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Enabling poor rural people
to overcome poverty

Republic of Peru

Country strategic opportunities programme

Executive Board — Ninety-seventh Session
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For: **Review**

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

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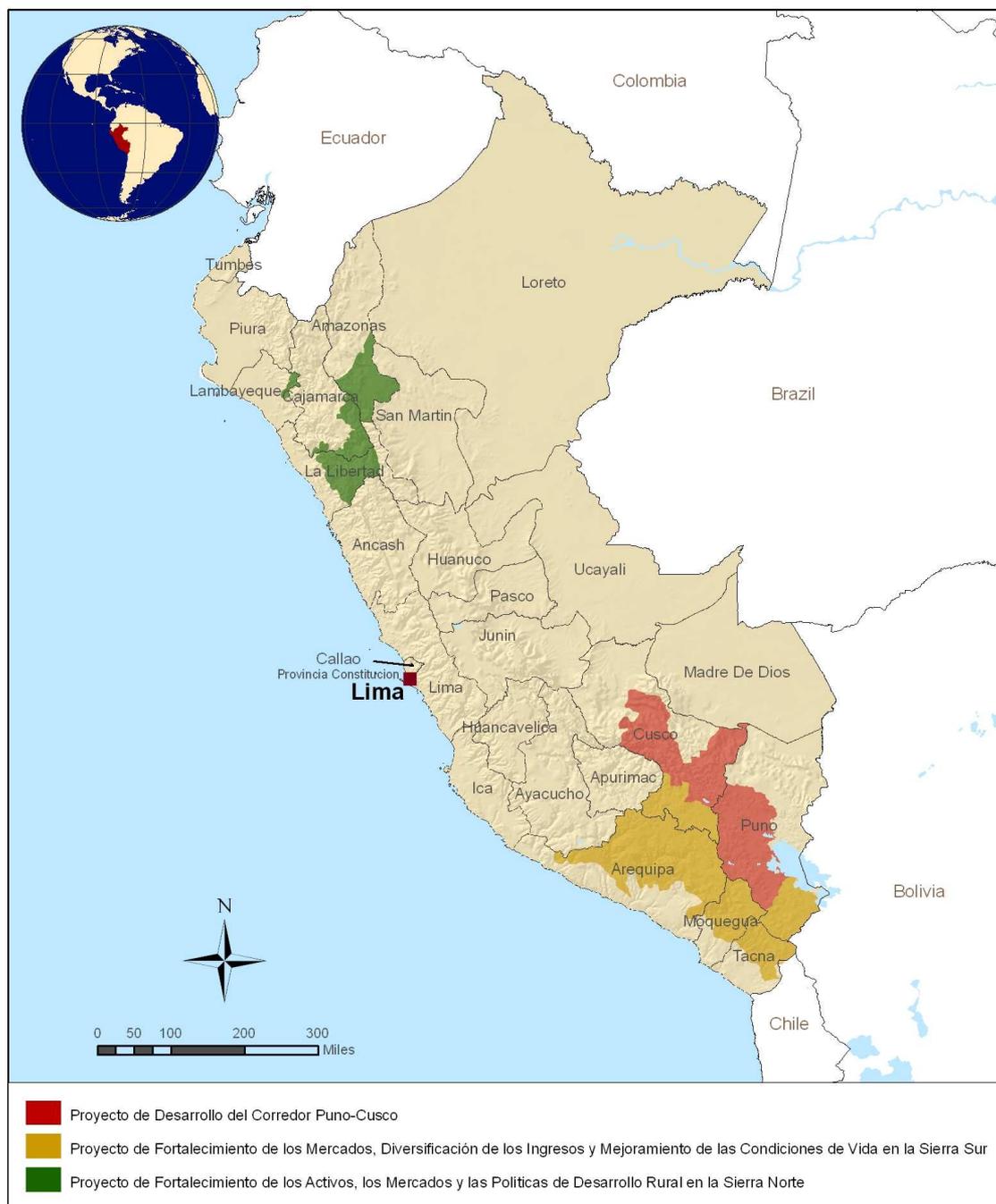
Abbreviations and acronyms

CIAS	<i>Comisión Inter Ministerial de Asuntos Sociales</i> (Interministerial Commission for Social Affairs)
COSOP	country strategic opportunities programme
IBRD	International Bank for Reconstruction and Development
IDRC	International Development Research Centre
FONCODES	<i>Fondo de Cooperación para el Desarrollo Social</i>
IMF	International Monetary Fund
LRAC	local resource allocation committee
MARENASS	Management of Natural Resources in the Southern Highlands Project
PBAS	Performance-based allocation system
PCM	<i>Presidencia del Consejo de Ministros</i> (Prime Minister's Office)
PROABONOS	<i>Promoción del Aprovechamiento de Abonos provenientes de aves marinas</i>
PRONAA	<i>Programa Nacional de Apoyo Alimentario</i> (National Programme for Food Assistance)
PRONAMACHCS	<i>Programa de Manejo de Cuencas Hidrográficas y Conservación de Suelos</i>
PROSAAMER	<i>Programa de Servicios de Apoyo para Acceder a Mercados Rurales</i>
RB-COSOP	results-based COSOP
SDU	Sierra Development Unit

Map of IFAD operations in the country

República del Perú

Ubicación de las operaciones FIDA en el país



Las denominaciones empleadas y la forma en que aparecen presentados los datos en este mapa no suponen juicio alguno del Fondo Internacional de Desarrollo Agrícola (FIDA) respecto de la demarcación de las fronteras o límites que figuran en él ni acerca de las autoridades competentes.

Mapa elaborado por el FIDA

Summary of country strategy

1. This is the first country strategic opportunities programme (COSOP) for Peru prepared under the guidelines for results-based interventions. It builds on experience gained in supporting income-generating activities linked to market development in favour of the rural poor, enhancing people's assets and pursuing local development.
2. This results-based COSOP was prepared in close collaboration with government authorities of the Ministry of Agriculture and the Office of the Prime Minister and is based on IFAD's comparative advantage with regard to: (i) use of innovative solutions; (ii) thorough knowledge of the possibilities for, and constraints on, development in the Southern Highlands of Peru; and (iii) willingness to engage other partners in development.
3. The agreed strategy aims at scaling up the activities and instruments used successfully in the Southern Highlands of Peru and expanding them throughout the whole Sierra region. IFAD's past and current operations in Peru are part of a strategy that seeks to, among other things: (a) expand the rural poor's assets and their access to services by fostering the development of local service markets, including private and public service providers, and beneficiaries' capacity to use such services; (b) strengthen linkages among campesinos, artisans and microentrepreneurs; and (c) favour rural-urban linkages and the decentralization of decision-making.
4. The following three strategic objectives, proposed in agreement with government authorities, are consistent with the Government's policies for harmonization and alignment.
 - **Strategic objective 1: Improved management knowledge and technical capacities of rural communities to further sustainable use and control of natural resources and physical assets.** This objective aims at creating sustainable wealth by rehabilitating or improving community members' natural resources and assets, while enhancing social capital for collective action.
 - **Strategic objective 2: Increased access to quality public and private, financial and non-financial services, improved competitiveness and enhanced market linkages.** The aim is to improve public and private services in rural areas and small rural towns, including financial and non-financial services, facilitate access to market information and support productive alliances between public and private actors.
 - **Strategic objective 3: Increased community involvement in decentralized policy – and decision-making processes by regional and local governments.** The aim is to ensure that local communities participate in decision-making processes and the monitoring of the programmes and projects that concern them.
5. The strategy includes an institutional and policy objective aimed at strengthening regional and local institutions and promoting a territorial development approach with the potential to reduce rural poverty in regions in which secondary cities are located, thus making investments in rural development more effective than in the past.
6. This results-based COSOP presents IFAD with the opportunity and challenge of managing a large-scale country programme rather than restricted-area projects. Following discussions with government authorities, the COSOP was formulated as a comprehensive development programme that furthers harmonization in alignment with the Paris Declaration on Aid Effectiveness. A country grant will further contribute to building institutional and policy objectives.

Republic of Peru

Country strategic opportunities programme

I. Introduction

1. This is the first country strategic opportunities programme (COSOP) for Peru prepared under the guidelines for results-based interventions. During the previous COSOP period, IFAD projects in Peru introduced a number of innovations that were the result of prior experience, adjustments, modifications and new definitions. Innovations were made in approaches and strategy, and in mechanisms, tools and instruments. A number of contextual factors influenced, and in some cases favoured, the introduction of innovative elements. These included: (i) long-standing experience gained from project implementation since the 1980s; (ii) the broad availability in Peru of socio-economic studies on the situation and status of campesinos in the Andean region; (iii) a political and institutional setting characterized by structural adjustment policies and a smaller role for the state; (iv) the existence of internal armed conflict, which made it necessary to minimize the presence of field staff; (v) IFAD's presence in the country, through its office in Lima, and the presence of a country programme manager (CPM) who provided support to project operators and ensured continuity and dialogue, despite changes in national policies and authorities; and (vi) the existence of a group of Peruvian and international specialists, researchers and consultants who shared their experiences.
2. During formulation of this document, IFAD met with senior government authorities of the Ministry of Agriculture and Ministry of Economy and Finance and the Prime Minister's Office (PCM) responsible for implementation of the poverty reduction strategy. The results-based COSOP (RB-COSOP) formulation mission¹ met with the presidents of the regional governments of the departments of Arequipa, Cusco, La Libertad and Lambayeque, where IFAD-funded projects are implemented, and discussed the strategy and the role regional governments may have in its implementation. Updates were prepared, and consultations held with civil society in the cities of Chiclayo and Arequipa,² with regard to issues of poverty and the agriculture sector. During January 2009, the CPM and the RB-COSOP preparation mission leader discussed with authorities from the Ministries of Agriculture and of Economy and Finance the scope of the proposed IFAD programme, agreeing on implementing a comprehensive sierra development programme using the entire estimated allocation for Peru in the context of the eighth replenishment.

II. Country context

A. Economic, agricultural and rural poverty context

Country economic background

3. With an area of 1,285,216 km², Peru is the fourth largest country in Latin America. Its total population, estimated at 28.4 million in 2007, is growing by 1.5 per cent annually. Peru is divided politically into 24 departments, 194 provinces and 1,812 districts. Geographically it covers three distinct zones: (i) the eastern coastal plain (Costa), a desert strip representing 11 per cent of the total area of the country, which contributes 60 per cent of agricultural GDP; (ii) the Andes (sierra or highlands), an arid non-continuous mountainous terrain that covers 30 per cent of the land mass and contributes about 25 per cent of agricultural GDP; and (iii) the

¹ Dario Pulgar, Mission Leader; Ricardo Vergara, Senior Consultant. Roberto Haudry de Soucy, CPM for Peru, discussed IFAD operations in the country with the Minister of Agriculture and participated in other meetings with senior government officials.

² See appendix 1.

eastern lowland rainforest of the Amazon basin (Selva), which represents 60 per cent of the total area and contributes approximately 15 per cent of agricultural GDP.

4. With a GNI of US\$2,920 per capita in 2007, calculated using the Atlas method,³ and a GDP of US\$93.3 billion in 2006, Peru is classified as a middle-income country.
5. The Peruvian economy performed remarkably well in 2008, despite the severe global economic crisis. Peru had one of the best performing economies in Latin America in 2008. GDP growth of 9.8 per cent exceeded that of most other countries in the region during the last seven years, driven by high global mineral prices and expanding output from the natural resources sector. Growth has been led by private investment and consumption, and by significant recovery of public investment. Headline inflation was 6.7 per cent in 2008, driven mostly by higher food and fuel prices. Public debt shrank from about 33 per cent of GDP in 2006 to 25 per cent of GDP in 2008. The share of foreign currency-denominated public debt declined to almost 60 per cent, the public sector became a net external creditor, and Peru was granted investment grade by Fitch in April 2008 and by Standard & Poor's in July 2008.
6. The International Monetary Fund (IMF) Article IV consultation for 2008⁴ noted that Peru's economic expansion is the longest on record, and that inflation remains among the lowest in the region. The report further states that the impact from the global crisis has been moderate and the outlook for 2009 is favourable, but with heightened downside risks. The IMF and Peruvian authorities agreed on the need to (i) preserve prudent policies in light of the deteriorating external environment and (ii) advance reforms to sustain high growth and poverty alleviation. It was predicted that fiscal policy would allow for automatic stabilizers to operate, and public expenditure would continue addressing infrastructure and social needs. Monetary policy would aim at ensuring that inflation converged within the target range of 1–3 per cent by end-2009. Increased impact by the global economic crisis would be addressed through cautious countercyclical policies. Recent prudent measures and finance sector reforms should promote orderly financial deepening and crisis preparedness. Broadening the tax base, enhancing the quality of public spending and further strengthening the policy framework should also be priorities. Further trade liberalization and administrative simplification would help reduce the role of the informal sector and enhance labour productivity, which is essential to reducing poverty.
7. Nevertheless, during the first quarter of 2009, there has been a major decrease in both the prices of major exports and the flow of remittances, which represent supplementary income for the rural poor.

