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

PROJECT PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

PERU: AGRICULTURAL COOPERATIVE FEDERATIONS DEVELOPMENT

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AID-DLC/P-2104

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

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June 17, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Peru - Agricultural Cooperative Federations Development

Attached for your review are the recommendations for authorization of a loan to the Government of Peru in an amount not to exceed Seven million United States dollars to assist in financing the United States dollar and local currency costs of a project to foster the development of agricultural cooperative federations in Peru.

This loan is scheduled for consideration by the Development Loan Staff Committee on Monday, June 23, 1975; please note your concurrence or objection is requested by close of business on Wednesday, June 25, 1975. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development
Program Review

Attachments:

Summary and Recommendations
Project Analysis
Statutory Checklist

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PERU

AGRICULTURAL COOPERATIVE FEDERATIONS DEVELOPMENT

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SECTION I. SUMMARY AND RECOMMENDATIONS**I. Borrower**

The Borrower will be the Ministry of Economy and Finance representing the Government of Peru. The administrative structure for implementation will consist of an Interministerial Committee on Centrals (CENCOM) which will be created through a joint agreement among the BFA, MOF, and MOA. This agreement will be formalized by a Supreme Decree. The Agricultural Development Bank will manage the CENTRAL Development Fund.

2. Amount and Terms of Loan

The loan will not exceed US\$7.0 million. Authorization of the loan is requested on the most concessional terms available, i.e., a 40-year amortization period including a 10-year grace period with interest at 2% during the grace period and at 3% thereafter.

3. Goals and Purposes of the Loan

The goal at this loan is increased production, more equitable income distribution and greater employment opportunities in the agricultural sector.

To further these goals, the loan purposes are to:

1. Increase the capability of Centrals to provide services.
2. Increase the financial viability of Centrals.

The services to be provided by CENTRALS will include the supply of agro-inputs for production, marketing of the production of the members, establishment of equipment maintenance centers, establishment of machinery pools, and the provision of accounting services. All of these services benefit from economies of scale and would be more expensive or perhaps unobtainable by the individual associative enterprises if unavailable from the CENTRAL. CENTRAL agro-industrial projects will include activities such as grain drying centers; feed production mills; vegetable oil extraction and refining plants; crop collection, sorting, grading, packaging, and processing centers.

The Project will provide a package of technical and financial inputs that will enable the CENTRALS to achieve a level of development which will enable them to efficiently provide the above described services and implement agro-industrial projects on a continuing basis.

4. Background of the Project

Peru's Agrarian Reform is substantially modifying the structure of the agricultural sector of the country by, among other things, creating production and service cooperatives. Thus far, approximately 814 first-level associative enterprises (cooperatives) have been established and the GOP has begun to encourage the formation of second-level federations of cooperatives called CENTRALS, twenty-six of which are already in existence. The services provided by the CENTRALS to the associative enterprises are expected to result in increases in agricultural production, greater income and employment opportunities for the rural poor, and improved quality of life in the rural sector.

These CENTRALS need to be adequately financed so that they can supply the required level of services to their members. The GOP, however, does not have sufficient resources available to provide this support. The proposed loan will help the GOP with an important second phase in the establishment of a rational organizational structure in the agricultural sector of Peru.

A.I.D. has financed rural development projects in Peru in the past and is currently implementing several loans directly benefiting rural areas of the country. These include a Rural Enterprises Development Loan, a Small Business Assistance Loan, a Community Development Loan and agricultural credit loans for rehabilitation purposes. These on-going loans have demonstrated that substantial absorptive capacity exists in the rural areas of Peru, and that with sufficient, well-directed technical assistance accompanying the loan, significant improvements can be accomplished.

5. Project Description

The Project is designed to contribute to the effectiveness of the Peruvian Agrarian Reform process by assisting the Ministry of Agriculture in developing a comprehensive program of support to Agricultural Cooperative Federations, or CENTRALS. CENCOM utilizing the resources of the MOA, MF, ADB AND other GOP instrumentalities will provide a package of technical assistance and credit to a selected group of CENTRALS so that they, in turn, can provide effective services to the cooperatives which they serve.

A CENTRAL Development Fund will be established in the BFA. This Fund will have an initial capitalization of \$12.9 million. Credits from the Fund will be available to CENTRALS to finance three basic development components: working capital, investments in fixed asset (service) projects, and fixed asset (project) investments. Interest on sub-loan to CENTRALS will range between 7 and 13%, depending on the nature of the investment, and in accordance with rates currently charged by Peruvian State Development Banks. One million dollars will be used to finance detailed Development Plans for 20 CENTRALS over a three-year period (four will be done the first year, six the second and ten the third). The Plans will detail the technical and financial inputs necessary to make each CENTRAL a viable economic institution which will effectively serve the needs of its member cooperatives.

Technical assistance will be provided to CENTRALS by CENCOM, in coordination with other GOP agencies. This assistance will be designed to provide an increase in the level of managerial and technical skills in the selected CENTRALS, in order to assure that sub-projects will be adequately planned, financed and executed.

6. Financial Plan

Total U.S. and GOP direct counterpart funding for the Project is \$14 million, plus personnel, technical assistance and training estimated at \$2.1 million equivalent. In addition, the GOP will satisfy short-term production credit requirements (estimated at \$25 million equivalent) of the associative enterprises that are CENTRAL members.

The A.I.D. contribution to the Project will be \$7.0 million. Of this amount, \$5.9 million will be used to establish the CENTRAL Development Fund, \$1 million will be granted by the GOP to finance CENTRAL Development Plans, and up to \$0.1 million will be used to finance technical assistance to CENCOM.

The GOP will contribute \$7 million in local currency equivalent to the CENTRAL Development Fund. An additional \$2.1 million equivalent will be provided by various GOP entities in the form of staff, technical assistance and training.

7. Alternative Sources of Financing

The Ex-Im Bank, IBRD, and IDB have expressed no interest in financing this project. Private local and foreign financing institutions are not appropriate sources of financing.

8. Statutory Criteria

All Statutory Criteria has been fulfilled (See Annex I).

9. Issues

None

10. Conditions Precedent

a. Prior to the first disbursement or the issuance of any commitment documents under the Loan, Borrower shall submit to A.I.D., in form and substance satisfactory to A.I.D.:

(1) Evidence of the establishment of the CENTRAL Development Fund ("Fund") within the Agricultural Development Bank.

(2) A time-phased Project Implementation Plan, which shall include, inter alia, a description of the functions of the various governmental agencies participating in the Project and provisions for adequate staffing of such agencies.

(3) Evidence of the availability of sufficient and timely Borrower contributions to the Project.

b. Prior to any disbursement or issuance of any commitment documents under the Loan for any individual CENTRAL for any purpose other than to finance technical assistance for the formulation of a comprehensive development plan for that CENTRAL, the Borrower will submit to A.I.D. such a plan. The plan shall conform to the terms of reference and criteria prescribed therefor in the Project Implementation Plan approved by A.I.D.

c. The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Project Committee:

Loan Officers:	Gregory Smith, USAID/Peru-CAP Gabriela de Perez Albela, USAID/Peru-CAP
Economists:	George Gebhart, USAID/Peru-ECON Rollo Ehrich, USAID/Peru-AGR Janet Ballantyne, USAID/Peru Jorge Cossio, USAID/Peru-AGR
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Regional Legal Advisor:	Norman Williams, USAID/Peru-GC
USAID Approval:	Donald Finberg, USAID/Peru-D Charles Weinberg, USAID/Peru-ADD

GLOSSARY OF ACRONYMS AND SPECIAL TERMS USED

- ACOMUC - Asociación Cooperativa de la Mujer Campesina
Cooperative Association of Peasant Women.
- Agro-Inputs - Seeds, fertilizers, insecticides, herbicides,
etc.
- Associative
Enterprises - CAP, CAS, SAIS, CAIP, CC - A first-level unit of
agricultural production.
- BFA - Banco de Fomento Agropecuario - Agricultural
Development Bank. Main banking agency of the
Peruvian Government for the Agricultural Sector.
- CENCIRA - Centro de Capacitación e Investigación de la
Reforma Agraria -
Center for Training and Research of Agrarian Reform
- CENCOM
CENTRAL - Inter-ministerial Committee on CENTRALES
- Second level organization which groups a variety
of associative enterprises - i.e. an agricultural
cooperative federation.
- CAIP - Cooperativa Agrícola de Integración Parcelaria -
Integrated Parcel Agrarian Cooperative.
- CAP - Cooperativa Agrícola de Producción -
Agrarian Production Cooperative.
- CAS - Cooperativa Agrícola de Servicios -
Agrarian Service Cooperative.
- CECOOAP - Central de Cooperativas Azucareras de Producción -
Central of Sugar Producer Cooperatives.
- CC - Comunidad Campesina - Peasant farmer community.-
or Communal Cooperative
- DESCO - A private foundation for Social and Economic
Development.
- Directorate - Main organizational Subdivision of a Ministry.
- EPSA - Empresa Peruana de Servicios Agropecuarios -
Peruvian Enterprises for Agricultural Services.

- ENCI - Empresa Nacional para la Comercialización de Insumos
National Enterprise for Marketing of Inputs
National organization to be responsible for the
import of all materials needed by the country with
the exception of foodstuffs.
- GOP - Peruvian Government
- IDB or BID - Inter-American Development Bank
-
- IBRD - International Bank for Reconstruction and Development
- MOA - Ministry of Agriculture
- MF - Ministry of Food
- NDF - National Development Plan
The main volume of a series of eleven volumes issued by
the National Planning INstitute which outlines global
strategies, goals, and plans for the nation.
- OSPA - Oficina Sectorial de Planificación Agrícola
Office of Sectorial Planning of the Ministry of
Agriculture
- ORDEZA - Organización Regional para el Desarrollo de la Zona
Afectada - Regional Development Organization for
the Earthquake Zone.
- PIAR - Proyecto Integral de Asentamiento Rural -
Integral Project of Rural Settlement
- PID - Proyecto Integral de Desarrollo - Integral
Development Plan
- PIP - Program Implementation Plan
- SAIS - Sociedad Agrícola de Interés Social
Agrarian Society of Social Interest
- SINAMOS - Sistema Nacional de Apoyo a la Mobilización Social
National System for Support of Social Mobilization
- TCD - Terminal commitment date
- TDD - Terminal disbursement date
- ZAS - Zona Afectada por el Sismo - Area Affected by
1970 Earthquake

II. THE PROJECT

A. Background and Rationale

1. Agricultural Sector Overview

a. Historical Trends

Over the period 1960 - 1973 total real output of Peru's agricultural sector increased at an average annual rate of only 1% while the population grew at a rate of over 3%. Thus, real agricultural output per capita has continually decreased by roughly 2% per year during this period. Rising real urban incomes have increased the demand for food, further widening the gap between domestic production of foodstuffs and demand. Consequently, the value of food imports increased from \$45 million in 1960 to over \$150 million per year in 1971 and 1972. Food imports are estimated to have increased by \$45 million in 1973 and a substantive increase is estimated for calendar year 1974 due to substantially higher international prices.

Sharply increased food deficits in the past few years, due to population growth, rising urban incomes, and poor growing weather, have led to increases in retail food prices, notwithstanding increased imports (which are heavily subsidized) and government price controls. The price index for food at the retail level increased from 129.96 in 1968 to 178.26 in 1973 (1960 = 100).

In 1972, Peru's agricultural sector produced only 14.1% of the GNP but employed 43.6% of its labor force. Respective 1973 figures were 13.6% of GNP, employing 42.7%, and for 1974, 13.0% employing 41.8% of the labor force. In general, data indicate that the agricultural sector is characterized by low and perhaps declining real per capita income.

Factors that have contributed to poor economic performance in the sector include: (1) a price policy which discourages investment in productive activity; (2) poor quality land resources and high cost of bringing new land into production; (3) inadequate marketing infrastructure (principally inadequate farm-to-market roads and storage facilities); (4) low average level of farm management skills, (5) a deficient system of delivering technical knowledge to agricultural producers, and (6) disruptions caused by the Agrarian Reform.

The situation was aggravated in 1973 and 1974 by increased production costs and a consequent shortage of production credit. Costs have risen drastically owing to upward adjustments in farm wages and

rising prices of agricultural inputs. Pressure from members of newly formed associative enterprises (economic groups formed as a result of the Agrarian Reform) have resulted in wage increases in excess of productivity increases, thereby increasing per unit costs of production. Failure of the government-controlled credit system to adjust to rising costs has had a serious impact on production by sharply reducing the level of purchased inputs employed.

b. Current Government Policies and Plans

Current government economic policy emphasizes equitable income distribution and increased employment as priority goals. Agricultural sector policy is mildly expansionary but gives priority to income distribution and employment generation over output growth, whenever these may be competing goals.

Agricultural priorities and programs are framed by the broad outlines of the 1971-1975 National Development Plan. The National Plan has as its principal goals: (1) participation of the rural population in decision-making, (2) land redistribution, (3) provision of social services to rural zones, (4) increased employment, (5) strengthening of the public sector as principal agent of development, and (6) development of scientific and technological research.

(1) Production

The original development plan for the agricultural sector for 1971-1975 called for an average increase of 4.2% per year in agricultural output, to be achieved in the short run primarily through expansion of land under irrigation and provision of production credit. Longer term production oriented programs include agricultural research and Management Training.

The overall target proved to have been overly optimistic during 1971 and 1972. Growth in output during 1971 and 1972 fell far short of the projected 4.2% per year, averaging only about one percent. Improved performance was noted in 1973 with growth in the value of output reaching 2.4%.

Data on 1972-1973 rates of increase in value of major commodity groups presented below reveal that poor average performance was due largely to slow rates of growth in the value of cereals, industrial crops, milk, and tubers, while growth rates for other commodities exceeded the overall target rate of 4.2%.

PERCENTAGE INCREASE IN GROSS VALUE OF PRINCIPAL AGRICULTURAL
PRODUCT GROUPS, 1972 - 1973

Product Group	Percentage Increase in Value 1972-1973
Cereals	0.5
Fruits	5.8
Vegetables	5.4
Industrial crops	2.8
Pulses	4.5
Oilseeds	19.9
Tubers	0.2
Meat	5.6
Milk	0.0
Eggs	12.4

(2) Agrarian Reform

Agrarian Reform will undoubtedly continue to receive priority treatment in government development programs, as evidenced by the creation of a new Ministry which has as its primary responsibility the Agrarian Reform process. The objectives of the Agrarian Reform include: (1) abolishing much of the old tenure system, (2) redistributing and increasing the incomes of the rural population, (3) creating cooperative and other forms of associative production units, and (4) transferring political power and decision-making to the rural population. Associative production units are the principal institutional vehicle for increasing agricultural output, improving rural marketing systems, and generating employment in the rural sector.

The nature of the Agrarian Reform program is explored in Section II.A.2, below.

(3) Other Government Programs

In addition to the Agrarian Reform the government is concentrating its sector development efforts in marketing, water resources development, management training and enterprise planning, forestry resources development and agricultural research.

The government's overall policy in marketing is to insure that food supplies are adequate and economical and that a stable market exists for producers. Programs to increase the efficiency of the marketing system include investment in market facilities, promotion of producer collection centers associated with associative enterprises, development of a market information system, introduction of improved grades and standards, and training of managers at all levels of the marketing chain.

The water resources program consists of projects for expansion of irrigated areas, recovery of older irrigated areas, efficient allocation of water resources among multiple uses by establishment of a rational water tariff structure, and organizing water districts for purposes of governing water use.

Technical assistance in the form of management training and farm enterprise planning is provided by the MOA to the newly formed associative enterprises created under the Agrarian Reform.

The national plan for forestry development includes as goals the development of ecologically sound means of exploiting jungle forest resources and the integration of reforestation for conservation and wood pulp production with the productive activities of associative enterprises.

Research in crop and livestock production is concentrated on priority commodities as defined by the National Plan. It is basically directed toward development of packages of inputs that will increase total output and lower per unit production costs. Four regional experiment stations have been established, each devoted to studying the special resource and climatic conditions in the major agricultural zones.

c. Sectoral Problems and Bottlenecks

(1) Institutional Strengths and Weaknesses

The structure of land tenure and organization of other productive resources is being radically transformed through the process of Agrarian Reform. The principal strength inherent in the new system of associative enterprises is that limited extension services and capital resources can be concentrated on large, organized units, rather than being diffused among thousands of tiny, individual

farms. Its weakness may lie in disruption of management skills through displacement of owner-managers of the relatively few medium-to-large, efficient units which existed prior to Agrarian Reform.

Agricultural marketing institutions have several weaknesses. The market information system is inadequate, lacking both in ability to generate reliable data and mechanisms for distributing this information to users. Roads, storage and processing facilities, and facilities for transfer of ownership are generally poor.

Ministerial organizations are key elements in Peru's agricultural sector because the revolutionary government is committed to all phases of the agricultural economy. The General Directorate of Production of the MOA is the division that is directly involved in increasing agricultural production. In the 1973-1974 budget, the Field Offices of the MOA received 63.4% of the MOA budget while the Lima General Directorate received 36.4%. The combination of more staff and more budget for the zone offices combines to assure a reasonable delivery capability at the associative enterprise level.

The Agricultural Planning Office, while potentially the most important government organization affecting development of the sector is relatively understaffed in terms of skilled economists, and its ability to coordinate plans and projects is inhibited by a lack of effective power vis-a-vis other ministerial organizations.

However, it is a great improvement over planning groups that previously existed in the Ministry. Evidence of this improvement is that the 1971-1975 Plan is a much more concise instrument than previous efforts. Commodity priorities are better defined and investment needs are more precisely enunciated than in the past.

Budget allocations to the Ministry of Agriculture appear inadequate relative to the magnitude of sectoral development problems. Relatively low salary levels have caused the loss of better trained personnel, particularly the economists, to public institutions outside of agriculture and to private institutions.

Training programs and institution building over the past twenty years, often under A.I.D. sponsorship, have greatly upgraded competence in the agricultural sciences in Peru. The Agrarian University and MOA are relatively well-staffed with scientists holding advanced degrees in the Agricultural Sciences, although here, too, the problem of inadequate salaries is serious. A major goal of the MOA is to establish an effective network of regional agricultural experiment stations. By and large, Peru's ability to conduct needed research in agricultural technology is adequate. The situation with respect to economists is less positive as unrealistically low salaries in the MOA and at the National Agrarian University have forced a high percentage of trained economists into other areas.

The sector's greatest institutional weakness appears to be in economic planning capability and ability to implement technological recommendations at the project level. In particular, no effective planning framework exists which would integrate the activities of the separate action agencies (Directorates of Production, Water, etc.) toward maximization of the stated sectoral goals.

(2) Major Problems Related to Production Performance

The major causes of deteriorating production performance in the agricultural sector are:

- Shortages of improved seeds and fertilizer,
- Insufficient production credit aggravated by increased prices of inputs,
- Failure of price policy, especially in the case of basic foodstuffs, to adequately stimulate production because price levels do not offset rising production costs,
- Inadequate investment due to a tendency on the part of newly created associative enterprises to utilize profits for distribution to members (consumption).

(3) Analysis of the Impact of Sectoral Problems on the Success of the Loan

The institutional weaknesses described above which could most seriously interfere with project success are: (1) inadequate planning capability in the Ministry of Agriculture and (2) inadequate management and planning skills within the newly formed associative enterprises.

Planning functions include: (1) analysis and projection of major macro-economic variables on a national and regional scale in order to provide estimates of the global impact of national policies on aggregate measures of agricultural performance, (2) definition and analysis of linkages between national policies and measures of economic and social performance, disaggregated by area, type of firm, and commodity, and (3) definition of linkages between specific agricultural development projects and national policy goals. The Sectoral Planning Office (OSPA) is responsible for the first function and is charged with coordinating the remaining functions which take place in the Action Directorates (Production, Water, Marketing, etc.).

In addition to generally inadequate technical skills and the lack of an effective methodological framework, OSPA's coordinating function is further reduced in effectiveness by intra-ministerial jealousies. An example of this problem which could directly effect the success of the present project is the difference that exists between OSPA and the General Directorate of Production with respect to the definition of their respective roles in the planning process. A consequence of this failure to establish a clear definition of roles is that decisions made by the Directorate of Production on such key activities as credit allocation among regions and commodities have had no clear linkage to the macro-economic variables which are used by OSPA to evaluate the degree to which sectoral goals are being achieved.

The design of this project includes provision of technical assistance in development planning at the Cooperative CENTRAL level while the grant technical assistance program (project 060) described below (Section II.A.5) focuses on development of a global planning framework. Thus, some of the major technical weaknesses in planning capability should be greatly lessened during the project period (1975-1977). Moreover, the technical advisors brought in under both programs should have a positive influence with regard to closing the institutional rift.

Weaknesses in management capability at the CENTRAL level and at the level of the individual associative enterprise are, of course, critical factors bearing on the success or failure of this project. The MOA training agency (CENCIRA) is currently providing top and middle-level management courses which will have reached the majority of associative enterprises by 1976. They have no plans, however, to extend their training activities to CENTRAL management nor to management of agro-industrial enterprises; therefore, this loan project must allow for such training. In addition, the USAID is considering a longer-term, institution-building project with the GOP which would establish the machinery for agro-industrial training on a nation-wide basis.

The present loan project will contribute significantly to strengthening other institutional weaknesses, including inadequacies in farm to market roads and lack of adequate rural collection centers. A major improvement in the market information system, introduction of adequate grades and standards, is expected to be completed during 1975.

Two of the major barriers to improved production performance listed above, shortages of improved seeds and fertilizer and insufficient production credit, will be directly affected by this loan project. The BFA has expressed a willingness to covenant that credits for agro-inputs will be made available to associative enterprises that are members of CENTRALS supported in the Project. The problem of high fertilizer costs and an inadequate fertilizer marketing mechanisms will be eased somewhat by the improved distribution facilities and bulk buying activities to be undertaken by CENTRALS under this loan. Also centralized purchasing of seeds and development of certified seed-production by the CENTRALS themselves will help alleviate this bottleneck.

Shortages of fertilizer are expected to continue through 1975, primarily reflecting world-wide shortages of nitrogen and phosphate. New capacity for production of urea (15,000 MT/month) is expected to be completed by September 1975 which will supply most requirements at current levels of consumption (estimated at 125,000 MT of Nitrogen for 1974). Exploitation of phosphate reserves estimated at 553 million MT will begin in 1975 with expected production reaching the level of current demand by 1976 (15,000 MT of Phosphate in 1974). The above developments will satisfy requirements at current levels of consumption and future growth in supply is expected to meet growth in demand in future years.

No adequate evaluation of the impact of current government price policies on production is available, although terms of reference for an in-depth study are being developed by the Directorate of Production with the assistance of an A.I.D. technical advisor. Meanwhile, OSPA is applying considerable pressure on policy makers to induce them to raise prices of basic foodstuffs, as OSPA's most recent evaluation definitely indicates that official prices for most essential food crops discourage production. An important case in point is rice. A lag in adjustment of official prices to rising production costs apparently caused a significant reduction in acreage devoted to rice production during the 1974 crop year. Consequently, production declined by over 60,000 MT between 1973 and 1974, requiring net imports of 30,000 MT in 1974 compared to net exports of 55,000 MT in 1973.

One reason that MinAg officials fail to adequately adjust prices to changing cost conditions is the lack of accurate analyses of supply and demand conditions. Use of the technical assistance portion of this loan to finance CENTRAL Development Plans will help provide decision makers with the improved information necessary to make needed adjustments in prices. The A.I.D. grant technical assistance program in agriculture will also contribute to the development of studies to determine basic relationships between production response, prices, and other relevant variables.

The resulting increased technical capacity to estimate supply response should be sufficient to create a significantly improved price structure in agriculture during the period covered by this loan project, providing that the improved supply estimates serve to further shift policy emphasis in the direction of increased production. Thus, the enterprises being supported by this loan project should be facing an increasingly favorable outlook for net returns during the next few years.

Apparently low rates of savings and investment among the cooperative organizations that form the base institutions of the CENTRALS being financed by this loan could seriously interfere with the long-run capitalization process. The newly franchised cooperative units have shown a marked tendency to vote themselves increases in current net income at the expense of long-term investment. Reasons for this attitudinal problem are varied, but perhaps lack of business experience is the single most important factor. The training component of this loan is designed in part to

educate members of cooperatives in business principles. Beyond that, thorough analyses of the benefits and costs of long-term investments, also to be financed under this loan, will provide solid information which can be used to convince cooperative members that long-term investments (deferred consumption) are in their own best interest.

