

I. PROJECT IDENTIFICATION

1. PROJECT TITLE: **AGRICULTURAL INSTITUTIONAL DEVELOPMENT AND OPERATIONS**

APPENDIX ATTACHED: YES NO

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

3. RECIPIENT (specify):

COUNTRY: **PERU** **12 SEP 1973**

REGIONAL INTERREGIONAL

4. LIFE OF PROJECT: **62** Indeterm.

5. SUBMISSION: ORIGINAL REV. NO. **Four** **9/5/73**

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

A. FUNDING BY FISCAL YEAR	B. TOTAL \$	C. PERSONNEL		D. PARTICIPANTS		E. COMMODITIES \$	F. OTHER COSTS \$	G. USA CONTR.		H. LOCAL EXCHANGE CURRENCY RATE \$ U.S. (U.S. OWNED)		
		(1) \$	(2) MM	(1) \$	(2) MM			(1) \$	(2) MM	(1) U.S. GRANT LOAN	(2) COOP COUNTRY	(3) BUDGET
1. PRIOR THRU ACTUAL FY	14,311	9,190		1,788		627	2,706	8,912				
2. OPBN FY 73	1,266	709	207	206	347	114	237	548	123			
3. BUDGET FY												
4. BUDGET +1 FY												
5. BUDGET +2 FY												
6. BUDGET +3 FY												
7. ALL SUBQ. FY												
8. GRAND TOTAL												

9. OTHER DONOR CONTRIBUTIONS

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

III. ORIGINATING OFFICE CLEARANCE

1. DRAFTER: Curry C. Brookshier Rollo C. Ehrich	TITLE: Food & Agr. Officer Actg. Deputy Food & Agr. Officer	DATE:
2. CLEARANCE OFFICER: Donald Finberg	TITLE: Mission Director	DATE:

IV. PROJECT AUTHORIZATION

1. CONDITIONS OF APPROVAL

Clearances:

PRM:MKnight
ADD:CBWeinberg

2. CLEARANCES

BUR/OFF.	SIGNATURE	DATE	BUR/OFF.	SIGNATURE	DATE
LA/DR	John R. Breen (draft)		LA/GC	Eugene Harkins (draft)	
LA/DR	Barry Sidman (draft)		LA/DP	Lawrence Harrison (draft)	
LA/DR	Marshall D. Brown (draft)		LA/MRSD	Richard Greene (draft)	
LA/DR	Boyd Whittle (draft)		LA/OPNS	Cecil Uyehara (draft)	
LA/EP	Richard F. Weber (draft)				

3. APPROVAL AAS OR OFFICE DIRECTORS

SIGNATURE: *[Signature]* DATE: *[Date]*
TITLE: **Herman Kleine, AA/IA**

4. APPROVAL AID (See M.O. 1025.1 VI C)

SIGNATURE: _____ DATE: _____
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT NO. 527-11-110-060	SUBMISSION <input type="checkbox"/> ORIGINAL <input checked="" type="checkbox"/> REVISION	(Number) Four	DATE 9/5/73	PAGE 2 of 12 PAGES
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AGRICULTURAL INSTITUTIONAL DEVELOPMENT AND OPERATIONS

I. RATIONALE (Addition to the original PROP)

A. Introduction

This PROP Revision has been prepared in response to AID/W's request for further justification of short and medium term technicians in order to proceed with their recruitment. In particular, AID/W requested a summary presentation of the meat study, an explanation of relationships between the meat study and technicians required, a description of other donor assistance available, and a description of the problems to be addressed by the technicians. The revision also seeks to set forth relationships among the objectives of the Peruvian National Agricultural Plan, meat study recommendations and their influence on Peruvian policies, and the need for the short and medium term technicians.

B. Background

Programs to increase agricultural production in Peru have received AID assistance over a period of eighteen years. However, it became increasingly evident that although there were many desirable accomplishments - notably the strengthening of the National Agrarian University and the development of a research capacity in the University and the Ministry of Agriculture - AID assistance nevertheless was not achieving desired results in agricultural production. Indeed, per capita production of essential agricultural products continues to show a downward trend, with a concomitant continuing increase in the imports of food commodities to meet demand.

