

UNCLASSIFIED

PD-AAB-386-A1

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

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

527.120

PERU - SUPERVISED AGRICULTURAL CREDIT

5/17/92

AID-DLC/P-1024

UNCLASSIFIED

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

UNCLASSIFIED

AID-DLC/P-1024

May 17, 1972

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Peru - Supervised Agricultural Credit

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$5,000,000 to the Government of Peru to assist in financing the United States dollar and local currency costs of a supervised agricultural credit program in the area affected by the earthquake of May 31, 1970.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Wednesday, May 24, 1972.

Rachel R. Agee  
Secretary  
Development Loan Committee

Attachments:  
Summary and Recommendations  
Project Analysis  
ANNEXES I-VII

UNCLASSIFIED

**Peru - Supervised Agricultural Credit in the Earthquake  
Disaster Zone**

**Table of Contents**

	<b>Page</b>
<b>Summary and Recommendations</b>	<b>i</b>
<b>Part I - History and Background</b>	<b>1</b>
<b>A - The Earthquake</b>	
<b>B - U.S. Contribution to Peruvian Agriculture</b>	
<b>Part II - The Project</b>	<b>3</b>
<b>A - Need for Project and Objective of Loan</b>	
<b>B - Agriculture in the Disaster Region</b>	
<b>C - Previous Agriculture Credit in the         Disaster Region</b>	
<b>Part III - The Borrower</b>	<b>13</b>
<b>A - Executing Agency</b>	
<b>B - Program Organization</b>	
<b>C - The Ministry of Agriculture</b>	
<b>D - Agricultural Development Bank</b>	
<b>Part IV - Project Analysis</b>	<b>17</b>
<b>A - Project Description</b>	
<b>B - Operating Procedures</b>	
<b>C - Supervised Trust Fund</b>	
1. Eligibility of Sub-borrowers	
2. Types of Subloans	
3. Interest rates	
4. Sub-loan limits	
5. Relationship between short and long- term credits.	
<b>D - AgMin and Bank Administration</b>	
1. AgMin	
2. Bank	
3. Collection	
4. Commission Fees	
<b>E - Life of Fund and Future Disposition</b>	
1. Utilization of Repayments	
2. GOP Contributions Against Decapitalization	
<b>F - Technical Assistance</b>	

	<b>Page</b>
<b>Part V - Economic Analysis</b>	<b>33</b>
<b>A. General Economic Conditions         in the Disaster Area</b>	
<b>B. Benefits expected from Project</b>	
<b>Part VI - Financial Analysis</b>	<b>37</b>
<b>A. Financial Plan</b>	
<b>B. GOP Contribution</b>	
<b>C. GOP Monetary Policy and Balance         of Payments Position</b>	
<b>Part VII - Implementation Plan</b>	<b>40</b>
<b>Part VIII- Issue: Whether to use the Supervised         Agricultural Credit Fund in view of its         Collection Record</b>	<b>42</b>
<b>Part IX - Environment</b>	<b>44</b>
<b>Part X - Conditions and Covenants</b>	<b>45</b>
<b>Annexes</b>	
<b>I. Statutory Checklist</b>	
<b>II. Director's Certificate</b>	
<b>III. GOP Loan Application</b>	
<b>IV. Background</b>	
Exhibit 1. The Earthquake of May 1970	
Exhibit 2. The floods of March 1972	
<b>V. Project Exhibits</b>	
Exhibit 1. Bank data	
Exhibit 2. Trust Fund data	
Exhibit 3. Requirements for lending to cooperatives	
Exhibit 4. AgMin Organization and personnel within earthquake zone	
<b>VI. Approval of IRR</b>	
<b>VII. Draft Loan authorization</b>	

SUMMARY AND RECOMMENDATIONS

UNCLASSIFIED  
AID-DLC/P-1024  
May 17, 1972

1. **BORROWER:** The Borrower will be the Government of Peru (GOP) represented by the Minister of Economy and Finance. The GOP will designate the Ministry of Agriculture (AgMin) as the implementing agency in coordination with CRYRZA, the GOP agency for coordination of all reconstruction projects in the disaster area. The Agricultural Development Bank (Bank) will be the fiduciary for disbursement and collection of sub-loans.
2. **AMOUNT OF LOAN:** \$5,000,000.
3. **PROJECT DESCRIPTION:** The project consists principally in the furnishing of agricultural credit to small farmers in the disaster area, either as individuals or groups, to finance crops, livestock, repair and improvement of equipment and buildings. The credits will be furnished through the Supervised Agricultural Credit Fund ("Fund") which has administered previous AID loans totaling \$25.6 million. The administration of this loan will proceed in much the same manner as with the previous loans. The main differences are that the money will be available in the disaster area only, and Fund activities will be extended to include parts of the Sierra not previously reached. The loan will emphasize group farming to a somewhat greater degree than has been the case in the past. The augmented program will require additional AgMin agricultural technicians and Bank staffing. The total amount of the loan will be available for conversion to local currency.
4. **PURPOSE OF THE PROJECT:** The purpose of the existing Supervised Agricultural Credit Fund is to improve income distribution and increase production of domestically consumed foods by assisting smaller landholders and cooperatives formed thereof in developing viable farms. The method is to provide credit and technical assistance to these smaller farmers so that they will gain technical experience and begin to capitalize their farm operations to the point that they can transfer to other financing sources for their credit needs.

The proposed loan of \$5, 000, 000 is intended to follow thie basic concept but is directed at the needs of farmers located in the disaster area. These credits will assist in the rehabilitation of the agricultural sector by upgrading the quality and increasing the quantity of domestically consumed crops or livestock in the region. By facilitating the growth of viable farm units, either through assistance to individual farmers, or through support of the consolidation of minifarms into cooperatives or pre-cooperatives, the credit program should improve the economic situation in the area. New livelihood opportunities on farms with futures should help stem the flow of rural-urban migration and at the same time improve income distribution.

5. TOTAL COST OF PROJECT: The total loan amount of \$5,000,000 will be available to finance subloans for small farmers. The GOP contribution consists of roughly \$280,000 in additional budgtary support for the AgMin as implementing agency and an estimated \$390,000 replenishment of the fund to prevent decapitalization. The Bank has agreed to increase its staff in proportion to the greater volume of subloan activity, but such costs will be covered by the Bank's administration fees included in financing charges to the sub-borrower.
  
6. BACKGROUND OF PROJECT: In September 1961, the Development Loan Fund signed a \$9. 0 million loan for agricultural credit to be used mainly for sub-loans to colonizers on the Eastern Andean slopes. Other agricultural loans \$6. 6 million (1964), \$1. 0 million (1964) and \$9. 0 million (1966) have either gone in whole or part for supervised agricultural credit. In the earthquake grant program of 1970, \$780, 000 was included for similar loans to smaller farmers. Recently AID amended Loan 527-L-047, its most recent agricultural credit loan, to make available an additional \$436, 000 for smaller farmers in the disaster area. As of December 31, 1971 the Fund has approved approximately 65, 000 sub-loans for a total of \$61, 000, 000.

Early this year the GOP requested AID financial assistance in the amount of \$5, 000, 000 for credit in the disaster area. The

Mission scaled the amount to \$3,000,000, and the IRR was approved on February 17 for that amount. Following the severe flooding of March 1972, the GOP requested additional resources for flood rehabilitation in the zone affected by the earthquake. After review of the damage in the area, AID agreed to the use of the \$436,000 loan supplement and about \$0.4 million of the 1970 Earthquake Grant to finance irrigation repair in the Chimbote area, and also the loan proposal has been increased to \$5,000,000 in response to the heightened agricultural credit needs.

7. ALTERNATE SOURCES OF FINANCING: No other financing is available from other free world lenders on the concessionary terms required for this project. The EXIM Bank, IBRD and IDB have expressed no interest in financing this project.
8. COUNTRY TEAM VIEWS: The country team considers this project a significant factor in support of USG and GOP priorities for reconstruction of the disaster area, and development of the agricultural sector, while promoting improved income distribution and reduced rural-urban migration.
9. STATUTORY CRITERIA: All statutory criteria have been duly considered. (See Annex I for checklist).
10. ISSUES: Whether to use the Supervised Agricultural Credit Fund in view of its collection record (See Part VIII).
11. RECOMMENDATION: That a loan of \$5,000,000 be made to the GOP to provide credit through the Fund for smaller farmers in the disaster area and provide for necessary complementary technical assistance. Terms of the loan would be the most concessional permitted by the Foreign Assistance Act, i. e., 40 year repayment, including a 10 year grace period, with interest at 2% during the grace period and 3% thereafter.

A. Conditions Precedent to Disbursement

1. Prior to the first disbursement of the loan the GOP will:
  - a) furnish an operation plan satisfactory to AID setting forth the numbers and qualifications of agricultural technicians and Bank agents responsible for execution of the project.
  - b) have deposited in the Fund the amount of uncollectibles due under prior agreements through CY 1971.

2. Prior to any disbursement in calendar year 1973, the GOP

a) Will have developed a revised definition of uncollectibles satisfactory to AID.

b) Will furnish AID with the results of its evaluation of the existing organization and procedures of the Fund and particularly its recommendations for modification, to improve collections.

A. Covenants

1. The GOP shall covenant that no farmer or group farming organization eligible for existing credits of the types proposed herein financed by other international institutions shall receive AID loan funds in lieu of such financing.

2. During the three years following disbursement of the loan the Fund will allocate at least as much money to the disaster area as is received in reflows under this loan.

3. The GOP shall covenant as under prior agreements to replenish the Fund by the amount determined as uncollectible each year. Beginning with the payment in 1973 for uncollectibles determined for 1972, the GOP will utilize the definition of uncollectibles developed in response to conditions precedent 2 (a) above.

4. The GOP shall covenant to implement the recommendations resulting from its evaluation of the existing organization and procedures of the Fund.

5. The loan shall be subject to such other terms and conditions as AID may deem advisable.

Project Committee

- A. Mudge - Assistant Director for Capital Projects, USAID/Peru
- R. Seifman - Loan Officer, LA/DR
- J. Halpin - Agricultural Advisor, LA/DR
- C. Brookshier - Food and Agriculture Officer, USAID/Peru
- F. Mann - Agricultural Advisor, TAB/AGR
- G. Gebhart - Economist, USAID/Peru
- C. Leonard - Assistant Loan Officer, LA/DR
- W. McP. Jones - Acting Capital Development Officer, USAID/Peru

May 17, 1972

## PART I. HISTORY AND BACKGROUND

### A. The Earthquake

On May 31, 1970 an earthquake of 7.7 magnitude on the Richter Scale struck central Peru. The earthquake and consequent landslides killed 70,000 people, injured 100,000, left 500,000 homeless, and caused damage estimated at \$500 million. Since then the area has been further devastated by yet another disaster - severe flooding in March 1972.

Annex IV provides additional data on the earthquake, the disaster area, rehabilitation efforts to date, planned reconstruction of the area, and data on the 1972 floods.

### B. U. S. Contributions to Peruvian Agriculture

The development of the agricultural sector has long been AID's top development priority in Peru. U. S. assistance for agricultural credit in Peru began in September 1961, when the DLF made a \$9 million loan (DLF-204) to support the agrarian reform and colonization program administered by the Institute of Agrarian Reform. The major goal of the loan was to assist, via agricultural credit, settlers on the eastern slope of the Andes. In 1964 AID and the Eximbank combined to provide a total of \$9.3 million for agricultural credit including AID Loan 527-L-029 of \$6.6 million, Eximbank credit No. 2153 of \$1.7 million, and PL-480 generations of \$1 million from a 1964 sales agreement. The previous DLF-204 loan was also reprogrammed as a contribution to the program. The \$16.6 million of AID funds were designated for the supervised credit programs of the National Extension Service (SIPA), the National Agrarian Reform Organization (ONRA) and the National Forestry Service (FS). The purpose of the program was to increase the productivity of small and medium landholders on the coast through a program of supervised credit, and, to support with sub-loans the program of land redistribution, mainly in the Sierra which was authorized by the Agrarian Reform Law.

In 1966 the GOP requested additional funds in order to expand and intensify the program. In November 1966 AID signed a \$9 million loan (527-L-047) which augmented the capital available for supervised credit. The loan agreement stipulated that any repaid funds or undisbursed funds from the previous loans would become part of a consolidated Supervised Agricultural Credit Fund. As of December 31, 1971, approximately 65,000 sub-loans totalling \$61,000,000\* have been approved from these funds and sub-loan repayments.

\* \$1.00 equals 43.38 soles

A substantial number of small and medium farmers have been reached through the Supervised Agricultural Trust Fund mechanism. However, in the aftermath of the earthquake additional resources and increased efforts are necessary. To date, the U.S. has assisted rehabilitation in agriculture through the Earthquake Grant Program of 1970 which included \$780,000 for loans to small and medium farmers in the disaster area. Also AID recently amended loan 527-L-047 to make available \$436,000 to help meet credit needs in the zone. This amount will be directed to the Chimbote area for sub-loans to repair irrigation systems destroyed by the recent floods. The proposed loan would extend these efforts.

Also supporting the farm credit program within the agricultural sector have been a \$7.5 million A.I.D. private investment fund loan (051) emphasizing processing and service industries for agriculture and a \$5.5 million A.I.D. food marketing loan (049) to finance marketing studies and the construction of wholesale and retail facilities for food marketing chains bringing economies of scale into the marketing system.

AID has also financed projects in the agricultural sector through contracts with North Carolina State University (NCSU) and Iowa State University (ISU). In recent years North Carolina State activities have included assistance to the Ministry of Agriculture in research and extension activities related to specific crops (rice, beans, potatoes, and forage). Iowa State University has assisted the Ministry in conducting economic studies and in agriculture program planning. Numerous agriculture technicians have been trained under both university contracts.

In the future, AID expects to be able to strengthen technical assistance support to the Ministry of Agriculture in its efforts to improve policy and investment planning capabilities. This support will concentrate on sector analysis, especially through sub-sector studies that focus on concrete solutions to specific problems in production-marketing systems along commodity lines. To this end, AID presently is financing sub-sector studies on meats and edible oils. The results of these studies should provide valuable policy and program guidelines for improving the effectiveness of credit, especially that available under the supervised agricultural credit program to cooperatives and other agricultural group organizations.

## PART II THE PROJECT

### A. Need for the project and objective of the Loan

The Loan will enable the Ministry of Agriculture to provide supervised agricultural credit to farmers in the area affected by the earthquake of May 31, 1970. A portion of this area (the coastal region) also was seriously affected by heavy rains and floods in March, 1972. The loan proceeds will be sub-lent for repair of on-farm disaster damage, local procurement of fertilizer, seeds, pesticides, machinery, livestock and other farming necessities for approximately 3,500 farm families, operating as individual farmers or organized in agricultural associations. The money will be approximately equally divided between the sierra area and the coastal areas. Since most of the agricultural infrastructure (roads, irrigation, markets) in the area was destroyed or damaged by the earthquake, virtually every farming enterprise suffered some loss either directly or indirectly. The sub-loans will not only help small and medium sized farmers (up to 30 irrigated hectares equivalent) in the area regain their production potential, but may also give them a chance through credit and technical assistance to develop a higher rate of productivity through intensification and diversification of their farming operation.

Small farmers of the Sierra as well as the Coast were minimal participants in the money economy before the recent disasters struck their area. These calamities reduced even that slight exposure in the money market, and more importantly, resulted in a serious decapitalization. Many lost all of their capital; i.e., their livestock, tools, farm fixtures and other possessions, and had their homes destroyed. Others were forced to sell what remained of their savings; i.e., livestock, tools or other possessions to have sufficient money to pay for basic necessities. This loan will enable these people to buy the necessary supplies to replace losses and to increase their production. The portion of the loan to be disbursed in the coastal area will come at a very opportune time since this region is now suffering its second natural disaster in less than two years due to the unprecedented flooding caused by unusually heavy rain fall. This flooding has caused crop loss significantly greater than the May 1970 earthquake. Sub-loans in this area will be needed to repair on-farm disaster damage and replant crops destroyed by the disasters.

### B. Agriculture in the Disaster Region

The area of central Peru affected by the earthquake starts at the Pacific Coast and stretches inland to the east, crossing the Andes and extending down the eastern slope of the Andes (see map,

Annex IV). Along the Pacific Coast, between the Andes and the sea, is one of the driest deserts in the world. This coastal region is spotted with fertile valleys under intensive cultivation utilizing the river outflow for irrigation. Without this water, agriculture of any kind is not possible. In the Sierra there is rain, but except in the river bottoms the farmers must contend with very rugged topography. The following two sections describe in further detail the differing types of agriculture in the Sierra and the Coast.

#### 1. Sierra Region

In the Sierra region an estimated 24,000 campesino families earn their living from farming, either as individual operators or in associative groups. Almost all the land is in small holdings with the average farmer owning less than 4 hectares. Holdings as small as 1/4 hectare are not uncommon, the preferred ground being river bottom land with cultivation decreasing upward as the slope steepens. (Some cultivated plots have a 45° slope). Two crops are usually produced per year, one around May or June, the second in October or November. The May-June crop is restricted to areas where irrigation is available since this is the dry season. Irrigation ditches are dug mainly by hand, the most common agricultural implement being the short handled hoe. The primary planting in October-November is sown at the beginning of the rainy season, with harvesting time dependent upon the crop. Potatoes, corn, wheat, beans and quinoa are the major crops of the Sierra.

The following figures represent the present land utilization in the Sierra area of the Department of Ancash:

TABLE 1(a)

AREAS OF PRINCIPAL CROPS IN HECTARES BY PROVINCE,  
SIERRA REGION OF AFFECTED ZONE

Provinces	POTATOES		CORN		WHEAT	
	Irrigation	Dry land	Irrigation	Dry land	Irrigation	Dry land
Huaraz	710	5,403	687	1,492	342	4,879
Huaylas	468	335	1,735	-	1,864	520
Yungay	533	948	788	599	368	723
Carhuaz	1,596	805	1,478	1,303	626	1,171
Recuay	230	1,970	800	320	210	1,030
Bolognesi	2	1,034	540	-	221	177
Huari	10	7,195	1,773	3,609	760	5,150
Pomabamba	4	646	275	1,339	64	2,012
Mcal. Luzuri.	170	530	553	820	265	1,300
Antonio Raymon.	-	1,138	577	373	131	2,175
Sihuas.	-	887	222	2,200	52	3,345
Aija.	158	732	264	-	1,104	301
Total	3,881	21,623	9,892	11,735	6,007	22,775

AVERAGE PRODUCTION:

Potatoes	6,000 Kg/Ha.
Corn (starchy)	1,100 Kg/Ha.
Wheat	900 Kg/Ha.

Source: Bureau of agricultural promotion, Min. Ag.

Table 1(a)      Continued

Provinces	BARLEY		ALFALFA		OTHERS*	
	Irrigation	Dry land	Irrigation	Dry land	Irrigation	Dry land
Huaraz	189	5,104	3,231	-	598	1,334
Huaylas	2,128	1,145	1,143	-	766	202
Yungay	488	929	148	-	521	430
Carhuaz	424	927	693	-	391	192
Recuay	310	2,150	820	-	406	518
Bolognesi	206	202	6,899	-	369	103
Huari	34	3,210	1,461	-	517	5,009
Pomabamba	27	2,028	103	-	176	1,362
Mcal. Luzuri.	75	1,690	129	-	103	287
Antonio Raymon.	57	818	456	-	47	569
Sihuas.	39	1,989	558	-	294	386
Aija.	672	1,155	635	-	387	56
Total	4,649	21,347	17,076	-	4,635	10,378

\* Fruits, Vegetables, Oca, Olluco, Quinoa

AVERAGE PRODUCTION:

Barley                      1,200 Kg./Ha.  
 Alfalfa                     8,000 Kg./Ha. per cutting

The average yields using routine procedures are:

Potatoes	-	6,000 Kg/Ha.
Corn	-	1,100 Kg/Ha
Wheat	-	900 Kg/Ha
Barley	-	1,200 Kg/Ha
Alfalfa	-	8,000 Kg/Ha per cutting

Agricultural extension demonstrations on typical land have shown the possibility of producing up to 20,000 Kg/Ha of potatoes by utilizing improved methods of cultivation. This includes the use of complete fertilizer, pesticides, better weed control and irrigation. Improved varieties of potatoes that have been developed in Peru are commonly grown throughout much of the area. Corn production can be doubled by using recommended amounts of fertilizer on the present native open pollinated varieties. Hybrid corn varieties utilizing fertilizer have produced over 4,000 Kg/Ha.

