

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-445
June 27, 1966

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MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Peru - Supervised Agricultural Credit Fund

Attached are revised pages to be inserted in the subject Capital Assistance Paper.

The recommendations for authorization of a loan in an amount not to exceed \$9,000,000 to the Republic of Peru (Borrower) to assist Peruvian agricultural development, including agrarian reform, by financing a portion of the costs of (1) a program of supervised agricultural credit to small and medium income farmers or groups of farmers, (2) a program of supervised credit for forestry development and (3) technical assistance necessary to carry out such programs were considered by the Development Loan Staff Committee at its meeting on Thursday, June 23, 1966.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments: (Revised June 27, 1966)

Summary and Recommendations, pp. iii, iv, v, and vi
Project Analysis, pp. 3, 4, 5, 28 and 28a
Annex II, pp. 4, 5, 7 and 12
Annex III, p. 20a
Annex IV, pp. 1, 2 and 3

Previously Distributed: June 14, 1966

Summary and Recommendations
Project Analysis
Annexes I-IV

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MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Peru - Supervised Agricultural Credit Fund

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$9,000,000 to the Republic of Peru (Borrower) to assist Peruvian agricultural development, including agrarian reform, by financing a portion of the costs of (1) a program of supervised agricultural credit to small and medium income farmers or groups of farmers, (2) a program of supervised credit for forestry development and (3) technical assistance necessary to carry out such programs.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting in the near future.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:

Summary and Recommendations
Project Analysis
Annexes I-IV

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PERU - SUPERVISED AGRICULTURAL CREDIT FUND

TABLE OF CONTENTS

SUMMARY AND RECOMMENDATIONS	i
SECTION I History and Background	1
SECTION II Project Description	3
SECTION III Executing Agencies	8
SECTION IV Economic Analysis	3
SECTION V Financial Analysis	4
SECTION VI Repayment Prospect	6
SECTION VII Impact on U. S. Economy	26
SECTION VIII Conditions and Covenants	27
SECTION IX Implementation Plan	29
SECTION X Issues	33
ANNEX I Program Annex	
ANNEX II Checklist of Statutory Criteria	
ANNEX III Exhibits	
ANNEX IV Loan Authorization	

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 AID-DLC/P-445
 June 14, 1966

PERU - SUPERVISED AGRICULTURAL CREDIT FUND

SUMMARY AND RECOMMENDATIONS

i. **BORROWER:** The Borrower will be the Republic of Peru. There will be three executing agencies, the Servicio de Investigación y Promoción Agraria (SIPA), the Oficina Nacional de la Reforma Agraria (ONRA) and the Servicio Forestal. The Banco de Fomento Agropecuario (Banco) will be the fiduciary for the loan funds.

ii. **AMOUNT:** Not to exceed \$9,000,000

iii. **TOTAL COST OF PROGRAM:**

	<u>S/.^{a/}</u>	<u>\$</u>	<u>Total</u>
SIPA-Plan Costa	8,950,000	-.-	8,950,000
ONRA-Agrarian Reform Zones	9,900,000	-.-	9,900,000
Forestry Plantations	900,000	-.-	900,000
Technical Assistance	90,000	160,000	250,000
	<u>19,840,000</u>	<u>160,000</u>	<u>20,000,000</u>

iv. **SOURCE OF FUNDS:**

	<u>S/.</u>	<u>\$</u>	<u>Total</u>
GOP-SIPA	2,200,000	-.-	2,200,000
ONRA	4,400,000	-.-	4,400,000
Forestry Service	400,000	-.-	400,000
CORFIRA b/	3,000,000	-.-	3,000,000
Banco	1,000,000	-.-	1,000,000
GOP Sub-Total	<u>11,000,000</u>	-.-	<u>11,000,000</u>
AID-SIPA	6,000,000	-.-	6,000,000
ONRA	2,250,000	-.-	2,250,000
Forestry Service	500,000	-.-	500,000
Tech. Assistance	90,000	160,000	250,000
AID Sub-Total	<u>8,840,000</u>	<u>160,000</u>	<u>9,000,000</u>
Grand Total	<u>19,840,000</u>	<u>160,000</u>	<u>20,000,000</u>

a/ Stated in dollar equivalents at S/. 26.80 to \$1
 b/ Agrarian Reform Finance Corporation

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v. DESCRIPTION AND PURPOSE OF PROJECT: This loan will be an addition to the Supervised Agricultural Credit Fund established by previous AID loans totalling \$16.6 million. The purpose of the Fund is to make credit and technical assistance available to small and medium farmers most of whom are new land owners as a result of the Agrarian Reform Law. It is intended that as these farmers gain technical experience and begin to capitalize their farm operations they will then transfer to other sources of financing for their credit needs. The Fund is thus conceived as a means of assisting previous farm laborers to become viable farm owners. It is also conceived as a mechanism by which production of domestically consumed foods can be increased and agrarian reform efforts supported.

vi. BACKGROUND OF PROJECT: In September 1961, DLF signed a \$9 million loan for agricultural credit to be used mainly for sub-loans to colonizers on the Eastern Andean slopes. This loan encountered implementation problems and was little utilized until July, 1963 when President Belaunde took office. Belaunde's government presented a five year \$43 million loan request to AID (AID \$6.6 million, PL-480 \$1 million, and Eximbank \$1.7 million) for a program of supervised credit to increase the production of domestically consumed agricultural products and to support a program of agrarian reform. The DLF loan (204) was also oriented to this program and thus \$18.3 million of U.S. financing has been made available to the GOP for its agricultural development program. As of April 30, 1966 approximately 20,000 sub-loans have been made for a total of \$16,800,000 from these funds and sub-loan repayments. Approximately \$2,000,000 has been disbursed for equipment and construction to benefit the executing agencies and \$700,000 remains uncommitted but allocated to ONRA colonization projects.

vii. EXIMBANK CLEARANCE: Eximbank indicated to AID/W on May 21, 1966 that it was not interested in participating in this loan.

viii. VIEWS OF THE COUNTRY TEAM: Agricultural development and Agrarian Reform are the highest priority objectives of both the GOP and the U. S. Country Team.

ix. STATUTORY CRITERIA: All statutory criteria have been met. (See Annex II for Checklist)

x. PROBLEMS AND ISSUES:

- (1) GOP contribution to the Fund.
- (2) Sub-loan interest rates.
- (3) Transfer of better Farmers to Banco's regular operations.
- (4) Limitation of AID Financed ONRA program to two zones.
- (5) Title transfer and land evaluation.
- (6) Sub-loan terms and limitation on amount of individual sub-loans.
- (7) Limitation on divisions of Fund between short-term and long-term loans.
- (8) Expansion of SIPA programs with Cooperative and other Farmer groups.
- (9) Technical assistance.
- (10) Defaults in sub-loans.
- (11) Justification for AID financing of local currency costs.

xi. RECOMMENDATIONS: Authorization of a loan to the Republic of Peru in an amount not to exceed \$9 million. The loan shall be subject to the following terms and conditions:

- (1) Credit Fee and Terms of Repayment. - Borrower shall repay the loan to A.I.D. in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the loan interest of one (1) percent per annum during the grace period and two and one-half (2-1/2) percent per annum thereafter.
- (2) Other Terms and Conditions.-
 - a) If during the course of disbursement of the proceeds of this loan. Peruvian Soles become available to the

Government of Peru (i) as the result of PL 480 Title IV Sales, or (ii) as Sol repayments, in excess of the Sol equivalent of US\$200,000, to the Government of Peru special account established in accordance with A.I.D. two-step repayment agreements, or become available to the U.S. Mission to Peru as repayments to A.I.D. of PL 480 Title I loans, the Government of Peru and the USAID shall agree to apply such Soles to the purposes of this loan, and to reduce the dollar portion of this loan herein authorized, and the disbursements hereunder, pro tanto, by the dollar amount of these Soles. The Dollar reduction shall be computed at the highest dollar to Sol exchange rate legally permitted for official or commercial import transactions, then prevailing.

- b) Borrower shall agree that immediately upon the signing of this loan agreement, arrangements shall be made for the initiation of technical studies, to be financed under this loan, for the purpose of evaluation and refinement of the administrative procedures and operations of the loan and the Supervised Agricultural Credit Fund, for the purposes of refining policy benchmarks which define the types of crop, and lending terms and conditions to small and medium-sized farmers to whom supervised credit is to be extended for providing standards as to minimum farm sizes for inclusion in the credit program, and for establishing effective procedures for rapidly vesting adequate title in these farmers.

(i) Borrower shall agree that arrangements provided for in (b) above, satisfactory to A.I.D., shall be a condition to the first disbursement of the proceeds of this loan;

(ii) Satisfactory progress in the conduct of these studies shall be a condition to continuing disbursements under the loan.

(iii) Borrower shall covenant that no later than the time at which six million U.S. Dollars (\$6,000,000), (or its equivalent in Peruvian Soles and U.S. Dollars) is disbursed under the programs contemplated in this loan, the technical studies provided for in (b) above

Revised June 27, 1966

shall be completed, and the administration, operational, legal, and policy recommendations provided by these studies, or in additional review by A.I.D. of activities associated with this loan, shall be adopted and be effective, to the satisfaction of A.I.D., as a condition to subsequent disbursements under the loan. Borrower's failure to comply with this covenant to the satisfaction of A.I.D. shall constitute an event of default under the loan agreement.

- c) Equipment, materials and services financed under the Loan shall be procured from the United States of America or Peru (except marine insurance, which shall be procured from the United States of America).
- d) United States dollars utilized under the loan to finance local currency shall be made available to Borrower or its designee through appropriate procedures and shall be identified with procurement in the United States.
- e) Principal repayments from sub-loans financed by Development Loan Fund, Loan No. 204, A.I.D. Loan No. 527-L-029, and this Loan shall be placed in a consolidated Supervised Agricultural Credit Fund ("Fund") and the rules and procedures for the operation of such Fund which A.I.D. may deem advisable shall be governed by the Loan Agreement for this Loan, regardless of anything appearing to the contrary in DLF 204 or 527-L-029.
- f) Sub-loan repayments by recipients of supervised agricultural credit under activities associated with the Supervised Agricultural Credit Fund shall be used by the Borrower to promote Alliance for Progress objectives in agricultural development in Peru, and each year, unless A.I.D. notifies the Borrower otherwise in writing, the Borrower shall present to A.I.D. an acceptable plan for use of such sub-loan repayments.
- g) No funds under this loan may be used to compensate owners for expropriated property.
- h) The loan shall be subject to such other terms and

conditions as A.I.D. may deem advisable.

Project Committee:

Capital Development Officer:	FBKimball	- CAP <i>draft (REB)</i>
Economist:	JIMorgan	- E/ECO <i>draft (REB)</i>
Attorney	GFFlood	- LEG <i>draft (REB)</i>
Agricultural Advisor	ENGutierrez	- AGR <i>draft (REB)</i>
Drafting Officers		<i>draft (REB) draft (REB)</i> : FBKimball/JIMorgan

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AID-DLC/P-445
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SECTION I - HISTORY AND BACKGROUND

1. Agricultural development and agrarian reform are key long range problems in Peru's economic development. Effective programs to increase the amount of land under cultivation, raise productivity and redistribute agricultural land are essential to a more rapid and better balanced economic growth which will have a direct and immediate impact on the lives of the bulk of the population.
2. Recognizing the importance of the agricultural problems and opportunities in Peru the DLF signed a \$9 million loan agreement (DLF 204) with the GOP on September 8, 1961 to support the agrarian reform and colonization program administered by the Institute of Agrarian Reform. (DLF 204 was part of the \$50 million Eximbank-DLF "Beltran Package").
3. The major emphasis of this loan was to be the provision of credits to new settlers on the eastern slopes of the Andes. Implementation of the loan was slow due to the fact that there were three different administrations in power in Peru from 1961-1963 and that the highways leading to the potential colonization areas were only started at the time the loan was granted.
4. With the advent of the Belaunde administration in July, 1963, Peruvian programs for agricultural development began to be better planned. In October, 1963 the GOP formally submitted to AID a five year \$43 million loan application for assistance in financing agricultural credit and production programs which would support agrarian reform and at the same time avoid the normal overall reduction in agricultural production resulting from most agrarian reform programs by concentrating a portion of the funds on sub-loans to the economical-ly viable coastal farms of less than 30 hectares.
5. AID and Eximbank decided to support the GOP request with \$9.3 million of new loan funds. (AID 527-L-029 \$6.6 million, Eximbank credit #2153 \$1.7 million and \$1 million from PL-430 generations from the February 1964 sales agreement.) In addition, the \$9 million of DLF 204 was reprogrammed to be a contribution to the GOP program. The total of \$16.6 million of AID funds was divided as follows: SIPA - \$6.9 million for Plan Costa; ONRA \$4.6 millions mainly for two agrarian reform zones, Sierra Central and La Convención and three colonization projects in Chimbote, Apurimac and Huallaga Central; Forestry

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Service \$85,000, and San Lorenzo Colonization project \$5 million. Eximbank funds were used for procurement of vehicles and equipment for SIPA and ONRA and for a pilot saw mill for the Forestry Service.

6. As of April 30, 1966 all AID funds assigned to SIPA, San Lorenzo and the Forestry Service were obligated by approved sub-loans, and ONRA had a balance of \$700,000 of funds not committed by approved sub-loans. Since the impetus gained by the earlier AID loan was slowing down due to lack of funds, the GOP requested \$22 million additional funds for the expansion of the Agricultural Supervised Credit Fund.

7. After negotiations with the GOP, USAID determined that \$9 million was a more reasonable figure in terms of keeping within a 2 year time period and considering the absorptive capacity of the Peruvian agencies involved. (See Annex II, Exhibit 1 for rhythm of disbursements)

8. An IRR was approved by AID/W on May 5, 1966. Minutes of the CAEC review of the IRR are attached as Annex III, Exhibit 2. All questions raised during the CAEC review are fully discussed in this paper.

SECTION II - PROJECT DESCRIPTION

9. This loan will be an addition to the \$16.6 million previously lent to Peru by A.I.D. for agricultural development. (For details on Borrower's compliance with significant conditions and covenants of loans DIF-204 and A.I.D. 527-L-029, see Annex III Exhibit 3). The purpose of this first package was twofold. First, to increase production of domestically consumed foodstuffs by concentrating on a program of supervised credit with medium and small landholders on the Coast; second, to support with sub-loans for agriculture the program of land redistribution, mainly in the Sierra, which was authorized by the Agrarian Reform Law.

SIPA

10. This new loan in agriculture will continue and improve the program started by the first package. Approximately \$6 million will be earmarked for expansion of SIPA's coastal program of supervised credit. It is USAID's estimate that these funds will reach 12,000 small and medium coastal farmers on approximately 100,000 acres. The total number of coastal farmers on less than 75-acre farms is estimated by SIPA to be 54,000. By the end of CY 1966 this figure is expected to increase to some 73,000 as result of Title XV of the Agrarian Reform Law (see p. 10 for further explanation of this Title). It cannot be stated at this time how many of these farmers should receive agricultural credit. This will largely depend on the evaluation program outlined below as one of its objectives is to determine the minimum size economic unit per type of crop and soil.

Repayments to the Fund will be sufficient to finance credits for approximately 15,000 sub-borrowers. Counting repayments and the new \$6 million, SIPA should reach approximately 27,000 small and medium coastal farmers each year. (See Annex III, Exhibit 9a, for cash availability projections of the total Fund.)