In 1970 the GOP identified major problem areas in the agricultural sector in its Five Year Plan (1971-1975) and recommended immediate attention to those of highest priority. Priority problem areas identified were the production and marketing of basics such as meat, dairy products, and edible oils. In 1971, following the GOP Plan publication, a joint AID/GOP evaluation of the agricultural sector and related AID technical assistance concluded that preconditions to effective utilization of technical assistance in Peru were sound analyses of production and marketing systems, increased incentives to producers and distributors, and incorporation of analytical findings into policy determinations. The implications of these conclusions and the GOP's Plan for agriculture development were included in the FY 72 and FY 73 PROPs, which were designed to gradually reorient AID technical assistance toward development of an information base and a methodology for rational planning and policy decisions.

The review committee approved the FY 72 and FY 73 PROPs, giving its approval to the overall thrust of the USAID agricultural program. However, they deferred recruitment of certain medium - and short - term technical services pending clear indication that the new approach would in fact be adopted by the GOP. A study of the production and marketing of meat products was the first major effort carried out under the program's new orientation. Reinstatement of the deferred technical services was specifically contingent upon the GOP making policy changes recommended by the Meat Study and indication by the study that there was a clear need

PROJECT NO. 527-11-110-060	SUBMISSION <input type="checkbox"/> ORIGINAL <input checked="" type="checkbox"/> REVISION	(Number) Four	DATE 9/5/73	PAGE 3 of 12 PAGES
-------------------------------	--	------------------	----------------	--------------------

for these technical services.

Fulfillment of the latter condition of course requires that these technical services be directed at problem areas receiving priority in government development plans. This implies that meat study recommendations must be consistent with the current plan. The GOP's Agricultural Plan for 1971-1975 and meat study recommendations are analyzed below to determine the degree of their consistency and to project the nature of a forthcoming integrated plan of development for the meat sector.

C. The Peruvian National Agricultural Plan for 1971-1975

In 1970 Peru adopted a National Agricultural Plan for the 1971-1975 period, under which the agrarian reform program has received greatest priority to date. Its objectives include: (1) creation of new tenure systems, (2) redistribution and increase in the incomes of the rural population, (3) creation of cooperative and other forms of associative production units that permit increased production, improved rural marketing systems, increased investment, and employment generation, and (4) transfer of political power and decision making to the rural population. Between October 1969 and May 30, 1973, 122,680 families received 3,054,853 hectares under the program. Data were not available which would enable quantitative conclusions regarding the impact of the reform on income distribution and employment, although government sources estimate a significant increase in incomes on the part of direct beneficiaries of the reform.

Production goals were generally not reached, owing in part to adverse weather conditions. Despite inclement natural conditions gross production increased by 2.1% between 1970 and 1971 and remained constant between 1971 and 1972. Some progress was noted on the marketing front, including introduction of incentive prices for rice, direct intervention in the import/export trade, increased participation of producer organizations in primary marketing activity, and preliminary steps toward reform of the wholesale/retail market structure.

Based on the 1971-1972 experience, the GOP developed a plan for food production for 1973 and 1974 which included the following priorities for the meat sector:

1. Providing incentives for increased production of meat animals that substitute for beef.
2. Providing credits for the establishment of livestock fattening centers.
3. Developing livestock centers for production of breeding stock to supply colonization projects in the selva region.
4. Developing increased supplies of forage and concentrates.
5. Increasing efforts to control livestock diseases.
6. Extending the semi-monthly embargo on beef sales to include provincial cities.
7. Allowing prices of meats that substitute for beef to fluctuate freely.

PROJECT NO.
527-11-110-060

SUBMISSION

 ORIGINAL REVISION(Number)
Four

DATE

9/5/73

PAGE 4

of

12

PAGES

8. Supporting a program of importation of breeding stock for improving the productivity of indigenous animals.
9. Developing improved marketing facilities.

