(Meeting: Monday 1/15/72 - 10:00 Am Rm 2248 5270060-④ Rev #2)

AID 1045-1 (7-71) (FACE SHEET)
NONCAPITAL PROJECT PAPER (PROP)

PAGE 1 of 2 PAGES

I. PROJECT IDENTIFICATION

1. PROJECT TITLE

AGRICULTURAL INSTITUTIONAL DEVELOPMENT AND OPERATIONS

PD-AAB-370-D1

APPENDIX ATTACHED ☐ YES ☒ NO 20p

2. PROJECT NO. (M.O. 1095.2) 527-11-110-060

3. RECIPIENT (specify)
☒ COUNTRY PERU
☐ REGIONAL ☐ INTERREGIONAL

4. LIFE OF PROJECT
BEGINS FY 62
ENDS FY

5. SUBMISSION 1/15/72
☐ ORIGINAL
☒ REV. NO. #2
CONTR./PASA NO. AID/ta-510

II. FUNDING ($000) AND MAN MONTHS (MM) REQUIREMENTS

A. FUNDING BY FISCAL YEAR	B. TOTAL $	C. PERSONNEL (1) $	C. PERSONNEL (2) MM	D. PARTICIPANTS (1) $	D. PARTICIPANTS (2) MM	E. COMMODITIES $	F. OTHER COSTS $	G. PASA/CONTR. (1) $	G. PASA/CONTR. (2) MM	H. LOCAL EXCHANGE CURRENCY RATE: $ US ____ (U.S. OWNED) (1) U.S. GRANT LOAN	(2) COOP COUNTRY (A) JOINT	(2) COOP COUNTRY (B) BUDGET
1. PRIOR THRU ACTUAL FY	4.317	9.119	--	1902	---	689	2697	---	---			
2. OPRN FY 73	1291	632	264	211	333	50	398	476	119			
3. BUDGET FY 74	1351	618	220	90	30	50	393	690	172			
4. BUDGET +1 FY	To be determined											
5. BUDGET +2 FY												
6. BUDGET +3 FY												
7. ALL SUBO. FY												
8. GRAND TOTAL												

Are these levels comparable with TA costs in past 2-3 years?

9. OTHER DONOR CONTRIBUTIONS

(A) NAME OF DONOR	(B) KIND OF GOODS/SERVICES	(C) AMOUNT

III. ORIGINATING OFFICE CLEARANCE

1. DRAFTED Clifford Belcher	TITLE Program Officer	DATE 1/15/72
2. CLEARANCE OFFICER	TITLE Mission Director	DATE 1/15/72

IV. PROJECT AUTHORIZATION

1. CONDITIONS OF APPROVAL

2. CLEARANCES

BUR/OFFICE	SIGNATURE	DATE	BUR/OFFICE	SIGNATURE	DATE

APPROVAL AA/LA OR OFFICE DIRECTORS

	DATE

6. APPROVAL AID/W (See M.O. 1015.1 VI C)

SIGNATURE	DATE

ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION

I. Progress to the Present

A. Description

The U.S. has cooperated with the Government of Peru for nearly two decades in programs of technical assistance in agriculture. More recently under AID, the program has stressed institution building, training, and an improved capacity for planning and analysis. Projects have been executed primarily through two U.S. university contract groups - North Carolina State University (NCSU) and Iowa State University (ISU). Under the NCSU contract two areas have been addressed: (a) research programs in specific crop areas - beans, rice, potatoes, and forages; and (b) building the capacity of the National Agrarian University (UNA) to turn out agricultural technicians trained to advanced levels. ISU has directed the major portion of its efforts towards improving the capability of the Ministry of Agriculture (MOA) in economic planning and analysis.

B. Accomplishments

This assistance has made substantial progress in upgrading institutional competence in agriculture, in transforming advanced agricultural technology and in training Peruvian technicians. NCSU assistance has been a major factor in building UNA, ten years ago a small agricultural school, into one of the best agricultural universities in Latin America, with an enrollment of some 2,500 students and offering the M.S. degree in six functional fields. Its staff is highly trained and alumnus have been built with smaller agricultural colleges throughout the country as well as to other important institutions in the agriculture area. NCSU assistance has also been a key factor in strengthening the MOA's capacity to conduct agricultural research and in agricultural extension. Four major experiment stations each with from 3-6 substations are established in various parts of the country and an extension system of 6,000 technicians is in operation.