11. SIPA estimates that the new funds will make possible the following types and amounts of sub-loans:

<u>Purpose</u>	<u>Number of Credits</u>	<u>Amount of Credits</u> \$
corn	5,000	1,600,000
rice	1,300	1,200,000
beans	1,600	500,000
potatoes	600	600,000
other crops	2,500	750,000
cattle fattening	250	350,000
dairy	200	500,000
poultry	300	300,000
equipment	150	100,000
farm improvement	100	100,000
	<u>12,000</u>	<u>6,000,000</u>

ONRA

12. Approximately \$2.25 million of the new loan will be earmarked for the agrarian reform program in the La Convencion and Sierra Central zones. With these funds, ONRA projects that it will be able to make the following types and amounts of credits:

<u>La Convencion</u>	<u>Number of Credits</u>	<u>Amount of Credits</u>
		\$
short term crop	1,000	450,000
equipment	100	50,000
<u>Sierra Central</u>		
short term crop	1,500	600,000
long term crop	50	150,000
livestock	30*	1,000,000
	<u>2,680</u>	<u>2,250,000</u>

13. These two zones of agrarian reform have been agreed upon by ONRA and the Project Committee since they are the most important areas in which ONRA is now working in terms of number of people to be reached, need to continue the impetus gained by the first loan and expectation of reasonable results from new sub-loan inputs. Also, these are the two areas in which ONRA has most of its present staff and has gained considerable experience in the implementing of a sub-loan program.

13a. As Cuzco and Puno Departments have just been declared Agrarian Reform zones and detailed plans have not been developed, no meaningful projections can be made, at this time, regarding total loan necessities for the overall ONRA program.

14. The recent IDB \$20 million loan for community development in seven selected zones included \$4.4 million for agricultural credits. USAID in coordination with local IDB representatives will take steps to assure that there is no overlap between the two loans.

15. As in 527-L-029 USAID will insist on a covenant in the loan agreement making explicit the statutory requirement that Borrower will not use any loan funds to compensate owners for expropriated property.

* Loans to indian communities.

FORESTRY SERVICE

16. The Forestry Service will receive \$500,000 for continuation and expansion of their forestation program in the Sierra mainly in the areas of Cuzco, Huanuco and Pasco-Junin. This will provide funds for sub-loans sufficient to plant 5,000 hectares of timber (mainly eucalyptus). It is estimated by the Forestry Service that about 200 Indian communities will be benefited.

BANCO

17. The Banco will continue to act as fiduciary for these funds and will be responsible for the disbursement, collection and accounting. Technical assistance is being provided to the Banco as a condition of the recent \$15 million IBRD loan. The Project Committee has discussed in detail with Mr. Ives Chevalier, IBRD Consultant to the Banco, the technical assistance needs of the Banco. The conclusion was that the IBRD financed technical assistance is adequate to cope with the additional funds contemplated by this loan, and the A.I.D. funds would be better used in technical assistance for evaluation as described below.

Technical Assistance

18. Objectives:

To evaluate how well the revolving fund fulfills its objectives of:

- (a) increasing agricultural production and improving farm income among small and medium sized farmers,
- (b) channeling funds to farmers who will be able to move to conventional credit sources within the time periods envisioned in this loan,
- (c) facilitating the implementation of the Agrarian Reform Law by providing credit to sharecroppers who receive land under the law.

19. To train Peruvian counterparts, who would probably work closely with the Executing Agencies, in the techniques of evaluation so as to provide a follow-on capability after the technical assistance funds available from this loan are exhausted.

19a. To assist ONRA and SIPA in administrative aspects of the program. This would include, but not be limited to, advice concerning preparation of farm plans on the basis of a newly written uniform credit manual and simplification of loan procedures.

20. This evaluation program is expected to provide a combination of management guidance and substantive evaluation so that the National Agricultural Council and the Peruvian agencies which make sub-loans from the fund will be in a position to know what factors significantly affect borrowers' performance. With such data in hand the executing agencies will be in a position to modify Fund lending policies or practices to keep them closely attuned to the overall objectives of the program.

21. The technicians engaged in this program will be expected to install new or utilize existing report systems to produce the necessary data. The USAID will also find the data useful in its annual formal review with the Peruvian Government of the operations of the fund.

State

22. North Carolina/University will provide the personnel needed to carry out this program. This would include an agricultural economist with some background in statistical techniques as well as technicians with experience in farm credit administration.

Budget For Two - Year Period:

2 Long Term Technicians (U.S.)(4 man/years)	\$148,000
2 Short Term Technicians (U.S.) (6 man/months)	16,200
4 Peruvian Counterparts S/.15,000/mo.	53,728
1 Secretary S/.6,000/mo.	5,373
Travel	14,924
Assistants and other expenses	11,775
	<hr/>
	250,000

23. The Peruvian counterparts, at the termination of the two year contract, shall be financed by the GOP either as employees or under contract.

Limitations

24. The funds lent will be used exclusively for credits with the exception of \$250,000 earmarked for technical assistance. This will increase the capital of the Agricultural Revolving Loan Fund to approximately \$25,000,000. (Part of AID funds previously lent were used for construction of facilities and procurement of equipment

by the executing agencies, and thus did not become part of the revolving loan fund). It is anticipated that funds will be committed by approved sub-loans within 18 months and completely disbursed within two years of signing of the loan agreement.

25. During intensive review, the Project Committee reached agreement with the GOP on a number changes in the terms and conditions of sub-loans and in implementation of the program. These changes are described in detail in Section X Issues. They include an increase in sub-loan interest rates to correspond to the Banco's rates; a contribution to the Fund by the GOP of \$5 million over the next three years; a contribution to the Fund by the GOP of repayments from three existing two-step loans (estimated contribution of about \$13.3 million); an annual contribution to the Fund by the GOP of the amount necessary to cover all sub-loan repayments which are in arrears more than 90 days which are not covered by the net interest payments credited to the Fund; a limitation that no borrower may contract short term loans (up to one year) for a period of more than five years and no borrower may contract medium and long term loans (more than one year) for a period of more than 10 years; a limitation on maximum terms by type of sub-loan to be mutually agreed upon by the GOP and USAID prior to first disbursement of this loan; a limitation on division of the Fund loan portfolio between long term and short term loans (no more than 30% of portfolio may be in long term loans); technical assistance in evaluation of Fund results, operations and purposes; and limitation on amount of maximum sub-loan to any one individual of \$10,000.

SECTION III - EXECUTING AGENCIES

26. The Republic of Perú will be the Borrower and SIPA, ONRA and the Forestry Service will administer the loan with the assistance of the Banco acting as fiduciary. Policy direction and program coordination will be provided by the National Agricultural Council (CNA) composed of 15 members representing the agricultural agencies, congress and farmers. The CNA is chaired by the Minister of Agriculture.

27. Administrative and technical decisions and policies concerning the Fund are made by the Fund Committee which is composed of 5 members representing the executing agencies and the Banco.

Banco de Fomento Agropecuario (BANCO)

28. The Banco is a government owned institution primarily responsible for promoting agricultural development by providing credit to farmers. (See Annex III, Exhibit 4 for Comparative Balance Sheets).

29. The IBRD has granted four loans to the Banco since 1954 (totaling \$30 million) to support its normal lending operations. The last IBRD loan granted in May 1964 (\$15 million) recognized that, although the Banco's record of repayment of IBRD loans had been good and that the Banco had a respectable record of achievement in assisting programs of agricultural development, its banking record was not satisfactory. On the one hand, the Banco has

responsibility for costly non-profit activities such as research and extension. These non-banking functions have used manpower resources to an extent that has reacted unfavorably on its financial and operational status. On the other hand, inefficient organization and administration by the Banco itself has resulted in increased financial problems, an important feature of which is a poor debt collection record. (See Annex III, Exhibit 6 for details) Recognizing the importance of correcting this situation the IBRD established the following performance standards:

- a) a reasonable systematic reduction in the amount in arrears of both long and short term loan portfolios.

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- b) adoption of improved accountancy and procedural methods, based upon recommendation of outside consultants.
- c) revision of its operation other than credit with a view to increasing their profitability as recommended by outside consultants.
- d) arrangements to be made with the Government for financing certain services provided by the Banco in the national interest.

30. From its head office in Lima, the Banco controls 11 branch offices which run 36 agencies, 51 subagencies and nine plantations. Some of the subagencies are clearly marginal. Total staff numbered about 1,455 as of April 30, 1966, of whom about 1,125 were in field offices. The Banco estimates that it has increased its staff by 8 due to its fiduciary role with the Fund. The staff includes a large proportion of well-qualified personnel, but numerous strikes called by the Union of Commercial Bank Employees have reduced their efficiency considerably during recent years. Remuneration conditions on the basis of salary scales negotiated with the Union are not related to work achieved or the financial status of the institution. These salary increases have almost doubled administrative costs.

31. For acting as fiduciary of the Fund, the Banco will receive a fee of 6 1/4% of the principal of loans collected. While this may appear high, the Project Committee believes that it represents a fair estimate of Banco expenses in disbursing, collecting and accounting for the Fund. For regular Banco operations expenses for salaries alone are running about 5 1/2% of loan portfolio. (See Annex III, Exhibits 4 and 5 for Banco's Profit and Loss Statement and Comparative Balance Sheets) The fact that sub-loans of the Fund are relatively small in amount (average about \$700) makes the per loan cost higher than the average loan under the Banco's regular operations (about \$1800.)

Oficina Nacional de Reforma Agraria (ONRA)

32. ONRA was created on May 24, 1964 by Law #15037 to plan, organize, execute and evaluate the programs of agrarian reform and colonization. ONRA has divided its functions into three main categories.

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a) Declaration of Agrarian Reform Zones.

This process results in the decision as to what zone shall be declared a proper subject of agrarian reform. After a specific zone has been declared an Agrarian Reform Zone, ONRA then proceeds with the expropriation and transfer to new owners of the affected lands within the zone. To date four zones totalling 2.5 million hectares have been declared Agrarian Reform Zones. To date more than 200,000 hectares have been redistributed. This slowness is due in part to the length of time required by the legal process of expropriation in part to limitation of funds. At the time land is expropriated the Agrarian Reform Finance Corporation (CORFIRA) must pay cash for all the physical assets of the enterprise expropriated i.e. buildings, livestock, etc. Land is paid for in 18-22 year bonds at 4-6%.

b) Title XV of the Agrarian Reform Law.

Under Title XV of the Agrarian Reform Law signed May 21, 1964, all share-croppers whether in agrarian reform zones or not can become owners of the land they farm provided their parcels do not exceed 15 hectares on the coast and 30 in the Sierra and Selva, and provided the GOP has paid for the land pursuant to the law. As of May 1, 1966, 42,000 share-croppers had been given provisional titles to their land. (See Annex III, Exhibit 7 for details) Final Section XV titles must wait land evaluation and expropriation by ONRA.

c) Colonization Projects.

33. ONRA is responsible for the colonization projects in Chim-bote, La Joya, Apurimac, ^{and} Huallaga.

34. ONRA presently employs 721 technicians, 635 of whom are in the field. Its budget has increased annually e.g. 1964 - 4.9 million, 1965 - \$6.7^m / 1966 - \$7.3 million. ONRA has also utilized about \$7 million from DLF-204, 527-L-029 and Eximbank #2153 for its credit programs and purchase of equipment.

35. ONRA's record of achievement has been mixed. In its colo-nization schemes such as Chimbote and Apurimac, a tendency to "over" plan has resulted in some slowing of project execution. Also, since the priority project has been the Sierra Central, funds and personnel have often not been adequate in the colonization projects.

36. In the Central Sierra, after some initial delays because of the newness of the program, ONRA has distributed to 12 indian communi-ties and 14 groups of farm laborers large tracts of the Algolán

Hacienda previously held by the Fernandinis. About 10,000 farm families have been benefited by this action.

37. At the time of negotiating this loan special attention will be given ONRA concerning criteria for land expropriation.

Servicio de Investigación y Promoción Agraria (SIPA)

38. SIPA has been operative since 1943, and under complete Peruvian direction since 1960. SIPA operates at the national, regional (12 zones) and local (5 divisions for each one) levels in the areas of research, extension, agricultural development, livestock development and administration. Each regional office has a director with supervisors for each division. The delegation of authority to the regional offices is completely adequate to allow the regional directors to implement national programs with a minimum of check-back to Lima. The Extension Division of SIPA (the division most directly connected with implementing the supervised credit program) employs a total of 810 professionals 777 of which are in the field.

39. SIPA organizationally is independent of the Ministry of Agriculture. However, SIPA must answer to the CNA which is presided over by the Minister of Agriculture. SIPA's independence is mainly a matter of budgeting. In 1965 SIPA's budget was \$6.9 million and in 1966 it is \$10 million.

40. SIPA is considered by USAID as one of the brighter spots in the GOP bureaucracy. It has a long record of achievement on the technical side in both research and action programs. Other agencies of the GOP, recognizing this, have lured away a number of its technicians with offers of key jobs in Agrarian Reform and the National Planning Institute.

Forestry Service

41. The Forestry Service has been operative since 1948 and it became independent from SIPA in 1961 and is now a separate agency within the Ministry of Agriculture. The U.S. Forestry Service considers the Peruvian Forestry Service to be one of the best in Latin America based on a number of specific projects, such as timber species identification, in which the two have cooperated.

42. The GOP Forestry Service program under the previous AID loan funding has resulted in 61 sub-loans to Indian Communities and small

farmers, for S/.2,512,456 to plant 2,500,000 trees on 1,000 hectares of eroded non-agricultural land in the Sierra.

43. The Forestry Service budget has increased steadily since 1964. 1964 S/.7,600,000; 1965 S/.11,500,000; 1966 S/.16,000,000. The popularity with the Indian communities of the forestry plantation program has been the key reason the Peruvian Congress has allotted the Forestry Service increased budgets during the past three years.

SECTION IV - ECONOMIC ANALYSIS

44. Of the range of development problems in Perú, domestic agriculture is at once the most important and the most intractable. It has proven extremely difficult to frame specific effective solutions to the obvious problems in agriculture. But the long-term goals are clear; increased production, higher income, improved land distribution and greater efficiency.

45. This \$9 million loan will aim, as its predecessor loan did, at financing the material inputs -- seeds, fertilizers, equipment -- which when combined with the technical and management advisory services to be provided by Peruvian technicians will take medium and small sized farmers, especially those newly-independent farmers under the provisions of the Agrarian Reform Law, a measurable step down the path toward integration into the national market economy.

The Domestic Agricultural Problem in Peru

46. Perú is a large and growing importer of foods. In fact food imports have increased not only absolutely over time but increased even relative to overall imports as the following table shows:

<u>Year</u>	<u>Food Imports</u> (Millions of dollars)	<u>Total All Imports</u> (Millions of dollars)	<u>Food as % of Total</u>
1962	82	537	15.3
1963	88	556	15.8
1964	98	580	16.9
1965	130	730	17.8

47. While there are crops, such as wheat, that cannot be efficiently raised in Perú, it is clear that the country can achieve greater agricultural production, especially in commodities like rice, livestock, dairy products, edible oils and most fruits and vegetables, which are now imported in volume. Perú, after all, has a land area larger than France, West Germany and Spain combined with a population that does not reach 10 percent of those European countries.

48. Even granting the constraints imposed by a lack of water on the coast, low temperatures and poor soils of the Sierra, and the tropical rains of the Selva, it ought to be possible for Peru to achieve greater agricultural self sufficiency.

49. The following list details the major food imports into Peru in 1965.

Cereals	\$56.4 million
of which:	
Wheat and Flour	(37.9) million
Rice	(13.5) "
Livestock and Meat	19.7 "
Dairy Products	13.9 "
Fats and Oils	11.6 "
Fruits and Vegetables	7.3 "
All Other	21.4 "
Total	<u>130.3</u> million

50. To date, AID has invested more than \$16 million in agricultural credit plus a very considerable sum in roads to open up new lands. However, AID is not the only agency investing in Peruvian agriculture. Among foreign lenders the BID has committed \$15 million. The IBRD has invested a total of \$29 million in the San Lorenzo irrigation project in addition to \$30 million in loans to the Agricultural Development Bank to expand the Banco's loan program. On the Peruvian side, the primary source of direct assistance to farmers comes from two agencies, the agricultural extension service, SIPA, and the agrarian reform agency, ONRA. These two agencies provide technical assistance work in conjunction with the government owned Agricultural Development Bank. The Forestry Service also has a role to play in agriculture, but shortage of funds has to date limited its role.