2. GOP Agrarian Reform Program

The GOP Agrarian Reform program is an attempt to implement broad structural changes in the agricultural sector of Peru, changing the traditional land ownership patterns and thereby incorporating previously landless peasants into the economic and social life of the country. Prior to 1968 one percent of the land owners in Peru controlled approximately 95% of agricultural land (14 out of 15 million hectares of cultivable land). These large landholders used their collective economic influence to gain a substantial degree of political power which influenced previous political regimes against enacting any sort of effective reform in the agrarian sector. The rural population remained landless and thereby isolated from any real economic and social participation in society under this system. The Agrarian Reform law of 1969 has profoundly altered the former system, and seeks to effect a new distribution of power to those who work the land while the same time bringing about increases in agricultural production over the medium to long-run.

The Peruvian Agrarian Reform has been designed to encompass more than just redistribution of land to workers; it is also conceived as a long-range process in which the rural population will be accommodated in the socio-economic life of the country. A major problem facing Latin America is the assimilation of the rural poor whose condition has traditionally been one of economic insecurity. The Agrarian Reform seeks to provide security on the land by incorporating previously landless workers into the ownership structure of productive enterprises, and providing mechanisms for their building up equity in such enterprises.

Redistribution of land and the creation of worker-based associative enterprises has largely been accomplished in the first five years of the Agrarian Reform; these processes will be continued although the problem is now primarily one of uniting small uneconomic holdings, rather than breaking up latifundia. The chief

unresolved issue that remains is the introduction of capital into the process, to insure the economic viability of the new enterprises. Credit is essential in these new enterprises since, as yet, there is little capital accumulation.

At the outset, however, it should be made clear that the Agrarian Reform process has created unique credit needs given the special characteristics of the new worker-based associative enterprises. Bankers' credits have traditionally been based on providing a margin of security needed to insure the viability of the banking institution; i.e., project financing must be secured against the probable financial success of the project per se. In the case of the new enterprises created by the Agrarian Reform the notion of project potential over the long-run must be the criterion, and credit must be available to farmers for a variety of services during the short-run which may not in and of themselves lead to actual and immediate production increases but which are essential to long-run success. Such services include managerial assistance, training in production techniques, accounting services, etc. Under the present project, the MOA has agreed to assist in the provision of these services on a timely basis, and credits will be made available to CENTRALS for these and other services necessary to the long-run success of the new Agrarian Reform institutions.

These services are essential to the farmers' eventual success, but their magnitude is generally such that individual farmers or isolated associative enterprises cannot economically maintain them and therefore have no control over them. The Agrarian Reform process has therefore sought to make these services available to farmers through CENTRALS which serve a variety of both production enterprises and small farmers grouped into service cooperatives, with the knowledge that during the initial stages of operation many of the services must be highly subsidized. The effective application of this subsidy is done with an understanding of the realities of the Agrarian Reform process; i.e., the alternative would almost certainly be the failure of the new system.

The infusion of credits (including these GOP subsidies) is, however, insufficient if not linked to effective managerial assistance. The Agrarian Reform beneficiaries have almost exclusively been unskilled farm workers, unfamiliar with management practices, accounting procedures, crop techniques or long-range production planning. Given their previous economic insecurities, the new farmer-entrepreneurs are concerned with maximizing immediate economic gains instead of reinvesting their profits; they do not possess

managerial skills necessary to fully understand intricacies of accounting; they are frequently unfamiliar with technical facets of agriculture which could lead to increased production. The credits made available to farmers must thus be complemented by a comprehensive system of technical assistance to ensure that these credits accomplish their objective at the farm or enterprise level.

The Agrarian Reform program is one which recognizes that the complexities of the Peruvian agricultural situation require different types of organizations. For example, the sugar complexes along the coast, employing thousands and possessing sophisticated industrial facilities, utilize organizational models different from those used by marginal campesino communities; similarly the large livestock ranges in the sierra have been subject to different forms of organization than small-to-medium-sized multi-crop farms in the irrigated valleys. The Reform has also recognized the property rights of small farmers and worked to strengthen their output by providing commonly-needed services through service cooperatives. In general the Agrarian Reform searches for the most appropriate solution, one which reconciles social goals with economic realities.

a. Agrarian Reform Goals

The basic objective of the Agrarian Reform program is to effect a transfer of economic and political power in the Peruvian agricultural sector from the small landholding class to the mass of rural peasantry, thus creating a new rural society dominated by those who work the land. In order to reach this end a number of specific goals have been established, including the following:

(1) The eradication of the latifundium system through land expropriation and subsequent transfer of title to farmer organizations;

(2) Stimulating active participation of those farmers in the social, economic and political decision-making process in the agricultural sector and at national levels as well;

(3) Expanding income opportunities for these farmers;

(4) Providing for a rational ordering of productive^{*} units in order to maximize economies of scale and increase agricultural production; i.e., combining uneconomical small units.

The mechanisms established to effect these goals operate, presently, at three levels:

(1) The first-level associative enterprises such as production cooperatives and agrarian service cooperatives which provide services to small individual landholders, and other less important types. These associative enterprises will be more fully discussed in Section II.A.3.a. below).

(2) A second level provides for the grouping of associative enterprises into Cooperative federations or CENTRALS. Legislation passed in November 1969, provided for the creation of CENTRALS as organizations which would provide resources to fulfill needs which the individual associative enterprises are unable to meet given their limitations of size and scope of economic activity. (The functions of CENTRALS will be described below in II.A. 4).

* The maximum land size permitted individual farmers depends upon location, use and land characteristics (irrigated or non-irrigated, terrain, soil classification and properties).

Coast: maximum permitted for agricultural production is 150 hectares, but in practice is generally limited to 15 hectares on irrigated land. This may be increased to 200 hectares if certain conditions are met. Livestock farms using natural pastures can be up to 1,500 hectares normally, but may be increased to 4,000 if certain conditions are met.

Sierra: maximum hectares permitted in irrigated areas ranges from 15 to 55, depending on other land conditions; maximums in non-irrigated areas range from 30 - 110 has. For grazing land, individuals are permitted land sufficient to raise 5,000 sheep.

Jungle: maximums range from 1,000 to 1,500 hectares.

(3) Once the system of CENTRALS has been fully incorporated into the agricultural sector, the GOP anticipates that the economic and social justification will exist for grouping them into third-level Federations of CENTRALS. This could provide a basis for an integrated approach to sub-regional planning. The types of sub-regional planning models which are emerging will be discussed below in II.A.3.c.

b. Institutional Framework of Agrarian Reform

The Ministry of Agriculture (MOA) and SINAMOS (National System for the Support of Social Mobilization) are the two major institutions involved in the Agrarian Reform process. The MOA is charged with expropriation and adjudication of land as well as determination of the most appropriate type of new organization in each affected area; SINAMOS works in developing the first-level associative enterprises.

The specific nature of MOA and SINAMOS activities will be described below in Section II.B., Organizations Involved in the Project, and Section II.C.3, Project Implementation.

c. Status of Land Reform

By mid 1974, the Agrarian Reform had affected approximately 5.8 million hectares, and it is estimated that some 9.0 million hectares will be affected by the end of 1975 (out of an expected total of 11.9 million hectares once the process is completed).

An estimated 220,000 small farmers have been the direct beneficiaries of the Agrarian Reform. Estimating the average family size to be five persons, the Agrarian Reform has thus far affected approximately 1,100,000 persons or about 8% of Peru's total population and an estimated 20% of the rural population.

The total number of enterprises formed by the Agrarian Reform process has reached 814 of which 630 are production or service cooperatives, 120 are Indian communities and 64 are SAIS.

3. Organizational Steps in Agrarian Reform Process

The Agrarian Reform process in Peru comprises a series of discrete elements which join together logically at various levels. Diagram II.A.3(1) shows graphically how this process is

accomplished. The horizontal axis shows the types of pre-organization activities and organizations created during the process, and the vertical axis indicates the sequence in which the organizations come into existence. At the present time, some 814 first level organizations have been established and an estimated 1020 will be operating by the end of 1975. The second organizational level is that of the CENTRALS, which bring together three (the legal minimum) or more first level associative enterprises into a federation, providing them with services which they cannot provide themselves. At present there are 26 CENTRALS operating in Peru, serving 282 associative enterprises. The largest CENTRAL in Puno, has 26 associative enterprise members; the smallest have three. ANNEX V presents a detailed profile of four CENTRALS.

The third organization level foreseen by the GOP is a grouping of CENTRALS into higher level Federations of CENTRALS. At the present time the first of these, in Pasco, is being formed, and several others are being planned (Chinbote Micro-Region, etc.)

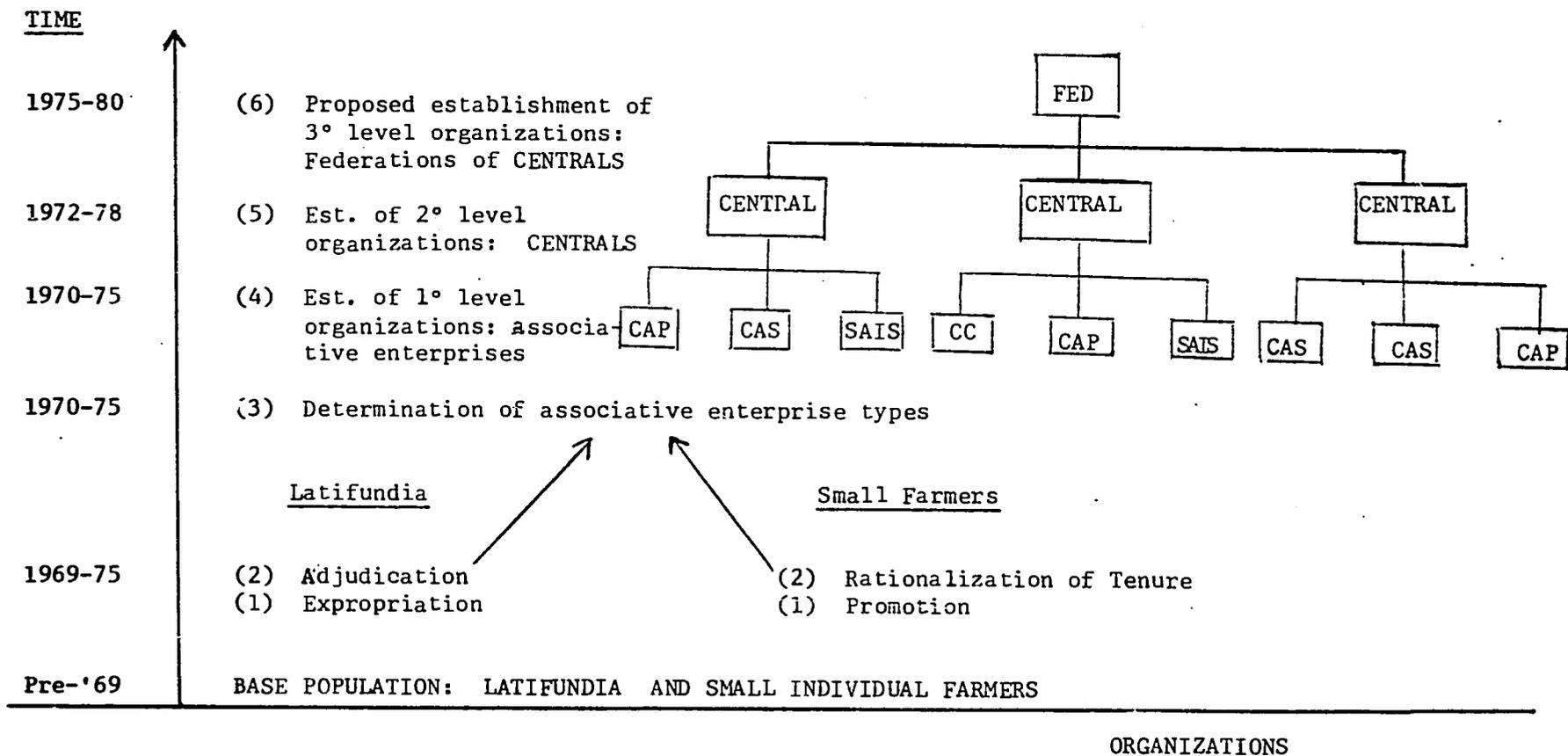
At the present time, the Agrarian Reform process is concentrating on the expansion and strengthening of first level organizations and the creation of second level CENTRALS. The proposed loan fits into the sequencing of the Agrarian Reform: first level associative enterprises are being formed at a rapid rate, and their future economic viability is dependent upon the creation of CENTRALS as intervention points for credit and technical assistance. In addition, the creation of an effective system of CENTRALS is a prerequisite to determining whether to establish a system of Federations of CENTRALS.

The three organizational levels of the Agrarian Reform are discussed below.

a. Associative Enterprises

Following expropriation and adjudication of land, the NOA and SINANOS both play important roles in the creation and support of first level organizations, the associative enterprises. SINANOS is specifically charged with the promotion of rural cooperatives in both those areas affected by Agrarian Reform expropriation and in those areas where small land holdings have not been affected; the NOA determines the type of associative enterprises which is most appropriate for expropriated lands. SINANOS approves the by-laws of these associative enterprises, thus giving them official recognition.

TABLE II.A.3(1) ORGANIZATIONAL STRUCTURE AND TIME SEQUENCING OF PERUVIAN AGRARIAN REFORM PROCESS



The associative enterprises form the base of the Agrarian Reform organizational pyramid, and it is at this stage where the bulk of GOP assistance (credit, technical advice, etc.) has been directed up to the present time. At present there are six basic types of associative enterprises. It is possible that new types will be created in the future, since the Agrarian Reform is a dynamic process which seeks to accommodate to local circumstances rather than creating rigid forms. A major purpose of the different associative enterprises is to organize the rural poor into economically viable groups. For this reason the bulk of large latifundia have not been broken up into individual parcels for distribution to workers, but rather maintained as indivisible production units. In other cases the associative enterprises provide a framework for common cultivation of land while allowing each farmer a small individual parcel for cultivating family crops or raising animals. In still other cases, all members retain individual property rights and pool their resources for group purchasing, marketing and other communal services. Still other types present a mixture of the above modes.

Generally speaking, all types of associative enterprises constitute governing powers in their members. A Board of Directors and a Supervisory Council are elected by the enterprises' General Assembly and the Board in turn appoints development, social welfare, planning and other types of committees. Membership in associative enterprises is open to all persons who have been and continue to be personally engaged in either farming or livestock development in those lands which have been transferred to the enterprise.

The six types of associative enterprises at present are: (1) Agrarian Production Cooperatives (CAP); (2) Agrarian Service Cooperatives (CAS); (3) Integrated Agrarian Parcel Cooperatives; (4) Agrarian Societies of Social Interest (SAIS); (5) Campesino Communities; and (6) Communal Cooperatives. These are discussed in detail below.

(1) Agrarian Production Cooperatives (CAPs)

The CAPs are the major type of production unit created by the Agrarian Reform. The bulk of highly productive latifundia (sugar, cotton, rice, etc.) along the coast have now been turned into CAPs, and in the sierra and jungle productive crop-producing farms have been adjudicated as CAPs. (generally, livestock ranches have been turned into SAIS, discussed below).

The major characteristics of the CAP system are that it is a community owned and managed, indivisible production unit, with common exploitation of land, installations, livestock, processing equipment, etc. The CAP is administered by a General Assembly, Administrative Council and a Supervisory Council. The major functions of the CAP are to:

- (a) Cultivate, process and market agricultural commodities;
- (b) Organize the work system of its members;
- (c) Provide goods and services to satisfy the basic needs of its member population;
- (d) Create and maintain adequate training programs for its members;
- (e) Establish wages;
- (f) Integrate their operations into higher level organizations or CENTRALS.

The CAP decides when to hire outside workers and when to expand its membership.

The CAPs, as all other beneficiaries of the Agrarian Reform, must pay the debt on the land; i.e., that amount which the Agrarian Reform authority has determined will be paid to ex-owners.^{1/} In most cases payments are scheduled to begin in December, 1975, with a twenty-year amortization period.

The economic viability of the CAPs is extremely varied. The sugar complexes along the coast have been the most successful, having highly sophisticated existing facilities,

^{1/} Ex-landowners are paid in bonds which bear interest rates of 4, 5, and 6% and mature in 20, 25, and 30 years. These can be converted to cash only for investments approved in the industrial sector and when augmented by an equal investment. Livestock are compensated in cash at a value set by the Agrarian Reform Commission.

trained personnel and an upward shift in sugar prices. Sugar complexes have their own CENTRAL, CECOAP, which will not be a participant in this project.

The bulk of the other CAPs in Peru, however, face major economic problems which prevent them from operating as effectively as the Agrarian Reform legislation anticipated. The major constraints include:

(a) In the majority of cases they have been organized as separate production units, thus limiting opportunities for achieving economies of scale;

(b) Rising costs of production (increased fertilizer costs etc.);

(c) The GOP requirement that 40% of the land must be used to cultivate basic foodstuffs, which have artificially low price controls, cuts into profitability of other, higher-priced commodities such as sugar, cotton, etc.;

(d) The need to repay the Agrarian Reform debt;

(e) Lack of working capital which would allow them to maintain adequate input stocks, keep machinery in good repair, etc.

(f) Dearth of managerial and technical skills which would allow for increasing production, experimentation, etc.

Given the problems outlined above, the growth of the CAPs is slow. The Project will serve to strengthen them by passing along benefits generated by economies of scale, thus hastening the development process.

(2) Agrarian Service Cooperatives (CAS)

The CAS are set up to facilitate the distribution of services to the agrarian sector, primarily to small farmers who still retain title to their land. These services include one or more of the following:

(a) Group purchasing of agricultural inputs such as fertilizers, insecticides, seeds, machinery, etc.;

(b) Organization and maintenance of a marketing system for members' production;

(c) Provision of new infrastructure, such as roads, electrical power lines, or water systems, which have a direct bearing on agricultural production;

(d) Establishment of training centers to disseminate new agricultural technology;

(e) Rationalize the use of existing scarce resources, such as water and land, in order to achieve maximum efficiency;

(f) Install and operate industrial facilities which treat members' production.

In practice, few CAS perform more than group purchasing and limited marketing services, for essentially the same reasons outlined above in the case of the CAPs. The problem of the CAS, however, is probably even more critical. The majority of members are individual farmers working plots of land averaging 1/2 to 15 has.; production methods are generally primitive and farmers have limited access to technical assistance which has focused on increasing production in the CAPs; overall profitability is minimal so the individual member cannot effectively support the CAS. The CAS then cannot provide the services it was created to provide, and the vicious circular reasoning is complete.

(3) Integrated Parcel Agrarian Cooperatives (CAIP)

The CAIPs are generally a mixed system of communal land exploitation and small individual parcels (though a CAIP may - in fact is encouraged to - integrate all of its land into communal property). The rationale is to group small, relatively unproductive parcels located within a concentrated geographic area into larger farms, allowing economies of scale to enter into play. The CAIP is charged with the following functions:

(a) Cultivation, production, industrialization and marketing of crops;

(b) Organizing work systems within its jurisdiction;

(c) Providing goods and services to its members;

(d) Creating and maintaining training centers.

In practice, the functions of the CAIP have been limited, for much the same reasons given above in the cases of the CAPs and the CAS.

(4) Agrarian Societies of Social Interest (SAIS)

SAIS are larger-scale economic organizations which may include a variety of organizations and individuals as members. Cooperatives, indigenous communities and small farmers may thus be incorporated into one SAIS. The basic goal of the SAIS is to reduce socio-economic disparities among various rural groups in a given geographic area and to act as an income-redistribution means in these areas, integrating rich and poor lands into one economic unit where all would benefit equally, with the basis for development usually a large livestock ranch. The SAIS are primarily located in the "sierra" or "altiplano" areas.

All property rights are vested in the SAIS as a juridical entity.

In general the SAIS have fared somewhat better than the CAPs, CAS or CAIPs, given the strong economic base of the productive enterprises. In fact, many of these SAIS may well evolve into CENTRALS as the process matures.

(5) Campesino Communities (CC)

The CCs were constituted over the base of Indian Communities recognized prior to 1968, including new lands ceded to them under the 1969 Agrarian Reform Law. They are organized for communal exploitation of land, forests and livestock. Each member may retain individual ownership of no more than one-quarter hectare. Through a majority vote of community members, CCs may form a CAP or join a CAS; furthermore they may be incorporated into a SAIS.

(6) Communal Cooperatives

Communal Cooperatives are essentially the same as Campesino Communities, except that the base population are not members of recognized Indian Communities but rather small private landholders.

4. CENTRALS :
a. Role

The eventual success of the Agrarian Reform in Perú is very much dependent upon the GOP's ability to provide a series of essential services to the new beneficiaries, the majority of whom were previously unskilled workers on large privately-owned estates or farmers working small individual plots in virtual isolation from modern agricultural technologies. Turning these unskilled workers into managers and entrepreneurs capable of increasing land productivity in Perú at a time when it faces a serious food deficit requires not only significant investment on the part of the Government, but also the adoption of socio-economic policies which will stimulate the effective involvement of farmers in the entire process of change. The services which the GOP must provide include the following:

- technical assistance in farm management, crop selection and cultivation, marketing, etc., to insure optimal on-farm returns;
- preferential credit terms and assistance in the use of credit;
- assistance in financial management, accounting and auditing;
- assistance in determining the potential for crop diversification, small linkage industries and agro-industrial possibilities, and both technical and financial assistance in realizing some of these possibilities.

Through the MOA Agrarian Zones, staffed with extension agents and technicians, the government has attempted to provide these services to the individual production and service cooperatives, but available resources -- both in terms of financing and qualified field technicians-- have simply not been sufficient to reach the universe of first level associative enterprises. In order to achieve maximum benefit from available resources, the GOP has determined that CENTRALS,

which group three or more first level associative enterprises (such as production or service cooperatives), are the logical intervention point through which services and assistance will be channelled. The logic is the irrefutable one of economies of scale in the system of delivery of scarce technical and financial resources. The GOP is so convinced of the need for achieving this consolidation that legislation which will make it mandatory for associative enterprises to form CENTRAL federations is under serious consideration.

There are, as well, social reasons for the GOP's giving top priority to the development of CENTRALS. The majority of agrarian cooperatives in Perú contain neither a sufficient population nor adequate resources to warrant government expenses in providing adult educational facilities, rural health centers, child care centers, etc. The CENTRAL, by grouping together these smaller units, will increasingly be the institutional focus of such social benefits and services.

The proposed Project in support of CENTRALS will serve as both a reinforcement and stimulus to the on-going GOP program of CENTRAL development, in the following manner:

- It will provide up to one million dollars for the preparation of detailed CENTRAL Development Plans for approximately 20 CENTRALS, which up to now have proceeded on a somewhat haphazard course of development;
- it will provide credit from a newly-created CENTRAL Development Fund to be located in the Agricultural Development Bank (BFA), to implement essential aspects of the CENTRAL Development Plans;
- it will provide for increased technical assistance to the CENTRALS to help insure that investments actually made under the Program reach their full economic potential.

It must be emphasized that the proposed Loan will not create CENTRALS, but rather provide the financial and technical vehicles through which they may reach substantially higher degree of economic and financial success. At the present time, the majority of CENTRALS operating in Perú are facing various types of problems, but it is felt that these problems are precisely those which can be solved given the type of new resources and focus of interest which the proposed Project will provide.

b. Scope of CENTRALS

The scope of each CENTRAL in the future will depend on the extent to which the GOP is able to provide it with technical and financial resources, as well as the internal organization and operations of the member agricultural cooperatives. The ability of each CENTRAL to achieve its optimal potential is thus dependent upon the administrative, technical and financial capacity of GOP institutions which deal with the agricultural sectors. The present Project is designed to better channel these capacities, so that CENTRAL development will occur.

In some cases it may be that the CENTRAL will be limited to very basic functions, such as the purchasing of agro-inputs and/or the marketing of member associative enterprise production. In other cases, the CENTRAL will perform a wide variety of commercial and industrial functions proven to be administratively and financially feasible. At the present time there is a wide variance among CENTRALS with regard to their actual capacity. Some CENTRALS are obviously overextended in terms of the services which they are trying to extend to members, while others could quite easily expand upon their functions in an economically feasible way. In the case of the former situation, we might cite the example of the Huallaga CENTRAL (See Annex V of the Capital Development Paper), which has received substantial assistance from the West German government. This CENTRAL has developed an agro-industrial complex with a value of over one half million dollars, and employs approximately 30 people. Despite this impressive infrastructure, however, the Huallaga CENTRAL has suffered severe financial difficulties, and the greater part of the industrial facilities are currently not being used. The reasons cited for the Huallaga CENTRAL's problems include: (1) inadequate initial planning which would provide a rational basis for development; (2) inadequate technical support for the management of the industrial facilities; and (3) inadequate management for the number of functions which the CENTRAL has assumed.

In the latter case, that of a CENTRAL which has not expanded to its potential, we may cite the case of the Te Huyro CENTRAL. This CENTRAL could feasibly absorb new functions, complementing those which are currently offered to its associative enterprises members. At the present time this CENTRAL serves only as a central marketing agency for member production, with some assistance in accounting services and crop planning as it relates to the production of tea. Although there is some feeling both on the part of the CENTRAL and several of its associative enterprises that the CENTRAL "could" profitably and feasibly expand its operations, the lack of a more specific and technically conceived development plan as well as lack of credit sources have made it difficult for the CENTRAL to proceed with expansion.