Mainly due to the efforts of the ISU team a planning section, OSPA, has been established in the Ministry which has strengthened Peruvian planning for agricultural development to a substantial degree. The Peruvian Development Plan for the Agriculture Sector for 1971-75 shows considerable improvement over many past efforts of this kind. Commodity priorities are are well defined, demand projections and supply requirements are sharper, investment needs more precisely articulated. Furthermore an appreciation of the need for increasing the effectiveness of the planning process is well established in MOA thinking. The current reorganization plan of the MOA calls for broadening OSPA's responsibilities and functions as well as to create a statistical section and to introduce electronic data processing.

20 per year average

Through both AID contract groups extensive advanced academic training has been provided. In the past 10 years over 200 Peruvians have been trained in the United States to the M.S. or Ph.D. level with the resultant multiplier effect in the UNA and MINAG. Additionally, through NCSU's crop research projects and through a series of sub-projects in OSPA assisted by ISU technicians a large amount of in-country on-the-job training has been accomplished.

In addition to the AID effort, other assistance donors are providing a steadily increasing number of training opportunities in agriculture for Peruvians as well as specialized technical assistance. As a result of these combined efforts a solid base of technical agricultural expertise now exists upon which Peru can further build. There are some and deficiencies in specific areas, but by and large a lack of available technology or technical expertise as such is no longer a major agricultural development problem for Peru today. (2)

C. The Current Agricultural Development Problem and Its Relationship to Technical Assistance

Despite the progress made, the performance of Peru's agriculture sector continues to fall far short of the country's requirements. Over the past decade total real output of Peru's agricultural sector increased at the annual rate of only 1% while the population grew at a better than 3% yearly rate for the same period. As a result per capita availability of domestically produced foodstuffs fell by an average of 2% per year. In addition to rising population, improved income levels in the urban centers have increased the demand for more and better foods.

In 1970, Peru's agricultural sector produced only 15% of the country's Gross National Product but employed 48% of its labor force. The slow growth of the agricultural sector vis-a-vis the rest of the economy has resulted in an adverse redistribution of income to this sector. While per capita Gross Domestic Product for the country as a whole rose by 1.6% annually over the ten years, per capita Gross Domestic Product for the population dependent on agriculture fell by 2% annually. The slow growth of productivity of this sector results in nearly 50% of the population being faced with stagnant or declining real incomes, which in turn results in little growth in the demand of this segment of the population for goods and services produced in the other sectors of the economy. In addition, the agricultural inputs to the industrial and other sectors of the economy are threatened by the uneven growth rates between the agricultural sector and these other sectors.

Sharply increased food deficits in the past two years due in part to growing demand for food as a result of population growth and rising incomes in the industrial sector and in part to poor growing weather

have led to increases in food prices to the consumer notwithstanding rapidly increasing imports. Part of the growing food deficit has been covered by increased imports of food products; the food import bill increased from $45 million in 1969 to approximately $250 million in 1971. While agriculture as a whole continues to be an important earner of foreign exchange and accounts for nearly 17% of Peru's exports, in 1971 for the first time in recent history, the value of imports of food items exceeded the value of exports produced in the agricultural sector. These imports accounted for slightly over 20% of Peru's total 1971 imports, representing a substantial foreign exchange payment at a time when the country must carefully husband its relatively scarce international reserves.

In past years, Peru has generally had sufficient flexibility with its balance of payments that it has been able to import large and growing quantities of food products. However, Peruvian planning officials forecast an accumulated balance of payments deficit for the next four years equal to more than double the country's current net international reserves. Any further substantial increase in food imports or in food prices could further strain the balance of payments and adversely affect the implementation of Peru's five year National Development Plan.

The steady improvement of Peru's competence in technical agriculture and the strengthening of its key institutions in the agriculture sector have obviously not in and by themselves, improved the performance of the agricultural sector, nor is it reasonable to expect that they could. Rather, the establishment of this base of technical competence is a preliminary requirement for subsequent action to improve the situation. With prior year AID programs having made a substantial contribution in training and institution building and with other donors shouldering an increasing share of this function, it became apparent that continuance of AID assistance along these lines would be of declining marginal utility. AID assistance therefore should be used to more directly address other, more pressing problems with a technical assistance program designed accordingly.

