



Canadian International
Development Agency

Agence canadienne de
développement international

PERU

COUNTRY STRATEGY

(Effective as of 2009)

CIDA reviews all country strategies periodically and may revise them to reflect changing priorities or circumstances.

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Canada 

1. Country Development Context

Current context:

- **Foreign policy priority and strategic ally for the Government of Canada** in its engagement in the Americas. A significant player in the promotion of democracy, stability, security and human rights in Latin America. One of Canada's largest trading partners in Latin America, with commercial and economic ties expected to expand with the new FTA (2008). Canada is one of Peru's largest foreign mining investors, with projected investments in 2009 of over US\$3 billion.
- **Lower middle-income country** (\$3450 GNI per capita – World Bank) endowed with a wealth of natural resources, and with strong, long-term development potential.
- **Economy among the best performing in Latin America** in recent years largely due to strong minerals and hydrocarbons prices. Peru's GDP growth declined from 9.4 per cent in 2008 to a projected 2.2 per cent for 2009, however, sound macroeconomic fundamentals, adequate fiscal reserves and a US\$3.4 billion Anti-Crisis Plan position Peru relatively well to weather the global economic crisis.
- **Politically stable democracy** with a strong civil society.
- **Despite economic growth, persistent high income inequality:** The richest 5th of Peru's population controls 56.7 per cent of total income, while the poorest 5th receives just 3.7 per cent, contributing to persistent poverty, where 2.2 million people (7.9 per cent of the population) live on less than \$1.25/day, largely in rural areas. Inequality has undermined social cohesion and threatens democracy. Women and children, and the indigenous, living in rural areas and the highlands, are the most vulnerable.
- **Expectations of improved social and economic conditions due to strong growth have not been realized** for Peruvian citizens. Recent polls show growing disenchantment with government and elected officials, especially in the regions. Upcoming regional (2010) and national (2011) elections are pivotal, as government will have to address fiscal policy challenges related to managing and redistributing the revenues which generate the funds that directly target the poor and marginalized, via services such as education and health.
- **The Peruvian education system:** While Peru has made great strides in educational coverage in recent years (on track for MDG2), a fundamental imbalance exists between enrollment levels and what youth actually learn. The quality of education is among the worst in Latin America and the Caribbean as shown by below average scores for math and reading (UNESCO 2008). This situation also has having serious repercussions on the labour market (World Bank 2007). The Government, concerned with the potential negative consequence on social peace and economic growth, is now devoting important efforts to address quality through its National Strategic Results-Based Budget, targeting the improvement of primary school learning outcomes as one of five priorities, and through its Multi-Annual Macro-Economic Framework 2009-11 which states that education from a very early age is key for the country's competitiveness. The Government recognizes it needs help to improve the system to: generate quality standards/measurement systems; develop an effective accountability system to implement / monitor; and, strengthen managerial/technical capacity of education actors, from the Ministry to local levels. Canada, USAID, Spain and UNICEF will support each according to their respective area of expertise.
- **MDGs:** on track to meet access to education; eradication of extreme poverty / hunger and child mortality / maternal health achievable with additional efforts; environment and governance goals may not be met.

Aid-effectiveness context

- Peru is a signatory to the Paris Declaration on Aid Effectiveness. CIDA is an active member of the following Technical Donor Committees: Education; Governance; Decentralization and Modernization of the State; and Gender Equality. Ongoing efforts are required by donors to continue progress on aid effectiveness by Peru's International Cooperation Agency (APCI). CIDA has strategically targeted these efforts on its sectors of focus, such as education, where along with a small group of donors working in education (USAID, Spain), it is exploring ways to better coordinate / harmonize support to Peru's National Education Plan; and on human rights, where with the core donors of Peru's Ombudsman (Defensoría del Pueblo) basket fund, it has harmonized reporting.

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- Canada is 6th (among bilateral donors) overall, first in the extractive/natural resources sector and second in education, after the United States. The top three donors (2007) to Peru are **Japan** (Environment, Water and Sanitation, Natural Disaster Mitigation), the **United States** (Education, Governance, Alternative Livelihood) and **Spain** (Governance, Education, Environment, Economic Development).
- Canada played a key role in creating Peru's first and only program-based approach (PBA), the multi-donor basket fund supporting Peru's Ombudsman.