Wheat production of the native varieties as shown above is reported to average only 900 Kgs/Ha. This wheat is of a special type with large elongated kernels of a quality preferred for home consumption. However, improved varieties of wheat with proper fertilization will produce 3,000 Kg/Ha in the area. The Ministry of Agriculture is promoting the increase of wheat production through the transfer of potato acreage to wheat production. A government announced restriction on potato marketing outside of the zone because of a bacterial infection (carried by the tuber) will also tend to expand wheat acreage. Some of the land going out of potato production could also be utilized for forage production. Since golden nematode is found in the area, a seven-year rotation is recommended for potato production; however, this is usually not followed by the small land owners. Barley is usually grown on poorer soils and demonstration results show that fertilizer applications will increase the yield from 1,200 Kg/Ha to over 2,000 Kg/Ha.

Alfalfa does extremely well in the mountain valleys such as the Callejon de Huaylas. No figures are available on increased production through the use of better varieties and fertilization, but recently introduced varieties show an improvement over the indigenous variety grown. A tall growing forage variety of oats is also grown in the area for livestock feed. In sum, it is estimated that total production of all crops in the area could be doubled by utilizing presently known techniques.

As elsewhere, in the Sierra, the possession of livestock - cattle, sheep and pigs - is both an economic and a prestige factor. Livestock are a means of capital accumulation and the animals are sold

at times when money is needed for unexpected expenses. This was the case after the May 1970 earthquake when many cattle were sold to obtain cash to rebuild damaged houses or replace tools and other possessions that were lost. The Department of Ancash, all of which is included in the disaster zone, had 400,000 head of cattle and 700,000 head of sheep before the earthquake. It is reported that there are now only 280,000 and 490,000 head respectively. A more accurate figure will be available at the conclusion of the agricultural census which will be made in June of 1972 by the AGMIN.

The cattle are usually a non-descript native type with very low milk producing capacity and very slow growth characteristics. (At maturity they weight only about 800 pounds). They serve multiple purposes; i.e., for meat production and/or milk and frequently as draft animals. Sheep and pigs are also of poor quality and have very low productive capacity. Sheep from the area, for example, average less than one pound of poor quality wool per year and weigh 50 pounds at maturity. Most farm families also have a few low quality chickens.

### 2. Coastal Region

In the coastal region, there are approximately 16,000 families that earn their living from agriculture, with a cultivated area in excess of 66,000 hectares (mainly in feedgrains and foodstuffs --corn, bean pulses, tubers, fruits and vegetables). The following page (Table 2) shows present land utilization in the coastal region of the affected zone.

Sub-loans in the coastal area will generally finance repair of on-farm disaster damage, and the replacement and cultivation of labor intensive crops such as corn, tubers, bean pulses, forages and vegetables. Some may also finance small dairy, poultry, swine and other livestock operations. Generally supervised credit in the coastal regions has been to farmers operating slightly larger land parcels with better understanding and utilization of technology than can be expected in the Sierra.

### 3. Group Farming

The problems of lending to many very small land owners are recognized by the Ministry of Agriculture and emphasis will be given to collective loans to groups of farmers that are farming contiguous small holdings. The lending to groups has two distinct advantages. It facilitates supervision of the loan and the group pressures help to obtain payment of the debt. It is expected that a considerable portion of the sub-loans under this activity will be handled in this fashion. The practice of group lending should have a beneficial effect on transference of technology to the minifundio and will tend

TABLE 2 - AREAS OF PRINCIPAL CROPS IN HECTARES FOR  
COASTAL REGION OF AFFECTED ZONE\*

<u>Crop</u>	<u>Area (Has.)</u>	<u>% of Total</u>	<u>Average Production (Kg/Ha)</u>
Corn	33,228	50%	2,500
Green legumes	5,060	8	3,200
Beans	2,056	3	1,200
Forage grasses	7,900	12	45,000
Tubers	2,119	3	5,000
Fruits	1,170	3	
Rice	1,427	2	4,800
Vegetables	800	1	8,500
Cotton	350	1	
Cereal	727	1	
Sorghum	1,864	2	4,000
Other	9,376	14	
	<u>66,077</u>	<u>100%</u>	

\* Includes the Chicama, Moche, Santa-lacramarca, Viru, Chao, Casma, and Huarmey Valleys.

to develop the collective use of land for common purposes. In both the Sierra and the Coast, there has already been considerable growth in group farming whether in pre-cooperatives or cooperatives, as a result of the implementation of the Agrarian Reform Law. Large landholdings formerly operating as single entities have or are being passed to the farm workers who operate the property using one of several mechanisms --usually either the standard cooperative or a SAIS (Sociedad Agropecuaria de Interés Social), a newly created type of pre-cooperative arrangement. Under a SAIS the land formerly under private ownership continues to be operated as one unit. The workers of the establishment form a core cooperative to provide the necessary labor. In addition to this workers' cooperative, the SAIS is composed of the surrounding communities and villages which have small holdings of their own, independent of the communal holdings. A board of directors is elected from the people who belong to the labor cooperative and from the included surrounding communities. This board in turn hires a technical director of the operation. At the end of the operating year a portion of the profits are turned over to the people who actually have provided the labor. The balance of the profits are then utilized to provide improved social services for the communities who are participating in the society. The SAIS organization can later become true cooperative farms. Both cooperative and SAIS organizations will be eligible as sub-borrowers under this loan if they meet the other qualifications. In the coastal region, a comprehensive program of integral rural settlement contemplates the creation in the near future of SAIS type organizations in each of the major valleys.

C. Previous Supervised Agricultural Credit

Within the disaster area, the coastal region has been the only recipient of previous AID agricultural credit. Most of the Fund activity on the coast has been channeled through the regional office of Trujillo, though there is now a new regional office at Huacho.

Table 3 indicates the number and type of sub-loans disbursed by these offices for the years 1968-71.

TABLE 3 - SUPERVISED AGRICULTURAL TRUST FUND  
 APPROVED LOANS IN TROMBIDO, HUACHO REGIONAL OFFICES FOR YEARS 1968-1971  
 (In Thousand Soles)

	<u>Crop</u>		<u>Livestock</u>		<u>Forestry</u>		<u>Equipment</u>		<u>Land Improvement</u>		<u>Total</u>	
	<u>No. Loans</u>	<u>Amount</u>	<u>No. Loans</u>	<u>Amount</u>	<u>No. Loans</u>	<u>Amount</u>						
<u>Trombido:</u>												
<u>Long Term:</u>												
1968	259	13,248	192	24,144	-	-	275	24,912	217	14,006	943	76,537
1969	-	-	2	744	3	27	11	772	1	80	17	1,661
1970	-	-	13	4,707	13	270	14	15,361	2	3,343	47	22,472
1971	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL:</b>	<b>259</b>	<b>13,248</b>	<b>212</b>	<b>27,797</b>	<b>16</b>	<b>297</b>	<b>300</b>	<b>41,545</b>	<b>220</b>	<b>17,434</b>	<b>1007</b>	<b>100,670</b>
<u>in dollars</u>		\$301,090		\$630,600		\$16,340		\$944,000		\$396,000		\$2,288,000
<u>Short Term:</u>												
1968	1015	25,749	217	23,320	6	411	-	-	-	-	10397	275,481
1969	1217	27,427	244	30,898	-	-	-	-	-	-	1986	108,425
1970	381	24,533	21	1,858	-	-	-	-	-	-	406	26,390
1971	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL:</b>	<b>2224</b>	<b>25,809</b>	<b>482</b>	<b>58,076</b>	<b>6</b>	<b>411</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12789</b>	<b>410,296</b>
<u>in dollars</u>		\$7,995,000		\$1,320,000		\$9,340		-		-		\$9,324,340
<u>Huacho</u>												
(incl. Casma												
& Huaral)												
<u>Long Term:</u>												
1968	-	-	-	-	-	-	-	-	-	-	-	-
1969	-	-	-	-	-	-	-	-	-	-	-	-
1970	-	-	-	-	-	-	-	-	-	-	-	-
1971	11	4,027	3	218	1	220	3	1,995	-	-	18	6,460
<b>TOTAL:</b>	<b>11</b>	<b>4,027</b>	<b>3</b>	<b>218</b>	<b>1</b>	<b>220</b>	<b>3</b>	<b>1,995</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>6,460</b>
<u>in dollars</u>		\$91,500		\$5,000		\$5,000		\$45,340		-		\$146,840
<u>Short Term:</u>												
1968	-	-	-	-	-	-	-	-	-	-	-	-
1969	-	-	-	-	-	-	-	-	-	-	-	-
1970	-	-	-	-	-	-	-	-	-	-	-	-
1971	318	32,818	29	4,314	-	-	-	-	-	-	347	37,132
<b>TOTAL:</b>	<b>318</b>	<b>32,818</b>	<b>29</b>	<b>4,314</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>347</b>	<b>37,132</b>
<u>in dollars</u>		\$745,860		\$98,000		-		-		-		\$843,860

SOURCE: Agricultural Development Bank.

rate of exchange, S/. 43.38 per dollar.

11

Trujillo's portfolio reflects the evolution of the Fund from a social welfare, high volume lending operation to production credit orientation with emphasis on cooperatives which hopefully means fewer accounts and a more manageable operation. For short term loans Trujillo has gone from dealing with over 10,000 sub-borrowers averaging 20,000 soles (about \$500) per short term sub-loan in 1968-1969, to dealings with about 400 borrowers averaging 65,000 soles (about \$1,500) in 1971. This reorientation is true with long term loans as well. The figures reflect the transfer and consolidation of the small farmer into groups.

Concerning types of sub-loans, long term credits for the purchase of equipment represented 69% of the total amount in long-term loans in 1971, land improvements 16%, livestock 13%, and forestry 2%. For the entire period, Trujillo's short-term loans (crop and livestock) have exceeded long term loans at a ratio of 4:1, though year by year this proportion has fallen. In 1971, 54% of total amounts represented short-term loans and 46% long term, which also reflects the new orientation toward the capitalization of group enterprises.

Huacho's portfolio, based on one year of operation, is primarily in crop loans (85% of total), which reflects the emphasis on immediate rehabilitation efforts in that year. The remainder of the sub-loans disbursed in 1971 were largely for livestock (10%) and equipment (4%).

### III. The Borrower

#### A. Executing Agency

The Republic of Peru will be the Borrower with the Minister of Economy and Finance signing the Loan Agreement on its behalf. The Ministry of Agriculture will execute the project, providing the policy direction and program coordination, as well as the implementation machinery for the Supervised Agricultural Credit Fund. The Agricultural Development Bank (Bank) will act as the fiduciary of the Fund.

#### B. Program Organization

The basic organization for the supervised credit program was established in agreements signed between the AgMin (formerly represented by SIPA, ONRA and SF) and the Agricultural Development Bank ("Bank") in August 1964. The Ministry and the Bank established an inter-agency Trust Fund Council at the national level and a subordinate system of credit committees at the regional and local levels to manage the program and coordinate the activities of the Ministry and the Bank. The major duties of the Council and its credit committees are to: (1) formulate plans, policies and procedures for the program consistent with the terms of the AID loan agreement; (2) approve subloan contracts and modifications; and (3) monitor the performance of the duties assigned directly to the Ministry and the Bank under the organizational agreements. The duties assigned directly to the Ministry (Departments of Promotion, Agrarian Reform and Forestry) are to prepare and evaluate subloan applications, provide technical assistance to the sub-borrowers, and follow through on project evaluation and loan collections. The duties assigned directly to the Bank are to act as a fiduciary for the Fund and to disburse, collect and account for subloan funds. The Council is composed of two voting representatives from the Bank and three from the AgMin (Department Managers of Promotion, Agrarian Reform and Forestry). The credit committees are composed of two voting representatives from the Ministry and one from the Bank. A regional credit committee has been established in each of the nine agrarian zones by the program\* Each regional committee has authority over all of the local credit committees operating within its jurisdiction.

In addition to the AID supervised credit program, the AgMin uses or plans to use this organization to carry out four other trust fund programs which are: (1) the San Lorenzo Colonization and Irri-

---

\*Of which the Earthquake Zone is "Zone III".

gation Project financed by AID, the GOP and the World Bank (\$6,475,880); (2) the Tingo María-Tocache Colonization Project financed by the Inter-American Development Bank (\$3,302,000); (3) the Livestock Promotion Project financed by Holland (\$800,000); and (4) a proposed Supervised Credit Program financed by the GOP (880.0 million soles. \$20.0 million).

### C. The Ministry of Agriculture

The Ministry carries out its responsibilities under the program by using the organizational structure available for its regular operations. The Ministry has its headquarters in Lima with 12 regional offices (zones) and 158 local offices (agrarian offices and agencies) covering the entire country. The national and regional offices have been divided into departments with the department managers of the national offices having considerable functional authority over the managers of the regional and local offices.

Within the earthquake zone, the AgMin operates from one regional office, four agrarian offices (Trujillo, Chimbote, Huaraz, and Huamachuco), and numerous agrarian agencies (e.g., Caraz, Viru, Casma, Otuzco). Professional and technical personnel at the regional and agrarian office level exceed 380 in number. (See Annex V, Exhibit 4 for AgMin organization and personnel data within earthquake zone).

The Ministry's Department of Promotion (-exDIPA) established a Credit Section within its Division of Extension to advise its line management on the operation of the program. Presently, there are two employees in the Credit Section at the national office, and one credit specialist assigned to each of the nine regional offices.

In July 1971, AID approved a Ministry proposal to use \$372,411 from Fund reflows to purchase equipment and to contract 28 employees for 18 months for the Credit Section. Ten of these employees were assigned to the national office and the other eighteen to the nine regional offices as credit specialists. The strengthening of the Credit Section should greatly assist the Department Manager of Promotion to improve the planning and control of the program within the Department.

The credit specialists assigned to the regional offices are under the supervision of the regional managers (Zone Directors). To strengthen the control which the Department Manager of Promotion can exercise over the program, the Ministry plans to place these credit specialists under the direct supervision of the manager of the Credit Section at the national office.

In addition to the Credit Section, the Department Manager of Promotion is advised by an Executive Credit Coordinator. This position was originally established in April 1970 as a staff position to the Office of the Minister to coordinate the management of the program among the three department managers involved in the program. In 1971 this position was transferred to the Department of Promotion.

The Department Managers of Agrarian Reform and Forestry do not have staff sections to advise them on the operation of the credit program. This, however, is not a serious problem because the Department of Agrarian Reform has not extended any subloans under the program during the last two years and the Department of Forestry only extended about 3 percent of the total subloans.

D. Agricultural Development Bank ("Bank")

The Bank is a government-owned institution established by Decree Law 72/73 of August 16, 1931 to develop agricultural production by providing farming and stock-raising activities with the financial resources required. It is authorized to carry out credit, technical assistance and commercial operations and may have an equity interest in agricultural enterprises, all for which it now has an authorized capital of S/. 10 billion (Law No. 16726 of November 15, 1967).

The highest authority of the Bank is its Board of Directors, consisting of eight members, four of whom are appointed by the Minister of Economy and Finance, and the other four by the Minister of Agriculture. Included among the nominees of the Minister of Agriculture are the Executive Director of the Ministry, the Director of the Sectoral Planning Office (OSPA) and a representative of the General Bureau of Agrarian Reform and Rural Settlement. A representative of the Minister of Finance serves as the Bank's President.

Under the Office of the President there is the Office of the General Manager, the chief executive office responsible for Credit, Finance, Administration, Technical Supervision and Development. (See Annex V Bank General Organizational Chart).

The organization of the Bank's 13 regional offices (branches) and 81 local offices reflects the same general structure. However,

in 1964 the Bank established a Trust Fund Office to oversee the management of its trust funds, of which the AID Supervised Credit Fund comprises about 56 percent. This office has ten employees all of whom work at the national office. The administrator of this office (Trust Fund Administrator) reports to the Assistant General Manager of the Bank and, with respect to the program, has considerable functional authority over the managers of the regional and local offices. The principal duties of the Trust Fund Administrator with respect to this program are to: (1) serve, without vote, as the Secretary of the Trust Fund Council; (2) notify the credit committee and the Bank's regional and local offices of the policies and procedures established by the Council; (3) maintain subsidiary accounting records for the transactions of the Fund; (4) prepare accounting and statistical reports on the operation of the program; (5) monitor the performance of the program duties assigned to the managers of the regional and local offices.

IV. Project Analysis

A. Project Description

1. General

This loan of \$5,000,000 will be disbursed in soles to the Bank's supervised credit trust fund\*. The loan will be earmarked for use in the earthquake disaster area, which includes areas damaged by flood in March, 1972. It is presently planned that the use of the funds will be about equally divided between Coast and Sierra. Assuming an average loan size of \$1,200 for crop and farm infrastructure loans (based on data from the earthquake grant credit program) and \$3,000 for livestock loans, over 3,500 farm families will be reached.

The money will be made available through sub-loans to small and medium-sized farmers for the production of crops and livestock as described in Section II of this paper. The crops financed will be mainly corn, wheat, barley, quinoa, tubers, bean pulses, and some fruits and vegetables. Sierra farmers have not been included in previous loans from the Fund and this will be their first experience with supervised credit. Some of the farmers in the Sierra have had limited amounts of credit under a BID loan and many coastal farmers have had previous experience in borrowing under the Fund.

\* \$1.00 equals 43.38 soles

2. Crop and Farm Infrastructure Loans

An estimated \$1,175,000 will be used in the Serra for regular agricultural credit following the normal lending procedures as set forth in the supervised credit manual and now followed by the Fund. Farm plans will be prepared for potential borrowers with the help of the extension agents and only borrowers who have the potential for a viable farm operation which will reasonably assure repayment of the loan will be considered.

For the Coast, the amount initially allocated for repair of on-farm disaster damage, replacement crop loans, and intensification and diversification activities will be an estimated \$3,000,000. This sum will be an additional amount

available to the Fund for disbursement through its regular lending operation. Because of the generally larger scale of agricultural operations in the Coast the applicable loan ceiling will be \$10,000 to individuals rather than \$5,000 as established for the Sierra.

In addition to loans for individual farmers, loans will also be made to collective groups who are working a consolidated property for a common purpose. This will include cooperative groups of farmers who have organized and been officially recognized as a service organization. Such agricultural cooperatives have large tracts of land and are working together and sharing the income of the activity. Also included in this same general category are the SAIS organizations which are pre-cooperatives described elsewhere in this paper and irrigation water users' organizations. It is estimated that up to two thirds of the loan will be used for lending through group organizations. Each entity will be able to borrow on the same basis as individuals under this loan; i.e., \$5,000 for each recognized member of the organization if located in the Sierra and \$10,000 if on the Coast. Any loan applications totaling more than \$100,000 to any organization will have to be submitted to A.I.D. for prior approval. The same criteria regarding crop and livestock production will be followed as that outlined for individual borrowers.