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c. DEVELOPMENT PLANS

Under the Project, it is anticipated that Development Plans will be prepared for 20 CENTRALS. Four CENTRALS will be analyzed the first year of the Project, six in the second year and ten in the third year.

It is expected that private consultants will be utilized during the life of the Project, in the elaboration of some or all of the Development Plans, and in the preparation of pre-feasibility and feasibility studies for specific sub-projects recommended in the Development Plans. Annex VIII lists a representative sample of private consultants which have the capabilities to carry out such studies.

(1.) Terms of Reference

The Terms of Reference for the CENTRAL Development plans will be elaborated by the three cooperating entities (MOA, MOF, and BFA), with the primary responsibility resting with the Division of Campesino Businesses of the MOA. The Terms of Reference, which will be approved by the CENCOM^{1/} will set out the general guidelines under which the CENTRAL Development Plans will be elaborated. Generally, such Terms of Reference will include (but not be limited to) the following obligations on the part of the entity preparing the CENTRAL Development Plan:

- Establishment of a time-frame in which the CENTRAL can expect to achieve the primary objectives of self-sustenance, including a critical path of investments;
- Determination of overall investments required to achieve such self-sustenance whether or not these investments will be made under the present Project (i.e. Fixed Asset Project Investments which might use IBRD or other funds);
- An analysis of existing cropping patterns, costs and yields per crop per hectare; determination of alternate cropping patterns and input requirements, with costs and yields per crop per hectare;
- A comprehensive analysis of the manpower requirements both at the level of the CENTRAL and its associative enterprises costed out over time;
- An analysis of the existing services offered by the CENTRAL with a plan for their improvement and/or expansion, costed out over time;

^{1/} CENCOM is the Interministerial CENTRAL Committee which will be formed with representatives named by the Ministry of Agriculture, Ministry of Food and the Agricultural Development Bank.

--An analysis of the actual marketing system used by the associative enterprises and the CENTRAL, with a plan for future operations.

Prototype Development Plan

In order to demonstrate the basic features of a CENTRAL Development Plan, the CENTRAL de Cooperativas Santa-Lacramarca was studied in detail, and a prototype Development Plan constructed for a period of five years, after which the CENTRAL should achieve the overall goal of financial self-sufficiency. Annex VI

d. Managerial Capability of CENTRALS

An obvious constraint to the development of both overall CENTRAL administration and specific service and project expansion within the CENTRALS is that of managerial capability.

At the present time the bulk of CENTRALS lack sufficient managerial talent to adequately manage current operations, much less expand on these operations to the point where the CENTRAL would become a viable economic institution. A survey conducted by the MOA of the 26 existing CENTRALS in Peru showed that only 12 CENTRALS currently have General Managers who are sufficiently qualified to manage an on-going business operation (ten are agronomists, one is a certified public accountant and the other has a degree in Business Administration), while the others have sporadic and generally deficient management.

The same situation occurs with regard to qualified accountants. Only a few CENTRALS have a full-time accountant, while the majority rely on intermittent assistance from contracted companies which are located in Lima.

The basic problem is the current lack of financial resources to contract qualified personnel. A Business Administration graduate with five years of practical experience can command a salary of about \$450 a month in Lima; a qualified agronomist can generally find employment in Lima or a provincial capital at a salary of about \$400 a month; an experienced accountant can earn upwards of \$600 in Lima. The CENTRALS, as presently capitalized, simply cannot compete with these salaries. Without such personnel the CENTRAL cannot expand into new income-generating activities, thus a vicious circle occurs.^{1/}

Under the present Project, CENTRALS will be eligible to receive working capital loans which may be used to finance salaries of personnel, if recommended in the Development Plan. The Plan will clearly spell out the CENTRALS' manpower requirements over a specified period of time, indicating at what point the CENTRAL should be capable of completely paying its staff out of current earnings.

If salaries are made competitive, USAID sees no major problem in staffing the CENTRALS aided under this Project with competent personnel.

CENCIRA is currently training persons in precisely those fields needed by CENTRALS --overall agro-industry management, accounting, and cooperativism.

1/

See discussion of working capital on p. 66.

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5. Regional Development Strategies

The development and support of CENTRALS of Cooperatives is seen as an intermediate step in the eventual formulation of broader-based regional development plans in rural areas of Peru. Regional strategies are being carried out on the "building block" principle discussed above in Section I.A.3, steps in the Agrarian Reform. Once the first level associative enterprises are established, they are grouped into Integrated Agricultural Settlement Projects, or PIARs. The CENTRAL is the institution apparatus at the level of the PIAR. The grouping of lands into a PIAR is designed to achieve several goals:

- Provide for complementary production and marketing patterns among relatively homogenous first level units. While there are substantial differences in crop patterns, livestock, etc. among the associative enterprises composing a PIAR, there are underlying unities which make association mutually beneficial.

- The PIAR also attempts to integrate the most marginally productive units into a more sound economic unit. Many of the Campesino Communities and a number of CAPs and CAS possess few resources - either land or management - and their economic viability in isolation would be doubtful.

Once the economic viability of the CENTRAL has been established, it is possible that the GOP will expand on the concept to create higher level organizations, Federations of CENTRALS, which will serve as regional development associations. A number of different strategies are currently being considered. In some cases such Federations may be designed as Integrated Development Plan organizations (PIDs) such as that established by ORDEZA which will serve as a coordinating entity for four CENTRALS: Santa-Lacramarca, Nepeña, Casma-Sechin, and Huarmey-Culebras. It is likely that such regional strategies will become operative in the period 1975 to 1980.

Federations of CENTRALS (or PIDs) might have the following functions:

- Development of large-scale agro-industries which require substantial inputs and which would not be viable at the CENTRAL level. These might include a slaughterhouse or meat-packing plant, an evaporated milk factory, or types of food processing facilities requiring large initial investments and substantial recuperation periods.

- Financing certain infrastructure facilities which would not be feasible at the CENTRAL level, such as a regional rural hospital, or a technical college.

The GOP's reasons for developing regional strategies are two: (1) to allow for absolute increases in costs and new industries and (2) to effect redistribution of income to reduce rural income disparities which have occurred in the past in Peru. Development of the CENTRALS is a vital step in the achievement of these two goals.

6. Financing Agrarian Reform Organizations

Decree Law 240-69 regulates those articles of the Cooperative Law (15260) which govern both agricultural production cooperatives and CENTRALS, and sets forth the manner in which they are capitalized. A similar relationship exists between (1) farmers and associative enterprises and (2) associative enterprises and CENTRALS. In each case the members have the obligation to contribute to the capitalization of the organization.

In both associative enterprises and CENTRALS income from operations are expected to cover costs and support the capitalization of the organization, with any excess over that distributed among the members. The method for determining deductions and profit distribution is given in the following formula:

a. Gross Profit*

Less:

(A) Taxes

(B) Ag. Reform debt amortization

equals:

b. Net Profit

Less:

(A) Mandatory Reserves

(B) Interest on Shares

equals:

* Gross profits, in the case of CENTRALS, may include the income generated from a variety of services or industrial activities, such as:

- Profits on the resale of associative enterprises of volume purchased agro-inputs such as seeds, fertilizers, insecticides;
- Retained percentage on sales in the case where the CENTRAL market members' production;
- Surcharges on other services, such as accounting;
- Profits from processing agricultural production (tea processing, rice milling, etc.).

c. Distributable Profit

Less:

- (A) Mandatory capitalization (minimum 2% of III)
- (B) Distribution, in cash, to members (on basis of work performed)

The economic resources of both the associative enterprises and CENTRALS comprise the following items:

(1) Social Capital

The Social Capital is composed of the following:

- Original shares purchased or pledged by the members. The organization's by-laws establish the face value of each share and generally indicates the number of initial shares which must be purchased. (The associative enterprise or CENTRAL pays an annual interest, which cannot exceed 2% on these shares)

- The General Assembly of each organization decides that portion of distributable profit (See III (A) above, Mandatory Capitalization) which should be capitalized. The law established that 2% of distributable profit must be capitalized, but this may be more. This amount, when capitalized, increases the number of shares held by the members.

- Subsidies, donations, or legacies given outright to the organization.

(2). Bonds

Which may be issued by the organization.

(3). Loans

(4). Mandatory Reserves *

(See II.A. above). There are five Reserve Funds set up in each associative enterprise and CENTRAL to finance various activities. Each year members are required to set aside at least 4% but not more than 70% of Net Profits in the following minimum percentages:

* for subloans made under Central Development Fund, the GOP will ensure that reserve requirements for Centrals are applied and enforced.

- (1) Reserve Fund (operational reserves for bad debts, social security payments, etc.) - 10%
- (2) Education Fund - 5%
- (3) Social Welfare Fund - 10%
- (4) Investment Fund - 15%
- (5) Cooperative Development Fund - 5%

7. Other Assistance Programs in the Agricultural Sector

a. USAID Grant Assistance in Agricultural Sector Analysis and Planning (TA Project #527-11-110-060)

The major purpose of this project is to assist the MOA in institutionalizing an improved medium and long-range planning capability. Long-term economic advisors under contract with Iowa State University are assisting Peruvian technicians and economists to conduct studies of problem areas and advising on the evaluation of priority development projects within key sub-sectors of the agricultural economy. It is expected that the studies will contribute to solution of current problems as well as contribute to an agricultural sector analysis which should be completed by the time the project ends.

The following broad programs compose the Ministry of Agriculture's 1973-1974 development plan:

- (1) Agrarian Reform,
- (2) water resources development,
- (3) development of the food marketing system,
- (4) improving the sectoral planning process,
- (5) improving the information base,
- (6) agricultural research,
- (7) forestry resources development,
- (8) agricultural credit and technical assistance in production,
- (9) human nutrition,
- (10) livestock development.

The A.I.D. - financed economic advisors are assisting the MOA to develop various aspects of the first seven of the above programs.

Two A.I.D. - financed economic advisors are assigned to CENCIRA, the training arm of the Agrarian Reform Directorate of the MOA to assist in training managers of the newly-formed associative enterprises.

Water (#2) is an extremely limiting resource in Peruvian agriculture. One A.I.D. - financed economic advisor is assisting the Directorate of Waters to develop a rational, nation-wide system of water charges and is advising them on a wide range of problems related to project evaluation.

U.S. technical assistance in marketing (#3) consists of one economic advisor assigned to the Directorate of Production to advise on analyses of price policy and market structure problems.

The planning process (#4 and #5) is inhibited by inadequate information and lack of a workable methodological framework. An A.I.D. financed macro-economist and a statistician are advising the Sectoral Planning Office and the Agricultural Statistics Office, respectively, on planning methodology and statistical design.

Productivity of resources depends on continued research (#6) designed to adapt modern technology to Peruvian conditions. U.S. assistance in this area is limited to one production economist who is advising the MOA Directorate of Research on analyses of production functions, which will guide agricultural scientists in the selection of research projects having a high probability of economic payoff.

Reforestation of mountain areas (#7) complements agricultural development by providing alternative uses for marginal land, increasing the carrying capacity of pasture lands, and providing short-run employment for surplus unskilled labor in rural areas. One A.I.D.-financed economist is advising the Directorate of Forestry and Hunting on selection of economically viable reforestation projects for the high-mountain regions.

The remaining three priority development areas are affected indirectly by USAID Technical Assistance projects. Credit and technical assistance in production (#8) are already being provided, in part through A.I.D. loan programs, for the associative enterprises formed under the Agrarian Reform. The ISU economists assigned to the Agrarian Reform program are indirectly assisting in the development of production credit programs and have impact on programs for transferring new agricultural technology to producers. Possible technical assistance to be provided by USAID in human nutrition (#9) is currently being discussed with the Sectoral Planning Office of MOA (OSPA). Short-term technicians financed by A.I.D. are programmed to assist the livestock development program (#10). Other donors, primarily FAO, are also providing assistance in the livestock area, including animal health, nutrition and the livestock processing industries.

b. Development Loans for Agriculture

1) Supervised Agricultural Credit Program (Loans 527-L-047, -054 and -056).

Three separate loans have as their purpose the establishment of a fund to assist small and medium-sized farmers to improve their productivity, and repairing damage of equipment and buildings caused by the earthquake of May 31, 1970 and the flood of March 1972. Total U.S. resources are \$17,679,670 with an additional GOP contribution equivalent to \$11,280,000.

2) Community Development and Reconstruction Loan (527-L-052)

The purpose of loan 052 is to finance development and reconstruction activities on a self-help basis in the rural areas of Peru affected by the earthquake of May 31, 1970. A major portion of the \$3,000,000 amount is for financing materials, equipment and other costs incident to implementing self-help community projects in housing, small industry, agriculture, and community infrastructure.

A unique feature of the loan is the use of multidisciplinary micro-planning teams to diagnose problems, develop project plans, and advise on implementation of projects. The teams locate in a community for four to six weeks, providing a close-up review of resource availability and development potential.

Approximately \$1,100,000 has been committed under the loan for community projects including swine and turkey production, a milk processing plant, sheep and alpaca production and other income producing activities. Viable projects have been identified and implemented and the micro-planning team approach seems to be an effective mechanism for development planning at the community level. Current TCD and TDD deadlines are expected to be met.

3) Private Investment Fund (527-L-051)

The primary purpose of loan 051 is to finance development of facilities for processing, transformation and preservation of agricultural products in the private sector. Other purposes are development of the agricultural service industry, and financing the production of raw materials for export.

A rotating fund of \$15 million has been established with equal U.S. and GOP contributions. Six percent has been disbursed thus far, primarily to finance equipment and inventories for expansion of private agricultural processing enterprises. A Mission review of the project in November, 1974, concluded that there is a reasonable chance that the 18 month 50% target commitment can be met. Two projects totaling \$4.2 million are scheduled for approval in January, and three others totaling \$5.0 million should be approved prior to the October 15, 1975 deadline.

4) Rural Enterprise Development (527-L-057)

This loan (057) for financing the development of rural enterprises (U.S. \$10 million) was recently signed. Its purpose is to provide credit on concessional terms, with a liberal amount of technical assistance to (1) small enterprises in rural areas which have not generally had access to credit on reasonable terms and (2) community and cooperative enterprises that are in early stages of development and, therefore, require liberal amounts of technical assistance. Sub-loans will be made available to rural enterprises in the Departments of Ancash, Cuzco, and Puno, areas that are among the most economically depressed in Peru. If successful in these Departments, sub-loans will also be made available in Junin and Ayacucho. The loan project is modeled after loan 052 (discussed above), whose innovative design led to a highly significant development impact.

c. Other Donor's Assistance in Agriculture

1) Technical Assistance

According to the most recent GOP report available, the

National Planning Institute (INP) reported that, in 1972, foreign grant technical assistance amounted to \$22 million and that slightly over 45% of this amount was channeled into the Agriculture Sector.

Livestock

Much of this technical assistance is directed to livestock production and marketing of livestock production. The FAO signed a 5-year agreement with the GOP in 1972 to continue assistance for improving Peru's capacity to cope with animal health problems. Thus, FAO is providing assistance in a major problem area not covered by proposed A.I.D. technical assistance. Their major efforts are focused in the sierra and jungle areas. Additionally, FAO is participating in agro-industrial research which includes improving the production of commercial livestock feeds.

The GOP with the assistance of West Germany has developed an integrated milk plant and livestock breeding center that serves as a demonstration of a production, marketing and processing center for development of the milk industry. (This is also a five-year project and will probably be extended.)

2) Additional Credit Sources

There are presently two additional sources of credit which are complementary to the purposes of the project. The first of these is the supervised agricultural credit program administered by the BFA. Under this program \$7.3 million remains available, of which \$2.4 million represents reflows from A.I.D. Loan 047, \$4.0 million from GOP funds budgeted as counterpart to 047, and \$0.9 million in reflows from IDB Loan 85. This program makes short-term production credits available to individual or organized farmers on concessional terms for purchase of required agricultural inputs. The IDB credits are directed especially to campesino communities, as those Agrarian Reform clients which do not have as much access to other credit sources as other associative enterprises. These funds are collectively administered by a Trust Fund Council, which is not currently functioning, awaiting designation of representatives from the newly-reorganized Ministries of Agriculture and Food.

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A second additional complementary source of credit is IBRD Loan 933, signed in September 1973, for \$25 million, with a GOP counterpart contribution of \$8.34 million. This credit fund is also administered by the BFA, and comprises medium and long-term credits. These credits are available to service and production cooperatives (CAS and CAPs), CENTRALS, and to small and medium farmers, and may be used for three types of farm investments: (1) investments in production of non-major food crops (especially fruits), which may include costs of required on-farm improvements, machinery and equipment, and agricultural inputs, (2) investments in livestock development, including purchase of animals and construction of facilities, and (3) investments in farm rehabilitation measures, including wells, river-defense and drainage works, machinery purchases, and construction of agro-industry. The sub-loans have a minimum maturity of 5 years; depending on the type of sub-loan, maximum maturities range from 8 to 15 years, grace period from 2 to 7 years, and interest rates from 9 - 13%. There is no limit to the size of the loan; however, each sub-borrower must contribute at least 20% of the value of the sub-project.

Of the total of \$29,743,153 (IBRD and GOP contributions), \$24,862,866 (or 83.6%) remains uncommitted. Of sub-projects implemented through April 30, 1975, credits have been allocated as follows:

<u>Sub-Borrower</u>	<u>Type of Sub-Loan</u>	<u>Amount of Credit</u>
Cooperatives	Farm Rehabilitation	\$2,712,770
	Fruit Plantations	60,535
	Livestock	95,436
	Agro-industry	478,100
	Sub-total	\$3,346,841
Individual Farmers	Farm Rehabilitation	\$2,680,959
	Fruit Plantations	133,472
	Livestock	1,131,858
	Sub-total	\$1,533,426
	TOTAL	\$4,880,267

No sub-loans have been extended to CENTRALS, although a sub-loan application for \$437,989 submitted by the Pasco CENTRAL for investment in livestock is currently under study. Even this sub-loan, however, is not strictly speaking directed to the CENTRAL; the CENTRAL will only administer the credit, making second-step sub-loans to their member enterprises.

According to the BFA, this program has been moving slowly owing in part to several technical aspects of the loan design. First, the required 20% sub-borrower equity participation is a considerable financial burden for many of the associative enterprises, which are already burdened with competing financial obligations, including the payment of the Agrarian Reform debt and the increased demand for cash payments to members. The 20% requirement is even more difficult for CENTRALS, since they are not independently capitalized but must depend on contributions from their member organizations for finance capital. Second, the 5-year minimum maturity of a sub-loan has, in the opinion of the BFA, limited demand for the credits since many projects will pay for themselves in less time. Third, the maximum permitted grace periods for some types of sub-loans (e.g., 2 years for pig and chicken farms and on-farm rehabilitation sub-projects), are considered by the BFA to be too short a period given the financial status of the program's prospective clients. (Under the proposed A.I.D. Loan Project, both grace and repayment periods will be determined in the feasibility studies).

While these technical elements of the IBRD loan program may account partially for the slow rate of commitment of funds, Ministry and Bank officials believe that a more important reason is the lack

of provision under the loan for technical assistance to sub-borrowers and financing for professional services in sub-projects. They consider such assistance and services to be particularly important in medium and long-term investments. Consequently, the credits under the program are most valuable to those enterprises which either have sufficient managerial and technical talent within their staff to provide required planning services, or can finance such services from their own resources. Indeed, one of the conditions of the sub-loans under this program is that the sub-borrower exhibit efficient business organization and managerial capacity. Thus, the beneficiaries under this loan are those more sophisticated associated enterprises and those few CENTRALS which have achieved an advanced degree of administrative development and managerial skill and which can finance from their own resources the technical assistance which may be needed to plan and implement the proposed sub-project. As there are few such enterprises which can meet such conditions, the demand for credits under this program is limited.

Experience under IDB Loan 322, signed in June, 1972, for an amount of \$12 million with a GOP contribution of \$14.5 million, further demonstrates the importance of providing technical assistance in a credit program directed to the new agrarian enterprises. This loan created a program of integrated agricultural credit under which short and long-term sub-loans were made at 9% interest to CAPS, SAIS', and Provisional Administrative Commissions (pre-CAPS) to finance investment and working capital for integrated sub-projects to increase agricultural and livestock production. The program provided credit and technical assistance in all phases of sub-project development, including a diagnostic study, market and commercial study, technical and economic analysis, production plan, investment plan, and financial and economic evaluation. Specialized teams of technicians from the BFA, the MOA, and SINAMOS were established to develop each sub-project, and to provide the necessary technical assistance in sub-project implementation. These funds have been fully committed to 71 sub-projects, and disbursements are expected to be completed by 1976. The BFA considers that there is a significant unmet demand for credits and TA under this program, and will be presenting a proposal for a "repeater" loan to IDB in August or September of this year. (The IDB is currently reviewing the feasibility of a loan program directed to PID's [Integrated Development Projects] the third-level agrarian structure grouping together CENTRALS. This review is in the "idea" stage, and the IDB estimates that such a loan would not be realized for at least two more years, or CY 1977 at the earliest).

The Mission considers that there is no duplication among these available and potential sources of credit from other donor agencies, given the differences among eligible beneficiaries and amount and

kinds of technical assistance provided. While the proposed IDB "repeater" loan meets some of the technical assistance needs which will be provided for under the proposed A.I.D. Loan, its funds are not available to CENTRALS. The IBRD Loan is the only source of credit for CENTRALS (the BFA has no regular credit line open to CENTRALS); however, the availability of this credit is effectively limited to those few CENTRALS which possess sufficient managerial, planning, and technical resources to develop and execute a sub-project without outside assistance.

The proposed A.I.D. Loan to CENTRALS, on the other hand, by providing TA for drawing up CENTRAL development plans and strengthening managerial capacity, will be directed at those less advanced CENTRALS which represent the poorer segments of the rural sector and which do not have effective access to credit from any source. Indeed, by strengthening the administrative capacity of such CENTRALS, the Loan should stimulate effective demand for credit which heretofore has been unarticulated. In this regard the A.I.D. Loan has the potential of facilitating the commitment of funds under the IBRD program as well as other sources of agricultural credit which may become available in the future.

To the extent that the A.I.D. Loan to CENTRALS will finance investments in member associative enterprises as appropriate in the context of the CENTRAL development plans, there does exist a potential for duplication with the IBRD loan and proposed IDB "repeater" loan. However, all these credit programs are managed within a single department of the BFA, which maintains a master list of credits received by each associative enterprise. Prior to approving a sub-loan to a given associative enterprise, the BFA personnel consult this list to avoid duplication and debt accumulation by any one enterprise. The use of this system assures a distribution of available credit among the associative enterprises, while the concentration of administrative responsibility for all such programs in one single department of the BFA provides the central focus to direct credit needs and demands of enterprises to those programs which can best fulfill them.

(3) Irrigation

During the 1973-1974 period a considerable amount of investment was planned that will improve or add over 412,000 hectares of irrigated land. A substantial portion of this investment in irrigation will be financed with foreign capital.

The areas which will benefit from this planned investment in irrigation follow:

a) Tinajones (in the Chancay Valley north of Lima)

Irrigation of 96,000 hectares, with a total project cost of \$142.1 million. During the 1973-1974 period Germany will finance \$7.2 million and the GOP will contribute \$9.9 million.

b) Chira-Piura

Yugoslavia (65%) and the GOP (35%) are providing \$52 million and \$28 million respectively for the first stage of a project which will improve the irrigation on 115,000 hectares and place an additional 35,000 hectares under cultivation. It is estimated that production of agricultural products in this area will increase by nearly \$70,000,000 as a result of this input.

c) Majes-Sihuas

A project totalling \$348.8 million will add 60,000 hectares of agricultural land in the Department of Arequipa. It is planned that by the end of 1974, investment in this project will have

reached \$20.7 million, External financing of \$126 million for the first stage of the project has been obtained from a consortium of lenders including banks from Canada, Sweden, Spain, South Africa and the United Kingdom.

d) Zaña

This project will improve the irrigation on 55,000 hectares and bring 15,000 hectares under cultivation. The total cost of the project is estimated at \$60 million, with \$36 million of external financing required. A West German firm has completed the feasibility studies and discussions have taken place between the GOP and other West German firms for the possible construction and financing of the project.

e) Various Small and Medium Size Projects

Seventeen projects over a wide geographic area will provide 43,000 newly irrigated hectares and improve the irrigation on 17,000 hectares at a total cost of \$38.8 million. The GOP is interested in obtaining initial IDB financing of \$11.1 million with a GOP contribution of about \$5.0 million. USAID is also discussing a possible FY-76 loan which would be focused on small-scale irrigation projects in the mountain regions.

f) Olmos

A combined irrigation and hydroelectric project is expected to make available an additional 111,000 hectares and provide up to 520,000 Kw of electric power. Current negotiations with Russia offer good prospects for outside financing for part of this project. The total project cost is estimated to be \$387.6 million.

