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MULTIANNUAL INDICATIVE PROGRAMME (MIP) 2014-2017

PERU

MULTIANNUAL INDICATIVE PROGRAMME (MIP) FOR PERU 2014-2017

This programming document has been elaborated in the perspective of phasing-out bilateral development cooperation according to Art. 5 (2) (ii) DCI Regulation, building on the results of previous interventions and with the perspective to evolve to a new peer-to-peer cooperation between the EU and Peru.

1. OVERALL LINES OF EU RESPONSE

1.1. Strategic Objectives of the EU's Relationship with PERU

Over the past decade, Peru has been pursuing pragmatic and broadly centrist policies that support one of the highest rates of economic growth in the region and have the strong backing of urban upper and middle classes. This has made Peru a key economic and trade partner for the EU in the region, a relationship which will be strengthened by the Trade Agreement provisionally applied since 1 March 2013. The EU has a key interest in the smooth implementation of the agreement, which should be instrumental in helping Peru further diversify its exports, move up the value chain and increase its competitiveness, while spreading the benefits of decent work.

Despite social and economic progress, Peru still faces a number of challenges. It has notably to address the problem of environmental degradation often triggered by productive activities which do not comply with environmental regulations. Large-scale extractive projects, which are the engine of Peru's economic growth, carry the risk of rapid depletion of natural resources and biodiversity, often have negative environmental and socioeconomic impact, which in turn generates social conflict. The country is also highly vulnerable to the effects of climate change and natural disasters¹. For the sake of keeping the country on its current economic path, whilst avoiding political instability, the EU has an interest to support Peru in its effort to promote social protection policies and to diversify the economy towards sustainable and inclusive growth, in particular in the most vulnerable regions of the country.

The EU has also a strategic interest to support the country in the control of and fight against the production and trafficking of illicit drugs. Organised crime linked to drug trafficking, but also to illegal mining and logging, negatively affects stability in the region as well as the EU's economic and wider security interests. The EU is presently implementing a substantial cooperation programme supporting the national anti-drugs strategy 2012-2016.

A stronger State presence at regional and local level would contribute to fight the expansion of illegal production and commerce as well as the high levels of poverty. This reinforces the argument for the EU to support the government's efforts to strengthen institutional capacities in the most vulnerable regions of the country.

In order to ensure consistency of EU actions, the MIP is drawn up within the broader context of EU external policies, notably the *DCI Regulation*² and the *EU Strategic Framework and*

¹ Resilience building is an overarching goal of development cooperation and humanitarian assistance as outlined in COM (2012)586 final of 3.10.2002 and SWD (2013)227 final of 19.6.2013. Resilience strategies should contribute to different policies, in particular food security, climate change adaptation and Disaster Risk Reduction (DRR).

² OJ L 77/44 of 15/03/2014, Regulation (EU) No 233/2014 of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020

*Action Plan on Human Rights and Democracy*³, and Peru's national development documents, notably the "Bicentenary Plan: Peru in 2021", which includes a set of goals under six strategic axes: basic rights and human dignity; opportunities and access to services; State and governance; economy, competitiveness and employment; regional development and infrastructure; and natural resources and environment.

1.2. Choice of Sectors

Since 2007, the EU cooperation with Peru mainly aims at strengthening democratic governance and institutional capacities as well as at fostering social inclusion and reducing poverty in the most vulnerable regions. Through its budget support to health and nutrition policies as well as in the area of trade and environment, the EU has contributed to the consolidation of public policies and to important improvements in public finance management (PFM) as well as to the achievement of tangible results in service delivery and economic development.

In the perspective of phasing out bilateral development cooperation and in line with the requests made by the Peruvian government, the EU proposes to focus its support on improving social service delivery at local level as well as on fostering sustainable trade with a focus on SMEs development, thereby consolidating actions under the previous programming period.

Within this context, the following sectors have been identified for the EU intervention:

- Sector 1 Promoting inclusive development at regional and local level
- Sector 2 Fostering sustainable trade and investment.

PROMOTING INCLUSIVE DEVELOPMENT AT REGIONAL AND LOCAL LEVEL **Indicative allocation: 80%**

Justification: Social indicators of Peru show a positive trend, but reveal substantial social and regional disparities. While the national average poverty rate has decreased to 23.7% in 2012, it still reaches up to 60% in rural areas, especially in the Andean highlands and Amazon regions. A weak presence and institutional capacity of the state to deliver social and economic policies in large parts of the national territory is considered to be a major reason for persistent poverty and inequality.

The government of President Humala has placed social inclusion at the centre of the country's public policy. Increasing the presence and effectiveness of institutions to deliver social services and promoting economic development are core elements of this vision to overcome poverty and social exclusion and to ensure the sustainability of efforts to fight against illegal activities.

In October 2011, a Ministry of Development and Social Inclusion (MIDIS) was created, reinforcing Peru's social policy designed in the National Agreement (*Acuerdo Nacional*) and implemented since 2007 through the National Development Strategy (*CRECER*).