#### B. Operating Procedures

The sub-loans under this loan will be supervised credit in the usual sense of the word. The Ministry of Agriculture either through its own resources or those provided by CRYRZA will make available sufficient trained agricultural technicians to develop farm plans and supervise the loans granted to the sub-borrowers. (CRYRZA, as the GOP agency for coordination of reconstruction projects in the disaster area, can fund technicians working under other ministries to achieve reconstruction program objectives). In this sense "supervise" means a sufficient number of farm visits to assure the farm plan is being followed. In the case of crop production loans, the sub-borrower should be visited when the soil is being prepared, the crop planted, during the growing season, and at harvest time. In the case of livestock loans, the supervision should include supervision of the planting of forage crops, and the construction of animal housing and feed storage facilities before disbursement for the purchase of the animals is authorized.

The sub-loans will be approved in accord with the Supervised Credit Manual applying the eligibility criteria indicated in

**Section C below.** The approval of farmers, cooperatives, or pre-cooperatives to receive sub-loans is made by the local credit committees. A farm plan must be developed by the appropriate technician in cooperation with the farmer for each selected agricultural enterprise. This plan projects production costs, yields, and anticipated income. An investment schedule specifying the amount and timing of each item of goods and services required is submitted. The farm plan is included as part of the sub-loan contract and is the basis for disbursement of funds or provision of goods and services to the farmer or cooperative group by the executing agencies. Prior to approval, the applicant's previous credit experience is checked through the Bank.

Once the loan application and farm plan have been approved by the Local Committee, the sub-loan contract is forwarded to the corresponding branch office of the Bank which opens an account for the borrower. In most cases, sub-loan disbursements are made as suppliers credits to the farmer. Items are directly obtained by the farmer, cooperative or cooperative group from the suppliers based upon the time schedule specified in the contract. Upon presentation of necessary documentation, the Bank branch reimburses the supplier. Chart 1 indicates the operational responsibilities within the Supervised Agricultural Credit Fund.

### C. Supervised Trust Fund

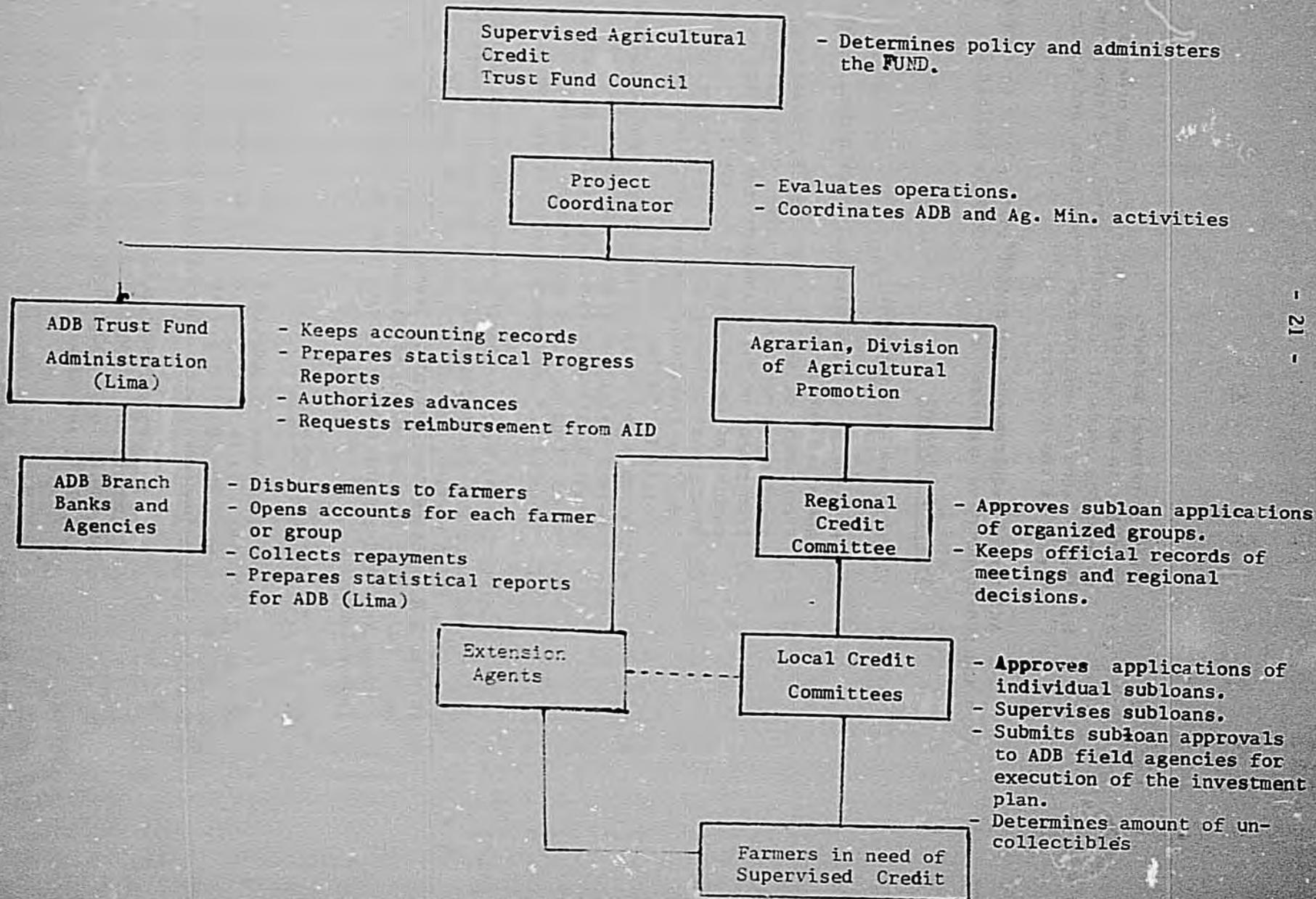
#### 1. Eligibility of sub-borrowers

As noted, the Fund may be used to make loans to individuals, cooperatives, or pre-cooperative organizations. The Trust Fund Manual specifies criteria for borrower selection. For example, to be eligible for a supervised credit loan individual borrowers must:

- a) Possess the character, ability, and agricultural experience necessary to carry out the proposed farming operation;
- b) Directly work the land;
- c) Be legally competent to incur debt;
- d) Be of such age (generally less than sixty) and physical condition to enable him to carry on the work;
- e) Verify possession of the land;
- f) Work not more than 30 hectares of permanently irrigated land, 60 hectares of land with occasional irrigation, 90 hectares of unirrigated land, or 450 hec-

CHART I

ADMINISTRATIVE STRUCTURE OF THE SUPERVISED CREDIT PROGRAM



tares of natural pasture.

- g) Be unable to obtain sufficient credit from other sources to meet his needs at reasonable rates and terms; and
- h) Accept technical assistance, orientation, and supervision of the Ministry.

Additional requirements are specified for loans to cooperative and pre-cooperative organizations (see Annex V, Exhibit 3).

## 2. Types of Subloans

Eligible projects include:

- a) Procurement of fertilizers, insecticides, fungicides, seeds and seedlings;
- b) Procurement of cattle, pigs, goats, poultry, feed, vaccine and medicine, and other veterinary supplies;
- c) Procurement of farm machinery and equipment or payment of rental services for such;
- d) Procurement of materials for construction and repair of farm buildings and installations. (fences storage facilities, etc.).
- e) Payments for costs of soil improvement, repair of on-farm irrigation systems (drainage ditches, canals, dikes, division terraces and wells), and land preparations (land leveling and erosion control).
- f) Payments for work performed by farmer on land.

Activities which are ineligible under the provisions of the Fund include loans for the purchase or lease of land, the refinancing of debts to third parties, payment of interest, the purchase of vehicles and tractors for individual farmers, and construction of social centers or offices for cooperatives or SAIS. The financing of crops in world surplus (coffee, cocoa, cotton, sugar, etc.) is also excluded.

## 3. Interest rates

On crop loans to individual farmers, interest rates will be 7% on amounts up to S/.100,000.00 and 9% on amounts between S/.100,000.00 and S/.200,000.00\* For the financing of buildings, machinery, irrigation works, etc. the following schedule applies:

	up to S/. 50,000.00	7%
S/. 50,000.01 to	100,000.00	9%
100,000.01 to	150,000.00	10%
150,000.01 and above		12%

\* \$1.00 equals 43.38 soles

These interest rates reflect the policy of the Fund to subsidize to a greater extent the smaller farmers. Interest rates on loans to cooperatives and organizations are normally 7%. This is consistent with the present operation of the Fund in promoting cooperatives. It is assumed that at these concessional rates, even those farmers subject to the higher rates will borrow as much money as they need, and only in marginal cases will the higher interest rate for larger borrowings affect a decisionmaker. The GOP has established a 6% rate for all subloans made prior to September 30, 1972, to flood disaster victims for the repair of the damaged and destroyed irrigation systems. This determination was made as a necessary device to sustain the local economy.

#### 4. Sub-loan limits

Under present Trust Fund regulations, the local credit committees may approve individual loans of up to \$200,000 (approximately \$5,000) and loans to cooperatives of the same amount per active member. In certain cases (i.e., for consecutive sowings) individuals may receive an add-on subloan but only with the approval of the Regional Credit Committees. The total amount outstanding may not exceed \$400,000 (approximately \$10,000) in such cases. For the portion of the loan allocated for the Coast, the above regulations will remain in effect. However, for loans to the Sierra the maximum initially will be \$200,000. The differing farm characteristics in the two regions warrant the two distinct limits, and in addition, on the Coast there is an ongoing credit program which adheres to the existing maximums; in the Sierra the program is more experimental and there is only limited experience with farmers in this region; it is not expected that any will require loans over the \$5,000 ceiling. Should it appear as the program evolves in the Sierra that there is such demand and that program performance warrants larger loans, AID will consider raising the maximum limit.

#### 5. Relationship between Short and Long-Term Credits

Under AID Loan 047 a proportion of 30% long-term loans to 70% short-term loans was established. This ratio has been difficult to maintain, and with the impact of natural disaster, has not been adhered to. While the educational function of supervised credit will always depend on short-term production credit, i.e. fertilizer, pesticides and seeds, which serve as the instrument for instructing the farmer in the improvement of his production, the small farmer's credit needs are not in this proportion and in fact his actual requirements for livestock, sheds, pasture improvement, irrigation repair, land leveling, and machinery, may be such as to require considerably

greater amounts of long-term financing. In working up a reasoned investment plan, the extension agent should have the option of including an appropriate amount of long-term credit. AID and the GOP intend to reevaluate the elements that go into such a proportion and devise a flexible formula to allow the Fund to make balanced responses to the farmer's needs.

D. AgMin and Bank Administration

1. AgMin

The GOP has been fully cognizant of the need to improve the operation of the Fund and has taken several steps since AID Loan 047 was approved to upgrade its performance. For the purposes of the Fund, the splintered groups of the AgMin (SIPA, ONRA) have largely been replaced by the Dirección General de Promoción Agraria, vastly simplifying the operation of the Fund. For the last five years the North Carolina State University Evaluation Team has worked directly with the Bank and the AgMin in analyzing the operations of the Fund, simplifying the loan application submitted by the sub-borrower, developing a Supervised Agricultural Credit Manual which provides shape and structure to all credit approval activities, and creating credit courses to better prepare Ministry personnel for various credit and credit related functions. The Ministry has now institutionalized this series of special training courses for agricultural credit personnel. The courses are conducted by the Centro Nacional de Capacitación e Investigación para la Reforma Agraria (CENCIRA) and include training in all phases of the credit process (farm plan analysis and preparation, loan execution, supervision, and control). In 1971 four courses and two seminars were conducted. Over 225 Ministry extension and Bank credit agents participated. CENCIRA will give over 20 courses in 1972 which will provide training for over 800 participants.

In addition, the GOP has decided to utilize some of the two-step money from certain AID loans to staff, among other things, a permanent Credit Evaluation Office for continuous study and assessment of Fund performance. At least 9 new employees with degrees in Agronomy will be recruited to add to working professionals already engaged in such activities at the national level.

Previous evaluations of the Fund's organization have revealed a disunity and division of responsibility between the Bank and

the AgMin with respect to Fund management and collection operations. In response to this finding, the Fund has recently begun to implement a new approach to the problem of collection responsibility. According to AgMin officials, the Fund is now clearly under the control of the AgMin and the Bank serves only as a depositary and collector. Bank collection responsibilities include receipt of regular payments and field collection procedures when a sub-borrower fails to make payment. The Dirección de Promoción (AgMin) has recognized its obligation to assure repayment, although the Bank still receives the cash payments. The performance of AgMin extension agents will be judged to a substantial degree by the performance record (including loan repayment) of their client farmers. Under the new regulations, all members of the Local Committee (composed of 2 AgMin people and a Bank representative) are collectively charged with the success or failure of the Fund in any locality. Each region in the program (there are 3 regions in the Disaster Zone) will have a team of credit supervisors who will travel from one locality to the next to review and advise Local Credit Committees on the selection procedures, preparation of the loan application (economic and repayment plans), and assure that disbursement and recuperation schedules are being adhered to.

In addition, other suggestions are being considered to improve the operations of the Fund. Currently, the extension agent helps the borrower prepare a plan, and presents it to the three man committee of which the extension agent is a member. One proposed change would include a review of the operating plan of the sub-borrower by another person not responsible for its preparation. While the evaluation to be undertaken by the Fund may indicate a need for further consolidation of authority, the delineation of responsibility and increased control discussed above should improve the subloan repayment record. The GOP will covenant to implement additional recommendations which result from the evaluation.

## 2. Agricultural Development Bank

The responsibilities of the Bank are:

1. To organize and execute the credit operations of the Fund as well as to effect the economic control and accounting related to the loans;
2. To make loan advances on the dates established by the loan contract;
3. To collaborate in determining harvest dates and yield estimates as established by the Fund;

4. To make collections on the loans, using the procedures permitted by its Charter and Statutes; and

5. To provide financial reports to AID as outlined in the loan agreement.

Sub-borrower accounts are kept in the branch offices of the Bank. Each quarter the accounting division of the branch makes a list of overdue loans, whether under or over 90 days outstanding, and gives the list to the Bank inspectors charged with collection. The inspectors use this list to determine which sub-borrowers should be visited. The inspector is not only charged with giving written notice to the sub-borrower of the delinquency, but reviewing with him the causes for the delay. If the reasons seem valid, the inspector develops a new schedule of payments, which might include stretching out the principal payments, a moratorium on payments, or the like. This is submitted to the Local Committee for its approval. In some cases the inspector determines that the causes for delinquency are unjustified and require "intervention" by the Bank. "Intervention" in this context means watching the crop of the delinquent farmer and seizing the crop upon harvest in order that the proceeds may be used to repay the debt. This is a rarely used instrument because of the kind of sub-borrowers with whom the program works, and the pressure from the GOP to adopt a lenient policy toward them. The farmer is, however, denied future access to credit, and other lending institutions are advised of the nonpayment.

The Bank intends to increase its staff at Huaraz to handle the increased lending activity projected for the Callejón de Huaylas. A new bank agency will also be created at Pomabamba in the eastern part of the Callejón. Subloans for the coastal disaster area however will be primarily funneled through the two existing branch offices of the Bank in the area, one in Huacho, the other in Trujillo. Huacho has only recently been staffed up to the level of a branch bank (February 1971) but has already done \$1.0 million worth of new loan approvals for the Fund. Trujillo is a senior branch historically handling about 20% of the Fund business, and has participated in the Fund since its inception.

### 3. Collection

AID Loan 047 stipulates that the GOP will replenish the Fund annually in the amount of the accounts determined uncollectible

as of March 31st. \* In the last three years the amounts declared uncollectible have been as follows.

<u>Loan</u>	<u>Amount</u>		
	<u>Capital</u>	<u>Interest</u>	<u>Total</u>
1969	\$203, 000	\$35, 000	\$238, 000
1970	\$161, 000	\$28, 000	\$189, 000
1971	\$267, 000	\$47, 000	\$314, 000

These figures compare to a total of \$45, 000, 000 disbursed for subloans during the seven years of Fund operations. The indicated percentage of 1.5% losses through bad debts would be an entirely acceptable ratio in a high risk program such as this. On the other hand, the percentage of loans outstanding past due over 90 days is as follows:

<u>Sub-Program</u>	<u>Total Amount Outstanding</u>	<u>Loans Past Due more than 90 days</u>	<u>%</u>
527-L-047 (AID)	\$19, 300, 000	\$6, 406, 000	33.2
85-SF/PE (BID)	\$ 3, 492, 000	\$1, 376, 000	39.4
96-SF/PE (BID)	\$ 895, 000	\$ 82, 000	9.2

Source - Monthly report of Bank.

For a comparative breakdown by region on outstanding loans, see Annex V, Exhibit 2).

If the purpose of the GOP contribution is strictly a defense against decapitalization, as long as all subloans which have no likelihood of repayment are written-off, this purpose is served. The crucial determinant is the labeling of a loan "uncollectible". While reference is made in the Credit Manual to time limits related to

\* Since 1969 the GOP has deposited over 15, 000, 000 soles (about \$340, 000) to replace the aforesaid uncollectibles. The additional amounts remaining from CY 1970 and the full amount of uncollectibles for CY 1971 will be deposited into the SACF prior to any disbursements under the loan.

agricultural campaigns (5 campaigns being the maximum, about 2 1/2 years) this has not been uniformly applied, and in any case the basis for declaring a loan uncollectible is the evaluation of the Local Regional Committees against specified criteria. These criteria include: (a) abandonment of property; (b) loss of crops through natural disaster; (c) eviction of the sub-borrower from his tenancy and (d) death of the sub-borrower. Heretofore these committees would avoid calling a loan uncollectible since it would reflect badly on their performance. With the sharpening of the uncollectible definition, probably to include a fixed time limitation without exception, and the creation of the credit specialists, outsiders who will evaluate a local subloan portfolio, such practices will be curtailed and a more accurate amount for GOP contribution determined than under present groundrules. In addition, the definition of uncollectibles will probably have to be broadened to encompass sub-borrowers who do not fall within the above criteria for uncollectibles but whose current and prospective income is so marginal that there is no reasonable probability of repayment.

On the other hand, if the purpose of such GOP contributions is to serve as a lever against the fund administration, to press the GOP to assert pressure on the AgMin and Bank to improve collection performance, the definition used for assessing GOP contributions should be widened to include that portion of subloans outstanding for over 90 days which are caused by nonpayment without justification. Clearly some of the subloans due over 90 days are caused by a liquidity crisis for the farmer or other legitimate reason which should not be considered poor collection. While the refinement of the definition is, under any circumstances, essential for an improved understanding of the status of the SACF and its performance, the Project Committee feels that using the amount the GOP must contribute to exert pressure against the ADB is too imperfect an instrument to achieve the necessary results. However, the GOP and AID will discuss and negotiate a clarification of what shall be included, and the GOP contribution in CY 1973 will be based on the new terms. In the meantime, the Fund has adopted, not only for AID funds but for the entire Trust Fund portfolio, the following targets for the reduction of amounts overdue by more than 90 days:

- 1) To 18% by January 1973
- 2) To 12% by June 1973
- 3) To 10% by January 1974

While we believe these targets may be optimistic, we consider them a positive indication of the change of policy by the Fund to adopt a production orientation for the Fund, put the Fund on a solid financial footing by reducing the outstanding portfolio, and set stringent goals for the operating entities in this regard.