Colonization

In addition to the irrigation projects, three colonization projects are being developed which will relocate approximately 10,000 families as follows:

a) Alto Marañón

2,000 families will be relocated on 65,000 hectares in the northern jungle bordering on Ecuador at a total cost of \$7 million.

b) Tingo María - Campanilla

The goal is to settle 5,000 families on 130,000 hectares of jungle land at a cost of \$36.2 million. The IDB is being asked to provide \$1.8 million and the GOP will provide \$3.2 million for the 1973-1974 period.

c) Huallaga, Chiriyacu and Nieva River Basins

The goal is to colonize 50,000 hectares at a total cost of \$4.0 million. Two livestock projects are also being developed. The first will attempt to develop 50,000 hectares of jungle pasture land which is expected to carry about 100,000 cattle. While the total project cost will exceed \$77.5 million, it is expected that a GOP investment of \$2.8 million in the 1973-1974 period will develop an area capable of supporting 12,000 cattle. The second livestock development plan will provide 15,000 imported cattle breeding stock at a cost of \$2.8 million. The GOP has already imported 31,600 cattle (30,000 cows and 1,600 bulls) to improve breeds in the northern areas of the country. The project will eventually total \$10.3.

d. The Relationship Between the Present Loan Project and Other Assistance Projects

The technical assistance projects described in section "a" and "c" above, are generally supportive of the Project. They help to provide the analysis required to define sectoral problems and to identify programs required to solve these problems. Thus, the technical assistance projects will support the implementation of this Project, largely by improving the analytical base required for selection of viable sub-loan projects and assisting in the training of managers of the developing enterprises.

Capital assistance projects described in sections "b" and "c", above, address a wide range of critical sectoral problems. Most of the projects are aimed in varying degrees at developing the productive capacity of the reformed farm units. None of the projects focus on the development of "second-level" federations of associative enterprises. Thus, the present Loan Project fills an important gap in Peru's development program for the agricultural sector.

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B. Organizations Involved in the Project

1. Executing Agencies and Other Participating Entities

a. Executing Agencies

The administrative structure for implementation will consist of an Interministerial Committee on Centrals (CENCOM) which will be created through a joint agreement among the BFA, MOF, and MOA. This agreement will be formalized by a Supreme Decree. The Agricultural Development Bank will manage the Central Development Fund.

1) Banco de Fomento Agropecuario (BFA)

a) History and Responsibilities. The BFA is a government owned development bank, established by Decree Law 72/73 of August 16, 1931, charged with responsibility to develop agricultural production by providing financial resources to farming and livestock activities. It has an authorized capital of S/.10 billion, with a current paid-in capital of S/.2.5 billion.

The BFA is authorized to carry out credit, technical assistance and marketing and commercial operations, and may have an equity interest in agricultural enterprises. In 1964 it established a Trust Fund office to oversee Trust funds (of which the A.I.D. Supervised Credit Fund comprises a substantial percentage).

The BFA offers both short-term and long-term credits, generally with preferential rates of interest. The bulk of short-term credits goes to finance agricultural production. Preferential attention is given to associative enterprises, and in 1973 3,740 million soles or 58% of BFA short-term credits made with its own resources were given to these groups.

The following table (II-B-1) shows the amounts of both BFA's own resources and Trust funds loaned by the BFA during the years 1968 to 1973, divided according to the size of borrower:

TABLE II-B-1 BFA LOANS EXECUTED BY SIZE OF BORROWER
(Amounts in Millions of Soles)

Year	Total Amount Loans Executed	Small Farmers ^{1/}		Medium ^{2/} Farmers		Large ^{3/} Farmers	
		Amount	%	Amount	%	Amount	%
1968	3,463	1,305	38	650	19	1,508	43
1969	4,200	1,447	35	429	10	2,324	55
1970	4,855	2,521	52	463	9	1,901	39
1971	5,883	3,395	58	483	8	2,005	34
1972	6,510	4,616	71	270	4	1,624	25
1973	8,790	7,247	82	264	3	1,279	15

Source: Banco de Fomento Agropecuario del Perú, Memoria 1973.

1/ Includes associative enterprises.

2/ Now defined as those farms that have between 16 and 40 hectares.

3/ Now defined as farms having in excess of 40 hectares.

NOTE: Small farmers and associative enterprises have been receiving an increased amount of credit each year whereas large farmers have been receiving a decreased amount.

BFA loans made during 1973 with own resources and Trust Fund resources were given for the following purposes: (figures in millions of soles).

TABLE II-B-2

Purpose of Loan	Amount	%
Crop Production	S/.6,010	68.37
Livestock	776	8.83
Poultry	85	0.96
Machinery and Tools	380	4.32
Irrigation and Land Improvement	495	5.63
Marketing	1,023	11.64
Agro-Industry and Forestry	21	0.25
Source: BFA Memoria 1973	S/.8,790	100.0

The BFA has provided limited credits to CENTRALS in a few cases for purchase of machinery and for marketing of certain crops (rice, tea), but prior to the Fund to be established under this project, it had no credit lines especially reserved for use by CENTRALS.

b) Organization. The BFA is governed by a Board of Directors consisting of eight members, four of whom are appointed by the Ministry of Economy and Finance and the other four by the MOA. A representative of the Ministry of Economy and Finance serves as the President of the Board of Directors. An Executive Committee is formed under the Board of Directors, which has general supervisory functions over the General Manager, who is the chief executive officer responsible for the operating areas of the BFA (Administration, Finance, Credit, Technical Supervision and Development). Figure II-B-3 shows the BFA's Organizational Chart.

FIGURE II-B-3 ORGANIZATIONAL CHART: AGRICULTURAL DEVELOPMENT BANK

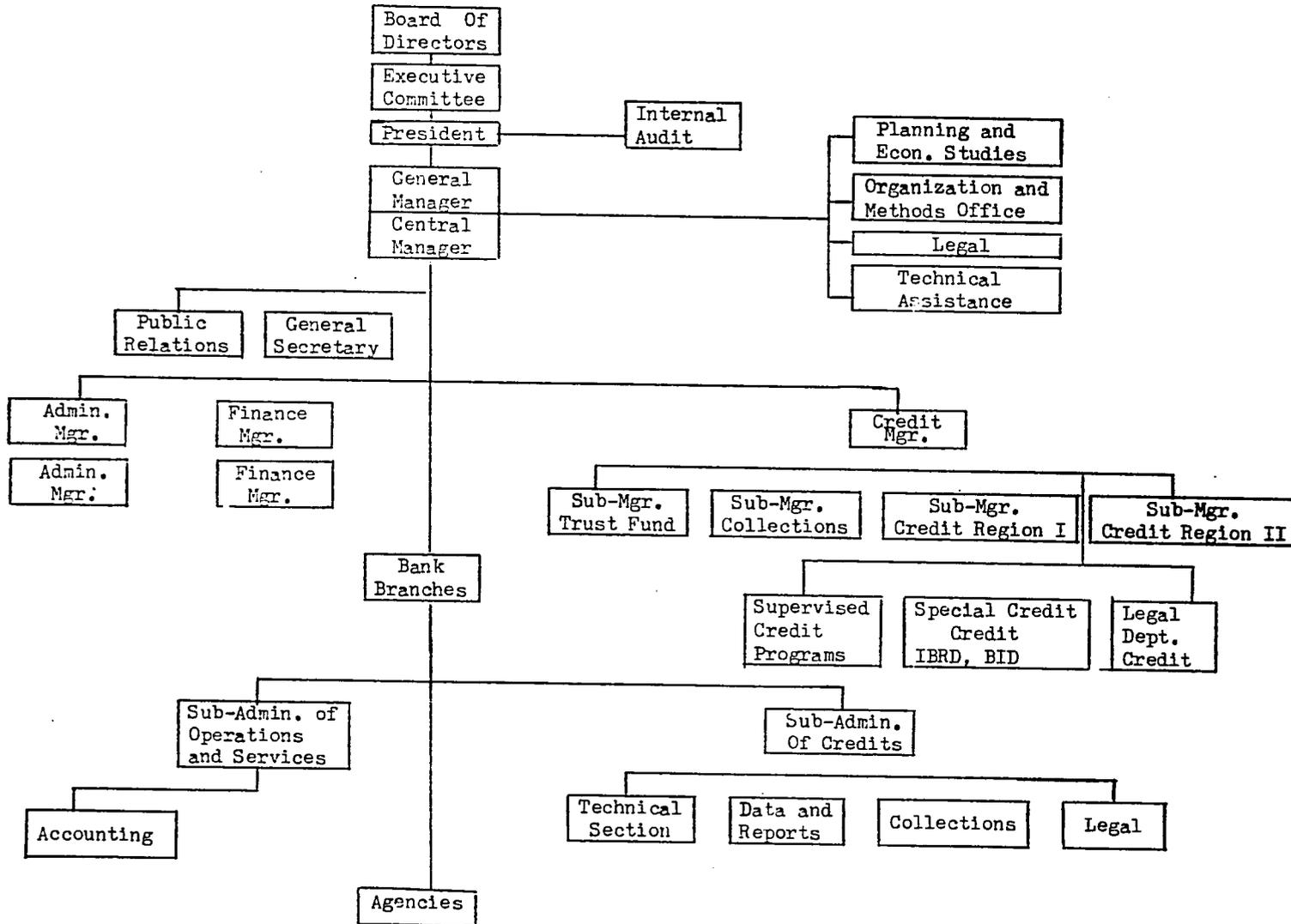


TABLE II-B-4 BFA REGIONAL BRANCHES

Location	CENTRALS in Jurisdiction
<u>-PRINCIPAL OFFICE:</u> Lima	
<u>BRANCHES</u> : Huacho	Huarmey, Chancay-Huaral
Tingo María	Huallaga
Arequipa	
Tacna	
Cajamarca	Chancay-La Leche
Chiclayo	La Convención-Lares and
Cuzco	'Te Huyro'
Piura	Medio Piura, Nueva
	Esperanza, San Lorenzo
	and Piura
	Mantaro and Pasco
Huancayo	
La Merced	
Iquitos	
Puno	Puno
Trujillo	Jequetepeque, Cecalada,
	Santa-Lacramarca
Ica	Cañete, Ica, Chincha,
	Pisco

The BFA has 14 regional branches, whose managers can approve loans up to S/.600,000. Table III-B-4 lists the location of these branches, and the location of the existing CENTRALS.

c) Financial and Technical Capability. It is estimated that the BFA has the financial capability to provide the production credits needed by the base level associative enterprises. This is becoming more evident as the BFA increasingly deals with associative enterprises and the single farm plan for the enterprise, rather than with individual farmers with individual farm plans, particularly those with very small holdings. The BFA feels that the Agrarian Reform will greatly expedite the flow of credit to the production level. Amounts of credit currently made available on a regional basis are determined through coordination with MOA regional offices which submit estimates to the BFA local branch.

Additionally, the BFA administers or acts as fiduciary for a number of special credit programs established through previous A.I.D., IBRD and IDB loans (These have been detailed in Sections II-A-5 and III-M). The bulk of these credits are available

to individual farmers and first level associative enterprises, and only in the case of IBRD loan 933 can sub-loans be made available to CENTRALS for agro-industry. In the case of IBRD Loan 933, however, there is a stipulation that sub-borrowers contribute 20% of total project costs, thus eliminating most CENTRALS as potential borrowers because they have not accumulated enough capital to meet this requirement.

The technical capability of the BFA is closely tied to the MOA in that the farm plans prepared by MOA technicians serve as the basis for credit applications to the BFA. At the present time, the BFA is undergoing reorganization which is expected to increase its overall operating efficacy.

(2) Ministries of Food and Agriculture

a) History and Responsibilities.

These two Ministries were reorganized in December 1974. A description of their newly assigned functions and organizational charts for both are shown on Annex X.

3) Technical Assistance

a) Types of Technical Assistance Required

Technical support of CENTRAL development will be provided in five broad areas by the MOA, the MOF and the Zonal Agrarian offices:^{1/}

1) promotion of CENTRAL formation and organization of the CENTRAL's administrative structure;

2) planning and economic justification of production activities, including crop plans, marketing for inputs and production and the development of small-scale processing activities;

3) extension of agricultural technology to basic member associative enterprises;

4) establishment of services such as centralized accounting and machinery services; and

5) management training.

b) Institutions Responsible for Technical Assistance

1) The Ministry of Agriculture

The MOA, according to Decree Law No.21022 of December 17, 1974, is charged with promoting the formation of federations of co-operatives. This activity is the first priority of the Directorate General of Agrarian Reform, which will be devoting increasing numbers of personnel and resources to this activity, as the expropriation and adjudication process is completed. Management training will be provided by CENCIRA, an MOA organization created for the specific purpose of training managers of all associative enterprises created by the Agrarian Reform. CENCIRA's ability to provide such training has been enhanced by grant funded advisors provided by A.I.D. and FAO.

Extension of agricultural technology is also the responsibility of the MOA. This activity has heretofore been ineffective owing to lack of adequate budget and field personnel to service large numbers of individual farm units. Establishment of CENTRALS should greatly increase the effectiveness of extension efforts because a limited number of trained specialists will be able to focus their

^{1/} At the present time, it is not clear who will have ultimate authority over the Zonal offices (MOA or MOF); it is anticipated that both Ministries will operate out of these offices. In this section, we will group the activities.

activities by working with the CENTRAL's staff of generalists who in turn will disseminate the information to member associative enterprises. In effect, this reorganization of the MOA's Extension Services will transfer some of the burden to extension activity from the GOP to the CENTRALS.

The MOA will also draw on the Institute of Agro-Industrial Research to provide assistance in the technical aspects of food processing. Assistance in forming centralized accounting services will be provided by the special agency created within the MOA to implement the Standard Accounting Plan for Associative Enterprises.

2) The Ministry of Food (MOF)

The MOF agency responsible for providing technical assistance to implement this loan is the General Directorate of Production. Thru CENCOM it will assist in coordinating the execution of studies required to develop the plans.

3) Zonal Agrarian Offices

Assistance in elaborating the annual crop plans for each associative enterprise, consistent with the CENTRAL Development Plan, is the responsibility of the Zonal Agrarian Offices, with backstopping provided by the MOF General Directorate of Production.

The Zonal Offices will also provide constant monitoring of the CENTRALS and associative enterprises, providing assistance with production technologies, and other immediate problems facing the farmers.

4) Adequacy of GOP Resources

The Lima offices of the several Directorates responsible for various technical assistance activities are well-staffed with competent technicians in sufficient numbers to carry out most required assistance. Most large, complicated studies will be contracted directly by the CENTRAL with private consulting firms, with the MOA devoting its resources largely to coordination and development of Terms of Reference. In this manner the Project will be able to draw on a wide variety of talent from other government agencies and private industry on a contractual basis.

As stated earlier, the resources of the agricultural extension service are severely limited. However, the CENTRAL development approach will enable focussing of these limited resources on a small number of organizations, thereby increasing the efficiency of use of available resources.

b. Other Participating Entities

Besides the BFA and MOA there are three public entities which will play a role in the execution of the Project. These are SINAMOS, (National System for Support of Social Mobilization), ENCI (National Agro-Input Marketing Company) and ORDEZA (The Regional Organization for the Development of the Zone Affected by the 1970 Earthquake).

1) SINAMOS. A public sector entity created in 1972, SINAMOS is charged with grass-roots promotion of popular participation in economic social and political affairs. It is particularly concerned with the incorporation of the economically marginal population - both urban and rural - into various types of local community organizations which will become components of regional federations and ultimately nationwide confederations and which will have a major role in political and economic decision making. SINAMOS operates ten regional offices.

SINAMOS plays an important promotional and supporting role in the creation of both associative enterprises and CENTRALS. With regard to associative enterprises SINAMOS functions include:

- promotion of first level enterprises, in both those areas affected by the Agrarian Reform, and in those areas where small land holdings have not been affected;
- assisting farmers in writing their by-laws, getting necessary petitions signed, preparing legal documentation and explaining the mechanisms of the new enterprises.

(6/11)

At the level of the CENTRAL, SINAMOS acts to:

- assist associative enterprises in consolidating their organizations into higher level CENTRALS;
- regulate and supervise the functions of the CENTRALS once organized (their supervision of accounting procedures is the most important of these functions).

2) ENCI. ENCI is a government agency created in 1974 charged with the marketing of agricultural inputs. The rationale behind the creation of ENCI includes the following:

- to eliminate, insofar as practical, commercial middlemen in the distribution of essential agro-inputs, in order to assure their timely delivery at reasonable costs to agricultural production units;
- to insure that scarce agro-inputs (such as fertilizer) are made available to producers in key areas, or to those producing priority crops, and to those in high priority GOP programs (such as the beneficiaries of Agrarian Reform) rather than on a first pay-first served basis which would tend to exclude many marginal farmers or cooperatives in favor of wealthier ones. Zones affected by the Agrarian Reform, including most CENTRALS, will thus be assured of sufficient agro-inputs.

3) ORDEZA. ORDEZA is a prototype regional development organization which has evolved over the past four years. In 1970 it was created as a commission (CRYRZA) to coordinate the reconstruction and rehabilitation of the area affected by the May 31, 1970 Earthquake (the ZAS). In 1973 the GOP created ORDEZA, charged with the overall development of the affected area. Its main feature lies in the unique, decentralized responsibility and authority given to the Chief of ORDEZA (an Army General with the rank of Minister) to plan, budget and execute multisectorial programs. All other GOP entities operating within the ZAS are required to work under ORDEZA's general supervision and ORDEZA requires such entities to comply with its development plans.

There are presently three CENTRALS operating in the ZAS: Santa-Lacramarca, Huarmey and Cecalada and it is expected that several more CENTRALS will become operational during the period of Project Implementation. Ad hoc participation by ORDEZA and any other Regional agencies where Centrals to be financed from this project are located will be provided within CENCOM by-laws.

C. Description

1. Project Goals and Purposes

- 1) Increased production, more equitable income distribution and greater employment opportunities in the agricultural sector

In order to contribute to these goals, the project will seek to achieve the following purposes:

- 1) Increase the capability of Centrals to provide services
- 2) Increase the financial viability of Centrals.

Increasing the strength of the CENTRALS will permit them to provide the associative enterprises with a greater range of inputs and services, in greater magnitude and on a more timely and assured basis, thereby lowering the costs of production and increasing the productivity of these farm enterprises. The CENTRALS will be strengthened by providing them with supplementary working capital to finance necessary bulk purchases of inputs (fertilizer, seeds, insecticides, etc.) for resale to the associated enterprises; by increasing their capability to provide centralized accounting, maintenance, equipment rental and other services to their associated enterprises; and by increasing their capacity to provide farm management training courses and technical advisory services to the personnel of their member associative enterprises.

The development of 'agro-industrial projects will increase rural incomes and employment opportunities in those areas and retain value-added in these rural areas. The projects will help to strengthen the CENTRALS since they will be developed and operated by the CENTRALS.

2. Characteristics of the Project

The Project is designed to strengthen the organizational, financial and institutional bases of a limited number of CENTRALS. (see below). The Project will accomplish this by providing the resources, both financial and technical, necessary to assure that the selected CENTRALS can provide a wide range of needed services to their members.

These services will include central purchasing of agro-inputs; marketing of production, accounting assistance, assistance in preparation of crop plans, etc.

When the CENTRALS are providing these services on a self-sustaining scale, they will be in a position to assume more fully the coordination and planning of crop patterns in the area; to provide technical assistance to the local associative enterprises to assist them in obtaining maximum production; to coordinate the agricultural development plans of the member associative enterprises; and to assist the member associative enterprises in executing their development plans. All of these functions are now carried out to a limited extent by the MOA Agricultural Zonal Offices, but are expected to be gradually shifted to the CENTRALS.

The Project is designed to assist selected CENTRALS by determining each CENTRAL's specific needs and the resource package required to meet those needs. Therefore, the first project component for each chosen CENTRAL will be the selection of a multi-disciplinary analytical team composed of economists, agricultural specialists, and a sociologist to analyze the CENTRAL and its member associative enterprises and to recommend a Development Plan for that CENTRAL. This team will be provided to the CENTRAL's without cost to assure a high quality and uniform analysis of every CENTRAL. Four CENTRALS will be analyzed in Project Year 1, six in Project Year 2 and ten in Project Year 3.

Upon completion of the CENTRAL Development Plan, CENCOM (and ORDEZA in the case of the ZAS) will all review the Plan. From this review will emerge a written plan of implementation based on the recommendations contained in the Development Plan (or approved modification thereof), which will commit all parties to providing those inputs which correspond to their Project functions. (See Section VI, Implementation, for a detailed description of these functions).

The second Phase of the Project will begin on a case-by-case basis when CENCOM agrees upon the Development Plan. Phase III, therefore, will be implementation of the Development Plan. A Project goal is to complete Development Plans for twenty CENTRALS, and to provide financing for implementation of at least part of the Development Plan for these CENTRALS. The Project is designed for a three-year disbursement period.

Activities that will be financed in the second phase are as follows:

a. Working Capital

Credits will be available to the CENTRALS for working capital to finance current expenditures. Two types of working capital needs may be distinguished: (1) start up capital to cover salaries, pay for outside expertise, cover current office expenses, purchase office equipment such as typewriters, calculators, etc., and (2) cyclical working capital needs, such as capital to finance the bulk purchase of agro-inputs (fertilizers, insecticides, seeds, etc.) and capital to finance the marketing of member production, which can be recuperated by the CENTRAL over the short-run.

b. Fixed Assets (Service) Investments

Credits will be made available to finance fixed assets needed by the CENTRAL to enable it to provide adequate services to its members. Items to be financed may include farm machinery, silos storage facilities for crops and agro-inputs, buildings to house maintenance shops and equipment, and possibly unsophisticated agro-related projects.

c. Fixed Assets (Project) Investments

Credits will be available to the CENTRAL to finance feasibility studies conducted by private consulting firms for agro-industrial sub-projects that are recommended in the Development Plan and agreed-upon by the CENCOM and CENTRAL. In the event that the feasibility study proves a sub-project infeasible, the CENTRAL will still be required to repay the cost of the study. The sub-project, if proven feasible under terms of reference previously approved by the BFA, will likewise be eligible for financing from the resources of the CENTRAL Development Fund, with the cost of the feasibility study to be included in the financing of the project, i. e., under the same terms and conditions. All sub-projects will be subject to eligibility requirements that will be spelled out in the Project Implementation Plan to be submitted by the MOA and BFA and approved by A.I.D.

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D. PROJECT FINANCING

1. A.I.D. Contribution to the Project

The total A.I.D. contribution will be \$7.0 million. Of this total, \$5.9 million will be used to establish the CENTRAL Development Fund, approximately \$1.0 million will be used to finance the CENTRAL Development Plans, and up to \$0.1 million will be available during the first year to finance technical assistance to CENCOM. A.I.D.'s contribution to the CENTRAL Development Fund will be used to finance start-up costs and fixed assets for service investments and project investments. A.I.D. funds will not be used to finance technical assistance by the MOA, MOF or BFA to implement the loan or to finance the annual credit needs which are to be channeled through the CENTRALS to the associative enterprises.

2. GOP Contributions to the Project

a. Banco de Fomento Agropecuario (BFA)

a. The BFA will establish the CENTRAL Development Fund and the GOP will contribute the equivalent in local currency of \$7.0 million to this Fund. The GOP contribution to the Fund will be used to cover part of the annual credit needs of the associative enterprises which will be progressively channeled through the CENTRALS. Eventually, as the administrative capacity of the CENTRALS increases, all of the annual credit needs of the associative enterprises will be channeled through the CENTRALS from this Fund for the purchase of agro-inputs to be provided in kind to the member associative enterprises and/or to finance the purchase and marketing of members' production, depending upon the services to be performed by the CENTRALS according to its Development Plan.

b. The BFA will also make available to associative enterprises which are members of CENTRALS being assisted under this Project the regular crop production cycle credits that it currently makes available to them. It is estimated that these credits will total at least \$25 million during the three year disbursement period of the loan.

c. The BFA will provide personnel and miscellaneous supplies and equipment to the Project valued at an estimated \$0.5 million over the course of the Project. The BFA will support CENCOM as agreed by the BFA, MOA, and MOF, in the tripartite agreement establishing the committee.

b. Ministry of Agriculture (MOA)

The MOA will contribute personnel services, technical assistance and training to the Project valued at \$1.0 million over the term of the Project. The contribution of personnel will include appointment of representatives and other support for CENCOM and such other personnel as might be required for effective loan implementation. The technical assistance to be contributed by the MOA will include, inter alia, advice to the CENTRALS on establishing and maintaining a unified accounting system, management assistance, farm advisory services veterinary services, etc. Training will be provided by the MOA for its own personnel in the above listed areas and to employees of CENTRALS and member associative enterprises through the Center for Training and Investigations for the Agrarian Reform - CENCIRA.

c. Ministry of Food (MOF)

The Ministry of Food will contribute personnel services, technical assistance and training to the Project valued at \$0.4 million over the term of the Project. The MOF will assign representatives to CENCOM and such other personnel as might be required for effective project implementation. It will provide technical assistance and training to CENTRALS and associative enterprises in matters relating to the production, processing and distribution of foodstuffs.

d. ORDEZA

ORDEZA will make available personnel, etc. valued at \$0.1 million to assist in the implementation of the Project, including the use of its multi-disciplinary project planning teams in executing the CENTRAL Development Plans and technical assistance to CENTRALS in its area of jurisdiction.