Results of the Credit Program

51. Drawing on funds made available through prior U.S. loans for agricultural credits, SIPA, ONRA and the Forestry Service have over the past year and one-half approved more than 20,000 sub-loans totaling some \$16.8 million as of April 30. These funds have been channeled to a previously neglected element in agriculture -- the medium and small sized farmers producing for the domestic market. For details see Annex III, Exhibit 3.

52. Traditionally, the export growers and the large haciendas have had access to production credits through the commercial banking

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system and, in recent years, through the Agricultural Development Bank. The traditional credit source for small farmers has been the hacienda owner who financed the crop and provided the management in exchange for which he received the marketable output or the labor services of the subsistence-level rural families.

53. While the number of independent small and medium sized farmers has never been known with any degree of precision, it is a fact that the number is increasing rapidly thanks to the Agrarian Reform Law passed in 1964. Under that law families with land plots of 15 hectares or less on the coast can receive provisional land titles in fairly short order. Similarly, Sierra sharecroppers working plots of 30 hectares or less can receive provisional land titles. These so-called Title XV farmers numbered 38,600 at the end of 1965 and another 53,600 are scheduled to receive land in 1966. With over 100,000 sharecroppers having applied for land titles it is evident that the number of new (and marginal) farmers is bound to grow.

54. One of the prime objectives of past AID agricultural credits and of this proposed loan is to improve the chances for economic survival of these new small farms and thereby give real meaning to agrarian reform. The loan capital provided from AID combined with the technical service of ONRA and SIPA should help bridge the gap from servitude to meaningful economic independence for many of these farmers, raising domestic agricultural output and increasing real farm income.

Results of the SIPA Program "Plan Costa" to Date

55. SIPA can trace its lineage back beyond Point IV to the pioneering Rockefeller interest in Latin American agriculture in the early forties. The agency now has a budget of more than \$10,000,000 and employs 1,413 technicians. It is the agency responsible for "Plan Costa" and over the last 18 months (through April, 1966) has approved more than \$8.5 million on 15,400 loans for an average loan of approximately \$560.

56. While financing produce ranging from alfalfa to watermelons as well as livestock, SIPA has committed almost half of the loan funds in two crops -- corn and rice -- with livestock a close third. Loans by commodity through December 1965 are shown in summary form below.

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<u>Crop</u>	<u>Number of Credits</u>	<u>Average Credit</u>	<u>Total Credit (Thousand of Dollars)</u>
Corn	5,062	336	1,700
Rice	1,056	1,082	1,143
Livestock	566	1,966	1,113
All other	<u>4,774</u>	<u>485</u>	<u>2,314</u>
Total	11,458	549	6,270

57. To receive these credits participating farmers, under the guidance of a SIPA extension agent, develop a farm plan. On the basis of soil, climatic and marketing possibilities the two jointly agree on the crop or crops to be planted, the purchased supplies and equipment that will be necessary as well as the timing for planting, fertilizing, cultivating and harvesting. The complete farm plan is a key part of the credit application submitted to the local loan committee which includes a representative of SIPA, the Banco and ONRA. While the farm plan itself is essential guidance for the new farmer, SIPA's major contribution comes in the technical assistance follow-on once the loan is approved; showing the farmer how to plant, how to apply fertilizers, when to harvest, etc.

58. Though the program has been in operation barely 18 months, SIPA feels, and independent observers agree, that significant advances have been made in attitudes and practices which have already showed up in terms of increased outputs.

59. Resistance to the use of synthetic fertilizers has greatly diminished as farmers use the chemical fertilizers provided by SIPA as an alternative to the guano that has traditionally been used. Further, SIPA has introduced to the small and medium sized farmer the use of improved seed varieties including hybrid corn, potatoes and beans.

60. In other aspects of improved farm practice, SIPA supplies equipment and engineering advice on a custom basis to level land, to improve water utilization, clear drainage ditches, and engage in limited flood control work. SIPA estimates that in 1965 its machinery assisted more than 37,000 farmers, double the number of 1964.

61. In the area of disease and pest control, SIPA has initiated a selective valley-by-valley educational campaign against such pests

as the fruit fly and powdery mildew of apples. The proper use of pesticides has also been an essential element of these campaigns.

62. On the marketing side, SIPA has been promoting cooperative marketing arrangements. For example, under SIPA guidance groups of farmers have by-passed traditional marketing channels and have sold their corn direct to processors receiving a better price and at the same time facilitating repayment of the sub-loans.

63. In livestock the accomplishments of the past year include instruction in the use of balanced feed using concentrates and the use of corn silage for cattle, a little used practice previously. Farmers in the Arequipa area, for example, with the use of sub-loans have built 17 upright silos with a storage capacity of 120 tons each to better utilize this feed. Livestock borrowers under this program maintain full vaccination schedules to protect their animals.

64. The results of the additional inputs of money, leadership, and technical assistance in terms of increased output are as yet still slim since disbursements under this program have been underway for little more than one year. Nevertheless, there are some specific data in major crops.

Corn

65. Working under the coastal credit plan small farmers planted 15,000 hectares of hybrid corn in 1965. The best available estimate puts the added production of corn for the new areas planted (replacing cotton) and the improved yield per hectare at 30,000 tons valued at \$2.2 million.

66. In part as a result of this credit program corn imports, which in 1964 totaled almost 16,000 tons costing more than one million dollars, were negligible in 1965.

Rice

67. In the latest (1964-1965) crop year Peru imported 92,000 tons of rice worth over \$13 million. The estimated rice production of small farmers attributable to their use of improved seeds and fertilizers available under this program was 12,000 tons valued at slightly over \$1,000,000.

68. The increased output by small farmers just offset the decline in domestic production as large farmers moved from rice to cotton because the government-controlled rice price was held at too low a level.

69. Before planting began for the current crop year, the GOP announced that first quality rice will be free of price controls and that the lower quality rice can be sold at a higher price than before. As a result there has been some switching by large growers from cotton back to rice.

Beans

70. Yields of menestras (beans) went up very significantly among borrowers from the loan fund. Available data indicate that output per hectare rose from 380 kilos in 1964 (without supervised credit) to 1,200 kilos in 1965 with credit. The increased revenue of more than \$80 per hectare generated for the participating farmers an additional income of almost \$500,000.

ONRA Credit Program

71. Sub-loans made through ONRA are spread over five regions with the bulk of the lending concentrated in two as shown in the following table.

<u>Region</u>	<u>Short-Term Loans</u> (Thousands of \$)	<u>Long-Term Loans</u> (Thousands of \$)
La Convención	897	-
Sierra Central	693	1,264
Tingo María	337	-
Chimbote	58	347
All other	<u>156</u>	<u>138</u>
Total	2,141	1,749

72. Experience to date with loans disbursed by ONRA is scanty. Loans made in late '64 and early '65 were for inputs during the 1965/66 crop year, the benefits of which will become apparent only after the harvest now underway, is complete.

73. ONRA began work first in the La Convención Valley northeast of Cuzco in November 1964 and swung into high gear in 1965. The Valley had been a center of peasant unrest. Land invasions and clashes with troops were frequent occurrences and Communist agitators were active in the area.

74. From November 1964 to April of this year ONRA in La Convención has made almost 1900 loans valued at \$895,000. All of these loans were at short term with the greatest portion of the money going into coffee, tea and cacao. For a variety of reasons, political and economic, sub-loans have been used to finance these traditional crops. It is significant that in La Convención less than ten percent of all loans accounted for two-thirds of the funds lent. Cooperatives, both producer and marketing, and groups of "associated farmers" were the principal recipients. With an average of 9 "associates" in each group, these farmers each received an average loan of \$370. In contrast farmers applying individually borrowed little more than \$110 each.

75. La Convención is the first but the Central Sierra Region represents the greatest concentration of ONRA technicians and sub-loans under previous agricultural credits. Comprising the mountainous regions of Pasco and Junin and the relatively advanced semi-tropical eastern slope of the Andes, especially the Chanchamayo Valley, the Central Sierra has thus far received approximately \$2 million in sub-loans.

76. In short-term crop loans like those of the La Convención Valley, ONRA has channelled almost \$750 thousand in 942 sub-loans averaging about \$640 each in addition to a larger \$41,000 loan to a coop. In addition, slightly over \$200,000 has been channelled into 50 long-term loans for high valued avocado and citrus.

77. The ONRA program is distinctive in the Central Sierra as the agency has channelled very long-term sub-loans - 13 years-out to Indian communities to pay for sheep raising enterprises. These loans complement, indeed are a component of the more conventional type of agrarian reform in the sense that the program involves the wholesale redistribution of large haciendas acquired by the Government and then redistributed to the nearby Indian communities. ONRA long-term sub-loans have been utilized to stock these distributed lands with quality livestock. While the loans themselves have been made for a proper purpose, the term is clearly excessive. Long-term livestock loans are expected to be a part of ONRA's future activities in the Central Sierra, but terms will be shortened.

78. In other regions, ONRA has been responsible for making sub-loans in the Chimbote irrigation project which was taken over by the Government when its private sponsors pulled out. Most of the \$400,000 dollars approved in subloans for this project is going into land leveling and irrigation on 136 land parcels with smaller amounts earmarked for short-term crop loans.

79. In addition to the projects described above, ONRA has made loans in two small colonization projects (Apurímac and Tingo María-Tocache) as well as making some loans in Jaen, Bagua and Cajamarca in the north and Abancay west of Cuzco in Apurímac.

80. The combined total of loans in all regions outside those already described totals less than \$600,000.

81. As noted, it is too early to draw firm conclusions about the effectiveness of these widely separated, disparate programs that ONRA is involved in.

82. Though difficult as yet to demonstrate quantitatively in terms of increased output, there is considerable tangible evidence especially in La Convención that the ONRA administered program is having an impact. There is in that region stability if not tranquility. In fact, the guerilla bands which had caused considerable agitation in the area are not currently a threat and the previously restless campesinos are largely quiescent. The function of producers and consumers coops especially in that region has been spurred, given impetus by the improved prospects of getting financing for such endeavours.

83. In the Sierra Central, the availability of AID sub-loans has been an indispensable element in the acquisition of livestock by the indian communities and has been a contributing factor in the elimination of land invasions. In addition, the campesino training center in La Quinoa is an effective device for teaching democratic leadership to community leaders of the area.

The Forestry Service

84. From late 1964 to date \$85,000 from previous AID agricultural credit loans has been utilized by the Forestry Service in planting 1,000 hectares of trees on eroded, non-agricultural land belonging to indigenous communities and small farmers in the Sierra. In this

program the Forestry Service makes seedlings available to the indigenous communities which in turn provide the labor for planting, and then assume the responsibility for carrying for the plantations. The campesinos receive food rations for their work in this program under the provision of PL 480, Title II. During the last two years more than one million such food parcels have been distributed.

85. The yield from this forestation program is high. Only land not suitable for crops or pasture is used. The time invested by the campesino labor does nothing more in real terms than reduce his underemployment. The only real opportunity cost involved is represented by the cost of the seedlings which are purchased with the sub-loans. It is calculated that \$100 will reforest one hectare. The eucalyptus trees take approximately ten years before they can be cut, and then by selective cutting a yield of 5,000 board feet per hectare annually can be sustained indefinitely. On this basis the cash yield per hectare for the trees works out to about \$55 annually.

86. If the Forest Service's long-range plans to plant 100,000 hectares in plantations are realized, the annual cash income that would be generated would reach \$6 million per year. For the, perhaps, one million families with a per capita cash income of less than \$100 per year that would stand to benefit ultimately from such a program, the \$6 million increased income would be substantial.

San Lorenzo

87. Some \$5 million was allocated from DLF 204 for sub-loans as part of the financing of the \$30 million third stage of this large scale irrigation project.

88. Major investment expenditures in this third stage are budgeted for land development, road equipment, technical services and facilities and, most importantly, in farm investments at both short and long term.

89. Of the AID sub-loans approved through the end of the first quarter, 2700 of the 2800 sub-loans were for medium and long term credit. Approximately \$1.3 million was destined for machinery, just under one million dollars for house construction and approximately \$600,000 for irrigation and long-term livestock loans combined. A quarter of a million dollars was disbursed in short term loans for livestock.

90. To date, 1,192 parcels in San Lorenzo totalling 19,000 irrigated hectares have been settled. Most of the 826 houses that have been built in the project have been financed by the 655 AID-sub-loans made for this purpose.

91. The sub-loans from DLF 204 do not loom large in terms of the scale of the San Lorenzo project. Even in terms of agricultural credit the AID financed portion is far outweighed by the IBRD. Further, AID funds are largely in long-term sub-loans as the World Bank loan funds have been heavily committed to the short-term production type loan.

92. The San Lorenzo project when fully completed will make a real contribution to Peruvian agricultural production. Further, there is no question that San Lorenzo will provide economically viable family farm units. With the commitment of \$5 million to this project, AID has assisted materially in the project's ultimate success.

Conclusions

93. During the past eighteen months a substantial volume of reasonably-priced credit has been reaching the small and medium sized farmers. Many of them are completely inexperienced in farm management and most are woefully short in their knowledge of modern farm practices. This means that the technical assistance component provided by the Peruvian agencies has been and will remain essential to the success of this loan fund.

94. Despite the short period in which this program has been underway, it has already produced tangible results. The increased production along the coast of food in short domestic supply--corn, rice, beans -- has been cited. The improved political situation in La Convención and the Sierra Central also reflect to a degree the availability of economic assistance in those regions.

95. The contribution of the long-term sub-loans --for livestock in the Sierra, farm equipment in San Lorenzo and land improvements in the Coast and elsewhere-- cannot yet be measured, of course. More time will be required before the results of these types of loans emerge.

96. One point which has not been dealt with in the foregoing and which merits consideration is defaults. A major test of the

economic results of sub-loans under this program is whether they are paid back. While there are many reasons for a high default rate, a well-run program of production loans should have a manageable delinquency rate, say, less than 10 percent.

97. In the SIPA program, which is the only one for which data are yet available, the proportion of slow payers is very high, 29 percent of all payments due have not been made on time. Part of the explanation for this high rate is the faulty classification of delinquent accounts. SIPA has not adjusted the figure to reflect loans which have been extended or rolled over. Making allowance for renewals will doubtless bring the default rate down significantly. But even after the adjustment, the delinquency rate is expected to be a problem, largely because of the marginal status of many small farmers. Some farm families, for example, have less than 2 acres of land, an uneconomic parcel. Lack of knowledge of markets, insufficient technical assistance, and poor management are among the other reasons that can explain high rates of default.

98. The new loan agreement will provide that the Government of Peru will repay the revolving fund for sub-loans delinquent more than 90 days. While this step will preserve the integrity of the loan fund, it is still true that defaulted loans represent a loss of real resources.

99. The Mission strongly believes that the program evaluation to be carried forward under the \$250,000 technical assistance component of this loan will significantly improve the future operating experience of the Fund by pinpointing causes for default and isolating such factors as the rates of return to borrower depending on crop financed, size of farm and other variables. Guided by the results of such studies the National Agricultural Council will be able to keep channelling the resources of the Revolving Fund to those who can use it effectively.

SECTION V - FINANCIAL ANALYSIS

100.

Estimates of Total Costs:

	<u>S/. a/</u>	<u>\$</u>	<u>Total</u>
SIPA - Plan Costa	8,950,000	0.00	8,950,000
ONRA - Agrarian Reform Zones	9,900,000	0.00	9,900,000
Forestry Plantations	900,000	0.00	900,000
Technical Assistance	90,000	160,000	250,000
	<u>19,840,000</u>	<u>160,000</u>	<u>20,000,000</u>

101.