Furthermore, the GOP is in the process of evaluating requests by farmers to write-off debts due to earthquake-related farm failure, and the Fund is internally reviewing its portfolio to determine whether other loans should also be written off. Sub-loans to borrowers whose land was completely destroyed will be entirely written-off, while those with damaged but still usable land, will be relieved of past and future interest payments. The number of 1971 uncollectibles declared may increase from 13.8 million soles to 24.0 million, thus increasing the GOP's recapitalization requirement and at the same time reducing amounts in arrears.

It should be noted, however, that the problem of loan arrears is not only a collection problem, but also a product of both the farming cycle and the subsistence level of the farmer with whom the Fund is dealing. The number of loans made by the Fund and the amount of money disbursed varies throughout the year, increasing as money is lent for the planting season and decreasing at the time the production loans are repaid. Seasonal fluctuation also bears on the repayment pattern of farmers, who are least able to pay just prior to harvest and most able to pay after receiving payment for their crops.

Finally, the earthquake itself caused a significant increase in loan arrears. Annex V, pg 11, highlights the increase in defaults on short-term crop loans as an aftermath of the quake.

#### 4. Commission Fees

Under general Fund operating procedures, the Bank receives an annual commission of 6 1/4% of outstanding balance on all sub-loans, to cover its administrative and collection costs. Although the commission is calculated on the basis of the total outstanding balances, the Bank receives its service charge only upon collection of sub-loan interest. Hence, the Bank has some incentive to press for timely collections. For the \$780,000 allocated to agricultural credit during the earthquake grant program of 1970, the

Bank, because of the nature of assistance to the disaster area accepted an annual fiduciary fee of 3% of outstanding balance. The Ministry and Bank have agreed to continue the 3% charge for the proposed loan. While the Bank does not have accurate administrative cost data per loan, the Bank considers the 3% to fall substantially short of covering costs, especially on small loans to individual farmers.

The Trust Fund Council intends to review the relationship between Bank activities and commission charges for the entire supervised credit program. With the addition of the credit specialists to the Lima office, a thorough evaluation will be possible. Part of the overall evaluation will include a study of Bank handling costs vis-a-vis commissions, to provide a basis for reducing administrative costs and/or renegotiation of fees as indicated.

#### E. Life of Fund and Future Disposition

##### 1. Utilization of Repayments

Repayments on subloans will form part of the corpus of the Supervised Agricultural Trust Fund available for relending in any area under the Fund's existing jurisdiction. This approach is consistent with the present ongoing operation of Fund, our policy on utilization of repayments generated from sub-loans under the AID Grant Agreement, and long-term AID and GOP objectives in upgrading the Fund.

Consideration was given to requiring first repayments be used strictly in the disaster area, and thence to the general Fund, but direct reflow into the Fund was preferred because it would: (a) support long-term AID objectives in improving utilization of the Fund's cash flow, (b) avoid reopening issues of funding levels fixed without regard to need or efficient utilization, and (c) avoid additional administrative complication in the operation of the Fund.

It was decided, however, that a covenant requiring the Fund to provide at least as much money as obtained by reflows from the new \$5.0 million in the first three years after the first disaster will accomplish the purpose of fund resource allocation without complicating Fund machinery.

##### 2. GOP Contributions Against Decapitalization

Under the existing Supervised Agricultural Credit Loan

527-L-047 the GOP is required to replenish the Fund by the amount determined as uncollectible in the preceding year. This requirement shall be incorporated as to this new \$5.0 million loan and, in addition, further steps will be taken to clarify the GOP obligation. For The GOP will make a contribution equivalent to the amount of outstanding uncollectibles due as of March 31, 1972 using present groundrules for defining uncollectibles for the existing Fund. During the course of 1972 the Bank in conjunction with AID, will develop a definition of uncollectibles which shall fairly reflect the intended purpose of the GOP contribution, i. e., general protection against decapitalization of the Fund. Subloans falling within the definition shall be written-off from the Fund. The Bank shall furnish the Ministry and AID with a break-down of its accounts into categories reflecting causes for non-payment whether it be crop failure, natural disaster or whatever, to allow effective evaluation of its collection performance.

#### F. Technical Assistance

Under present procedures the responsibility for submitting loan applications to the Local Credit Communities (there are 62 local credit committees and 9 regional committees) vests with the 'extensionistas agrícolas' or extension agents. These extension agents are charged with the responsibility of assisting the credit applicant in the preparation of an investment plan. 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 and services to the farmer or community.

Many of these extension agents are graduates with degrees in agronomy and have many years of experience in supervised credit activities. Assisted by 'sectoristas' or agricultural technicians who have the equivalent of 4 years vocational training at the high school level, they cover the whole gamut of technical assistance activities associated with the supervised agricultural credit program. Loans for group farming entities allow broader exposure by AgMin personnel to handle educational programs more efficiently and advise a greater number of farmers how better to deal with the market both in the purchase of farm inputs and in the selling of farm products. The AgMin has agreed to submit an operational plan to assure satisfactory technical support for the project. Presently the AgMin has about 350 technicians in the area working in irrigation, land reform, crop

development, and credit. While the GOP will outline its staffing requirements in the disaster zone in the Operational Plan, they will probably need about 35 more agricultural technicians to adequately supervise the 3,500 families expected to be reached by the loan. These estimates are based on the assumption that an experienced supervisor can handle approximately 50 individual families or 100 families organized in groups. The AgMin is expected to provide a sufficient mix of new and experienced technicians to assure adequate coverage. The possibility exists that additional personnel will be funded by CRYRZA and placed under the direction of the AgMin to assure rapid disbursement and proper supervision of the loan funds in the disaster zone. While this will be further developed in the operation plan, CRYRZA has expressed interest in funding some 100 additional technicians at all levels.

V. ECONOMIC ANALYSIS

A. General Economic Conditions in the Disaster Area

1. Mountain Area

The Sierra portion of the disaster area contains approximately 800,000 inhabitants. The population growth rate of this area is only 0.7% reflecting the heavy outmigration to the coast. The phenomenon of rapid urbanization is affecting this area as well. Since the migration consists of the younger more able members of the work force, there is a serious loss of manpower to the area with a resulting high dependancy ratio and low productivity.

The agriculture in the area is highly inefficient due to a combination of factors including the leaching and erosion of soils by seasonal heavy rains, lack of capital and technical knowhow, and bad management practices on the farms. Most of the farming is done in small valleys interspersed among the mountains with the farms situated around a small village which is the center of the economic and social activities in the area.

2. Coastal Area

The coastal portion of the disaster area contains approximately 1,200,000 inhabitants of which about 57% is urban. Economic activity along the coast consists of relatively highly productive irrigated agriculture situated in long river valleys formed by the run off from the Sierra, and a varied industrial structure composed of a few large scale enterprises and a large number of medium and small scale firms. All agricultural production along the coast requires irrigation because of the complete absence of rainfall, and irrigation systems have been established bringing extensive areas under cultivation. The principal crops produced are sugar, cotton, corn, rice, beans and potatoes. Productivity is high compared with agriculture in the Sierra, but low with respect to international standards. The current government's agrarian reform efforts have resulted in the expropriation of many of the large haciendas (including some sugar plantations) along the coast and in their redistribution to cooperatives and, in some cases, to individual campesinos. However, unless additional acreage can be brought into production in the near future, which is highly unlikely given the cost and problems involved in tapping new water sources, coastal agriculture cannot be expected to have any immediate impact on the unemployment problem in the area.

B. Benefits expected from the Project

Approximately 3,500 farm families producing mostly annual crops will receive additional physical inputs and technical assistance through the credit made available with this loan, and it is expected that as a result, their productivity on these farms will increase.

Since these farm families probably will not substantially increase their own consumption from this additional output, their market sales may increase by several times, with proportional increases in their cash income. Out of this additional income, the farmer should be able to purchase the inputs required for his second crop, pay the principal and interest on his loan, and increase the standard of living of his family. As his productivity continues increasing, the farmer should be able to begin an investment program on his farm resulting in further increases in productivity over time.

The injection of new money into the area through investment of the loan proceeds will have a multiplier effect leading to increases in value added and incomes in the disaster zone equivalent to perhaps 3.5 to 4 times the amount of the investment that takes place. Of course a large proportion of the loan proceeds must necessarily be spent outside the area since the required inputs (livestock, fertilizers, etc) are not produced in the area, however, as production expands with successive crops and as an ever larger proportion of that output is sold outside the area (say in the Lima market), income will flow into the disaster area stimulating additional consumption, local production and incomes, etc. This multiplier effect will be reduced to the extent that the additional consumption and investment spending is on goods and services produced outside the area, however, this cannot be avoided in the early years of the project and is expected to decline as a percentage of total spending in the area over the years of the project.

This increased demand in the disaster area will provide stimulus for those firms in the area supplying agricultural inputs. Although at the present time these are not many in number, as the productivity of agriculture increases and as the farmers become acquainted with and use new and different inputs, opportunities for the production and sale of these inputs will appear.

Another important benefit flowing from this loan will be the spread of new technical knowledge throughout the area. Farmers not directly involved in this loan program will benefit as the new technology becomes generally known throughout the area, and their ability to acquire the necessary inputs will increase as the income levels in the area increase. Given the initial low level of technology and productivity of these farms, this is an especially valuable result of this loan.

The increased consumption of basic food products will make a substantial contribution to the protein and caloric intake of the population of the disaster area, especially in the Sierra, with lasting improvements in health and human potential. It is estimated that in certain rural areas of the Sierra approximately 80% of the pre-school aged children are undernourished, as compared to about 30% for poorer sections around Lima.

Not only will the increased production resulting from this loan increase food supplies thereby improving levels of health, but it will also tend to lower relative prices of food products thus freeing income for expenditure on other necessities such as medical and dental care, clothing, housing, etc. To the extent that these food products are inputs to other industries, there will be cost saving, and profit and investment increases in these other industries.

From a long term perspective, the continued application of fertilizers and of new technology to the production process will at least preserve, and probably increase, the productivity of the soils of the disaster area. Thus, this, and other related programs, could very well reverse the steady downward trend of per capita food production which has decreased around 2% per year over the last decade.

#### Employment

One of the priority goals of the Peruvian Government's five year economic and social development plan is to increase the employment of marginal groups and thereby redistribute income. Several of the above mentioned effects of this loan will expand employment of marginal groups and thereby help to redistribute income toward less favored groups.

The increase in demand for non-agricultural products will have this effect, as will the increased use of physical inputs on the farms, such as fertilizers and insecticides which will perhaps require the labor (part time) of an additional member of the family. The employment effects on the farms in the Sierra will be minimal, however, because of the extremely small size of those farms. Nevertheless, many farm owners heretofore working part time in other jobs may begin devoting full time to their small plots, thus freeing the second job to another person.

Overall, the increased demand for goods and services in general through the workings of the multiplier effects on the spending of these loan proceeds should generate ~~several~~ hundreds of jobs over the next few years. Also, the nature of the goods and services purchased by the marginal farmers receiving a large part of this increased spending power will be such as to continue the redistribution effects of the program in line with the expressed goals of the Government of Peru.

#### Social/Political

The social-political effects of this loan are much more difficult to judge or measure. A large number of persons (families) will be brought into contact with ideas previously unknown to them. This contact will have its effect, both socially and politically, however, it is

extremely difficult to judge its magnitude if for no other reason than that there are so many other changes occurring in Peru at this time, thereby obscuring the effects of any one variable.

The effects on migration are a little clearer. The major migration flows in Peru (and within the disaster area) are from the rural areas to the urban centers, from the Sierra to the coastal cities, and from these coastal cities to Lima-Callao. This loan will have the effect, other things being equal, of slowing these movements.

Since the loan is directed toward the rural sectors of both the Sierra and the coast, it will tend to hold people on the farm by increasing employment and incomes there. In addition, it will tend to counter the movement to the coastal cities from the Sierra and on to Lima-Callao by increasing job opportunities and standards of living in the Sierra region and in the disaster area in general. These migration flows will not be reversed by this program since the program is simply too small relative to the number of people migrating, and many people migrate for other than employment and income reasons, however, in conjunction with other Peruvian Government programs with the same purpose some influence may begin to be exerted over these flows. The constantly worsening overcrowded conditions in the Lima-Callao area have very serious social/political implications for the country, and the GOP is much concerned to stop this migration. This loan will help.

VI. FINANCIAL ANALYSIS

A. Financial Plan by Use and Source of Funds

	<u>FINANCIAL PLAN (ESTIMATED)</u>			
	<u>A.I.D.</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
Coast		\$3,000,000		
Sierra		2,000,000		
Technical Assistance				\$280,000
Recapitalization of SACF				390,000
		<u>\$5,000,000</u>	<u>-</u>	<u>\$670,000</u>

B. GOP Contribution

The GOP is already providing massive support for its agricultural credit program. The GOP has fulfilled its financial obligations under prior loan agreements supporting the Fund with direct contributions totalling \$5.0 million, as well as the two-step funds from the Lima Water Sewerage (527-L-022), Canon del Pato (527-L-024) and Pativilca Hydroelectric (527-L-025) loans, all two step contributions totalling approximately \$13.8 million (over 550.0 million soles) by 1981. The GOP has budgeted approximately 880 million soles for supervised credit to small farmers in the next two years. This money will be disbursed through an account utilizing the Supervised Agricultural Credit system, but authorizes subloans in other areas of Peru and for other crops, as well as for regular Fund activities.

In addition to meeting Loan 047 requirements for direct yearly fixed contributions to the Fund, since 1969 the GOP has deposited over 15,000,000 soles (approximately \$340,000) into the Fund. This amount has served to significantly recapitalize the fund for losses resulting from subloan write offs. The amount required to cover full recapitalization and the precise definition of an uncollectible has been the subject of discussion between AID and the GOP and is discussed elsewhere in the paper. By current AID assessment, however, at the rate of exchange of 43.38 soles to the dollar, 3.4 million soles (about \$80,000) remains due for collectibles as of March 31, 1971, and for April 1, 1971-March 31, 1972 an estimated 13.8 million soles (about \$310,000). Recently the fund has received some S/.792,000 (\$18,000) in recuperations on accounts previously written off as uncollectibles. Therefore, the net amount, following appropriate reductions for such windfalls, plus uncollectibles accrued as of March 31, 1972 will be the GOP contribution against decapitalization required before first

disbursement is made under the new loan. In the course of CY 1972 AID and the GOP will redefine "Uncollectibles" to reflect more accurately Fund decapitalization, and this shall be the basis for assessing future yearly contributions.

The GOP will be required to adequately staff the disaster area for the new loan and provide sufficient logistical support. While this will be clarified in the GOP operational plan, it is expected that an additional 35 agricultural technicians of all levels will be required and will cost about \$280,000 during the two years of loan disbursement.

C. GOP's Monetary Policy and Balance of Payments Position

Peru's current economic policy is one of providing moderate stimulus to the economy through its monetary and fiscal policies without generating excessive inflationary pressures, while at the same time inducing considerable structural change in the economy so as to maximize employment opportunities and to more equally distribute income. To this end, the GOP has planned a massive public investment program for the next five years which will provide considerable push to the economy.

Peru's balance of payments showed a large surplus in 1970 (\$320 million) and a moderate deficit in 1971 (\$75 million), with trade balance surpluses of \$429 million and \$140 million respectively in the two years. At the end of 1971, Peru's net international reserves stood at approximately \$345 million, or 45% of 1971 imports.

Assuming Peru fulfills its National Development Plans for 1972-1975, its projected balance of payments deficit for the period will total \$731 million, or more than double its current net international reserves. Recognizing the magnitude of the problem, the GOP has requested assistance from foreign governments and foreign private banks. The U.S. private banks with loans outstanding to Peru have agreed to a rescheduling of a large percentage of these loans and have granted substantial new loans to Peru. At the recent consultative group meeting on Peru initiated by the World Bank, Peruvian officials were promised substantial foreign financing for projects to be carried out within the framework of the National Development Plan. This financing, if actually forthcoming, should be sufficient to cover most of Peru's needs over the period, with very little reserve loss for the country. To the extent that this financing is not forthcoming in the magnitude required, Peru will probably fall short of its development goals, with corresponding reduction in its balance of payments deficits and loss of reserves.

Peru's debt service payments will approach 20% of annual exports for the years 1972 through 1974, after which they should fall to less than 15% of exports. The current GOP has refrained from acquiring additional short term foreign debt, and is making a serious effort to plan its debt structure for coming years.

VII IMPLEMENTATION PLAN

The planned schedule for project implementation is as follows:

	Authorization (A)	May, 1972
	Loan Agreement signed and basic Implementation Letter issued	A + 3 months
	Conditions precedent to first disbursement satisfied	A + 4 months
	First disbursement made	A + 5 months
✓	Loans fully disbursed	A + 30 months

Funds are planned to be disbursed as follows:

	<u>1st Year</u>		<u>2nd Year</u>	
Coast	\$1,500,000		\$1,500,000	
Sierra	750,000		1,250,000	
	<u>\$2,250,000</u>	+	<u>\$2,750,000</u>	= \$5,000,000

Disbursement Procedures

Disbursement will be made by AID to the Trust Fund on a reimbursement basis for the local currency requirements of the project. Any offshore purchases will be subject to normal GOP and AID procurement regulations and could be made in AID Code 941 countries. Such requirements will be the subject of an Implementation Letter.

Reporting

The executing agencies are fully familiar with AID procedures and requirements in loan implementation. Presently, the following statistical information is submitted for monitoring purposes: (1) a monthly Bank report on the financial status of the program; (2) a quarterly Bank report of loans in arrears; and (3) a monthly AgMin report on the number of visits by its extension agents and an analysis of subloan applications received and approved by the regional and local credit committees.

The Mission is currently evaluating the adequacy of the complete Trust Fund control system, and will soon present its recommendations to the AgMin and the Bank.

Monitoring

The monitoring responsibility of the AID Mission to Peru will be assigned to a Project Manager and to a Loan Officer by the Mission Director.

The Project Manager will normally be selected from the Agriculture Division of the Mission and will maintain close contact with appropriate officials of the Ministry of Agriculture and the Agricultural Development Bank. He will represent AID in all meetings of the Supervised Agricultural Credit Trust Fund Council and will ensure that AID's viewpoint is adequately presented in all matters relating to the loan.

The designated Loan Officer will ensure that all requirements in the loan agreement and in implementation letters are completely fulfilled.

VIII ISSUE: WHETHER TO USE THE SUPERVISED AGRICULTURAL FUND  
IN VIEW OF ITS POOR COLLECTION RECORD

The "Analysis of Repayments of Subloans as of December 31, 1971," on page 10, Annex V, presents a picture of an unduly poor collection performance. Much of the delinquency is a carryover from the early days of the Fund when it was considered by both the extension agents and subloan recipients as a strictly social welfare program. In addition, the Fund no longer makes subloans in four zones having very high delinquency rates (La Merced, Huancayo, Cuzco, and Puno) and these outstanding subloans should all be written off. Nevertheless the Fund does have a large proportion of its portfolio in arrears, whether it be characterized as slow payments or uncollectibles. Both AID and the GOP have been cognizant of this problem and deeply concerned for some time, and various measures have been or are being implemented to improve collection performance. As stated on Page 25, the Ag. Min. is now the sole responsible agent for Fund operations while the Bank's role has been lessened to that of a depository, and collector only in the sense of receiving cash payment. The creation of a permanent Credit Evaluation Office for continuous study and assessment of Fund performance is another indication of the commitment of the Fund managers to reduce outstanding subloans. As indicated on Page 28 the Bank also acknowledges the need for improvement and has set targets for lowering the overdue portfolio.

