

UK
DEPARTMENT FOR INTERNATIONAL
DEVELOPMENT

PERU
COUNTRY ASSISTANCE PLAN
2003-2005

Update (Section E): November 2003

A. SUMMARY

A1. Peru (population 27 million) is a lower middle-income country with a GNP per head of \$2100. But this average income masks great inequality. One half of Peruvians live in income poverty and a fifth in extreme income poverty. Most of the extreme poor are indigenous people living in the rural areas of the *sierra* and *selva*, while the poor are concentrated in urban shantytowns.

A2. Both the proportion and the absolute numbers in income poverty have grown over the last two decades, and Peru is unlikely to achieve the Millennium Development Goal (MDG) for halving income poverty. Progress is being made in health and education, but there are real challenges to achieving the education and maternal mortality MDGs in rural Peru.

A3. The causes behind these high levels of inequality and poverty are complex, multi-layered and not easily addressed. Proximate causes include failings in economic and social policies. Underlying explanations include recent violent conflict and the absence yet of mature processes of democratic governance responsive to the poor majority. The deep causes include racial and ethnic discrimination.

A4. The Peruvian Government has set tackling poverty as its overarching objective, to be pursued through improved governance, pro-market policies and expanded social services. It is supported in these efforts by the multilateral institutions and a limited group of bilaterals.

A5. Peru has an important role to play as a force for stability in the conflict-prone Andean region, home to over 40 million poor people, of whom 20 million are extremely poor. Peru is a significant trader within the region and globally. Faced with high levels of external indebtedness, the Government has also shown commitment to sound macro-economic management and debt repayment, encouraging international capital market stability in Latin America.

A6. DFID can add value to the work of others, through our focus on how best to work in middle-income countries, by promoting a coordinated donor approach, and through our strategy of working with both state and society in Peru to promote change that benefits the poor.

A7. The purpose of this country plan is to work with the international community to support the Peruvian Government in its aim of achieving more inclusive and equitable development, in order to improve the country's prospects of achieving the MDGs. We will target (1) more coordinated action for poverty reduction (2) the greater responsiveness and accountability of the state to poor people and (3) more equitable social sector services.

A8. Our country plan is part of a regional plan to support change within the World Bank, the Inter-American Development Bank (IDB) and the European Commission (EC) towards a stronger focus on more inclusive development in

Latin America. Country level activities will be linked to DFID Latin America regional support, DFID global actions and wider HMG efforts to help the multilateral institutions achieve impact across Latin America.

A9. The bilateral country programme is projected at approximately \$10 million for the two years 2003/04-2004/05. This is complemented by central programmes and FCO resources. The UK funds 18% of EC resources and is a major financier of the multilateral banks.

B. THE CHALLENGE

Level and Nature of Poverty

B1. Peru has 27 million inhabitants. It is a lower middle-income country with an average income of \$2100 in 2000. But it is deeply unequal. A few people live very well and half live reasonably. But large numbers suffer multiple forms of deprivation: economic, social and political. World Bank income indicators (1996) put 41% of the population on less than \$2 a day and 16% on less than \$1 a day. National measures (2001) estimate some 15 million (54%) below the national poverty line, of which 6.5 million (24%) live in extreme poverty, unable to satisfy food needs.

B2. Peru is hugely diverse, but the extreme income-poor are mainly people of indigenous origin who live in rural areas, primarily in the Andean *sierra* and in the Amazonian *selva*. Many are non-native Spanish speakers; one third are monolingual in one of Peru's 42 indigenous languages. Typically they make a subsistence living, in isolated communities. They are among the quarter of Peruvians who do not access modern health care. Only two-thirds of children regularly attend primary school. Adults vote but the political system does not represent them effectively. Most of these people are significantly excluded from mainstream Peru, and frequently suffer discrimination. The Human Development Index for the poorer Departments (0.44-0.52) is similar to many Sub-Saharan African countries. In 2001/02, DFID and the World Bank conducted a participatory poverty assessment in Peru to understand these people's own views of their world:

Voices of Peruvians living with Extreme Income-Poverty

The world of work:

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

The world of institutions:

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

The world of the family:

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

Source: World Bank-DFID Participatory Poverty Assessment, 2002; 1000 people in 9 sites.