To help determine how U.S. assistance should be used to most effectively assist Peruvian agriculture, an evaluation of AID programs in agriculture in the light of GOP priorities was carried out jointly in mid 1971 by U.S. and GOP officials.[1] The evaluation included, perforce, an examination of Peru's agricultural system and contributed thereby to defining the development problem that required attention. Observation, examination of the Agricultural Development Plans, and other information on Peruvian agriculture available to the Mission support the report's findings.

1/ Evaluation of Peruvian Agriculture Relative to USAID Assistance, Vol I & II. pp 37-44

Of more immediate impact have been the frequent food shortages especially over the past twelve months. When the flow of rice, potatoes, onions, beans, sugar, lemons etc. to the Lima market was interrupted for periods of up to several weeks, for no explainable cause. For example, potatoes had to be imported this year from Belgium. The 15-day prohibition on the consumption of beef placed in effect in March, was an admission of serious problems in the meat sector. A thriving black market in beef has emerged. In the past, such shortages have been addressed by recourse to imports. This solution is no longer feasible given Peru's tight foreign exchange situation. (3)

The weight of all this evidence indicates that the development problem can be stated as follows:

> The unresponsiveness of the agriculture sector stems from the inability of the GOP to accurately identify the true dimensions of the problems of the agriculture system and to successfully develop policies to deal with them. This arises from two prime deficiencies: an "information gap" and an "implementation gap". The former consists of inaccurate and and insufficient knowledge of actual conditions and how the basic elements of the agricultural system interrelate and interact. Of critical importance is the traditional conflict of adequate incentives to producers vs. desires to maintain low prices. The "implementation gap" results from the tendency to adopt emergency measures in the face of food crises based on hurriedly prepared plans which fail to take into account the real conditions at the producer and marketing levels. (4)

The meat study, begun in 1972 as the first step in the USAID's new approach, and now nearing completion, has fully confirmed this hypothesis. The Peruvians, who conducted the study, are finding among other things that statistics are badly off the mark, price policies are a disincentive to the producers, agrarian reform is having a profound effect on the investment climate and producers of meat, feed prices are unrealistic and animal nutrition is inadequate, the middle men in the marketing chain are not making exhorbitant profits (as claimed) and so on. Furthermore, the dimensions of the problem and the interrelationship of all these factors are being understood, probably for the first time. From the study will emerge a series of important policy recommendations which, if adopted, could lay the basis for improved performance of the meat sector.

II. Narrative Description of the Project

(As a matter of background, CY 1973 will continue a transition period begun early in the previous year from previous project design towards the new emphasis described below. At the end of December 1972 the MSU Contract was phased out and the crop research projects had been transferred to the MOA for operation. Additionally, the work of the MSU economists was increasingly oriented towards the new approach. The first step in the new project design, i.e., a six-month study of the meat problem, was begun and will be completed in January 1973.)

The new project is designed to help correct the two deficiencies in the Peruvian agricultural system described in the preceding section.

The project as it will operate in CY 1973 will have three main elements:

1. Sub-sector and Sector Analysis
2. Key Agricultural Technicians in support of problem sub-sectors
3. Termination support of phased out research projects

Element # 3 will be funded in FY 1973 only; after which it will be phased out. Elements #1 and 2 will comprise the continuing program.

The "cutting-edge" of the project is the sub-sector studies and the Sector Analysis. All other elements will be related to this part of the project. The studies will be directed by ODPA, with the cooperation of the MOA divisions most directly involved and will be conducted entirely by Peruvians, with U.S. expertise used only in advisory capacities. The frame of reference and the scope of work of each of the studies is of prime importance and must be designed to address as many of the problems of the sub-sector as can be identified. In the Peruvian setting the studies should be of not more than about 6 months duration in order to assure maximum impact. More detailed studies of particular aspects can be dealt with separately.

What about the oilseeds study

A minimum of 3 sub-sector studies will be completed or well under way by the end of CY 1973. These are meat, marketing of basic food staples, and the economic benefits of agricultural credit. The meat study was begun in mid-CY 1972 and is now nearing completion. Analysis and findings are expected to be complete by February 1973. Preparatory work on the marketing study has begun; the study is scheduled to start in February 1973 and to take about six months to finish. The credit study will begin later in 1973 with the completion scheduled for early 1974.

As each sub-sector study is completed, including data collection and analysis, alternative courses of action, policy changes or determinations, etc. will be formulated. These recommendations will be then presented to the highest decision-making levels of the Ministry for action.