Realistically speaking, while we can hope for some improvement over time, we cannot expect major performance improvements in the short term. Our objective with this loan is to provide, as rapidly as possible, funds to small and medium-sized farmers in the disaster area for whom other alternative credit is not available; and there is no feasible alternative which would not entail even higher risks, and loss of time-liness. As the paper indicates, the GOP and its agencies have shown considerable interest and willingness to improve the technical performance of the Fund and to make contributions to maintain the capital of the Fund, but less capability in reducing the outstanding overdue portfolio. For the administrators and agents of the Fund the concept of a firm collection policy is only one factor which must be weighed against the social, economic and political realities of Peru. However, otherwise stated, they see their task as providing at least some assistance - technical in part, social welfare in part - to the small farmer. Despite other faults, there is no question that the agents and the Fund do reach the small farmer and in sizeable numbers.

This and other similar programs reflect a serious commitment on the part of the GOP to utilize its resources for assistance to the small farmer. The continuation of the GOP requirement to replenish the Fund against decapitalization, set forth as a covenant here, is a significant indication of GOP willingness to bear the costs for uncollectible loans. The definition of uncollectibles as described on page 27 - 28 however, has not proved to be an accurate accounting of monies lost to the Fund. AID intends to negotiate with the GOP for a more precise definition of

uncollectibles, and the New definition will probably include a fixed time limitation, without exception, for short and long term outstanding and overdue subloans, thereby increasing the amount of GOP contribution.

Accordingly, conditions and covenants for the loan agreement have been developed which are designed to protect the Fund from losses due to excessive rates of uncollectable loans. These will also hopefully serve to focus increased GOP interest on this problem. (See page 45).

Part IX - Environment

The possible effect of this loan upon the environment has been carefully considered. Based on this consideration, which took into account the fact that the loan proposes to assist 3,500 small farm families to restore to cultivation and improve their land, the conclusion was reached that the overall effect of the loan, by present standards, would be beneficial to the environment.

Part X: Conditions and Covenants

1. Prior to the first disbursement of the loan the GOP will:

a) furnish an operation plan satisfactory to AID setting forth the numbers and qualifications of agricultural technicians and Bank agents responsible for execution of the project.

b) have deposited in the Fund the amount of uncollectibles due under prior agreements through CY 1971.

2. Prior to any disbursement in calendar year 1973, the GOP

a) Will have developed a revised definition of uncollectibles satisfactory to AID.

b) Will furnish AID with the results of its evaluation of the existing organization and procedures of the Fund and particularly its recommendations for modification, to improve collections.

A. Covenants

1. The GOP shall covenant that no farmer or group farming organization eligible for existing credits of the types proposed herein financed by other international institutions shall receive AID loan funds in lieu of such financing.

2. During the three years following disbursement of the loan the Fund will allocate at least as much money to the disaster area as is received in reflows under this loan.

3. The GOP shall covenant as under prior agreements to replenish the Fund by the amount determined as uncollectible each year. Beginning with the payment in 1973 for uncollectibles determined for 1972, the GOP will utilize the definition of uncollectibles developed in response to conditions precedent 2(a) above.

4. The GOP shall covenant to implement the recommendations resulting from its evaluation of the existing organization and procedures of the Fund.

5. The loan shall be subject to such other terms and conditions as AID may deem advisable.

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1972.

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCEProgress Towards Country Goals1. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

The GOP has an ongoing agricultural program to increase agricultural production, improve storage and distribution of foodstuffs. The purpose of this loan is to provide agricultural credit for small and medium farmers to increase their productivity.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

In the context of its industrial reform program (Industrial Law) and its balance of payments management, the GOP is actively seeking foreign and domestic private investments in areas identified as being essential to growth.

(3) *Increasing the public role in the developmental process.*

Newly decreed programs in Industry (Industrial Law), fishing (Fishing Law) and Agrarian Reform are specifically designed to achieve this objective.

(4) (a) *Allocating available budgetary resources to development.*

Sizeable portions of the GOP national budget are being allocated to the top priority programs of educational, agricultural and industrial reform.

(b) *Diverting such resources for unnecessary military expenditure (See also Item No. 16 and intervention in affairs of other free and independent nations.) (See also Item No. 14.)*

GOP military expenditures for the years 1971 and 1972 are \$433 million or 16% of the total two-year budget. No known intervention in affairs of other nations.

(5) *Willing to contribute funds to the project or program.*

The GOP commitment of \$720, 000 to this project and their intention to provide approximately \$20. 0 million for agricultural credit over the next two years is considered ample and demonstrative interest in the project and program.

(6) *Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.*

While freedom of the press and of expression has been somewhat curtailed in recent years, tax collection has improved, laws are enforced and land reform has been given high priority. GOP is making significant efforts to improve quality of judiciary.

(7) *Adhering to the principles of the Act of Bogota and Charter of Punta del Este.*

Sound monetary and fiscal policies leading to real growth in GNP stable prices and improved balance of payments, coupled with significant economic and social reforms designed to restructure the Peruvian society along more equitable lines, clearly indicate Peru's adherence to Alliance for Progress goals.

(8) *Attempting to repatriate capital invested in other countries by its own citizens.*

Recent decrees requiring full repatriation of foreign capital of Peruvians have had an important impact on the balance of payments and availability of resources for investments in Peru.

(9) *Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.*

The GOP appears to be responding to the economic, political and social concern of its people, particularly the poor, and has taken strong self-help measures as indicated above.

B. *Are above factors taken into account in the furnishing of the subject assistance?*

Yes.

Treatment of U.S. Citizens

2. FAA § 620(c). *If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*

No known recent instance.

3. FAA § 620(e)(1). *If assistance is to a government, has it (including government agencies or subdivisions) 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 steps to discharge its obligations toward such citizens or entities?*

In 1968 the GOP expropriated the holdings of IPC, a company beneficially owned by U. S. citizens. It has been provisionally determined that appropriate steps to discharge its obligations have been taken by the GOP, within the meaning of the statute.

4. FAA § 620(o); Fishermen's Protective Act. § 5. *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,*

No known seizure during past year.

a. *has any deduction required by Fishermen's Protective Act been made?*

No claim has been made and therefore no deduction is required by the Fisherman's Protective Act.

b. *has complete denial of assistance been considered by A.I.D. Administrator?*

As requested by the statute, the Administrator shall consider the seizure of a U. S. fishing vessel by the GOP in determining whether or not to furnish this assistance.

5. FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?

No such enterprises to be considered.

6. FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

No known recent instance.

7. FAA § 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?

Yes.

8. FAA § 620(a). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?

No.

9. FAA § 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

10. FAA § 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?

GOP budget authorizes expenditures for delinquent UN dues and payment on regular budget account and GOP has stated its intention to liquidate delinquent obligations. Peru's arrearages were considered in determining the current OYB.

11. FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

No known assistance to Cuba or carriage of cargoes to or from Cuba by Peruvian flag ships. A commercial sale of fishmeal was recently made to Cuba and was carried to Cuba in Cuban vessels.

12. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?

Yes.

13. FAA § 620(f). Is recipient country a Communist country?

No.

14. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

No.

15. FAA § 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?

No known instances.

\*16. See last page

Military Expenditures

17. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

In 1970 Peru's defense expenditures represented 18.7% of central governments expenditures. Of the two-year 1971-1972 budget, 16% is earmarked for military expenditures.

In 1969 (the latest year for which data is available), the GOP spent \$249 million in foreign exchange on military imports. With respect to sophisticated weapons systems, Peru purchased 16 Mirage type aircraft, plus space parts for a total of \$28 million in 1968, repayable over 8 years beginning as of 1970. As requested by the statute, the Administrator shall take these matters into account in determining whether or not to furnish this assistance.

CONDITIONS OF THE LOANGeneral Soundness

18. FAA § 201(d). *Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.*
- The subloan terms for this project are proposed by the GOP and are considered reasonable and legal in all respects.
19. FAA § 251(b)(2); § 251(c). *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?*
- On the basis of the information contained in the loan paper, the project is considered economically and technically sound. An application has been received and is included as an annex to this paper.
20. FAA § 251(b). *Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.*
- Foreign exchange reserves of the GOP are such that Peru's long term foreign debt appears manageable and the repayment prospects for this loan reasonable.
21. FAA § 611(a)(1). *Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?*
- Yes.

22.. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

No special legislative actions believed to be required.

23. FAA § 611(a). If loan is for Capital Assistance, all U.S. assistance to project now exceeds \$1 million, has Director certified the country's capability effectively to maintain and utilize the project?

Yes, See Annex II

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

No other financing is available from other free world private or public sources on the concessionary terms required for this project.

Loan's Relationship to Achievement of Country and Regional Goals.

25. FAA § 207; § 251(a). Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or

- a) Sub-loans will be made to pre-cooperatives and cooperatives.
- b) The program emphasizes increased productivity of the small farmer by improving his capacity to farm his land.
- c) Supervised credit entail supervision and training of the small and medium size farmer.
- d-e) Assistance to subsistence level farmers will increase caloric intake while lending to groups will strengthen social development.

4. (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws.

(see preceding page).

26. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

No.

27. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

The proposed program, by increasing agricultural productivity and improving rural living conditions, may reduce migration to urban centers and improve income distribution. This complements the GOP's long-range agrarian reform program.

28. FAA § 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

By rehabilitating the agricultural base of the disaster area, the project will contribute to the achievement of self-sustaining growth.

29. FAA § 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.

Cooperatives, by their very nature, are private and democratic. This type of institution will be strengthened by the loan.

30. FAA § 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.
- The program of agricultural credit is particularly suited to the needs and desires of the people of the disaster area.
31. FAA § 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.
- a) not significantly.  
b) yes - in agricultural sector.  
c) yes - see 33 below.  
d) yes - loan directed to small and medium farmers.  
e) yes - a basic tenet of supervised credit is to improve technical efficiency and productivity of agricultural sector.  
f) No.
32. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?
- Peru not newly independent.
33. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.
- The last CIAP review of Peru emphasized the need for international financial assistance in Peru's development programs. In addition, CIAP endorsed the need for strengthening farming groups and organizations to better cope with their development problems.

34. FAA § 251(g). *Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.*

A significant portion of sub-loans will be made to cooperatives and group farming enterprises, thus enhancing the cooperative movement in Latin America.

35. FAA § 209; § 251(b)(8). *Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.*

Not directed toward regional development.

Loan's Effect on U.S. and A.I.D. Program

36. FAA § 251(b)(4); § 102. *Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.*

Apart from possible purchase of some U. S. goods and services, loan is for local costs with negligible effect on U. S. economy, slight adverse effect on U. S. balance of payments. Purchase of livestock for livestock portion of project expected to be largely from the United States.

37. FAA § 601(b). *Information and conclusion on 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).*

See item 35.

38. FAA § 601(d). *If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?*

U. S. contractors will be able to compete for furnishing of consultant and personal services, directly financed by loan, and for livestock and other agricultural inputs indirectly financed by loan. It is likely that adequate Peruvian technicians are available.

39. FAA § 602. *Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.*

Loan agreement will so specify.

40. FAA § 620(h). *Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?*

Loan agreement will specifically provide against such eventuality.

41. FAA § 621. *If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as 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.*

It is contemplated that technical assistance will be provided by private industry on a contract basis.

42. FAA § 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 procurements from private sources.

Technical assistance expected from private contractor. All other loan funds will be going through an intermediate credit institution for use by private borrowers.

Loan's Compliance with Specific Requirements

43. FAA § 201(d). Is interest rate of loan at least 3% per annum during grace period and at least 3% per annum thereafter?

Yes.

44. FAA § 308(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

Not Applicable.

45. FAA § 304(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?

Procurement will be from Code 941 countries as permitted by Presidential determination.

46. FAA § 304(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?

Loan agreement and implementation letters shall so provide.

47. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan? **Loan agreement will so specify.**
48. FAA § 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? **No financing of such procurement is contemplated.**
49. FAA § 611(b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962? **No large scale water or water related land resource construction project or program will be financed.**
50. FAA § 611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable? **Not applicable.**
51. FAA § 620(a). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? **Loan proceeds will not be used for procurement of land. Loan agreement will so specify.**

52. FAA § 612(b); § 636(i). Describe steps 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 United States are utilized to meet the cost of contractual and other services.
- GOP is contributing \$720, 000 in counterpart local currency to project.  
No U. S. owned foreign currencies available.
53. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel?
- No.
54. App. § 106. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?
- Loan agreement will so specify.
55. App. § 108. Will any loan funds be used to pay U.N. assessments?
- No.
56. App. § 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (A.I.D. Regulation 7).
- Not applicable.
57. FAA § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?
- No.

No.

58. App. § 501. Will any loan funds be used for publicity or propaganda purposes with the United States not authorized by the Congress?

59. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million?

Not applicable.

60. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No U.S. owned excess foreign currencies available.

61. MNA 901.b. Compliance with requirement that at least 50% of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

The Loan Agreement will provide for compliance with the 50% U.S. flag shipping requirements.

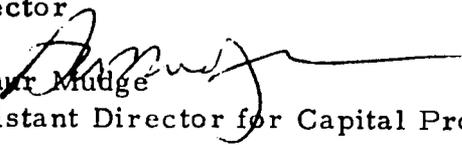
\*16. FAA 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully.

No. The GOP has taken such measures as are within its capacity to control narcotics traffic and is cooperating with U.S. efforts to eliminate production and trade in narcotics.

MEMORANDUM

April 28, 1972

TO: Mr. Louis V. Perez  
Director

FROM: Arthur Mudge   
Assistant Director for Capital Projects

SUBJECT: Section 611(e) Certification for Proposed Supervised  
Agricultural Credit Loan in the Disaster Area

Section 611(e) of the Foreign Assistance Act requires that before development loans are made for any capital assistance project estimated to cost in excess of \$1,000,000, the Administrator of AID must have received and taken into consideration a certification from the principal officer of such agency with the country in which the project is located as to the capability of the country (both financial and human resources) to effectively maintain and utilize the project taking into account among other things the maintenance and utilization of projects in such country previously financed or assisted by the United States

The proposed loan for agricultural credit in the disaster area would utilize a mechanism (the Fund) previously supported by AID loans 527-L-029 and 527-L-047.

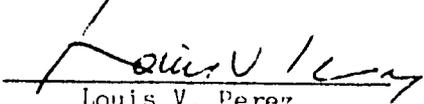
The loan paper reviews the steps that the executing agencies have taken to improve the operation of the Fund since the last AID loan for agricultural credit was made (see Part IV, D). While operational problems such as the Fund's collection record still exist, the Fund is viewed as the best vehicle to channel credit resources to the disaster zone. (See Issue, Part VIII). The executing agencies intend to evaluate the organization and procedures of the Fund and implement the resulting recommendations to improve the Fund's operation. The loan paper at Part VI indicates the adequacy of the resources to be committed by the Borrower in carrying out the project.

On the basis of the information contained in the loan paper I recommend that you sign the attached certificate.

CERTIFICATION PURSUANT TO SECTION 611(e) OF THE  
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Louis V. Perez, the principal officer of the Agency for International Development in Peru, having taken into account among other factors the maintenance and utilization of projects in Peru previously financed or assisted by the United States, do hereby certify that in my judgement Peru has both the financial capability and human resources capability to effectively maintain and utilize the capital assistance project: SUPERVISED AGRICULTURAL CREDIT IN THE EARTHQUAKE DISASTER ZONE.

This certification is based inter alia on the Government and Fund's performance in the execution of comparable agricultural credit projects financed by A.I.D. Loans 527-L-029, 527-L-047, and A.I.D. Grant No. 527N601, and on the memorandum dated April 28, 1972 from the Assistant Director for Capital Projects, USAID/Peru.

  
Louis V. Perez  
Director USAID/Peru



**MINISTERIO DE AGRICULTURA**

*MPC 20*  
Lima, 15 MAY 72 ?

Oficio N° 24 72/CT.1-DG-COI-DM.

23 MAR 1972

Doctor  
Luis V. Pérez  
Director de la Agencia para el  
Desarrollo Internacional USAID/Perú  
Presente.-

Asunto : Programa de Crédito Agrícola para el Area  
Afectada por el Sismo del 31 de Mayo de  
1970 .- Préstamo de US. \$ 5'000,000.

Tengo el agrado de remitir a su Despacho, el documento de trabajo que sobre el asunto referido ha sido preparado por el Portafolio a mi cargo, y que constituye el resultado de las continuas conversaciones que sostuvieron nuestros respectivos Representantes.

Dada la importancia socio-económica del citado Programa, y la valiosa cooperación financiera por ustedes ofrecida para tal efecto; mucho le agradeceré que tan pronto como el mencionado documento sea analizado y se haya dictado el pronunciamiento respectivo, este nos sea devuelto de tal manera de poder realizar las consultas necesarias que permitan dentro del más breve plazo culminar con éxito tan significativa muestra de cooperación internacional.

Aprovecho esta oportunidad para reiterarle los sentimientos de mi más alta estima personal.

ACTION: *AGR. ufal*  
Info: *DEO*  
*ASJO*  
*D*  
*CON*

General de División EP. Enrique Valdez Angulo  
MINISTRO DE AGRICULTURA

*40167*  
Incluso : Lo indicado.

Exhibit I - The Earthquake of May 31, 1970  
and its Aftermath

A. Background

On May 31, 1970 an earthquake of 7.7 magnitude on the Richter scale struck Peru. The department of Ancash suffered the most damage, though the departments of La Libertad, Huánuco and Lima were also affected.

Compounding the effects of the earthquake itself, were the ensuing landslides and floods which wiped whole towns and villages off the map, and blocked roads from the Sierra to the Coast.

The earthquake, landslides, and floods killed an estimated 70,000 people. 500,000 people were left homeless, 100,000 were reported injured, and 20,000 children were orphaned. The Government of Peru has estimated a total material loss of \$515 million. In all, an area of 80,000 Km<sup>2</sup> (6.24% of total), with a population of almost 1,800,000 (13.5% of national total), was affected. The sub-zones most severely affected include:

<u>Subzone</u>	<u>Population</u>	<u>Area (in Km<sup>2</sup>)</u>
Ancash Coast	213,600	10,900
Huaylas Valley	248,900	10,137
Conchucos Valley	127,800	7,112
Marañon Slope	265,300	12,762
Pativilca Basin	<u>70,800</u>	<u>9,589</u>
	926,400	46,500

In the Callejón de Huaylas an avalanche followed the earthquake when a gigantic 25-50 million cubic meter mass of rock and ice fell away from the north face of Mount Huascarán. As the avalanche moved down the side of the Huascarán through Llanganuco Valley, it became a highly fluid mudflow. The flow, along with a deadly rain of rocks, killed an estimated 20,000 people, and devastated buildings, livestock, vegetation, and topsoil.

Following the disaster, the President of Peru designated an emergency relief committee situated in the Presidential Palace. Spearheaded by the Peruvian Government the relief effort rapidly gained momentum as public and private donations of food, medicines, clothing and other emergency supplies poured in from around the

world. The GOP allocated the equivalent of \$17.5 million for immediate relief and rehabilitation. Peruvian private donations of clothing, medicine and goods were sent to the Junta de Asistencia Nacional in large quantities, and private sources also donated the equivalent of \$5.6 million in cash.

The GOP had many serious problems to overcome in bringing aid to the earthquake victims. Institutions in Peru, governmental and private, were not structured to deal with emergencies of such magnitude. This resulted in some delays and inequitable distribution of relief goods but realistic efforts were made to overcome these deficiencies and changes in relief operations were made as necessary. Considering the difficulties with which the GOP was faced, the overall effort of the Peruvian authorities and people was admirable.

