs of future generations of Peruvians. It supports the concept of building people and community participation and empowerment to be involved, responsible and accountable for the process and the results of their own development. Thus, it also seeks to strengthen local, governmental, non-governmental and private organizations to better serve as agents of people's expressed interests and the country's development. In addition, USAID seeks partnerships with other international organizations to formulate policy agendas and design complementary development programs to assist the GOP in filling gaps in development resources.

USAID's cooperation to Peru is most recently framed by the Summit of the Americas' commitment to a Partnership for Development and Prosperity, for which Peru and U.S. subscribed. The call from the Summit was to preserve and strengthen the community of democracies of the Americas; promote prosperity through economic integration and free trade; eradicate poverty and discrimination in our hemisphere; establish education a key for progress; and guarantee sustainable development and conserve our natural environment for future generations.

Moreover, USAID's strategy is based on GOP's priorities and the commitments that Peru, other countries and U.S. subscribed in the Summit of the Americas and world conferences including the ones on environment (Rio de Janeiro, 1992), human rights (Vienna, 1993), population (Cairo, 1994), social development (Copenhagen, 1995), and women (Beijing, 1995). USAID's assistance therefore, is also focused and targeted to the poor and extremely poor populations, particularly those in rural areas in order to broaden the benefits of social and economic development.

USAID's cooperation is aimed to assisting Peruvians to build a more stable and democratic society, reduce inequalities, adopt a sound environmental perspective, and reduce illicit coca production, that will help Peru move into a new era of development and prepare for the challenges of the 21st century.

Within this framework, USAID developed a strategy for Peru for the years 1997-2001, to help the country address its new challenges. USAID current cooperation is aimed to achieve six interrelated objectives: broader citizens participation in democratic processes; reduce illicit coca production; increase incomes of the poor; improve the health, including family planning, of high-risk populations; expand opportunities for girls' basic education in targeted areas; and, improve the environmental management of targeted sectors.

Broader Citizens Participation in Democratic Processes

Democratization is an essential part of sustainable development because it facilitates the protection of human rights, informed participation, and public sector accountability. Peru's success in the social and economic growth is inextricably related to democratization and good

governance. Repression, exclusion of marginalized groups, human rights abuses, disregard for the rule of law, corruption, and autocracy reduce confidence and public support and are antithetical to development. Therefore, USAID has attached a high priority to strengthening of the democratic processes and popular participation in decision making.

USAID's strategy for democracy in Peru recognizes that effective and sustained reform comes primarily from outside the formal system, based on demand from the citizenry, but also inside the formal system through the strengthening of democratic institutions that respond to the needs of citizens. USAID's strategy is demand-based; it begins by making citizens aware of their rights and responsibilities and giving them opportunities to participate and inform debate. This builds popular support and pressure to decentralize power and reform state institutions. At the same time, assistance is directed to key institutions to establish more effective and responsive state and local institutional structures. These must be sufficiently open and responsive to permit and encourage broad citizen participation in the events that affect their lives.

In the past few years, USAID has focused its activities on elections, support to the Peruvian Controller General, human rights and decentralization. USAID was the leading donor for the 1995 national and local elections, supporting the new electoral institutions like the JNE and ONPE and promoting citizen participation. Through technical assistance to the Controller General, this institution has become one of the few such internationally certified institutions in Latin America and now has a much greater capacity to monitor the finances of the Government and serve as a buffer against corruption. Other donors are following USAID support.

In terms of human rights, USAID was the first donor to provide assistance to the new human rights Ombudsman, which has emerged as a highly respected and responsive democratic institution. USAID continues its support, particularly in promoting the rights of native communities, women and persons unjustly accused of terrorism. The latter, managed by the Pardon Commission, has resulted in the release of near 400 innocent persons. NGOs have also worked in this regard. Near 700 persons have won their release after being unjustly incarcerated for terrorism. USAID also supports the legal rights of the poor through a network of free legal and mediation clinics located in Lima and Callao. This activity was initiated by the Lima Bar Association and now is handled by the Ministry of Justice. In its first six months, these clinics provided services to nearly 38,000 people, the majority of them women for abandonment and domestic violence cases.

One real bright spot though, has been the success of USAID's work with local governments, in a program with the GOP agency INADE and ESAN to increase both the degree of local participation and the quality of local decision-making. Near 4,000 mayors, council members and community leaders have been trained, hundreds of community meetings held, high priority development projects financed with municipality and community own resources. Over 170 municipalities are now more responsive to the needs of their constituents. There is real enthusiasm among citizens for solving their problems and taking greater responsibility at the local level. Decentralization is being achieved from the bottom up.