With respect to the broader sector analysis, the GOP has begun a sector model with the assistance of the ISU Contract group. Data compiled by the sub-sector studies will be introduced into the model providing up-to-date, accurate information and will enhance the effectiveness of the model as a tool for continuing analysis of sector performance. The sub-sector studies will, in effect, be the "building blocks" of the sector analysis model. great!

A group of U.S. economists has been identified by AID and MOA planning officials as required for the sub-sector and sector analysis activities.

These are:

1. Macro-economist

   Will assist in planning and analysis of the sub-sector studies and will advise on building of the sector model.

2. Micro-economist

   Will also work on the planning and analysis of the sub-sector studies in his specialty area. Will be used in cost/benefit analysis for farm level inputs and will provide liaison with two farm management technicians also projected, especially in establishing the continuing data flows from the farm levels required for planning and policy.

3. Statistician/Econometrician

   Will work with the MOA's newly formed Statistics and Data Processing Section and will assist in upgrading methods of gathering, processing and interpretation of data. Will advise on setting up required information channels for continuing analysis.

4. Marketing Economist/Price Policy —

   Will advise on the sub-sector studies in his area of competence and on formulation of price policy alternatives for decision-makers. Will provide continuity for improving a market prices information system. With the micro-economist, will also back-stop the farm management advisors.

5. Marketing Economist/Supply — Marketing system

   Serious supply problems exist in the Peruvian system. Activities will relate to the meat and staples studies. Will also advise on the economics of required marketing infrastructure, e.g. storage, [illegible], etc.

6. Water Resources Economist ← good idea - needed

A water study is planned for early CY 1974. On the Peruvian coast, where most of agriculture is irrigated and most of the crops are raised, water is a central problem which cuts across all areas. USAID does not expect to have this man on board until FY 1974.

This core group of economists will be of longer-term duration; assisting on the whole series of studies, and should have had considerable practical experience in their specific fields in addition to academic qualifications. While economic expertise in Peruvian Agriculture is relatively good in quantity, it tends to be quite heavily academic, as opposed to practical, in its approach. The problems facing Peruvian agriculture require practical solutions, above all.

A number of key agricultural technicians will be also provided under the project. This technical assistance is required to a complement to the sub-sector study areas. The technicians are all identified as required by the GOP and all are related to the sub-sector studies. These technicians will be used to assist the Peruvians in designing, and launching projects identified as necessary as part of the solution to sub-sectoral problems. Once this is accomplished the technicians will depart, leaving the Peruvians to operate the projects. The technicians will not, as a general rule, spend more than one year at this task. Subsequent short-term assistance to the projects may be supplied to assess progress, evaluate effectiveness or help overcome specific problems as the case may be.

The key technicians identified up to this point are:

1. Two Farm Management Advisors

Each will help train 10 Peruvian specialists in the techniques of this specialty and will especially seek to strengthen linkage of farm level conditions to planning/policy levels and with other pertinent MOA Divisions. Interchange of data are necessary to permit farmers as well as planners to make rational decisions. Work of the two advisors will link into the Marketing Economist, Micro-economist and Statistician positions mentioned above.

2. Pasture Management Specialist

8 Natural pasture utilization is defined in the meat study as a major deterrent to increased production. Advisor will help design research projects on several MOA range stations and will help develop means to improve technology flows in this area to farmers.

3. Animal Nutrition Specialist

This is another major problem identified in the meat study. Advisor will help design programs to develop economic feeding

of animals utilizing both locally available and imported feeds. Will liasion with the oilseed specialist and with the core economics group.

4. Oilseed Production Specialist

The bi-products of oilseed production as related to animal feeding are more important than the main product. This is especially true where import costs of prepared feeds are too high to use those important elements in animal feeding in Peru. Advisor will also help the GOP to design projects in oilseed production.

A number of short-term technicians (30 M/M in total for FY 1973) will be supplied as well. These short-termers relate to the sub-sector studies or to the work of the agricultural technicians. All have been identified by the GOP as of high priority. These are:

1. Market Information Specialist

Relates primarily to the food staple and meat studies. Will provide liasion with the Marketing Economist. (Peru already has a Market Information system, but it is in disrepair.)

2. Crop Forecasting Specialist

Will relate mainly to the basic staples study. Crop information system is required to develop price policies, storage and processing possibilities. Work links in with the marketing economists and the farm management advisors.

3. Agricultural Credit Adviser

Will help launch the credit study and later return to assist in the analysis of it.