D. The Evaluation Study of the Meat Problem in Peru

The meat study took place over a period of 8 months, involving over 25 Peruvian technicians and the advisory services of several U.S. technicians. It represented an important effort to mount a comprehensive sub-sector analysis and was designed and executed primarily by Peruvians. It was also a test of whether or not such an effort, which dealt in part with sensitive policy issues, would receive serious consideration by Peruvian decision makers. The Study was completed in May 1973, and published results were distributed to key MOA officials. A special seminar was presented by the GOP study group in June 1973 which summarized the important recommendations and conclusions.

The study demonstrated that Peru ranks among the lowest in Latin America with respect to the level of livestock technology. Key elements contributing to low productivity are: (1) poor management of forage resources, (2) inadequate disease control, (3) inadequate programs for improving the genetic base, (4) insufficient credit, and (5) a lack of coordinated research programs directed at priority problems.

The study also demonstrated that the economic environment served to inhibit the adoption of modern management techniques, limited the increase of breeding stock numbers for some species and actually caused a decrease in the number of cattle. Official prices have served as a deterrent to producers, as prices have remained fixed at low levels for several years while costs have risen substantially. Uncertainty regarding government action under the agrarian reform also contributed to the decrease in cattle numbers. In particular, policy regarding small - and medium-sized producers, who account for 70% to 80% of livestock numbers, has been vague and has undergone several changes in definition, thereby inhibiting long-term investment in livestock activities.

The study emphasized that official meat prices were set well below average costs of production. It recommended that beef prices be increased by over 50%, basing its recommendations on estimated costs of production, marketing costs, and on the relationship between beef prices and prices of substitute meats. It also recommended that differential prices be set for different cuts of meat. (See TOAID A's 103, 136 and 79 and Lima 4273.)

PROJECT NO. 527-11-110-060	SUBMISSION <input type="checkbox"/> ORIGINAL <input checked="" type="checkbox"/> REVISION	(Number) Four	DATE 9/5/73	PAGE 5 of 12 PAGES
-------------------------------	--	------------------	----------------	--------------------

Other policy recommendations included:

1. Promotion of cooperative associations for small and medium livestock producers.
2. Exemption of efficient livestock farms from the agrarian reform in order to preserve the technical capacity and experience of the progressive stockgrower.
3. Promotion of a system of soft credits to enable livestock farms to increase breeding stock and facilities.
4. Restructuring the agrarian reform law to (a) increase low-interest credit assistance to livestock farms, (b) stabilize prices paid under expropriation proceedings and allow rational adjustments for production costs, and (c) broaden tax exemptions on inputs purchased for livestock farms.
5. Improving basic agricultural statistics in order to provide a sound basis for making policy decisions.

Recommendations of a more technical nature included:

1. Improvement of beef quality by establishing breeding centers, particularly in the Sierra,
2. Establishing fattening centers in coastal regions to utilize local feed surpluses and to increase meat output of feeder animals originating in the Sierra.
3. Promotion of increased hog and poultry production.
4. Designing a diagnostic study of pasture and forage resources to form the foundation for a national forage development plan.
5. Increasing the area of cultivated pastures on the coast and in the Selva.
6. Developing research programs to determine forage species best suited to each production zone.
7. Developing research to determine new uses in livestock feeding for agricultural by-products.
8. Developing a national system of feed quality control.

Recommendations related to the marketing of livestock and livestock products were:

1. Establish stockyards and slaughtering centers at specified locations.
2. Standardize meat marketing laws and regulations at the national level.
3. Study the feasibility of processing and storage facilities.
4. Study the efficacy of marketing margins.