USAID has also provided support to increase citizen knowledge of their rights and

responsibilities through civic awareness activities, including public fora bringing together political leaders and their constituents, "training-of-trainers" courses in basic civil and human rights and other events highlighting problems of concern to citizens. USAID has worked through a variety of groups, including the Congress and civil society organizations such as *Grupo de Analisis para el Desarrollo* (GRADE), *Centro Peruano de Estudios Internacionales* (CEPEI), *Transparencia*, ILD, and the National Human Rights Coordinator. This quiet work is producing real results.

For example, NGOs training activities have promoted human rights awareness among 100,000 citizens from different backgrounds, distributed throughout the country, particularly in those areas that have been hard hit by terrorism and narco-trafficking. Grassroots leaders have formed local groups to oversee respect of rights, including women's and children's rights, and civil rights, and are coordinating activities with local authorities. An increased number of citizens and civil society organizations are now discussing issues of transparency, rule of law, participation etc.

The ability of NGOs, the general public, and business and industry groups to participate in public policy debates and influence policies, programs, and regulations that affect their lives is dependent on an open political system that not only tolerates free expression, but sees participation as a legitimate right of its citizens. Nevertheless, USAID will continue fostering citizen participation in democratic processes, such as electoral processes, through increasing registration of indigenous populations, and efforts to increase women's representation in the political process. USAID will continue to help civil society groups to ensure that government institutions become more transparent, decentralized, accountable, effective and accessible, and therefore establish the basis for a sustained development.

Reduce Illicit Coca Production in Target Areas in Peru

Narcotrafficking has proven to be a major source of social, political and economic destabilization for Peru, as well as a major problem for the U.S. The USG is engaged in a major effort with the GOP to eliminate the illicit production of coca through interdiction, law enforcement and alternative development. This joint effort is based on the new GOP alternative development strategy approved in 1994, which is focused on coca growing areas.

This new GOP-USG alternative development strategy is based on the hypothesis that by offering people in coca-growing areas an alternative licit source of income, coupled with an improvement of their quality of life and physical security, the majority will abandon coca production for a licit source of income. The focus of alternative development activities is to provide both monetary and non-monetary incentives for people in coca-growing areas to replace their illicit activities for licit ones.

This is accomplished by re-establishing local government presence in target areas and making it responsive to local communities' needs. Activities also rehabilitate physical infrastructure, aiming to improve access to markets and lower production costs. By improving production

techniques and yields through the provision of technical assistance, training and the provision of better seeds and livestock, licit income and employment will be generated. Teaching improved environmental protection practices will promote soil, forest and water conservation, which will also contribute to increased licit income and employment. A strong drug awareness component facilitates receptiveness for change on the part of the people living in coca-growing areas, promotes greater social stability and will reduce illegal drug usage throughout Peru.

USAID thus far has granted \$45 million to mount an alternative development program that is working across the coca regions, but particularly in the Apurímac, Aguaytía and the Upper Huallaga. During 1997-98, 270 communities that want to reduce and eliminate their coca have signed agreements to do so. The program has financed hundreds of community works projects, rehabilitated feeder roads, and issued more than 8,000 land titles. Communities that participate are receiving direct assistance in moving towards licit and profitable agricultural, livestock or forestry activities.

For example, through grants to ADEX and other institutions, USAID directly supports coffee, rice, corn and plantain production as well as promotes other high-potential crops such as palm heart, cacao, pineapple and assorted tropical fruits. These programs will help improving production in more than 41,000 hectares devoted to licit crops in coca growing areas. In addition, a private commercial bank has mounted a \$4 million credit program and now has a portfolio of bankable projects, at market interest rates. U.S. companies are buying organic coffee from the Apurímac valley and others are negotiating in other project areas. Under the Common Agenda with Japan, USAID also has facilitated Japan's investments in these areas, to increase production and marketing of *camu-camu*, a tropical fruit.

This strategy is clearly working. The combined efforts of the U.S. and Peru led to a 40% drop during the last two years in the coca hectareage (from 115,000 to 70,000). The magnitude of the coca problem, however, requires massive and concerted assistance. The international community also has responsibility in the elimination of coca production. Thus, USAID is supporting the GOP's counternarcotics coordinating agency -CONTRADROGAS, to organize an IDB Consultative Group meeting, scheduled for October, 1998, to pledge for increased support. Only through a shared commitment of USG, the GOP and other donors, the drug problem will be defeated.

