

## **Peru**

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Despite its growing economy, Peru's financial success has yet to reach many Peruvians. While the national poverty rate is 27 percent, for those who live outside the coastal urban areas, nearly half still live in poverty. The country was the second-largest global producer of cocaine and cultivator of coca in 2020. According to the Office of National Drug Control Policy, in 2020 coca cultivation in Peru reached its highest level since 1995 and potential pure cocaine production reached an all-time high. According to U.S. estimates, from 2019 to 2020 Peru's coca cultivation increased 22 percent to 88,200 hectares (its highest level since 1995), and potential pure cocaine production increased 25 percent to 810 metric tons (its highest level ever).

Cocaine is produced and trafficked by transnational criminal organizations, including Shining Path remnants and narco-traffickers from elsewhere in the region, who embroil poor rural farmers in coca cultivation and threaten the stability of the country and region with their illicit activities. The nexus of narco-trafficking to other transnational organized crime is becoming increasingly clear. This includes the trafficking of persons. Peru is a source, transit, and destination country for men, women, and children subjected to forced labor and sex trafficking. Indigenous Peruvian women and girls are particularly targeted. The same crime organizations involved in coca and trafficking in persons also engage in illegal mining, wildlife trafficking, and illegal deforestation for logging.

Organized crime thrives where corruption persists. Corruption continues to threaten political and economic stability in Peru. Scandals over corruption in public procurement persist at both the national and sub-national levels. When the pandemic started, Peru was helped by its strong institutional policy framework and economic fundamentals, as well its sustained track record of implementing strong economic policies. However, as a result of Peru's response to the pandemic, the public deficit increased to 8.9 percent in 2020 (from 1.6 percent the previous year). Owing to the sharp decline in economic activity, revenues fell dramatically. Additionally, the fiscal component of the aid program (healthcare expenditures, social transfers, payroll subsidies, etc.), estimated at seven percent of GDP, raised government expenditures. With this, the public debt had reached 35 percent of GDP by the end of 2020, above the legal limit of 30 percent. Due to the economic recovery in 2021, the Banco Bilbao Vizcaya Argentaria (BBVA) forecasts (in November 2021) that the deficit would fall to 3.8 percent in 2021 and 2022. However, gross public debt would continue to rise, reaching over 40 percent in the medium term. The COVID-19 pandemic compounded these threats, weakening public finances and exposing structural problems of management capacity and public ethics, leading to increasing citizen discontent, especially among the continued pandemic shut downs that hurt the country's large informal sector (estimates are well over 70% informal) hurt by continual shutdowns.

Due to climate change, seasonal water variations have diverged from historic patterns in Peru, resulting in more frequent and more severe droughts and floods. The changes particularly affect vulnerable populations in both urban and rural areas, as well as diminishing productive activities. In fact, illegal mining generates more income than the coca trade.

The Amazon rainforest, the most biodiverse region on Earth, constitutes more than 60 percent of Peru's territory. In recent decades, illegal logging, illegal mining, and deforestation have intensified and threatened the future of the Peruvian Amazon.

Peru is home to over 1.3 million Venezuelan migrants who have fled a near-total socio-economic collapse in Venezuela. Although Peru has largely shown a welcoming attitude toward these migrants, there have been examples of xenophobia throughout the country. One of the biggest, more serious issues is this: Formalization of legal status remains challenged by bureaucratic delays and lack of capacity to absorb so many people needing services. Banks and other private sector entities are sometimes hesitant to lend or hire migrants, and many migrants do not have access to the financial resources needed to help them integrate into the formal economy.

Notably, a large percentage of migrants have professional degrees and certifications, which are needed on the local market, particularly medical professionals, education specialists, and accountants. Venezuelans on average are better educated and better trained than Peruvians and highly valued as employees by the Peruvian private sector because they are more productive employees. Often, companies have Venezuelan migrant employees retrain their Peruvian employees to be more efficient and more effective, especially with regard to customer service and sales positions. However, long-term integration is underfunded, with the majority of U.S. resources devoted to short-term assistance, such as cash transfers for vulnerable new arrivals.