PROJECT NO.
527-11-110-060

SUBMISSION

 ORIGINAL REVISION(Number)
FourDATE
9/5/73

PAGE 6

of 12

PAGES

5. Establish an improved marketing information system.

E. Relationship between Meat Study Recommendations and the 1973-1974 Plan

Meat study recommendations emphasized the importance of making fundamental changes in the economic environment in order to stimulate adoption of measures to increase production. Price policy changes, increasing credit availability and restructuring the agrarian reform law to favor efficient livestock producers were the principal policy recommendations. The government has already taken steps to increase prices as indicated above, and credit programs are receiving increasing emphasis in government policy. Changes in agrarian reform procedures are, however, likely to be strongly resisted by the government.

Meat study recommendations for specific action programs were highly consistent with programs included in the 1974-1974 plan. For the most part the meat study reinforced the priority of programs already defined in the development plan.

F. An Integrated Plan of Development for the Meat Sector

The Minister of Agriculture, upon hearing the meat study results presented at the above mentioned seminar, promptly announced that a coordinated plan based on study recommendations would be developed. A special intra-ministerial commission was formed shortly thereafter for this purpose. The plan will improve the coordination and direction of research and investment priorities in the future. Our task at this point in time is to determine whether or not the projected activities of the deferred short- and medium-term technicians will receive high government priority in the forthcoming integrated plan.

The fact that meat study recommendations reinforced the priorities already identified in the 1973-1974 Development Plan, which priorities dictated specifications for the technicians in question, strongly indicates that the services of these technicians will receive high priority in the new plan. Moreover, the GOP's initial response to policy recommendations contained in the meat study is assurance that the study recommendations will carry much weight in the new development plan.

This response has indeed been impressive, despite the short time that has elapsed since its completion and presentation at the seminar. The key recommendation was that the average price of meat be increased from S/.35.00 per kilo to S/.54.40 per kilo. Six days after the seminar a Supreme Decree was issued establishing the average price at S/.51.65 per kilo. The study recommendation that price differentiation by cuts be added to the official system was also adopted. Even before formal submission of the study, its recommendation that poultry prices be increased was also adopted by the GOP. The fact that the GOP was willing to adopt the politically unpopular steps of increasing consumer food prices is a tribute to both the quality of the study and the seriousness with which it was treated by the GOP.

Many officials of course were aware of the need to increase prices prior to the release of study results. However, meat prices are an explosive political issue and changes could be made only with the support of solid research evidence. The meat

PROJECT NO.
527-11-110-060

SUBMISSION

 ORIGINAL REVISIONNumber
FourDATE
9/5/73

PAGE 7 of 12 PAGES

Study provided the objective evidence needed to convince policy makers that economic benefits of such action would offset the inevitable political risk.

It will naturally take time for the GOP to study the large number of other recommendations and to develop detailed plans for their implementation. Meanwhile, the GOP-initiated research programs that prompted requests for the technicians being justified in this PROP revision are in critical need of expert technical guidance.

The above analysis has demonstrated that these previously-identified research and development programs will remain high in the government's scale of priorities in the forthcoming integrated plan of development for the meat sector. It therefore behooves us to act promptly to provide the technical services. These programs focus on solutions to problems of (1) pasture management, (2) utilization of by-product feeds, (3) supplies of protein concentrates, (4) feed quality control, and (5) production of substitutes for beef (pork and broilers).

The integrated development program for the meat sector will likely include action on the following fronts, given that the GOP will undoubtedly incorporate the major recommendations of the meat study:

1. Removal of factors that tend to inhibit the adoption of improved technology, such as inappropriate price policy and uncertainties in government policy toward small- and medium-sized farms.
2. Research designed to improve technology in the areas of feed supply and utilization, livestock management, and marketing.
3. Promotion of livestock production by extending credit at favorable interest rates and by implementing technical assistance programs.
4. Improved marketing infrastructure.

The technical services proposed in this PROP revision are directed at #2 above. Other AID assistance is available for (1) long-term advisors in price analysis, marketing and credit, (2) loans for supervised agricultural credit, (3) loan funds for marketing studies and market facilities, and (4) technical advisors in farm management.