2. Priority Needs and Canada's Value-Added

Country Development Plan

- Peru provides a framework for donor alignment through the National Policy on International Technical Cooperation (NPITC, 2006-11), which ties together the various national, sectoral and regional policies that articulate the country's development vision. Canada is responding to Peru's priority needs as expressed in the NPITC, following an assessment of its development objectives:
 - **Human Development:** improving education standards, with special attention to reducing inequality by targeting rural areas and disadvantaged populations, such as indigenous groups and women and girls. *Improving learning outcomes and basic education* is one of the five priorities of the Ministry of Economy and Finance's Results-Based Budget Plan.
 - **Economic Growth and Sustainability:** ensuring that economic success does not come at the expense of the environment and social peace, bringing workforce skills and production up to international standards for Peruvians to benefit from recent FTAs.
 - **Governance:** strengthening public sector capacity to effectively implement reforms, including decentralization, accountability and transparency, and implementing social programs in a way that effectively reduces inequality.
- **Canada's value added** rests in its expertise and models in education (early childhood to technical/vocational training); enabling environment for economic growth and increased trade, access to TRTA to benefit from regional/global trade liberalization, corporate social responsibility (including environmental stewardship and ensuring the poor benefit from the activities of the extractive/natural resources sector), social conflict management; public sector management (including management of the mining/energy sectors), decentralization; and equality between women and men.
- **Canadian Foreign Policy:** Canada's cooperation program in Peru contributes to the Americas Strategy objectives of Democratic Governance (e.g. Peru's Ombudsman, support decentralization to regional governments) and Prosperity (e.g. regulatory reforms in extractive/natural resource industries, corporate social responsibility - CSR). Canada's whole-of-government presence in Peru is reinforced by the activities of other government departments including DFAIT, IDRC, Export Development Canada and NRCan, which all contribute to the implementation of the America's Strategy.

3. Strategic Direction

- The objective of the Peru program is to reduce poverty and inequality in a more democratic and inclusive Peru. To achieve this, the [Peru Country Strategy 2009](#) retains [Children and Youth](#) from its [Country Strategy 2008](#) and adds [Economic Growth](#) to strengthen the synergies with key regional initiatives (SFE, TRTA and CSR) and respond to stark economic inequalities in the country. In fact, the apparent contradiction between persistent poverty and a healthy economy in Peru is in large part explained by the high inequality affecting the country. Consequently, the main problem is not the absence of wealth but the lack of institutional means to effectively tackle socio-economic inequality. Canada's tradition of promoting equal opportunities through public services is of particular interest and relevance.
- **Achievements in 2008-09:** Over the past year, CIDA has continued to improve learning outcomes of rural boys and girls by training teachers with Canadian models on effective teaching techniques and full participation of community stakeholders in education, and to improve capacity of State institutions in social conflicts management through training of government officials and design of how-to guides.

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- **For 2009**, Canada will continue to transfer expertise and models in support of:
 - **Children and Youth:** strengthen quality of education for rural girls and boys focused on quality standards and measurement, by enhancing managerial and technical capacity of education actors from Ministry to local levels, and providing quality intercultural education.
 - **Economic Growth:** increase the participation of vulnerable populations in economic development, through market-driven Skills for Employment, effective CSR, and the enhanced ability of the GoP and regional governments to plan and deliver equitable and inclusive public services and effectively regulate the extractive/natural resources sector (incl. mining, hydrocarbons and hydro-electricity) in a sustainable manner.
- **Equality between women and men:** CIDA's proposed programming aims to reduce gender gaps by supporting the implementation of Peru's recent Law of Equal Opportunities between Men and Women, and by ensuring that all CIDA programs apply equality principles.
- **Environment:** Economic Growth projects related to the extractive/natural resources sector will specifically promote the sustainable development and management of natural resources. All other programming will address environment sustainability as a cross-cutting theme (e.g. in the education curriculum, and in monitoring by Peru's Ombudsman).
- CIDA's program in Peru is coherent and mutually reinforcing. For example, support to the decentralization process overall helps regional governments to deliver education services in an effective and more inclusive manner and accelerates decentralization in the economic growth sectors specifically with an increased ability of regional authorities to tap into their natural resources for their own development.

4. CIDA's Programming Plan

- **Policy dialogue:** The theme of promoting equality cuts across CIDA's policy dialogue with Peru. In Education, quality and inclusiveness will continue to be addressed with the national Ministry of Education and regional authorities. Dialogue with the Ministry of Energy and Mines will expand to include corporate social responsibility and CIDA will involve the newly created Ministry of the Environment in dialogue related to the extractive/natural resources sector. Dialogue with governance partners such as Peru's Ombudsman will include the above issues, in addition to human rights and social conflicts.
- **Poverty reduction:** Considering the extreme regional disparities in Peru, planned programming in Governance, Education and Economic Growth will target geographic regions that contribute most to inclusiveness and to reducing poverty among the most vulnerable.
- **Inter-American Program:** Bilateral programming will be reinforced through support provided to hemispheric institutions (Inter-American Commission on Human Rights, OAS) to increase their own capacity and that of public institutions at the country level (electoral and democratic processes, human rights, public accountability). Support to the Latin American and Caribbean association of oil and gas companies (ARPEL) also reinforces the bilateral program's work in this sector. Opportunities and benefits of increased trade and investment through Canada's trade agreements will be maximized through the provision of trade-related technical assistance (improved market access, CSR practices, production standards and regulatory frameworks).
- **Canadian Partnership Branch (CPB):** Peru ranked 6th out of 33 countries in the Americas in which CPB was active in 2008-09. CPB delivered \$4 million through 32 Canadian partners, contributing to Economic Growth; Governance; Health; and Education. In governance, Canadian partners provided support to local community organizations in rural development and natural resource management, empowering local groups, women and children. Key voluntary sector organizations such as CUSO-VSO, Consortium WUSC-CECI, and SUCO will be engaging an estimated 160 volunteers from 2009-14 to support local counterparts in Peru. Partners working with both CPB and the bilateral program include: CARE Canada, WUSC-CECI, and TFO Canada. CPB will continue to seek coherence and/or inter-linkages with other CIDA country programming.
- **Multilateral and Global Programs Branch:** In 2007-08, CIDA contributed approximately \$1.8 million to Peru through core funding to multilateral and global institutions, complementing bilateral programming, for example:
 - Inter-American Development Bank focus on economic growth, improving social policy, reducing poverty, promoting equality, protecting vulnerable groups and strengthening governance.