Source of Funds:

GOP - SIPA	2,200,000	0.00	2,200,000
ONRA	4,400,000	0.00	4,400,000
Forestry Service	400,000	0.00	400,000
CORFIRA ^{b/}	3,000,000	0.00	3,000,000
BANCO	1,000,000	0.00	1,000,000
GOP Sub-Total	<u>11,000,000</u>	<u>0.00</u>	<u>11,000,000</u>
AID - SIPA	6,000,000	0.00	6,000,000
ONRA	2,250,000	0.00	2,250,000
Forestry Service	500,000	0.00	500,000
Technical Assistance	90,000	160,000	250,000
AID Sub-Total	<u>8,840,000</u>	<u>160,000</u>	<u>9,000,000</u>
Grand Total	<u>19,840,000</u>	<u>160,000</u>	<u>20,000,000</u>

a/ Stated in dollar equivalents at S/. 26.80 to \$ 1

b/ Agrarian Reform Finance Corporation

102. It is anticipated that PL 480 funds generated under the proposed title IV agreement will be used to finance local currency costs of the AID loan if and when they become available. It is anticipated that this Title IV agreement will generate about \$2-\$3 millions. There are no PL 480 funds available in Peru at this time.
103. The GOP will make the following contribution to the Program: \$5 million will be contributed to the Fund by the GOP over a three year period beginning with \$1 million in 1967 and \$2 million each for the succeeding 2 years; all two step loan repayments plus interest from Lima Water and Sewerage (527-L-022), Pativilca Hydroelectric (527-L-025), and Cañon del Pato (527-L-024) will be deposited in the Fund. The total from this source will be \$13.3 million over the next 14 years (see Annex III, Exhibit 9 for details). The loan agreement shall specify that these two step repayments may be redirected at such time USAID so agrees with the GOP that there are other higher priority uses for whatever balances have not already gone into the Fund. Since these repayments will be coming in until 1980, the Project Committee believes that it is best to allow certain flexibility over allocation of these funds in the event that program emphasis changes during that period or other sources of funds become available for the Fund in sufficient quantity to obviate the need for continued use of the two-step repayments. The GOP will also contribute the operating expenses of ONRA, SIPA and Forestry Service in the areas of granting AID financed sub-loans. The Banco will receive 6 1/4 percent of sub-loan repayments as a fee for their fiduciary duties.
104. Besides the above fixed contributions to the Fund, the GOP will contribute each year an unspecified amount to make up for arrears. The Banco will make a quarterly report on arrears of Fund sub-loans. The net amount of repayments in arrears more than 90 days as of March 31 of each year shall be included by the Government in its budget request to Congress for the succeeding year. (The budget is normally presented to Congress in August of each year and appropriation action is normally completed by the last of December). Another contribution of the GOP will be the \$3 million allocated by the GOP to the Agrarian Reform Finance Corporation (CORFIRA). This institution is the financial agent for ONRA in paying for assets on expropriated lands. For instance if a hacienda is expropriated, the lands are paid for in long term bonds. However, buildings, livestock, etc. must be paid for in cash. CORFIRA's \$3 million will be used for these types of payments in Agrarian Reform Zones.
105. For purposes of this paper the GOP contribution is considered

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to be only that amount of funds which will be contributed during the projected disbursement period of this loan (2 years) or \$11 million. Over the next fourteen years the GOP contribution will amount to \$18.3 million just counting increases to the capital of the Fund from budget contributions and two-step loan repayments.

106. The IBRD in 1965 lent \$15 million to the Banco and \$11 million to the San Lorenzo Project. These loans were aimed at providing medium and long term credits to commercial coastal farmers. IDB's recent Indigenous Communities loan of \$20 million included \$4 million for agricultural credits in seven selected zones of the Sierra and approximately \$10 million for agricultural credits is included in the recent IDB loan of \$15 million for settlement in the Tingo Maria-Tocache zone. Due to these recent inputs, IBRD and IDB have indicated to AID/W that they will not be interested in participating with AID in this loan. Also since there are no foreign exchange costs, Eximbank has indicated no interest.

SECTION VI - REPAYMENT PROSPECTS

107. Based on the economic analysis of Peru's situation in Annex I, as well as the GOP's past record of outstanding performance in servicing its debt, it is the opinion of the Project Committee that repayment prospects for this A.I.D. loan are reasonable.

SECTION VII - IMPACT ON U. S. ECONOMY

108. No harmful effects to the U. S. economy will occur as a result of this A.I.D. loan. No export food or feed crops will be financed which are in chronic surplus in the U.S. or world markets as defined by the U.S. Department of Agriculture, nor will any non-food or feed agricultural commodities be financed for domestic consumption or export which are in chronic surplus in the U.S. or world markets as defined by the U.S. Department of Agriculture.

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SECTION VIII - CONDITIONS AND COVENANTS

109. The major conditions and covenants of the Loan Agreement will be as follows:

1. The Executive Branch of the Peruvian Government shall include in its budget request to the Peruvian Congress for the calendar year 1967 the equivalent in Peruvian soles of one million United States dollars (\$1,000,000) to be contributed to the capital of the supervised Agricultural Credit Fund. In calendar years 1968 and 1969 the Executive Branch shall include in its budget requests the equivalent in Peruvian soles of two million United States dollars (\$2,000,000) for each of the abovelisted years as further contributions to the capital of the Fund. If the Peruvian Congress does not appropriate the contributions in the amounts and for the years specified above, A.I.D. may foreclose the possibility of further A.I.D. assistance to the Fund.

2. Sub-loans will carry the rates of interest now used by the Agricultural Development Bank for its normal operations. These rates are:

<u>Amount</u>	<u>Rate</u>
S/. 0 - S/. 10,000	7%
S/. 10,001 - S/. 50,000	9%
S/. 50,001 - S/.100,000	10%
S/.100,001 - S/.200,000	12%
S/.200,001 - S/.500,000	13%

3. The Agricultural Development Bank shall receive 6 1/4% of the principal outstanding on sub-loans at such time as the interest is collected in order to defray administrative costs. The present transfer of 3/4 of 1% of loans collected to the Agrarian Reform Finance Corporation shall cease. All interest collected above the 6 1/4% required to pay administrative costs of the Agricultural Development Bank will be used as increased capital to the Fund.

4. If during the course of disbursement of the proceeds of this loan, Peruvian Soles become available to the Government of Peru (i) as the result of PL 480 Title IV Sales, or (ii) as Sol repayments, in excess of the Sol equivalent of US\$200,000 to the Government of Peru special account established in accordance with A.I.D. two-step repayment agreements, or become available to the U.S. Mission to Peru as repayments to A.I.D. of PL 480 Title I loans, the Government of Peru and the USAID shall agree to apply such Soles to the purposes of this loan, and to reduce the dollar portion of this loan herein authorized, and the disbursements hereunder, pro tanto, by the dollar amount of these Soles. The Dollar reduction shall be computed at the highest dollar to Sol exchange rate legally permitted for official or commercial import transactions, then prevailing.

5. The Agricultural Development Bank will make quarterly statements on the default situation with respect to Fund Sub-loans. The GOP will replace all loans in arrears of more than 90 days by an annual contribution to the Fund. The March 31 report of each year will be used as the basis for determining the amount the GOP will request in its budget for covering such loans in arrears.

6. No sub-borrower may contract short term loans (up to one year) from the Fund for a period longer than three years from the date of his first such loan. No sub-borrower may contract medium and long-term loans (more than one year) during a period longer than ten years from the date of his first such loan.

7. Prior to first disbursement AID and the Borrower shall agree on specific loan terms to be applied to each category of sub-loans.

8. No more than 30% of the Fund's loan portfolio shall be held in loans of more than one year's duration at any given time until and unless the GOP and USAID otherwise agree.

9. Borrower shall agree that immediately upon the signing of this loan agreement, arrangements shall be made for the initiation of technical studies; to be financed under this loan, for the purpose of evaluation and refinement of the administrative procedures and operations of the loan and the Supervised Agricultural Credit Fund, for the purposes of refining policy benchmarks which define the types of crop, and lending terms and conditions to small and medium-sized farmers to whom supervised credit is to be extended, for providing standards as to minimum farm sizes for inclusion in the credit program and for establishing effective procedures for rapidly vesting adequate title in these farmers.

(i) Borrower shall agree that arrangements provided for in (9) above, satisfactory to A.I.D., shall be a condition to the first disbursement of the proceeds of this loan;

(ii) Satisfactory progress in the conduct of these studies shall be a condition to continuing disbursements under the loan.

(iii) Borrower shall covenant that no later than the time at which six million U.S. Dollars (\$6,000,000), (or its equivalent in Peruvian Soles and U.S. Dollars) is disbursed under the programs contemplated in this loan, the technical studies provided for in (9) above shall be completed, and the administration, operational, legal, and policy recommendations provided by these studies, or in additional review by A.I.D. of activities associated with this loan, shall be adopted and be effective, to the satisfaction of A.I.D., as a condition to subsequent disbursements under the loan. Borrower's failure to comply with this covenant to the satisfaction of A.I.D. shall constitute an event of default under the loan agreement.

10. Each year for the life of the loan, on a date no later than May 31, the Borrower and A.I.D. shall meet to formally review progress, agree on such changes as may be necessary and to plan uses of sub-loan repayments for the coming year.

11. Principal repayments from sub-loans financed by Development Loan Fund, Loan No. 204, A.I.D. Loan No. 527-L-029, and this Loan shall be placed in a consolidated Supervised Agricultural Credit Fund ("Fund") and the rules and procedures for the operation of such Fund which A.I.D. may deem advisable shall be governed by the Loan Agreement for this Loan, regardless of anything appearing to the contrary in DLF 204 or 527-L-029.

12. No funds under this loan may be used to finance expropriated United States or Peruvian property.

SECTION IX - IMPLEMENTATION PLAN

110. It is expected that the loan will be authorized by AID/W in late June, 1966, and that the loan agreement will be signed one month later. Conditions precedent should be completed within one month after signing of the agreement.

111. A.I.D. funds under previous loans have been completely committed for approved sub-loans, except \$700,000 in colonization projects of ONRA. Due to this lack of funds new sub-loans have only been made at the diminished rate made possible by use of repayments.

112. The implementation of this loan will proceed in much the same manner as the two previous loans. The main difference will be that no funds will be used for construction, or procurement of equipment, by the executing agencies. All monies, except \$250,000 earmarked for technical assistance, will be used for sub-loans. The loan agreement will contain provisions making necessary modifications in DLF-204 and 527-L-029, (1) to permit consolidation of the funds made available under these two loans for sub-loans with the funds made available under this loan, and (2) to permit establishment of a single system of regulations and procedures for the operation of the consolidated Supervised Agricultural Credit Fund.

113. Loan Agreement 527-L-029 provides that goods and services financed under the Agreement shall have their source and origin in the U.S. or Peru, except that items procured with Solas by eligible farmers under sub-projects approved by A.I.D. not exceeding the Sol equivalent of \$500 per sub-loan shall have their source in Peru and their origin in Peru or in countries included in Code 899 of the A.I.D. Geographic Code Book as in effect at the time such goods and services are procured. Experience during implementation of 527-L-029 indicates that there is no satisfactory method of enforcing the \$500 limitation at the local community level, and the \$500 limitation will be removed in the new Loan Agreement. The Project Committee is of the opinion that no waiver of A.I.D. source - origin requirements are necessary for this purpose, since the procurement involved is by a sub-borrower of small

loans under an intermediate credit operation. The limitation to free-world procurement will be retained however, to permit AID to disassociate itself from procurement of items that may be discovered to be from Communist - black countries.

114. The Fund may be used to make loans to individuals, cooperatives or Indian communities for the following purposes:

- a) Procurement of fertilizers, seeds, seedlings, insecticides and fungicides.
- b) Procurement of livestock, poultry, feed, veterinarian supplies, and fencing materials.
- c) Procurement of agricultural machinery and equipment or the payment of rental services for such.
- d) Procurement of materials for construction of farm buildings and improvements.
- e) Payments to cover the costs of soil improvement, on-farm irrigation systems, on-farm roads and land preparations.
- f) Payments to farmers for personal and family work on their own land at a reasonable rate per unit of work to be determined by the local credit committee under the following conditions:
 - (1) The farmer who obtains such a sub-loan will be subject to the technical supervision and control of the executing agencies.
 - (2) The farmer or cattle farmer will be paid for his personal or family work, partially or totally, only when he does not have any other resources to live on until he starts receiving sufficient income from his farm operations.
 - (3) This working capital loan will be restricted to the value of work performed by the farmer on his own land.

- (4) Payments to the farmer for personal and family work will continue for no more than three calendar years after signing for his first sub-loan from the Fund. The extent to which this type of sub-loan should be continued will be the subject of special consideration during the 1967 annual review.

115. The selection of farmers, cooperatives or communities to receive sub-loans will be made by the local credit committee composed of one representative each of the Banco, SIPA, and as appropriate, ONRA. (Loans for forestry plantations are naturally supervised by the Forestry Service but they do not participate on the credit committees for SIPA and ONRA sub-loans).

116. A farm plan must be developed by the appropriate technician in cooperation with the farmer for each agricultural unit so selected. This plan includes annual costs and anticipated income and an investment schedule specifying the amount of each item of goods and services required and the month in which it will be needed. The farm plan is included as part of the sub-loan contract and is the basis for disbursement of funds or provision of goods (credit-kind) and services to the farmer or community by the executing agencies. Actual sub-loan disbursements take place in one of two ways. Sub-loan approval or refusal is made by the Local Credit Committee. There are 62 such local credit committees and 7 regional committees now established. Items for which the agencies supply goods and services are obtained by the farmer or community directly from the agencies in the month specified by the borrower's presentation of a copy of the contract. This documentation is then presented to the Banco which then reimburses the agencies. In most cases, sub-loan disbursements are made in-kind to the farmer.

117. The Banco will make periodic checks on the progress of sub-loans and be responsible for disbursement, collection and accounting of Fund proceeds. Supervision, extension, educational work and technical assistance are the responsibilities of SIPA, ONRA, and the Forestry Service.

118. In order to facilitate implementation, the Banco will be given an advance of not more than \$800,000. This amount is equal to the average two month rate of disbursement on the previous A.I.D. loans to the Fund. Replenishment of the advance is made on the basis of monthly Banco reports showing the disbursements made against authorized sub-loans. Prior to disbursement of the last \$100,000, however, A.I.D. must receive satisfactory documentation covering all previous disbursements under the loan. Borrower will covenant that satisfactory

documentation covering the final \$100,000 disbursement will be submitted within one month after such disbursement. Each year for the life of the loan, no later than May 31, the GOP shall present to A.I. D. its proposal for use of projected sub-loan repayments that will be forth-coming during the succeeding year. This annual review of the program will also include evaluation of results. By requiring this formal annual review it is anticipated that A.I.D. can maintain a continuing influence over the program emphasis of Fund sub-loans.

119. Concerning technical assistance, North Carolina State University will provide 5 man years of U. S. technicians to work in the area of evaluation of the Fund's purposes, uses, management and results. North Carolina will set up a program of continuing evaluation which will include the training of Peruvian counterparts to carry on after this specific two year contract expires. For more details see Section II - Project Description.

120. The executing agencies are fully familiar with A.I.D. procedures and requirements in loan implementation. Monthly Fund Status Reports will be continued plus quarterly default reports and quarterly narrative reports will be added. From an implementation standpoint the Project Committee does not anticipate any serious problems and is of the opinion that the loan fully meets all requirements for adequate technical, financial and economic feasibility.

SECTION X - ISSUES

121. The following issues have been considered and resolved during Intensive Review.

GOP Contribution to the Fund

122. Past AID loans for agricultural credit in Perú have not required any GOP counterpart investment beyond budget support for the implementing agencies. The funds required to meet small and medium agricultural credit needs in the coming years will be vastly larger than foreign credits are likely to finance. Also, the Fund established by AID loans will be in danger of continual diminution if defaults exceed proceeds from interest.

123. In Intensive Review negotiations, agreement has been reached that the GOP will make the following contribution: the GOP will make a budget request for \$1 million as contribution to the Fund in CY-1967. The GOP will include \$2 million per year in its budgets for 1968 and 1969 as a contribution to the Fund. The GOP has also agreed that all repayments of principal and interest received by the Borrower under existing two-step loans (Lima Water and Sewerage 527-L-022, Pativilca Hydroelectric 527-L-025, and Cañon del Pato 527-L-024) which will be in excess of amounts necessary to service the AID loans will be assigned to the Fund. The principal on these loans totals \$12.8 million. Adding interest payments and subtracting repayments to AID, the total net availability will be approximately \$13.3 million by 1980. (See Annex III, Exhibit 9 for projections of annual increments to the Fund from two-step loans).