Agriculture and rural poverty

8. According to the last agricultural census (1994), approximately 5.4 million hectares of the land mass is arable land, representing 1.7 million farm units with an average size of little more than three hectares, reflecting a high level of land fragmentation. The country's geography is diverse and complex. Agriculture and production structures are based on the agroecological and socio-economic characteristics of the Costa, Sierra and Selva regions. In the Costa region, agriculture is concentrated in 53 valleys that possess the most productive soils in the country. Agriculture here is characterized by a relatively high integration with markets and is the main source of agricultural exports. Agriculture in the Sierra on land between 800 and 4,000 metres (above sea level) is mainly rainfed, with low soil fertility. Production is dedicated largely to self-consumption. In the lowlands of the Selva region,

³ World Bank, Peru at a Glance, September 2007.

⁴ IMF Country Report No. 09/40, February 2009.

agricultural activities are limited; however, in higher altitudes, coffee, cocoa, rice, maize, cassava and African palm are cultivated. The heterogeneity of agriculture in Peru results in differentiated social, economic and technological structures.

9. Peruvian agriculture and society are characterized by a distinct duality. On the one hand, there is an efficient and modern agro-exporting activity (asparagus, mango and paprika produced in the rich coastal valleys reach international markets), and on the other hand, more than one million agricultural subsistence households, located mainly in the Sierra, diversify their income through off-farm employment, handicrafts and other activities. Both economies have their own values, markets and cultural patterns, which are also complementary.
10. After a period of internal violence in the 1980s and 1990s, the weight of agriculture in the national GDP dropped to 7.9 per cent in 2007. Today, approximately 24 per cent of all households are rural, representing approximately 1.6 million families.
11. **Rural poverty.** According to the latest poverty estimates, four out of ten Peruvians are considered poor, while in rural areas, six out of ten are poor. Recent official statistics show that poverty declined from 48 per cent in 2004 to 39 per cent in 2007. The improvements were broad-based, but particularly strong in urban areas, where poverty fell by ten percentage points.

Table 1
Peru: Poverty incidence, 2004–2007
(percentage)

Area of residence	Poverty line			
	Poverty		Extreme poverty	
	2004	2007	2004	2007
Urban	37.6	27.7	7.2	4.9
Urban Costa	36.9	24.9	5.6	2.0
Urban Sierra	46.1	41.8	15.2	13.0
Urban Selva	48.8	40.7	18.2	12.0
Metropolitan Lima	30.9	18.5	1.3	0.5
Rural	72.6	66.3	39.0	34.3
Rural Costa	53.4	40.4	14.4	11.6
Rural Sierra	78.8	76.0	46.7	43.3
Rural Selva	67.3	56.3	32.5	23.6
National	48.6	39.3	17.1	13.7

Source: ENAHO 2004, 2007.

12. Poverty in Peru is largely rural and concentrated in the Sierra region. Households in the Sierra face the highest levels of poverty (three out of four people are poor, and nearly two out of three poor people live in abject poverty) and are farther removed from overcoming this condition, as measured by the distance between their spending levels and the poverty line, which is higher there than in other regions. From an occupational standpoint, the 2007 *Encuesta Nacional de Hogares* (ENAHO) determined that 80 per cent of the extreme poor are engaged in agriculture, fisheries and or informal mining activities. The study also confirmed that poverty is more severe among indigenous groups in the Sierra.
13. Poverty reduction rates can be attributed in general to: (i) the livelihood strategies of the poor who have identified successful coping mechanisms and have benefited from solidarity, economic support from their families, and migration to large urban centres or abroad; (ii) sustained economic growth and its positive effects on employment and increased dynamism of markets relevant to the poor;

(iii) increased tax revenues; and (iv) sustained public policies aimed at furthering inclusion and reducing poverty.

14. Agricultural activities have been losing importance as income providers for rural households. But there is also growing recognition that agriculture remains central to rural livelihoods. An estimated 45 per cent of rural household income is derived from agricultural activities (independent or salaried), increasing to 58 per cent of households in the poorest quintile.
15. In order to address the living conditions of poor people, the Government is implementing a number of programmes – mainly conditional cash transfer schemes – to address extreme poverty.

B. Policy, strategy and institutional context

National institutional context

16. The lead agency responsible for agriculture and rural development is the Ministry of Agriculture. Its mandate is to reduce poverty and improve living conditions in rural areas by integrating small-scale growers and subsistence campesinos into the marketplace and supporting them in natural resource management, quality control, technology transfer and increased productivity to help them achieve greater profitability and competitiveness.
17. The Ministry of Agriculture's strategy for poverty reduction gives special attention to the Peruvian Selva and Sierra regions. The plan includes the following main objectives: (a) increase access to and improve use of water resources; (b) provide better access to local and foreign markets; (c) strengthen agricultural research; and (d) further rural development. The inclusion of rural development as a priority represents a substantial change in traditional Ministry of Agriculture approaches. To achieve the strategic objectives, rural development programmes and projects are being merged into a rural development productive fund named Agro Rural, whose mission is to "promote and manage successful models of rural development to facilitate the articulation of public-private investment and contribute to the inclusion of rural families". The strategic objectives of Agro Rural are to: (a) promote the streamlining of programmes and projects for more efficient state interventions in rural areas; (b) strengthen the institutional framework for public-private management of rural development at the national, regional and local levels; (c) promote knowledge management to highlight successful experiences in rural development; and (d) promote investment in the rural sector by mobilizing resources through public-private partnerships. Agro Rural includes both IFAD-funded projects;⁵ the Sierra Development Project funded by the International Bank for Reconstruction and Development (IBRD); and Ministry of Agriculture programmes, PROABONOS (*El Proyecto Especial de Promoción del Aprovechamiento de Abonos provenientes de aves marinas*), PRONAMACHCS (*Programa Nacional de Manejo de Cuencas Hidrográficas y Conservación de Suelos*) and PROSAAMER (*Programa de Servicios de Apoyo para Acceder a Mercados Rurales*) funded by the Inter-American Development Bank (IDB).
18. The PCM constitutes a relevant poverty reduction institution, which coordinates and supervises multisectoral policies and programmes and helps align the priorities of the various branches of national and local governments and other entities in the pursuit of national goals. The PCM is the key entity responsible for harmonizing and defining the strategic priority of government programmes and policies. In addition, the Government's *Sierra Exportadora* programme, a decentralized public entity, has been placed under the PCM. The importance of the PCM's coordinating and oversight role was considered in the design of the IBRD Sierra Development Project, and a Sierra development unit (SDU) is being established within the PCM.

⁵ The Market Strengthening and Livelihood Diversification in the Southern Highlands Project and the Project for Strengthening Assets, Markets and Rural Development Policies in the Northern Highlands (Sierra Norte).

The SDU is foreseen as a multisectoral unit for rural development in the Sierra Region that will support the national Government's efforts to harmonize the entire portfolio of nationally and internationally financed projects and activities related to rural development in the region.

19. Another important partner for the implementation of the RB-COSOP is the Ministry of Women and Social Development, which is responsible for two large programmes: the National Cooperation and Development Fund (FONCODES) and the National Programme for Food Assistance (PRONAA).
20. Since the administration of President Toledo in 2001, Peru has launched a strong decentralization process and has allocated new financial resources and responsibilities for the promotion of rural development to "sub-national" governments such as democratically elected regional governments and local municipalities. Among the responsibilities of regional governments are: social services, infrastructure, promotion of public and private investment, and the creation of employment. In order to achieve such objectives, these regional and local governments include within their organizational structures new areas for economic and social development, infrastructure, and natural resource and environmental management. These sub-national governments have taken over the responsibilities previously assigned to central government ministries, including the Ministry of Agriculture. The law on municipal administration assigns local governments responsibility for promoting local and territorial development and for some activities aimed at improving food security and planning. In some cases, both regional and local governments receive considerable resources through transfers from extractive industry royalties, mostly in the mining sector. Both regional and local governments will be essential partners in the RB-COSOP's implementation.

National rural poverty reduction strategy

21. In recent years, inter-agency coordination and intersectoral activities, projects and policies for poverty reduction have been consolidated. Under the previous Government (2001–2006), a number of important norms for guiding poverty reduction actions were adopted, including: (a) a strategy for overcoming poverty and creating economic opportunities for the poor (2003); (b) a national strategy for food security (2004); (c) a national strategy for rural development (2004); and (d) state policies adopted by the National Accord (2003). All these strategic approaches assigned responsibility for implementation to the Interministerial Commission for Social Affairs (CIAS), a multisectoral body of the PCM.
22. Under the current Government (2006–2011) and as part of state reform, several programmes and projects to combat poverty have been streamlined, with a focus on the Ministry of Agriculture and Ministry of Women and Social Development. The role of the CIAS as a coordinating entity has been strengthened, with CIAS developing the *Crecer Productivo* strategy in an effort to coordinate state action along three main pillars: pillar 1 includes programmes to combat hunger, focusing on reducing chronic malnutrition among children under three; pillar 2 concerns the development of economic opportunities for the poorest; and pillar 3 is aimed at establishing and strengthening the social safety net.
23. At the centre of the *Crecer Productivo* strategy is the conditional cash transfer programme, known as *Juntos*, which focuses on the poorest districts by providing a monthly payment of around US\$30 per family for four years. By mid-2008, *Juntos* had already served more than 400,000 beneficiaries in more than 600 districts, most of which were rural. Other relevant interventions are a comprehensive health insurance scheme and welfare programmes run by the Ministry of Women and Social Development, the most important of which is the PRONAA.

Harmonization and alignment

24. Although the process of harmonizing rural development action and the pursuit of a territorial development approach are in progress, considerable advances were made

during 2008 with the creation of Agro Rural and the adoption of the *Crecer Productivo* strategy. IFAD-funded projects are now “under one roof”, and are being harmonized with IBRD’s Sierra Development Project, which is based on experience gained under the IFAD-funded Management of Natural Resources in the Southern Highlands Project (MARENASS). The planned establishment of the SDU within the PCM should contribute to implementation of a harmonized agenda for rural development in the Sierra region. The unit is expected to: (i) develop an overall development strategy for the rural Sierra and coordinate effectively all investments and programmes financed by national Government and international donors; and (ii) increase investments by local and regional governments and make rural development in the Sierra a higher priority for these entities. The decision by government authorities to identify IFAD as a knowledge source on rural development in the Sierra, and assign considerable financial resources to implementation of a comprehensive programme in the region will ensure harmonization and alignment of priorities and approaches.