4. Market Facilities Adviser

Relates to the staples study and meat study and will advise in the planning and analysis of the study.

5. Market Operations and Management

The GOP wants to improve retail and wholesale market operations throughout the country with regard to both meat marketing and staples. Advisor will link-in with both studies and will provide liasion with the Marketing Economist/Supply.

6. Live-stock Feeding Specialist

7. Fowl Feeding Specialist

8. Pork Production Specialist

All three specialists link in to the meat study which has identified each of these areas as problems in getting better production. Each will provide liaison and complement the work of the Animal Nutritionist.

9. Tropical Pastures and Forage

The meat study indicate enormous untapped potential in natural pasture in the tropical selva. Expert will provide liaison with the Pasture management specialist to get suitable projects going in the selva.

The third element of the program is the provision of short-term specialists in support of the phased-out research projects in rice, beans, and potatoes. Examples of such technicians are nematologists for potatoes, phyto-pathologists and virologists for beans, rice breeding specialists for rice, etc. The USAID agreed with the MOA that such expertise would be desireable and effective as these programs were transferred to MOA operation and that transition of the programs to complete GOP responsibility would be eased thereby. The USAID also sees the possibility of linkages being forged between Peruvian research and international research organizations. The expertise would be obtained from various international research centers such as IRRI (rice) CIMMYT (wheat), CIAT (tropical agriculture), LTI (potatoes), and others. The USAID proposes to make a grant of $100,000 in FY 1973 to the MOA which it will administer in obtaining the required expertise. While the USAID will provide and assist when requested, responsibility for identifying the technicians required, length of visit, scope of work, etc, will be for the MOA. After the FY 1973 Grant is made no further assistance of this nature will be forthcoming from the USAID, although the "phase-out grant" device used in another terminated AID project in Peru remains a possibility. Additionally the USAID plans to support the phased out projects by providing a limited amount of commodities identified by the GOP as being required for better operation of these projects.

The approach proposed by the USAID reinforces the collaborative style of assistance giving called for in the AID reform. It places the main responsibility for the success of the program squarely on the Peruvians. We believe that our proposed assistance will start them well along the road to self-reliance.

The Ministry has endorsed this approach in writing and has allocated resources to carry out the program, but the acid test of this use of U.S. grant assistance is action by the GOP on the alternatives recommended and accepted. This is beyond the AID manageable interest. But failure on the part of the GOP to take action would require a reappraisal by AID of its technical assistance program in agriculture.

PROJECT STRUCTURE

A. Statement of the Goal

1. The Goal

The goal is to overcome specific priority problems impeding the efficient functioning of Peru's agricultural sector through the formulation and application of rational and coherent policies and resources.

2. Measurement of Goal Achievement

The improved performance in the specific priority areas addressed is of course the basic, long-term measurement of goal achievement. In some instances, such as meat production measurement of goal achievement could take several years. In each problem area baseline data will be established to make such measurements. Accordingly in recognition of this dilemma, the Mission considers that intermediate indicators, such as the adoption of policy and other changes in line with accepted sub-sector recommendation, would be a more reasonable measurement.

3. Basic Assumptions about the Goal

(a) The political climate will permit the GOP to make the required policy changes and resource allocations.

(b) The GOP can obtain the required domestic and external financing for the investments necessary to overcome the problems.

(c) The GOP can mobilize the required domestic expertize to execute programs and projects.

B. Purpose of the Project

1. The Purpose

Institutionalize a methodology for determining the real nature of the problems impeding the efficient functioning of the agricultural sector. The methodology would be established through investigation of specific sub-sectoral problems. The entire process will be under Peruvian leadership. In broad terms, the methodology calls for the following steps to be taken:

(a) Studies to be made of specific problem sectors designed to produce a clear understanding of how the sector functions (or fails to function adequately) and to establish baseline indicators against which progress may be subsequently evaluated.

(b) The data to be analyzed and alternative policy changes and other courses of action to be formulated.

(c) Recommendations for policy changes to be channelled to the highest decision-making level for action.

(d) Depending on the gaps and bottlenecks identified and the solution selected by decision makers, an action program will be designed to directly address these progress-blocking elements.

2. Conditions expected at the end of the Project (Long-range)

(a) The MOA (OSPA is identified as the division for this responsibility) has developed a capacity to design and execute sub-sector studies that are producing accurate data for analysis and action. Validity of the frame-of-reference and the scope-of-work of each study is a key factor. The GOP is providing 100% of the financing of all studies.