B3. Peru is very urbanised (over 70%). Most of the income-poor are people living in urban shantytowns, largely on the coast, particularly in Lima where 30% of Peruvians live. They eke out a livelihood in low productivity jobs in the 'informal economy', many as independents or in micro-enterprises. Children and the elderly are often expected to work. Their access to social services is better than for the extreme income-poor, but the services are generally of low quality. HIV/AIDS has become a public health issue among the urban female poor. The urban political voice is louder. But these people live in an informal world – in work, in their organisation of security and justice – in many ways outside, and excluded from, formal institutions, undermining their rights and responsibilities as citizens.

Trends in Poverty and Progress Towards the MDGs

B4. Best estimates indicate that during the 1980s, the proportion in income poverty increased from about two-fifths to over one half, and since 1990 there has been little improvement, with the absolute numbers in income poverty continuing to grow. The numbers living in extreme income poverty have followed similar trends. Health and education levels have however improved during both decades.

B5. In relation to the MDGs, projections suggest:

- Halving extreme income poverty: not on track, and unlikely to achieve;
- Universal primary education: attendance in many rural areas currently 70%, universal attendance will be tough to achieve;

- Health targets: most targets on track; maternal mortality is main challenge;
- Gender equality: educational target broadly achieved;
- Environmental sustainability: not on track.

Causes of Poverty

B6. The causes explaining the inequality, high levels of poverty, exclusion and discrimination in middle-income Peru are complex and multi-layered. When Peruvians focus on proximate causes, they point towards failures in economic and social policies. In the last decade macroeconomic stability has been restored to Peru, but this followed poor macro-management in the 1980s. Structural policies have also been subject to swings. Following a quarter century of state interventionism and import substitution, the economy was sharply liberalised in the early 1990s. A majority agree that this has provided the basis for more sustainable growth, but many question whether adequate attention has been paid to economic opportunities for the income-poor, in both rural and urban areas.

B7. Analysts also point to the sustained low levels of expenditures on health and education in Peru, compared to similar countries. This low level – funded from a low tax base equivalent to 12% GDP – has often been accompanied by low quality and regressive targeting of services, particularly in education (especially education in rural areas), with serious long-term implications for human capabilities.

B8. In attempting to explain the underlying causes for Peru's failure to become a more equitable society with less poverty, many point to Peru's relatively recent experience of democratic governance. After centuries of rule by and for an elite, it is only in the last half century - accompanied by urbanisation - that democratic processes and a more responsive state have begun to emerge. But the political party system is volatile, personalised and only weakly based around issues. The relationship between the Peruvian state and its citizens is weak, as exemplified by the low tax base.

B9. Violent conflict has been a threat. Terrorist led armed violence spread throughout the country from 1980-1995, bringing tens of thousands of deaths, and in the last year there have been some renewed incidents. The period of violence has recently the subject of an investigation by a Truth and Reconciliation Commission, to learn from this past. The drugs trade has also flourished during the last quarter century, often in association with the terrorism. The 1990s saw an authoritarian regime, with hyper-centralism, large-scale corruption, clientelism, and the undermining of human rights.

B10. The continued weakness of the representative democratic system means that direct action remains the preferred means of exerting rights for many Peruvians, including the income poor. They favour action through their own organisations and movements, though these were badly damaged through the terrorism of the 1980s and the authoritarianism of the 1990s. The Church (Catholic and Protestant) is widely respected by the poor.

B11. Some people look to the deep causes of inequality, poverty and exclusion in Peru, in the history and culture of the country. They argue that the Conquest's repression of the indigenous population and the maintenance of European institutions since Independence have contributed to the deep divisions in society, the lack of a collective sense of national identity, multi-layered violence and racial and ethnic discrimination.

Policies to Tackle Poverty

B12. The Government Plan (August 2001) set out the Peruvian Government's overarching aim as the frontal attack on poverty, supported by three main objectives (1) putting the state at the service of the people (2) productive employment and (3) health, education and culture for all. In 2002 the Government also agreed a National Accord (*Acuerdo Nacional*) with the major political parties and civil society that set out 29 long-term, objectives for governance, development and poverty reduction. In early 2003, it also published the outlines of a Strategy for Overcoming Poverty (*Bases para una Estrategia de Superacion de la Pobreza y Oportunidades Economicas para los Pobres*), which is to be developed into a full strategy. All these documents reflect sound policies, backed in many cases by performance indicators. The challenge is to make them happen.