124. The GOP has further agreed that net arrears of more than 90 days on sub-loans will be covered by an annual contribution to the Fund. The Banco will make quarterly statements on the default situation with respect to Fund sub-loans. The Status of Loans Report as of March 31 each year will be used as the base for determining the amount the GOP will budget to cover defaults in the following year. (See Section V - Financial Analysis for details on GOP contribution)

Sub-loan Interest Rates

125. As anticipated in the IRR, the problems of raising interest

rates was very difficult to negotiate with the GOP. They finally agreed, however, to the following: All sub-loans to individuals (except forestry plantation sub-loans which will remain at 2%) will carry rates equal to the Banco's schedule which is:

up to S/. 10,000	-	7%
up to S/. 50,000	-	9%
up to S/. 100,000	-	10%
up to S/. 200,000	-	12%
up to S/. 500,000	-	13%

126. Interest rates on loans to Indian Communities and Cooperatives will be 7% in order to allow such organizations to retail credits to members adding administrative charges.

Transfer of Better Farmers to Banco's Regular Operations

127. The Fund is being used to finance sub-loans to many farmers who are independent operators for the first time in their lives. Through the technique of supervised credit it is intended to bring them up to the level of economic viability as quickly as possible. Since there are about 800,000 farm units in Peru that could be affected by this program of supervised credit it is important to assure that as the older users of the Fund gain a position of creditworthiness they be transferred to regular Banco operations.

128. Since regular Banco loans require that a farmer put up 30% of his estimated project requirements, it will be necessary that the Fund farmers capitalize themselves so that it will be possible to obtain a Banco loan. Time required to do this will depend on many factors; inter alia, the experience and ability of the indi-

vidual operator, the quality of his farm, type of enterprise and of course, profits. SIPA estimates that many small and medium coastal farmers will require about three years of supervised credit before they will be ready for regular loans of the Banco. For farmers starting out in colonization projects or starting livestock enterprises the period will necessarily be longer. In order to relate the variety of farm enterprises financed with Fund sub-loans, to the goal of eventually transferring users to regular Banco operations, the GOP and AID have agreed to the following limits: sub-borrowers may contract short term loans (up to one year) from the Fund for a period no longer than five years from the date of the first such loan. Sub-borrowers may contract medium and long term loans (more than one year) during a period no longer than 10 years from the date of the first such loan.

Limitation of AID Financed ONRA Program to two zones

129. Under previous AID loans ONRA has worked in 10 different zones at the same time. In a number of zones it has had significant problems in getting its program moving and has been unnecessarily slow in drawing down AID funds. USAID and ONRA reached agreement during Intensive Review that the ONRA program financed by this loan would be limited, on first disbursement, to the Sierra Central and La Convención Agrarian Reform Zones.

Title Transfers and Land Evaluation

130. Based on observation of the Agrarian Reform Program by USAID during the past 18 months it is clear that ONRA has procedural problems with land transfers and land evaluation. Both seem to take and unduly long time to complete. The complicated land transfer system established by the Agrarian Reform Law of 1964 coupled with the laborious procedures for transfer of land titles required by local real estate law and practice help to explain why deficiencies in the land transfer system is one of the two major reasons that no land has been expropriated under the Agrarian Reform Law (lack of funds is the other). Most farmers benefiting by the Agrarian Reform Program at present are provisional title holders under the title XV section of the Law (described in Section III)

UNCLASSIFIED

Provisional titleholders under Title XV must pay 20% of their gross production to the legal titleholder as rent until such time as the property is evaluated, expropriation completed and an amortization for the new land owner set. There is, however, no time schedule for completing land evaluation or final title transfer.

131. USAID has reviewed in detail with ONRA ways in which to improve this situation. U. S. grant financed legal technical assistance to be provided by Iowa State University will assist in the effort to simplify and improve land transfer techniques. Also, AID-GOP annual agricultural reviews will deal with these problems.

Sub-Loan Terms and Limit on Amount of Individual Sub-Loans

132. In some cases sub-loan terms have been too lenient. This is especially true in the case of loans made to Indian communities by ONRA. Accordingly, as a condition precedent to first disbursement the GOP must submit a list of terms by type of sub-loans satisfactory to AID.

133. Under previous loans maximum amount of any one sub-loan to an individual was \$5,000. During implementation of these loans it was found that this limitation was too small for adequately financing livestock operations or farms requiring irrigation. As a result, it was agreed with the GOP that the sub-loan limitation would be raised to \$10,000.

Limitation on Division of Fund Between Short-Term and Long-Term Loans

134. The present division of loans outstanding between short-term and long-term is approximately 75% to 25%. As short-term loans are repaid there may be a tendency on the part of the GOP to transfer some of these repayments into long-term loans. Over time this could result in a slow down of turn over of the Fund. In order to keep the Fund revolving with reasonable speed and thereby to benefit the maximum number of farmers in the shortest possible time the Project Committee has reached agreement with the participating GOP agencies on the following limitation: No more than 30% of the Fund's loan portfolio shall be held in loans of more than one year's duration at any given time, unless otherwise mutually agreed by AID and GOP during the annual program review.

UNCLASSIFIED

Expansion of SIPA Programs with Cooperatives and other Farmer Groups

135. There is a need to utilize SIPA's personnel resources in a more efficient manner. If credits are granted on an individual farm basis SIPA can handle about 15,000 loan requests per year on the coast without an increase in personnel. Thus, if loans were made to individual farmers SIPA could reach about 30% of the potential coastal users of this type of credit. If more credits were granted through cooperatives, farmer associations and other groups a greater number of people could be reached, educational programs could be handled more efficiently, and the individual farmers would have a better position to deal with the market both in the purchase of farm inputs and in the selling of farm products.

136. SIPA is aware of the above and has submitted a list of 31 such groups comprising 2,100 members with which it plans to work with part of the proceeds of this loan.

Technical Assistance

137. In the last package for agriculture \$245,000 was earmarked for technical assistance. With the Ministry of Agriculture receiving substantial assistance from North Carolina and Iowa State Universities and the Banco receiving technical assistance under a recent IBRD loan the needs for additional technical assistance were considered to be marginal. The funds were transferred to credit operations when the possibility of a new loan became evident.

138. During Intensive Review it was jointly agreed by the GOP agencies and the Project Committee that the greatest single gap in the Program was the lack of evaluation studies which would show the results of Fund operations and provide the basic economic data upon which to make decision concerning improvements in the Program, as discussed in more detail in Section II Project Description.

Arrears in Sub-loans

139. The Banco as of March 31, 1966 started making a quarterly report on short-term sub-loan arrears in SIPA's coastal program. The report covering the quarter ending June 30, 1966 will include the total Fund. It was not practical to start these reports sooner because

prior to January 1, 1966 repayments due were negligible. The first reports (See Annex III, Exhibit 6 for charts) showed some very disturbing results. As of March 31, 1966, 6,529 short term sub-loans had become due. 36% by number or 28.7% by amount were in arrears. Arrears were divided into less than 90 days and more than 90 days. 8% by number and 8.9% by amount were in arrears less than 90 days while 28% by number and 19.8% by amount were in arrears more than 90 days. Total amount of arrears as of March 31, 1966 stood at S/.17,566,827. These figures are inflated by the fact that renewals and extension are not separated out.

140. The Banco and SIPA have taken the following steps to correct this situation:

- After each sub-loan is granted and the loan funds disbursed, the SIPA agent reports to the Banco whether or not the funds were used in accordance with the farm plan. If they weren't the loan then becomes due. This measure is to prevent farmers from diverting loan proceeds to non-productive purposes.
- Before the harvest, the responsible SIPA agent informs the Banco as to the estimated yield and time of harvest.
- Immediately after harvest, the farmer must make a declaration of his gross production which the SIPA agent certifies and sends to the Banco.
- With this information the Banco inspectors can then concentrate on the problem cases.
- If the farmer does not repay his loan for valid reasons such as crop failure, the Banco may give him an extension of up to five years.
- If the farmer does not have valid reasons to be in arrears the collateral (i.e. land, equipment or crops) can be called due. Also, if the farmer is a provisional title holder to his land under Title XV of the Agrarian Reform Law, he can lose his right to this title for failure to repay his loan.

141. The Project Committee believes that the above steps will go a long way to improving collections. Also, a condition of the Loan Agreement will be that at the time of annual program review of Fund operations by the GOP and AID a contribution to the Fund equal to net arrears of more than 90 days will be placed in the GOP budget for the succeeding year.

Local Currency Financing

142. Over the past five years the country has become increasingly dependent on long-term capital inflows to sustain the growth in imports. As outlined in the Mission "Preliminary Report" of March, 1966 Section C1, meeting projected public sector investment levels while maintaining the viability of this predominantly private sector economy will be a difficult task under any circumstances. With our present lending strategy, we forecast that dollar disbursements from present and anticipated new loans from foreign lenders will not sustain the rate of growth in imports achieved in the first half of this decade and that there will necessarily be some compression of import demand over the next two years.

143. In other words, even though in the first instance, AID loans are made for the financing of local currency costs, the dollar proceeds of such loans will be disbursed by the Central Bank to help sustain imports needed for a continued high rate of investment in the private sector. U.S. business accounts for about 40% of imports.

144. From another standpoint, AID's overall investment priorities in agricultural credit, transportation systems, and education involve by their nature a large local currency component.

UNCLASSIFIED

AID-DLC/P-445

ANNEX I, Page 1 of 9

June 14, 1966

FRAMEWORK FOR A.I.D. PROGRAM

Objectives

U.S. assistance to Peru is properly viewed in the context not only of the traditional inter-American political institutions which bring the two countries together but also in the context of the very close trade and commercial relations that exist. The U.S. is at once Peru's best customer and largest supplier buying about 40 percent of all Peru's exports and selling roughly the same percentage of Peruvian imports. U.S. private investors have on the order of \$500,000,000 invested in this country, and profit remittances abroad from Peru (with the bulk going to the U.S.) currently run to more than \$70 million annually.

Beyond these commercial interests, the U.S. has an important stake in the success of the economic and social modernization process initiated by President Belaunde. Internal stability, economic viability and political development compatible with U.S. policies and objectives depend to a large degree on the success of that process. Accordingly, the objectives of the A.I.D. program are, first, to support Peru's efforts to create improved economic and social opportunities for the presently disadvantaged half of the population living in a subsistence economy, and secondly, to establish an institutional base--public and private--for sustained economic and social growth in Peru.

The Setting

Peru has many of the essential ingredients for a meaningful attack on the constraints which hold half the population of this nation in poverty even while maintaining the outstanding economic performance chalked up over the past decade. Peru has a democratic, reform-minded government which believes in the goals of the Alliance for Progress and is deeply committed to development and progress.

UNCLASSIFIED

UNCLASSIFIED

ANNEX I, Page 2 of 9

Peru is traditionally a private enterprise economy. The private sector has done a remarkable job over the past decade in giving Peru one of the highest aggregate growth rates in Latin America. That growth, however, has been singularly ill-distributed with the urban coastal areas sharing fully in its fruits and the tradition-bound peasants of the Andes benefitting little, if at all. The problems which Peru must meet and overcome in the process of bringing the sierra indians into the national economy are complex and massive. Although in many ways the challenge is common to all under-developed countries, the problem here is in certain respects unique. The core of the Peruvian problem is disparity--disparity of income and economic opportunity between the Coast and the Sierra, social disparity between the Spanish Peruvians and the Andean Indians, and political disparity among regions. Stemming from this schism is massive migration to the slums of the coastal cities, clamour for more land to correct historic land tenure inequities and intermittent rural violence and defiance of authority coupled with active communist agitation.

With half of his six-year term still before him, President Belaunde is as determined as ever to move forward on a broad developmental front. The Alliance for Progress is viewed, not only as a source of potential external resources, although that is important, but also as a commitment to internal reform and progress. Specific accomplishments so far include the passage of basic agrarian reform legislation, the first municipal elections in over forty years, the initiation of a community development program to strengthen small communities and local governments and increased emphasis on agricultural output by opening new areas and providing capital to small farmers.

Notwithstanding the many favorable factors, however, Peru's economy is not yet sufficiently strong nor adaptable for its government to be able to mobilize the quantity of capital, technical and human resources which will be needed to support the major effort which the size and urgency of the problems require. If, however, Peru can reasonably count on substantial external assistance from the United States, in collaboration with the international lending agencies and possibly some European countries, it should be able to achieve a developmental push on a scale sufficient to put it well along towards the solution of its most urgent problems. The consequent

UNCLASSIFIED

advantages to the U.S. in terms of political stability, national and continental economic growth, and success of the Alliance for Progress in South America's third largest country, would be considerable.

Growth Pattern

As the 1965 World Bank Appraisal of Peru's Public Investment Program points out, per capita income has increased by more than 40 percent since 1950 and by 25 percent since 1959. The growth performance of the past six years has on average, then, more than met the basic Alianza target of 2.5 percent per capita per year, even while population was growing by nearly three percent per year--a remarkable performance sustained by very high levels of domestic savings ranging around 20 percent of gross product on the average.

It is in respect to the quality or structure of growth that has been achieved that the Peruvian record is clearly deficient. The growth in the economy has, if anything, increased the regional disparities which lie at the heart of many of Peru's political, social and economic problems. The expansion in overall output reflected in the national statistics was produced (apart from the mining contribution) almost entirely by the modern export agriculture, fishing, manufacturing, and commerce of the Coast, and the benefits of growth have, in turn, been very largely retained on the Coast.

One of the most significant and basic deficiencies that has become increasingly acute over the years is that in agriculture; food production for domestic consumption appears to have stagnated over the past 15 years. As a result increases in food prices constantly lead upward the general rise in prices while food products are a constantly growing share of Peru's import bill.

It follows from the foregoing that there have been major deficiencies in the structure of the investment that has taken place to date. While investment has been high, it has been heavily concentrated in directly productive and largely export-oriented activities and, to a lesser extent, in urban construction. Investment in basic economic and social infrastructure has, especially outside of the

UNCLASSIFIED

ANNEX I, Page 4 of 9

Coast, been a small part of the total, and very slight indeed in relation to Perù's needs at the present stage in the development process.

The Gaps

The problem of underdevelopment in the past and economic growth in the future--and this applies in particular to increased public sector investment--can be stated analytically in terms of gaps in human and financial resources. On both fronts, the problems in Perù are sizeable.

As it concerns the ability of the Government to effectively mobilize its human resources to implement the public investment program, substantial administrative reforms are envisaged in the key ministries of government including Finance, Development and Education. To cope with the shortage of skills, a growing amount of resources is being devoted to formal education. Furthermore, the technical assistance programs of A.I.D., the FAO and other organizations add measurably to the available pool of skills.

On the financial side it is clear that higher investment (public or private) requires larger savings (voluntary or forced). Recognizing the need for more public funds, the Belaunde administration embarked on a series of revenue raising measures after its inauguration. This has included two successive boosts in the transactions tax, bringing the rate to five percent; an across-the-board increase in import tariffs, plus additional duties on certain luxuries imports; and new or higher excises on some domestic products, including notably alcoholic beverages. But the experience of the past three years has demonstrated that Perù's basic tax structure will have to be overhauled. It is impossible to pyramid rates much farther on the present archaic tax structure with its large component of earmarked taxes, heavy reliance on indirect levies, vulnerability to foreign trade fluctuations, profusion of minor levies, general complexity, and inadequate administration.

The inability of the present tax system to capture a proportionate share of the growth in national income has forced the government to turn to domestic borrowing to get the resources to finance its programs as the following table shows.