III. Lessons from IFAD’s experience in the country

A. Past results, impact and performance

25. Since 1980, IFAD has provided seven loans to Peru, for a total of SDR 79.6 million. One project is currently under way – the Market Strengthening and Livelihood Diversification in the Southern Highlands Project – and a loan has been approved for the implementation of the Project for Strengthening Assets, Markets and Rural Development Policies in the Northern Highlands (Sierra Norte), but has not yet become effective.
26. The IFAD programme has been extensively evaluated⁶ by the Government, IFAD and external reviewers. Overall experience in implementing rural development programmes and projects has been analysed and useful lessons disseminated by the Ministry of Agriculture, highlighting IFAD’s contributions.⁷ The Independent External Evaluation (IEE) of IFAD concluded that the Peru country programme was remarkably rich and innovative, with a strong, demand-driven approach that allowed target groups to make their own decisions, resulting in a surprisingly large amount of family resources being invested in project-supported activities. Gains made under the country programme included: (a) rising levels of food security directly attributable to the projects; and (b) a dramatic improvement in the self-esteem of beneficiaries. Communities and groups were enabled to manage their activities and plan new ones and to call on the Government and agencies to protect and enhance their interests. Project performance was found to be highly satisfactory, supported by a strong, locally resident CPM, project staff and a stable group of consultants and associates in Peru’s ministries and social science research centres.
27. The positive outcomes achieved by IFAD in Peru are due to: (a) a strong commitment to empowerment, reflected by the transfer of most of the project resources to beneficiary bank accounts; (b) increased access to services, markets and fairs; and (c) valuing all the assets of the poor: physical (such as land and water resources), social (associated communities, microenterprises and institutions) and cultural (language, traditions, self-esteem). Democratic decision-making processes were used such as local resource allocation committees (LRACs), the use of legally binding contracts, self-managed contests to improve and manage natural resources, and subsidized savings accounts for campesino women.

⁶ Completion evaluations of the Credit for Small Farmers in the Highlands Project (1988), the Cuzco Arequipa Highlands Rural Development Project (1995) and the Strengthening Extension Services in the Highlands project (2002), and mid-term evaluations of MARENASS (2002) and CORRIDOR projects (May 2007). Additionally, Peru has benefited from a thematic evaluation of innovative experiences in IFAD projects in Peru and an in-depth analysis of the country programme carried out as part of the Independent External Evaluation of IFAD.

⁷ Ministry of Agriculture, 2006, “Experiencias Exitosas de Programas y Proyectos de Desarrollo Rural en el Perú”.

28. The last three IFAD projects in the southern highlands provide the following indicators: 60,000 improved homes; 50,000 identity cards issued; 25,000 life insurance policies drawn up; 12,000 hectares of land dedicated to agriculture; US\$3 million in campesino women's savings accounts; 7,000 local specialists providing their services in the technical assistance market; 40,000 corrals and stables constructed; 10,000 women in leadership positions; and 20 campesino communities hosting tourists in their homes (30,000 nights in 2007).
29. The results achieved by IFAD have benefited more than 200,000 poor families; however, this constitutes just one fifth of the campesino population of the Peruvian Highlands. The present challenge is to scale up innovations and successful outcomes to a greater extent and identify more efficient and expedient modalities, rather than adding new stand-alone projects.

B. Lessons learned

30. Success in implementation has required continuous changes to original designs and flexibility to reorient project activities and, above all, determining the precise level of incentives that lead to changes so as to avoid elite capture. Over the years, there have been some significant design errors to learn from, including (a) building community radio stations on government land, which resulted in the transfer of the stations to the state rather than to the beneficiary communities; (b) contracting NGOs to disseminate printed and audiovisual material on technologies that were poorly consulted; (c) forgetting that beneficiaries are not recognized as citizens if they lack proper identity documents and that their enterprises are not legally recognized if they are not registered; (d) disregarding home improvement in the context of *Pachamama Raymi*⁸ contests (as a system designed to manage/exchange local knowledge), although beneficiaries' homes are their most important asset; and (e) supporting rural and urban initiatives solely with regard to medium-sized enterprises, which benefited from less costly campesino inputs rather than contributing to reducing rural poverty.
31. The evaluations and special studies carried out have underlined the importance of:
 - (i) *Empowering grass-roots organizations*. Local organizations are essential to ensuring programme success.
 - (ii) *Strengthening the development of local service markets*. The inclusion of market mechanisms in technical assistance promotes innovation such as the use of farmer-to-farmer methodologies for extension services.
 - (iii) *Transferring financial resources directly to beneficiary organizations*. Ensuring better allocation of project resources through transparent procedures.
 - (iv) *Assigning resources on a competitive basis*. Promote knowledge-sharing among peers, particularly knowledge that leads to investments by communities after project closure.
 - (v) *Promoting the mobilization of savings*. Seek to include large segments of the population in formal banking systems.
 - (vi) *Strengthening rural-urban linkages*. Support small farmers and microentrepreneurs in diversifying their income.
32. Future operations require more scaling up of innovation mechanisms and a shorter time frame for dissemination and adoption. For example: (i) on-site learning through learning routes must be improved so that beneficiaries and local authorities

⁸ The *Pachamama Raymi* (an Andean cultural tradition that celebrates Mother Earth) methodology is being replicated in the Plurinational State of Bolivia and, partially, in Ecuador and other countries. The direct transfer of funds to campesino organizations for hiring technical assistance is now ongoing in several countries in the region. This scaling up was partially promoted using IFAD's Learning Routes regional grant.

learn under optimum conditions (sharing the cost) and for the length of time necessary for them to incorporate what they learn into their practices; (ii) designs should be flexible enough to adapt to ongoing experiences and emerging conditions, and should respond to local needs while promoting territorial approaches and improving physical links between producers and markets; and (iii) programmes should be open to a broad range of subproject ideas, avoiding a predefined list of eligible activities, and should involve rural people and project beneficiaries in important design and implementation decisions. This will help legitimize the views of rural people, create realistic expectations and avoid controversy.

IV. IFAD country strategic framework

A. IFAD's comparative advantage at the country level

33. The Government of Peru views IFAD as the international financial organization with the most experience, permanence and impact in the Peruvian Highlands. This is a result of IFAD's decision to: (i) concentrate activities in a specific territory (Southern Highlands) and work systematically and with continuity, transferring its experiences from one project to the next; (ii) use independent project implementation units run entirely by local staff and experts in campesino languages and culture located in the medium-sized cities; and (iii) assign and transfer resources without major interference from central government headquarters. In essence, these projects have operated as a short-term enterprise working territorially and mobilizing all stakeholders, including campesino communities, local businesses and local governments. The last three IFAD projects in the Southern Highlands mobilized more than US\$30 million in private cash contributions from campesino families, about US\$8 million from private companies and more than US\$20 million from municipalities and regional governments.
34. Probably IFAD's most significant comparative advantage in Peru has been its willingness to try out a number of innovations. These innovations were subsequently adopted by others with success and are now widely accepted. IFAD's demand-driven approach for contracting technical assistance provides beneficiary groups directly with the financial resources they require to contract services on the open market and assign them responsibility for supervision of those services. Another innovation has been to adopt traditional approaches to improving physical and natural resources by providing resources through competitions following the *Pachamama Raymi* concept. This system of assigning scarce financial resources has replaced the long-standing practice of providing resources according to dubious analyses and plans prepared by outsiders. The competitive awards methodology has been expanded by rural poor communities to address other issues they consider important, such as making home improvements (to housing and stables). The adoption of a territorial approach and the recognition that rural-urban linkages are part of a virtuous cycle were also important IFAD innovations. The combination of demand-driven approaches, direct transfer of resources and the understanding that the rural poor obtain income from sources other than purely agricultural activities have been stepping stones for the development of rural communities. In more recent interventions, IFAD-funded projects have addressed aspects that were once ignored, such as the role that cultural identity plays in ensuring ownership of initiatives, and the need to make rural poor people visible by assisting them in furthering their citizens' rights, creating business ventures and acquiring titles to their land. Two more recent interventions have addressed financial services in innovative ways by promoting savings among rural women and supporting life micro-insurance schemes that ensure that the poor are not deprived of their meagre resources when confronted with recurring catastrophes. IFAD-funded projects have also recognized that local governments play a crucial role in guiding local investment by communities and migrant groups that have moved to larger

cities and abroad and are willing and able to contribute to the development of their home territories.

35. The success of these innovations is borne out by their adoption by donors such as the United States Agency for International Development (USAID) through its economic corridor approach; the Kreditanstalt für Wiederaufbau (KfW) in its interventions in northern Peru; and by IBRD in its Sierra Development Project, which not only has borrowed these methodological approaches but is relying on the expertise acquired by project staff involved in previous IFAD-funded operations in Peru.

B. Strategic objectives

36. This RB-COSOP, agreed upon with the Government of Peru, aims at (i) finding efficient ways to scale up innovations across the highlands; (ii) implementing a new government institutional scheme to significantly reduce the number of institutions and development programmes, concentrating efforts on a single policy and a few mechanisms; and (iii) cofinancing activities with territorial governments. The proposed strategy should be seen as responding to client needs, including those of local governments and campesino organizations, while adding value to national policies and investments. The strategy is to be implemented through the Agro Rural programme within the Ministry of Agriculture and under the political guidance of the *Crecer Productivo* strategy under PCM-CIAS. True commitment to the strategy and its programmatic approach is borne out by the decision of authorities not to formulate stand-alone piecemeal projects but to pursue a comprehensive development programme for the Sierra based on tested, successful IFAD-funded experiences in the country. This programme would span the RB-COSOP period and be funded under IFAD's Eighth Replenishment.
37. **Strategic objective 1 (SO1): Improved management knowledge and technical capacities of rural communities to further sustainable use and control of natural resources and physical assets.** This objective is built on the recognition that in the extensive Highlands area of Peru where poverty is concentrated, the poor condition of natural resources and other assets limits people's ability to achieve the outputs needed to sustain their households' well-being. The aim is to create sustainable wealth by rehabilitating or improving the natural assets owned or accessed by community members, enabling them to manage the assets themselves and building social capital for collective action. This objective can be achieved by: (i) expanding the tested approach of competitive awards for improvements in soil and water management, forest cover recovery and living conditions through the large-scale use of *Pachamama Raymi* methodology; (ii) supporting a market for local talents as a key mechanism for disseminating knowledge; and (iii) assisting in strengthening partnership with local governments and private-sector companies.
38. **Strategic Objective 2 (SO2): Increased access to quality public and private, financial and non-financial services, improved competitiveness and enhanced market linkages.** This objective addresses the need to improve public and private services, including financial and non-financial services, in rural areas and small rural towns. This will be achieved by: (i) promoting access to knowledge about agriculture, livestock and handicraft practices among existing microenterprises, and providing access to new financial products, including savings and micro-insurance services; (ii) encouraging and supporting productive alliances between public and private actors in developing competitive productive chains; and (iii) assisting in the creation of enabling conditions for improved market access and linkages between villages and towns. This will entail the adoption of the economic corridor approach already tested successfully in Peru. Additionally, communities will be supported in promoting their cultural identity through the branding of local products and community activities such as ethno-tourism initiatives.

39. **Strategic Objective 3 (SO3): Increased community involvement in decentralized policy decision-making processes by regional and local governments.** This objective aims at ensuring that local communities are taken into consideration and fully participate in relevant decision-making processes and the monitoring of the programmes/projects concerning them. This objective reinforces larger institutional and policy considerations at the community level.
40. The proposed strategy includes an institutional and policy objective of strengthening the regional and local institutions that facilitate access to assets, and establishing the participatory allocation of necessary resources. In pursuing this objective, IFAD and the Government of Peru will expand on the territorial development approach. LRACs that have proved successful in the past will be used to address, among other issues, the practically non-existent provision of public goods. This objective can be achieved by: (i) linking rural development programmes and projects to local government; (ii) providing tested instruments and methodologies to municipalities, including access to modern communications; (iii) strengthening regional and local government organizational structures for economic development; and (iv) identifying mechanisms for assigning and transferring public resources made available by the IFAD-promoted LRAC⁹ approach. Under this strategic dimension, the proposed comprehensive programme will also: (i) strengthen beneficiaries' ability to formulate, manage and monitor public-private investment; (ii) assist communities in furthering their development in conjunction with migrant associations; and (iii) develop, in conjunction with SO1, a payment system for environmental services.