Investments in longer-term health systems strengthening and health security are paramount to help Peru plan for and respond to future health emergencies. Peru has suffered the highest national mortality rate on earth from the COVID pandemic. Increasing poverty rates and rising - and sustained - unemployment are the secondary and tertiary effects of the pandemic in Peru and worldwide. The COVID pandemic has highlighted the need for a holistic regional approach to health so that health authorities have the capacity, equipment, and funding to mitigate crises that threaten socio-economic and political stability in the region. With the pandemic hitting Peru with the highest death and infection rates in South America and a steep economic contraction, the country found itself having to shift budgets – including for counternarcotics – toward pandemic response. Further, the pandemic meant government workers - including those engaged in coca eradication or alternative development - were on lockdown, giving a free hand to drug producers and traffickers.

As of December 25, 2021, cumulatively 202,524 deaths and 2.3 million COVID-19 cases were reported in Peru. The short-term economic picture is troubling. Peru's informal workforce has been disproportionately affected by COVID-19 and accounts for 73 percent of the working population contributing 19 percent of Peru's GDP. In December 2021, forty-two percent of Peruvians were either jobless or not earning any income, and 86 percent were afraid that the economic situation would continue to worsen.

The COVID-19 outbreak and the Venezuela migration crisis have placed Peru's healthcare system under tremendous strain. As of December 2021, Peru was host to more than 1.3 million Venezuelan migrants, many of whom were in dire need of healthcare services before COVID-19.

Prior to the COVID outbreak, Peru was emerging as a strong, stable force in South America, but hampered by illicit activity and controversial political corruption scandals. Peru has made strides to reduce poverty in recent decades; overall poverty rates fell from 58 percent in 2004 to 20 percent in 2019. However, this positive trend has halted as a consequence of the COVID-19 pandemic, which has impacted job and livelihood opportunities for both formal and informal workers.

In 2020, poverty increased to 27 percent largely as a result of the pandemic, pushing more than two million people below the poverty line. In addition, the 2021 presidential election polarized the population and exposed widespread, deep dissatisfaction with the responsiveness of the government and elected officials to citizen needs.

### **USAID's Response**

In light of these challenges, the U.S. Agency for International Development (USAID) seeks to bolster Peru's security, stability, and inclusive growth by working to reduce illicit coca cultivation, corruption, and exploitation of natural resources. USAID presently supports activities in sustainable natural resource management, alternative rural development, and governance and state modernization, all of which support U.S. national security goals to tackle illicit activity such as environmental crimes, narco-trafficking, and public corruption.

USAID focuses on providing farmers with lucrative, licit alternatives to coca cultivation, thereby disrupting the influence of transnational criminal organizations for which cocaine is a key source of revenue. Pure potential cocaine production in Peru has increased to its highest level in 25 years, while coca cultivation increased 69 percent from 2018 to 2020. This growth has been driven by increased production in the Valley of the Apurímac, Ene, and Mantaro Rivers (commonly known as the VRAEM), where the Peruvian government is facing significant security challenges. USAID is helping Peru's government to expand efforts into the VRAEM but security challenges remain and the impact of COVID limits movement.

The U.S. government's three-prong approach to narcotics involves various U.S. agencies, including the Drug Enforcement Agency (DEA) focusing on interdiction, the International Narcotics and Law Enforcement Bureau (INL) of the State Department focusing on eradication, and USAID focused on Alternative Development (AD). Historically, in locations where AD assistance has followed eradication, coca cultivation has decreased by 90 percent. In contrast, in locations where AD did not follow eradication, there are no significant or sustained reductions in coca cultivation. So sequencing seems to be critical.

In 2020, due to the impact of the COVID-19 pandemic, coca cultivation increased in regions where there had previously been long-term reductions. Still, the total area cultivated in alternative development areas remained lower than in other areas. The majority of Peru's coca continues to be produced in areas where Peru's counternarcotics model -- alternative development, interdiction, and eradication -- has not been fully implemented.