B13. Governance reform is high on priorities, as a reaction to the authoritarian 1990s. Political reform, including revision of the 1993 Constitution, and anti-corruption work have occupied much Congressional time. The Government has also committed to, and is introducing, a phased process of decentralisation to Departmental and Municipal levels, a very significant policy challenge. Greater citizen participation and transparency in government have received much attention.

B14. Some stimulus was provided to the economy by the Government in 2001, including the introduction of an emergency employment programme. But this was done while preserving macro-economic stability, within the framework of an IMF Standby Agreement. The Government has committed itself to market-friendly policies, raising competitiveness and improvements to the business environment for small enterprise.

B15. Government policy is to expand access to, and the quality of, basic social services, within available resources. In health, the emphasis has been on expanding the coverage of a free basic package of services. In education, the initial agenda focused on improving services in rural areas. Social assistance programmes are also being reorganised. Tax policy and administration is being reviewed to increase government revenues.

B16. Civil society – the churches, NGOs and networked community organisations – are generally supportive of this agenda, in particular the governance reforms and participation. Some NGOs are active in pushing for improvements in health and education policies. The main area of

disagreement is over economic policies, where there have been some pressures for more expansionary policies and state interventionism.

B17. In the private sector the main concern of big business is the maintenance of economic stability. Most are committed to liberalised markets, though some analysts note the absence of an economic elite with a clear long-term vision for the country. The long tail of micro-enterprises, mostly operating informally, wish to see less bureaucratic, less corrupt government. The demands of the rural extreme income-poor focus on improved access to markets (roads, finance) and more stable prices.

B18. Due to Peru's middle-income status, the presence of the international community is less than in poorer countries. But the three main multilateral development banks (MDBs) – the World Bank, Inter-American Development Bank (IDB), and Andean Development Corporation (CAF) – lend nearly \$1 billion per year, about 10% of public expenditures. A good proportion is in fast disbursing policy-based loans, and between them MDB investment loans cover most sectors. The World Bank is seen as an important source of advice and underwriter of sound policies and has the strongest social focus. The IDB leans towards the economic agenda, and enjoys a privileged position on issues of democratic governance. CAF is becoming increasingly important and is broadening its interest beyond the economic. The UN agencies are well represented, playing an advocacy and technical assistance role for effective and accountable government.

B19. The EC will commit about €25 million per year (2002-2006), focused on socio-economic, border infrastructure and governance issues. Owing to a backlog of projects, tackling urban and rural poverty, disbursements should be higher. Bilateral assistance of about \$300 million a year comes from a mixed group of donors: the US, Japan, Germany and Spain are the largest. Bilateral agencies have varied interests - political stability, the fight against drugs, the promotion of commerce and cultural objectives, as well as development and poverty reduction – and programmes are often project driven. The co-ordination of overall strategies has been limited.

Regional and International Dimensions

B20. Peru has an important role to play as a force for stability in the Andean region: a region that is prone to political instability and conflict, and home to 40 million poor and 20 million extremely poor people. With the return to more democratic government, Peru has begun to play a more active role in regional and international fora to support the international rule of law, and respect for human rights. In 2003, as chair of the Rio Group, it has led on clearer regional approaches to poverty reduction and on the improved functioning of the democracy in Latin America.

B21. Peru is also a significant trader within Latin America and globally. Lima is home to the Secretariat of the Andean Community (CAN). The Government has pursued the alignment of Peru with the CAN and an association agreement with Mercosur. In 2002 it also negotiated a trade and

anti-drugs agreement with the US (APTDEA) that is already beginning to reap dividends for the cotton and textiles sector. With the EU, Peru has a preferential trade arrangement for many exports (again as a measure to discourage illegal crop cultivation).

B22. Peru is heavily indebted - 40% of exports of goods and services and 22% of fiscal outlays go on external debt service – and there are no prospects for significant debt forgiveness. Sound macroeconomic management and the approval of the IMF has thus been vital to Peru, to support access to international capital markets and meet its debt commitments (which it has done), and to promote the environment for foreign direct investment, while contributing to improved international capital market stability for Latin America.

B23. More than 10% of native-born Peruvians live outside the country, in the US, Europe and Japan, and polls indicate that an overwhelming majority of young people wish to emigrate from the country. Annual remittances are estimated at several hundred million US\$.