3. CENTRAL Development Fund

The Fund will be established in the BFA with an initial capitalization of \$12.9 million. A.I.D.'s contribution to the Fund will total \$5.9 million and the BFA will contribute \$7.0 million. It is estimated that up to \$1.75 million in Loan funds will be used to finance imported commodities, with the balance of the U.S. funds to be applied to local cost financing.

4. Application of Funds

a. CENTRAL Development Plans

Approximately one million dollars of loan funds will be used for studies of 20 CENTRALS. It is estimated that such studies will cost an average of \$50,000, with four CENTRALS to be analyzed in the first year of the project, six in the second year and ten in the third year. The CENTRAL Committee (CENCOM) comprising representatives of the BFA, MOA and MOF, will be responsible for coordinating the development of the terms of reference for these Development Plans; will determine the executing agent and let contracts, etc., as necessary for the preparation of the Plans; and will accept each Plan upon its satisfactory completion. Only those CENTRALS which have approved Development Plans will be eligible for financing under the A.I.D. program. Acceptance by CENCOM constitutes approval of the Plan by the members of CENCOM, the BFA, MOA, and MOF and obligates each member to supply those inputs identified in the Plan. USAID will approve the terms of reference for the Development Plans as a Condition Precedent to Disbursement.

b. Working Capital

CENTRALS will be eligible to receive loans from the CENTRAL Development Fund to cover operating expenses to the extent such uses of funds are recommended in the Development Plan. Expenses that can be financed include salaries of personnel, office expenses, and the establishment of accounting and control services. It is expected that there will be a sufficient justification for any request for working capital disbursements beyond a one year period.

CENTRALS will also be eligible to receive loans from the CENTRAL Development Fund to finance part of the cyclical (crop year) requirements of the associative enterprises for fertilizers, pesticides, insecticides, seeds, etc., and for marketing the production of the associative enterprises.

The use of working capital loans to the CENTRALS to provide member enterprises with agro-inputs and marketing and other services will enable the CENTRALS to strengthen themselves financially and institutionally. It is clear that none of the CENTRALS will immediately be able to provide all of the agro-inputs, and marketing and other services required by their members. The Development Plans will specifically consider the phasing-in of these activities over time. Table 10 illustrates the increasing use of these funds in Project years two and three.

c. Fixed Assets (Services) Investments

Sub-loans will be made available to CENTRALS for financing fixed assets that will enable the CENTRAL to supply agro-input, marketing, accounting, maintenance, and other services to its members. Warehouses for storing inputs, silos, buildings for administration and to house maintenance centers, equipment such as tractors, trucks, and tools will be among the items eligible for financing under this category. Annex IX lists representative projects (both Service and Project Investments), their magnitude and estimated cost. It is estimated that these credits will total \$3.0 million equivalent during the period.

d. Fixed Assets (Project) Investment

The Development Plans for the CENTRALS will recommend projects for execution by the CENTRALS based on the economic potential of the areas and of the member associated enterprises. (See Annex IX for representative projects) Sub-project feasibility studies will be eligible for financing as will implementation of the sub-projects themselves. Terms of reference for the feasibility studies will be developed pursuant to the Program Implementation Plan to be submitted to and approved by USAID as a Condition Precedent to Disbursement. USAID will review and approve the first five feasibility studies after which time they will set the level for review at \$250,000 or less. The total of such investments under this Project is estimated to total \$1.9 million. IBRD loan No. 933 will be used to the extent possible for financing sub-projects under this Project through coordination with BFA officials implementing that loan.

Substantial movement of funds from one asset investment category to another will require USAID consultation with AID/W.

e. Disbursement of Funds

The disbursement period of the proposed loan is three years.

The sequence of studies and investments is as follows.

1st. year

CENTRAL Development Plans for four CENTRALS will be completed during the first year at an estimated average cost of \$50,000. On the basis of these Plans working capital sub-loans are projected to be made to three CENTRALS at a total estimated cost of \$ 1,250,000.

Service investment sub-loans averaging about \$150,000 will be provided to each CENTRAL with repayment as scheduled in the Plan.

Feasibility studies for approximately four sub-projects will be initiated during this first year at an estimated cost of \$20,000 each. However, it is unlikely that any projects will be ready for financing during this first year.

Up to \$100,000 will be available for financing technical assistance to CENCOM. Total disbursements under the Project for the first year are thus estimated at \$2,080,000 of which Loan funds will total \$980,000.

2nd Year

During the second year of the Project, Plans for six additional CENTRALS will be completed, with accompanying working capital and service investment sub-loans to be extended to seven CENTRALS. Six additional feasibility studies are expected to be initiated and three project investment sub-loans, at an estimated average cost of \$150,000 are expected to be approved during the year. The average costs of the Development Plans, and the working capital, service investment and feasibility study sub-loans are unchanged. Total disbursements during the second year of the Project are estimated at \$4,770,000 (Loan funds totaling \$2.270 million).

3rd Year

Ten CENTRAL Development Plans will be finished during the third year and working capital and service investment sub-loans extended to these CENTRALS. An additional ten feasibility studies will be undertaken and seven project investments should be financed during the year. Total disbursements from the fund in the third year will be \$7.150,000 (Loan funds totaling \$3.75 million).

Each sub-project investment will meet the criteria to be set forth in the Project Implementation Plan (to be prepared by CENCOM as a Condition Precedent to Disbursement). Criteria for each sub-project will include such measures as:

- priority within the CENTRAL Development Plan
- profitability of the project (to be shown through detailed feasibility study)

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- consistency with GOP regional and national economic and social goals
- labor intensivity that provides maximum employment and income opportunities consistent with project profitability.
- environmental acceptability.
- meet A.I.D. crop-specific requirements.
- provide greatest impact on integration of women consistent with other goals.

5. Utilization of Repayments

All repayments of principal and interest will be returned to the Fund.

6. Disbursement Procedures

a. To the CENTRAL Development Fund

The Fund will be established in the BFA in the amount of \$12.9 million. The BFA will request reimbursement from A.I.D. on a monthly basis for monies expended on the Project from BFA resources.

b. To private consultants

A separate account will be established in the BFA to pay local private consultants who may be contracted to prepare the CENTRAL Development Plans. A.I.D. will approve, in the Program Implementation Plan, the terms of reference to be utilized by the consultants. Payment will be made directly by the BFA to the consultants with reimbursement requested from A.I.D.

c. Dollar Costs

Dollar costs for Project investments will be made according to standard A.I.D. Letter of Commitment procedures or other disbursement procedures acceptable to A.I.D. and the GOP. Such expenditures are expected to total up to \$1.75 million.

T A B L E II D-I

Disbursement of Funds by Year and Category
(Millions of US Dollars)

	YEAR ONE		YEAR TWO		YEAR THREE		TOTAL		Total All Sources
	AID	GOP	AID	GOP	AID	GOP	AID	GOP	
CENTRAL DEVELOPMENT PLANS	.200		.300		.500		1.000		1,000
CENCOX - EXECUTIVE SECRETARIAT	.100						0.100		0.100
CENTRAL DEVELOPMENT FUND									
A. Working Capital ^{1/}									
1. Start-up costs	.150		.350		.500		1.000		1,000
2. Annual credit needs		1.100		2.500		3.400		7.000	7,000
B. Fixed Assets									
Service Investments	.450		1.050		1.500		3.000		3,000
C. Fixed Assets									
Project Investments	.080		.570		1.250		1.900 ^{2/}		1,900
TOTAL	.980	1.100	2.270	2.500	3.750	3.400	7.000	7.000	14.000

^{1/} Working Capital Sub-loans will be of two types - those for start-up costs, which will be made only once, and those to meet seasonal needs, which will be continually made from the working capital portion of the Fund.

^{2/} It is estimated that \$1.75 million in dollar costs will be financed, with the remainder to be used for local costs financing.

T A B L E II D-2

Source and Application of Funds
(Millions of US Dollars)

	AID	BFA	MOA	MOF	ORDEZA	TOTAL
1. CENTRAL Development Fund	5.9	7.0	-	-	-	12.9
2. Development Plans	1.0	-	-	-	-	1.0
3. Staff, Technical Assistance, and Training	0.1	0.5	1.0	0.4	0.1	2.1
TOTAL	7.0	7.5	1.0	0.4	0.1	16.0

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SECTION III - ECONOMIC ANALYSIS

A. Overview of Economy - Structure of the Peruvian Economy

The Peruvian economy can be characterized as follows: diversified structure of production; high external dependence; high but diminishing concentration of ownership of economic resources and power; severe inequality in the distribution of income; high concentration of economic activity on the coast and especially in the Lima/Callao metropolitan areas; high underemployment; large percentage of population dependent on agricultural sector; low productivity in the agricultural sector; low investment ratio; heavy migration to the coast and to urban areas; large external debt and debt service ratio; and huge but largely unexploited oil and mineral wealth. In order to resolve the country's economic and social problems, the Government has initiated a series of major sectorial reforms which will radically alter existing economic and social structures, and has implemented a series of economic policies designed to stimulate economic growth and to provide increased economic opportunities to all Peruvians.

Real GNP of the Peruvian economy will rise by about 6.3% during 1974, with per capita real GNP reaching \$206 (based on 1963 prices), an increase of around 3%. In 1973, real GNP and real GNP per capita rose 5.6% and 2.7% respectively.

The structure of the Peruvian economy is highly diversified with respect to the sectorial composition of real GDP. As shown in Table III-A-1, the manufacturing sector is the major single contributor to GNP, accounting for nearly 22% of the country's production of goods and services, followed by the agricultural sector which contributes 14%. The latter sector, while generating a relatively small proportion of GDP, provides nearly 45% of the employment in the country. The commercial and services activities included in the "other" sector and listed in Table III-A-1 are of increasing importance to the economy and account for an estimated 15% of the GDP. The mining sector, which annually earns nearly 50% of the country's foreign exchange proceeds from exports, contributes a moderate 7.5% to the national product.

Expenditures on GNP during 1972 were distributed as indicated in Table III-A-2. Exports accounted for 18.6% of the total demand for goods and services, and were slightly greater than expenditures on imports. Total consumption expenditures, private plus government, were approximately 85% of GNP, with total investment at about 15%. Adverse reaction by investors to the structural reforms of the Government has drastically reduced domestic and foreign private investment in the last few years.

TABLE III - A - 1.

GROSS DOMESTIC PRODUCT BY SECTORS

(Millions of 1970 Prices)

	1968	Percent of Total	1973	Percent of Total	Percent Increase	Compound Rate of Growth 1968-73
Agriculture	34,249	16.0	40,408	14.4	2.4	3.4
Fishing	4,991	2.3	2,105	0.7	- 23.4	- 58.0
Mining	19,369	9.0	21,057	7.5	3.3	1.7
Manufacture	43,006	20.1	60,202	21.6	7.5	7.0
Construction	10,033	4.7	19,425	6.9	12.0	14.1
Energy	2,642	1.2	3,648	1.3	5.1	6.7
Housing	10,238	4.8	12,419	4.4	4.5	4.0
Government	17,416	8.1	22,631	8.1	6.0	5.4
Others	72,480	33.8	98,088	35.1	6.6	6.2
<u>G.D.P.</u>	<u>214,424</u>	<u>100.0</u>	<u>279,983</u>	<u>100.0</u>	<u>5.8</u>	<u>5.5</u>

TABLE III - A - 2.

ESTIMATED EXPENDITURES OF REAL

GROSS NATIONAL PRODUCT 1972

(Constant 1970 Prices)

	<u>Billions of Soles</u>	<u>Percentage</u>
Private Consumption	190.6	72.0
Private Investment	18.5	7.0
Government Consumption	34.6	13.1
Government Investment	12.5	4.7
Net Foreign Investment (Exports-Imports)	8.5	3.2
GNP	<hr/> 264.7	<hr/> 100.0

1972/10/10

Looked at from the point of view of payments to the factors of production, National Income is distributed as shown in Table III-A-3. The sole proprietorship and partnership, etc., income figure of 73.5 billion soles includes the incomes of professionals plus the profits of sole proprietorships and partnerships (including income in kind), the "home consumption" in the agricultural sector and the return to "family" labor for each of the various types of enterprise mentioned above. This item plus the wages and salaries paid is referred to in Peruvian national accounting terms as the "return to the worker" and constituted 80.5% of National Income in 1972. Corporate profits have accounted for a relatively small percentage of National Income during the past five years (1968-1973), averaging about 2% of factor income during this period.

Concentrations of resource ownership and wealth in the past have resulted in severe inequality in the distribution of income. Incomes in the modern sector on the average are estimated to be more than ten times the average incomes in the traditional rural sector.^{1/} Basic education, health services, etc., have been out of the reach of a large part of the population on the lower end of the income scale, especially those persons living in the sierra and the jungle. The major objective of many of the Government's structural reforms is to redistribute ownership of economic resources and, thereby, the future distribution of income.

Income, wealth, and economic opportunity are concentrated heavily on the coast. Most of the country's modern industry is located in coastal cities and agricultural productivity is much higher on irrigated farms along the coast than on sierra or jungle farms. The coastal cities are also major centers of commercial and service activities and Lima is the center of government. The economy of the sierra is basically agricultural with high labor/land ratios reducing the marginal productivity of labor to nearly zero. Productivity is affected also by the absence of proper price incentives and by the lack of an effective technology for maximizing output given the inputs available to the sector.

Most of the sierra is isolated from the major markets along the coast by the lack of access roads due to the severe topography of the Andes. For this reason, industrial activity is generally limited to small scale production for the local market at relatively high cost.

^{1/} Richard Webb Government Policy and the Distribution of Income in Peru, 1963-1973, unpublished doctoral dissertation, Harvard University, 1974.

TABLE III - A - 3.

NATIONAL INCOME AT FACTOR COST-1972

(Constant 1973 Prices)

	<u>Billions of Soles</u>	<u>Percentage</u>
Wages and Salaries	123.2	50.4
Rent	30.8	12.6
Interest	11.8	4.8
Profits of Sole Proprietorships, Partner- ships, Professional and Farm Income, etc.	73.5	30.1
Corporate Profits	5.1	2.1
National Income	<hr/> 244.4	<hr/> 100.0

This and the high cost of transport severely reduce the competitiveness in coastal markets of products produced in the sierra and the jungle. Also many of the young, able-bodied members of the population migrate to the urban coastal areas where they add to the massive "barriadas" surrounding the cities, thus placing heavy social infrastructure burdens on municipal governments. The necessity of providing urban infrastructure for those areas further deprives the provinces of investment resources, thus completing the vicious circle.

The Peruvian jungle is thought to hold the greatest potential for the future development of the country. Still largely untouched, it contains large areas suitable for agriculture and is thought to hold vast natural resource wealth, including oil. Exploration for oil in the jungle has begun in earnest, and the GOP is planning to develop its agricultural potential through colonization and other programs. Geographic isolation appears to be its major obstacle to development.

Recent Economic Performance

The rate of growth of real Gross National Product of the Peruvian economy has averaged about 5.5% over the last five years. Due to the impact of the reforms imposed by the present Government, especially the Agrarian and Industrial reforms, the relative growth of the various sectors of the economy has altered significantly from that of the past. Agricultural sector growth has slowed somewhat, especially the production of basic foodstuffs of internal consumption. Production of the manufacturing sector is also growing more slowly than in the past. Over the past couple of years, private investment has been limited to reinvestment of earnings as a result of the industrial community and social property reforms which have shaken the confidence of the private business sector. Recent growth in industrial production has resulted from fuller use of existing capacity and increased labor productivity rather than from additional capital investments.

The construction (housing and public construction), commercial and government (especially public investment) sectors have been growing most rapidly in recent years, as the result of a consumer spending boom plus a government policy of economic expansion. Real growth of the mining sector has been very modest due to capacity limitations and the reluctance of foreign investors to invest.

Although the overall growth rate of the economy has been moderately good, budgetary and balance of payments difficulties have plagued Peruvian economic policy makers for the past several years. These difficulties have become more severe in recent months due to increased inflationary pressure internally and much higher prices for some of the country's most essential imports.

An inelastic tax structure combined with sharply increased government spending on development programs have resulted in large and rapidly growing budgetary deficits over the past four years. Tax changes introduced at the beginning of 1973 increased revenue by simplifying the administration of the system and reducing tax evasion; however these changes did little to increase the income elasticity of the tax structure. On the other hand, public investment is expected to increase more rapidly in coming months since many development projects are just entering the execution stage and the international prices of some heavily subsidized imports (petroleum and wheat) have increased substantially.

In the past, budgetary deficits have been covered largely through external borrowing (primarily debt refinancing) and the internal sale of treasury bonds largely to the banking system. Future deficits will probably be financed in the same manner even though greater competition for private savings is expected as sector investment recovers.

Inflation has become a more serious problem over the past few years also as a result of growing shortages of basic consumer goods, especially food items, sharply higher prices for essential imports, and continuing deficit spending by the Government. The rate of price increase reached 13.8% in calendar year 1973, compared with 7.2% the previous year, 6.8% in 1971 and 5.1% in 1970. Prices are expected to increase by around 17 to 20% in 1974 for many of the same reasons listed above. In addition, there are indications that consumer spending is beginning to respond to inflation as the relative utility of holding idle balances declines.

Balance of Payments

Following an overall surplus of \$13 million in 1973, Peru's balance of payments has undergone wide fluctuations during 1974. As of mid-November, the GOP expected a deficit of nearly \$450 million for the full year 1974 on an international reserves balance basis. Much of this deficit was caused by greatly increased imports due largely to quadrupled international prices of wheat and petroleum, although import prices were generally higher. The prices of many of Peru's major exports rose early in the year, but began to weaken around mid-year and had fallen to nearly their original levels late in November. On the average, therefore, the terms of trade moved sharply against the country during 1974. The volume of both imports and exports increased moderately. The resulting large commercial balance deficit combined with a larger services deficit and high debt service payments far exceeded inflows of long term capital, notwithstanding debt refinancing loans amounting to approximately \$114 million.

Balance of payments forecasts for 1975 and 1976 foresee even greater deficits as a result of many of these same factors. In addition, much greater difficulty is expected in obtaining external non-project financing due to the existing high degree of uncertainty in international financial markets. However, the country has net international reserves equal to approximately three months imports and has no outstanding drawings with the International Monetary Fund (IMF). In addition, the special oil facility of the IMF provides additional resources for countries experiencing balance of payments difficulties as a result of higher petroleum import costs.

Peru's international debt (disbursed) as of the end of 1974 will approximate \$1,910 million according to data released by the Ministry of Economy and Finance. While the debt has increased substantially in the past two years, practically all of the new credits carry at least three-year grace periods, postponing repayment until the late 70's when export proceeds are expected to increase substantially.

The country's balance of payments problems should be alleviated somewhat by 1976, when new copper deposits currently in the exploitation stage (Cujone, Cerro Verde) come into production, and definitely reversed by late 1978 when the trans-Andean oil pipeline begins to carry crude to the Pacific coast for export to foreign markets.

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B. GOP Economic Restructuring Programs

Shortly after coming to power in 1968, the current Military Government established a Long Term National Development Strategy which contained the following three broad permanent national development goals:

1. Formation of a more just society.
2. Accelerated and self-sustained development.
3. Strengthened national sovereignty.

To accomplish these goals, the GOP has embarked upon a vigorous program of economic and social structural change which will greatly reform the economic and social bases of the country. This program is being implemented through a series of reform laws which are described below.

Agrarian Reform

The agrarian reform program seeks a radical change in the land tenure pattern of Peru and the full incorporation of some eight million landless campesinos into the economic and social life of the country. (See Section II, A. 2 above).

The impact which the Agrarian Reform Program has on production and the enormity of resources required to maintain the pace set forth under the National Development Plans add substantial complexity to its implementation. The GOP is aware of the potential problems, but is nevertheless confident that the change from private to collective tenure of lands will result in a substantial increase in production in the long run. It realizes, however, that turning expropriated farms immediately to cooperative exploitation may raise havoc with production. To avert such a development it has retained the farm management structure intact until new managers are trained to take over, and has appointed professional managers to administer large holdings.

Industrial Reform

The GOP is effecting a radical transformation of the country's industrial sector which, when completed, will have left few remnants of the previous structure. The new structure will emphasize state and cooperative forms of ownership and control, with the purely private sector encompassing only the very small business and commercial establishments.

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To this end, mechanisms have been established to involve the State much more in the activities of the industrial sectors, to distribute ownership and income more widely amongst the workers, to channel resources to those industries considered as priority (essential) industries, and to lessen dependence on foreign sources.

In addition to these structural changes, the GOP has established a system of industrial priorities which it uses in allocating resources, especially investment resources and resources devoted to importation. All industries and firms are assigned one of four priorities (1st, 2nd, 3rd and 4th) and receive the benefits, obligations, etc., of that priority.

The role of the foreign firm seems to be very limited in the future in Peru, not only because of Peruvian legislation, but because of the Andean Foreign Investment Code to which Peruvian legislation already largely conforms. The GOP has repeatedly said that it welcomes foreign investment, however only if it contributes to Peruvian development priorities and goals and if it is willing to abide by the conditions prescribed for it.

Education Reform

The education reform began in 1969 with initial focus being on the restructuring of the university system, and the Reform Law was promulgated in March 1972.

Basically the Reform has its foundation in three major goals: education for development and employment, education for the structural transformation of the society, and education for the self-affirmation and independence of the Peruvian nation.

To achieve these goals, the structure of the system is to change from a highly centralized one to a community controlled "nucleo" structure coordinating all of the learning resources in each community and serving the needs of all individuals throughout their life times.

The curriculum is to become more vocationally oriented throughout the system, more relevant to Peru's socio-economic development, and more relevant to all people, ages and regions. Self-education is to be emphasized, and public service is to be made an integral part of the curriculum at the higher level.

The teacher is to become a "teacher educator", a manager of the learning resources in the community. Teacher training therefore is to be given high priority.

The major concern critical to successful implementation of the Reform is the lack of adequate human and financial resources to carry it out in the time frame established.

Mining Reform

Peru's mining reform when fully implemented will result in substantial State ownership and full State control over the exploitation of the country's mineral resources. Also, the commercialization of all mineral products will be accomplished by a State Trading Board.

The main purposes of this reform are to regain for the country disposition over its mineral resources and to make more efficacious use of these resources. Some more general goals are expected to be served by the reform also, e.g., lessened external dependence, redistribution of income.

Telecommunications Reform

The telecommunications reform is one of the most important of Peru's social and economic reforms. The principal idea underlying the reform is to preserve and nourish Peruvian culture, or stated oppositely, to prevent the alienation of the Peruvian people, especially the youth.

In carrying out this reform the government has taken ownership, and thus control, of the country's television stations, and has begun the progressive (over time) Peruvianization of TV and radio programming, including advertising.

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C. GOP PLANS AND PRIORITIES

The GOP's development policy as expressed in the National Development Plan 1971-1975, places very high priority on integrating the country's rural population into the national economy through various policies and programs designed to support and stimulate economic activities in rural areas. Peruvian authorities define Agrarian Reform broadly to include not only land redistribution but all programs designed to develop the rural sector. Thus, rural programs of social mobilization, industrial and tourism promotion, technical assistance and education, agricultural production and productivity, water management, building of feeder roads, etc., are all embraced by the Peruvian conception of Agrarian Reform. More recently, the Guidelines for the National Development Plan 1975-78 called for further efforts "... to emphasize measures (designed to bring about) a more equitable distribution of income, both among diverse social groups and among diverse regions. " 1/ The most important of these programs is the Agrarian Reform which enjoys the highest overall priority of the Government; there are, however, other important policies and programs oriented towards the rural sector including industrial decentralization, provision of basic economic infrastructure and social services, exploration to develop natural resources in rural areas, and the promotion of artesanía and tourism.