These interventions have led to concrete, tangible results. USAID helped 77,109 farmers to improve cacao and coffee yields and quality, generating more than \$118 million in sales of licit

crops and incentivizing them to reject planting coca. USAID assistance also increases the supply of cacao to U.S. markets, an important contribution to the U.S. economy. Every dollar of Peruvian cacao imported into the U.S. generates \$2-\$4 of demand for complementary U.S. domestic agricultural inputs for the American confectionery industry, which employs 70,000 Americans and generates \$3.5 billion in global sales. Further, USAID partners with Peru's Counternarcotics Agency (*Comisión Nacional para el Desarrollo y Vida sin Drogas* - the National Commission for Development and Life without Drugs - DEVIDA) and the Ministry of Economy and Finance to improve the capacity of 25 municipalities across the Peruvian jungle to deliver public services in areas previously affected by narcotrafficking. USAID supports sustainable agroforestry -- focusing on cacao and coffee -- in coca-producing regions, helping former coca farmers and their families transition to licit livelihoods. To help farmers produce licit sources of income through cacao and coffee production and processing.

Peru is responding to the U.S. government's integrated approach with its own resources. The 2010 budget for DEVIDA was zero from the Peru government - it was entirely paid for by foreign donors (including the European Union and the United States). In 2021, Peru's budget for just the alternative development portion of the DEVIDA budget was \$34.4 million. This underscores how the Peruvian government understands the importance of stopping coca is for its own domestic interests and how coca is linked to climate change, human trafficking, and other pernicious aspects of transnational organized crime and its corrupting influences.

The current Government of Peru has committed to forcibly eradicating 18,000 hectares of illicit coca in 2022 -- almost exclusively in natural protected areas, buffer zones, and virgin forests, as well as on indigenous lands -- which is significantly more than Peru eradicated in the past two years during the pandemic, but less than previous Peru government commitments. The leaders of DEVIDA have indicated that they intend to implement a "pacto social" to convince illegal coca producers in the VRAEM to give up coca cultivation voluntarily; they have indicated that at least 1,000 hectares of illicit coca in the VRAEM will be voluntarily eradicated in 2022. Many informed observers have expressed skepticism about the potential efficacy of the "social pact" ("*pacto social*"). DEVIDA's leaders are also trying to convince the Ministry of Economy and Finance to increase the agency's budget, which was reduced by 28 percent for 2022 (mostly for alternative development).

Corruption threatens Peru's socioeconomic gains and the stability of the region. Responding to increasing citizen discontent and interest from the Peru government to strengthen its institutions, USAID works with civil society organizations, public officials, and private-sector partners to strengthen the responsiveness, transparency, accountability of key government institutions to increase public integrity, reduce corruption, and support human rights. By partnering with Peru's government, other donors, civil society, and private-sector leaders, USAID also supports Peru's capacity to prevent and mitigate corruption in priority public investments, strengthen public and private sector transparency, increase citizen engagement in government oversight, and protect human rights.

Peru is one of the most biodiverse countries on earth. More than 60 percent of the country is forested and it contains approximately 15 percent of the entire Amazon Rainforest. Peru's natural resources face threats of deforestation from illegal timber harvesting and gold mining,

along with the production of illicit crops and climate change. Peru's unique biodiversity faces increasing pressure from the illegal wildlife trade and bushmeat demand. USAID works closely with the Peruvian government, other donors, civil society, and indigenous communities to develop natural infrastructure, promote reforestation through innovative public-private partnerships, combat conservation crimes, and create opportunities for sustainable and inclusive economic growth.

USAID is improving Peru's ability to implement sustainable forest management policies and practices and increase efficient use of forest resources by the private sector and civil society. The Mission works with indigenous peoples and other forest-dwelling communities to support sustainable forest management, reduce deforestation and improve land management – improving the conservation of some of the world's most important forests. USAID helps communities, local governments, and water managers adapt to changes in water availability by supporting natural infrastructure projects, advancing climate science research, and empowering local communities with sound management practices to protect and sustain their water resources.

Peru is a source, transit, and destination country for men, women, and children subjected to forced labor and sex trafficking. Indigenous Peruvian women and girls are particularly targeted. USAID works with Peru to implement its policy to end human trafficking, improve legal and protection services for victims, and train justice-sector experts who work with victims.