³ Council Conclusion on Human Rights and Democracy, 25.06.2012

In 2013, the strategy was redefined as a national Development and Social Inclusion Strategy “*Incluir para Crecer*”, organised around five strategic pillars based on a life-cycle approach: (i) childhood nutrition; (ii) early childhood development; (iii) life skills development; (iv) economic inclusion; and (v) care for the elderly. In order to achieve its social inclusion goals, MIDIS has to manage development policies at both the national and sub-national levels, since, in the context of decentralisation, regional and local governments have been granted substantial competences and responsibilities for the implementation of social policies, in particular for education, health and water and sanitation. In this context, strengthening the capacities of local governments in public finance and policy design and implementation is a crucial element of the social inclusion strategy.

Over the last programming period, the EU has supported the Peruvian Government's efforts to reduce poverty and improve social cohesion by combating the prevalence of chronic child malnutrition in the most vulnerable regions of Peru (Apurimac, Ayacucho, Huancavelica) through a successful budget support programme focussing on public finance management at regional level and on social service delivery.

The proposed priority sector builds upon and consolidates the results of this previous intervention. It will focus on some of the poorest regions and will aim at strengthening the capacities of local authorities and institutions to design and implement regional and local development plans (including sound management of royalties from extractive industries), promote investments in basic social infrastructure and to deliver social services at local level.

FOSTERING SUSTAINABLE TRADE AND INVESTMENT

Indicative allocation: 15%

Justification: Peru's export policy is relatively well developed and successful and the country has recorded sustained levels of growth and foreign direct investment. However, the economy relies heavily on the export of natural resources and shows high levels of informality, which undermines the investment climate and excludes a large number of SMEs from the potential benefits of free trade. The dependence on extractive industries has huge adverse effects on environmental, social and economic sustainability.

Expanding international trade, foreign direct investment and global economic integration can produce benefits in terms of economic growth and poverty reduction. However, the interaction between global economic integration and domestic labour markets and environmental sustainability present a serious challenge for Peru. Low labour productivity, low levels of salary and labour conditions as well as the high degree of informality of the Peruvian economy and difficult market access for businesses (in particular SMEs) limit the potential benefits of free trade on poverty reduction. In addition, the current production model could be improved to better reflect certain aspects of environmental protection and implementation of labour rights as defined in the main conventions of the International Labour Organization.

The Trade Agreement of the EU with Peru and Colombia contains a title on Trade and Sustainable Development and includes commitments to promote labour standards and environmental protection in trade and investment. Furthermore, it contains a commitment from the EU to strengthen the institutional capacities in order to allow Peru to take advantage of the benefits of the Agreement, with an emphasis on sustainable development and the development of SMEs.

The EU is currently supporting the Peruvian Pro Export Strategy of agricultural products (Euro Eco Trade). The aim is to strengthen institutional capacities to implement both the

environment and pro-export policies and to support the development of SMEs to export to the European market, thereby generating more revenue, employment and to contribute to sustainable poverty reduction.

The present priority sector aims to ensure coherence and complementarity between the EU trade and development policies, and to close the cycle of programmes oriented to the promotion of the environmental and social sustainability of production and the capacity of SMEs to benefit from trade, in particular with the EU market. It focusses on the one hand on improving institutional capacities to ensure the design and implementation of trade related policies and regulations. On the other hand, it focusses on providing services to enhance the capacity of SMEs to adapt to new market conditions, thus encouraging fairer systems, enhanced formalization and contributions to social security, therefore leading to poverty reduction and social cohesion.

Attention will be paid to the promotion of socio-economic rights, non-discrimination and equal opportunities for all, including the accessibility to employment of the most marginalised and vulnerable groups, like women and indigenous peoples. Promotion of the UN guiding principles on business and human rights, corporate social responsibility, the independence and efficiency of the judiciary, as well as women's empowerment in the private sector development could also be addressed.

Implementation modalities remain to be determined but could include, among others, direct management through project approach and/or budget support, if conditions allow; indirect management with Member States agencies, International Organisations or Latin American countries. The EU response may also be complemented by operations financed by the European Investment Bank. Cooperation with Peru will also continue using other instruments as appropriate such as regional and thematic programmes, Horizon 2020 and the new Partnership Instrument.

2. FINANCIAL OVERVIEW (Indicative amounts)

Sector	Focus	Amount (percentage)	Amount (€ million)
Sector One	Inclusive development at local level	80 %	52.8
Sector Two	Sustainable trade and investment	15 %	9.9
	Support measures	5 %	3.3
Total		100 %	66.0

3. EU SUPPORT PER SECTOR

In coherence with the DCI Regulation, the EU proposal intends to support inclusive development in selected regions as well as socially and environmentally sustainable trade and production, as means for improving living conditions of the most vulnerable population.

**3.1. Promoting inclusive development at regional and local level:
indicative amount EUR 52.8 million (80% of indicative allocation)**

During the previous programming period, substantial results were achieved through the Sector Budget Support to the Peruvian Malnutrition Programme - EURO-PAN (EUR 60.8 million). The programme contributed to fight chronic child malnutrition by improving social service delivery to the most vulnerable through institutional support and budget incentives and strengthening and consolidation of decentralised nutrition programmes.

The programme had impressive results and Peru substantially improved nutrition indicators among children less than three years old. The EU support has also generated direct added value for the improvement of PFM at national and regional government levels. Based on this experience, Peru recently created a national Performance Incentive Fund to foster more efficient and result oriented social inclusion programmes giving thereby financial and operational sustainability to the EU support.