C. Opportunities for innovation

41. The proposed strategy reinforces innovations already introduced in Peru, especially the demand-driven approach and competitive fund transfers, while promoting market-oriented development and rural-urban linkages. Under SO1, support for housing improvements will be provided (as a response to the demands voiced by communities participating in the MARENASS project) and will be implemented by them. The expansion of mining activities in highland areas presents an opportunity to innovate through developing partnerships.¹⁰ In the context of SO2, there are opportunities for consolidating innovations in financial services by scaling up the savings mobilization approach, especially for rural women, and in the provision of micro-insurance through the involvement of private companies (banks and insurance companies) and the use of banks in the context of existing conditional cash-transfer programmes.¹¹ Other innovations include enhancing cultural identity and local heritage, branding local products and assigning denominations of origin. Under the strategy's institutional and policy objective, there are opportunities for consolidating the way in which financial resources are made available at the local level by expanding the use of LRACs to include municipal government participation. The use of payment for environmental services could be explored, as there are opportunities for innovation in the way coastal municipalities depend on preservation and improvement of natural resources, especially water, in the highlands.¹² Innovation in the campesino sector begins with the identification by

⁹ LRACs are composed of recognized members of the community who have knowledge of development, such as small-scale entrepreneurs, local professionals and teachers or those who have a demonstrated commitment to development, including mayors and local leaders. These committees: (i) allow for competitive allocation of resources at the local level through a selection process in which local stakeholders participate jointly; (ii) institute a transparent process leading to social accountability; and (iii) contribute to establishing linkages between the communities, through local authorities and private initiatives.

¹⁰ In August 2008, the mining company Xstrata, with the support of the MARENASS project, cofinanced a contest for improving 1,600 campesino homes with a financial contribution of more than US\$300,000.

¹¹ These cover more than 400,000 families in Peru.

¹² A significant way to link city families with those in rural areas is to include in bills for water and electricity a small contribution for the management of river basins and watersheds. In Peru, one nuevo sol (US\$0.30) per month would be considered.

participating groups, of ideas for improved livelihoods, followed by implementation of the idea, with external and group resources allocated with community participation. Implementation is then self-evaluated and lessons shared with others, using a learning routes approach.

D. Targeting strategy

42. As agreed with government authorities, IFAD assistance targets the geographical Sierra region of Peru. The proposed strategy is consistent with the IFAD Policy on Targeting and includes the use of the three targeting approaches outlined in the policy: (a) geographic targeting; (b) self-targeting; and (c) direct targeting.
- **Geographic targeting.** The use of geographic targeting is well suited to the overriding purpose and objectives of the country strategy. With geographic targeting, it will be possible to provide a framework for allocating resources in the context of a general development programme for poverty alleviation in the Sierra region, where rural poverty is concentrated. The selection of the Sierra region as the focus of intervention is based on knowledge acquired by IFAD, partners and government agencies on opportunities for and constraints to further development there. The decision to implement a programme rather than individual projects will allow IFAD and the Government to institutionalize development approaches that have proved successful in similar geographical locations in the southern and northern highlands, and to expand coverage to districts in the highlands not yet covered by IFAD-funded projects. Within the general geographic area, the proposed strategy will favour interventions that connect poorly linked areas with markets led by the region's cities.
 - **Self-targeting.** Within the selected geographic setting, the proposed strategy builds on experience gained in Peru using self-targeting mechanisms that ensure that development activities are identified, implemented and monitored by the beneficiaries themselves, around their needs and livelihood constraints, and are perceived by them as relevant and affordable. This self-targeting approach takes advantage of the involvement of existing campesino democratic social organizations. Self-targeting is achieved by providing services that respond specifically to the priorities, assets and labour capacity of the identified target group, while being of less interest to the better off. The proposed strategy addresses the needs and demands of inhabitants of districts that fall within the three poverty quintiles and of a selected economic corridor or a watershed basin.
 - **Direct targeting.** Based on experience, initiatives for campesino women and youth will be prioritized and supported across the board. Contests aimed at ensuring the participation of women in all strategic initiatives, including development of organizational capacity, will be especially supported, and the mechanisms to access financial services, such as subsidized savings accounts, will be targeted exclusively at women.

E. Policy linkages

43. The previous COSOP considered engaging government authorities in a dialogue to further the integration of small-scale farmers and rural entrepreneurs in the market; strengthen existing financial and technical assistance, and enhance rural-urban linkages along economic corridors for the generation of employment in small- and medium-sized towns in rural areas. These issues remain valid, and progress has been made on most of them.
44. During this RB-COSOP period, IFAD will assist government authorities in shaping pro-poor policies in the context of the strategic objectives, particularly under an

institutional and policy objective, which is to be funded by a country grant. This objective will support policy development, knowledge management and the scaling up of IFAD best practices through mechanisms such as learning routes organized and cofinanced with local authorities in the Sierra region.

45. The following policy dimensions under each strategic objective will be addressed: (i) **SO1**: access and use of natural resources (land, water and forests) and common property regimes; (ii) **SO2**: provision of financial services, including credit, savings and micro-insurance, especially for women and young campesinos; and (iii) **SO3**: decentralization and resource allocation mechanisms. Under the institutional and policy objective, support will be provided for furthering: (i) effectiveness and transparency in the direct transfer of public funds for the benefit of poor rural families; (ii) the use of remittances by migrant associations for the provision of public goods; and (iii) payment for environmental services.

V. Programme management

A. RB-COSOP management

46. Following discussions with government authorities, operations to be implemented during the RB-COSOP implementation period will not be considered as stand-alone projects but will be designed in the context of an agreed programme entitled Consolidating Rural Development Innovations in the Sierra Region (described in appendix V). Justification for this approach is based on the inherent merits of a comprehensive programme that: (i) provides the borrower with resources, allowing investment programmes to have continuity; (ii) provides a vehicle for efficient support for previous investments that have achieved development objectives; (iii) encourages staff continuity in executing agencies; and (iv) places a premium on continuous institutional analysis. Implementation of this approach is based on the satisfactory performance of project implementation units during previous and current operations. The proposed programme is to be developed through negotiations with the Ministry of Economy and Finance following the guidelines of the National Public Investment System and will be implemented by Agro Rural (under the Ministry of Agriculture).

B. Country programme management

47. IFAD's programme in Peru will be managed by the CPM based in Bogotá, Colombia, and supported by a field presence office located at the United Nations Development Programme (UNDP) offices in Lima, Peru. A clear matrix of responsibilities covering headquarters, the CPM, the Lima field office and national institutions will be prepared and adopted in support of project implementation. A country programme management team will be institutionalized, and will include the directors of existing projects and officials of Agro Rural, the PCM and the Ministry of Women and Social Development. Progress in RB-COSOP implementation will be assessed on an annual basis in the context of a workshop that will review the impact of projects/programmes in the rural highlands in conjunction with the SDU of the PCM. Conducting client surveys (to measure the impact of strategic objectives) with the use of telephone calls to beneficiaries will be considered, in response to a suggestion by IFAD Management.
48. **Supervision.** The overall programme will be supervised directly by IFAD through the field presence office in Lima, Peru, and in accordance with IFAD direct supervision guidelines approved in 2008.
49. **Monitoring and evaluation.** Implementation of the programme will entail greater emphasis on monitoring. The executing agency's institutional capacity will be continuously monitored to ensure good performance. Programme impact indicators will be identified by analysing variations in the poor's tangible and intangible assets. IFAD will contribute to strengthening the evaluation capacity of the executing agency and the SDU. The collaboration of the National Institute of Statistics and

Informatics will be sought, which is responsible for monitoring progress in poverty reduction and with which previous IFAD-funded projects have worked to establish baselines for large segments of the Sierra region. The baseline for RB-COSOP objectives will be established during formulation of the Consolidating Innovations in the Rural Highlands Programme, using existing data from baselines prepared for IFAD- and IBRD-funded projects in the highlands.

C. Partnerships

50. During implementation of this RB-COSOP, IFAD will continue building its partnership with central government authorities in the Ministry of Economy and Finance and Ministry of Agriculture, and strengthening collaboration with the PCM within the framework of Sierra development and the pursuit of objectives under the *Crecer Productivo* strategy. Stronger collaborative efforts will be developed with IBRD and IDB projects; with the European Union in relation to its programme supporting citizens' rights through the issuance of identity cards and other documentation; and with the bilateral agency of the Government of Spain in its cultural heritage programme. The proposed strategy includes developing closer collaboration with regional and local governments, which will become essential partners in the highlands. Equally, IFAD will continue developing close collaboration with the research and academic establishment regionally, nationally, and internationally.

D. Knowledge management and communication

51. Considerable experience was gained during the implementation of the previous COSOP for Peru (2002) in knowledge management and communications. The Office of Evaluation's comprehensive study on innovations in Peru proved useful for systematizing knowledge on innovation in the country, a hallmark of the Peru programme. Several publications made the innovation findings more accessible, such as the widely disseminated study on valuing assets in the context of the Puno-Cusco Corridor project. The learning routes programme has been a key tool for knowledge-sharing among development practitioners in Latin America and abroad. During this RB-COSOP period, research and information gathering and dissemination will be expanded through implementation of the Regional Research and Dissemination Programme on Campesino Innovations: a Joint IFAD-International Development Research Centre (IDRC) Initiative aimed at identifying, understanding and expanding the use of successful rural innovations that value the rural poor's strategies and assets and encourage public policies and investment that facilitate sustained, decentralized scaling up of those innovations. Collaboration with local research centres in the systematization of evaluation knowledge will be reinforced, and stronger links established with the Latin American Centre for Rural Development and the IDRC in the context of the Grupo Chorlavi knowledge-sharing initiatives. IFAD will further collaborate with the research establishment in supporting the Permanent Seminar on Agrarian Issues and actively contributing to its sessions every two years.

E. PBAS financing framework

52. IFAD funding available for the RB-COSOP implementation period is based on the annual allocation established under the performance-based allocation system (PBAS). The allocation for Peru over the three-year PBAS cycle (2010–2012) is still being established but will be at least the amount of the previous three-year allocation, i.e. US\$25.3 million.

Table 2
PBAS calculation for RB-COSOP year 1

<i>Indicator</i>	<i>Performance rating</i>
Rural-sector scores	
A(i) Policy and legal framework for rural organizations	5.16
A(ii) Dialogue between government and rural organizations	3.58
B(i) Access to land	4.16
B(ii) Access to water for agricultural use	4.00
B(iii) Access to agricultural research and extension services	3.88
C(i) Enabling conditions for rural financial services development	4.48
C(ii) Investment climate for rural business	4.75
C(iii) Access to agricultural inputs and produce markets	4.68
D(i) Access to education in rural areas	4.33
D(ii) Women representatives	4.30
E(i) Allocation and management of public resources for rural development	4.08
E(ii) Accountability, transparency and corruption in rural areas	4.11
Sum of overall point values	4.35
Average of overall point values	
Score of projects-at-risk (PARs)	6.00
Country score	4 435
Annual allocation (United States dollars)	8 654 979

F. Risks and risk management

53. Although the general macroeconomic situation in Peru is positive, the country still faces a number of risks that may affect implementation of IFAD's strategy. External risks include those associated with performance of the international economy, including the price of commodities, especially minerals, which account for a substantial portion of revenue. Another risk relates to climatic disruptions caused by the El Niño phenomenon, which have affected large parts of the Peruvian coast and to climate change, which impacts agricultural activities in the highlands. This risk can be mitigated by linking water development in the source areas to sustainable agriculture, mining, hydropower and sanitation in the Sierra and downstream areas in the Costa region. An additional social risk stems from single-issue groups, such as cocoa growers, and the activities of extractive industries. Risks specific to the RB-COSOP include: (a) administrative and bureaucratic constraints for implementation of the harmonized Sierra development approach and possible conflicts among various government agencies; and (b) weak institutional capacity at the regional and local levels, and changes in the overall decentralization approach and in the transfer of resources to regional and local administrations. The first risk can be mitigated through a collaborative effort with other donors, mainly the IBRD and IDB, to assist government authorities in developing and implementing the Sierra strategies in the context of the PCM, which may ensure that all those involved share and implement a consistent approach. Providing assistance to the Ministry of Agriculture and Ministry of Economy and Finance in adopting a demand-driven and community-owned approach, and to local and regional governments in their decentralization efforts, will also help mitigate the risk. The second risk can be mitigated by funding, along with other donors, the capacity-building of regional and local governments and collaborating with the Ministry of Economy and Finance to provide training for investment projects and to operationalize National Public Investment System mechanisms in the region.