II. COURSE OF ACTION FOR THE DEFERRED TECHNICAL SERVICES

- A. The willingness of the GOP to adopt recommendations of the Meat Study, the consistency of these recommendations with the Overall National Agricultural Plan, and the anticipated thrusts of the integrated plan for the meat sector have confirmed USAID's conclusion that the medium and short-term technicians originally programmed at the request of the Ministry of Agriculture are still very much needed. Indeed, they will help to ensure that the meat study will have an impact in critical areas other than price policy and that the momentum created by the meat study is not lost.

Specifically, we propose to furnish three medium-term specialists (for a period of one year) and four short-term specialists (each providing four man-months of services over the next year). All will be working on problems of livestock feeds and pastures. They will work with Peruvian counterparts on the methodology

PROJECT NO. 527-11-110-060	SUBMISSION		(Number)	DATE	PAGE	of	PAGES
	<input type="checkbox"/> ORIGINAL	<input checked="" type="checkbox"/> REVISION	FOUR	6/5/73	8		12

and design of research and action programs, rather than actually conducting research in production technology as many of our technicians have done in the past.

Technicians will act in an advisory capacity only. They will assist in the design and management of the research required to achieve the goals of increased production and quality of meat and oilseeds. Once programs have been established the technicians will be terminated, perhaps returning for short periods at future critical stages in the research.

- B. Three medium-term technicians identified for priority tasks are (1) a pasture management specialist, (2) an animal nutrition specialist, and (3) an oilseed production specialist. A description of the programs and the specific duties of the technicians follows:

1. The Pasture Management Specialist will advise in the development of a project entitled "Management of Pastures" (GOP budget \$100,000). The project is located at the Vista Florida Experiment Station near Chiclayo. Principal objectives are development of natural pasture management programs in the Northern Coastal area and installation of cultivated pastures in the Tarapoto area of the Selva. The technician will assist in the design of research, including testing and management of new species and pasture management trials on private production units. Additional work will include rotational grazing, complementary grazing of sheep and cattle, soil fertility, fencing, etc.

It is expected that by the end of the advisor's tour the Ministry of Agriculture will have developed and implemented research programs in pasture management that are based on the integrated livestock production plan that arises from Meat Study recommendations. Additionally, it is expected that linkages will have been established with the Centro de Investigaciones Agrícolas Tropicales (CIAT) for continued outside assistance in tropical pasture management.

2. The Animal Nutrition Specialist will work in the project "Animal Nutrition" also located in Chiclayo (GOP budget \$41,000). Major goals of the project are to develop studies of digestibility and nutrition leading to improved use of agricultural by-products in balanced feed rations. The technician will assist in the design and management of experiments leading to improved rations based on by-products feeds. It is expected that by the end of the advisor's tour research programs in the northern region for improving livestock feeds and feeding will have been reoriented to meet the objectives called for under the integrated livestock production plan.
3. The Oilseed Production Specialist will assist in the development of the project "Research in Oilseeds" also located in Chiclayo (GOP budget \$118,200). The project involves research and development to obtain high-yielding varieties of soybeans and other oilseeds. Major duties of the Technician include management of the project with emphasis on plant breeding, identification of training needs, identification of technical assistance needs in marketing and processing, and coordination of oilseeds projects with animal nutrition projects. It is expected that by the end of the advisor's tour a research plan will have been approved and implementation begun for the development of a technological base for the production and utilization of soybeans in Peru. Additionally, it is expected that linkages will have been established with the International Soybean Research project (INSTOY) for continued outside assistance in soybean technology. INSTOY is being carried out under an agreement between AID/W and the University of Illinois.