Venezuelan migrants place strain on service provisions in low-income, urban communities. USAID provides technical support to government entities to improve Peru's public service provision capacity through non-governmental organizations (NGOs) and other international entities. USAID's South America Regional program (based in Lima) provides targeted assistance to support the long-term economic integration of Venezuelans in Peru, Ecuador, and Brazil. Assistance is channeled through multiple partners, including international and local NGOs and UN organizations. Interventions focus on cities with the highest concentrations of Venezuelans.

For the Venezuelan migrants in Peru, USAID supports labor force integration through job training, placement, and certification; support for small businesses and entrepreneurship through training, mentoring, and access to seed capital; and improved access to financial services. In Peru in particular, USAID facilitated the professional certification of 1,198 migrants, allowing them to use their expertise on the local market. USAID activities helped 16,281 migrants with job training and supported 250 businesses, enabling \$3.7 million in loans for business development. A total of 38,172 migrants now have access to financial services.

To respond to the pandemic, USAID/Peru has provided \$23.3 million to strengthen Peru's medical response and mitigate the adverse social and economic impacts of COVID-19 on vulnerable populations in Peru, particularly within indigenous communities in the Peruvian Amazon. USAID partners with the Peru government on comprehensive COVID relief assistance that both meets the immediate health needs and builds resilience to the medium- and long-term impacts of the pandemic. Continued investments in the health sector would support a strategic sectoral approach to better meet continuing needs as they arise and proactively mitigate future identified challenges. Although Peru has made great strides in overcoming COVID-19, support for long-term planning to mitigate the longer-term socio-economic impacts of the pandemic will

be key to consolidating gains made in the democracy and governance, alternative development, and environmental sectors.

The results are tangible. USAID-supported technical assistance streamlined emergency purchasing protocols for the Ministry of Health, facilitating \$132 million in emergency procurement of personal protective equipment, emergency oxygen systems, and medicines. USAID's local partner organizations improved the ability of health care facilities to manage the inflow of COVID-19 patients, administer oxygen to those in need, reduce the risk of secondary infections, and effectively implement community-based contact tracing. Further, USAID is helping implement Peru's National COVID-19 Vaccination Plan and provided 500 portable ventilators (increasing Peru's ventilator capacity by 20 percent), saving thousands of lives.

To address illegal mining, trafficking in persons, and environmental crime, all closely integrated with the same networks that also traffic in coca, USAID is making concrete progress. USAID helped Peru's government employ cutting-edge satellite technology to identify new illegal mining sites, leading to action against the illegal miners, and trained 2,812 officials (including almost 1,000 female authorities) to enforce environmental regulations. USAID's partnerships on counter-trafficking have increased public attention and improved public funding to stop human trafficking and help hundreds of victims in the priority areas of Loreto, Madre de Dios, Cusco, and Lima. USAID strengthened Peru's capacity to counter environmental crime, including illegal logging, mining, and wildlife trafficking and assisted Peru to realign its budget to expand a timber traceability system, completing the first in-depth assessment of illegal logging in Peru's history. At the same time, Peruvian national policy reforms supported by USAID have resulted in the allocation of \$30 million directed to water infrastructure projects to further expand state presence in conflictive areas.

To conclude, USAID is playing a central role as part of a broader U.S. government program to assist the Peruvian government to address not just coca production, but also its corollary effects including corruption, human trafficking, climate change, and illegal mining, even as Peru confronts the hemisphere's worst pandemic crisis - with accompanying stress on the economy and public health systems. The U.S. government's contribution in turn is part of a larger, coordinated donor effort - which includes the European Union - to address these shared concerns and interests, especially concerning transnational organized crime, climate change, and the pandemic. Peru is putting its resources into the effort. And where the three-pronged strategy of interdiction, eradication, and alternative development has been employed, there is a 90% success rate of maintaining the area coca-free. Meanwhile, outside of these target areas, overall coca production levels are way up. So the challenge to redouble efforts both for Peru and its donors remains ahead. At the same time, both the European Union and the U.S. seek ways domestically to reduce the demand for illegal substances.

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**Clearances:**

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