COSOP consultation process

1. Background, objectives and methodology

Further to consultations with the Presidents of the Regional Governments of the departments of Lambayeque, Trujillo, Arequipa and Cusco held in September 2008 two workshops were organised with civil society organisations and technical staffs of the regional government of Lambayeque and Arequipa on 12 and 14 November 2008. The main objectives of the workshops were to review the economic and social analysis of the country's present situation, discuss main elements of the government's agricultural and rural sector policies and to present the draft conclusions of the RB-COSOP as concerted with central government authorities of the Ministry of Agriculture and the Office of the Prime Minister. The workshops were attended by officials of the regional governments, non governmental organisations and small-scale farmer organisations. A list of participants follows the summary of conclusions and recommendations presented herein.

The brief diagnosis of the economic, social and institutional development of the country emphasised the positive trends in poverty reduction as well as the possibility that these trends will continue despite the slowdown in the national and international economy. The analysis also noted that greater levels of urbanisation in the country is increasingly allowing for the generation of new sources of non-agricultural income, the absorption of the surplus non remunerated rural population, an increase of domestic and international remittances and, finally, concentration of land parcel ownership thus creating sustainable production units. The presentation of the draft document included information on ideas to: (a) designing a larger programme of intervention in the highlands rather than single projects; (b) building on the experience already gained in Peru by IFAD in the highlands; (c) placing the programme under the newly created Agro Rural set up of the Ministry of Agriculture, while linking activities to the *Creceer Productivo* strategy of the Interministerial Council for Social Affairs; and (d) involving local and regional governments in programme implementation.

2. Findings, conclusions and recommendations

At both meetings there was acceptance to the proposal to expand the scope of previous interventions IFAD in the highlands moving from a project scale operating in specific geographical setting of the highlands to a National Program covering the whole region where rural poverty is concentrated. It was also argued that moving from projects to programme using the empowerment model of IFAD's strategies and instruments would give rural families and their organisations a greater role with regard to access, via competitive awards to public investment in the hands of each regional government in the highlands region. Under the programmatic approach sub-national governments and the central state level could co-finance jointly with rural families and organised groups proposals identified in accordance with the socio-economic, cultural, environmental and spatial characteristics.

The need for developing integrated rural development processes and the way in which sub national governments can build them within the framework of a program for the region was raised. In this context it was emphasised that multi-sectoral co-ordination should not only take place in the central state level, but also at a decentralised level in order to empower sub-national governments and that regional agreements reached be respected by central government bodies.

In reference to the program, to be implemented by the Ministry of Agriculture through Agro Rural, participants stated that in its formulation a decentralised approach should be considered in the implementation of training and technical assistance tasks and these should include the sub national governments.

It was also proposed to maintain a high level of communication between the various sub-national governments in the Southern highlands with the aim of sharing good practices implemented by IFAD projects, carried out mostly in this Andean sub region, as they

have shown capacity to empower grassroots organisations, strengthen the links between rural and urban areas and develop local markets for financial services and non-financial services and allocating public resources through transparent contests. It was further pointed out that there is the need for organisations of producers to access these good practices through internships, learning routes and guided visits to ongoing projects.

Representatives of sub national governments expressed interest in particular regarding:

- Management of natural resources with specific reference to water harvesting.
- Development of local and regional markets and their relationship with the growth of urban-regional demands and the impact on the economies of rural families.
- Promotion of household savings taking into account the socio-economic impact that this has had in the Southern highlands among rural women and the role of public-private partnership which raises the importance of generalising that activity.
- Participation in a differentiated co financing mechanism program considering that there are sub-national governments in the region who do not have access to royalty payments and their budgets are meagre.
- Knowledge management as attaching value to local knowledge results in increased income that allows local populations to seize opportunities in activities such as tourism, cuisine, traditional innovative technology, business management.
- Monitoring and evaluation placing particular emphasis during implementation of the future programme in creating a learning network for officials of sub national governments.

Participants in both workshops concluded that it was necessary to:

- Implement a pilot scheme prior to the launching of the full fledged program to allow for replication and dissemination of tried IFAD strategies and methodologies.
- Build an active horizontal communications programme at the outset to allow for all projects of sub national governments to share the lessons learned, disseminating good practices and support each other in solving specific problems.
- Establish formal co-ordinating mechanisms between the projects of sub national governments that share contiguous geographic coverage as they are part of one watershed or basin or a single regional market, defined by the influence of a common intermediate city.
- The general orientation of regional projects should enable the projects from sub national governments and sectoral programs seek a space-oriented redefinition aimed at ensuring success of local/regional enterprises as well as allowing adjacent district municipalities to pool their efforts.

List of Participants

Arequipa

1. Berly Gonzáles. Gerente General del Gobierno Regional Arequipa
2. Gerente Planificación del Gobierno Regional Arequipa
3. Miguel Ocharán. Jefe de la Oficina de Planeamiento, Presupuesto y Ordenamiento Territorial. de Gobierno Regional Arequipa
4. Eduardo Corrales. Jefe Oficina de Planificación de Gobierno Regional Arequipa
5. Salvador Navarro. Unidad de Planes y Programas de Gobierno Regional Arequipa
6. Fernando Cáceres. Unidad de Proyectos de Gobierno Regional Arequipa
7. José Cayo Choquevilca. Jefe de la Oficina de Planeamiento y Desarrollo Institucional
8. Antonio Mamani Harguire. Presidente Junta de Usuarios del Colca- Caylloma
9. Flavio Alarcón Gallegos. Presidente Junta de Usuarios de la Provincia de la Unión
10. Víctor Hilarión Montes Urday. Presidente Junta de Usuarios Chuquibamba Iray
11. Ramón Carlos Quintanilla. Presidente Junta de Usuarios de La Provincia de Castilla Alta

12. Percy del Carpio Lazo. Presidente Junta de Usuarios de la Zona No Regulada de Arequipa
13. Jorge Modesto Cueva Tejada. Alcalde Provincial de Caylloma.
14. Justo Pastor Totocayo Garate. Alcalde Provincial de la Unión
15. Miguel Ángel Manchego Llerena. Alcalde Provincial de Condesuyos
16. Edy Medina Collado. Alcalde Provincial de Castilla Alta
17. Jorge Sotelo Municipalidad Provincial de Arequipa
18. Francisco Dumler. MINAG – DM
19. Heinrich L. Stachelscheid. ONG CEDER
20. José Lombardi Indacochea. ONG TALLER
21. Alfredo Meza Obando. Mesa de concertación de lucha contra la pobreza de Arequipa

Chiclayo

1. Gustavo Vera. Director de Producción
2. Bernardino Lalopu. Pronamachs Incahuasi
3. Jorge Jimenez. Heifer, Perú
4. Percy Perez Saldaña. CC San Mateo
5. Luis Guzmán. DRA Lambayeque
6. Jorge Galo. PHOMG Agricultor de Ferrañafe
7. Florentino Lois Gómez Agencia Agraria Ferrañafe
8. Germán Torre. ONG Solidaridad
9. Carlos Arrascue. Director Regional Agricultura Lambayeque
10. Pastor Manayay. Agricultor de Pagay Puente
11. José Ordinola. INIA – EEA – Vista Florida
12. Cahuide Céspedes. Sociedad Civil de Ferrañafe
13. Violeta Paredes. Gobierno Regional de Lambayeque
14. Iris Cubas. Gobierno Regional de Lambayeque

Country economic background

COUNTRY DATA Peru

Land area (km2 thousand) 2006 1/	1 280	GNI per capita (USD) 2006 1/	2 980
Total population (million) 2006 1/	27.59	GDP per capita growth (annual %) 2006 1/	7
Population density (people per km2) 2006 1/	22	Inflation, consumer prices (annual %) 2006 1/	2
Local currency Nuevo Sol (PEN)		Exchange rate: USD 1 = PEN (Nov 08) 3.09	
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 2000-2006 1/	1.2	GDP (USD million) 2006 1/	92 416
Crude birth rate (per thousand people) 2006 1/	21	GDP growth (annual %) 1/ 2000	3.0
Crude death rate (per thousand people) 2006 1/	6	2006	7.7
Infant mortality rate (per thousand live births) 2006 1/	21	Sectoral distribution of GDP 2006 1/	
Life expectancy at birth (years) 2006 1/	71	% agriculture	7
Number of rural poor (million) (estimate) 1/	0	% industry	38
Poor as % of total rural population 1/	0	% manufacturing	17
Total labour force (million) 2006 1/	13.40	% services	55
Female labour force as % of total 2006 1/	42	Consumption 2006 1/	
Education		General government final consumption expenditure (as % of GDP)	10
School enrolment, primary (% gross) 2006 1/	n/a	Household final consumption expenditure, etc. (as % of GDP)	61
Adult illiteracy rate (% age 15 and above) 2006 1/	0	Gross domestic savings (as % of GDP)	29
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	0	Merchandise exports 2006 1/	23 431
Malnutrition prevalence, height for age (% of children under 5) 2006 2/	25	Merchandise imports 2006 1/	15 327
Malnutrition prevalence, weight for age (% of children under 5) 2006 2/	7	Balance of merchandise trade	8 104
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2006 1/	4.3	before official transfers 2006 1/	395
Physicians (per thousand people)	n/a	after official transfers 2006 1/	2 589
Population using improved water sources (%) 2004 2/	83	Foreign direct investment, net 2006 1/	3 467
Population with access to essential drugs (%) 2/	n/a	Government Finance	
Population using adequate sanitation facilities (%) 2004 2/	63	Cash surplus/deficit (as % of GDP) 2006 1/	n/a
Agriculture and Food		Total expenditure (% of GDP) 2006 1/	n/a
Food imports (% of merchandise imports) 2006 1/	10	Total external debt (USD million) 2006 1/	28 174
Fertiliser consumption (hundreds of grams per ha of arable land) 2006 1/	817	Present value of debt (as % of GNI) 2006 1/	42
Food production index (1999-01=100) 2006 1/	126	Total debt service (% of GNI) 2006 1/	4
Cereal yield (kg per ha) 2006 1/	3 462	Lending interest rate (%) 2006 1/	24
Land Use		Deposit interest rate (%) 2006 1/	3
Arable land as % of land area 2006 1/	3 a/		
Forest area as % of total land area 2006 1/	54 a/		
Irrigated land as % of cropland 2006 1/	n/a		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2008
2/ UNDP, *Human Development Report*, 2007/2008

COSOP results management framework

Country Alignment	Key Results ¹			Institutional/Policy Objectives ²
	Strategic Objectives	Outcome Indicators	Milestone Indicators	
<p>Crecer Productivo Pillar II</p> <p>Strengthen labour, productive and entrepreneurial capacities of rural and marginal urban populations.</p> <p>Promote access by the population to quality services in order to become competitive entrepreneurs</p> <p>Promote public and private investment in economic and productive infrastructure to contribute to local sustainable economic development</p> <p>Strengthen citizenry and management capacities and those of sub national governments and other stakeholders for local development</p> <p>Agricultural Sector Strategic plan Rural Development Pillar I</p> <p>Promote sustainable management of natural resources</p> <p>Develop integrated management of economic and social activities with a territorial approach</p> <p>Promote equitable productive development, food security and market linkages in the highlands</p> <p>Contribute to improving management of rural development by regional and local governments</p>	<p>SO 1: Improved access by rural communities to management knowledge and technical capacities to further sustainable use and control of natural resources and physical assets</p>	<p># of community groups with continued concern for better management of natural resources</p> <p># of households with long-term tenure security of natural resources</p> <p># of hectares improved through soil and water conservation methods</p>	<p># of communities and families involved in natural resource's management contests</p> <p>Amount of resources (US \$) transferred by contests to beneficiary groups</p> <p># of housing improvements</p> <p># of hectares incorporated to agriculture</p> <p>Variation of rental land prices (US\$)</p>	<p>Support passage of relevant legislation and practices related to land, water and forestry resources of <i>campesinos</i> and rural poor families</p> <p>Expand public private partnerships that contribute towards expanded assets of the rural poor and access to services</p>
	<p>SO 2: Increased access to quality public and private financial and non financial services, improving competitiveness and furthering market linkages</p>	<p># number of jobs generated by small and medium enterprises</p> <p># of micro enterprises operating after three years</p> <p># of new profitable markets operating</p> <p># of profitable productive alliances operating</p> <p># of mobile telephones and communication outlets</p>	<p># of technical assistance service providers</p> <p># of private financial services providers</p> <p># of groups developing profiles and business plans</p> <p># of groups and individuals attended by financial and non-financial service's providers</p> <p>Variation on values of sales</p>	<p>Widen provision of financial and non-financial rural services to substantially increase the financial assets of the rural poor by up scaling savings mobilization and micro insurance.</p> <p>Streamline and ensure effectiveness in the allocation of public resources from the central, regional and local governments for rural development co-financing and operations of local resource allocation committees</p> <p>Promote substantial exchanges of experiences and learning among decisions makers by using the learning routes methodology an in situ training</p>
	<p>SO 3 Increased community involvement in decentralized policy decision making processes by regional and local governments</p>	<p># of locally agreed development plans implemented successfully</p> <p># of initiatives funded through locally resource allocation committees implemented successfully</p> <p># of contracts with mining companies implanted successfully</p>	<p># of municipalities participating in programme implementation</p> <p># of resource allocation committees operating</p> <p># of agreements with extractive industry companies for co financing</p>	<p>Deepen citizenry inclusion and social capital by facilitating the process of obtaining identity documents and legal registrations</p>

¹ Baseline data will be presented as part of the formulation of the comprehensive Consolidating Innovations in the Highlands Programme based on existing data from IFAD and IBRD funded projects in the highlands

² Outcome and Milestone indicators: # of decentralised economic development agencies adequately funded and operational, # of community action plans included in local government plans; # of public goods investments operating effectively; # of pro-poor regulations enforced at the regional and or local level; # of local governments co financing territorial development initiatives; amount of resources channelled through local resource allocation committees.