In the logic of phasing out bilateral cooperation and consolidating results of the previous programme in a sustainable way, the proposed intervention will embrace a more integrated approach and focus on a few of the poorest regions. It will aim at strengthening the capacities of local authorities and institutions to design and implement sustainable local development plans (including disaster risk reduction measures), promote investments in basic social infrastructure and promote an integral and comprehensive approach to child development through improved social services at local level.

3.1.1. The following overall and specific objectives will be pursued:

Overall Objective: To improve institutional capacity for a better delivery of basic social services in regions with major development gaps

The EU support will build upon and consolidate the results of its previous interventions following a more integral approach regarding the delivery of social services to the most vulnerable population. It will aim at supporting Peru to implement the first three pillars of its Development and Social Inclusion Strategy “*Incluir para Crecer*”, focusing on child development and concentrating on a limited number of regions with major development gaps. The interventions will contribute to breaking the intergenerational transmission of poverty by investing in the human capital of children.

Specific Objective 1 To strengthen sub-national capacities for the design of strategic regional development plans and for effective and transparent public administration and financial management

The EU will accompany the regional governments in the elaboration and implementation of strategic regional development and investment plans, with a view to encourage synergies and complementarities between different sectors (while reducing disaster risks affecting the more vulnerable populations). The aim is to improve local governance by a better alignment between the strategic resource allocation and the regional government's priorities, reinforcing and modernizing public financial management (PFM), and improving the efficiency and effectiveness of public service. These efforts can be achieved making sure that the highly sophisticated reforms undertaken at a national level can be applied appropriately and adequately in the region. For this reason the programme will be implemented jointly between the regions and the central government – Ministry of Economy and Finance and the Ministry

of Social Inclusion. The intervention will promote result-oriented management of social policies at sub-national level with a focus on providing a better and integrated public service to the final beneficiary/citizen.

The EU will continue to support the process of strengthening the PFM at sub-national government level in Peru. Between 2011 and 2013, six assessments of the PEFA (Public Expenditure and Financial Accountability) partnership programme at regional level were conducted showing five main problems: i) the institutional weaknesses; ii) the planning process is weak and is not fully linked to the expense decisions; iii) the expense limits are not well defined; iv) poor public financial management practices; v) transparency and accountability are insufficient. The future intervention will support implementation of Action Plans addressing these difficulties.

Specific Objective 2: To support the regional and local authorities in the implementation of inclusive development policies and the improvement of social service delivery in cooperation with other local actors

The interventions will promote a better articulation of actions among different stakeholders so as to improve social service provision and contribute to the implementation of an integral child development policy. They will also encourage the development of innovative approaches for a better organisation, articulation and provision of public services by regional and local governments, private sector and civil society.

3.1.2. For each of the specific objectives the main expected results are:

Specific Objective 1: Strengthen sub-national capacities for the design of strategic regional development plans and for effective and transparent public administration and financial management

Expected Result 1: Improved policy and institutional framework, investment and budget planning and execution at regional and local level

Specific Objective 2: Support regional and local authorities in the implementation of inclusive development policies and the improvement of social service delivery in cooperation with other local actors

Expected Result 2: Increased access to basic social services, particularly among children and families of vulnerable populations

3.1.3. The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex 3.

3.1.4. Donor coordination and policy dialogue

In 2012 the MIDIS has created the "CATI": International Technical Assistance Committee with main donors present in Peru. Bimonthly meetings are organised to inform on the

progress of implementation of Social Inclusion Strategy and to discuss needs for technical assistance.

In addition, 12 national and international OECD donor organisations are members of the Donors' Coordination Table on public finances, currently coordinated by the EU Delegation, around an agenda of harmonising technical assistance and enhancing policy dialogue. Since 2013, a technical sub-group is monitoring the implementation of the sub-national PEFA processes.

Donors are also involved in the Coordination Table for Decentralisation, created in 2006. At regional level, it is planned to reinforce donor coordination to harmonize and coordinate support to the regional governments' Action Plans.

The EU Delegation in Peru maintains a regular and sound policy dialogue with the relevant Government institutions (MEF, MIDIS, sectorial ministries implementing social policies) on issues related to public finance management, social inclusion and improvement of public services.

3.1.5. Government's financial and policy commitments

In 2002, the Peruvian government, the main political parties and civil society organisations concluded the National Agreement (*Acuerdo Nacional*), a national development plan on a consensual governance of the country. Based on the orientations of the National Agreement, a strategic plan for integral national development called the "Bicentenary Plan: Peru in 2021" was adopted in 2011. The Bicentenary Plan includes goals for economic growth, the eradication of poverty, as well as modernization of the State and the public administration. An updated version of the Plan is under the approval process.

The Road Map of President Humala's government for 2011-2016, covers all relevant policy areas of the Bicentenary Plan, placing a special emphasis on "growth with social inclusion". The Road Map aims at (1) providing equal access to basic services, employment and social security; (2) reducing extreme poverty with the emphasis on rural poverty; (3) preventing social conflicts by increasing the credibility of public institutions; and (4) improving the surveillance of potential environmental damages.