C. RISKS TO SUSTAINED POVERTY REDUCTION

C1. Looking towards 2015, there are reasonable prospects for Peru getting on track to achieve the major health and education MDGs, though this is not without challenges in rural areas. Achievement of the income MDG appears unlikely unless there is a very marked improvement in political and economic performance. Several risks to sustainable poverty reduction are identified in Peru.

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

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

C4. A second risk is the lack of effective donor co-ordination. Donors are used to coordinating within sectors, but there has been little experience of

coordination of country strategies. As with the Government, this may lead to some lack of clarity in direction, to the misdirection of resources, to duplication and inefficiency. A clear national poverty reduction strategy would help provide a framework for much more effective strategy coordination.

C5. Action. It is for the Peruvian Cooperation Agency (APCI) working closely with the Ministry of Economics and Finance (MEF), to lead the way on improving coordination. DFID will be proactive in supporting this, in coordination within the European Union, and in developing a closer partnership with Spanish Cooperation.

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

C7. Action. The Government is seeking to avoid this risk. The international community can help by ensuring that its programmes work to support democratic governance, and consensus processes where appropriate. DFID will support this with a particular focus on - political and governance reforms that promote the interests and influence of poor people.

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

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

C10. In the economy, social pressures could lead to fiscal expansion and macro-economic instability, but so far the Government has shown strong commitment to maintaining sound management. A greater risk is that economic growth may be too low, or of too low quality, to have much impact on income poverty levels. The economy is dependent on exports of primary products, for which prices are volatile, and on the mining industry, which directly generates few jobs. The country needs to continue a process of broadening its economic base and adding value to its exports. To ensure that poorer producers benefit, there is a need to focus on their access to markets.

C11. Action. The international community has an important role to play in ensuring a free and fair rules based trading system as it affects Peru (and other developing countries), in the World Trade Organisation, the Free Trade Area of the Americas and bilateral negotiations. The Banks and other donors will provide considerable support for competitiveness and economic growth objectives. The IDB and EC will provide capacity building for trade negotiation. With these partners, DFID will review how to incorporate the poverty reduction agenda into trade policy considerations and support the inclusion of economic opportunities in the poverty reduction strategy.

C12. A significant risk to effective poverty reduction could be the absence of sufficient public resources for health and education targeted at poorer, excluded people. The tax effort is low in Peru and the Government wishes to introduce reforms, but the risks of inadequate resources remains great. Equally, there is a need to target improvements in education and health services on rural areas, but these are threatened by the lack of voice of the rural poor and excluded.

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

D. WHAT DFID HAS LEARNT

D1. DFID has maintained a modest development programme with Peru. The previous Country Strategy (1998-2001) focused the programme on helping to achieve health and educational outcomes for the poor, and on alternative development. The establishment of a small in-country office, more knowledge of Peru, experimentation with new ways of working, project evaluations and a Country Strategy Performance Review (2002) have provided many lessons for our approach. In particular we have learnt how DFID can add value to international development assistance to middle income Peru.

D2. Firstly, our policies have led us to ask about the nature and causes of poverty in middle-income Peru, about what can be expected of the Peruvian Government in terms of a poverty reduction framework to orient international cooperation, and what the most appropriate development assistance instruments might be to respond to this. Thus, with partners, we have been active in supporting debate about poverty reduction policies and the importance of coherent strategies. This has helped keep a focus on poverty to the fore. Working with Spain, we have also begun a debate, about how best to work in a middle-income country environment.

D3. Second, we are aware of the modest size of the DFID programme with Peru, and have learnt that to have impact, we must work through and with others in the international community. We have been active in fostering

donor-coordination. We particularly seek to support change within the World Bank, the IDB and the EC, to promote more inclusive development. This has proven fruitful in the fields of poverty strategies, health, education and social protection.

D4. Third, helped by applied research, we have learnt more about the structural causes of Peru's high levels of poverty, inequality and exclusion, which has led us to focus on deeper issues of governance, citizenship and rights and responsibilities as the means to sustainable poverty reduction. This has caused us to look to work with both the state and with society in an explicit and strategic way.

D5. Fourth, we do need to specialise however. There are many demands on our support, and in order to ensure that we provide expert, good quality assistance we should not spread ourselves too thinly. We must prioritise on key areas of expertise, and maintain a limited number of programmes.

D6. Fifth, we have learnt that it is important to organise our staff resources so that they have time free of project management to engage with others in the international community and with policy processes.