#### B. General Conditions

Prior to the earthquake, the Disaster Area contained 13% of Peru's population and produced 14% of the country's GNP, including 21% of its agricultural production, 9.5% of its industrial production, 2.4% of its mining production and 48% of its production of fish products. A large proportion of this output was generated in a few, highly capital intensive, export oriented industries with absentee (Lima) owners and thus the economic benefits flowing from this production were not distributed largely or widely within the area. These industries, all located along the coast, included the SOGESA steel works, several plants producing fish products (primarily fishmeal), and several sugar plantations, and are estimated to have produced nearly 70% of the area's GNP and 22% of Peru's total exports. Due to the capital intensity of these firms, the limited and generally foreign markets for their output, and their absentee ownership, these firms did not provide employment in the area in proportion to their output, nor did they reinvest in the area any significant portion of their profit. Thus, over the years there has been a steady outflow of capital from the Disaster Area with resulting deleterious effects on the economy.

The real backbone of the economy of the Disaster Area in the sense of providing a livelihood for the vast majority of the populace consisted of the highly inefficient agriculture, the large number of medium and small size industrial and commercial firms located in the cities practically all of which were undercapitalized, and the innumerable small artisan shops employing one or two persons usually

on a part time basis. In addition, there existed the usual proliferation of services common to such an environment, but producing very little in the way of value added to the economy.

The extent of the economic problem of the area is evidenced by the fact that the per capita income in the area is estimated to be only \$56, with the average worker in the Sierra earning only 25% of that earned by the average coastal worker. The per capita GNP of the country as a whole in 1971 was approximately \$410.

A close interrelationship exists between the demographic characteristics of the disaster zone and its economic performance. The population of the affected area, estimated at approximately 1,850,000 persons in 1971, is young relative to most other areas in Peru and relative to developing countries in general. The potentially economically active represent 29% of the population, as compared with 32% for the country as a whole. The unemployment rate varies seasonally, but recent estimates indicate an average rate for the area of over 30%. These two factors, the small percentage of the population economically active and the high unemployment rate, signify a high dependency ratio.

In addition, the productivity of labor in the disaster zone is very low due primarily to the lack of capital, but partially to the existing migration patterns affecting the area. This latter is also a determinant of the age characteristics of the population of the area.

There are two significant migration runs in the area, one from the Sierra to the coastal cities and the other from these coastal cities to Lima-Callao.

As a result of these (fertility and mortality rates do not differ significantly from other areas of Peru) the rate of growth of the population of the disaster area is around 1.7% compared with 3.1% to 3.5% for the country as a whole, and the population on the coast in the affected area is growing by 2.8% and that of the sierra by 0.7%, both significantly under the 5% growth of the Lima-Callao area.

The migration involved are mostly males of economically active age and the physically and mentally most able of the population. As a consequence, there is a diminution in the support portion of the

population in the disaster area and a general reduction in the productivity of the area's labor force; both critical losses for an area otherwise plagued with economic difficulties.

Another important demographic characteristic of the affected area is its rapid rate of urbanization, both within the Sierra and along the coast. The rate of growth of the rural population on the coast is 1.4% while that of the sierra is 0.5%, compared with an urban growth rate of 4.8% and 1.2% respectively for the two areas. Currently, an estimated 40% of the area's population lives in cities, up from 33% in 1961, and again it is the more able who are leaving the rural environment. This drain of human capital from rural to urban and from sierra to coast to Lima-Callao in Peru has become a serious consideration for Peru's economic and social development policy.

The topographic and climatic conditions are also important determining factors in the economy of the disaster area. The rugged sierra makes transportation among the cities of the sierra and between these cities and the coast difficult and costly and for certain periods of the year impossible, with obvious effects upon the economy. In addition, only small valleys scattered among the mountains are level enough to be suitable for cultivation.

The complete absence of rainfall on the coast limits agricultural production to those areas which can be irrigated, and the heavy winter rains in the sierra erode the soil reducing agricultural productivity there.

#### C. Reconstruction Assistance (GOP and Other Donors)

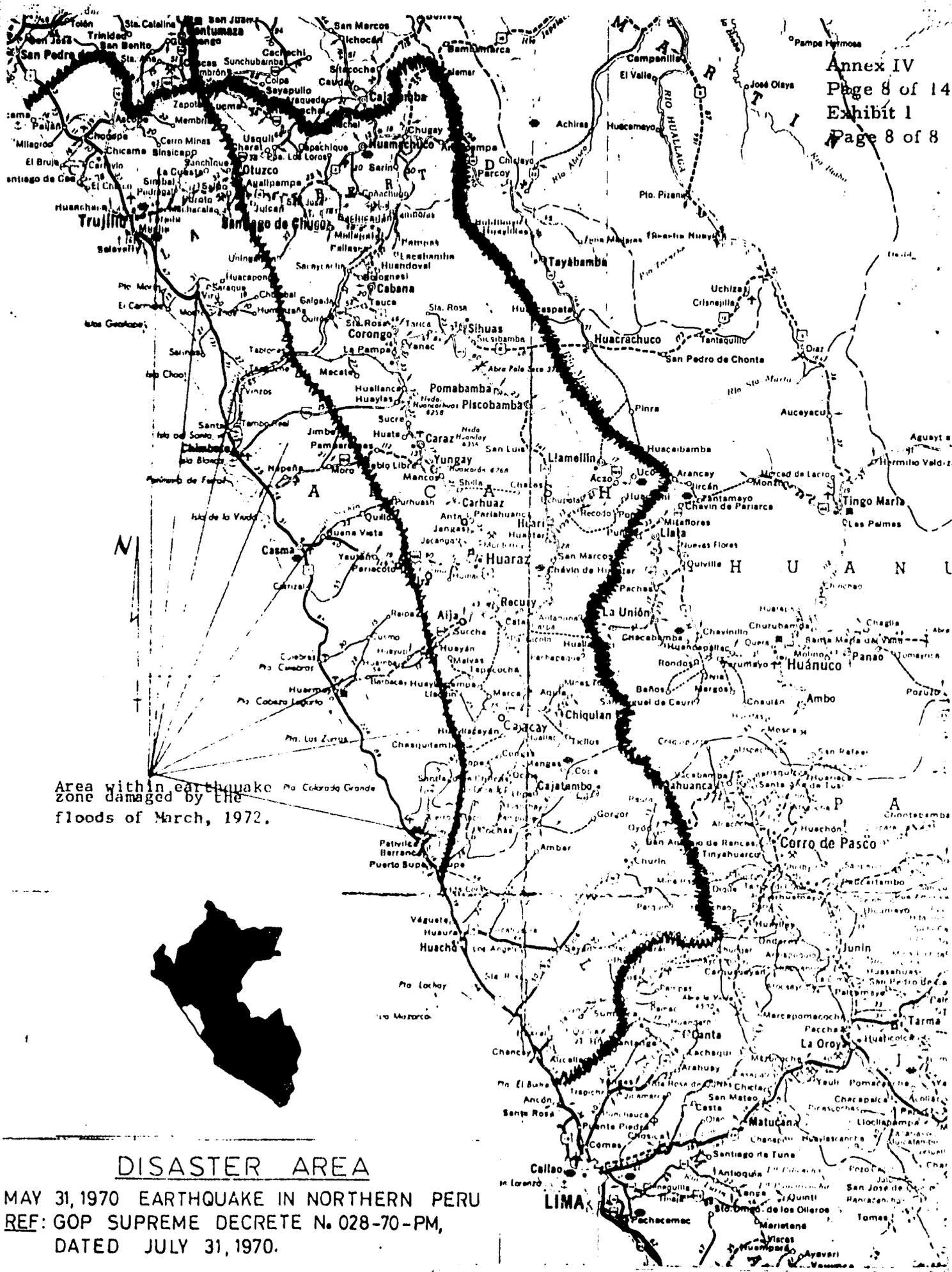
The following table illustrates the extent of the GOP's planned efforts in the disaster area and summarizes the reconstruction plan. The amount of financing required is an estimate. It is anticipated that 51% of the resources will come from international corporations and institutions. 30% of the Funding will be provided from the Biennial GOP Budget, 12% from GOP owned decentralized institutions, and 8% from private corporations and cooperatives.

REVISED: 4/5/72

SECTOR	GENERAL DESCRIPTION OF PLANNED PROJECTS	FINANCIAL SOURCES	AMOUNT PROGRAMMED
AGRICULTURE	1. Irrigation projects for Chimbote, Chao, Virú, Moche, Supe, Chicama, Pativilca, etc.	GOP Public Treasury AID Other	S/. 5,640,000,000
	2. Reorganization of production with assistance of farm cooperatives and credit unions	Foreign Financing	S/. 92,200,000
	3. Intensification of Agrarian Reform		S/. 20,500,000
	4. Studies		S/. 60,000,000
	5. Agricultural and livestock promotion		S/. 221,200,000
	6. Forestry and hunting		S/. 64,300,000
	7. Marketing and Market Centers		S/. 223,300,000
HEALTH	1. Construction or repair of hospitals in Caraz, Huarí, Aija, Pira, Casma, Pariacoto, Cajacay, Chimbote, Huaraz, and Huarmey, plus other smaller sites (30 hospitals total)	GOP Public Treasury AID Cuban Assistance Other Foreign	Total planned for health facilities in the disaster region is more than S/. 200,000,000
	2. Construction of 35,000 sanitary latrines		
	3. Sanitary fitting for the water systems of various cities		
	4. Other smaller health projects		
EDUCATION	1. To repair and reconstruct damaged educational facilities	Public Treasury AID	1) S/. 5,922,000 2) S/. 331,945,000
	2. Construct and equip 82 schools	Voluntary Agencies	3) S/. 900 per pupil per year
	3. School lunch program to benefit 75% of the children in the Sierra and 43% of the children on the Coast	Other Foreign Assistance	
	4. 200 University scholarships for students from the disaster region		4) and 5) S/. 100,000,000
	5. 20 Scholarships for students to attend teacher training school		

SECTORS	GENERAL DESCRIPTION OF PLANNED PROJECTS	FINANCIAL SOURCES	AMOUNT PROGRAMMED
TOURISM	<ol style="list-style-type: none"> <li>1. Restore archeologic sites such as Sechin and Chavin</li> <li>2. Construction of tourist hotels and hosteles</li> <li>3. Promote tourism and provide information</li> <li>4. Construction of Tourist Information Centers</li> </ol>	Public Treasury	More than S/.42,000,000
HOUSING AND URBAN DEVELOPMENT	(For details of this program see section 2.3)		
TRANSPORTATION AND COMMUNICATION	<ol style="list-style-type: none"> <li>1. Airports for Trujillo, Huaraz, and Chimbote</li> <li>2. Improvement of Salaverry and Chimbote ports. Construction of a new port in Bahia de Salinas</li> <li>3. Improvement and asphatting of major roads in the area</li> <li>4. Improvement of telephone and telegraphic facilities</li> </ol>	Public Treasury IDB Loan Other Foreign Assistance	S/.4,850,000,000
POWER	<ol style="list-style-type: none"> <li>1. Power networks for Huaraz, Caraz, Carhuaz, and Ranrahirca</li> <li>2. El Chorro Hydroelectric Power Plant in Santa River</li> <li>3. Construction of thermal plant in Chimbote (60 kw) and two 150 kw groups in Chicama Valley</li> <li>4. Transmission lines from Lima to Trujillo, and from Lima to Chimbote</li> </ol>	Public Treasury AID Foreign Assistance	About S/.4,000,000,000

SECTORS	GENERAL DESCRIPTION OF PLANNED PROJECTS	FINANCIAL SOURCES	AMOUNT PROGRAMMED
Continuation POWER	<ol style="list-style-type: none"> <li>5. Feasibility studies for rural electricity</li> <li>6. Rehabilitation of services in all cities of the disaster region</li> </ol>		
PROMOTION OF INDUSTRY	<ol style="list-style-type: none"> <li>1. Special Credit program through the Banco Industrial</li> <li>2. Formation of an Industry Assistance Office</li> <li>3. Infrastructure for all industries and crafts to be developed</li> <li>4. Studies and feasibility plans</li> <li>5. Promotion and improvement of larger industries</li> </ol>	Public Treasury Banco Industrial  Private Sources	S/. 6,172,000,000
MINING	<ol style="list-style-type: none"> <li>1. Exploration and feasibility studies</li> <li>2. Mining Projects</li> </ol>	Public Treasury Foreign Assistance (POLAND) Private Assistance	S/. 2,000,000,000  S/. 180,000,000
FISHING	<ol style="list-style-type: none"> <li>1. Scientific and Technical research</li> <li>2. Fishing Production</li> <li>3. Marketing</li> <li>4. Training</li> <li>5. Consumer Promotion</li> <li>6. Complementary Construction and Equipment</li> </ol>	Public Treasurer Foreign Assistance	S/. 4,280,000,000



Area within earthquake zone damaged by the floods of March, 1972.

DISASTER AREA

MAY 31, 1970 EARTHQUAKE IN NORTHERN PERU  
REF: GOP SUPREME DECREE N. 028-70-PM,  
DATED JULY 31, 1970.

Exhibit 2 - The Floods of March, 1972

In March, 1972 severe flooding, resulting from torrential rains, devastated Peru's northern coast. While loss of life was limited, the material damage to the area's economic base was widespread. The floods washed out roads and bridges, destroyed crops and irrigation systems, eroded soils, and damaged houses, potable water distribution and sewage disposal systems. Although the department of Piura suffered the most flood damage, considerable losses occurred in the departments of La Libertad and Ancash - both of which are included within the earthquake disaster zone. The flooding of the Santa, Lacramarca, Casma, Huarmey, Viru, Chicama and Moche rivers caused crop and livestock losses expected to exceed S/58'000,000 (\$1,320,000). Crops that were not destroyed by the floods are now perishing due to the extensive damage to irrigation systems in the area (estimated at approximately \$500,000). Likewise, additional livestock losses are expected because of the critical shortage of animal feedstuffs. The following tables indicate flood damages within the major coastal valleys of the earthquake zone.

Estimated Irrigation Infrastructure Damages Caused by Floods of March, 1972, Within the Earthquake Zone

<u>Area</u>	<u>Canals</u>	<u>Outlets</u>	<u>Dikes and Other Defenses</u>	<u>Total</u>
Chicama	223,000	425,000	450,000	1'098,000
Sta. Catalina	2'242,000	622,000	840,000	3'704,000
Viru		640,000	918,000	1'558,000
Santa		1'028,000	9'891,300	10'920,300
Nepeña			370,000	370,000
Casma			1'296,000	1'296,000
Huarmey			704,000	704,000
Total				S/19'650,300= \$446,600.

Rate of exchange, S/.43.38 per dollar

Estimated Flood Damages Within  
the Earthquake Disaster Zone

A. Flood Damage - Santa and Lacramarca Rivers

1. Estimated Crop Losses

<u>Crop</u>	<u># Has. Lost</u>	<u># Has. Endangered</u>	<u>Est. Losses to Date(soles)</u>	<u>Est. Future Losses (soles)</u>
Corn	162	777	1'532, 300	5'216, 700
Alfalfa	129	417	698, 250	2'196, 000
Rice	5	388	81, 000	3'967, 000
Cotton		110		1'300, 000
Fruits		99	2, 700	1'254, 150
Other	<u>52</u>	<u>86</u>	<u>201, 000</u>	<u>317, 150</u>
Total	348	1,877	\$/2'515, 250	\$/14'251, 000

2. Estimated Livestock Losses

	<u># Head Lost</u>	<u>Endangered</u>	<u>Losses to Date(soles)</u>	<u>Est. Future Losses (soles)</u>
Large Animals (cattle, pigs, goats, sheep)	37	3, 705	81, 200	20'668, 000
Small animals (poultry, etc.)	<u>1, 596</u>	<u>15, 696</u>	<u>51, 580</u>	<u>1'333, 680</u>
Total	1, 633	19, 401	\$/132, 700	\$/21'801, 680

B. Flood Damages - Casma River

Estimated Crop Losses

<u>Crop</u>	<u># Has. Lost</u>	<u># Has. Semi-lost</u>	<u>Losses to Date(soles)</u>	<u>Est. Future Losses (soles)</u>
Corn	272	56	2'093, 000	281, 800
Yuca	12	4	665, 000	120, 000
Alfalfa	9		72, 000	
Fruits	16		922, 500	480, 000
Other	<u>47</u>	<u>30</u>	<u>901, 000</u>	<u>282, 000</u>
Total	356	90	\$/4'653, 500	\$/1'163, 800

Rate of exchange, S/.43.38 per dollar.

C. Flood Damages - Huarmey River

<u>Crop</u>	<u># Has. Lost</u>	<u>Losses to Date (soles)</u>
Corn	200	1'600, 000
Tomatoes	20	400, 000
Beans	40	400, 000
Sweet Potatoes	20	120, 000
Aji	10	680, 000
Other	<u>30</u>	<u>270, 000</u>
Total	320	S/3'470, 000

D. Flood Damages - Virú River

1. Estimated Crop Losses

<u>Crop</u>	<u># Has. Lost</u>	<u>Losses to Date (soles)</u>
Corn	83	885, 960
Beans	14	106, 520
Yuca	17	595, 000
Aji	6	180, 000
Sweet Potatoes	34	603, 000
Alfalfa	15	64, 000
Other	<u>18</u>	<u>169, 000</u>
Total	187	S'2'609, 980

2. Estimated Animal Losses

<u>Animal</u>	<u># Lost</u>	<u>Losses to Date (soles)</u>
Poultry	17, 000	515, 000
Other	<u>463</u>	<u>29, 600</u>
Total	17, 463	S'544, 600

Rate of exchange, S/.43.38 per dollar.

E. Flood Damages - Moche River

<u>Crop</u>	<u># Has. Lost</u>	<u>Est. Losses to Date (soles)</u>
Corn	13	100, 000
Yuca	66	655, 000
Alfalfa	25	250, 000
Sugar Cane	15	750, 000
Pineapple	11	440, 000
Fruits	13	375, 000
Other	9	98, 000
	152	S/2' 668, 000

F. Flood Damages - Chicama River  
(Zones of Parrapós y Chala)

<u>Crop</u>	<u># Has. Lost</u>	<u>Est. Losses to Date (soles)</u>
Various	21	S/460, 500

G. Flood Damages - Chicama River  
(Zone of Paiján)

<u>Crop</u>	<u># Has. Lost</u>	<u>Est. Losses to Date (soles)</u>
Corn	26	163, 000
Beans	14	121, 500
Total	40	S/284, 500

II. Flood Damages - Santiago de Chuco  
(Zones of Angasmarca and Sangual)

<u>Crop</u>	<u># Has. Lost</u>	<u>Est. Losses to Date (soles)</u>
Wheat	115	402, 500
Potatoes	23	276, 000
Barley	61	183, 000
Other	31	207, 500
Total	230	S/1' 069, 000

Rate of exchange, S/.43.38 per dollar.

I. Flood Damages - Nepeña Valley

<u>Crop</u>	<u># Has. Lost</u>	<u>Est. Losses to Date (soles)</u>
Corn	35	S/900, 000

J. Flood Damages - Otuzco (Salpo and Carabamba)

<u>Crop</u>	<u># Has. Lost</u>	<u>Est. Losses to Date (soles)</u>
Potatoes	110	1'180, 000
Corn	15	75, 000
Wheat	10	30, 000
Yuca	5	50, 000
Other	<u>20</u>	<u>80, 000</u>
Total	160	S/1'415, 000

Total Flood-Related Crop and Livestock Losses Within Earthquake  
Disaster Zone

	<u>Has. Lost</u>	<u>Est. Losses to Date</u>	<u>Est. Future Losses (soles)</u>
1. Crops	1, 849	S/20'045, 230	S/15'414, 800
2. Animals		S/ 677, 300	S/21'801, 680
		<u>Dollar Equivalent</u> s	
1. Crops		\$455,570	\$350,340
2. Animals		\$ 15,400	\$495,500

Rate of exchange, S/. 43.38 per dollar.