The Road Map further defines a range of macroeconomic goals, such as a sustained annual growth rate of 6% and a public debt rate below 15% of GDP. Other ambitious objectives include increasing access to water and sanitation services in urban areas to 92% and 88%, respectively; ensuring national energy security through reliable, clean and affordable energy (primarily based on gas and hydropower); promoting SME formalization and doubling the number of exporting SMEs.

The national Development and Social Inclusion Strategy "*Incluir para Crecer*" described earlier is being implemented by MIDIS and supported by 2 national social inclusion funds:

- The Fund for Economic Inclusion in Rural Areas (FONIE) for pre-investment studies and/or the execution of public investment projects for water, sanitation, electrification, telecommunications, and local road infrastructure.
- The Performance Incentives Fund (FED) which aims at supporting regional governments in its efforts to tackle the social exclusion (EUR 30 million in 2014). The

modality of execution of this fund follows the successful experience of the EU budget support programme EUROPAN.

The most vulnerable population targeted by social inclusion programmes totals around 5 million people (16% of the country's population). MIDIS is incorporating gender, ethnicity, intercultural dialogue, and community participation as crosscutting elements of its policies and programmes.

Regarding financial commitments, in 2013 the budget allocation related to the implementation of the national Development and Social Inclusion Strategy focusing on child development amounted to EUR 1027 million, of which 92.9 % were executed by end 2013. In 2014 the budget allocation increased by 6.1 % to EUR 1090 million.

3.1.6. The overall risk assessment of the sector intervention:

Possible major risks	Possible mitigating measures
External economic shocks reducing the rhythm of growth, tax burden and available budget	Policy dialogue to reinforce contra-cyclic measures or instruments (Fiscal Balance Fund)
A possible negative impact on the implementation of public policies and reforms of changes in political priorities and the turnover of public servants following the regional and local elections in 2014 and the presidential and parliamentary elections in 2016	Implement short-term actions at both central and sub-national level to reinforce the Action Plans Reinforce the political dialogue with political parties and civil society to upgrade social inclusion and good governance as a long-term State policy
Natural disasters	Promote the integration of Disaster Risk Management in local and subnational planning

In order for investments to be sustainable, DRR measures will be integrated where possible.

3.2. Fostering sustainable trade and investment: indicative amount EUR 9.9 million (15% of indicative allocation)

Under the previous programming periods, the EU has been supporting the implementation of trade policies to impulse growth and diversification of Peruvian exports, with special attention to the sustainable use of natural resources. A former EU trade-related technical assistance project supported implementation of the National Strategic Exports Plan (PENX) and achieved important results, like the creation of the 'Single Window for Exports'.

The ongoing EU support for the Peruvian policy promoting exports of ecological products – EURO-ECO-TRADE (EUR 13 million) aims to improve the access of the Peruvian organic and biodiversity products to European market and foster sustainable economic development in Peru.

The present priority sector, aimed at consolidating results achieved so far, is clearly oriented to using trade as an instrument for poverty reduction.

The opportunities opened by signing up to a comprehensive and ambitious Trade Agreement with an extensive title on Trade and Sustainable Development, combined with appropriate national policies and implementation, will further contribute to sustainable development and poverty reduction. The Trade Agreement establishes broad areas for cooperation which include capacity building, institutional strengthening, SME development, effective implementation of labour and environmental standards.

The interventions that will be explored and proposed will enhance Peruvian capacity (institutional and of the business sector), improve the local business environment (with a particular positive effect for SMEs), and contribute to social and environmental sustainability. A particular focus could be put on investment in low-emission⁴, climate resilient infrastructure in Peru as a source of economic growth and jobs.

3.2.1. The following overall and specific objectives will be pursued:

Overall Objective: To contribute to poverty reduction and sustainable development by fostering investment and fair and competitive trade

As defined in the DCI Regulation to ensure inclusive growth and fight poverty, increased trade with developing countries should be based on efficient exchange and a fair distribution of trade gains while respecting core labour standards and sustainable use of natural resources.

Specific Objective 1: To integrate the sustainable development aspects in the design and implementation of trade-related policies and regulations

The EU will focus on strengthening the capacities of institutions and the business sector to effectively improve labour conditions and to integrate aspects of environmental protection into production and trade-related policies. This implies in particular the effective implementation of ILO Core Conventions and general improvement of labour standards, including strengthened social dialogue involving various sectors of civil society. Furthermore, the programme will assist the application of policies to promote gender equality within enterprises, particularly in the field of wage and salary policies.

Specific Objective 2: To enhance SME adaptation to new market conditions, including by reducing the informal economy and enhancing their competitiveness and access to innovation

Given the high percentage of SMEs in the Peruvian economy, special emphasis is to be put on SME development and formalisation as a means of fighting poverty. The EU will assist Peruvian public and business institutions by capacity building and training to better support the Peruvian SMEs in productive modernisation, technological innovation addressing environment aspects and enhancing their competitiveness as well as simplifying, where relevant, regulatory barriers to their incorporation in the formal economy. It is expected that improved business support services as well as increasing opportunities for exports, principally at regional level but also to the EU, will encourage formalisation of SMEs.