The CENTRALS to which the major portion of this loan is to be directed are an integral part of the new agrarian structure being built by the GOP. Provided for by law, they are second level organizations, comprised of groupings of first level production entities, whose primary function is to provide needed services to their member entities; services which can be provided more economically on a centralized basis. Agricultural policy guidelines for the 1975-78 plan promise, " an intensification of State support for campesino enterprises (first level) created by the Agrarian Reform with respect to their technical financial and administrative aspects, reinforcement of the mechanisms of programming, execution and control of production and commercialization plans at the local level and promoting their integration into second order enterprises (CENTRALS) to consolidate them ". The guidelines further note that: "... special attention will be given to (1) the provision of fertilizers, equipment, and other inputs in adequate amounts and at the right time, (2) increasing the amount and easing the access to credit, and (3) supporting agricultural research." 2/

1/ Lineamientos del Plan Nacional de Desarrollo para 1975-78, Part II, Section II, A3, Lima, August 21, 1974.

2/ Lineamientos del Plan Nacional de Desarrollo para 1975-78, Part II, Section III, A3, Lima, August 21, 1974.

Rural development has top GOP priority and the CENTRALS are a crucial, integral part of the structure the Government has created to promote rural development. Moreover, the services to be provided by the CENTRALS to their associated enterprises are signaled out to receive special attention over the next plan period, 1975-78. Therefore, the proposed loan fully complements the Peruvian Government's plans and priorities.

D. Place of Project in Country Program

1. Previous A.I.D. Support to Rural Development in Peru - Loans

The USAID/Peru loan portfolio comprises several loan projects which focus on capital assistance to rural areas. Three loans totalling \$17.7 million (047, 054 and 056) implemented by the Agricultural Development Bank (BFA) were made during the period of 1966 through 1972 for the purpose of establishing and expanding a Supervised Agricultural Credit Fund to improve productivity and to support Agrarian Reform activities. These loans were fully disbursed by October, 1974. The initial loan, 047, was directed to small and medium farmers nationwide, while 054 limited its assistance to farmers in the geographic area of the May, 1970 earthquake and 056 restricted its assistance to farmers affected by the floods of March, 1972.

Loan 052, for \$3.0 million for Community Development and Reconstruction, supported activities in the area of the 1970 earthquake. Loan 053 for \$2.5 million established a special fund in the Central Bank for reconstruction and development credits for small business in the same earthquake area. The Rural Enterprises Development Loan (057) for \$10 million extended the concept of loans 052 and 053, and establishes a fund for promotion of small individual and community enterprises in selected rural areas of Peru.

A 1966 loan, 045 for \$2.1 million, supported rural community development activities through the establishment of a revolving fund for sub-lending to local municipal governments and community organizations for community projects. The project ran into difficulties because of the GOP's failure to make the required matching contribution to the fund. A.I.D. therefore deobligated \$1.5 million of the original loan amount.

Other loans containing elements related to rural development are the Market Development Loan and the Private Investment Fund. As amended, the former provides up to 30 percent of the total funds to finance rural collection centers for agricultural products. These centers are to be operated by farm cooperatives or other types of associated enterprises formed by the Agrarian Reform and credits generally will be used to finance equipment and buildings for sorting, cleaning, and grading of agricultural products. The purpose of the Private Investment Fund is to finance facilities for processing, transformation, and preservation of agricultural products. This loan complements the Market Development Loan by enabling increased vertical integration of agricultural processing and marketing enterprises.

Grants

A number of grant programs have been initiated that deal directly with the rural sector. These programs may basically be divided

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into two categories - those that were made for emergency and long-term rehabilitation of the earthquake and flood areas, and those designed to develop and improve methodology in agricultural planning.

The grant assistance for emergency and long-term rehabilitation programs totalled \$10.5 million between 1970 and 1972. Additionally, because of the actual and anticipated employment generation effect of the A.I.D. grant and loan financed earthquake reconstruction programs in both rural and urban areas, A.I.D. assisted the Government of Peru in establishing employment services and manpower training programs to help meet the demand for skilled and semi-skilled workers. The primary purpose of this grant-funded program is to identify employment opportunities, train unemployed workers to meet skilled job requirements, and provide accurate data in the earthquake zone.

The grant program designed to improve sub-sectorial and sectorial planning in agriculture has as key inputs eight Iowa State University economic advisors whose major tasks are to assist GOP counterparts in evaluation and implementation of priority development programs and to assist in the development of studies of special problem areas. The ultimate objective of this assistance is to introduce greater rationality into agricultural policy and to increase the efficiency of allocation of public capital and resources. All of the above assistance contributes in varying degrees to allocation of capital among rural development programs. Two of the eight technicians are directly involved in the Agrarian Reform Program, developing training courses for managers of associative enterprises and advising on a series of micro-economic studies.

2. Mission Strategy

The USG is in agreement with many of Peru's social and economic goals, particularly those that seek to rectify past injustices and broaden access to economic and social benefits. The Peruvians are seeking to evolve a "developmental model" which can serve as an alternative to both capitalism and communism. U.S. bilateral and multi-lateral assistance can be an important factor in maintaining a middle-of-the-road posture and exerting a pragmatic influence on development decisions.

The GOP continues to rely on concessional lending from various external sources since current massive investments in petroleum and mining ventures will not produce income until the end of the decade.

While the GOP has given preference to massive infrastructure projects (irrigation, power, etc.) in seeking foreign lending

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it also seeks more modest assistance in key reform areas such as agriculture and education so long as such assistance is recognized as supporting GOP goals. Present U.S. policy is to make available modest levels of concessional, bilateral lending, with agricultural lending given highest priority. The loan proposed in this paper furthers the additional goal of "integrated" development in that: 1) its target groups are in rural areas heavily dependent on agriculture; 2) it will foster and support CENTRALS which will eventually form the basis for future micro-regional development plans; and 3) it directly supports the development of basic economic activity of the regions, i.e. agriculture.

E. ECONOMIC BENEFITS OF THE PROJECT

The major economic benefit to flow from the proposed Project will be the increased income and employment opportunities provided to the rural poor in the areas serviced by the CENTRALS included in the project.

Target Person Analysis. The ultimate primary beneficiaries are rural farmers who are members of associative enterprises. For the most part, this group, prior to the Agrarian Reform program, was almost totally disenfranchised in Peru, both in terms of political and economic power.

There are two distinguishable groups of beneficiaries: (A) those who retain title to a small parcel of land which is worked individually, and who have joined with other small land-owners into service cooperatives; and (B) workers in production cooperatives, campesino communities or agrarian societies of social interest (SAIS) who do not possess individual land parcels, but rather work land communally. The proposed loan will benefit these groups, both of which may be members of a given CENTRAL.

It is estimated that nearly 500,000^{*} rural inhabitants will eventually benefit from the proposed Project through increased incomes and over one thousand new jobs will be created in the rural areas serviced by the loan. These benefits will arise from the increased agricultural production and lowered per unit costs of production to the associative enterprises by the CENTRALS and from the increased employment opportunities and value added retained in the rural areas as a result of the agro-industrial (processing) enterprises established by the Project.

Land holdings, income level and employment level vary greatly from area to area in rural Peru. The maximum area permitted individual farmers ranges greatly from area to area; in practice, holdings average much less than permitted maximums. In the area served by the CENTRAL de Cooperativas "Te Huyro" in the Department of Cuzco, the average individual holding is 6 hectares; in the area served by the CENTRAL de Cooperativas in the Santa-Lacramarca valleys in the Department of Ancash, the average parcel is less than 2 hectares; in the Department of Puno the average member of rural service cooperatives owns less than one hectare of land.

Income levels also vary widely, depending upon legal minimum wages in different regions, agricultural productivity, and whether or not cooperative members elect to invest profits for future

* This assumes that by the end of the Project implementation period there will be some 70 functioning CENTRALS, each with an average of eight associative enterprises. Each associative enterprise will have an estimated 200 families or 1,000 individuals under its general jurisdiction.

returns or decide on cash distribution to members. The daily wage range for associative enterprise members is from a low of about one dollar a day to approximately five dollars on some of the more profitable SAIS. Number of days worked ranges from about 120 to 250. Year-end cash distributions, made on the basis of actual days worked by the members, ranges from zero to a reported high of about \$800 in one cooperative in the Department of Ica. On average, however, we can estimate yearly cash distribution of around \$100 per member. Project Evaluation will document income changes in selected CENTRALS.

In virtually all associative enterprises, maximum efficiency would dictate a significant reduction in the labor force. Since this would create enormous social problems given the lack of employment alternatives for the relatively unskilled farm laborers which it would affect, the associative enterprises have elected to try to accommodate all members into the economic life, increasing employment at some cost in efficiency. The bulk of farmers are thus underemployed during much of the year although during peak planting and harvesting seasons all members are fully employed and some cooperatives hire outside day laborers.

There are a number of substantial benefits which will accrue to the small member farmers as a result of the proposed loan. It is anticipated that both income and employment will rise as a result of increased technical assistance and income-generating investments (processing plants, etc.). Improved marketing procedures, storage facilities, and working capital to finance marketing pipeline operations will increase profit margins, which will be passed on to members in two major forms: (1) in cash participation, and (2) improved community infrastructure provided by the CENTRAL such as schools, housing, and other "in kind" facilities.

The improved institutional structure and procedures for channeling services and assistance to the rural sector provided by the project will be a lasting benefit which can be built upon for improved productivity, etc., in the future. The absence of a rational, coordinated program of services and assistance to producers has been an important factor limiting rural growth in the past, along with the lack of resources flowing to the sector. The proposed project intends to provide both the additional resources and effective institutional mechanisms for delivering these resources to the sector.

Another important benefit flowing from the project will be the training provided both at the CENTRAL and associative enterprise level, especially the training in organization and manage-

ment. The lack of such capacity has seriously limited progress at both the CENTRAL and associative enterprise level in the past.

There are several benefits which will accrue to the country as a whole as a result of the proposed project. The increased production of agricultural products will alleviate somewhat the shortage of basic food items in Peru thereby reducing the inflationary effect of these shortages. In addition, imports of food products will be reduced (relatively), lessening pressure on the country's balance of payments which is an important contribution given the large deficits forecast over the next 2 to 3 years.

F. SOCIAL BENEFITS OF THE PROJECT

Full participation of rural inhabitants in the economic, political and social life of the country along with improvement in the quality of rural life are major goals of the Peruvian Agrarian Reform program. The rural population traditionally has been excluded from effective participation in the decisions affecting it and practically nothing has been done until recently to attempt to change the situation. In the past, the vast majority of the limited resources devoted to providing individual social benefits; e.g. education, health services, housing, etc., have been directed to the urban areas. Thus, the rural areas are deficient in terms of the availability of basic social services.

The Peruvian Government is implementing policies and programs designed to incorporate the rural population into the economic and social life of the country and to channel a just proportion of social benefits and services to rural areas. The Ministries responsible for providing such services as education, health, electricity, water and sewage systems, are charged with delivering a greater proportion of these services to rural areas. For example, SINAMOS is organizing rural inhabitants into various types of economic and social organizations and conducting courses on various aspects of community involvement. ORDEZA, in the implementation of AID Loan 052, has conducted innovative and highly successful experiments in involving the selected communities in sub-projects. Multidisciplinary ORDEZA teams spend from 4 to 6 weeks in selected communities, working with local leaders to determine community priorities, then design sub-projects in accordance with community needs.

In addition, the CENTRAL and associative enterprises will play an ever-increasing role assuring the participation of their members in decisions affecting them and in providing social benefits and services in the rural areas. These organizations will take a more active part in decisions regarding the flow of resources into their areas from the Ministries and other public entities to insure that they are coordinated with the needs and desires of the inhabitants of the areas.

Some of these organizations are already providing increased social benefits to their members and are demanding a larger proportion of the resources of public entities. Schools have been built or improved by the organizations in some rural areas and additional teachers have been hired. Medical posts have also been set up and nurses provided in some areas, and many CENTRALS and associative enterprises have plans to eventually provide housing for their members and to improve basic services such as potable water, sewage disposal, electricity services, etc.

By strengthening the CENTRALS and indirectly the associative enterprises, the proposed project will facilitate the flow of social benefits to rural areas and encourage fuller participation of rural inhabitants in decisions affecting their lives. The increased economic returns to these organizations will enable them to contribute directly to the expansion of social benefits for their areas.

Another major goal of the Agrarian Reform and of these cooperative entities is to increase the skills of the rural population through various types of training programs and courses. Designed to make the rural person a more productive member of society, this training will be related to the economic and social realities of rural life in Peru today and will contribute significantly to improving the quality of life for rural inhabitants in Peru. The Project, for example, will provide technical assistance at the associative enterprise and CENTRAL levels, enabling the organizations to function more smoothly, production to increase, ^{and} up-grade the skills of persons who will be recipients of the technical assistance. It is important to emphasize that the role of the CENTRALS and the associative enterprises in providing or serving as a conduit for these services is being integrated into the Peruvian Government's program designs for supplying these services, and thus directly supports the GOP's overall effort to increase the availability of social services in rural areas.

G. Existing Sources of Credit

The Banco Central de Reserva del Peru (Central Bank) has the major responsibility for controlling credit and for providing general direction to the banking system. The Superintendencia de Bancos (Superintendent of Banks) is responsible for ensuring that the banking system and individual banks comply with regulations. There are a total of 21 commercial banks which are mainly concerned with commerce and general lending. The Banco de la Nacion (National Bank) acts as banker to the Government. Five specialized government-owned banks assist in the development of agriculture, industry, mining and housing. The Banco de Fomento Agropecuario del Perú (BFA) specifically serves in agriculture, agro-industry and forestry development. It provides over 80% of the institutional credit to the agrarian sector, which on June 30, 1974, totalled about \$301 million. The remaining 20% of agriculture credit comes from commercial banks, and in case of agro-industry, from the Industrial Bank and COFIDE. Agricultural credit represents about 17% of total institutional credit, a percentage which has been fairly constant over the past seven years. Despite the growth in agricultural loans from U.S.\$115 million (Dec., 1968) to U.S.\$301 million (June 1974), there is still a shortage of funds available for lending. Since the Agrarian Reform law was passed in 1969, the BFA predominance in the agriculture credit field has increased and it is probable that this trend will continue since many former clients of the commercial banks have been expropriated and replaced by associative enterprises. In 1973, 63% of new BFA loans went to associative enterprises and this percentage is expected to increase this year. BFA lending includes Trust Fund resources, of which the A.I.D. Supervised Credit Fund comprises about 55%.

The BFA offers lines of credit for the expansion and improvement of food and non-food products, livestock, purchase of capital equipment, irrigation, forestry, marketing, storage and conservation of agricultural products, mechanization and facilities for processing of agricultural products. It is authorized to make loans to associative enterprises and to individual owners. The following Tables, II-G-1 and III-G-2 show the types of loans granted by the BFA with its own resources and with Trust Fund resources, amounts of loans, and effective interest rates for each type.

TABLE II-G-1
BFA LOANS WITH OWN RESOURCES

<u>Type of Loan</u>	<u>Amounts</u>	<u>Effective Interest Rate</u>
I Associative Enterprises	(All amounts)	
--Food products		7%*
--Industry		10%
--Capital Equipment		10%
--Marketing		
--Domestic, agro-inputs		10%
--Export		12%
II Small Agriculture (Individuals)	(Up to \$3,458)	
--Food products		7%
--Industry		10%
--Capital Equipment		10%
--Marketing (domestic markets) and purchase of agro-inputs		10%
III Medium Agriculture	(Up to \$6,916)	
--Food products		7%
--Industry		12%
--Capital Equipment		13%
--Marketing		
--Domestic, agro-inputs		13%
--Export	(Up to \$3,458)	13%
IV Large Agriculture	(Over \$6,916)	
--Food Products		9%
--Industry		14%
--Capital Equipment		14%
--Marketing		14%
--Domestic, agro-inputs		
--Exports	(Over \$3,458)	14%

* The BFA charges 7% to associative enterprises. This is supplemented by an additional 3% transfer to the BFA by the GOP which deposits this sum in a Special Account called "Current Government Transfers."

TABLE III-G-2
 BFA LOANS GRANTED WITH TRUST FUND RESOURCES (SUPERVISED
 AGRICULTURAL CREDIT)

<u>Type of Loan</u>	<u>Amounts</u>	<u>Effective Interest Rate</u>
I Associative enterprises		
--any credit line except forestry loan	All amounts	7%
--forestry loans	All amounts	2%
II Loans to Individuals		
--Food Products	Up to \$3,458	7%
	\$3,458.01 to \$4,620	9%
--Non food products	Up to \$1,153	7%
	\$1,153.01 to \$2,306	9%
	\$2,306.01 to \$3,458	10%
	\$3,458.01 to \$4,612	12%
III Marketing - any amount		10%
IV Forestry loans (to other than associative enterprises)		2%

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H. Demand Analysis

This demand analysis is based in the first instance on a review of projected CENTRAL needs for capital as determined through a survey of all 26 currently existing CENTRALS and through in-depth discussions with officials of 12 of these CENTRALS. Extended discussions with MOA and BFA officials knowledgeable in the development and operations of CENTRALS both in the field and at the Lima offices provided substantial additional information regarding the capital needs of these organizations. All available evidence indicates that sufficient demand exists and can be made effective to fully utilize the funds provided by the proposed Project within the time period contemplated. In fact, projected effective demand for credit by only those CENTRALS now in existence far exceeds the amount of funds to be made available by the proposed project, and it is virtually certain that the 40 CENTRALS which the MOA indicates will be established over the next three years will present even greater demands for credit. All of the existing CENTRALS are operating considerably below their potential capacity to provide services to their associated enterprises due to a lack of capital. They have neither sufficient working capital nor sufficient operating and administrative infrastructure to permit an optimum level of service. The sub-loans for these purposes provided under the Project will supplement the meager capital they do have, thus enabling them to operate at a viable level.

The total demand for project investment sub-loans should far exceed the \$2.4 million available for that purpose in the Project.

An analysis of the 26 existing CENTRALS indicates that there exists an average of five potential investment projects per CENTRAL of the magnitude and quality to be financed under the proposed Project.^{1/} (For further detail on types of projects, see Annex V, CENTRAL profiles).

^{1/} This varies considerably from CENTRAL to CENTRAL, both in terms of the present number of viable projects and the average cost projected. At the Santa CENTRAL for example, 17 projects totaling \$4.5 million have been identified. Others may have only one or two smaller projects identified at this point.

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I. Justification for Local Cost Financing

Of the total \$ 7 million A.I.D. contribution to the Project an estimated \$5.25 million will be expended on local costs and \$1.75 million on dollar costs. Most of the local costs expenditures are expected to be for construction, machinery and equipment and raw materials. Machinery and equipment purchases will be of a wide variety which can be purchased locally as required, raw materials will be largely of local origin, i.e., from the region or Department in which the CENTRAL is located. For these reasons and since a purpose of the loan is to provide maximum developmental impact on the target area served by the selected CENTRALS, the bulk of the loan financing available in the form of local currency is justified.

Moreover, the GOP expects large budgetary deficits over the next few years, despite substantial increases in revenues, as a result of a maximum development effort based on established development priorities. Since this Project is of recent genesis the GOP direct contribution of \$ 7 million, all of which will finance local costs, is the maximum that the GOP can currently support.

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J. Proposed Sub-Loan Terms and Conditions

During the second phase activities of the Project, the BFA will make available credits to CENTRALS to carry out activities approved in the Development Plans. These credits will come from the special CENTRAL Development Fund to be established in the BFA.

Three categories of sub-loans to CENTRALS are anticipated: (1) working capital; (2) fixed asset (service) investments; and (3) fixed asset (project) investments.

The effective interest rate will vary according to category, and will reflect similar rates currently charged --or to be established-- by State Development Banks in Peru. At the present time, these range from most concessionary rates of 7% to associative enterprises to 13% for agro-industrial projects.

Grace periods and repayment schedules will be worked out on a case-by-case basis, using the CENTRAL Development Plan and specific feasibility studies as guides.

At present, the BFA offers concessional terms to first level associative enterprises (See Section III.G above), but CENTRALS are not eligible for credit on such terms and are rather accorded treatment as private entities which pay upwards of 14% for credit. The present Project considers that it is essential to extend concessions to CENTRALS as a first step in providing them with a strong economic base.

Terms and conditions will, therefore, be concessionary. This is justified by long-run considerations; i.e., the basic Project purposes of strengthening the CENTRALS as viable institutions responsive to the peculiar needs established by the Agrarian Reform requires the provision of short-run concessions and subsidies (See Section II-A above).

Categories of Sub-Loans:

(1) Working Capital Working capital needs which will be identified in the CENTRAL Development Plan might include: capital for purchasing agro-inputs, marketing pipeline capital, salaries for needed managers and technicians, etc. Sub-loans for working capital to CENTRALS will most likely be offered at the concessional rate currently offered by the BFA to first level associative enterprises; i.e., 7%. The grace period and repayment schedule will be determined on a case-by-case basis, depending upon the specific uses of the capital and the estimated time needed for its recuperation.

(2) Fixed asset (service) investments The CENTRAL Development Plan will identify fixed asset(service) investments necessary to augment the CENTRAL's capacity to provide services to its associative enterprises.

These might include: silos, farm machinery and tools, machinery, maintenance buildings and equipment, office machinery, administrative buildings, etc. Credits will be available to the CENTRAL from the BFA for these purposes.

We estimate that the interest rate will be 9%. Grace periods and repayment schedules will be determined on a case-by-case basis, according to Development Plan recommendations.

(3) Fixed asset (project) investments The Development Plan will identify possible investments, the majority of which will be of an agro-industrial nature. These might include: food processing plants, livestock fattening facilities, feed processing facilities etc. Following identification of the project in the Development Plan, a detailed feasibility study will be carried out, probably by private consultants. The cost of this study will be included in overall sub-project costs, to be repaid by the sub-borrower, the CENTRAL. We estimate that the interest rate will be 11%. Grace period and repayment periods will be determined in the feasibility studies.

K. Impact on GOP Balance of Payments and Rate of Inflation

In that the proposed Project will have the long-range effect of increasing agricultural production, it will have a positive through relatively small effect on GOP balance of payments. Peru is a deficit country in the production of foodstuffs, and in 1974 has experienced a large commercial balance deficit due principally to increased prices of wheat and other commodities as well as petroleum. (See Section III-A, Overview of Economy).

Whatever substitution effect that increased agricultural production has on reducing imports will also serve as a check on inflation, but this, too, will be a minor effect.

L. GOP Capacity to Repay

See Section III-A, Overview of Economy, for discussion of GOP balance of payments situation and projected debt service capacity.

M. Consistency with Multilateral Institution Programs

The purposes which will be accomplished by this Project conform to the economic and social development priorities of Peru as well as those identified by multilateral institutions (International Bank for Reconstruction and Development, International Monetary Fund and the Interamerican Committee of the Alliance for Progress of the Organization of American States). The annual reviews of the economic and social conditions of Peru published by each of these organizations support the rural development programs which the GOP has undertaken. The annual reviews have commented specifically on the Agrarian Reform program as a necessary one to reduce income inequalities in rural areas of Peru. Additionally they see Agrarian Reform as a method of slowing sierra migration to the coast, especially to the Lima-Callao metropolitan area, which has had the effect of accelerating social problems in urban areas.

The proposed loan will contribute directly to accomplishing goals of the Agrarian Reform program by making available technical assistance and credit to CENTRALS which group together the beneficiaries of the Agrarian Reform. By making resources available at the level of the CENTRAL, it is expected that the benefits will be maximized, in that large numbers of small farmers will have access to the technical and infrastructure facilities to be created. Additionally an economically viable CENTRAL will provide direct benefits to the area in which it is located by providing employment opportunities and thus add to rural incomes.

The loan is thus fully supportive of the analyses and recommendations of the multilateral institutions.

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Several multilateral institution projects should be noted in that they envision activities which are complementary in nature to those anticipated in the present project.

N. ADDITIONAL CREDIT SOURCES - (See pgs. 42-46).

O. Effect on U.S. Economy

The effects of the proposed Project on the U.S. Economy will be minimal. Disbursements totaling \$ 11 million over a three year period represent a minimal addition to the gross capital outflow for the U.S. Economy and an estimated \$ 3 million from the loan will flow back into the U.S. in the form of purchases of goods and services. The added demand for farm inputs (fertilizers, etc.) resulting from the stimulus given the Peruvian agricultural sector should slightly increase U.S. exports of these items to Peru.

The increase in agricultural production resulting from the proposed Project will be used internally in Peru to help meet the country's food deficit so there will be no effect on U.S. exports to other markets. U.S. exports to Peru will not be significantly affected by this Project either since the majority of the food items produced by the cooperative organizations to be assisted under the Project are not items imported from the U.S. In any event world food shortages indicate that ample markets exist for U.S. produced foods.

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IV. ENVIRONMENTAL CONSIDERATIONS

The Project, which is designed to support the economic and financial viability of CENTRALS of agricultural cooperatives, will have environmental impact in only a few sub-projects.

Sub-projects to be financed during the investment-credit phase of the program will consist primarily of: (1) physical infrastructure, such as warehouses, machine shops or livestock feeding facilities; and (2) small to medium scale agro-industry, designed for primary and secondary transformation of agricultural production. The latter might include the following: a balanced feed mill, a tea-processing plant, a vegetable canning factory, or a cotton-seed oil extraction plant.