Previous COSOP results management framework

	STATUS AT COSOP DESIGN	STATUS AT COMPLETION	LESSONS LEARNED
A. Country Strategic Goals Reduce poverty on a sustainable manner based on accelerated stable and distributive economic growth.	Poverty indicators and targets: ¹ Reduce poverty from 55 to 45% and extreme poverty from 24 to 18% between 2003 and 2006	Poverty indicators (2007) ² Poverty 39.3 and extreme poverty 13.7%.	Stable macro economic conditions contributed towards growth mainly in urban areas although poverty in the highlands continues to be serious. The need to address inequalities, lack of infrastructure and services and valuing assets while furthering market access stills to be addressed principally in the highlands.
B. COSOP Strategic Objectives: Enhance physical and natural assets, support market access through provision of financial and non financial services; contribute to the development of rural-urban linkages while strengthening local development	Issues Limited efforts to improve management of natural resources by farmers on their own land were in existence and those implemented were top down and supply driven.	Status at COSOP completion in terms of the overall objectives can be judged as satisfactory based on the assessments carried out by the IIE and OE for the two projects implemented during the life of the COSOP. Detailed data are reflected in the evaluation reports. Regarding beneficiary targets the number of beneficiaries reached was much higher than anticipated in both projects 48 000 families, close to three times the 15 000 in the Corridor project and more than 20 005 families in 360 communities of 69 districts in the MARENASS project	Although attribution issues are not fully discussed in project evaluations most projects have sizeable information on the situation prior to the project which should assist in further analysis. These analyses are however dependent on accurate RIMS reporting which is not always available or properly systematized.
Strategic Objective 1. Increase small-scale farmer's assets by investing in externalities, establishing competitive fund-transfer mechanisms rewarding results	Few development approaches based on	Physical assets increased including better houses, corrals, terraces and increased financial assets as a result of reducing expenditures on external inputs and increased production and sale of surplus.	The use of competitive awards emphasized results, helped mobilize local resources and enhanced cohesion and inclusion. Use of competitive approaches among groups promotes knowledge-sharing, and leads to investments by communities after project closures.

¹ Estrategia de Superación de la Pobreza y Oportunidades Económicas para los pobres, 2003 PCM.

² La pobreza en el Perú en el año 2007 INEI Informe Técnico.

<p>Strategic Objective 2. Improving access to services by enhancing market development and beneficiary capacity to contract services and by strengthening institutional and private-sector providers of these services;</p>	<p>the need to provide a wide variety of services prevailed. Support for non-farm activities was limited.</p> <p>Saving mobilization programs were not considered and micro insurance schemes were not thought of.</p>	<p>Experience with the savings promotion programme was an effective mechanism to promote collective action and social capital, while making use of individual savings advantages (greater savings incentives, boost to self-esteem).</p>	<p>The use of market mechanisms for the provision of technical assistance and financial services has improved the supply side and shown that there are enormous advantages for innovation in the use of farmer-to-farmer methodologies in the provision of extension services</p>
<p>Strategic Objective 3. Expand access to information and multiply new entrepreneurial possibilities, privileging joint ventures between rural inhabitants and the private sector while promoting new products and services to achieve diversification</p>	<p>Poor linkages between project interventions and local elected bodies such as district and provincial municipalities were the norm.</p> <p>Large percentages of the rural population lacked identity and other documents to allow them to fully participate in society.</p>	<p>Projects contributed to expanding access to information in the Corridor project a telephone-based market information service was implemented and support for fairs and marketing round tables allowed beneficiaries to gain access to new markets and outlets, improved their business information management.</p> <p>An initial agreement with Xstrata mining has been signed to jointly address rural poverty in the southern highlands.</p>	<p>Supporting agricultural and non agricultural activities and recognizing the importance of villages and small towns allowed beneficiary peasant farmers and small-scale entrepreneurs to diversify their incomes.</p> <p>Programs should be open to a broad range of subproject ideas, avoid creating a predefined list of eligible activities, and involve rural people and project beneficiaries in important design and implementation decisions.</p>
<p>Strategic Objective 4. Foster local development and identities, especially in areas with substantial cultural and ecological potential.</p>		<p>Projects valued the users' cultural assets and identified the market potential of goods and services with cultural content that proved to be a sound approach. The Corridor project demonstrated the importance of recognizing citizenship, in the form of identity cards, to facilitate mainstreaming the poor into public and economic life</p>	<p>Community driven development projects require close coordination with local authorities for potential fiscal support for both capital and recurrent expenditures to increase sustainability.</p> <p>Identifying the potential of the users' cultural capital can generate excellent results in terms of new goods and services with a high value that take advantage of specific market niches (adventure tourism, crafts, obtaining copyright for design, registration of traditional products).</p> <p>Support in obtaining identity documents and furthering citizenry rights is essential for full beneficiary participation and enhanced self esteem.</p>
<p>C. IFAD Performance</p>	<p>Portfolio management. (i) Management of Natural Resources in the Southern Highlands Project. Need to improve monitoring and evaluation system and ensure the administrative</p>	<p>Both projects closed without implementation difficulties. Two new projects were designed.</p>	<p>Direct supervision of the Puno Cusco Corridor project was highly successful as recognized by OE evaluation. Use of <i>Nucleo Ejecutor</i> modality adopted by the GOP which gives responsibility for implementation of sub projects to community</p>

	<p>autonomy of the PMU. (ii) Development of the Puno-Cusco Corridor Project. Need to obtain proper autonomy for the project management unit.</p> <p>Country team development. Although the concept of a CPMT had not been adopted by IFAD at the time an informal team existed including project directors of ongoing projects, government partners and academic institutions.</p> <p>Partnerships and consultation. IFAD interventions should take into account the activities of other donors especially those of the IBRD and USAID,</p> <p>Innovation. The innovative character of demand-driven technology transfer, competitive fund transfers, market-oriented developmental approaches and rural-urban linkages should be developed further.</p> <p>Knowledge management. Lessons learned should be systematized and best practices recorded, especially in terms of the implementation of the MARENASS and the Development of the Puno-Cusco Corridor projects.</p>	<p>Creation of Agro Rural as an umbrella agency for rural development projects allows for IFAD funded project directors to interact with others involved in rural development thus becoming the basis for a CPMT.</p> <p>Close consultations and experience sharing occurred with the USAID PAR project recently completed. Considerable synergies were developed with the IBRD ALIADOS project. Partnership with GOP partners has been strengthened and new partnerships with the private sector in especially mining companies has been initiated.</p> <p>Two new substance innovations were introduced in the financial services sub sector by expanding and deepening saving mobilisation among rural women and proving micro insurance to poor rural families</p> <p>Considerable systematisation work was undertaken especially under the Innovations in Peru assessment carried out by OE and in collaboration with IDRC on valuing assets in the Puno Cusco Corridor project. Documents for non-specialised audiences were also prepared.</p>	<p>legally recognised entities proved effective.</p> <p>Design of complex and costly GIS monitoring system for natural resource's evaluation proved impractical.</p> <p>Early experiences with CPMTs at the country level show difficulties as they represent an additional burden on officials with heavy workloads. Comprehensive programme implementation arrangements such as Agro Rural are a solution.</p> <p>Institutional continuity is necessary to build strong links with government partners. Partnerships with other donors are possible under government leadership and with the private sector require finding common ground for joint initiatives.</p> <p>Introduction of innovations requires broad consensus with potential beneficiaries and government partners. Full adoption is a lengthy process and requires constant monitoring and assessments.</p> <p>Deepening knowledge management requires stronger links with academic and research establishment. Due consideration should be given to translations and reaching agreements with publishers and book distributors.</p>
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Operations pipeline

Introduction

The Programme outlined herein summarises the main thrusts envisaged by IFAD and the Government of Peru (GOP) and contained in the main text. Detailed components and activities will be developed as part of a *Sierra* development programme under the title of Consolidating Innovations in the Highlands.

Geographic coverage and target groups

The proposed programme to be implemented in the distinct *Sierra* region of Peru covers 395,594 km² representing 30.9 percent of the national territory. According to the 2005 census, the total population in this region was 8.86 million, of which 48.3 percent were considered as rural. The *Sierra* is not only the country's poorest region, in rural areas 73.3 percent of its population is poor and 40.8 percent are extremely poor, but is the region where progress in poverty reduction is lower. Between 2004 and 2007 total poverty was reduced by only 2.5 percentage points. The *Sierra* has approximately 49.2 percent of the national agricultural area and only 2.6 million hectares suitable for agricultural cultivation.

An estimated 41 percent of the total population of the *Sierra* is included in the poorest quintile and lives distributed in 658 districts that represent 52 percent of the total number of districts in that region. An additional 28 percent of the population of the *Sierra* is included under the second poorest quintile living in 39.6 percent of the total number of districts. These districts are grouped together in poverty pockets in whose interior there are some districts which are less poor, often urban.

Government programmes in Peru are targeted based on a poverty map prepared by FONCODES. The FONCODES poverty map has been constructed based on the concept of Unmet Basic Needs. Such a methodology relies on measurements of lack of access to basic services, mainly water, sanitation and electricity; illiteracy among women 15 years and older and children under 12; and malnutrition among children between 6 and 9 years of age. This map stratifies district populations in quintiles whereby quintile 1 represents the poorest people with the largest number of unmet basic needs (the extreme poor); quintile 2 consists of individuals classified as very poor; quintile 3 corresponds to the poor; quintile 4 represents individuals who are living in average poverty conditions; and quintile 5 consists of individuals who are experiencing acceptable poverty conditions.

The Programme's target group is to be comprised of residents of the predominantly poor districts that are articulated by an intermediate city. Within these districts, the Programme will target its actions to the poorest people who qualify as potential beneficiaries under a proposed business plan or management of natural resources initiative. In this, the continuity of the geographic territory will not be broken and the needs of the poor living in the wealthier districts will also be considered.

Justification and rationale

After several years of implementing successful projects in the struggle against rural poverty and also generating a modular methodological proposal capable of being implemented by local governments, IFAD and the Government of Peru are in a position to up scale the experiences gained. This situation is now reinforced by the existence of a favourable fiscal position that allows for decentralised implementation of a program mainly by using sub-national governments, now strengthened by the extraordinary income from direct transfers and royalties.