⁴ In this document the term "low-emission" is used as a synonym for "low greenhouse gas emission" (economy, technology, investment, etc.).

3.2.2. For each of the specific objectives the main expected results are:

Specific Objective 1: To integrate the sustainable development aspects in the design and implementation of trade-related policies and regulations

Expected Result 1.1 Improved labour conditions and compliance with the labour legislation (ILO international conventions)

Expected Result 1.2 Increased application of and compliance with environmental standards

Expected Results 1.3 Improved trade and investment climate

Specific Objective 2: Enhance SME adaptation to new market conditions, including by increased participation in the formal economy and by enhancing their market information, competitiveness and access to innovation

Expected Result 2.1 Increased compliance of SMEs with relevant standards and technical regulations

Expected Result 2.2 Improved access of SME to trade-related public services, as well as new technologies and innovation, including low-emission technologies

3.2.3. The main indicators for measuring the aforementioned results are contained in the sector intervention framework attached in Annex 3.

3.2.4. Donor coordination and policy dialogue

At present, mainly the EU, Belgium, Finland, Spain and Switzerland are active in the field of trade facilitation and support to SMEs. Among the EU Member States, Spain has a particularly wide experience in supporting sustainable production. Regarding labour regulations, the ILO provides technical assistance to Peruvian authorities to implement the international labour conventions. This support has been mostly financed by Spain and the US (the latter in the context of their trade agreement with Peru).

Whilst there is no formal donor coordination in economic and trade cooperation matters, EU economic and trade counsellors meet regularly to discuss trade related issues and exchange views on their respective interventions. Since the signature of the Trade Agreement, the EU Delegation is leading the policy dialogue on trade issues with the respective authorities. Policy dialogue is regular and open with the relevant Government institutions (the Foreign Trade Ministry and other trade related entities) and the private sector (i.e. chambers of commerce).

The EU Trade Agreement with Peru and Colombia foresees also a regular and formalised dialogue on sustainable development. The follow up mechanism involves civil society organisations through the establishment of a "Domestic Advisory Group".

3.2.5. Government's financial and policy commitments (See 3.1.5 for general background)

Aware of the structural weakness of its economy relying heavily on the export of natural resources, the Peru’s Multiannual Macroeconomic Framework 2014-2016, underlines that maintaining the country’s economic growth requires significant efforts to promote private investment, to increase productivity, competitiveness and added value. The conclusion of trade agreements with the US, Canada and the EU has stabilised long-term trade perspectives for business and are expected to act as a stimulus for further and diversified investment and trade.

The Peruvian trade policy is being implemented as a comprehensive set of plans, programmes and activities by the Ministry of Trade and Tourism (MINCETUR) which has the mandate to handle the international commercial negotiations. The trade-related public services include the identification of business opportunities, market researches, training, elaboration of regional strategic plans of exports, manuals, exchange of experiences, technical assistance, among others.

The Ministry of Labour and Employment Promotion (MTPE), the Ministry of Production (PRODUCE), Ministry of Agriculture (MINAG), the Ministry of Environment (MINAM), regional and local authorities are key players in the implementation of sustainable development aspects of trade-related policies and regulations. Other important stakeholders are trade unions, producers' associations and civil society organisations.

Regarding financial commitments, MINCETUR has allocated in 2013 about EUR 32 million for enhancing the business opportunities created by the major trading partners of Peru (72.1 % execution). 2014 budget allocation increased to about EUR 35 million. MTPE budget allocation related to employment promotion in 2013 amounted to EUR 10.2 million (83.6 % execution), and in 2014 increased to EUR 15.04 million. MINAM budget allocation related to integral management of natural resources amounted to EUR 46.3 million in 2013 (79.4 % execution) and the initial budget allocation for 2014 was EUR 38.3 million. Regarding productive development of SMEs, in 2013 PRODUCE implemented 82.1% of the total budget allocation of EUR 11.9 million. The initial budget allocation for 2014 was of EUR 9.4 million. The initial budget allocations may increase during the year according to the GDP growth and increased treasury incomes.

3.2.6. When needed, the appropriate type of environmental assessment

If required, Strategic Environmental and Climate Assessment or Environmental Impact Assessment will be carried out.

3.2.7. Overall risk assessment of the sector intervention

Possible major risks	Possible mitigating measures
Institutional weaknesses of the Peruvian institutions to implement the Trade Agreement and enforce the compliance with adopted regulations and rules	Technical assistance and capacity building with the aim of institutional strengthening

Insufficient number and quality of control inspectors enforcing law	Policy dialogue with the Government to assign funds to contract human resources Training supported by the EU
Possible lack of coordination between Ministry of Trade and different sectors (Ministries of Production, Agriculture, and Environment) would have a negative impact on the implementation of the sector policy	Impulse inter-institutional coordination
Fall down of international prices of a particular product	Productive diversification strategy

3.3. When needed, the appropriate type of environmental assessment will be carried out

The environmental assessment and climate risk assessment procedures in the Guidance for the Integration of Environment and Climate Change in EU Development Cooperation will be applied to determine the need for an environmental assessment (Strategic Environmental Assessment SEA in the case of a sector support programme or Environmental Impact Assessment EIA in the case of a project) and/or a Climate Risk Assessment. Even if an environmental assessment or a CRA is not deemed necessary, the screening questionnaire will help identify environmental and climate change (adaptation and mitigation) aspects that could be integrated in the project/programme formulation in order to enhance their environmental and climate change performance (*see guidelines: <http://capacity4dev.ec.europa.eu/public-environment-climate/documents>*).