Estimates, verified by on-site visits of members of the Project Committee, indicate that potential credit requirements for (1) rehabilitation of flood damaged farms, and (2) intensification and diversification activities necessary for increasing incomes of farmers to a level that will permit them to pay their debts and maintain an adequate minimum standard of living, are approximately as follows (by valley):

Estimated credit requirements, by Valley

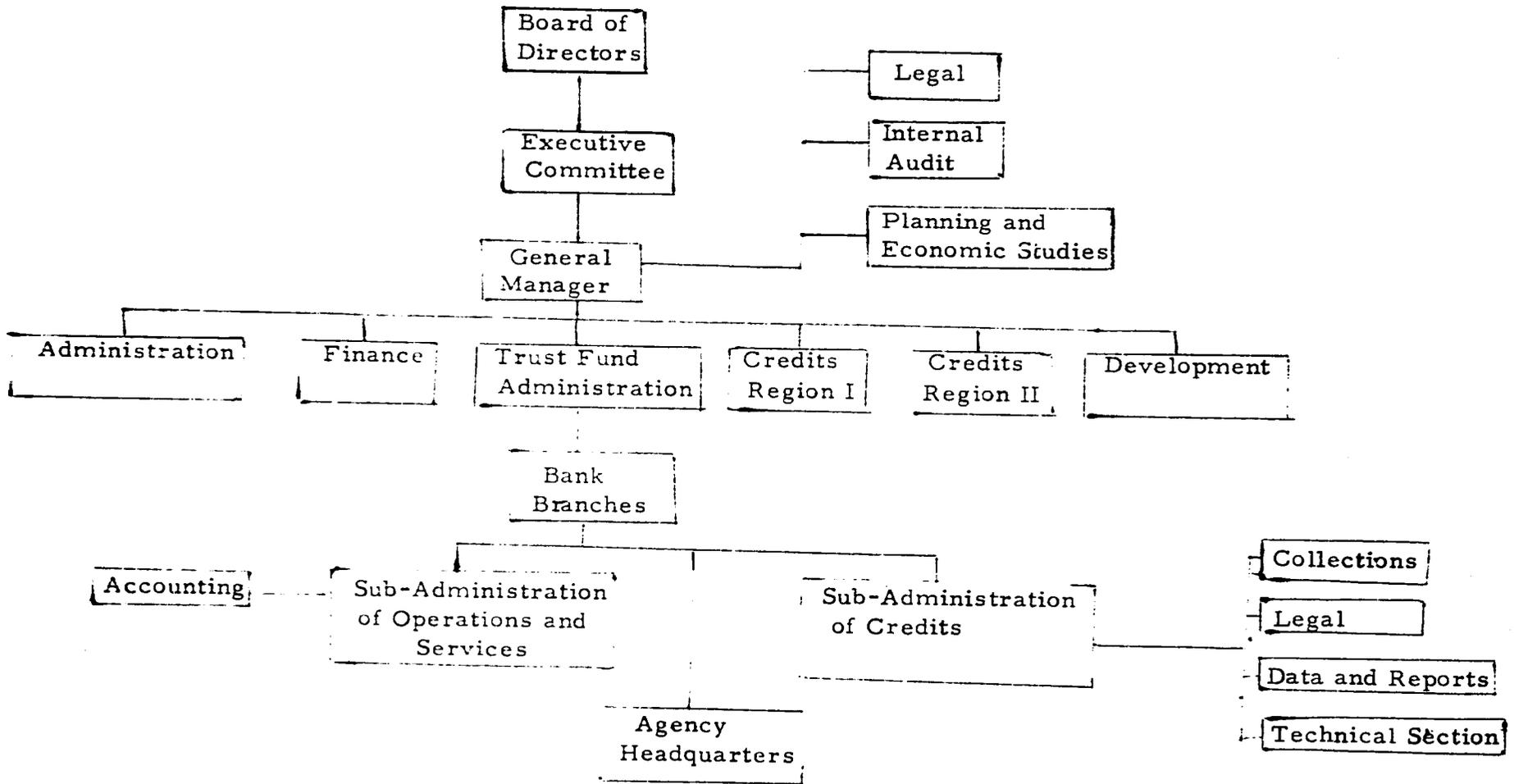
Valle Chicama	10'000, 000
" Moche	5'000, 000
" Viru	15'000, 000
" Santa	30'000, 000
" Nepeña	30'000, 000
" Casma	20'000, 000
" Huarmey	<u>10'000, 000</u>
Total	S/.120'000, 000 - \$2,727,000

In these valleys credit is needed for the: (1) repair of farm irrigation structures; (2) land levelling of flood and erosion damaged areas (including other erosion control measures in the Sierra); (3) repair of drainage and tail ditches; (4) replacement of pumps and motors and other small machinery and equipment; (5) replacement of fixed installations such as fences, stables, storage facilities, etc.; (6) replanting of permanent plantations (fruits); (7) repair of local dikes and diversion terraces (on farm, and inter-farm in the cases of cooperative water user's organizations); (8) repair of internal farm access lanes; (9) livestock replacement (and increase in the case of intensification-diversification activities); (10) rehabilitation of irrigation wells; and (11) crop replacement costs, including capital inputs and labor costs (including cost of living for family labor).

The Fund will consider sub-loans for these activities to the extent that borrowers and projects meet existing Fund eligibility criteria.

Rate of exchange, S/. 43.38 per dollar.

Agricultural Development Bank (ADB) Organization Chart



AGRICULTURAL DEVELOPMENT BANK

DISTRIBUTION OF EMPLOYEES PER PROFESSION AND/OR SPECIALITY AT 12/31/71

	<u>Main Office</u>	<u>Lima Branch</u>	<u>Huacho</u>	<u>Trujillo</u>	<u>Piura</u>	<u>Arequipa</u>	<u>Cajamarca</u>	<u>Cuzco</u>
Engineers (mainly Agriculture Engineers)	42	20	14	15	16	16	6	17
Medical Doctors	-	-	-	-	-	-	-	-
Veterinaries	1	1	-	-	-	-	-	-
Lawyers	11	5	5	4	3	4	1	2
Accountants	13	-	-	-	-	1	-	-
Economists	3	-	-	-	-	-	-	-
<b>SUB-TOTAL Professional Staff</b>	<u>71</u>	<u>26</u>	<u>19</u>	<u>19</u>	<u>20</u>	<u>21</u>	<u>7</u>	<u>22</u>
Administrative	268	78	71	72	74	94	29	87
Technicians	14	-	3	3	3	1	1	1
Secretaries	9	-	-	-	-	-	-	-
Clerks	53	14	6	8	7	14	4	9
Workmen	24	16	2	-	4	2	-	5
Chauffeurs	7	10	6	4	5	13	2	6
<b>TOTALS</b>	<u>446</u>	<u>144</u>	<u>107</u>	<u>106</u>	<u>113</u>	<u>145</u>	<u>43</u>	<u>130</u>

Cover Disaster Area

AGRICULTURAL DEVELOPMENT BANK  
DISTRIBUTION OF EMPLOYEES PER PROFESSION AND/OR SPECIALITY AT 12/31/71

	<u>Chiclayo</u>	<u>Huancayo</u>	<u>La Merced</u>	<u>Iquitos</u>	<u>Puno</u>	<u>Ica</u>	<u>Iberia</u>	<u>Total</u>
Engineers (mainly Agriculture Engineers)	14	12	13	16	11	18	1	231
Medical Doctors	-	-	-	-	-	-	1	3
Veterinaries	-	1	-	-	3	-	1	7
Lawyers	4	1	2	4	1	5	-	54
Accountants	-	1	-	-	-	1	-	18
Economists	-	-	-	-	-	-	-	3
SUB-TOTAL Professional Staff	<u>19</u>	<u>15</u>	<u>15</u>	<u>20</u>	<u>15</u>	<u>24</u>	<u>3</u>	<u>316</u>
Administrative	85	67	57	114	64	73	28	1,261
Technicians	6	-	-	3	-	2	-	37
Secretaries	-	-	-	-	-	-	-	9
Clerks	11	10	5	11	5	13	2	172
Workmen	3	3	4	56	9	2	94	224
Chauffers	8	7	4	3	9	6	1	91
TOTALS	<u>132</u>	<u>102</u>	<u>85</u>	<u>207</u>	<u>102</u>	<u>120</u>	<u>128</u>	<u>2,110</u>

ADB COMPARATIVE BALANCE SHEETS FOR YEARS 1967-71  
(In Thousands of US Dollars)

ASSETS	9/30/67	%	9/30/68	%	12/31/69	%	12/31/70	%	12/31/71	%
In hand	13,694	11.0	16,504	11.5	17,904	10.0	13,525	6.9	12,642	5.6
Loans:										
Short-term (net)	56,086	44.9	59,726	41.8	82,181	45.6	94,627	48.5	107,002	47.1
Long term (net)	50,949	40.8	61,705	43.1	73,444	40.8	76,837	39.4	85,483	37.6
Investments (net)	3,597	2.9	4,242	3.0	4,563	2.5	4,890	2.5	8,064	3.6
Other accounts	542	0.4	867	0.6	2,020	1.1	5,144	2.7	13,851	6.1
<b>Total Assets</b>	<b>124,868</b>	<b>100.0</b>	<b>143,044</b>	<b>100.0</b>	<b>180,112</b>	<b>100.0</b>	<b>195,023</b>	<b>100.0</b>	<b>227,042</b>	<b>100.0</b>
<b>LIABILITIES</b>										
Obligations and savings	52,876	42.3	85,541	59.8	96,950	53.8	93,191	47.8	98,232	43.3
Banks and correspondents	45,540	36.5	26,304	18.4	44,626	24.8	46,488	23.8	49,782	21.9
Other liabilities	6,362	5.1	6,787	4.7	8,225	4.9	13,519	6.9	29,668	13.1
<b>Total</b>	<b>104,778</b>	<b>83.9</b>	<b>118,632</b>	<b>82.9</b>	<b>150,401</b>	<b>83.5</b>	<b>153,198</b>	<b>78.5</b>	<b>177,682</b>	<b>78.3</b>
Net worth	20,090	16.1	24,412	17.1	29,711	16.5	41,825	21.5	49,360	21.7
<b>Total Liabilities</b>	<b>124,868</b>	<b>100.0</b>	<b>143,044</b>	<b>100.0</b>	<b>180,112</b>	<b>100.0</b>	<b>195,023</b>	<b>100.0</b>	<b>227,042</b>	<b>100.0</b>

\* Balance sheet for year ending Dec. 31, 1971 is a pro-forma statement, ADB informed that the adjusted Balance Sheet is being prepared and that substantial adjustments might be made especially in Net Worth and Provisions accounts. ADB will send the approved Financial Statements as soon as possible.

ADB OPERATING RESULTS

1967-1970

(In Thousands of Dollars)

	<u>9/30/67</u>	<u>%</u>	<u>9/30/68</u>	<u>%</u>	<u>12/31/69</u>	<u>%</u>	<u>12/31/70</u>	<u>%</u>
<u>Receipts</u>								
Interest	9,397	90.6	10,870	92.7	17,301	93.1	15,425	92.3
Commissions, etc.	<u>974</u>	<u>9.4</u>	<u>857</u>	<u>7.3</u>	<u>1,286</u>	<u>6.9</u>	<u>1,295</u>	<u>7.7</u>
Total	<u>10,371</u>	<u>100.0</u>	<u>11,727</u>	<u>100.0</u>	<u>18,587</u>	<u>100.0</u>	<u>16,720</u>	<u>100.0</u>
<u>Expenditures</u>								
Interest	2,546	24.5	3,117	26.6	3,689	19.9	3,092	18.5
Write-offs & Provisions	2,160	20.8	1,907	16.3	5,397	29.0	3,883	23.2
Taxes	174	.7	228	1.9	335	1.8	312	1.9
Administrative costs	<u>5,487</u>	<u>52.9</u>	<u>6,479</u>	<u>55.2</u>	<u>9,142</u>	<u>49.2</u>	<u>9,390</u>	<u>56.1</u>
Total	<u>10,367</u>	<u>99.9</u>	<u>11,726</u>	<u>100.0</u>	<u>18,563</u>	<u>99.9</u>	<u>16,677</u>	<u>99.7</u>
<u>Results</u>	<u>4</u>	<u>0.1</u>	<u>1</u>	<u>-</u>	<u>24</u>	<u>0.1</u>	<u>43</u>	<u>0.3</u>

MINISTRY OF AGRICULTURE  
ANNUAL STATISTICS TO FEBRUARY 29, 1972

<u>Year</u>	<u>No.</u>	<u>SUBLOANS APPROVED</u>		<u>EXECUTED</u>		<u>AMOUNT DISBURSED</u>	<u>REIMBURSEMENTS</u>	
		<u>Amount S/.</u>	<u>No.</u>	<u>Amount S/.</u>	<u>S/.</u>	<u>Capital S/.</u>	<u>Interest S/.</u>	
1964	809	7,504,436.00	665	6,241,646.00	1,572,787.86			
1965	14605	255,826,655.56	13082	230,994,654.89	146,584,029.50	37,715,149.10		
1966	10832	216,535,258.01	10561	209,514,758.85	184,157,255.39	101,983,981.75		
1967	8584	299,548,863.50	9589	283,929,406.98	214,628,804.90	125,039,272.55	1,248.42	
1968	12153	618,533,946.36	10826	573,497,324.64	394,693,265.06	179,724,837.25	4,572,541.77	
1969	12916	529,623,462.22	11568	504,409,896.74	439,743,335.24	277,811,973.23	5,778,839.45	
1970	8433	436,495,277.01	7862	436,612,842.74	358,491,598.22	296,209,151.46	7,061,597.67	
1971	5747	488,988,650.35	5112	393,816,197.77	299,443,939.14	218,030,274.88	7,957,860.89	
January 1972	258	28,284,789.04	291	40,578,377.31	34,328,150.93	16,554,276.81	481,686.72	
February 1972	219	40,592,334.33	278	26,937,641.23	32,263,098.82	14,254,025.91	445,137.62	
Accumulated to 2/29/72	74556	2,921,933,672.27	69834	2,706,532,747.15	2,105,906,265.06	1,267,322,942.94	26,298,912.54	

Supervised Agricultural Trust Fund

Analysis of Approved Short and Long-Term Loans per Regional Office as of Dec. 31, 1971 (in thousand soles)

Regional Office	Short-term Loans			Long-Term Loans			Total Loans		
	#	Amt.	%	#	Amt.	%	#	Amt.	%
Piura	5359	137,265	6.99	795	117,714	16.02	6154	254,979	9.45
Chiclayo	16170	501,077	25.52	479	119,298	16.24	16649	620,375	22.99
Trajillo	12789	410,296	20.90	1007	100,671	13.70	13796	510,967	18.94
Cajamarca	1745	26,712	1.36	202	7,897	1.08	1947	34,609	1.28
Huacho	347	37,133	1.89	18	6,460	0.88	365	43,593	1.62
Lima	8144	114,702	5.84	324	40,710	5.54	8468	155,412	5.76
Ica	2912	130,632	6.65	425	55,423	7.54	3337	186,055	6.90
Arequipa	8859	314,831	16.03	789	156,115	21.25	9448	470,946	17.45
Huancayo	3	625	.03	453	40,155	5.47	456	40,780	1.51
La Merced	2936	60,826	3.10	123	48,357	6.58	3059	109,183	4.05
Cuzco	1523	210,655	10.73	336	41,752	5.68	1859	252,407	9.35
Puno	331	18,755	0.96	3	116	0.02	334	18,871	0.70
<b>Total</b>	<b>60918</b>	<b>1,963,509</b>	<b>100.0</b>	<b>4954</b>	<b>734,668</b>	<b>100.0</b>	<b>65872</b>	<b>2,698,177</b>	<b>100.0</b>

Source: Agriculture Development Bank - Trust Fund

\*Rate of exchange, S./43.38 per dollar.

Supervised Agriculture Trust Fund

Analysis of Approved Short-Term Loans per Regional Office at December 31, 1971 (in thousand soles)

Regional Offices	Short-Term Loans								
	Crop		Livestock		Marketing		Total		
	#	Amt.	#	Amt.	#	Amt.	#	Amt.	%
Piura	5,324	135,037	35	2,228	-	-	5359	137,265	7.00
Chiclayo	16,049	488,352	121	12,726	-	-	16170	501,077	25.51
Trujillo	12,299	351,500	484	58,076	6	411	12789	410,296	20.90
Cajamarca	1,696	24,380	49	2,326	-	-	1745	26,712	1.36
Huacho	318	32,818	29	4,314	-	-	347	37,133	1.89
Lima	7,330	20,152	803	88,714	5	5,836	8144	114,702	5.84
Ica	2,748	105,493	163	23,639	1	1,500	2912	130,632	6.65
Arequipa	7,163	174,784	1479	138,337	17	1,710	8659	314,831	16.03
Huancayo	3	625					3	625	0.03
La Merced	2,933	50,682	2	50	1	1,095	2936	60,826	3.10
Cuzco	1,320	157,320	155	6,719	48	46,615	1523	210,655	10.73
Puno			331	18,755			331	18,755	0.96
Total soles	57,189	1550,458	3651	355,884	78	57,167	60918	1963,509	100.0
Dollar Equiv. \$		\$ 35,741,000		\$ 8,204,000		\$ 1,318,000		\$ 45,263,000	

Source: Agricultural Development Bank - Trust Fund

Rate of exchange S/43.38 per dollar.

Supervised Agriculture Trust Fund

Analysis of Approved Long-Term Loans per Regional Office at December 31, 1971 (in thousand soles)

Regional Offices	Long Term Loans												%
	Crop		Livestock		Forestry		Equipment		Land		Total		
	#	Amt.	#	Amt.	#	Amt.	#	Amt.	#	Amt.	#	Amt.	
Piura	450	35,660	65	10,310	-	-	86	14,428	194	57,317	795	117,714	16.02
Chiclayo	181	19,866	100	16,240	19	8,726	103	39,681	76	34,785	479	119,298	16.24
Trujillo	259	13,248	212	27,737	16	706	300	41,546	220	17,434	1007	100,671	13.70
Cajamarca	-	-	3	345	124	7,235	75	317	-	-	202	7,897	1.08
Huacho	11	4,027	3	218	1	220	3	1,995	-	-	18	6,460	0.88
Lima	78	6,324	88	11,387	110	14,566	39	7,565	9	866	324	40,710	5.54
Ica	130	12,672	79	9,052	1	150	178	27,231	37	6,318	425	55,423	7.54
Arequipa	246	25,202	387	81,872			69	8,217	87	40,824	789	156,115	21.25
Huancayo	211	6,778	132	15,804	109	16,110	1	1,464			453	40,155	5.47
La Merced	50	5,672	66	41,440	2	533	3	482	2	230	123	48,357	6.58
Cuzco	160	6,098	46	4,867	111	26,888	17	3,859	2	40	336	41,752	5.68
Puno			3	116							3	116	0.02
Total in soles	1770	135,547	1184	219,388	493	75,134	874	146,785	627	157,814	4954	734,668	100.0
Dollar Equiv. \$		\$ 3,125,000		\$ 5,057,000		\$ 1,732,000		\$ 3,384,000		\$ 3,638,000		\$ 16,936,000	

Source: Agricultural Development Bank, Trust Fund.

Rate of exchange S.43.38 soles per dollar.