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- World Bank focus on economic growth, poverty reduction, education and governance, and synergies with environmental sustainability and extractive sectors.
- **Aid Effectiveness:** Canada intends to respond to APCI's request to strengthen its capacity to effectively coordinate donor efforts in Peru. We are also exploring ways of joining efforts with other donors in the extractive/natural resources sector through, for example, delegated cooperation on artisanal mining with the Swiss COSUDE and aligned programming with GTZ and the World Bank on sustainable natural resource management. In addition, CIDA will tap into the wealth of existing analyses and conduct joint assessment work with other donors active in our sectors of focus.
- **Programming Modalities:**
 - Seek new PBA opportunities to provide technical assistance to the GoP and regions.
 - Fewer and larger projects in a balanced portfolio with relatively even proportions of directive programming, grants to multilateral institutions and responsive programming with Canadian and Peruvian organizations.
 - Ongoing consultations with Peruvian authorities, civil society and private sector in the development of specific initiatives.
 - Consolidation of local funds into one Strategic Governance Mechanism for synergy, effectiveness and efficiency.
 - Emphasis on support to newly created regional governments and their institutions.
 - Progress to full decentralization by 2012/13 to 'hub-and-spoke' model for South America, for strengthened program delivery, effective use of resources and accountability for results.

Recommended bilateral aid budget:

- **2009-10:** \$23 M
- **2010-11:** \$30 M
- **2011-12:** \$30 M

5. Results and Risk Identification

The Program's ultimate outcome is reduced poverty and inequality in a more democratic and inclusive Peru.

Results:

Children and Youth: Quality Education for Rural Children; Management and Technical Capacity in Education; Intercultural Education

EXPECTED Intermediate Outcomes:

- Increased quality of education for rural children
- Improved management and technical capacity
- Intercultural education provided

EXPECTED Immediate Outcomes and Outputs:

- 300 early childhood/primary school teachers, principals and specialists provide quality intercultural education directly to 8100 students and indirectly to another 73,000 children
- Improved enrolment, retention and education achievements of 4,300 rural young people, enhanced life skills, increased student and teacher participation
- Enhanced ability of the state, including decentralized institutions (e.g. 4 regional governments, school councils), to plan and deliver efficient, inclusive and quality education services to the population.

Economic Growth: Skills for Employment, Corporate Social Responsibility and Enabling Environment

EXPECTED Intermediate Outcomes:

- Strengthened skills for employment
- Effective corporate social responsibility
- Improved regulatory and legislative capacity and framework for economic growth that benefits the people, focussed on the extractive/natural resource sector (incl. mining, hydrocarbons and hydro-electricity)
- Improved prevention and management of resource-based conflicts

EXPECTED Immediate Outcomes and Outputs:

- Skills training programs better meet the needs of industry and use competency-based approach.
- Improved access to training to technical and vocational skills for marginalized and young persons.
- Improved access to jobs in the local markets for marginalized and young persons.
- Strengthened understanding and constructive implementation of the extractive industry's CSR obligations by local / regional governments and their populations.
- Community-level sustainable social and economic development projects implemented through partnerships with extractive firms, local / regional governments and NGOs.
- Improved collaboration and dialogue among extractive sector stakeholders.
- Enhanced ability of the state and decentralized institutions (e.g. 4 regional governments and Defensoria del Pueblo) to execute their functions relating to the sustainable development of extractive/natural resources, to manage social conflicts and to provide for the equitable and inclusive betterment of their citizens.
- Increased capacity of local populations to monitor and oversee extractive/natural resources sector activities.
- Increased number of SMEs participating in the formal economy by raising the quantity and quality of training, access to credit, protection of property rights.

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Risks

A risk ranking for the Peru Program was completed in 2008 and the Risk Assessment Profile will be finalized in 2009-2010. Among key risks:

Socio-political, stability/security, economic, conflict and governance:

- There is a risk that dissatisfaction with inequitable distribution of economic benefits might increase risk of social unrest. Mitigation: CIDA programs support credible organizations that address/redress public grievances and conflicts and strengthen policy, regulations and social outreach, especially in the extractive/natural resources sectors.
- There is a risk that the financial crisis and the fall in commodity prices limit private resources available for and interest in corporate social responsibility in extractive sectors. Mitigation: CIDA programs balance activities with government, private sector and communities, allowing for greater emphasis on governance and conflict-resolution aspects until growth resumes.