D6. Finally, we are learning how best to link our work in Peru to DFID regional work in Latin America, to engage more deeply with Washington (the World Bank and IDB) and Brussels (the EC) in particular, and with other British Government Departments, in particular the Foreign and Commonwealth Office and the Department of Trade and Industry

E. UK DEVELOPMENT PARTNERSHIP

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

E2. The purpose is to work with the international community to support the Government achieve more equitable development, through the political, social and economic inclusion of poor, marginalized people – particularly the indigenous peoples and women of the sierra.

Key Principles of Partnership

E3. To achieve this purpose, we will work with both the Government and with the representatives of poorer, excluded people to strengthen the bridges between them. This support for strengthening state-society relations will help poor people exercise their rights and responsibilities as citizens of Peru. There will be a strong focus on helping the poor and their representatives participate in the development and oversight of public policies and programmes. The strategy will help the Government become more responsive and accountable.

E4. We will work closely and build alliances with the international community in all our activities, in particular with the World Bank, the IDB and the EC. These agencies are particularly important to development in Peru, and we will seek to complement them and add value to their activities, supporting them to promote inclusive development. We will do this through working together strategically (on how best to provide support to middle-income Peru), through coordinating efforts behind a poverty reduction strategy in Peru, and through our specific programmes.

E5. DFID financial resources will be focused on three main programmes. The programmes will provide a basis for our engagement in dialogue on pro-poor policy and practice in Peru with both the international community and the Government. These programmes will be complemented by short-term strategic activities contributing to the development of policies that benefit poor people. Our in-country staff will allocate significant time free of 'project management' to knowledge dissemination, alliance building and support for advocacy for such policies and their implementation.

E6. Our work in Peru will be part of a regional plan to bring benefits to the Latin America region overall. In working with regional institutions such as the IDB and the Pan American Health Organisation (PAHO) and the regional arms of the World Bank and the EC, we will scale up lessons from the country to the regional level. In-country staff will work with staff working on the Latin America regional programme and other DFID staff based in London, Washington and Brussels to achieve this.

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

E7. Given the above overall objectives (goal, purpose, principles), over the time period of the Peru Country Assistance Plan, we will contribute to the achievement of three objectives:

- Objective 1: More coordinated action for poverty reduction;
- Objective 2: State more responsive and accountable to poor people;
- Objective 3: More equitable social sector services.

Objective 1: More co-ordinated action for poverty reduction

E8. We will support the Government in its efforts to promote a more coordinated and coherent approach to poverty reduction. Should the Government continue to develop its 'Outline Strategy for Overcoming Poverty' (*Bases para una Estrategia de Superacion de la Pobreza*) into a fuller more comprehensive strategy, we will offer support through access to international experience on poverty strategies and on participatory processes in strategy development and monitoring.

E9. The Government is seeking to achieve greater coordination of donor support to Peru. If a comprehensive strategy for tackling poverty were pursued, this would enhance the prospects for co-ordination of the international community. Whatever the outcome, more co-ordination of the

international community at a strategic level is required, particularly with a view to how best to support a middle-income country such as Peru. DFID will be proactive in encouraging this, building on the work begun with Spain.

E10. Given the need to focus our programme, our support for the economic livelihoods of poor people will be limited to promoting the inclusion of economic opportunities within this coordinated action for poverty reduction.

Objective 2: State more responsive and accountable to poor people

E11. Democratic reforms are underway to revise the constitution and the electoral and political party systems. The Government is also seeking to bring government closer and more accountable to people, through decentralisation, transparency, public finance reform (including anti-corruption work), participation, and the social oversight of public services. A number of multilateral and bilateral agencies are supporting this agenda. The major concern for DFID will be to support these developments with a strong focus on promoting the inclusion of the poor and the poorest, and enabling poor people to be active citizens with rights, expectations and responsibilities. .

E12. We will fund two programmes to support this objective. The first is the Southern Sierra Human Rights for the Poor Programme (2002-2005). This supports the participation and inclusion of poorer, excluded indigenous communities in local government, linked to regional and national level, to strengthen economic, social and cultural, as well as political and civil rights in order to improve social and economic conditions in these impoverished regions. The programme will in particular support WB and IDB loans for poverty policy reform and decentralisation.