SUPERVISED AGRICULTURAL TRUST FUND  
ANALYSIS OF REPAYMENT OF SUB-LOANS AS OF DECEMBER 31, 1971  
(In Thousand Soles,

Zones	No. Loans	Long Term Loans		Total	Total Due Loans		Due Less than 90 days		Due More than 90 days	
		Principal	Interest		No. Loan	Amount	Amount	%*	Amount	%*
Piura	720	73,953	3,294	77,247	11	2,289	1,193	1.5	1,096	1.4
Chiclayo	391	82,864	7,680	90,544	164	17,777	5,683	6.3	12,094	13.4
Trujillo	401	75,030	11,840	89,870	69	9,669	1,370	1.5	8,299	9.2
Cajamarca	146	4,087	165	4,252	50	348	43	1.0	305	7.2
Huacho	237	15,851	1,052	16,903	19	3,007	844	5.0	2,163	12.8
Lima	112	12,490	1,374	13,864	13	3,685	595	4.3	3,090	18.3
Ica	277	35,498	5,282	40,780	24	24,885	1,119	2.7	23,766	58.3
Arequipa	117	58,201	5,276	63,477	84	5,182	626	1.0	4,556	7.2
La Merced	106	34,521	3,811	38,332	1	8,323	1,985	5.2	6,338	16.5
Huancayo	306	18,060	2,121	20,181	4	2,374	211	1.1	2,163	10.7
Cuzco	239	19,307	1,001	20,308	1	915	353	2.0	562	2.8
Puno	3	90	10	100	-	19	3	3.0	16	15.8
TOTAL	3,435	432,952	42,906	475,858	440	78,473	14,025	2.9	64,443	13.5
** U.S.\$		9,380	989	10,969		1,808	323		1,485	

Zones	No. Loans	Short Term Loans		Total	Total Due Loans		Due Less than 90 days		Due More than 90 days	
		Principal	Interest		No. Loan	Amount	Amount	%*	Amount	%*
Piura	1,012	15,766	1,045	16,811	592	6,761	212	1.3	6,549	39.0
Chiclayo	3,544	67,642	5,957	73,599	2,971	48,974	5,675	7.7	43,299	58.8
Trujillo	2,576	67,972	6,966	74,938	2,144	54,291	2,976	4.0	51,315	68.5
Cajamarca	897	11,844	740	12,584	615	7,997	385	3.1	7,612	60.5
Huacho	1,415	31,463	13,693	45,156	1,197	29,007	4,121	9.1	24,886	55.1
Lima	783	44,568	5,174	49,742	668	35,557	2,017	4.1	33,540	67.4
Ica	674	29,264	2,648	31,912	578	16,965	759	2.4	16,206	50.7
Arequipa	1,117	52,994	4,328	57,322	598	29,302	8,983	15.7	20,319	35.4
La Merced	874	12,254	3,042	15,296	870	15,090	298	1.9	14,792	96.7
Huancayo	2	270	32	302	2	302	-	-	302	100.0
Cuzco	2,096	10,835	960	11,795	1,036	7,091	214	1.8	6,877	58.2
Puno	81	2,797	230	3,027	81	3,027	-	-	3,027	100.0
TOTAL	15,071	347,669	44,815	392,484	11,352	254,364	25,640	6.5	228,724	58.3
** U.S.\$		8,014	1,033	9,047		5,864	591		5,273	

\* On total loan including interest

SOURCE: Information provided by Ag. Dev. Bank.

\*\* Rate of exchange S/.43.38 per dollar.

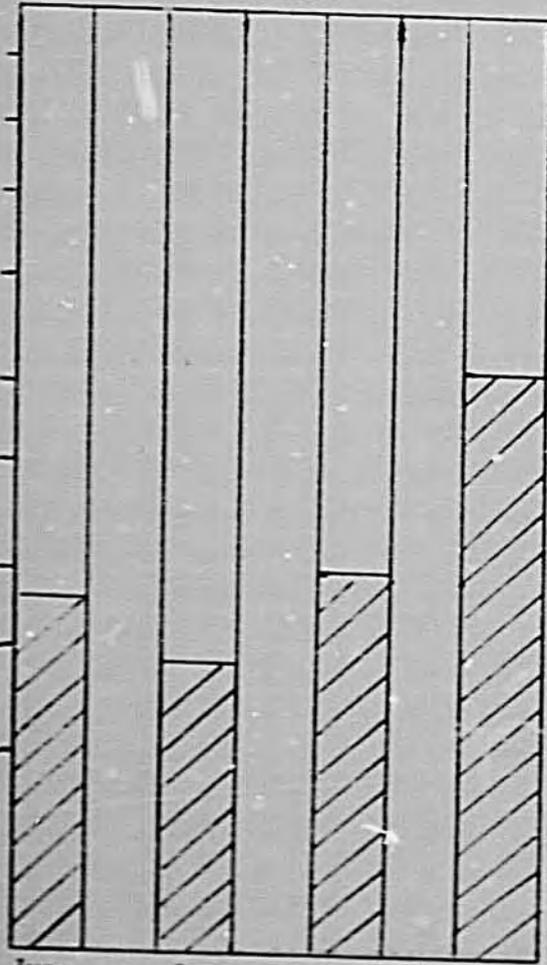
PERCENTAGE OF DELINQUENCY PORTFOLIO

1968 - 1971

Portfolio  
Percentage

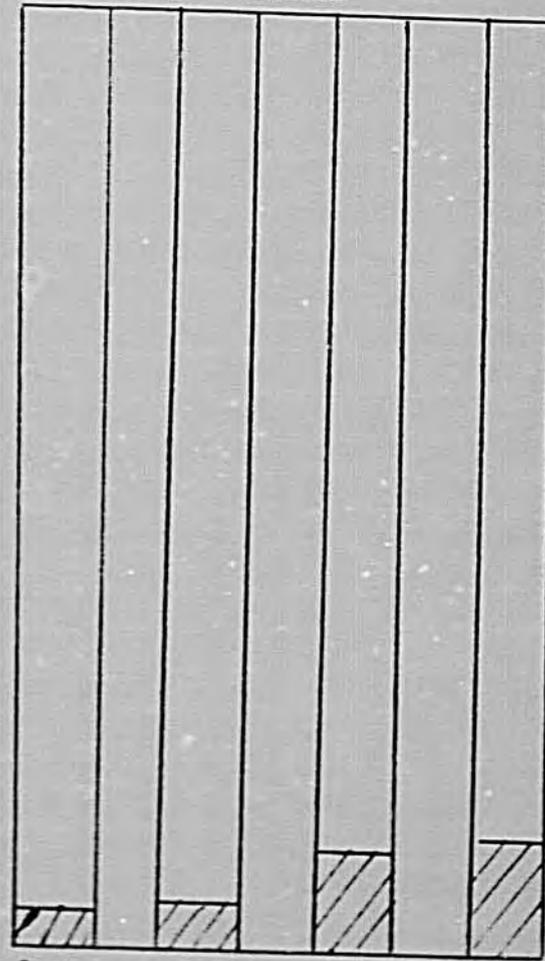
100  
80  
60  
40  
20

Short Term Loan



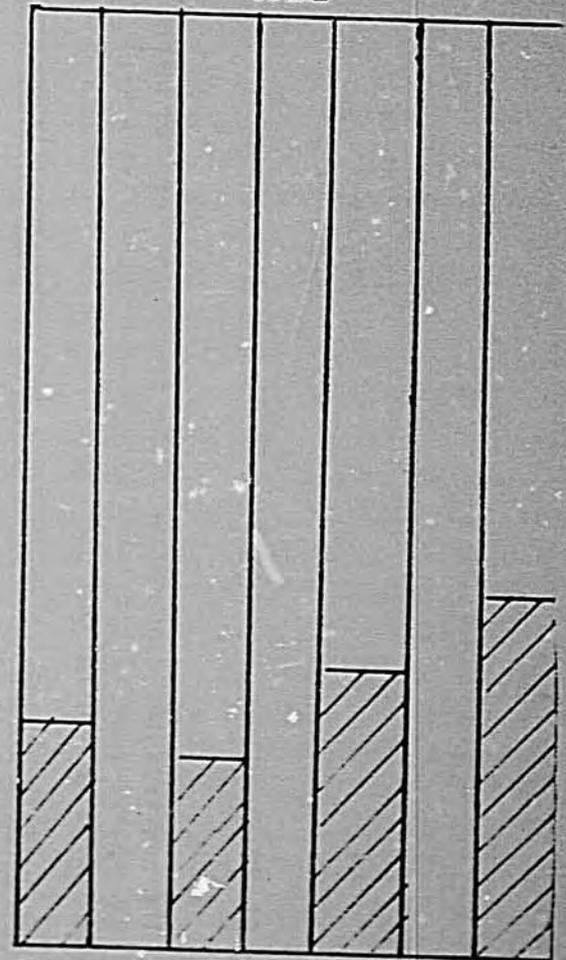
June 1938      June 1969      June 1970      June 1971

Long Term Loan



June 1968      June 1969      June 1970      June 1971

TOTAL



June 1968      June 1969      June 1970      June 1971

Requirements for Cooperatives, Communities, SAIS, and Other Groups \*

Article 42. The requests for cooperative loans from campesino communities, agricultural associations and other rural groups with legal status will be subject to the following provisions:

1. For Cooperatives, Campesino Communities and Agricultural Associations (SAIS):

The request will be accompanied with the following documents:

- a) A certified copy of their official recognition (only for 1st loan).
- b) Proof of registration in Public Registry (only for 1st loan).
- c) Certified copy of Notary Public or Justice of the Peace, of the Minutes of the General Assembly indicating:
  - 1) Authorization for request for loan,
  - 2) Purpose and amount of loan,
  - 3) Names of representatives who will handle loan contract procedures,
  - 4) Ministry authorization to supervise loan, and
  - 5) Joint responsibility until loan has been cancelled.
- d) The documents or legal titles accrediting ownership, possession or tenancy of the property by the cooperative, campesino community or SAIS.
- e) Copy of previous year's balance sheet, or the last balance sheet prepared (not required for campesino communities) and a list of all obligations and annual amortizations of same.
- f) List of members indicating area, amount by type of loan, and obligation of each beneficiary if the loan will be granted in order to make sub-loans to members.

---

\* As stated in the Agricultural Credit Manual

2. Other Rural Groups:

The requests submitted by other rural groups will be accompanied with the same documents required of the cooperatives and SAIS. In cases where points a. and b. are not pertinent, these will be substituted by the incorporation agreement which shall be notarized.

Article 43. The cooperative shall be responsible in the granting of loans to production cooperatives.

Article 44. Two alternatives may be considered when granting loans to agrarian service coops:

1. Loans to cooperatives for the purchase of goods which will benefit all members (rice mill, wells, pumps, etc.). In such case the responsibility for payment of the loan is the coop's, which will assume responsibility for payment from its own financial resources rather than with profits from production of the member's plots.

2. Loans to coops for sub-loans to their members. The request for loans shall be accompanied with a list of the borrowers indicating the area, amount by type of credit and total obligation of each.

The obligation of the member receiving the sub-loan from the coop will cover the amount of the obligation, capital and interest derived from such sub-loan.

In case of non-payment due to the sub-loan beneficiary's failure to repay sub-loan, the coop will cover the debt from its own resources.

In case the non-payment of the sub-loan is due to justified causes, the debt will be considered together with the other sub-loans under similar conditions, for postponement or carryover of the balance pending. The fund will look to the coop which will continue to be responsible for the sub-borrowers until the entire loan has been paid off.

Article 45. Coop members receiving sub-loans are obliged to channel the amount of the items corresponding to inputs and other services rendered through the coop.

No member may receive a sub-loan from his coop together with an individual loan regardless of its purpose.

Article 46. In order to become a beneficiary of loans through organized groups the members must satisfy the requirements provided for in Article 48., (i.e. the requirements for individuals).

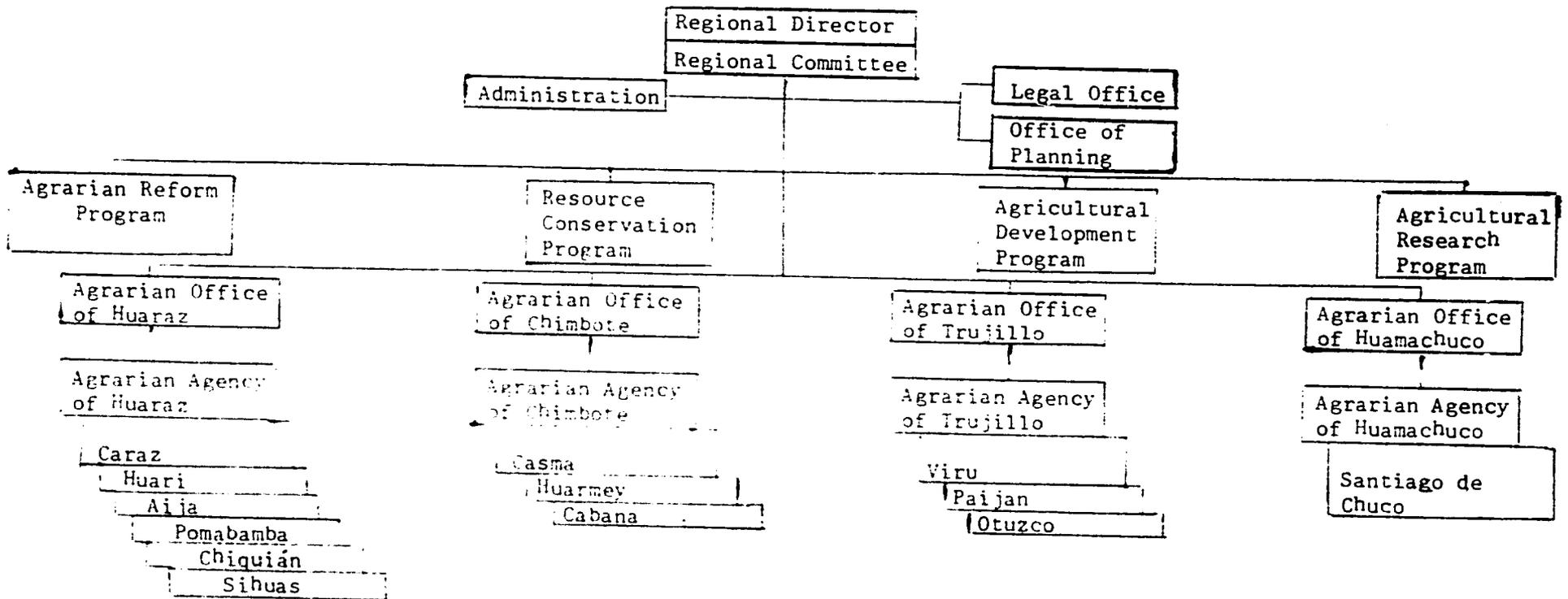
Article 47. In case a farmer owes and wishes to join and become a borrower from a coop he must proceed as follows:

1. For farmers who owe the Banco:

- a) Pay debt in order to the advance from the coop; or
- b) Commit himself to pay the balance due according to the plan approved by the Local Committee and the Bank pursuant to provisions contained in Article 83.
- c) The farmers whose debts have not matured shall receive credit from the coop for crops which have not been financed and will not forfeit their condition of debtor to the Bank nor compromise the guarantee of their debt. The coop will guarantee payment of the debt after which payment they become qualified to be users of the Fund.

2. For farmers owing the Fund, with a favorable opinion of the Committee the coop will assume the debt through the respective Transfer Document which will be signed by the interested party and the coop before the Bank.

MINISTRY OF AGRICULTURE  
 ORGANIZATION WITHIN DISASTER ZONE (AGRARIAN ZONE III)



AgMin Personnel in Disaster Zone \*

	Regional Office	Agrarian Office of Trujillo	Agrarian Office of Chimbote	Agrarian Office of Huaraz	Agrarian Office of Huamachuco
Agrarian engineers	25	40	20	20	12
Civil engineers	1	2	1	1	
Chemical engineers		1			
Lawyers	2	15	3	3	1
Veterinarians	1	5	5	6	
Economists	1	1			
Sociologists	1				
Anthropologists	2	2			
Accountants	4	3			
Other professionals	6	10	8	6	
Agricultural technicians	4	57	23	25	24
Technical Veterinarians	—	<u>6</u>	<u>11</u>	<u>10</u>	<u>12</u>
	47	142	71	71	49
				Total	386

\* excluding secretarial, clerical and administrative personnel.

IRR for Agricultural Credit Fund

CAEC met on February 17 and approved subject IRR with following observations:

1. Loan paper should contain clear statement of eligibility criteria for subloans as well as definition and profile of eligible clientele.
2. In evaluating effectiveness of existing Ag Credit Program, analysis should disaggregate delinquency/default category to determine percent of portfolio in arrears by time period and percent uncollectible, and provide explanation causes of resulting pattern. Loan paper should describe corrective actions to be taken by GOP. Paper should also describe policy on utilization of sub-borrower repayments to Ag Credit Fund under new loan. Recommend that repayments on subloans be reserved for relending in this area for a period of at least 5 years. IRR states that local agricultural agent will supervise use and collection of credit. This is slight departure from usual Supervised Ag Credit Trust Fund procedures whereby Ag Bank assumes responsibility for collection. How will modified procedure improve collection process?
3. Economic analysis should be on a with-and-without basis, projecting benefits expected with program.
4. 12-year credit for cattle appeared excessive; need for such terms should be reexamined. Also should examine employment impact of cattle investment and determine whether such sub-projects may conflict with social/employment objectives.
5. \$9,250 upper limit on individual subloans also appeared high. Rationale for level should be fully explained.
6. Mission and GOP should determine what percent of funds should be directed toward what purposes, e.g., percent allocation of funds in favor of labor-intensive crops vs. on farm capital investments; allocation for small vs. medium-size farms, etc. GOP should also consider research activities in the area to determine most feasible agricultural production possibilities and identify existing constraints.
7. Basic rationale for loan seen in terms of its impact on alleviating earthquake problems.

Loan Authorization (Draft)

Provided from: Alliance for Progress Funds

Peru: Supervised Agricultural Credit

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan"), pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Government of Peru ("Borrower") of not to exceed five million United States dollars (\$5, 000, 000) to assist in financing the United States dollar and local currency costs of a supervised agricultural credit program in the area affected by the earthquake of May 31, 1970 ("Project"). The Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment

Borrower shall repay the Loan to AID in United States dollars within forty (40) years from the date of the first disbursement under the Loan, including a grace period not to exceed ten (10) years. Borrower shall pay to AID in United States dollars on the disbursed balance of the Loan interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Other Terms and Conditions

- (a) All goods and services financed under the Loan shall have their source and origin in Peru and countries included in AID Geographic Code 941.
- (b) United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to AID.
- (c) Prior to any disbursement of loan funds Borrower shall:
  - (i) Submit in form and substance satisfactory to AID an operation plan setting forth the numbers and qualifications of agricultural technicians and Bank agents responsible for execution of the project, and
  - (ii) Deposit in the Fund the amount of uncollectibles due under prior agreements through CY 1971.

- (e) Prior to any disbursement in calendar year 1973, Borrower shall submit in form and substance satisfactory to AID:
  - (i) A revised definition of uncollectibles, and
  - (ii) The results of its evaluation of the existing organization and procedures of the Fund and its recommendations for modification to improve collections.
- (f) Borrower shall covenant that no farmer or group farming organization eligible for existing credits of the types proposed herein financed by other international institutions shall receive AID loan funds in lieu of such financing.
- (g) Borrower shall covenant as under prior agreements to replenish the Fund by the amount determined as uncollectible each year.
- (h) Borrower shall covenant to allocate during the three years following disbursement of the loan at least as much money to the disaster area as is received in repayments under this loan.
- (i) Borrower shall covenant to implement the recommendations resulting from its evaluation of the existing organization and procedures of the Fund.
- (j) This Loan shall be subject to such other terms and conditions as AID may deem advisable.

---

Deputy U. S. Coordinator

---

Date