Increase Incomes of the Poor

Broad-based economic growth is the foundation of sustainable development. Economic growth is the most potent remedy for poverty. But, growth needs to be focused on people. Growth that benefits all, also strengthens a democratic development. Policy and investment choices must expand opportunities and give the poor and disadvantaged, particularly women, greater capacity to produce income.

USAID cooperates with the GOP in its efforts to reduce poverty through a variety of mechanisms. USAID's major efforts are directed to remove the obstacles that interfere with the participation of the poor in the benefits of the economic growth. USAID pays particular attention

to expanding economic opportunities for the less-advantaged by helping promote microenterprises and small businesses; by focusing on the development and delivery of technology, including agricultural technologies appropriate to small farmers, by increasing the access of women to employment, land, capital and technology, and by developing their human capacity.

Through the support to ADEX, the Microenterprises and Small Producers Support (MSP) project, focuses on assisting microentrepreneurs and small farmers to identify market demand for their products, to utilize appropriate technology to efficiently produce these commodities, and to obtain financing and market links. This successful approach has allowed more than 12,000 small producers to significantly increase their incomes by non-traditional exports of yellow onions, yellow potatoes, handcrafts, garlic, mangoes and beans. Similarly, USAID support to NGOs has increased access to credit for small income generation activities to near 30,000 people, the majority of whom are women. For many of these women, their participation in the programs is the first opportunity they have to make decisions with a direct impact on their family's future.

The cooperation in food assistance is now more targeted for sustainable poverty reductions, and not just temporary alleviation. Through NGOs, USAID assists the poorest populations in rural areas, particularly children under five- the future of the country, to improve their nutrition status and their human capacity. During the last six years, these efforts have helped reduce chronic malnutrition by 30%, expanding the opportunities of those children to have a greater productive life. The NGOs also support temporary employment opportunities of the poorest populations, the improvement of physical infrastructure, and the provision of inputs and credit to improve the production for on-farm household consumption. Over the long run, improved nutrition of children in poorer households, together with the broader interventions to provide economic opportunities for their parents, will ensure the sustainability in the process of reducing extreme poverty.

Poverty alleviation is not solely dependent upon increased economic opportunities, but also includes other key factors such as an appropriate policy framework for improved nutrition, health, education, and access to services. Complementing the aforementioned efforts, funding is being provided by USAID to analyze and improve the policy and regulatory framework to support appropriate social sector policies to ensure adequate financing and delivery of education and health services. For example, technical assistance has helped the GOP to improve the focusing and targeting of its social investments. USAID is supporting additional GOP efforts to effectively mobilize private sector efforts to combat poverty.

For example, USAID activities include a joint effort with other donors as the European Union, the World Bank, the Swiss and German cooperation agencies, to support the GOP's economic corridor strategy as one element to reduce poverty. These economic corridors have potential to provide long-term job creation and increased income opportunities to the poor. USAID will focus on supporting the private sector with market information, while other donors will provide for economic infrastructure, and the GOP for social investments to create the conditions for increased productive private investment in those areas.

Other activities in policy areas with CONFIEP and the GOP on the macro-economic policy

framework have facilitated the creation of the first Commodities Exchange in Lima, and are promoting greater attention to consumer protection, increased competition, protection for intellectual property rights. Cooperation is also directed to assist the GOP redefine the new role of the state in the global economy, and other issues that are key to join the Free Trade of the Americas.

USAID activities will assist poor Peruvians in taking full advantage of the expanding markets. A broader pattern of growth will in turn inspire confidence in a better future, an essential element of responsible and participatory democratic society.

Improve Health, including Family Planning, of High-Risk Populations

Investment in human capital targeted to the poor, enhances equity and opportunity, increases human productivity and at the same time fuels economic growth. Equitable access to health and family planning services allows the disadvantaged population to participate in decisions that affect their lives and take greater responsibility of their own welfare.

USAID cooperation in this area is directed to support Peru's efforts in strengthening the quality, coverage, delivery and use of basic health care and related reproductive services to reduce fertility and maternal, infant/child mortality in peri-urban and rural areas. The focus of the USAID assistance is on the most vulnerable populations, children under age one and women of childbearing age, which health needs are greatest. USAID helps over a 7 million high-risk population to enjoy longer lives and a higher quality of life, by making it easier for them to take by themselves appropriate preventive, promotive and curative actions to promote health; and by supporting development of the sustainable health systems that will ensure access to services.

Towards this objective, USAID works with the Ministry of Health (MOH), a variety of NGOs and community based organizations, and other donors. USAID's long standing leadership and partnership in this area (\$185 million in 20 years), along with the GOP's efforts and other donor commitments have improved Peru's health conditions over the last 15 years. There has been a 26% decline in total fertility (average births per woman) over the last 15 years.