Criteria for sub-project selection will be such that adverse environmental effects will be minimized. Criteria will include: (1) industrial facilities are to be labor-intensive; (2) raw materials used in industrial facilities will be indigenous to the area, thus promoting more rational use of tillable land, which is a scarce factor in Peru; (3) projects which have a deleterious effect upon human life, livestock or crop production will be controlled.

It is recognized that the environmental aspects of each sub-project must be evaluated as part of the selection process. The implementing agencies will make an environmental assessment as part of the feasibility study for each industrial sub-project considered. The A.I.D. Environmental Assessment Guidelines and the laws and regulations of Peru which control environmental quality will be the basis for these evaluations. In each case the following topics will be addressed.

1. The environmental impact of the sub-project, including the following specific areas contemplated in the Guidelines:
 - Effect of manufacturing activities on surrounding areas;
 - Potential for pollution from process waters or surface run-off;
 - Impact of agricultural technologies introduced (double-cropping, pesticides, fertilizers, new seed varieties, etc.);
 - Effect of project on flora and fauna in the area.
2. Alternatives to each proposed sub-project, should significant deleterious effects be noted.

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V. ROLE OF WOMEN

A major concern of the Peruvian Government has been to strengthen the economic and social role of women and to more fully utilize them as basic resources in the process of national development. As a result of this concern the government has sought to increase women's participation at all social and economic strata of society. On July 18, 1974, President Velasco revealed to the Peruvian public the contents of PLAN INCA, a document drawn up by the military prior to October 1968, when the present government came to power. PLAN INCA refers to 31 separate categories of action which the present government considers to be of top priority in changing the traditional socio-economic structures of Peru. Category 23, "The Peruvian Woman" reads as follows:

a. Situation: (in October, 1968)

- 1) Peruvian women do not effectively exercise their citizenship rights.
- 2) Access by women to high political, administrative and other posts is very limited.
- 3) Men dispose of joint property without consent of their wives.
- 4) Discrimination against women in obtaining employment and in their remuneration.
- 5) Unjust and inhuman treatment of unmarried mothers.
- 6) The low cultural level of the masses increases the abusive treatment of the women by men.

b. Objective:

Effective equality with men in their rights and obligations.

c. Actions:

- 1) Encourage the participation of women in all high level activities and positions.
- 2) Eliminate discriminatory treatment which limits the opportunities or affects the rights and dignity of women.
- 3) Promote mixed education of men and women.
- 4) Guarantee that joint property cannot be disposed of by the unilateral decision of the husband.

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The institutionalization of the particular concern with rural campesino women has occurred with the creation of ACOMUC, the Association for Cooperation with Campesino Women, which has the following goals:

- Organization of technical training centers in rural areas where women can learn basic skills.
- Promotion of handicrafts, a major source of income for rural women, through special training courses.
- Promotion of women's role full participants in the development process.

ACOMUC leaders recently (October 1974) participated in a Latin American Congress on Women held in Lima, and will be among Peruvian delegates to the World Congress on Women in Bogota in 1975.

With the progress of the Agrarian Reform process it is expected that the bulk of rural women will eventually participate in first level associative enterprises --either directly as members in their own right or indirectly as a part of the families of cooperative members.

The present loan, designed to provide technical assistance and investment credit to CENTRALS, will have as its primary target the rural poor who are grouped into CENTRALS. The benefits will be shared equally by men and women. Employment and training opportunities created as a result of credits made available to CENTRALS will be equally open to men and women.

It is expected that the majority of benefits will be passed along to the associative enterprise members and their families, in in-kind services, such as improved health and education.

By strengthening the CENTRALS, and increasing their role and area of influence, it is expected that, through profits generated under this loan, CENTRALS will initiate a number of services which are specifically directed to women and designed to increase the participation of women in the economy. Such services might include: sewing centers, special education facilities, training in nutrition and child care, and child care centers. These services would serve to increase the participation of women by permitting them to develop skills which would lead to improved employment opportunities, while at the same time freeing them from some of the traditional homemaking tasks.

Since specific benefits to rural women as the result of this loan are not the main objective of the Project, such benefits will rather occur over the longer-run as a result of strengthening of CENTRALS and their associative enterprise members.

Project evaluation will, however, seek to verify in objective terms the impact of the Project on rural women and the benefits accruing to them. Indicators which will be considered include:

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- Numbers of women trained under various MOA programs of technical assistance;
- Number of women filling new jobs created as a result of the Project.
- Programs developed at the CENTRAL level which are of direct benefit to women (child care centers, etc.)

VI. IMPLEMENTATION PLAN

Project Execution

The below schedule sets forth the estimated time required for each step of the Project.

<u>Event</u>	<u>Date</u>
1. DAEC Review of CAP Supplement	June 11, 1975
2. Loan Authorization	June 30, 1975
3. Negotiation and Signature of Loan Agreement	September 30, 1975
4. Issue Implementation Letter No. 1	October 15, 1975
5. Satisfaction of Conditions Precedent to Initial Disbursement of Funds	November 30, 1975
A. Opinion of Borrower's Legal Counsel	
B. Designation of the Interministerial Committee on CENTRAIS -CENCOM- as a Legal Representative of the Borrower. Up to \$100,000 of Loan Funds will be available for Technical Assistance to CENCOM.	
6. Satisfaction of Conditions Precedent to Disbursement of Funds	February 15, 1976
A. Designation of the BFA as the Financial Agent.	
B. Evidence of the creation of a CENTRAL Development Fund within the BFA.	
C. Evidence of adequate resources to implement the Project as follows:	
1. By the Borrower, that \$7 million equivalent will be available to the CENTRAL Development Fund.	

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2. By the Borrower, that the MOA, BFA, and MOF will contribute adequate personnel to implement the Project.

D. Preparation of Project Implementation Plan including a complete description of the Project and the roles that CENCOM, BFA, MOA, and MOF will fulfill to implement the Project. Specifically, the Plan will include:

1. The administrative structure that will be utilized to execute the Project, and the functional role of each entity within the structure are as follows:

A) CENCOM - The Interministerial Committee on CENTRALS will be created under a joint agreement among the BFA, MOF, and MOA, such agreement being formalized in the form of a Supreme Decree. An Executive Secretary will be agreed upon and appointed by these Organizations.^{1/} Each Ministry will appoint whatever additional staff are determined to be necessary to carry out the below functions of the committee:

- 1) Develop a tri-partite agreement among the BFA, MOA, MOF. This agreement will spell out in detail the responsibilities of these Organizations, and set forth the relationship of CENCOM to each. This agreement will also spell out the operating procedures of CENCOM.
- 2) Develop (with primary inputs from MOA) the terms of reference for the CENTRAL Development Plans.
- 3) Develop criteria for review and evaluation of the CENTRAL Development Plans, including the process that will be followed to reach approval of the Plans.

^{1/} It is expected that an Executive Secretariat will be formed to serve as the technical arm of the CENCOM, composed of full-time employees from each of the cooperating GOP entities.

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- 4) Prepare contract documents, publication of bid notices, bid evaluation guidelines, and contract award procedures.
 - 5) In the capacity of representative of the borrower, and with a delegation of authority from the BFA, MOA and MOF, insure that the agreed upon inputs required under each CENTRAL Development Plan are provided. CENCOM will be alerted by the Project site representative of the BFA as to what inputs are missing, and will in turn discuss this directly with the responsible entity.
- B) BFA - The BFA will designate an individual in the Branch Office that services a CENTRAL included in the Project as the person responsible for assuring that all banking functions under the Project are carried out. This individual will also serve as the liason between the CENTRAL Manager and the other agencies (MOA, MOF, ENCI) that will be responsible under the Development Plan for providing various types of inputs to the CENTRALS.

Finally, the BFA designee at the CENTRAL Project level will be the liason with CENCOM with responsibility for monitoring the implementation of the CENTRAL Development Plan, and reporting the absence of any inputs necessary to achieve the goals set forth in the Plan.

Specific functions of the BFA are as follows:

- 1) Work with CENCOM and the MOA and MOF to develop the term of reference for the CENTRAL Development Plans.
- 2) Provide the financial inputs approved in each Department Plan.

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- 3) Provide each CENTRAL with required banking services.
 - 4) Appoint a local representative to be the liaison between CENCOM and the CENTRAL. This representative will also serve as a contact man with the local offices of the MOA and MOF.
- C) MOA - The Division of Campesino Businesses will be the office specifically charged with assuring that the MOA's assigned functions are fulfilled. The MOA's Zonal offices will be responsible for carrying out tasks as agreed to in the Development Plan. Specific functions of the MOA include the following:
- 1) Develop, under the auspices of CENCOM, the terms of reference for the CENTRAL Development Plan Studies.
 - 2) Provide technical assistance to the CENTRAL's member associative enterprises as follows:
 - a) preparation of farm plans.
 - b) application for campaña credits.
 - c) assess the training needs of the associative enterprises and provide required training.
 - d) assist in the establishment and regulation of uniform accounting systems.
 - e) provide production advisory services.
 - 3) Provide technical assistance to the CENTRALS as follows:

- a) coordinate the farm plans of the member associative enterprises.
 - b) through CENCIRA provide training in enterprise organization, planning and management.
 - c) assist the CENTRAL in establishing its services.
 - d) establishment of an accounting and reporting methodology consistent with that used by the member associative enterprises.
- D) MOF - The Ministry of Food through its production and marketing directorates will be responsible for carrying out the MOF's assigned functions. The Zonal offices will be responsible for carrying out tasks at the CENTRAL level as set forth in the Development Plans. Specific functions of the MOF are as follows:
- 1) Determination of required agro-inputs at both the associative enterprise and CENTRAL level;
 - 2) Advise the CENTRAL and its associative enterprise members of the most efficient and least costly methods of marketing production, and establish the required infrastructure for the marketing system.
 - 3) Provide technical assistance to the CENTRALS and associative enterprises in matters relating to the processing of foodstuffs.
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VII. EVALUATION PLAN

A. Method of Evaluation

A covenant in the Loan Agreement will provide for a joint AID-GOP annual evaluation review of the Project. The first of such reviews, to be conducted one year after the initial disbursement under the Loan, will concentrate on examining the timely provision of Project inputs and the success in transforming these into the desired Project outputs. Elements to be examined in the first-year evaluation will include the adequacy of cooperation among the Ministries of Agriculture and Food and the BFA, the administrative effectiveness of the CENCOM and its Executive Secretariat, the availability and quality of contracted consultants, the timely completion and quality of CENTRAL Development Plans. (See the attached Logical Framework Matrix for a detailed outline of Project elements and verifiable indicators.) The second and third-year evaluations will increasingly focus on the Project purpose level, evaluating the success of Project outputs in achieving the various Project purposes, namely i) in promoting the capability of the CENTRAL to provide basic services to member enterprises, ii) in increasing its capability to provide productive services to members, and iii) in increasing the financial viability of the CENTRAL. Attention will continue to be given to the Project output level as well, evaluating the timeliness and quality of technical assistance given to CENTRALS, of the agro-industrial sub-project feasibility studies, and of investment in sub-projects. Evaluation of these outputs will be measured against the elements identified in each CENTRAL Development Plan.

These annual joint AID-GOP evaluations reviews will be conducted on the basis of an evaluation report prepared and submitted by the Executive Secretariat of the CENCOM. General terms of reference for such reports, based on the attached Logical Framework, will be prepared by USAID in collaboration with the CENCOM staff and will be included in the Annex of the Loan Agreement. These terms of reference and the delineation of responsibilities for their execution will be included in the internal GOP technical assistance agreement between the BFA, as implementing agency, and the two participating Ministries.

Evaluation of the contribution of the Project to overall sector or development goals will either i) be included in the annual AID-GOP evaluation reviews in the second and/or third year of the Project or ii) be conducted after two or three years of Project activity by an outside consultant, either locally contracted by the CENCOM or procured under a centrally or regionally-funded A.I.D. technical assistance agreement (such as that, for example, being considered with

Development Alternatives, Inc.). This evaluation might consist of a sample survey of benefitted farmers to determine increases in food production, farm income, and employment and the contribution of the CENTRALS toward these sector goals.

B. Data Collection

As previously noted collection of data on potential client CENTRALS has been started as an integral part of the process of selection of CENTRALS to be assisted under the Project. These data will be amplified and specified in each CENTRAL Development Plan drawn up as part of the Project. The Development Plan will also include additional baseline data against which to measure objectively verifiable indicators for Project purpose and sector goal, i.e. aggregate production, income, and employment data. All the necessary baseline data, then, will be collected and/or compiled by the consultant responsible for each CENTRAL Development Plan.

Future data collection for the purposes of Project evaluation will be the responsibility of the Executive Secretariat, which will compile information from periodic reports made by participating agencies and from site visits made by the Secretariat staff to monitor Project implementation. These data will be analyzed by the Secretariat in preparing the annual evaluation report.

C. Objectively Verifiable Indicators

See Logical Framework Matrix.

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Sector Goal	Objectively Verifiable Indicators	Means of Verification	Assumptions
<p>Increased production, more equitable income distribution, and greater employment opportunities, in the Agricultural sector.</p>	<p>For the members of the associative enterprises that constitute the CENTRALS included in the Project, and the CENTRALS, the following increases:</p> <p><u>Production.</u> An increase in excess of national average in agricultural output at the associative enterprise level as measured from base-line data to be obtained from the CENTRAL Development Plans.</p> <p><u>Income.</u> An increase at the associative enterprise level as measured from base-line data to be obtained from the CENTRAL Development Plans.</p> <p><u>Employment.</u></p> <p>a) CENTRAL level: 160 management positions and 1,000 labor positions by end of project.</p> <p>b) Associative Enterprise level: 20% increase in management positions and 20% increase in labor positions by end of project.</p>	<ol style="list-style-type: none"> 1. IBRD Annual Report for Peru. 2. CIAP (CEPCIES) Reports. 3. Ministry of Agriculture reports. 4. National Planning Institute reports. 	<ol style="list-style-type: none"> 1. The GOP will continue to assign Agrarian Reform a high priority in development plans. 2. There will be no major changes made in the types of organizations established by the Agrarian Reform (e.g. CAPs, CAS, SAIS, etc.) 3. Adequate and timely production credits will be available. 4. No major disasters (e.g. earthquakes, floods) will occur in project areas.

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Project Purposes	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>Institutional Development of CENTRALS, namely:</p> <p>1. Increase the capability of CENTRAL to provide basic centralized service</p> <p>*Percentages represent the expected portion of the particular function a Central is to perform gradually (i.e. In the case of purchasing of agro-inputs, each Central is expected to provide 30% of the needs of its affiliated enterprises during the first year. In the Central's second year of operation, this % should increase to 50% and to 80% in the third year).</p>	<p><u>EOPs</u></p> <p>1. CENTRAL services being provided to member associative enterprises:</p> <p>a. Accounting</p> <p>Year 1 - 3 CENTRALS Year 2 - 7 CENTRALS Year 2 -10 CENTRALS</p> <p>b. Central purchasing of agro-inputs</p> <p>Year 1 - 3 providing 30% Year 2 - 3 providing 50% 7 providing 30% Year 3 - 3 providing 80% 7 providing 50% 10 providing 30%</p> <p>c. Marketing of production</p> <p>Year 1 - 3 providing 20% Year 2 - 3 providing 40% 7 providing 20% Year 3 - 3 providing 50% 7 providing 40% 10 providing 20%</p> <p>d. Equipment maintenance centers (being utilized, staffed with trained personnel, providing range and quality of service and financially sound - as in Central Development Plan).</p> <p>Year 1 - 2 Year 2 - 4 Year 3 - 7</p>	<p>From progress reports required of the MOF, Annual reports of the CENTRALS, other reports required by the MOF from CENTRALS and Associative enterprises and special surveys and site inspections.</p> <p>*</p>	<p>Adequate agro-inputs will be available in the needed quantities, at reasonable prices and at the right time.</p> <p>Adequate production credits will continue to be available.</p> <p>Price policy will not cause disincentives to production.</p> <p>Savings and investment at the CENTRAL and associative enterprise level will be adequate to attain programmed capitalization.</p>

Project Purposes (Con't)	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
2. Increase the financial viability of CENTRALS	<p>e. Equipment rental centers being utilized, staffed with trained personnel, providing range and quality of service and financially sound (as in Central Development Plan).</p> <p>Year 1 - 2 Year 2 - 2 Year 3 - 2</p> <p>- Increased request from associative enterprises to CENTRALS for technical or other assistance.</p> <p>- Increased requests to be affiliated with CENTRALS by associative enterprises.</p> <p>- Formal and effective coordination of technical services and other resource inputs between MOF and other project related entities (BFA, ORDEZA, ENCI, SINAMOS, MOA).</p>	<p>From progress reports required of the MOF, Annual Reports of the CENTRALS, other reports required by the MOF from CENTRALS and associative enterprises and special surveys and site inspections.</p>	<p>No major unforeseen delay occurring in estimated project implementation timetable.</p>

Project Purposes (Cont)	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
	<p>Referral to a series of performance indices (to be developed) which will include:</p> <ul style="list-style-type: none"> a. Current ratio: current assets to current liabilities. b. Relationships between net worth and: <ul style="list-style-type: none"> (1) Total debts (2) Fixed assets (3) Accounts receivable c. Stock turnover, sales turnover, accounts receivable turnover. <p>- For CENTRALS with agro-industry:</p> <p>Agro-industry operating at level of profitability in accordance with CENTRAL Development Plan and/or sub-project feasibility study.</p>	<p>From financial analyses conducted by MOA and BFA using Annual Reports, Financial Statements, and Profit and Loss Statements of CENTRALS.</p>	

Outputs	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<u>Output Level One:</u>			
Development Plans (CDP) prepared for selected CENTRALS	Year 1: 4 CDPs completed Year 2: 6 CDPs completed Year 3: 10 CDPs completed	Periodic reports of GENCOM	GOP will contract out part of CDPs to private consultants.
<u>Output Level Two:</u>			
Technical assistance provided as planned and approved in CDP.	Implementation of Phase I of CDPs in subject CENTRALS.	CENTRAL Annual Reports and periodic reports of MOA, MOF, BFA, and CENCOM. Also site visits	No new major organizational changes in Cooperating entities.
Training provided as planned and approved in CDP.	Training accomplished in positions designated in CDPs	"	
--Coop management --Accounting --Marketing			
Completion of Agro-Industrial sub-project feasibility studies	Completion as per CDPs and CENCOM approval	"	
Investments in sub-projects	Implementation of Phase 2 of CDPs in subject CENTRALS.	"	
a. Working Capital b. Fixed Asset (Service) Investments c. Fixed Asset (Project) Investments			

Inputs	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
1. A.I.D.			
a. Resources to capitalize CENTRAL Development Fund.	Loan Authorization and Signature.		
b. Resources to finance technical assistance (Consultant) Services for CENTRAL Development Plans.	Loan Authorization and Signature.		
2. GOP			
a. Resources to CENTRAL Development Fund (BFA)	\$8 million counterpart for CENTRAL Development Fund.	GOP written agreement	
b. Tech. Assist. (MOA, MOF)	BFA credits available. MOF provision of adequate inputs.	BFA Covenant, site inspections, reports of GOP CENTRALS.	
c. Campaña financing.			
d. Provision fertilizers, agro-inputs.			

CHECKLIST OF STATUTORY CRITERIA
(Alliance for Progress)

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Programs Appropriations Act, 1974.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITYANSWER OR DISCUSSION

1. FAA § 103; § 104; § 105;
§ 106; § 107. Is loan being
made

a. for agriculture, rural
development or nutrition;

b. for population planning
or health;

c. for education, public ad-
ministration, or human re-
sources development;

d. to solve economic and
social development problems in
fields such as transportation,
power industry, urban develop-
ment, and export development.

e. in support of the general
economy of the recipient
country or for development
programs conducted by private
or international organiza-
tions.

a. For rural development.

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. 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 active agricultural credit program. A top priority activity of the GOP is the Agrarian Reform program which is designed to bring new lands under cultivation.

(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 payment management, the GOP is seeking foreign and domestic private investments in areas identified as being essential to growth. The Greene Agreement of 1974, which resolved outstanding USG-GOP claims arising out of expropriation of the assets of several U.S. firms, has improved the climate for private enterprise and investment.

(3) Increasing the public's role in the developmental process.

Programs in Industry (Industrial Law), fishing (Fishing Law), mining (Mining Law), Agrarian Reform, and Social Property are especially designed to achieve this objective, as are efforts to mobilize rural population.

(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 (18%, 10% and 5% respectively).

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 19) and intervention in affairs of other free and independent nations). (See also Item No. 10).

"See item No. 19.

(5) 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 press and of expression has been curtailed in recent years, tax collections have improved, laws are enforced and land reform has been given high priority. The Industrial Community and Social Property concepts are supportive of the rights of workers.

(6) 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, and relatively stable prices,

coupled with significant economic and social reforms designed to restructure the Peruvian society along more equitable lines, clearly indicate Peru's compliance with Alliance for Progress goals.

(7) Attempting to repatriate capital invested in other countries by its citizens.

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

(8) 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 concerns of its people, particularly the poor, and has intensified self-help efforts as indicated above.

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

Treatment of U.S. Citizens by Recipient Country

3. 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 instance.
4. 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? Outstanding expropriation claims have been settled to satisfaction of GOP and USG.
5. 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.
- a. has any deduction required by Fishermen's Protective Act been made? No deduction has been required.

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

The Administrator has taken into consideration prior seizures of U.S. fishing vessels by the GOP in his determination to continue to furnish assistance to Peru. There have been no such seizures or sanctions since the 1972-73 fishing season.

Relations with U.S. Government and Other Nations

6. 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 significant trade or assistance
7. 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.
8. 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? While sub-loan credits may be given for oilseeds production and processing, Peru will remain a net importer of oilseeds.
9. FAA § 620(f). Is recipient country a Communist country? No.
10. 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.

11. 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.
12. 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? The Administrator has taken Peru's limited guaranty program into consideration in determining to continue to furnish assistance to Peru.
13. 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.
14. FAA § 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country? No.
15. 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.
16. 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? According to data available in Peru, Peru is current on all U.N. payments, except for small amounts to be contributed to specialized agencies. These amounts will be paid during CY 74, except for \$10,000 in Soles to be included in CY 75 budget.

17. 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.
18. FAA, 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?
- Not applicable.

Military Expenditures

19. 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).)
- Of the two-year 1973-74 budget 14.6% is earmarked for military expenditures.
- Best estimates indicate that in the 1973-74 budget biennium Peru will spend \$ 167 Million in foreign exchange on military expenditures, and nothing for sophisticated weapons systems.

CONDITIONS OF THE LOAN

General Soundness

20. 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 loan terms are reasonable and legal under both United States and Peruvian law. The sub-loan terms for this project are proposed by the GOP and considered reasonable and legal in all respects.
21. FAA § 251 (b) (2); § 251 (e). 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? For the reasons given in the loan paper the project is considered economically and technically sound. An application with appropriate assurances has been received and is included as an annex in this paper.
22. FAA § 251 (f). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects. There are reasonable prospects that Peru will be able to repay the loan fully and promptly.
23. FAA § 251 (b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
24. 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.

25. 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 purpose of loan? No such legislative action expected to be necessary.
26. FAA § 611 (e). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project? Yes. See Annex II for Section 611 (e) certification.

Loan's Relationship to Achievement of Country and Regional Goals

27. FAA § 207; § 251 (a); § 113. 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; (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; or (f) integrating women into the recipient country's national economy. The loan is designed to assist Co-operative CENTRALS whose members are private individuals or community groups. As such, the activity will assist Peru in its agriculture program, and will provide significant on-the-job training. The integration of women into the country's national economy should be aided through the stimulation of rural agricultural production, in which Peruvian women are already active

28. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed? Not susceptible
29. 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 project will be consistent with other GOP development activities, will contribute to development of the rural sector, and is consistent with A.I.D. activities and goals.
30. 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. The promotion and assistance of CENTRALS will contribute significantly to long term self-sustaining growth.
31. FAA § 209; § 251 (b) (8). Information and conclusion on whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America. See Section II.A.3.c. of CAP. The assistance is not expected to have a significant impact on the economic and political integration of Latin America.
32. FAA § 251 (g) § 111. Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America. Sub-loans and technical assistance will be available to federations of cooperatives (CENTRALS) thus promoting the cooperative movement.
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 CIAP review of Peru emphasized the justifiable need of international financial assistance to Peru's development programs.
34. 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. The loan is designed to assist Cooperative CENTRALS which group together small farmers. It is expected to encourage maximum participation in economic development.