PROJECT NO. 527-11-110-060	SUBMISSION		DATE 9/5/73	PAGE 9 of 12 PAGES
	<input type="checkbox"/> ORIGINAL	<input checked="" type="checkbox"/> REVISION		

As AID/W is aware, it was originally planned that AID would play a major role in the design and methodology of a soybean study similar to that conducted on meats. The GOP has subsequently decided that it will not conduct such a basic policy study, basing its decision on the fact that adequate technical studies already exist. In addition, the meat study clearly indicated that high protein animal feeds are in critical shortage in Peru and recommended that soybeans should be instrumental in alleviating this shortage. USAID agrees with this evaluation and strongly recommends approval of the soybean specialist herein requested.

All three consultants will be located at the Northern Regional Agricultural Experiment Station at Chiclayo. Their tours of duty should be simultaneous to ensure maximum coordination of their activities. Possible areas of fruitful interaction include development of balanced feed rations based on by-product feeds and oil meals, development of crop and pasture rotational schemes, and collaboration with production economists to generate input/output coefficients suitable for economic analysis. The technicians must collaborate closely among themselves and with farm management economists in the identification of priority lines of research and in the analysis of alternative production schemes. As indicated in PIO/T's 30050 and 30049 their services are needed immediately.

- C. Four short-technicians identified are (1) a poultry production specialist, (2) a pork production specialist, (3) a livestock feeding specialist, and (4) a tropical pasture and forages specialist. Each technician will advise counterparts for a period of 2 to 4 months in the development of specific programs.

A description of the program and specific duties of the technician follows:

1. The Poultry Production Specialist will advise in the project "Control of the Efficiency of Poultry Production" (GOP budget \$56,800). The major goal is to develop operating models and operating mechanisms for the Poultry Efficiency Control Center. Tasks include development of systems for feed quality evaluation and standard cost systems for meat and egg production, and training personnel in modern laboratory techniques.
2. The Pork Production Specialist will work with the National Program of Swine Breeding (GOP budget \$11,800). The purpose of the program is to develop research and promotional activities in genetics, nutrition, commercial hog production units, and marketing. The technician's duties will include advising on the design of a model for implementing the national plan, designing research in use of by-product feeds in hog production, developing economically feasible swine rations, and evaluation of technical feasibility for pork production units in various regions of the country.
3. The Livestock Feeding Specialist (biochemist) will work in the project "Control of the Quality of Balanced Feed Rations" (GOP budget \$ 6,500). The program will develop trials to measure the quality and productivity of balanced rations for poultry and beef, using a Hitachi Perking Elmer KLA---3B analyzer of amino acids. Duties of the technician will include analysis

PROJECT NO. 527-11-110-060	SUBMISSION <input type="checkbox"/> ORIGINAL <input checked="" type="checkbox"/> REVISION	(Number) Four	DATE 9/5/73	PAGE 10 of 12 PAGES
-------------------------------	--	------------------	----------------	---------------------

of feed formulas, training of local technicians in modern methods of analysis and designing additional research in nutrition as required by country priorities.

4. The Tropical Pastures and Forage Specialist will work with the Project "Tournavista Livestock Development" (GOP budget \$29,500). Goals of the project are to develop breeding and production centers for cattle in the Selva for the purpose of demonstrating technology suitable for expansion of livestock production. Tasks include fertilizer trials on tropical pastures and designing a research program in the genetics of forage crops that are suitable for adaptation to tropical conditions.

These technicians have been requested to fill gaps in local expertise with respect to a variety of on-going programs. It is therefore not necessary that their tours of duty coincide nor that they closely coordinate their activities. However, they will be advised to consult with the long-term technicians where appropriate. For example, the short term pork production specialist will coordinate his activity with the long-term animal nutrition specialist to insure maximum complementarity in research on by-product feeds for hog rations. The short-term tropical pastures specialist will need to coordinate with the long-term technician wherever their projects may be complementary. AID, the GOP, and the individual technicians will identify other areas of possible interrelationships among projects as the work proceeds.