USAID has cooperated substantially to improved health in other areas as well. During the past 15 years, infant mortality has fallen from 73 to 43 per 1,000 live births while under-five mortality has fallen from 106 to 59 per thousand live births. Coverage of vaccination rates, as well, has increased from 30 in 1981 to the current 95% coverage, mainly due to a concerted partnership among the GOP, donors, NGOs and community-based organizations.

Participation of community-based organizations in the identification of their own health problems are increasing the effectiveness of the delivery of health services in rural areas. Health centers can tailor their services to the most common community health threats.

USAID is also contributing to address regional and global health threats, by improving the local capacities to identify and control emerging and re-emerging infectious diseases such as cholera, malaria, tuberculosis and sexually transmitted diseases, including HIV/AIDs. This latter disease

is receiving special attention under the Common Agenda Initiative, a joint U.S. Japan collaborative effort for development to address global issues.

Expand opportunities for Girls' Basic Education in target areas

Basic education of girls correlates powerfully with future health-seeking behavior, lower desired family size, improved nutrition, higher income earning abilities, and greater environmental awareness. USAID however, has not had a prominent role in formal education for a long time in Peru. Multilateral banks have taken the lead in assisting the GOP in this area. Nevertheless, given the proven importance of girls' basic education for the achievement of sustainable development, and the recent GOP and private sector commitment to girls' education, USAID has just started a collaborative effort with them in this area. USAID will help to promote consensus on a national strategy to increase girls' participation in formal education. Activities will be particularly directed to address barriers to girls' primary education in rural areas, where educational levels are among the worst in the country.

Improve Environmental Management of Targeted Sectors

Peru is endowed with a rich though unevenly distributed natural resource base and one of the world's largest tropical forests. However, over-exploitation and pollution are decreasing potential economic growth for current and future generations, undermining human health, and contributing to the world environmental crisis of global climate change and loss of biodiversity.

USAID's approach to the environmental sector aims to assist Peruvians to improve protection of the natural resource base, fragile ecosystems, and biodiversity conservation and to reduce urban and industrial pollution. In a joint effort with other donors, USAID collaborates in the strengthening of the institutional capacities of both public and private sector organizations to increase public awareness on environmental issues, mobilize public support, and generate broader consensus for the development and implementation of sound environmental policies. These efforts promote greater citizen and industry participation in the formulation of environmental policies and legislation.

One example of such consensus is the relatively recent passage of Peru's first environmental framework law for the manufacturing sector that promotes pollution prevention. The law was developed in cooperation with the Ministry of Industry. Other examples are the collaboration of CONAM, the leading public agency in environment, and NGOs in the drafting of laws related to natural resources management, biodiversity conservation, integrated pest management, among others.

USAID's past experiences with NGOs in sound management of natural resources had already shown its benefits. In the Pacaya-Samiria Reserve, 1,200 families living in the Pacaya-Samiria area have developed employment opportunities with sustainable agro-forestry activities while preserving endangered species. Some other 3,800 families in very poor highland areas have adopted biological pest control to address potato plagues. The reduction in losses of potato crops has increased their incomes by 20%.

USAID also collaborates with private sector organizations to develop cost-efficient environmentally friendly practices. USAID's approach is to introduce the very best practices available to find cost-effective ways of reducing pollution before it becomes a large-scale problem and to make it profitable wherever possible. For example, USAID worked with fishmeal plants in Pisco to develop technologies that have reduced pollution and waste, and have increased production of \$3 million in fishmeal over the past year. Other activities have demonstrated cost-effective solid waste management activities through women-owned microenterprises.

Sound environmental practices will no longer be perceived as a luxury, but as integral part of growth – a principle that must be followed if the benefits of development are to be realized and human welfare maintained and enhanced for present and future generations of Peruvians.

A Vision Towards the 21st Century

Development cooperation is a key investment in the future for a more secure and interdependent world. This will require broad and sustainable progress in developing countries to evolve towards more open, participatory economic and political systems and strong civil societies able to achieve good governance, reduce poverty and protect the environment. USAID and other donors' role as partners in development cooperation will be to help strengthen Peru's capacity to meet these demanding integrated requirements for sustainable development.

The decade of the 1990s has offered a unique historical opportunity for USAID and other donors to support Peru to advance its economic and social development in a highly participatory and inclusive way. All these efforts, we believe, will result in furthering a broad based and sustainable development for Peru, and, thus, position it to participate fully in the global economy of the 21st century.