In addition, the gains that can be obtained through the reduction of rural poverty are facilitated by the confluence of a number of favourable situations, some of them structural and others more cyclical. Among the former it is possible to identify the impact of urbanisation that is beginning to induce a significant decline of the rural population in most districts. Urbanisation furthers the growth of demand for food that additionally reduces transportation costs for rural producers and generates new sources of non-

agricultural income to rural families. Among the cyclical impacts the expansion of agricultural exports and the increase in agricultural prices caused by the impact of demand for bio energy, and rising demand in major emerging countries such as China and India also furthers a programmatic approach for poverty reduction in the highlands.

Programme objectives

In order to achieve the main purpose of the Programme, the following objectives have been considered and are the main objectives of the RB-COSOP as a whole and described in more detailed in the main text of this report.

- Promote access to public and private services that improve competitiveness and develop business linkages.
- Optimise investments in infrastructure to facilitate socio-economic development of enterprises.
- Strengthen local institutions to support rural development in line with a territorial approach.

Harmonisation and alignment

The Programme's approach is consistent and aligned with the proposals developed in the National Strategy for Productive Growth and AGRO RURAL. This is the result of the legitimacy achieved by IFAD projects that have been a strong reference for the formulation of the GOP strategy. Favourable circumstances, combined with the fact that ongoing projects have been grouped into AGRO RURAL, augur well for a decentralised program to be implemented in different locations in the highlands.

Components and activities

In opting for up scaling experience gained in the form of a national program implemented by AGRO RURAL, implementation will require working at two distinct levels. A first level will support the overall management of the program by AGRO RURAL, secondly support will be provided to end users or beneficiaries of the program. One of the key tools to further usage of experience gained is the Learning Routes Programme, through which success was achieved by exchanging knowledge. These Learning Routes will be the core of the training to be provided to sub-national governments.

At the first level it will be necessary to implement the following components:

- Training and technical assistance to sub-national governments to design and implement specific projects.
- Monitoring and evaluation of projects implemented by sub national (regional or provincial) governments, and
- Administrative management of the programme.

At the second level components and activities will be anchored on the successful experiences of IFAD which include *inter alia*: natural resource management, strengthening local markets, support for rural financial intermediation, knowledge management and cultural assets.

Cost and financing

Programme costs will be covered by the amount allocated to Peru under the Performance Based Allocation System (PBAS) for the 8th replenishment. Government contributions will be determined during Programme formulation.

- **Organisation and management**

Under the newly adopted agricultural policy, a new rural territorial development thrust has been included in addition to the traditional agricultural sector concerns under the aegis of MINAG. For this purpose rural development projects, funded with donor assistance and by the national government, have been brought under one roof. Establishment of AGRO RURAL within MINAG will allow authorities to harmonise all rural

development interventions leaving management of individual projects in the hands of selected project staffs. The creation of AGRO RURAL will allow for establishing working relationships with regional and local governments, NGOs and private companies (mainly mining) to supplement the supply of infrastructure and provide technical, financial and business advisory services to enable the rural poor better access to markets. The funds initially planned by the GOP to implement this initiative for the next five years amounts to US\$ 500 million.

Monitoring and evaluation

The existence of two levels of implementation means that there is a division of labour whereby AGRO RURAL will monitor and evaluate the program, at the same time it will evaluate the achievements of the projects implemented at the national level. This task will be facilitated by the support to be provided by the Sierra Development, created within the PCM with the support of the Sierra Development Project funded by the World Bank.

In parallel, projects implemented by sub-national governments will use their own monitoring systems aimed at verifying performance and meeting set goals. Projects will be evaluated in partnership with AGRO RURAL achieving their specific objectives. COSOP monitoring and evaluation will follow IFAD standard procedures as described in Section V of this report.

Considerable progress has been achieved in establishing a baseline for the *Sierra* region both for the IFAD funded Sierra Sur and Sierra Norte projects using the methodologies of INEI. Compatible data has also been gathered and processed for the provinces and districts included in the Sierra Development Project.

Risks

There are three main risks, **first** climate change whose impact is particularly uncertain but puts at risk the normal development of agricultural activities, **second** the international economic crisis that can generate a severe drop in commodity prices, and **third** weakness of governance induced by the existence of social conflicts where mining investments pose a competition for agricultural land use and call into question the ecological sustainability of production.

Key file 1: Rural poverty and agricultural/rural sector issues

Priority Areas	Affected Group	Major Issues	Actions Needed
Access to productive and natural assets (Land, water and forestry resources)	<ul style="list-style-type: none"> Peasant farmers Small-scale rural producers and entrepreneurs Rural women and youths 	<ul style="list-style-type: none"> Land fragmentation and insecurity, discriminatory, lengthy and costly titling procedures Inefficient and discriminatory management of water resources and poor maintenance of existing infrastructure. Poor natural resource management Inexistence of water collection infrastructure in many areas Poor access to labour by WHH 	<ul style="list-style-type: none"> Strengthen property rights Review water distribution patterns and further efficient distribution criteria Territorial agreements for water collection devices Disseminate successful natural resources management, and strengthen, local approaches Promote environmental management practices Provide incentives for the development of rural businesses associated with environmental products and services Contribute to adoption of public policies aimed at preservation and improved management of resources. Contribute to adoption of public policies aimed at gender equity in productive processes
Access to physical and financial assets	<ul style="list-style-type: none"> Peasants farmers Small-scale rural producers and entrepreneurs Rural women and youths 	<ul style="list-style-type: none"> Geographic isolation Poor rural road network Poor housing conditions and family and community infrastructure Lack of support for production activities Low coverage of basic services Limited communication infrastructure Limited access to financial services including savings, particularly for women Non-financial technical services territorially scattered, and, in many cases, supply-oriented Very low salaries in agricultural labour 	<ul style="list-style-type: none"> Promote co-financing of local territorial economic development Provide incentives for savings mobilisation Support expansion of financial services Further public private partnerships and reduce poverty conditions through, linking investments with economic and social policies Promote the organisation of women in order to facilitate their access to money
Access to social	<ul style="list-style-type: none"> Peasants farmers 	<ul style="list-style-type: none"> Unemployment and underemployment particularly 	<ul style="list-style-type: none"> Develop local capacities of the poor

Priority Areas	Affected Group	Major Issues	Actions Needed
and human assets	<ul style="list-style-type: none"> • Small-scale rural producers and entrepreneurs • Rural women, and youths 	<p>among women and youths</p> <ul style="list-style-type: none"> • Low educational levels, above all among women • Low self-esteem • Scarce social recognition, high social and cultural discrimination, particularly among women and youths • Scarce knowledge of the livelihood strategies of the rural poor strategies • Limited attention paid to the demands and priorities for of public investment 	<p>and their social organisations to participate in public and private partnerships</p> <ul style="list-style-type: none"> • Promote recognition of tangible and intangible local assets, encouraging self-esteem and identities • Improve the offer of services for technical assistance by supporting certification in social and gender equity perspective • Contribute to public policies aimed at strengthening the participation of women and youths in rural development strategies and opportunities

Key file 2: Organisations matrix (strengths, weaknesses, opportunities and threats [SWOT] analysis)

Institution	Strengths	Weaknesses	Opportunities	Threats
Ministry of Agriculture (MINAG)	<ul style="list-style-type: none"> • Normative institution for agriculture and the rural sector • Familiarity with IFAD approaches through implementation of projects in the Southern highlands • Capacity to provide flexibility and some autonomy to projects, for more efficient implementation 	<ul style="list-style-type: none"> • Weak policy implementation frameworks • Scarce articulation between organisations and projects accountable to the Ministry • Coexistence of several visions and priorities (sector versus territorial development approaches) • Difficulties in the transfer of responsibilities to regional authorities 	<ul style="list-style-type: none"> • Expand successful approaches tried in the Southern Highlands • Internalise lessons learnt while contributing to rural development policy formulation • Implementation of the IFAD funded Sierra Norte project • Articulate a coherent national rural development programme (Agro Rural) 	<ul style="list-style-type: none"> • Scarce clarity on the implementation of decentralisation and the sector's relationship with regional and local governments • Complex process for streamlining different projects and programmes under one comprehensive approach
Ministry of Economy and Finance (MEF)	<ul style="list-style-type: none"> • Normative institution for public investment and counterpart for international co-operation • Institutional stability and competent human resources • Targeting of public investments in highly poor areas 	<ul style="list-style-type: none"> • Scarce political will to strengthen the decentralisation process • Limited resources to focus research, policy formulation and implementation under an innovative, participatory approach for open and decentralised dialogue 	<ul style="list-style-type: none"> • Interest in up- taking relevant lessons from previous IFAD operations in the country aimed at policy formulation for public investment • Interest in furthering investment in poor areas through promotion of economic development mechanisms including competitiveness • Interest in implementing expenditure tracking 	<ul style="list-style-type: none"> • Conflicting macro economic policies
Inter ministerial Council for Social Affairs (CIAS)	<ul style="list-style-type: none"> • Responsible for co-ordinating implementation of the national poverty reduction strategy • Prepared a productive growth strategy for rural 	<ul style="list-style-type: none"> • Limited capacity to co-ordinate a multitude of initiatives over three different approaches under the omnibus <i>Crececer</i> approach 	<ul style="list-style-type: none"> • Implementation of a co-ordinated approach to address rural poverty in the highlands 	<ul style="list-style-type: none"> • Complexity in co-ordinating implementation of the poverty reduction strategy based on different pillars

Institution	Strengths	Weaknesses	Opportunities	Threats
	and urban marginal settlements			addressing the needs of differentiated target groups
National Compensation and Development Fund (FONCODES)	<ul style="list-style-type: none"> Has expeditious fund transfer mechanisms 	<ul style="list-style-type: none"> Institutional instability caused by governmental reorganisation process High concentration in infrastructure provision for educational and health services Difficulties caused by decentralisation processes 	<ul style="list-style-type: none"> Opportunity for developing stronger synergies between institutions and projects at the regional and local levels 	<ul style="list-style-type: none"> Juxtaposing and duplicating efforts may result in losing prominence in provision of social and economic infrastructure for development
Ministry of the Environment	<p>Normative institution for environmental issues</p> <p>Capacity for establishing dialogue between multiple stakeholders including communities, government entities and the private sector mainly in the extractive industries sector</p>	<ul style="list-style-type: none"> Recent creation Undefined work programmes at the regional level 	<ul style="list-style-type: none"> Opportunity to establish a comprehensive environmental agenda and furthering of initiatives Greater emphasis on environmental policies for sustainable development and decentralisation may result in increased involvement 	<ul style="list-style-type: none"> Uncertainty on scope for intervention for enforcement of environmental regulations Undefined complementary actions with regional and local governments.
FONDEBOSQUE	<ul style="list-style-type: none"> Successful experiences in co-financing forestry investments 	<ul style="list-style-type: none"> High dependency on external funding Assistance provided excludes <i>campesinos</i> and small-scale producers 	<ul style="list-style-type: none"> Lessons learnt in provision of financial assistance for innovative forestry initiatives may be replicable 	<ul style="list-style-type: none"> Future dependent of securing additional funding
Regional and local governments	<ul style="list-style-type: none"> Greater proximity to the demands of the poor Co-financing possibilities with public and private sectors Civil society participation in decision making 	<ul style="list-style-type: none"> Limited organisational and implementation capacity Weak definition and clarity on responsibilities being transferred Limited political will to transfer responsibilities from central government agencies Weak capacity of limited 	<ul style="list-style-type: none"> Legal framework opens up the possibility to further a territorial approach including deepening of rural urban linkages Establishment of partnerships to foster synergies among territories and the private sector now possible 	<ul style="list-style-type: none"> Slow and bureaucratic implementation of decentralisation process Lack of clear definition on competencies, functions, and available budgetary resources