E13. The second is a Political and Financial Accountability Programme (2003-2005). This will support political system development, electoral reform, and review fiscal issues (in particular tax reform) to encourage accountability to poor people. We are also completing a 2002-2003 regional and municipal elections project supporting electoral rights and local governance education. The Human Rights and Political and Financial Accountability Programmes will feed the DFID Latin America regional activities to help regional institutions tackle discrimination and promote representative democracy.

Objective 3: More equitable social sector services

E14. The Government is committed to improving public sector management including the expansion of health and education services. The World Bank, IDB, EC and others are supporting this effort. DFID will complement these through a strong focus on strengthening the link between the service providers (mainly the state) and poor users (citizens), emphasising rights and responsibilities.

E15. We will fund one programme to support this objective. The Health Rights Programme (2003-2005) will work at local and regional level in the *sierra* and *selva*, linked to national level policies. The programme will support

improved transparency in the health sector, and greater participation of communities in health management, and promote the rights of poorer people to health services.

E16. We will also bring to completion an existing project in education (2003-2005) that has been re-focused on the participation of poor rural communities in school management, complementing World Bank and USAID support for rural education. We will also complete implementation of our support 2002-2004 for the Government's Emergency Employment programme in poor rural Andean regions, linked to reforms to enhance the role of participatory local government in the delivery of social assistance, working with the IDB, EC and others. These programmes link to DFID Latin America regional activities to help regional institutions improve public services.

F. PROGRAMME RESOURCES

F1. The Country Plan envisages a country programme bilateral allocation of about \$10 million over the period 2003/04-2004/05. This is complemented by DFID central funding support from the Civil Society Challenge Fund, research funds, and other challenge funds, which has been running at over \$1-2 million a year. These include support for innovative projects such as the Children of the Millennium child poverty research project, and others in human rights, which are co-ordinated closely with the bilateral programme. We will continue to encourage a complementary approach from these programmes, to maximise learning benefits for Peru.

F3. DFID support is complemented by FCO funding, particularly for political and civil human rights. The current focus is on support for a free media and for police reform. These projects are managed by the British Council and have been worth about \$0.5 million a year. HMG will continue to co-ordinate closely on this.

F4. The UK also funds 18% of the EC development programme, estimated in disbursement terms at about \$9-10 million per year. The UK is a 5% shareholder in the World Bank and 1% shareholder in the IDB.

G. IMPLEMENTING THE COUNTRY PLAN

G1. To implement the Country Plan, we will maintain a small in-country office, to enable us to engage with Peruvian policy and practice. This will comprise a small group of policy capable advisers. The team will mix both international and national advisory staff, to balance international and local knowledge. Staff time will be divided between managing programmes, which both bring direct benefits, and give us knowledge and lessons, based on reality; engaging on policy with the rest of the international community, the Peruvian state and society; and two-way linkage with DFID.

G2. The advisory team will have local administrative support, and will be part of the British Embassy in Lima, to encourage a coherent HMG approach on international development policy issues, including governance and human rights, security issues and trade and investment.

G3. The in-country office will work closely with the LAD regional resources based in London to promote partnership with regional level institutions. The two will also have a two-way relationship with EMAP, IFID, EUD and Policy Division, both to draw down international expertise for the benefit of Peru and take the Peru lessons to the global level. LAD will continue to work closely with other Whitehall Departments, especially the FCO, to pursue policy coherence.

ANNEX A

CONSULTATION PROCESS

- January 2002: 1998-2001 Country Strategy Performance Review: consultations with Peruvian state, civil society and international cooperation;
- Early 2002: Results of World Bank-DFID Participatory Poverty Assessment processed: the voices of 1000 Peruvians living in extreme income poverty;
- Early 2002: Pre-Consultation Draft discussions of specific issues with Peruvian state (in particular with interested Ministries and other state institutions) and Peruvian civil society and international cooperation;
- August 2002: Consultation Draft submitted to, and approved by, Secretary of State;
- September-December 2002: Consultations held with:
 - (1) Whitehall – written comments received;
 - (2) UK civil society – written comments received and meeting held;
 - (3) Government of Peru – meetings held and comments received;
 - (4) Peruvian civil society – document circulated widely and comments received;
 - (5) International cooperation in Peru – document circulated and comments received.
- Main changes reflect a strengthening on focus on working with FCO (Whitehall) on inclusion of vulnerable groups and rights of indigenous people (UK civil society), on achieving focus in the programme (Government of Peru), on need to work with society (Peruvian civil society) and on a commitment to working together (international cooperation).