(b) OSPA is analyzing the studies' findings and is formulating alternative policy changes and courses of action to resolve problems which are being moved to the highest decision-making levels.

(c) The GOP is acting on the alternatives presented to solve specific problems.

(d) Linkages have been forged between OSPA, the individual offices of the MOA and the farm level whereby a constant flow of data is maintained to continuously assess problems and progress. These are to be used as building blocks in a sector analysis model now being built.

(e) Functional Divisions of MOA, e.g. Research, Extension, Marketing are designing and executing required projects, with minimum outside assistance, to overcome problems identified in the sub-sector studies.

3. Basic Assumptions about the Achievement of Purpose

(a) GOP will issue necessary decrees and laws required to alter or establish policy.;

(b) MOA will continue to strengthen and enhance role of OSPA begun by MOA reorganization in 1973.

(c) MOA will be able to attract and hold required expertise.

(d) GOP will provide MOA with budget levels required to execute program.

(e) MOA will take the necessary internal organizational steps to assure cooperation among its functional divisions.

C. Statement of Project Outputs (1973/1976)

1. Outputs

(a) Basic studies made of at least 3 critical problem sub-sectors are completed or underway in CY 1973.

(b) Study findings are analyzed and policy alternatives are presented to decision makers.

(c) A functioning information system is in place which feeds data from the field (farm and regional levels) to MOA and vice-versa. Required indicators of performance are established.

(d) Updating of existing skills. Long- and short-term training is to be used specifically to fill gaps in GOP technical expertise and is to be directly related to problem areas, e.g. Peruvian technicians will fill specified positions to manage programs and replace Americans.

(d) Agricultural research projects and/or other projects identified as required by sub-sector studies are functioning wholly financed by GOP and staffed wholly by Peruvian technicians with minimum (short-term) foreign assistance.

2. Basic Assumptions about Outputs

(a) MOA will be able to mobilize sufficient expertise to carry out studies.

(b) MOA can develop permanent linkages and mechanisms for information flows.

(c) MOA can retain present expertise and attract sufficient additional expertise to man the program.

(d) New skills obtained through training program are utilized; mechanisms developed to retain newly trained/upgraded personnel.

D. Statement of Project Inputs

1. Inputs - Technicians

Technicians

(a) An economics group consisting of five economists as follows:

- Macro economist.
- Micro economist
- Statistician/Econometrician
- Marketing Economist/Prices
- Marketing Economist/Supply

These are expected to come on board in FY 1973 and will continue in FY 74. In FY 74 a Water Resources Cost/Use economist will be added to the group.

(b) Agricultural technicians as follows:

- Two Farm Management Advisors
- Pasture Management Specialist
- Animal Nutrition Specialist
- Oilseed Production Specialist

These are medium-term technicians e.g. one year terms. They are related to the findings of the meat study, and are already funded by FY 1972 funds. Other advisors required by the station study and the Agricultural Credit studies will be identified at a later date. Approximately 4-6 are estimated.

(c) Short-term technicians as follows:

- Market Information Specialist
- Crop Forecasting Specialist
- Agricultural Credit Advisor
- Market Facilities Advisor
- Market Operations and Management Advisor
- Livestock Feeding Specialist
- Fowl Feeding Specialist
- Fish Production Specialist
- Tropical Pastures and Forage Specialist

These technicians are related to studies and to long and medium term experts under (a) and b.)

(d) Short-term technicians in support of phased-out- four-year research programs. These are to be selected by the MOA and are not listed. These technicians are not related to outputs.

Training

(a) In-country refresher courses for 25 MOA personnel in 1973 and 25 in 1974.

(b) Short-term training of 10 MOA personnel outside of Peru each year.

(c) Long-term training (M.S. or PhD) of 5 MOA personnel each year.

Commodities

Commodities are to be principally related to the phased-out research projects carried on under prior-year programs to assure the efficient operation of these projects now under MOA responsibility. Vehicle replacement for U.S. Contract technicians is also included.

Other Costs

Includes Support Costs for U.S. contract and EM technicians, partial financing of Study costs, other grants, and miscellaneous.