4. SUPPORT MEASURES (5%)

The main aim of such measures is capacity building and providing technical assistance in an efficient and structured manner. These resources are envisaged to support communication and visibility activities to raise awareness of EU aid. They can also support thematic studies and impact assessments of projects, the formulation of public policies and policy dialogue, and short-term technical assistance – including assistance in monitoring the quality of Peru's official statistics and taking corrective measures as appropriate – as well as support aid efficiency initiatives such as donor coordination and division of labour.

ANNEXES:

- 1a. Country at a glance: Key macro-economic indicators
- 1b. Country at a glance: Key Millennium Development Goals and development indicators
2. Donor matrix
3. Sector intervention framework and performance indicators
4. Indicative timetable for commitments

Annex 1a COUNTRY AT A GLANCE: KEY MACRO-ECONOMIC INDICATORS

Description	Year					
	Official Data					Forecast
	2009	2010	2011	2012	2013	2014
Population (in 1000)	29,132	29,461	29,797	30,136	30,475	30,816
- annual change in %	1.13	1.13	1.14	1.13	1.13	1.12
Real Sector						
Annual GDP (billion US\$)	126.91	153.71	177.09	200.11	223.72	248.39
Annual GDP per capital	4495	5386	6112	6796	7341	8060
Internal demand (% Var.)	-2.80	13.07	7.14	7.22	5.72	6.40
Gross Investment (% GDP)	20.70	25.20	25.30	26.70	27.6	29.50
Private Investment (% GDP)	15.50	19.30	20.80	21.50	21.8	23.10
Annual GDP growth (% Var.)	0.9	8.8	6.9	6.3	5.0	6.5
Agriculture	2.3	4.9	4.5	5.7	2.2	4.1
Fishery	-7.9	-12.2	31.8	-13.2	12.6	5.0
Mining and hydrocarbon	0.6	-0.1	-0.2	2.2	2.2	9.0
Industry	-7.2	14.1	5.6	1.6	1.7	5.2
Trade	-0.4	9.7	8.8	6.7	5.8	6.0
Construction	6.1	17.4	3.0	15.1	8.5	9.2
Electricity and water	1.2	7.7	7.4	5.4	5.6	6.4
Services	4.2	7.5	8.4	7.2	6.3	6.2
Annual per capita GDP growth	-0.3	7.6	5.7	5.1	5.0	4.8
Monetary Sector						
Inflation						
Consumer Price Index	100.0	101.5	105.0	108.9	111.9	113.6
Inflation (average)	2.9	1.5	3.4	3.7	2.8	2.0
Inflation (cumulative)	0.2	2.1	4.7	2.6	2.9	2.0
Exchange rate						
Average (S/. - US\$)	3.01	2.83	2.75	2.63	2.70	2.48
Depreciation	3.0	-6.2	-2.5	-4.2	2.4	-2.0
External sector						
Current account balance (% GDP)	-0.57	-1.71	-1.89	-3.28	-4.92	-4.3
Terms of trade (% Var.)	-2.8	17.9	5.4	-4.9	-4.7	-0.7
Nominal exchange rate	3.0	2.8	2.8	2.7	2.7	2.6
Real exchange rate	3.0	2.8	2.6	2.5	2.4	2.3
Variation in nominal exchange rate (%)	3.0	-6.2	-2.5	-4.2	2.4	-0.8
Variation in real exchange rate (%)	0.0	-7.6	-5.7	-6.6	-3.3	-2.7
Exports (Million US\$)	26962.0	35565.0	46268.0	46228.0	41826.0	48630.0
Of which % of mining	60.8	61.0	59.1	56.9	55.0	56.0
Of which share of export to EU Member States	15.5	16.0	17.9	18.5	17.1	
Imports (Million US\$)	21011.0	28815.0	36967.0	41113.0	42191.0	47922.0
Export (% of GDP)	21.24	23.14	26.13	23.10	18.70	19.58
import (% of GDP)	16.56	18.75	20.87	20.55	18.86	19.29
Of which share of imports from EU Member States	10.5	9.9	10.5	11.5	11.7	
International reserves (\$ million)	33,135	44,105	48,816	63,991	65,663	69,000
Net foreign exchange reserves (in months of goods imports)	18.9	18.3	15.8	18.6	18.7	17.2
Global competitiveness index (ranking)	78/133	73/139	67/142	61/144	61/148	
Fiscal Sector						
Non-financial public sector deficit (% GDP)	-0.0	1.0	3.1	3.2	1.9	0.6
Tax Burden (% GDP)	13.76	14.83	15.54	15.97	16.01	15.8
Domestic Incomes, % GDP (Central Government)	15.9	17.2	18.1	18.5	18.5	18.5
Current Expenditures % GDP (Central Government)	17.5	17.3	17.2	17.3	18.2	18.2
Interest payments, % GDP (Non-financial public sector)	1.3	1.1	1.0	1.0	1.0	0.9
Capital expenditures, % GDP (General Government)	5.6	6.0	5.0	5.5	5.9	6.3
Total Debt (in % of GDP)	15.6	13.7	11.2	10.4	8.9	8.5
Foreign debt /Exports	0.8	0.6	0.4	0.4	0.4	0.3