Institution	Strengths	Weaknesses	Opportunities	Threats
Mining sector enterprises	<ul style="list-style-type: none"> • Productive sector of high importance • Presence in the proposed project area • Investments in public infrastructure that benefit local communities. 	<p>human resources</p> <ul style="list-style-type: none"> • Low reputation on local and national scenarios, particularly on exploitation of environmental and natural resources • Conflictive relationships with local populations • Investments lack economic development vision 	<ul style="list-style-type: none"> • New local economic dynamics potential engine • More resources are transferred to regional governments through payment of royalties • Willingness of mining enterprises to establish new local relationships and implement coherent social responsibility programmes, 	<ul style="list-style-type: none"> • Weak public policies regulating relationships between communities, local governments and the mining sector • Weak regulations to control impact of mining activities on natural resources and community development
Peasant Communities	<ul style="list-style-type: none"> • Represent the social capital of peasants and the rural poor • Organisational setting furthers decision making, resource management, social and legal representation, securing democratic rights and duties 	<ul style="list-style-type: none"> • Internal power inequalities, specially related to women and youths 	<ul style="list-style-type: none"> • Decentralisation approach may deepen participation of organised citizens in decision making processes for local policy formulation and investments 	<ul style="list-style-type: none"> • External involvement in community affairs creates dependency

Key file 3: Complementary donor initiative/partnership potential

Agency	Priority sectors and areas of focus	Period of current country strategy	Complementarity/Synergy Potential
IBRD	<ul style="list-style-type: none"> • Maintaining macro stability and reducing vulnerabilities • Accelerating growth and widening its base • Making growth environmentally sustainable • Meeting basic needs • Promoting and developing a new social contract in education, health and nutrition • Modernising state institutions v 	2007-2011	<ul style="list-style-type: none"> • The most significant synergies can be established with the IBRD's Sierra Development projects aimed at increasing productive potential of the poor in the highlands which is the focus of IFAD interventions in the country. These projects aim at improving rural productivity and employment by linking farmers to markets with the help of local governments by (i) providing training for product quality improvement; (ii) empowering local producers and farmer's groups through regional competitive funds that support small project proposals; and (iii) strengthening institutions providing services to producers. • Additionally the IFC activities may also contribute towards IFAD's strategic objectives by providing technical assistance to farmer and micro entrepreneur groups through its Business Environment and Access to Finance programme
IDB	<ul style="list-style-type: none"> • International insertion and competitiveness (infrastructure, access to capital, energy and extractive industries, business climate, labour market, technological adaptation and innovation, environmental sustainability • Access to basic public services (education, health, water an sanitation, housing and neighbourhood improvement • Promotion of opportunities(development of rural exports land titling, micro finances • Social protection • Decentralisation and improvement of management by sub national governments • Modernisation of the national government • Justice and security • Support and promotion of development of human capacities 	2007-2011	<ul style="list-style-type: none"> • There are possible synergies with the proposed PROSIERRA project now being formulated. This project would have the following objectives which correspond with IFAD's approach : The PROSIERRA program would include the following components : (a) support for the promotion and consolidation of productive chains and territorial clusters which would include financing for market research activities, training in agricultural practices, promotion of products and markets in co-ordination with public and private entities; and (b) support in the formulation and implementation of business plans prioritised along selected chains and clusters, through the provision of direct incentives to be provided on a competitive basis based on technical, economic, social and environmental criteria that would ensure economic growth and a direct impact in poverty reduction in rural communities • There are also areas for collaboration in terms of the technical assistance provided by the IDB through the MIF in areas such as: (i) development of exports in the context of the FTA; (ii) global rural micro credit programme;(iii) training in management of small scale enterprises; (iv) development of entrepreneurial networks in tourism conglomerates; and (v) and assistance to small and medium size enterprises on technical requirements to access markets under the FTA.
UNDP and the United Nations system of		2006-2010	<ul style="list-style-type: none"> • Complementarity of IFAD activities with those of other United Nations agencies in Peru has been established in the context of the United Nations

Agency	Priority sectors and areas of focus	Period of current country strategy	Complementarity/Synergy Potential
organisations	with emphasis on excluded populations <ul style="list-style-type: none"> • Support and promotion of economic and social opportunities • Support and strengthening of State capacity and of civil society in consolidating democratic governance 		Development Assistance Framework (UNDAF) 2006-2010 especially in terms of pillar 2 Development of Economic and Social Opportunities and more specifically with respect to activities under the strengthening and improving sustainable production capital and labour markets. There are synergies with programmes and projects of UNICEF, UNIDO, FAO WFP and ILO. Complementary activities with FAO in its Food Security Programme and implementation of the natural resources strategy are possible. With WFP there are also synergies with its efforts to provide technical assistance to strengthen local capacities for managing and monitoring of social programmes.
CEU	<ul style="list-style-type: none"> • Support for State modernisation, strengthening governance and social inclusion • Support comprehensive social development by strengthening social cohesion h 	2007-2013	<ul style="list-style-type: none"> • Implementation of the CEU strategy will span the period of the IFAD COSOP and synergies exist in relation to activities foreseen by the CEU in its efforts to provide identity, citizenry and access to public services as well as providing support to the decentralisation process by empowering local actors and building their capacity to be a legitimate party before the State. The CEU will foster the engagement of local and regional authorities and organisations of decentralised sector fields as well as civil society in the design, implementation and follow up of defined projects and activities
COSUDE	<ul style="list-style-type: none"> • Sustainable economic growth • Capacity development • Legal frameworks and public policies 	2002-2007	<ul style="list-style-type: none"> • .There are existing synergies with two larger project implemented in highland areas mainly the PYMAGROS and APOMIPE projects that provide management training to small-scale agricultural enterprises. Also relevant are projects supporting technological development in potato and bean production jointly with the Ministry of Agriculture. v
AECI	<ul style="list-style-type: none"> • Democratic governance and social participation • Basic social needs • Economic and entrepreneurial development • Environmental protection • Cultural promotion • Gender promotion and • Conflict prevention and peace building 	2005-2008	<ul style="list-style-type: none"> • There are two of ongoing projects and programmes that complement the main trusts of the proposed IFAD strategic programme. These include the support to Technical Training Centres in Rural Areas project operating in the highlands and the Development of Community Rural Tourism programme. In addition AECI is supporting the process of decentralisation and strengthening of public institutions through the Decentralisation and State Reform project (PRODER). This programme does complement proposed IFAD Initiatives in support of local governments and territorial based organisations in their dealings with local governments and improving the investment climate at the local level. AECI also supports development of local identities and cultural heritage initiatives which would also be part of IFAD efforts in Peru.
BTC	<ul style="list-style-type: none"> • Strengthening of society as a whole • Struggle against poverty through income generation • Promotion of basic social services 	2005-2008	<ul style="list-style-type: none"> • Activities supported by BTC in terms of development of productive chains and economic corridors in the departments of Ayacucho, Apurimac and Huancavelica and strengthening micro and small-scale enterprises as well as the provision of strategic for sustainable forestry development especially in the highlands may complement the proposed IFAD programme.

Agency	Priority sectors and areas of focus	Period of current country strategy	Complementarity/Synergy Potential
USAID	<ul style="list-style-type: none"> • Strengthening democratic processes and institutions • Increasing economic opportunities for the poor in selected economic corridors • Improving health for Peruvians at high risk • Strengthening environmental management • Sustaining reduction of illicit drugs in target areas • Expanding opportunities for girl's quality basic education in rural areas • Improving quality of life along the Peru -Ecuador border 	2002-2006	<ul style="list-style-type: none"> • Although no documents are publicly available for the next USAID strategy for Peru it seems possible that its efforts to increase economic opportunities for the poor by supporting activities in economic corridors may continue. This approach did complement IFAD 's corridor development approach in the departments of Cusco and Puno. There is a shared vision in that economic corridors demarcate the country according to the natural economic and commercial links that exist between important cities and towns and the surrounding countryside. There are substantial synergies in the approach as there is a shared vision in terms of not promoting the concept of secondary city markets but to identify and support the commercial linkages and trade flow among one or more secondary cities and many smaller communities of a third order in a given geographical area.
GTZ KfW	<ul style="list-style-type: none"> • Democracy, civil society and • Drinking water supply and waste water disposal • Risk management for development in rural areas • Sustainable rural development including sustainable value chains production, marketing and export promotion • Conservation of natural resources 	2003-2008	<ul style="list-style-type: none"> • During the previous COSOP period there were explicit synergies developed between IFADs approaches in the Southern Highlands with those of the KfW financed e Agricultural and Environmental Programme in the context of the Jaen Bagua Project. The recent end-of project evaluation of this project noted that there had been up scaling of the competitive awards mechanism and other instruments used in the IFAD funded projects and that these approaches had been successfully introduced in different geographic area demonstrating the validity of the approach on a country wide basis. It is possible that complementary approached may be developed in future programmes and projects to be financed by KfW and GTZ.

Key file 4: Target group identification, priority issues and potential response

Typology	Poverty Levels and Causes	Coping Actions	Priority Needs	Support from other Initiatives	COSOP Response
Small-scale rural producers and micro entrepreneurs	<ul style="list-style-type: none"> Degraded natural resources erosion, high levels of desertification Scant value-added output Low income levels caused by low productivity and low salary levels Limited access to markets and limited product diversification Low educational levels Small land parcels and limited irrigation Geographic isolation and poor road network and limited communication infrastructure; Non existent or weak entrepreneurial micro-enterprise information systems Limited access to diversified financial services; Bureaucratic bottlenecks for operating in local and national markets Weak organisational capacity High transaction costs Limited access to technical assistance 	<ul style="list-style-type: none"> Seasonal migration Social reciprocity Remittances Use of family labour Use of family networks and reciprocity Multiplicity of activities Informal trading Social assistance networks 	<ul style="list-style-type: none"> Provision of diversified access to technical and financial services Development of entrepreneurial and organisational capacities Lowering transaction costs, and improving market linkages Encouraging value-adding to local products and services Formalising business ventures 	<p>IBRD ongoing operations</p> <ul style="list-style-type: none"> Sierra Development I Innovation and Competitiveness in the Peruvian Agricultural Sector (INCAGRO) Decentralised Rural Transport Project National Rural Water Supply and Sanitation Project Rural Education Project Agricultural Research and Extension APL Phase 2 Rural Electrification Project <p>IBRD Planned operations)</p> <ul style="list-style-type: none"> Sierra Development II <p>IDB operations Ongoing)</p> <ul style="list-style-type: none"> Poverty Alleviation and Human Capital Development Support Services to Gain Access to Rural Markets FONCODES Land Titling and Registration Program (PETT) Rural Micro credit Global Program 	<ul style="list-style-type: none"> Competitive access to investment resources Incentives for contracting technical assistance services Skills building strategies Internships and exchanges for experience-sharing Linkage strategies with regional and local projects, firms and institutions via decentralised regional and local governments Linkage strategies with intermediate cities and towns Inclusion of migrants in local private and public development Local knowledge and peasant exchanges to add-value to natural resources and patrimonies belonging to communities and families, thus contributing to self-esteem improvement, gender relationship and social recognition Peasant community strengthening via direct transfers of resources from the state, and managerial training and contracting

Typology	Poverty Levels and Causes	Coping Actions	Priority Needs	Support from other Initiatives	COSOP Response
Territorial based organisations	<ul style="list-style-type: none"> Weak level of organisation, limited knowledge of rights and duties Poor and or limited relationship with local governments and government agencies. 	<ul style="list-style-type: none"> Technical and financial assistance programmes supported by national and international NGOs Reliance on micro credit initiatives 	<ul style="list-style-type: none"> Develop entrepreneurial and organisational capabilities Strengthen existing rural businesses Lower transaction costs, and improve market linkages Legally formalise businesses ventures Diversify access to technical and financial services 	<ul style="list-style-type: none"> Departmental Road Program IDB Planned Land Titling and Registration Program (PETT) Rural Micro credit Global Program Departmental Road Program <i>Sierra Exportadora</i> I and II AECI Strengthening Capacities for the Decentralisation Programme Defence and Respect of the Rights of the Amazonian and Andean Communities and Peoples in the Highland of Peru Comprehensive Support for Tourism Development in Peru GTZ Support to the Decentralisation Process in the Rural Areas (APODER) Linking Strategies between Markets and Producers of the Sierra Area (PYMAGROS) Support Programme fore Small and Micro-Enterprises (APOMYPE) 	<ul style="list-style-type: none"> Further linkages with regional and local projects, firms and institutions via decentralised governments Provide direct transfer of resources for investments in infrastructure and other initiatives oriented to local development Promote businesses with cultural identity and territorial linkages Strengthen organisations for participation in territorial development approaches. Expand access to financial resources and technical assistance for improving the management of natural resources Further rural urban linkages