



ECONOMIC GROWTH

MARCH 2009



In collaboration with the Ministry of Industries' National Directorate for Handicrafts Development, USAID provided the services of international designers to develop new designs for global markets.

Implementing Partners: *Chemonics International, Nathan Associates, CRECER, Small Enterprise Assistance Fund, municipal governments, and Mibanco.*

Partners: *Ministry of Economy and Finance (MEF), Ministry of Trade and Tourism (MINCETUR), Superintendence of Banks (SBS), Ministry of Women and Social Development (MIMDES).*

With six years of sustained economic expansion under its belt, Peru's economy is among the most dynamic in Latin America. The economy continued to steam ahead in 2008, with a GDP growth rate of over 9%. Despite the international financial crisis, Peru's economic fundamentals have led analysts to predict sustained economic growth around 5% through 2009. The economic expansion is driven by exports which more than doubled between 2002 and 2008. Such growth promises to continue as Peru signs free trade agreements (FTAs) with countries around the world, including the Peru Trade Promotion Agreement (PTPA) with the United States that entered into force on February 1, 2009. Despite this impressive performance, accelerated growth has mainly benefited the coastal regions. Major challenges remain in the highlands and Amazonian regions, which have yet to benefit significantly from recent economic growth. Today, 38% of Peruvians still live in poverty and 13% in extreme poverty.

USAID's economic growth program aims to spread the benefits and help integrate the impoverished and isolated highlands and jungle more fully into the global marketplace which holds much promise for job creation and poverty reduction. In December 2007, the U.S.-Peru Trade Promotion Agreement (PTPA) was ratified by both governments. Passage of the PTPA has created multiple opportunities to support the Peruvian government in meeting key commitments prior to and during early implementation of the agreement. USAID provided technical assistance during the drafting of agricultural safeguard and forestry and natural resource management regulations and assists Peruvian customs service with the design of the electronic information system needed to maintain common data between the U.S. and Peru and to control high-risk merchandise.

USAID has made a significant contribution to improving Peru's business climate and competitiveness in three key areas: administrative simplification, access to credit, and business competitiveness. USAID supports policy interventions which eliminate barriers to trade, facilitate investment for micro, small and medium enterprises (MSMEs), and increase MSMEs' participation in the formal economy and export markets. USAID's trade capacity building efforts focus on building strategic alliances with public and private partners and working directly with MSMEs to strengthen their capacities for improving product quality and accessing new markets.

Working with private and public partners, USAID expands the availability of credit to MSMEs, a group that often has difficulty in accessing loans from traditional sources such as commercial banks. This is accomplished through private sector alliances, technical assistance, and loan guarantees to a variety of credit institutions, especially microfinance entities. Additionally, the program provides business development services (BDS) to these enterprises, identifying markets for local products and linking

entrepreneurs and producers to organizations that help improve productivity and competitiveness in the market place. USAID's assistance to the Superintendency of Banks has contributed to the reform of the Banking and Insurance System Law to allow microfinance institutions to offer 41 additional services to MSMEs. Additionally, USAID has provided technical assistance on proposed legal reforms that facilitate capital risk investments in small and medium enterprises.

Aided by the positive macroeconomic environment, this program is achieving real results in extending growth into the poorest, most isolated regions of Peru:

- **Number of formal MSMEs has increased by more than 450 percent.** Time for registering a business in USAID-assisted local governments was reduced by 75 percent and cost of registering was diminished by 46 percent.
- **Environment for trade and investment improved.** The Office of the Prime Minister supported USAID's proposal to eliminate 105 barriers in 15 ministries that constrained formalization of MSEs. The government has already approved these reforms.
- **MSMEs sell more, employ more people, and have greater access to credit.** USAID's business development services (BDS) in highlands and Amazonian regions identified markets for local products and linked buyers and producers to help improve productivity and competitiveness in the market place. This program will be renewed in 2009. Over eight years, USAID-supported businesses generated over \$307 million in additional sales and employed 82,000 new workers. USAID expanded financial services and access to credit in areas of high poverty to more than 345,000 impoverished clients (64% of them women).
- **The poorest are receiving critical support.** USAID's food security program, which benefited over 350,000 families over the past five years, ended in 2007. USAID's experience was transferred to the Government of Peru's CRECER national strategy, which has merged its social programs to increase their efficiency in order to reduce chronic malnutrition and extreme poverty. Furthermore, USAID's experience also served to orient GOP programs towards focusing services and outreach to the extreme poor. Currently, USAID supports the CRECER strategy in 173 local governments in 12 regions.



MIBANCO is an important USAID partner, through a credit guarantee program. Besides a significant position in the urban microenterprise market, Mibanco is increasing its coverage of rural credit.



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