AID D.N Management

3 U.S. EM technicians 1 US PSC technician and 3 LN Personnel

2. **Budget Breakdown (in U.S. $1000)**

Item	FY 1973	FY 1974
Project Management Costs	166	178
U.S. EM & L/N personnel		
Contract Costs	619	803
- Continuance of C/B ISU personnel		
- Contract for additional economists and replacement of ISU personnel		
- On-campus and local contract administrative costs		
- Medium-term agricultural technicians listed in Inputs 1. (b) (funded FY 72)		
- Medium term technicians required in support of staple and agri. credit studies 4-6 est.		
- Short-term consultants - D. 1 (c)		
Participants	211	90
- Long-term terminating participants begun under NCSU & ISU contracts-now AID direct funded.		
- New long-term participants		
- Short term participants		
Commodities	50	50
Other Costs	330	230
- Support of Studies		
- In-country training		
- Grant for short-term technical assistance for phased-out research projects		
- Other grants		
- Miscellaneous.		
	1376	1351

3. Basic Assumptions on Management of Inputs

1. AID/W can supply long and short term advisors on a timely basis.
2. USAID/Peru project managers will secure primary focus on problem solving by economics advisors.
3. Technicians supplied will have more practical outlook.
4. Training desired will be available.
5. Commodities can be obtained.

Rationale

Institutional development and training, valuable through they have been, have not led automatically to improved agricultural performance. Peru has very limited agricultural land resources within easy communication of the major food consumption centers. Water is a seriously limiting factor, and new sources of water can be obtained only with large costly schemes such as Chira-Piura, Majes and Olmos which take many years to complete. Peru has traditionally neglected its food production capability because its foreign exchange position until recent years allowed it the luxury of covering food deficits with imports. That is no longer feasible. Peru must now make a major effort to increase food production, and because of its limited land and water resources, will have to place primary emphasis in the short run on higher productivity rather than expansion of land under cultivation. These measures will have to be accompanied by adequate incentives to producers and by improvements in the archaic marketing structure.

Although the GOP has not specifically placed agricultural development above others in its development planning, the degree of attention, resources and efforts expended so far clearly indicate its priority importance in the eyes of the GOP. The most important element of this concern has been implementation of the agrarian reform. Peru passed its first agrarian reform law in 1962 and concerted efforts were made at that time to divide the large landholdings into small farms for distribution among the workers of the respective estates. However, progress was slow up through 1967 as the Government became aware of the magnitude of the cost of the undertaking. The Revolutionary Government upon taking power in 1968 made the rapid completion of a new land tenure system one of its major goals and quickly passed an amendment to the agrarian reform law to provide for its more rapid execution. Given the current pace of the reform, the new land tenure system should be installed by the GOP's target date of the end of 1976. The Government's land tenure policy is to create production cooperatives and other cooperative types of organization in order to maintain the integrity of the land holdings for efficiency purposes. The large holdings are to be farmed as cooperatives with the previous workers becoming members in the cooperatives with general ownership rights, but with no individual specific property rights. Moreover, the Government is encouraging the grouping of minifundios into cooperatives in order to strengthen their production and marketing capabilities. The rate of expropriation has continued to more than double each year since the law was amended and the Government has attempted to develop the infrastructure to support the new land tenure system. The process of land redistribution is scheduled for completion in 1976 and present indications are that the goal will be achieved. The reform

process will not stop at this, however. Expectations are that the social restructuring of the rural sector will continue for some time to come.

The USAID has seen little or no opportunity to use assistance in relation to agrarian reform. The GOP regards this as a strictly Peruvian problem and has remained cool to U.S. offers of assistance, even as limited as these have been. Furthermore, the USAID is not convinced that agrarian reform by and of itself is the key to Peru's agricultural problems. While desirable and probably of long-term benefit, Peru's problems exist now. Peru is facing today a food crisis. There is a 15-day monthly prohibition on the sale of meat in Lima, and twice weekly outside of Lima. Basic foods - rice, sugar, potatoes, onions - regularly disappear from foodshelves. Peru's food import will continue to rise while its foreign exchange earnings are on the decline with prospects of further deterioration. Over the past year there have been clear indications that the problem of feeding the Peruvian people is rapidly becoming uppermost in the minds of GOP leaders.