Annex 1b COUNTRY AT A GLANCE: KEY MDGs AND DEVELOPMENT INDICATORS

N°	MDG – Target & Indicator number		Key indicators	2001	2007	2008	2009	2010	2011	2012	2015
1	1.A	1.1 ⁵	Proportion of population below \$1 (PPP) per day	24.4	11.2	10.9	9.5	7.6	6.3	6.0	11.5
2	1.C	1.8 ⁸	Prevalence of underweight children under-five years of age	7.1 ⁶	5.9	5.9	6.6	6.6	6.3	5.3	5.4
3	2.A	2.2 ⁸	Proportion of pupils starting grade 1 who reach last grade of primary	38.5	64.0	66.5	65.6	68.5	66.4	69.4	100
4	3.A	3.1 ⁸	Ratio of girls to boys in primary, secondary and tertiary education								
			- in primary education	0.995	0.994	1.00	0.990	1.001	1.000	1.001	1
			- in secondary education	0.996	0.988	1.009	0.995	1.013	1.024	1.020	1
			- in tertiary education	1.072	1.037	1.038	1.100	1.118	1.050	1.060	1
5	3.A	3.2 ⁸	Share of women in wage employment in the non-agricultural sector	33	35.7	35.9	36.0	37.0	38.5	38.7	50
6	4.A	4.1 ⁸	Under-five mortality rate (deaths per 1,000 live births)	47 ⁹	27	27	26	23	21	21	26
7	4.A	4.3 ⁷	Proportion of 1 year-old children immunised against measles	97.3	95.3	90.2	91.1	93.9	95.9	95.5	95
8	5.A	5.1 ⁸	Maternal mortality ratio (maternal deaths per 100,000 live births, women aged 15-49)	185 ⁹	103	93	93	93	93	n.a.	66
9	5.A	5.2 ⁸	Proportion of births attended by skilled health personnel	57.6 ⁹	76	79.4	81.3	83.2	83.8	86.7	100
11	7.C	7.8 ⁸	Proportion of population using an improved drinking water source	71.5	72.0	72.4	74.1	76.2	76.8	82.3	82
12	7.C	7.9 ⁸	Proportion of population using an improved sanitation facility	59.4	70.4	72.6	74.8	77.3	77.4	77.8	77
13	8.F	8.14 ⁸	Fixed-telephone lines per 100 inhabitants	23.3	32.4	33.2	33.3	31.5	30.7	29.4	
14	8.F	8.15 ⁸	Mobile-cellular subscriptions per 100 inhabitants	7.7	47.6	62.1	70.8	77.0	79.3	79.7	
15			% Households with electric services ⁸		82.0	84.7	86.4	88.1	89.7	91.1	
16			% Urban unemployment ⁸		6.29	6.01	5.87	5.28	5.10	4.68	
17			Environmental Performance Index Score ⁹		43.10	43.76	44.41	44.49	45.00	45.05	

⁵ National Institute of Statistics and Informatics (INEI): <http://www.inei.gob.pe/>

⁶ Data 2000

⁷ National Report "Tercer informe nacional de cumplimiento de los Objetivos de Desarrollo del Milenio 2013"

⁸ National Institute of Statistics and Informatics (INEI): <http://series.inei.gob.pe:8080/sirtod-series/>

⁹ Environmental Performance Index: <http://epi.yale.edu/epi/country-profile/peru>

Annex 2 DONOR MATRIX

IDP	Sector/programme	Duration	Amount of commitment (thousands €)
Inclusive development at regional level			1,005,205
Germany	Modernization of State	2012-2013	45,000
	Access to water	2012-2013	71,000
Belgium	Support to Universal Insurance	2010 - 2013	20,000
Spain	Education	2007 - 2012	59,898
	Reproductive health services	2007 - 2012	40,872
	Water supply and sanitation	2007 - 2012	72,602
	Government and Civil Society	2007 - 2012	53,372
	Others services and social infrastructures	2007 - 2012	40,513
	Priorities of Association Framework: • Human rights • Gender equality • Childhood • Science and Technology innovation • State Reform • Culture and development • Environment	2013 - 2016	493,000
France	Human rights and governance	2013 - 2016	18,000
United Kingdom	Economic development/Governance/Transparency - transparency in public procurement	2012 - 2013	21
	Health and Nutrition in indigenous communities	2011 - 2014	650
	Health and Nutrition in indigenous communities	2008 - 2012	325
	Sexual, reproductive and maternal health - Support to policies for access to education services	2008 - 2013	542
European Union	Budget Support to Nutritional Program	2009 - 2014	60,800
	Education, health, gender, culture, childhood	2007 - 2013	7,500
	Food security and productive development	2008 - 2014	6,900
SECO (Switzerland)	Support to Continuous Improvement of PFM program	2010 - 2015	5,000
	Support to sub-national governments	2010 - 2015	3,500
USAID (United States)	Support to decentralisation	2012 - 2017	5,700
Sustainable trade and investment			160,793
SECO (Switzerland)	"Sierra Exportadora"	2014 - 2020	3,568
	Swiss Program to support of importations	2014 - 2020	120
	Improvement of trade climate	2014 - 2020	2,960
Belgium	Economic development and strategic management of natural resources		13,000
Spain	Infrastructures and economic services	2007 - 2012	69,279
	Support to productive sector	2007 - 2012	57,466
Finland	Strengthening the chain of fish production	2009 - 2013	500
	Strengthening investigation to functional food	2009 - 2013	500
	Strengthening capacities of Madre de Dios' Regional Government to fight against illegal mining	2013 - 2015	400
European Union	Sector Support to promotion of exportation of agro ecologic products (EURO-ECO-TRADE)	2013 - 2016	13,000