UNCLASSIFIED

Public Sector

Revenues, Expenditures and Savings

Percentage of GNP

	<u>1963</u>	<u>1964</u>	<u>1965</u>
Current Revenues	18.3	17.9	17.1
Current Expenditures	15.8	15.1	15.7
Current Savings	2.5	1.8	1.5
Domestic Borrowing (Including change in cash balances)	-. -	.7	1.3
Public Investment	4.4	5.9	5.8

New tax measures are expected to play a material role in the Government's 1967 budget. A real estate tax and possible increases in highway user taxes through either the device of highway tolls or a higher gasoline tax are likely to receive executive endorsement. Either these proposals or other feasible alternatives will have to be adopted if the Government is to carry forward with a growing investment program in the context of relative domestic price stability.

THE BALANCE OF PAYMENTS

The underlying strength, and it is considerable, in the Peruvian balance of payments lies in an extraordinarily diversified natural resource endowment. The catalog includes semi-tropical fertile (when irrigated) coastal lands, an abundance of rich mineral resources close to cheap ocean-going transport and a unique combination of climate and current which make Peru the leading fishing nation of the world. These assets mined with significant home-grown entrepreneurship and government policy hospitable to foreign investment have generated a remarkable increase in exports. From 1950 to 1960 exports more than doubled rising from \$198 million to \$440 million and the gain in export value from 1960 to 1965 was equal to

the gain of the preceeding decade.

It is however, easy to overstate the strength of Peru's foreign balance. Quite aside from import demand which has generally kept pace with the growth in exports, investment income runs to more than ten percent of the value of Peru's exports. Such outpayments coupled with more than matching outflows for freight and insurance have put the current account of the GOP into deficit in 12 of the last 14 years and five of the past six years.

Indeed, the current account position has deteriorated in each of the past five years, 1964 excepted.

<u>Current Account</u>					
<u>Balance of Payments</u>					
(millions of dollars)					
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Exports	510	556	555	685	687
Imports	-429	-478	-515	-516	-646
Freight and Insurance	-53	-63	-63	-75	-85
Investment Income	-63	-66	-72	-72	-77
Miscellaneous	27	15	14	-11	-5
Current Account					
Surplus (Deficit)	-8	-36	-81	14	-126

There is no reason to expect the trend in current account to reverse itself over the next few years; on the contrary, the weight of the evidence points to an increasing need for foreign capital, private and especially public to maintain equilibrium in the balance of payments

Summary Balance of Payments

(millions of dollars)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Balance-Current Account	-8	-36	-81	14	-126
Net Public Loan Receipts	-4	20	47	59	63
Private capital, and other non-current items	<u>53</u>	<u>28</u>	<u>64</u>	<u>-38</u>	<u>36</u>
Surplus (deficit) of which:	<u>41</u>	<u>12</u>	<u>30</u>	<u>35</u>	<u>-27</u>
Central Bank	34	6	18	25	15
Other Financial Institutions	7	6	12	10	-42

Public Investment

Total public sector investment has risen over sixty percent during the past three years. Domestic financing has held at roughly two-thirds of the total over that period which must be counted as a considerable performance in view of the weaknesses in the tax system.

Estimated Public Investment and Its Financing

(billions of soles)

	<u>1963</u>	<u>1964</u>	<u>1965</u>
Public Investment	3.5	5.6	6.6
Domestic Financing	2.3	4.0	4.4
Domestic Financing as percent of investment	66	71	66

Available estimates of investment by sector in the pre-Belaunde year of 1962, and in his first full year in office 1964, show that outlays in agriculture and school construction doubled; that hospital and rural medical centers expenditures tripled; and that transportation (highway construction) investments reached a peak of almost one billion soles, equal to 5% of public sector current revenues. Looking to the future, public investment will

continue to rise with the larger share of the increase programmed for the same sectors-- agriculture, highways, and education.

Even as the Government continues to invest in bricks and mortar, it is conscious of the need for sustained inputs into human resources. The President's principal vehicle for effecting social change in its many facets-- education, local government, personal motivations and expectations-- is Cooperacion Popular. Increasingly, with the help of A.I.D., the Government will become even more fully engaged in probably the most difficult and intricate task-- that of integrating the landless, uneducated, Quechua speaking, subsistence "campesinos" of the Sierra into the national market economy.

Local Currency Financing

Lending for local currency can be justified on grounds of a current account deficit in the balance of payments only when the local government is itself making an adequate contribution of its own resources. In the Mission's "Preliminary Report" it was explained that the U.S. program is keyed to important self-help efforts in increasing revenues. On the balance of payments side the "Preliminary Report" sets out that the foreign resources so provided will be required by the economy to an increasing extent in the coming years.

Given the scale of the investment program and the increase in local resources to be devoted to that program, we consider the amount of local currency financing to be done by AID to be a function of the kinds of activities AID chooses to promote. Our program goals of social change, reduced disparities through rural habilitation, increased inputs into domestic agriculture, and broadened economic opportunity through education can only be effectively met if AID is able to judiciously finance some share of local costs. To forego priority projects that are in the long-term U.S. interest because they involve a local currency cost component would make an anomaly of the program.

Loan Terms

The disbursed portion of foreign public sector debt has risen from \$161 million at the end of 1960 to \$ 293 million at the

UNCLASSIFIED

ANNEX I, Page 9 of 9

end of 1964 and to an estimated \$424 million at the end of 1965. Projected annual debt service requirements for 1966 point to a burden of roughly 11 percent of projected exports. There is every expectation that the debt burden will rise rapidly in the next few years. Indeed, the World Bank estimates that even if Peru takes on new debt on terms in use by the international lenders the debt service will still rise to more than \$120 million by 1970 or more than 15 percent of projected export volume. If AID and other agencies loan on terms significantly shorter than their minimum, there is a real prospect that debt service by 1970 could reach some \$150 million, approaching 20 percent of prospective export volume.

Most of the projects included in the Peruvian investment program will yield substantial returns, but in many cases only over a long payout period. Further, the infrastructure investments which will receive deserved priority--education, agriculture, roads--often yield a significant part of their benefits in the form of so-called external economies (by way, for example, of expanded opportunity or greater efficiency for the general public) or in a form (improved health) which cannot be directly translated into income. It is administratively difficult to levy user charges to pay off such investments and in addition the social objectives which the public investment serves deserve strong support.

For a combination of reasons, then, balance of payments, the type of public investment envisioned and the end which it serves, the Mission believes that minimum loan terms are fully warranted for Peru.

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PERU

SUPERVISED AGRICULTURAL CREDIT FUND

CHECK LIST OF STATUTORY CRITERIA (Alliance for Progress)

1. FAA s.102. Precautions that have been or are being taken to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes) or any other purpose not essential to the country's long-range economic development.

Adequate control will be exercised to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary, balance of payments, or military purposes) or any other purpose not essential to the country's long-range economic development. The USAID Capital Development and Agricultural Advisors shall approve all requests for A.I.D. disbursements and make certifications as to the timely and full contributions of the GOP.

2. FAA s.102. Information on measures taken to utilize U.S. Government excess personal property in lieu of procurement of new items. Not applicable.
3. FAA s.102. Information whether the country permits or fails to take adequate measures to prevent the damage or destruction by mob action of U.S. property.

The Government of Peru does not permit, and takes adequate measures to prevent, the damage or destruction by mob action of U.S. property.

4. FAA s.301 d. Information and conclusion on legality (under laws of the country and U.S.) and reasonableness of lending and relending terms of the loan.

Loan funds are to be loaned at rates of interest which are not unreasonable or illegal for the Borrower and are within the

limits established by this Section. Likewise sub-loans are to be made at rates of interest not unreasonable or illegal for the sub-borrower.

5. FAA s.201(b). Manner in which loan will promote country's economic development and contribute to welfare of its people.

This loan will promote Peru's economic development and contribute to the welfare of its people by making credit and technical assistance available to small and medium farmers most of whom are new land owners as a result of the Agrarian Reform Law.

6. FAA s.251(b)(1). Extent to which country is adhering to the principles of the Act of Bogota and Charter of Punta del Este and is showing a responsiveness to the vital economic, political and social concerns of its people, and extent to which country has demonstrated a clear determination to take effective self-help measures.

Account has been taken of the Borrower's adherence to the principles of the Act of Bogota and the Charter of Punta del Este, and the Borrower's responsiveness to the vital economic, political and social concerns of its people. Contributions by the Borrower to various programs including agrarian reform, low and medium cost housing, civic action, education and community development are demonstrations of effective self-help measures.

7. FAA s.251(b)(2). Information and conclusion on activity's economic and technical soundness.

This activity has been found economically and technically sound. (Sections III, IV and IX).

8. FAA s.201(b)(4). Information and conclusion on activity's relationship to other development activities, and its contribution to realizable long-range objectives.

This activity has a basic significance for all Borrower's development activities, and will play an essential part in the realization of long range objectives. (Section IV)

9. FAA s.251(b)(4). Information and conclusion on possible effects on U.S. economy, with special reference to areas of substantial labor surplus.

This activity will have no significant direct effect on the U.S. economy or areas of substantial labor surplus in the U.S. economy.

10. FAA s.251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

Financing for this activity is not available from other free world sources, including private sources within the United States on reasonable terms. (Section V)

11. FAA s.251(b). Information and conclusion on capacity of the country to repay the loan.

It appears reasonably certain that the Borrower will be capable of repaying the loan. (Section VI)

12. FAA s.251(b). Information and conclusion on country's efforts to repatriate capital invested in other countries by its own citizens.

It appears that the Borrower is attempting to repatriate capital invested in other countries by its own citizens though its free exchange policy and strong endorsement of private enterprise.

13. FAA s.251(b). Information and conclusion on reasonable prospects of repayment.

It appears reasonably certain that the Borrower will be willing and able to repay the loan. (Section VI, Annex I)

UNCLASSIFIED

ANNEX II, Page 4 of 12
Revised June 27, 1966

14. FAA s.251(e). Information and conclusion on availability of an application together with sufficient information and assurances to indicate reasonably that funds will be used in an economically and technically sound manner.

The Borrower has made a formal application for loan-funded assistance in this activity, and A.I.D. has received sufficient information and assurance to indicate reasonably that funds will be used in an economically and technically sound manner. (Sections I, IV and V)

15. FAA s.251(x). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

This project is directly related to the promotion of the cooperative movement in Latin America in so far as sub-loans under the Fund are made through cooperatives. (See Section X)

16. FAA s.252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurement from private sources.

Of the total amount of money loaned, it is estimated that: none is being loaned directly to private enterprise; \$8.75 million is being loaned to intermediate credit institutions for relending to private enterprise; none is being loaned to a government for disbursement to finance the import of commodities by private enterprise or for the use of private enterprise; none is being loaned to a government to finance project work (including procurement) done under contract by private enterprise; none is being loaned to a mixed enterprise; none is being loaned to a government for the direct purchase by the government for its own use of goods from private enterprise.

UNCLASSIFIED

the contemplated impact of the proposed loan on development of private enterprise in the host country is described in Section II of paper.

17. FAA s.601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

This project will encourage efforts of the Borrower in relation to b, c and e of the above. See Sections II, III and IV.

18. FAA s.601(b). Information and conclusion of how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

North Carolina State University will provide the technical assistance under this loan. (Section II)

19. FAA s.601(d). Conclusion and supporting information on compliance with the Congressional policy that engineering and professional services of U.S. firms and their affiliates are to be used in connection with capital projects to the maximum extent consistent with the national interest.

North Carolina State University will provide technical assistance under this loan. (Section II)

20. FAS s.602. Information and conclusions whether loan will permit American small business to participate equitably in the furnishing of goods and services financed by it.

As all procurement will be local, except for consulting services which will be U.S., this section is not applicable

21. FAA s.604(a); Apps.s.108. Compliance with restriction of commodity procurement to U.S. except as otherwise determined by the President and subject to statutory reporting requirements.

Materials, and service financed under the loan shall be procured from the United States or Peru. U.S. dollars utilized under the loan to finance local currency costs shall be made available to Borrower or its designee through appropriate procedures, and shall be identified with procurement in the United States.

22. FAA s.604(b). Compliance with bulk commodity procurement restriction to prices no higher than the market price prevailing in the U.S. at time of purchase.

No bulk commodity procurement is contemplated under this loan.

23. FAA s.604(d). Compliance with requirement that marine insurance be purchased on commodities if the host country discriminates, and that such insurance be placed in the U.S. This section will be complied with. (Section IX)

24. FAA s.611(a)(1). Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost of the assistance to the United States.

Financial plans and technical studies needed to initiate the loan have been completed. Additional technical studies will be completed as part of the loan activity and a reasonably firm estimate of the cost to the United States of the activity to be financed has been attained. (Sections IV and IX)

25. FAA s.611(a)(2). Necessary legislative action required within recipient country and basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan.

Legislative action is not required to permit orderly accomplishment of the purposes of the loan.

26. FAA s.611(b); App.s.101. If water or water-related land resource construction project or program, information and conclusion on benefit-cost computation.

NOT APPLICABLE.

27. FAA s.611(c). Compliance with requirement that contracts for construction be let on competitive basis to maximum extent practicable.

NOT APPLICABLE.

28. FAA s.612(b) and 636(h). Appropriate steps that have been taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

Appropriate steps have been taken to assure that, to the maximum extent possible, the Host Country will contribute local currency. Foreign currencies owned by the U.S. are not available for financing this activity. If these become available during the course of disbursements, they will be substituted for U.S. dollars. (Section V)

29. FAA s.619. Compliance with requirement that assistance to newly independent countries be furnished through multilateral organizations or plans to maximum extent appropriate.

NOT APPLICABLE

30. FAA s.620(a); App.s.107(a). Compliance with prohibitions against assistance to Cuba and any country (a) which furnished assistance to Cuba or failed to take appropriate steps by February 14, 1964, to prevent ships or aircraft under its registry from carrying equipment, materials, or supplies from or to Cuba; or (b) which sells, furnishes, or permits any ships under its registry from carrying items of primary strategic significance, or items of economic assistance to Cuba.

No assistance will be furnished under this loan to the present government of Cuba, nor does the Borrower furnish assistance to the present government of Cuba. The Borrower has taken appropriate steps to prevent ships or aircraft under its registry from engaging in any Cuba trade.

31. FAA s.620(b). If assistance to the government of a country, existence of determination it is not controlled by the international Communist government.

The Secretary of State has determined that the Borrower is not controlled by the international communist movement.

32. FAA s.620(c). If assistance to the government of a country, existence of indebtedness to a U.S. citizen for goods or services furnished or ordered where such citizen has exhausted available legal remedies or where the debt is not denied or contested by such government or the indebtedness arises under an unconditional guaranty given by such government.

The Borrower is not know to be indebted to any U.S. citizen for goods or services furnished or ordered where such a citizen has exhausted available legal remedies or where the debt is not denied or contested by the Borrower or the indebtedness arises under an unconditional guaranty of payment by the Borrower.

33. FAA s.620(d). If assistance for any productive enterprise which will compete in the U.S. enterprise, existence of agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan.

NOT APPL ICABLE.

34. FAA s.620(e)(1). If assistance to the government of a country, extent to which it (including government agencies or subdivisions) has, after January 1, 1962, taken steps to repudiate or nullify contracts or taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership

or control of property of U.S. citizens or entities beneficially owned by them without taking appropriate steps to discharge its obligations.

The Borrower (including Government Agencies or Subdivisions) is not known to have taken steps since January 1, 1962 to repudiate or nullify contracts or taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking appropriate steps to discharge its obligations as specified in this section.

35. FAA s.620(f); App.s.109. Compliance with prohibitions against assistance to any Communist country.

Assistance provided under this loan will not be furnished to any Communist country.

36. FAA s.620(g). Compliance with prohibition against use of assistance to compensate owners for expropriated or nationalized property.

Assistance provided by this loan will not be used to compensate for expropriated or nationalized property. (Section VIII)

37. FAA s.620(h). Compliance with regulations and procedures adopted to insure against use of assistance in a manner which, contrary to the best interests of the U.S., promotes or assists the foreign aid projects or activities of the Communist-bloc countries.

Assistance provided by this loan will not be used in a manner which, contrary to the best interests of the U.S., promotes or assists the foreign aid projects or activities of the Communist-bloc countries.