III. RELATIONSHIP BETWEEN AID TECHNICAL SERVICES AND OTHER DONOR PROGRAMS

It can be seen that the advisory services which AID will provide are very closely linked with the technical recommendations of the meat study, appearing on page 5 of this PROP revision. More specifically, the technicians will contribute as follows:

<u>Advisor</u>	<u>Technical Recommendation to which he will contribute</u>
1. Pasture management specialist	4, 5, 6
2. Animal nutrition specialist	2, 4, 6, 7
3. Oilseed production specialist	2, 3
4. Poultry production specialist	2, 3, 7, 8
5. Pork production specialist	2, 3, 7, 8
6. Livestock feeding specialist	2, 3, 4, 6, 7, 8
7. Tropical pastures and forage specialist	1, 4, 5, 6

It can be seen from the above that the AID-financed technical inputs will make contributions in all areas.

AID programs are being coordinated with other aid donors, insofar as possible.

PROJECT NO. 527-11-110-060	SUBMISSION <input type="checkbox"/> ORIGINAL <input checked="" type="checkbox"/> REVISION	(Number) Four	DATE 9/5/73	PAGE 11 of 12 PAGES
-------------------------------	--	------------------	----------------	---------------------

to insure maximum complementarity. Most important, in 1972 the FAO signed a 5-year agreement with the GOP to continue assistance for improving Peru's capacity to cope with animal health problems. FAO is thereby providing assistance in a major problem area not covered by proposed AID technical assistance. Their efforts are focussed in the sierra and jungle areas.

FAO is also participating in agro-industrial research which includes improving the production of commercial livestock feeds. Special attention will be given to assure close coordination in this area.

A World Bank loan of \$25 million for agricultural and livestock credit has recently been approved. Up to 63% of the \$41.7 million project may be utilized for livestock development and related activities. The loan does not contain technical assistance but provides capital which will help implement technical assistance results.

Switzerland is participating in two small selected areas for development of cheese industries. This assistance, although limited in scope, calls for development of cheese processing plants, markets, and improved livestock management. Training cheese processing specialists for operating cheese processing plants in other areas is also included. This project is in the third year of a five-year program.

West Germany in cooperation with the GOP has developed a self-contained milk plant and livestock breeding center that serves as a demonstration of an integrated production, marketing and processing center for development of the milk industry. This is also a 5-year project and will probably be extended.

IV.

BUDGET ESTIMATES ★
((\$000))

	FY 1973	
	U. S.	GOP
TOTAL	\$ 1,266	\$ 3,056
<u>Residual Activities</u>	<u>311</u>	<u>375</u>
Technicians	(100)	
Commodities	(85)	
Training	(126)	
<u>Core Group Economists</u>	<u>258 1/</u>	<u>160</u>
<u>Technical Planning Advisors</u>	<u>190 2/</u>	<u>886</u>
A. Meat Sector	(176) 2/	
B. Basic Staples Marketing	(14) 3/	
C. Ag. Credit	-	
<u>Training</u>	<u>80</u>	<u>50</u>
Long Term (sector analysis)	(50)	(45)
Short Term (marketing)	(30)	(5)
<u>Commodities</u>	<u>29</u>	
Replacement vehicles for U.S. advisors	(29)	
<u>Other Costs</u>	<u>398</u>	<u>145</u>
A. U.S. and Peruvian DH	(182)	N.A.
B. Support of Sector Analysis Study	(75)	(75)
C. Support of sub-sector studies	(45)	(45)
D. In-country training	(25)	(25)
E. Contract Local Support Costs	(71)	

★ The updated cost components of this budget are presented in the same categories established in PROP Rev. Three prepared in AID/W. These do not conform to categories as presented in Page 1 of PROP. Page 1 presents the budget in accordance with component breakdown for program documents.

- 1/ In addition to FY-73 funded Core Group, FY-72 funds (\$95,667) for 2 Farm Management economists and 1 Water Resources economist are included in Iowa Contract and Core Group. See also 3/
- 2/ Includes 3 positions originally included in FY-72 PIO/T but later deleted from FY-72 funding when positions deferred: 2 pasture management, 1 oil seeds specialist.
- 3/ Included in Iowa Contract.