Annex 3 SECTOR INTERVENTION FRAMEWORK AND PERFORMANCE INDICATORS¹⁰

The results, indicators and means of verification specified in the present annex may need to evolve to take into account changes intervening during the programming period.

Where absent, baselines for the indicators below will be introduced in Action documents at the latest.

Sector 1 – Promoting inclusive development at regional and local level		
Overall Objective:		
To improve institutional capacity for a better delivery of basic social services in regions with major development gaps		
Specific Objectives:		
<i>Specific Objective 1.1:</i> Strengthen sub-national capacities for the design of strategic regional development plans and for effective and transparent public administration and financial management		
<i>Specific Objective 1.2:</i> Support regional and local authorities with the implementation of inclusive development policies and the improvement of social service delivery in cooperation with other local actors		
Expected Results	Indicators	Means of verification
1.1. Improved investment and budget planning and execution at regional and local level	1.1. Overall average of PEFA indicators score 1.2. Average of PEFA indicator scores for PI-5 to PI-10 1.3. Number of signed agreements by regional governments in the frame of FED (Incentives Fund for Development) per year 1.4. Number of regions/local authorities with multi-annual planning and development strategies adopted	PEFA PFM Performance Measurement Report FED Agreements signed with MEF and/or MIDIS by Regional and/or local Governments
1.2. Increased access to social services particularly among children and families of vulnerable populations	1.5. Percentage of children under 60 months registered in SIS (Comprehensive Health Insurance) and with a complete CRED (Health Record) for their and receiving family guidance (disaggregated by region) 1.6. Percentage of households with access to sanitation services 1.7. Percentage of girls and boys in primary schools that successfully fulfil the "ECE" (General Students Evaluation) for the 2 nd and 4 th grades 1.8. Percentage of teenage girls achieving secondary schools	SIS Register (monitoring BP n°01) ENDES (National Social Survey) ENDES MINEDU (Ministry of Education) / PELA (Learning Achievement Programme) and ECE (General Students Evaluation) INEI (national institute for statistics), ENDES, MINEDU

¹⁰ "Baselines will be included in the Action documents at the latest".

Sector 2 – Sustainable trade and investment

Overall Objective:

To contribute to poverty reduction and sustainable development by fostering investment and fair and competitive trade

Specific Objectives:

Specific Objective 2.1: to integrate the sustainable development aspects in the design and implementation of trade-related policies and regulations

Specific Objective 2.2: to enhance SME adaptation to new market conditions, including by reducing the informal economy and enhancing their competitiveness and access to innovation

Expected Results	Indicators	Means of verification
2.1.1 Improved labour conditions and compliance with the labour legislation (ILO international conventions)	2.1 Number of labour inspectors trained in the international labour standards per year	MTPE, SUNAT
2.1.2 Increased application of and compliance with environmental standards	2.2 Number (and/or %) of enterprises breaking environmental legislation or related regulations per year 2.3 Number of SMEs applying Sustainable Consumption or Production practices	PRODUCE, MINAM PRODUCE EMS/cleaner production certification (ISO, EMS)
2.1.3 Improved trade and investment climate	2.4 Simplicity of doing business	Doing Business Report (WB) Global Competitiveness Report (WEF)
2.2.1 Increased compliance of SMEs with relevant standards and technical regulations	2.5 Number of SMEs participating yearly in training activities regarding compliance with standards and technical regulations 2.6 Number of SMEs with Fair Trade Certifications 2.7 Number of SMEs complying with organic production standards	PRODUCE, PromPeru PRODUCE, SUNAT, Fairtrade Platform, Chambers of commerce
2.2.2 Improved access of SME to trade-related public services, as well as new technologies and innovation, including low carbon technologies	2.9 Number of SMEs with access to business support services	Doing Business Report (WB) PRODUCE, PROMPERU

Annex 4 INDICATIVE TIMETABLE FOR COMMITMENTS

The amounts mentioned in this table are indicative.

	Indicative allocation (EUR million)	2014 M €	2015 M €	2016 M €	2017 M €	2018 M €	2019 M €
SECTOR 1 – Inclusive development	52.8		52.8				
SECTOR 2 – Sustainable trade and investment	9.9		9.9				
Support Measures	3.3		3.3				
Total Commitments	66.0		66.0				