38. FAA s.620(i). Existence of determination that the country is engaging in or preparing for aggressive military efforts.

The President has not determined that the Borrower is engaging in or preparing for aggressive military efforts.

39. FAA s.620(k). If construction of productive enterprise where aggregate value of assistance to be furnished by U. S. will exceed \$100 million, identification of statutory authority.

NOT APPLICABLE.

40. FAA s.620(1). Compliance with prohibition against assistance after December 31, 1966, for the government of a country which fails to institute investment guaranty program.

Investment guaranty agreement presently under negotiation.

41. FAA s.620(n): App. 107(b). Compliance with prohibition against assistance to countries which traffic or permit trafficking with North Vietnam.

The Host Country does not traffic or knowingly permit trafficking with North Vietnam.

42. FAA s.620(o). If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters, information on the consideration which has been given to excluding the country from assistance.

The Host Country's seizure of U. S. tuna clippers has been considered. It has been determined that the incidents do not, at this time, warrant withholding of U.S. assistance.

43. FAA s.621. Information and conclusion on how the loan in providing technical assistance will utilize to the fullest extent practicable goods and professional and other services

from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Up to \$250,000 of the loan is to finance a technical assistance contract with North Carolina State University. (Section II)

44. App.s.(unnumbered). Use of funds to carry out FAA s.205, which pertains to IDA.

NOT APPLICABLE.

45. App. s.102. Compliance with requirement that payments in excess \$25,000 for architectural and engineering services on any one project be reported to Congress.

No payments in excess of \$25,000 for architectural and engineering services on this project are contemplated, however, if any such payment is requested it will be reported to Congress pursuant to the requirement of this section.

46. App. s.104. Compliance with bar against funds to pay pensions, etc., for military personnel.

Funds obligated by the loan and local currency generated thereby will not be used to pay pensions, annuities, etc. as prohibited in this Section.

47. App.s.106. If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U.S. citizens generally, application will be made in negotiations of contrary principles as expressed by Congress.

No attempts by the Host Government to create distinctions because of race or religion among Americans in granting personal or commercial access or other rights otherwise

available to U.S. citizens generally are known. If the Host Government attempts to create such distinctions, application will be made in negotiations of contrary principles as expressed by Congress.

48. App. s.111. Compliance with existing requirements for security clearance of personnel.

This requirement will be enforced.

49. App. s.112. Compliance with requirement for approval of contractors and contract terms for capital projects.

The legislative history and Manual Orders indicate that this provision was not intended to apply to sub-loans under an intermediate credit operation.

50. App. s.114. Compliance with bar against use of funds to pay assessments, etc., of U. N. member.

Loan funds will not be used to make any payment to a U.N. member.

51. App. s.115. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964. (Regulation 7)

NOT APPLICABLE.

52. App. s.401. Compliance with bar against use of funds for publicity or propaganda purposes within U.S. not heretofore authorized by Congress.

Loan funds will not be used for publicity or propaganda purposes within the United States.

STATUS AS OF 5/31/66
 DISBURSEMENTS

Date	Loan AID-029 \$6.6 million	Loan DLF 204 \$9.0 million	Loan PL 480-099 \$1.0 million
January 63		200,000.00	
July 63		167,502.14	
August 63		262,153.00	
December 63		148,047.89	
February 64		800,000.00	
April 64		248,342.87	
May 64		388,481.99	
September 64		1,019,821.27	
October 64	538,996.27	170,287.36	
February 65	359,218.38	153,614.24	
April 65	451,995.58	423,949.04	
May 65	322,335.93	-.-	
June 65	481,055.25	113,536.93	
July 65	429,430.60	452,404.96	
August 65	4,784.99	438,984.31	
September 65	-.-	463,991.40	
November 65	67,678.65	271,883.66	
December 65	49,626.87	396,392.83	
January 66	25,135.06	-.-	63,022.11
February 66	849,924.46	826,037.39	
March 66	-.-	375,922.25	
April 66	567,816.31	797,145.59	
May 66	46,474.36	135,802.05	
Totals:	US\$ 4,195,022.77	8,256,351.22	63,022.11

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ANNEX III, Page 2 of 20
Exhibit 2, Page 1 of 1

POINTS RAISED AT LA/CAEC MEETING ON AGRICULTURAL CREDIT

May 5, 1966

1. Breakdown of \$250,000 for technical assistance to be requested.
2. More information on Forestry Service needed; have very little on how project is going, is being administered; need for additional funds.
3. Disbursement within 2 years - is this reasonable in view of slow progress on other two agricultural loans? Approximately \$2.5 million remains unsubobligated, or \$15.5 million total. Would like to get a feel for monthly subobligation rate so as to tell likely overlap of new loans, if any.
4. If PL-480 local currency not likely, this should be reflected in loan paper.
5. We should insist on a minimum GOP contribution to the Revolving Loan Fund, at least during the years our loan is disbursing.
6. Loan paper should spell out coordination needed between IBRD, IDB and A.I.D.
7. Interest rate problem is really difficult, but prefer to see a higher rate (i.e. 7% as presently under IDB loans).
8. 10% default rate estimated in IRR seems dangerously high and USAID should indicate positive steps and methods to reduce this.

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ANNEX III, Page 3 of 20
Exhibit 3, Page 1 of 3

Borrower's Compliance with Significant Conditions and
Covenants of the Loans # DLF-204 and 527 - L - 029

DLF-204 - Conditions and Covenants

1. Subloans to have interest rates no higher than 7% and loan terms available to 15 years.
2. Subloans to any borrower or for any family sized farm not to exceed an amount to be agreed upon by the Managing Director.
3. Subloans to be used solely for financing the local or U.S. cost of agricultural equipment and materials, home building materials, and unit labor costs of land clearing to facilitate settlement of family size farms in Peru.
4. Subloans to be granted under the broad policy guidance of the Institute of Agrarian Reform but to be negotiated, authorized, administered and collected by the Agricultural Development Bank under an arrangement to be approved by DLF.
5. The GOP to agree to absorb maintenance of value on the DLF loan rather than to pass this on to sub-borrower.
6. Loan Agreement also contained standard conditions and covenants concerning procurement, reporting and publicity.

Comment:

USAID/Peru, Office of the Controller issued audit report #66-PE-6 on March 8, 1966 covering operations under DLF-204 from September 8, 1961 to September 30, 1965. The Government of Peru was found to be in compliance with the conditions of the loan agreement with the following exceptions:

- a. Loans to some farmers in the Sierra and Jungle were not made in a timely manner due to lack of funds in various branches of the Banco.

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ANNEX III, Page 4 of 20
Exhibit 3, Page 2 of 3

- b. ONRA processing of loan applications appeared to be unduly slow according to borrowers interviewed.
- c. The loan agreement required a publicity release when 1/3 of the funds were disbursed. This occurred August 31, 1965 and no publicity was made.
- d. Quarterly reporting as required by the Implementation Letter #2 had not been strictly complied with.
- e. Farmers interviewed in the Sierra and Jungle were not aware of the sources of their loans.

The Borrower was informed of the above problems and has taken corrective measures.

AID Loan #527-L-029 - Conditions and Covenants

1. The GOP would agree to provide adequate funds for the administration, operation and other requirements of this program so that it may proceed at the anticipated level.
2. Payments accruing to the Borrower as a result of repayment of principal and payment of interest of sub-loans shall be used by the Borrower, except as required for amortization of the AID loan, to promote the Alliance for Progress objectives in agricultural development in Peru.
3. No funds under this loan may be used to finance expropriated United States or Peruvian property.
4. Sub-loan will not exceed 7% interest per annum, 20 year repayment including a 5 year grace period, except in the Forestry plantation project where repayment could be over 25 years with a 10 year grace period.
5. Activities not eligible for financing under the loan are:
 - (i) the cultivation, harvesting, storage or processing for export of any agricultural food or feed commodities which A.I.D. in a notice to borrower identifies as being in chronic or persistent surplus in United States or world markets.

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ANNEX III, Page 5 of 20

Exhibit 3, Page 3 of 3

- (ii) the cultivation, harvesting, storage or processing for export or domestic consumption of any agricultural commodity other than food or feed, which A.I.D. in a notice to borrower identifies as being in chronic or persistent surplus in United States or world markets.
 - (iii) the acquisition or rental of land;
 - (iv) the acquisition of any property through expropriation or nationalization.
6. Each year, no later than the anniversary of the signing of the Agreement the Borrower shall present to A.I.D. for AID approval its program for the use of such sub-loan repayments and interest during the forth-coming year.

Comment:

To date no audit has been made of this loan. However, site inspections and monthly reports have shown that the Borrower is in compliance with the terms and conditions of the loan agreement with the following exception:

1. In the case of the Chimbote colonization project lack of sufficient GOP funds for construction of irrigation canals has slowed the settlement of farmers and therefore granting of credits. The budget cuts experienced by ONRA this year make it unlikely that adequate funds will be available. ONRA will continue to work on this project with what GOP funds are available and anticipates completing the project but at a slower pace than originally planned.

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BANCO AGROPECUARIO DEL PERU

Comparative Balance Sheets as at September 30, 1959-September 30, 1964
(in S/000)

A S S E T S	September 30,					
	1959	1960	1961	1962	1963	1964
Cash in hand and in banks	106,889	140,645	206,288	119,503	273,240	208,100
<u>Portfolio</u>						
Short-term	781,672	1,011,261	1,005,180	1,090,231	1,207,312	1,506,171
Long-term	418,791	447,108	518,866	566,138	694,446	833,274
<u>Total Portfolio</u>	1,200,463	1,458,369	1,524,046	1,656,369	1,901,758	2,339,445
Interest receivable	9,401	11,778	10,468	11,973	6,519	8,504
Inventories	27,266	21,403	24,012	37,352	52,213	53,852
Net fixed assets	25,516	26,431	29,779	31,841	33,259	37,341
Other assets	6,433	3,856	2,535	5,536	21,419	30,112
Losses	—	—	—	—	—	16,139
<u>Total Assets</u>	1,376,108	1,602,132	1,797,126	1,693,224	2,292,136	2,730,222
<u>LIABILITIES</u>						
Authorized capital	400,000	400,000	400,000	400,000	2,000,000	2,000,000
Not paid in	108,353	87,532	17,369	25,860	1,607,411	1,775,518
Paid-in capital	291,647	312,468	382,111	374,023	392,559	424,482
Reserves and provisions	97,596	114,074	135,381	157,454	171,906	177,563
<u>Deposits & Various Accounts Payable</u>						
Sight deposits	255,174	687,936	1,050,976	643,007	663,375	1,064,351
Term deposits	1,239	1,224	1,425	2,665	22,291	6,373
<u>Banks & Correspondents</u>						
<u>Short-term</u>						
Discounts with Central Reserve Bank						
1) Operations on behalf of Gov.	379,885	330,944	80,001	379,264	312,617	427,000
2) Seasonal loans	110,000	—	—	122,000	465,000	270,000
Local banks	331	146	1,072	247	10,483	10,918
Foreign banks	—	—	—	—	—	63,436
<u>Long-term</u>						
IBRD	205,138	177,029	132,120	149,916	141,550	103,230
<u>Other Accounts</u>						
Other Accounts	35,141	38,594	44,007	59,577	62,147	119,151
Profits	17	67	35	54	10	—
<u>Total Liabilities</u>	1,376,108	1,662,482	1,797,126	1,693,224	2,292,136	2,730,222

1/ Accrued Commercial Bank and Borrowers' accounts.

BANCO AGROPECUARIO DEL PERU

ANNEX III, Page 7 of 20
Exhibit 5, Page 1 of 1Comparative Statement of Profit and Loss and Income Appropriation
(in thousand soles)

<u>I N C O M E</u>	<u>1958/59</u>	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963</u>
<u>Interest & Commissions</u>						
a) On ordinary operations	78,110	90,472	114,292	135,059	150,720	165,110
b) On special operations	10,098	17,178	14,819	13,001	13,107	21,310
<u>Profit on exchange</u>	4,515	2,888	186	--	188	3,110
<u>Operations other than credits</u>	15,008	14,200	10,915	9,533	7,722	7,710
<u>Recoveries on previous write-offs</u>	420	438	667	474	382	3,110
<u>Miscellaneous Income</u>	3,337	2,665	4,325	2,914	3,332	1,210
<u>Losses</u>	--	--	--	--	--	16,110
Total	111,488	127,844	145,194	180,981	175,187	213,210
<hr/>						
<u>E X P E N D I T U R E S</u>						
<u>Interest & Commissions Paid</u>						
a) On ordinary operations	23,567	23,566	29,058	26,986	32,751	40,710
b) On special operations	5,210	7,531	4,894	5,432	7,028	6,910
<u>Loss on exchange</u>	--	--	--	615	--	--
<u>Operations other than credit's</u>	922	799	369	1,459	2,769	10,010
<u>Salaries & general expenses</u>	62,517	68,346	76,510	97,481	116,135	132,710
<u>Various expenses</u>	2,428	2,886	2,714	2,266	3,128	1,210
<u>Depreciation</u>	6,920	8,554	8,648	9,510	6,786	7,210
<u>Reserve against bad loans</u>	7,938	11,508	16,144	13,530	6,516	13,510
<u>Provisions against bad debts</u>	1,969	4,587	6,822	3,648	84	6,110
Total	111,471	127,777	145,159	160,927	175,177	213,210
<hr/>						
<u>NET INCOME APPROPRIATION</u>						
Capital	3	14	7	11	6	
Reserves						2
Allowance to employees	4	13	7	11	2	
Dividends	10	40	21	32	2	
Net income	17	67	35	54	10	
Total	111,488	127,844	145,194	160,981	175,187	213,210

AGRICULTURAL DEVELOPMENT BANK

TRUSTEE FUNDS

PROMOCION AGRARIA (SIPA) LOANS - REPAYMENT OF DUE & CANCELLED LOANS, AT SHORT TERM
AS OF MARCH 31, 1966

AGRARIAN ZONES	Due less than 90 days				Due more than 90 days			
	No.	Amount	Percentage		No.	Amount	Percentage	
			S/o	Of No. Of Amount			S/o	Of No. Of Amount
I Piura	94	1'126,408.79	14 %	30.8 %	357	952,818.17	55 %	26.0 %
Tumbes	34	135,015.00	8 %	8.0 %	97	402,754.86	24 %	23.7 %
TOTALES PIURA	128	1'261,423.79	12 %	23.5 %	454	1'355,573.03	43 %	25.3 %
II Lambayeque	83	364,993.58	5 %	2.9 %	503	3'771,038.97	29 %	30.3 %
TOTALES LAMBAYEQUE	83	364,993.58	5 %	2.9 %	503	3'771,038.97	29 %	30.3 %
III Trujillo	23	291,342.98	6 %	5.8 %	140	985,618.08	33 %	19.6 %
Chimbote	22	288,023.86	3 %	2.7 %	223	2'758,916.23	33 %	25.5 %
Pacasmayo	1	60,000.00	0 %	2.2 %	56	618,292.85	23 %	22.6 %
TOTALES TRUJILLO	46	639,356.84	4 %	3.4 %	419	4'362,827.16	31 %	23.6 %
IV Lima	15	176,804.85	17 %	10.2 %	6	75,563.65	7 %	4.4 %
Huacho	70	831,786.22	9 %	8.9 %	129	994,114.71	16 %	10.7 %
Cañete y Mala	54	385,768.17	14 %	12.4 %	60	338,096.06	16 %	10.9 %
TOTALES LIMA	139	1'394,359.24	11 %	9.9 %	195	1'407,774.42	15 %	9.9 %
V Ica	9	76,222.02	31 %	27.7 %	3	14,451.94	10 %	5.3 %
Chincha	13	126,670.56	16 %	12.7 %	6	52,415.24	8 %	5.3 %
Pisco	0	0.00	0 %	0.0 %	3	25,144.35	30 %	28.8 %
Nazca	15	74,168.83	7 %	7.2 %	163	508,746.73	77 %	49.5 %
TOTALES ICA	37	277,061.41	11 %	11.6 %	175	600,758.26	53 %	25.2 %
VI Arequipa	32	940,742.34	29 %	35.0 %	14	124,074.36	13 %	4.6 %
Camaná	8	18,320.10	2 %	0.7 %	6	59,055.82	2 %	2.2 %
Cocachacra	10	266,486.91	6 %	17.1 %	49	275,507.79	32 %	17.6 %
Aplao	5	95,835.92	14 %	22.2 %	7	65,315.66	20 %	15.2 %
TOTALES AREQUIPA	55	1'321,385.27	8 %	18.0 %	76	523,953.63	12 %	7.2 %
VII Tacna	27	153,506.04	48 %	32.0 %	1	3,119.00	2 %	0.6 %
Moquegua	4	32,012.47	6 %	6.3 %	14	87,674.27	20 %	17.2 %
TOTALES TACNA	31	195,518.51	25 %	19.2 %	15	90,793.27	12 %	8.9 %
GRAND TOTAL	519	5'454,108.64	8 %	8.9 %	1837	12'112,718.74	28 %	19.8 %