It has already been noted that a substantial amount of domestic agricultural expertise now exists in Peru. Furthermore, Peru will continue to have access to training opportunities from other donors and so the prospects for continued growth of modern agricultural technical knowledge appear good. A survey by the National Planning Institute in 1971 showed that over 80% of all ongoing bilateral and multilateral technical assistance projects are in the agricultural sector. Additionally, Peru's first-class agricultural university is turning out increasing numbers of well-trained agricultural technicians. Lack of technical knowledge or agricultural technicians is not a significant constraint on improving agricultural performance, nor will it likely be in the future. Continued U. S. emphasis on assistance efforts in this area could do little more than refine this situation and would have declining value in relationship to cost.

contradictory statement #300

Political factors also are a part of the picture. Because of disputes between the two governments assistance to Peruvian agriculture is limited to the grant T.A. program with prospects of follow-on capital assistance dim for the foreseeable future. Hence, these limited resources should be used more dynamically and at the same time should focus more sharply on present day agricultural problems. Furthermore, U.S. assistance should have a lower profile and the Peruvian themselves should henceforth take the lead and shoulder the main burden of responsibility in any joint endeavor for the future.

The development problem to be overcome is put forth in Section I.C. of the introduction to this paper. It is clearly an hypothesis that requires future testing, but it is an hypothesis which is based on all available current information. The USAID approach to the problem is also admittedly experimental, but the first steps taken under the new program appear to be proving that theory is basically correct.

Lastly the Ministry of Agriculture has endorsed the approach in writing and has detailed the human and financial resources that it is willing to put behind the program. A copy of a letter written by the Minister of Agriculture to the Mission Director requesting the program is attached. Planning for this project has been done jointly by USAID and MOA planning officials.

(Addition to NonCapital Project Paper (PROP) - Agricultural Institutional Development and Operations)

Course of Action

(Note: The attached Schedule of Studies and Technical Assistance outlines, in graphic form, projected commencement actions.)

Sub-sectoral studies are the planned and critical components of the action program. The sub-sector meat study, begun in June 1972 with FY 72 funding is to be completed in late January, 1973. Its findings and policy alternatives should be in the hands of GOP decision-makers by February. By June the GOP should have reached decisions with respect to alternatives to be pursued to bring about an improved situation.

Meanwhile, the Marketing of Food Crops Study will begin on or about March of 1973. This study is expected to take until about November 1973 to complete. In August 1973 a study on agricultural credit will begin and will be concluded in early 1974.

All long, medium or short-term technician requirements and training programs are related to the sub-sectoral studies. Some technicians, notably the economics group, relate to all of the study areas with regard to both design and analysis. Other technicians such as the animal nutritionist and the pasture management specialist, are related to a specific study area, in this example, the Meat Study.

The Mission anticipates that the economists will be required for a minimum two-year period. In some cases it may be necessary to continue individual specialty areas for a longer period of time. This would depend on the rapidity with which the new approach takes hold and the ability of the MINAG to obtain and hold expertise to replace Americans.

On the other hand, the agricultural technical specialists are to be for a medium term duration. That is to say, their tours would be of one-year duration, rather than the traditional two-year tour. While there could be slippage of a couple of months, depending on conditions, we do not anticipate tours for these technicians lasting more than eighteen months at the outside.

The use of medium-term technician has two main advantages:

a) There is increased flexibility in the use of limited technical assistance funds. Each study undertaken is expected to identify technical assistance needs. (The meat-farmers requested under this PROP have all been demonstrated as required by the Meat Study, for example.)

While these technicians come on board and begin their assigned duties, the subsequent study, e.g. Marketing of Food Staples will be identifying other technicians required. Technicians will arrive, execute assignments, and depart, freeing funds for other specialists to carry out similar assignments within their specialty field. Thus technicians, as well as the USAID, will not be locked into long-term specialties, permitting AID to assist the GOP in a broader number of areas than previously.

b) Secondly, the project calls for a greatly enlarged Peruvian responsibility for carrying out projects. The use of medium-term, as opposed to long-term, technicians, reduces the chances of Peruvian reliance on foreigners to do the job.

The training element of the project will also be linked to the sub-sector areas. As previously noted, there is a considerable amount of Peruvian technical expertise now in the country. Thus, training will be mostly used to upgrade and sharpen existing skills and will be done either by in-country and on-the-job training, or by short-term training abroad. Long-term state-side training will be sharply focussed on advanced skills and sparingly used, again in relation to requirements identified by the study areas.

Extensive use of commodities is not planned under the project, although a fairly large commodity component appears for FY 73 and 75. These are primarily for support of the phased-out research programs, although some funds are earmarked for vehicle replacement in support of U.S. technicians.