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UNCLASSIFIED
ANNEX III, Page 8 of 20
Exhibit 6, Page 1 of 7

AGRICULTURAL ZONES

DEPARTMENT OF AGRICULTURE

DEPARTMENT OF AGRICULTURE (SPECIAL) LOANS - PAYMENT OF PRINCIPALS CONTRACTED TO US, AT SHORT TERM
AS OF MARCH 31, 1966

AGRICULTURAL ZONES	No.	Amount \$	Total Due	
			Of No.	Of Amount
I Piura	451	2,079,226.03	69 %	56.8 %
Tumbes	131	537,759.86	32 %	31.7 %
TOTALS PIURA	582	2,616,985.82	55 %	48.8 %
II Lambayeque	586	4,136,032.55	34 %	33.2 %
TOTALS LAMBAYEQUE	586	4,136,032.55	34 %	33.2 %
III Trujillo	163	1,276,961.06	39 %	25.4 %
Chibote	245	3,046,940.09	36 %	28.2 %
Pacasmayo	57	678,292.85	23 %	24.8 %
TOTALS TRUJILLO	465	5,002,194.00	35 %	27.0 %
IV Lima	21	252,368.50	24 %	14.6 %
Huacho	199	1,825,900.93	25 %	19.6 %
Cañete y Mala	114	723,864.23	30 %	23.3 %
TOTALS LIMA	334	2,802,133.66	26 %	19.8 %
V Ica	12	90,673.96	41 %	33.0 %
Chincha	19	179,085.80	24 %	18.0 %
Pisco	3	25,144.35	30 %	28.8 %
Nazca	178	582,915.56	84 %	56.7 %
TOTALS ICA	212	877,819.67	64 %	36.8 %
VI Arequipa	46	1,064,316.70	42 %	39.6 %
Camaná	14	77,375.92	4 %	2.9 %
Cocachacra	59	541,994.70	38 %	34.7 %
Aloca	12	161,151.58	34 %	37.4 %
TOTALS AREQUIPA	131	1,845,338.90	20 %	25.2 %
VII Tarma	28	166,625.04	50 %	32.6 %
Huanuco	18	119,686.74	26 %	23.5 %
TOTALS TARMA	46	286,311.78	37 %	28.1 %
GRAND TOTAL	2356	17,156,827.58	36 %	28.7 %

UNCLASSIFIED

UNCLASSIFIED
ANNEX III, Page 9 of 20
Exhibit 6, Page 2 of 7

AGRICULTURAL DEVELOPMENT BANK

TRUSTEE FUNDS

PROMOCION AGRARIA (SIPA) LOANS . . . REPAYMENT OF DUE & CANCELLED LOANS, AT SHORT TERM
AS OF MARCH 31, 1966

R E S U M E N

		<u>No.</u>		<u>Amount S/.</u>		<u>Amount S/.</u>	
<u>DRAWN AMOUNT</u>		6529				61'217,668.76	
<u>REPAYMENT</u>							
Cancelled		4173	64 %	36'037,358.66	58.9%		
Amortized	<u>1496</u>			<u>7'613,482.72</u>	12.4 %	<u>43'650,841.38</u>	<u>71.3 %</u>
<u>BALANCE DUE</u>							
Less than 90 days	519		8 %	5'454,108.64	8.9 %		
More than 90 days	<u>1837</u>	2356	36 %	12'112,718.74	<u>19.8 %</u>	17'566,827.38	<u>28.7 %</u>
		<u>====</u>	<u>100 %</u>		<u>100.0 %</u>	<u>=====</u>	<u>100 %</u>

AGRICULTURAL DEVELOPMENT BANK
TRUSTEE FUNDS

ADMINISTRATOR

UNCLASSIFIED

UNCLASSIFIED
ANNEX III, Page 10 of 2
Exhibit 6, Page 3 of 7

FINANCIAL ACCOUNTS (SIC) LOANS - REPAYMENT OF PAID & CANCELLED LOANS, AT SHORT TERM
AS OF MARCH 31, 1966

AGRICULTURAL ZONES	Drawn Amount		Repayed Amount Cancelled		Repayed Amount Amortized	
	No.	Amount S/.	No.	Amount S/.	No.	Amount S/.
I Piura	654	5'661,651.88	203	661,989.71	232	920,435.21
Tumbes	408	1'696,117.01	277	962,129.01	64	196,218.14
TOTALS PIURA	1062	5'357,768.89	480	1'624,118.72	296	1'116,653.35
II Lambayeque	1744	12'452,168.38	1158	6'795,403.13	343	1'520,732.70
TOTALS LAMBAYEQUE	1744	12'452,168.38	1158	6'795,403.13	343	1'520,732.70
III Trujillo	420	5'028,043.01	257	2'675,427.50	132	1'075,654.45
Chimbote	677	10'793,605.26	432	6'211,745.78	245	1'534,919.39
Pacasmayo	245	2'732,554.00	188	1'863,064.00	33	191,197.15
TOTALS TRUJILLO	1342	18'554,202.27	877	10'750,237.28	410	2'801,770.99
IV Lima	89	1'723,848.55	68	1'326,740.55	18	144,739.50
Beacho	789	9'294,760.09	590	6'521,251.51	130	947,607.65
Cañete y Hala	383	3'110,200.00	269	2'146,513.00	54	239,822.77
TOTALS LIMA	1261	14'128,808.64	927	9'994,505.06	202	1'332,169.92
V Ica	29	275,306.27	17	141,413.82	7	43,218.49
Chincha	80	994,191.65	61	661,550.35	19	153,555.50
Pisco	10	87,293.46	7	50,241.50	3	11,907.61
Nazca	212	1'027,661.00	34	325,550.00	31	119,195.44
TOTALS ICA	331	2'384,452.38	119	1'178,755.67	60	327,877.04
VI Arequipa	109	2'687,059.00	63	1'474,364.00	22	147,888.30
Camaná	364	2'640,530.43	350	2'555,758.43	5	7,396.08
Cocachacra	157	1'562,606.00	98	853,795.00	34	166,816.30
Aplao	35	431,209.00	23	209,259.00	6	60,798.42
TOTALS AREQUIPA	665	7'321,414.43	534	5'093,176.43	67	382,899.10
VII Tacna	56	510,397.25	28	364,265.75	9	39,506.46
Bogotana	68	598,456.52	50	295,896.62	9	91,873.16
TOTALS TACNA	124	1'018,853.77	78	609,162.37	18	131,379.62
GRAND TOTAL	6529	61'217,658.76	4173	36'037,358.66	1496	7'613,488.72

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AGRICULTURAL DEVELOPMENT BANK
TRUSTEE FUNDS

PROMOCION AGRARIA (SIPA) LOANS - REPAYMENT OF DUE & CANCELLED LOANS, AT SHORT TERM
AS OF MARCH 31, 1966

AGRARIAN ZONES	TOTAL REPAYED			
	No.	Amount S/.	No.	Amount
I Piura	435	1'582,424.92	31 %	43.2 %
Tumbes	341	1'158,347.15	68 %	68.3 %
TOTALS PIURA	776	2'740,772.07	45 %	51.2 %
II Lambayeque	1501	8'316,135.83	66 %	66.8 %
TOTALS LAMBAYEQUE	1501	8'316,135.83	66 %	66.8 %
III Trujillo	389	3'751,081.95	61 %	74.6 %
Chimbote	677	7'746,665.17	64 %	71.8 %
Pacasmayo	221	2'054,261.15	77 %	75.2 %
TOTALS TRUJILLO	1287	13'552,008.27	65 %	73.0 %
IV Lima	86	1'471,480.05	76 %	85.4 %
Huacho	720	7'468,859.16	75 %	80.4 %
Cañete y Mala	323	2'386,335.77	70 %	76.7 %
TOTALS LIMA	1129	11'326,674.98	74 %	80.2 %
V Ica	24	184,632.31	59 %	67.0 %
Chincha	80	815,105.85	76 %	82.0 %
Pisco	10	62,149.11	70 %	71.2 %
Nazca	65	444,745.44	16 %	43.3 %
TOTALS ICA	179	1'506,632.71	36 %	63.2 %
VI Arequipa	85	1'622,252.30	58 %	60.4 %
Camana	355	2'563,154.51	95%	97.1 %
Cocachacra	132	1'020,611.30	62 %	65.3 %
Aplao	29	270,057.42	66 %	62.6 %
TOTALS AREQUIPA	601	5'476,075.53	80 %	74.8 %
VII Tacna	37	343,772.21	50 %	67.4 %
Moquegua	59	388,769.78	74 %	76.5 %
TOTALS TACNA	95	732,541.99	63 %	71.9 %
GRAND TOTAL	5669	43'650,841.38	64 %	71.3 %

UNCLASSIFIED

UNCLASSIFIED
ANNEX III, Page 12 of 20
Exhibit 6, Page 5 of 7

PROYECCION AGRARIA LOANS - COMPARATIVE STATEMENT OF REPAYMENTS & BALANCE DUE
FROM JANUARY 31 TO MARCH 31, 1966

AGRARIAN ZONES	TOTAL REPAYED		DIFFERENCE	DUE LESS THAN 90 DAYS		DIFFERENCE
	31.1.66	31.3.66		31.1.66	31.3.66	
I Piura	1'104,017.46	1'582,424.92		1'585,260.09	1'126,408.79	
Tumbes	995,561.61	1'158,347.15		1'032,686.19	135,015.00	
TOTALS PIURA	2'099,579.07	2'740,772.07	641,193.00	2'617,946.28	1'261,423.79	1'356,522.49
II TOTALS LAMBAYEQUE	6'785,866.57	8'316,135.83	1'530,269.26	799,978.26	364,993.58	434,984.68
III Trujillo	3'206,551.54	3'751,081.95		122,589.80	291,342.98	
Chimbote	7'120,276.59	7'746,665.17		634,736.30	288,023.86	
Pacasmayo	1'988,444.28	2'054,261.15		118,227.84	60,000.00	
TOTALS TRUJILLO	12'315,272.41	13'552,008.27	1'236,735.86	875,553.94	639,366.84	236,187.10
IV Lima	844,220.85	1'471,480.05		355,020.34	176,804.85	
Huacho	5'885,763.12	7'468,859.16		881,614.77	831,786.22	
Cañete y Ma. a	1'998,647.43	2'386,335.77		279,896.99	385,768.17	
TOTALS LIMA	8'728,631.40	11'326,674.98	2'598,043.58	1'516,532.10	1'394,359.24	122,172.86
V Ica	31,360.00	184,632.31		65,074.95	76,222.02	
Chincha	637,553.25	815,105.85		63,938.79	126,670.56	
Pisco	51,461.72	62,149.11		0.00	0.00	
Nazca	403,799.79	444,145.44		39,245.66	74,168.83	
TOTALS ICA	1'124,174.76	1'506,632.71	382,457.95	168,259.40	277,061.41	108,802.01
VI Arequipa	281,665.64	1'622,252.30		745,269.56	940,742.34	
Camaná	2'488,100.22	2'563,154.51		90,698.21	18,320.10	
Cocachacra	903,277.60	1'020,611.30		422,611.82	266,486.91	
Aplao	180,534.36	270,057.42		12,827.14	95,835.92	
TOTALS AREQUIPA	3'853,577.82	5'476,075.53	1'622,497.71	1'381,406.73	1'321,385.27	60,021.46
VII Tacna	283,561.00	343,772.21		86,238.94	163,506.04	
Moquegua	346,497.50	388,769.78		103,185.51	32,012.47	
TOTALS TACNA	630,058.50	732,541.99	102,483.49	189,424.45	195,518.51	6,094.06
GRAND TOTAL	35'537,160.59	43'650,841.38	8'113,680.79	7'549,101.16	5'454,108.64	2'094,992.52

UNCLASSIFIED
ANNEX III, Page 12 of 20
Exhibit 6, Page 6 of 7

PROMOCION AGRARIA LOANS - COMPARATIVE STATEMENT OF REPAYMENTS & BALANCE DUE
FROM JANUARY 31 TO MARCH 31, 1966

AGRARIAN ZONES	DUE MORE THAN 90 DAYS		DIFFERENCE	TOTAL DUE		DIFFERENCE
	31.1.66	31.3.66		31.1.66	31.3.66	
PIURA	951,886.47	952,818.17		2'537,146.56	2'079,226.96	
Tumbes	196,307.97	402,754.86		1'228,994.16	537,769.86	
TOTALS PIURA	1'148,194.44	1'355,573.03	+207,378.59	3'766,140.72	2'616,996.82	-1'149,143.90
II TOTALS LAMBAYEQUE	4'476,998.00	3'771,038.97	-705,959.03	5'276,976.26	4'136,032.55	-1'140,943.71
III Trujillo	1'272,576.39	985,618.08		1'395,166.19	1'276,961.06	
Chimbote	2'381,654.28	2'758,916.23		3'016,390.58	3'046,940.09	
Pacasmayo	517,481.88	618,292.85		635,709.72	678,292.85	
TOTALS TRUJILLO	4'171,712.55	4'362,827.16	+191,114.61	5'047,266.49	5'002,194.00	-45,072.49
IV Lima	87,043.93	75,562.65		442,064.27	252,368.50	
Huacho	773,430.86	994,114.71		1'655,045.63	1'825,900.93	
Cañete y Mala	235,013.58	338,096.06		514,910.57	723,864.23	
TOTALS LIMA	1'095,488.37	1'407,774.42	+312,286.05	2'612,020.47	2'802,133.66	+190,113.19
V Ica	..	14,451.94		65,074.95	90,673.96	
Chincha	7,089.61	52,415.24		71,028.40	179,085.80	
Pisco	23,778.28	25,144.35		23,778.28	25,144.35	
Nazca	526,100.55	508,746.73		565,346.21	582,915.56	
TOTALS ICA	556,968.44	600,758.26	+43,789.82	725,227.84	877,819.67	+152,591.83
VI Arequipa	105,072.80	124,074.36		850,342.36	1'064,816.70	
Camaná	65,188.00	59,055.82		155,886.21	77,375.92	
Cocachacra	5,426.58	275,507.79		428,038.40	541,994.70	
Aplao	..	65,315.66		122,827.14	161,151.58	
TOTALS AREQUIPA	175,687.38	523,953.63	+348,266.25	1'557,094.11	1'845,338.90	+288,244.79
VII Tacna	..	3,119.00		86,238.94	166,625.04	
Moquegua	3,288.32	87,674.27		106,473.83	119,686.74	
TOTALS TACNA	3,288.32	90,793.27	+87,504.95	192,712.77	286,311.78	+93,599.01
GRAND TOTAL	11'628,337.50	12'112,718.74	+484,381.24	19'177,438.66	17'566,827.58	-1'610,611.28

AGRICULTURAL DEVELOPMENT BANK
TRUSTEE FUNDS
ADMINISTRATOR

UNCLASSIFIED
ANNEX III, Page 14 of 20
Exhibit 6, Page 7 of 7