35. 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.
- Program contemplates significant contributions at the level of the agrarian cooperatives. By promoting a cooperative effort, the program strengthens democratic processes at the grass-roots level.
36. 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) the loan will significantly strengthen Agrarian Sector cooperatives and federations of such cooperatives.
(c) and (d) by fostering the economic strength of the CENTRALS and giving them the financial capacity to assume functions previously performed by middle men (purchasing and marketing specifically).
(e) yes, by providing financing for agro-industry and improved crop production.
(f) no significant impact.
37. 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.

Loans' Effect on U.S. and A.I.D. Program

38. 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.

39. 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. \$10 million of the loan funds will go to the Agricultural Development Bank, an intermediate credit institution. There may be some procurement of U.S. goods and services from private sources.
40. 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 38.
41. 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? Services of U.S., Peruvian, Code 941 firms will be used for procurement of goods and technical assistance as appropriate.
42. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan. Information for or about small businesses will be made available in accordance with A.I.D. policies.
43. 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.
44. 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 Technical assistance will be supplied in the program. Private firms are expected to be utilized on a contract basis to provide some of the technical assistance. There are no current plans to utilize the facilities of

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. U.S. Government agencies.

Loan's Compliance with Specific Requirements

45. FAA § 110 (a); § 208 (e). Has the recipient country provided assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made? Yes.
46. FAA § 112. Will loan be used to finance police training or related program in recipient country? No.
47. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions? No.
48. FAA § 201 (d). Is interest rate of Loan at least 2% per annum during grace period and at least 3% per annum thereafter? Yes.
49. FAA § 604 (a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President. Yes.

50. FAA § 604 (b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? Not applicable.
51. 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.
52. 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.
53. FAA § 604 (f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable? The loan will not finance a commodity import program.
54. FAA § 608 (a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items. The loan is expected to be primarily for local expenditures. If appropriate, however, U.S. Government excess personal property will be procured in lieu of new items.
55. FAA § 611 (b); App. § 101. If loan finances water or water-related land resources 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.

56. 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?
- The Loan Agreement shall require such contracts to be let on a competitive basis to the greatest extent possible.
57. FAA § 612 (b); § 636 (h). 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.
- The GOP will contribute to the project sufficient budgetary resources to cover administrative costs of the Loan. No excess U.S. owned currencies are available in Peru.
58. App. § 113. Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?
- No. Peru is neither an excess nor a near excess currency country.
59. 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.
60. FAA § 620 (g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
- No such financing contemplated.
61. FAA § 620 (k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million?
- No.
62. FAA § 636 (i). Will any loan funds be used to finance purchase, long-term lease, or
- No.

exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?

63. App. § 103. Will any loan funds be used to pay pensions, etc., for military personnel? No.
64. App. § 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? The loan provides for technical assistance to CENTRALS of Agrarian cooperatives through intermediate credit institutions. A.I.D. will review these institutions' procedures for loan financed contracts.
65. App. § 107. Will any loan funds be used to pay UN assessments? No.
66. App. § 108. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7). Loan Agreement and implementation letters will provide for application of Regulation 7
67. App. § 110. Will any of loan funds be used to carry out provisions of FAA §§ 209 (d) and 251 (h)? No.
68. App. § 114. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the loan.
69. App. § 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress. No.

70. MMA § 901.b; FAA § 640 c.
(a) Compliance with requirement that at least 50 per centum 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.

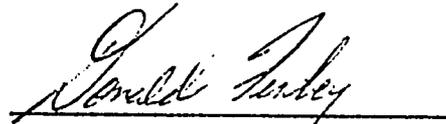
The Loan Agreement will provide for compliance with the 50% U.S. flag shipping requirements.

- (b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?

Consideration will be given to making such a grant available if a situation should arise wherein a differential is substantial. At this time, however, no such situation is anticipated.

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

I, Donald R. Finberg, 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 judgment Peru has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project: AGRICULTURAL COOPERATIVE FEDERATIONS DEVELOPMENT.



Donald R. Finberg
Director, USAID/Peru

17812

Lima, 30 Mayo 1975.

OFICIO NO. 957-75-FF/75.14

Senores
Agencia para el Desarrollo
Internacional (AID)

Att: Sr. Donald Finberg
Director del AID en el Peru.

Tengo el agrado de dirigirme a usted en relacion al proyecto de Desarrollo de las Centrales de Cooperativas Agrarias mediante el establecimiento de un Fondo de Desarrollo para estas Centrales y para sub-proyectos agricolas.

Con el proposito de constituir el mencionado Fondo de Desarrollo, mi Gobierno solicita oficialmente a la Agencia para el Desarrollo Internacional (AID) de los Estados Unidos de America, el otorgamiento de asistencia financiera por un monto de US\$8,000,000, en las condiciones mas favorables que concede la AID.

La contrapartida que se requiere como aporte nacional para crear el Fondo de Desarrollo y que se estima en US \$8,000,000 se aportara en su equivalente en soles provenientes de los créditos del Banco de Fomento Agropecuario.

El referido proyecto esta encuadrado dentro de los planes de desarrollo del Sector y cuenta con la prioridad correspondiente.

En lo que se refiere a la Unidad Ejecutora, actualmente estamos efectuando las coordinaciones y estudios respectivos a fin de determinarla, por lo que oportunamente ^{le} sera comunicada la decision que se tome sobre el particular.

Por lo expuesto, a nombre de mi Gobierno solicito la cooperacion de la Agencia para el Desarrollo Internacional para la financiacion y desarrollo del proyecto en referencia.

Con este motivo, aprovecho la oportunidad para reiterar a usted, los sentimientos de mi distinguida consideracion.

Dios guarde a usted,

Firmado: General de Brigada E.P .
AMILCAR VARGAS GAVILANO
Ministro de Economia y Finanzas.

(COPY RETYPED)

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DEPARTMENT OF STATE TELEGRAM

ACTION: USAID UNCLASSIFIED CONTROL: STATE 233400
INFO: AMR DCM ECON AGRIC CHRON Classification 2A OCT 74 0749
R 232007Z OCT 74
FM SECSTATE WASHDC
TO AMEMBASSY LIMA 9960/9961
BT
UNCLAS STATE 233400

AP
ACTION: AMR (FILMS)
INFO: FEH
AD/O
D
Def

AIDAC

E.O. 11652: N/A

SUBJECT: DAEC REVIEW OF THE SERVICE FEDERATIONS FOR
AGRICULTURAL COOPERATIVES IRR

1. THE DAEC REVIEWED THE SUBJECT IRR ON FRIDAY, OCTOBER
11. THE IRR WAS APPROVED, AND CAP SUBMISSION TO AID/W
IS SCHEDULED FOR LATE NOVEMBER-EARLY DECEMBER. ULT
NOVEMBER 15, USAID/LIMA SHOULD FORWARD AID/W AN INTERIM
CABLE REPORT ON THE STATUS OF POINTS B, C, D, AND U,
BELOW.

2. DURING THE INTENSIVE REVIEW, THE FOLLOWING MATTERS
SHOULD BE SPECIFICALLY ADDRESSED:

A. RELATIONSHIP TO THE AGRARIAN REFORM AND
AGRICULTURAL SECTOR

THE AGRARIAN REFORM SHOULD BE EXPLAINED IN
DETAIL, ESPECIALLY ITS RELATIONSHIP TO OUR TARGET GROUP,
AND THE ROLE THAT THE PROPOSED PROJECT WILL PLAY IN THE
REFORM PROCESS SHOULD BE CLARIFIED. SINCE THERE IS
NO COMPREHENSIVE AG SECTOR ANALYSIS YET COMPLETED BY
THE MISSION, ATTENTION SHOULD BE GIVEN TO DESCRIBING
SECTOR BOTTLENECKS THAT USAID AND THE GOP SEE AT THIS
TIME, AND HOW THE PROPOSED ACTIVITY WILL AFFECT THESE
PROBLEM AREAS. THIS SHOULD INCLUDE AN ANALYSIS OF WHETHER
THE EFFECTIVENESS OF THE PROJECT IS IMPAIRED BY OTHER
GOP AGRICULTURAL POLICIES, SUCH AS PRODUCER PRICE POLICIES,
AND IF SO, WHETHER AND HOW THIS MATTER CAN BE DEALT WITH.

B. TARGET MAN ANALYSIS

THE ULTIMATE BENEFICIARY OF THE ACTIVITY -
THE MEMBERS OF THE ASSOCIATIVE ENTERPRISES - SHOULD BE
DESCRIBED IN DETAIL, IN TERMS OF THEIR LAND HOLDINGS,
EMPLOYMENT, INCOME, AND ACCESS TO OTHER RESOURCES, AS
WELL AS THE APPROXIMATE SIZE AND LOCATION OF THE TARGET
GROUP WE INTEND TO REACH. THE CAP SHOULD INDICATE
IF THEY ARE ALL COOPERATIVE MEMBERS. INDIVIDUAL

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FARMERS, OR A MIX OF THE TWO. AN EFFORT SHOULD BE MADE TO CALCULATE THE BENEFITS THAT WILL ACCRUE TO THE TARGET MAN AT THE COMPLETION OF THE PROJECT.

C. ANALYSIS OF THE CENTRALS

THE DAEC UNDERSCORED THE NEED FOR A CAREFUL ANALYSIS OF THE CENTRALS. THIS SHOULD BE AN IN-DEPTH EXAMINATION OF ITS BASIS IN LAW, ITS FUNCTIONS, MEMBERSHIP, SOURCE OF INCOME, AND STAFF. THE PROJECT CONTEMPLATES AN EXPANSION OF THE ROLE OF THE CENTRAL AND THEREFORE THE CAP SHOULD DIRECTLY ADDRESS THE RELATED ADMINISTRATIVE, LEGAL, TECHNICAL AND FINANCIAL CHANGES REQUIRED TO FULFILL NEW FUNCTIONS. THE MISSION SHOULD INCLUDE A PROFILE OF THE CENTRALS WHICH IT EXPECTS TO ASSIST UNDER THE PROJECT, INCLUDING THE TYPE OF AGRICULTURAL PRODUCTION BY THE CENTRAL MEMBER CO-OPS, THE SERVICES TO BE PROVIDED BY THE CENTRAL MEMBER EMOPS, THE SERVICES TO BE PROVIDED BY THE RESPECTIVE CENTRALS, THE MINIMUM REVENUE GENERATION REQUIREMENTS NECESSARY TO ASSURE VIABILITY, THE PROJECTED IMPACT OF THESE SERVICES ON THE INCOMES OF THE PARTICIPATING FARMERS, AND THE BASIS FOR THE CONCLUSION THAT CENTRAL SUB-PROJECTS SELECTED ARE TECHNICALLY AND ECONOMICALLY FEASIBLE.

D. INTERRELATIONSHIPS OF ORGANIZATIONS

THE IRR RECOGNIZED THE NECESSITY FOR DELINEATING THE ROLES THAT WILL BE FULFILLED BY THE ORGANIZATIONS INVOLVED IN THE ACTIVITY. THE AGENCY OR AGENCIES THAT WILL HAVE PRIMARY RESPONSIBILITY FOR PROJECT IMPLEMENTATION MUST BE IDENTIFIED ALONG WITH A DEFINITION OF THEIR SPECIFIC RESPONSIBILITIES AND THE BASIS UPON WHICH THE ABILITY TO IMPLEMENT THE PROJECT RESTS. THIS THE PAPER SHOULD DESCRIBE HOW SUB-PROJECTS WILL BE PRESENTED, APPROVED, AND IMPLEMENTED, AND ASSIGN ROLES TO THE CENTRALS, BEA AND MOA/ORDFA. THE ROLE OF PROJECT-RELATED ORGANIZATIONS SUCH AS SIHAMOS SHOULD ALSO BE SPECIFIED.

IN ADDITION TO ANALYZING THE ROLE TO BE PLAYED BY THE VARIOUS ORGANIZATIONS, THEIR CAPACITY IN TERMS OF PERSONNEL, TRAINING, BUDGET, EXPERIENCE TO FULFILL THEIR DESIGNATED ROLES, SHOULD BE CONSIDERED. SPECIAL ATTENTION SHOULD BE GIVEN TO THE MOA DELIVERY SYSTEM FOR PROVIDING FARM-LEVEL ADVISORY SERVICES AND WHETHER OR NOT ANY PROJECT ASSISTANCE SHOULD BE ALLOCATED TO

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STRENGTHENING THIS SYSTEM. IN ORDER TO BE EFFECTIVE THIS WOULD REQUIRE AN ANALYSIS OF THE RATIO BETWEEN SALARIES AND OPERATIONAL EXPENSES TO ASSURE MOBILITY OF FIELD STAFF TO TARGET MAN.

E. FINANCIAL ANALYSIS

THE CAP SHOULD HAVE A COMPLETE FINANCIAL PLAN, INCLUDING A SOURCE AND APPLICATION TABLE AND THE PROJECTED DISBURSEMENT SCHEDULE BY ACTIVITY OVER TIME. USAID INDICATED IN THE REVIEW THAT A FOUR YEAR DISBURSEMENT SCHEDULE WOULD BE APPROPRIATE GIVEN THE INSTITUTION BUILDING CHARACTER OF THE PROGRAM DURING ITS FIRST PHASE. AIO/W PREFERENCES A THREE YEAR PERIOD AND A TAILORING OF THE ACTIVITY TO FIT THIS PERIOD. WE ARE PREPARED TO CONSIDER A FOUR YEAR PERIOD IF ABSOLUTELY ESSENTIAL COMPONENTS OF THE ACTIVITY WOULD OTHERWISE BE OMITTED, BUT APPROVAL WILL REQUIRE A STRONG JUSTIFICATION. IN ANY EVENT, USAID SHOULD EXPLAIN ANY PROPOSED DISBURSEMENT PERIOD IN TERMS OF PROJECT-RELATED ACTIVITIES AND HOW THEY WILL PROCEED OVER TIME.

F. WOMEN'S ROLE IN THE PROJECT

THE ROLE AND STATUS OF WOMEN IN THE AGRARIAN REFORM, AND THE IMPACT THAT THIS PROJECT WILL HAVE ON WOMEN, SHOULD BE CONSIDERED. ANY SIGNIFICANT IMPACT AS A RESULT OF THE ACTIVITY SHOULD BE IDENTIFIED, ALONG WITH OBSTACLES TO HER FULL PARTICIPATION. THE CAP SHOULD SPECIFY OBJECTIVELY VERIFIABLE INDICATORS DEVELOPED TO MEASURE THIS IMPACT.

G. OTHER DONORS

THE PURPOSE, ORGANIZATION, ACHIEVEMENTS AND PROBLEMS OF THE MID/IBRD LOANS SHOULD BE DETAILED, THE DUPLICATION/COMPLEMENTARITY OF THESE LOANS AND THE PROPOSED ACTIVITY SHOULD BE CONSIDERED, AS WELL AS

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THE EFFECTS OF ALL SECTOR ACTIVITIES OF OTHER DONORS ON THE TARGET GROUP.

W. PROJECT EVALUATION

THE LOAN PAPER SHOULD INCORPORATE PERFORMANCE CRITERIA TO FACILITATE THE EVALUATION OF PROGRESS TOWARD OBJECTIVES. THESE CRITERIA SHOULD INCLUDE EXPLICIT STATEMENTS OF ECONOMIC AND SOCIAL TARGETS, OBJECTIVELY VERIFIABLE INDICATORS OF PROGRESS, AND PLANNING ASSUMPTIONS. IN ADDITION, THE PROJECTS SHOULD MAKE PROVISION FOR PERIODIC DATA COLLECTION. (SEE APA/LA INSTRUCTION NO. 16 OF APRIL 28, 1973 PARA. 2A).

3. AID/W IS ATTEMPTING TO OBTAIN THE TDY SERVICES OF A FINANCIAL ANALYST WITH CO-OP EXPERIENCE AS REQUESTED BY THE MISSION, AN ADDITIONAL LOAN OFFICER, A COOPERATIVE AND A MICRO-ECONOMIC SPECIALIST. TDY SCHEDULING WILL BE THE SUBJECT OF A SEPARATE CABLE. INGERSOLL

DZF

FORM FS-412
REV. 6/73

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AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES AID MISSION TO PERU

C/O AMERICAN EMBASSY

LIMA, 1 PERU

TELEPHONE: 286200

CABLE: USAID/LIMA

A.I.D. Loan No. 527-T-058

LOAN AUTHORIZATION

Provided from: FAA Section 103 (Food and Nutrition)
PERU: Agricultural Cooperative Federations
Development

Pursuant to the authority vested in the Administrator 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 Section 103 of said Act, and in furtherance of the Alliance for Progress, to the Government of Peru ("Borrower") of not to exceed Seven million United States dollars (\$7,000,000) to assist the Borrower in financing the United States dollar and local currency costs of a project to foster the development of agricultural cooperative federations ("CENTRALS") in Peru ("Project"). The Loan shall be subject to the following terms and conditions:

I. Interest and Terms of Repayment

Borrower shall repay the Loan to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the outstanding 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.

II. Other Terms and Conditions

- A. Goods, services (except for ocean shipping) and marine insurance financed under the Loan shall have their source and origin in Peru and countries included in Code 941 of the A.I.D. Geographic Code Book. Marine insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in A.I.D. Geographic Code 941.

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- B. United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.
- C. Prior to the first disbursement of the issuance of any commitment documents under the Loan, Borrower shall submit to A.I.D., in form and substance satisfactory to A.I.D.:
- (1) Evidence of the establishment of the CENTRAL Development Fund ("Fund") within the Agricultural Development Bank.
 - (2) A time-phased Project Implementation Plan, which shall include, inter alia, a description of the functions of the various governmental agencies participating in the Project and provisions for adequate staffing of such agencies.
 - (3) Evidence of the availability of sufficient and timely Borrower contributions to the Project.
- D. Prior to any disbursement or issuance of any commitment documents under the Loan for any individual CENTRAL for any purpose other than to finance technical assistance for the formulation of a comprehensive development plan for that CENTRAL, Borrower will submit to A.I.D. such a plan. The plan shall conform to the terms of reference and criteria prescribed therefor in the Project Implementation Plan approved by A.I.D.
- E. The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Administrator

Date

PRIVATE CONSULTING GROUPS

COFIDE, the State Development Finance Corporation, maintains lists of all foreign and national consulting groups which are authorized to work in Peru. COFIDE has provided a comprehensive list of consultants qualified to carry out the types of activities envisioned in the present Project which the cooperating entities may not be able to perform. These activities include: (1) preparation of some or all CENTRAL Development Plans; (2) project pre-feasibility studies; and (3) project feasibility studies.

There are 86 Peruvian organizations which have capability in agricultural and agri-business fields, as well as eleven U.S. firms, as well as a number of qualified firms from the U.S. and Code 941 countries.

The following organizations are representative:

A. Peruvian Firms:

1. National Agrarian University, La Molina. The university has a specialized research department with capabilities in the following areas: Agriculture, Fishing, Industry, Commerce, Business Administration, Cooperative Management, Transport and Storage, Communications and Education.
2. Oficina Técnica de Agricultura S.A. (private) has capabilities in the following areas: Agriculture, Agro-Industry, Business Administration, Cooperative Management, Housing, Transport and Storage, Tourism, Urban and Regional Development.
3. Instituto de Desarrollo Comunitario (DESCO) has worked in the development of the Santa-Lacramarca CENTRAL, maintaining a permanent group of advisors in the area. DESCO is able to provide short and long-term advisory services in the fields of Agriculture, Industry, Business Administration, Cooperativism, Housing, Education, Public Administration, Urban and Regional Development.
4. Agro-Consultores y Promotores S.A. (private) has capability in the fields of Agriculture, Industry, Commerce, Urban and Regional Development.
5. Piazza y Valdez Ingenieros S.A. (private) has capability in the fields of Agriculture, Agro-Industry, Commerce, Business Administration, Cooperatives, Transport and Storage, Communications, Regional and Urban Development.

6. Bustamante, Williams y Asociados Consultores (private) has capability in the areas of Agriculture, Industry, Commerce, Housing, Transport and Storage, Health, Regional and Urban Planning.
7. Norconsult-Asesores Asociados S.A. (private) has capability in the areas of Agriculture, Industry, Construction, Business Administration, Cooperatives, Communications, Urban and Regional Development.
8. Consultores Andinos Asociados (private) has capability in the areas of Agriculture, Industry, Construction, Energy, Commerce, Business Administration, Cooperatives, Public Administration, Health, Tourism, Urban and Regional Development.
9. EPCONSULT - Ejecutores Proyectistas Consultores (private) has capability in the areas of Agriculture, Fishing, Irrigation, Industry, Energy, Housing, Transport and Storage, Services, Education, Health, Tourism, General Development.
10. Tecnandina SCRL (private) has capability in the areas of Agriculture, Agro-Industry, Construction, Energy, Commerce, Business Administration and Cooperatives, Housing, Transport and Storage, Services, Tourism, Regional and Urban Development.

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REPRESENTATIVE PROJECTS, SIZE AND COST (in U.S. dollars)

Project	Size	Approximate Cost
<u>I. Fixed Asset (Service) Investments</u>		\$
--Artificial Insemination Center	Not applicable	120,000
--Machinery Pool (heavy equipment)	12 machines	710,000
--Farm machinery pool	8 machines	210,000
--Grain Silo	600 MT capacity	60,000
--Warehouse for marketing activities	2,000 square feet	50,000
--Artisan workshop	20 person capacity	100,000
--Fruit Collection Center	380 MT/month	70,000
<u>II. Fixed Asset (Project) Investments</u>		
--Chicken (layers) farm	25,000 layers	135,000
--Chicken (meat) farm	250,000	293,875
--Cattle (meat) fattening center	500 head	125,000
--Milk Production farm	250 cows	237,000
--Balanced feed mill	10,000 MT/year	216,650
--Alfalfa drying plant	2,000 MT/year	165,000
--Rice mill	1,000 MT/year	517,500
--Milk processing plant	2,000 liters/day	450,000
--Cottonseed oil extracting plant	10,000 MT/year	4,300,000
--Yucca flour plant	6 MT/year	175,000
--Sausage factory	750 MT/year	125,000
--Noodle factory	4 MT/day	125,000
--Slaughterhouse	50-60 heads/day	350,000
--Fruit processing plant	500 MT processed fruit/year	175,000
--Cheese plant	120 Kg/day	25,000
--Center for pork production	1,200 head/year (sold)	50,000

REORGANIZED MINISTRIES OF FOOD AND AGRICULTURE

A. Ministry of Food

1. Establishment

The establishment of a new Ministry of Food by Decree Law No. 21033, dated December 23, 1974, was deemed necessary by the GOP for the following reasons: (1) The previous MOA organization was judged inadequate to satisfactorily cope with severe food shortages, rising prices and critical marketing problems; (2) The financial and technical resources of the MOA were almost exclusively directed to the preparation and implementation of Agrarian Reform programs undertaken throughout the country. Consequently, other critical areas, such as dissemination of agricultural technology, marketing information and farm planning techniques were neglected. Thus, the GOP decided to form a separate organization to concentrate efforts on short-run production and marketing problems. The Agrarian Reform will now be left to the reorganized Ministry of Agriculture.

2. Structure

In addition to administrative and supervisory units the new Ministry of Food is composed of technical division charged with implementing domestic production, marketing, research and infrastructure programs. Most of these were formerly part of the original Ministry of Agriculture, Ministry of Commerce and Ministry of Industry and Tourism, but have been organized under the new MOF.

The complete structure of this Ministry is shown in the attached diagram.

3. Functions

Major functions of the Ministry of Food can be summarized as follows:

1. Establish and implement the food production policy of Peru in coordination with related sectors.
2. Stimulate the development of the domestic food processing industry.

3. Regulate storage of seasonal food supplies and control prices of basic foods.
4. The internal marketing of imported foods.
5. Promote consumption patterns in accordance with available domestic food supplies.
6. Regulate food imports and/or exports.
7. Estimate requirements for agro-inputs and production credit.
8. Plan the construction of required infrastructure to facilitate production and marketing of food products.

B. Ministry of Agriculture

The accompanying figure shows the structure of the reorganized MOA. MOA has responsibility in the following areas:

1. Long Range Planning

MOA, through its Sectorial Planning Office, is charged with preparing and monitoring the Agricultural Sector Plan on a biennial basis and assuring that the Plan is in accordance with the policy guidelines dictated by the National Planning Institute.

2. Agrarian Reform

MOA is responsible for continuing the Agrarian Reform process, including expropriation and adjudication of farms to associated producer groups and implementation of land settlement programs. A major Agrarian Reform task has been the reorganization of production units into production and service cooperatives and other associative enterprises. Technical and financial resources are being allocated to improve the administrative capacity of the new associative enterprises and to increase their efficiency in order to encourage increased production levels, particularly with respect to food products. Within this context MOA gives technical assistance to associative enterprises in the administration of farm enterprises, accounting, preparation of crop plans, marketing, supply of inputs, etc.

3. Irrigation and Water Resources

MOA is engaged in the planning and execution of major irrigation projects, improving the efficiency of water use, conservation of soil resources, reforestation, and utilization of forest resources.

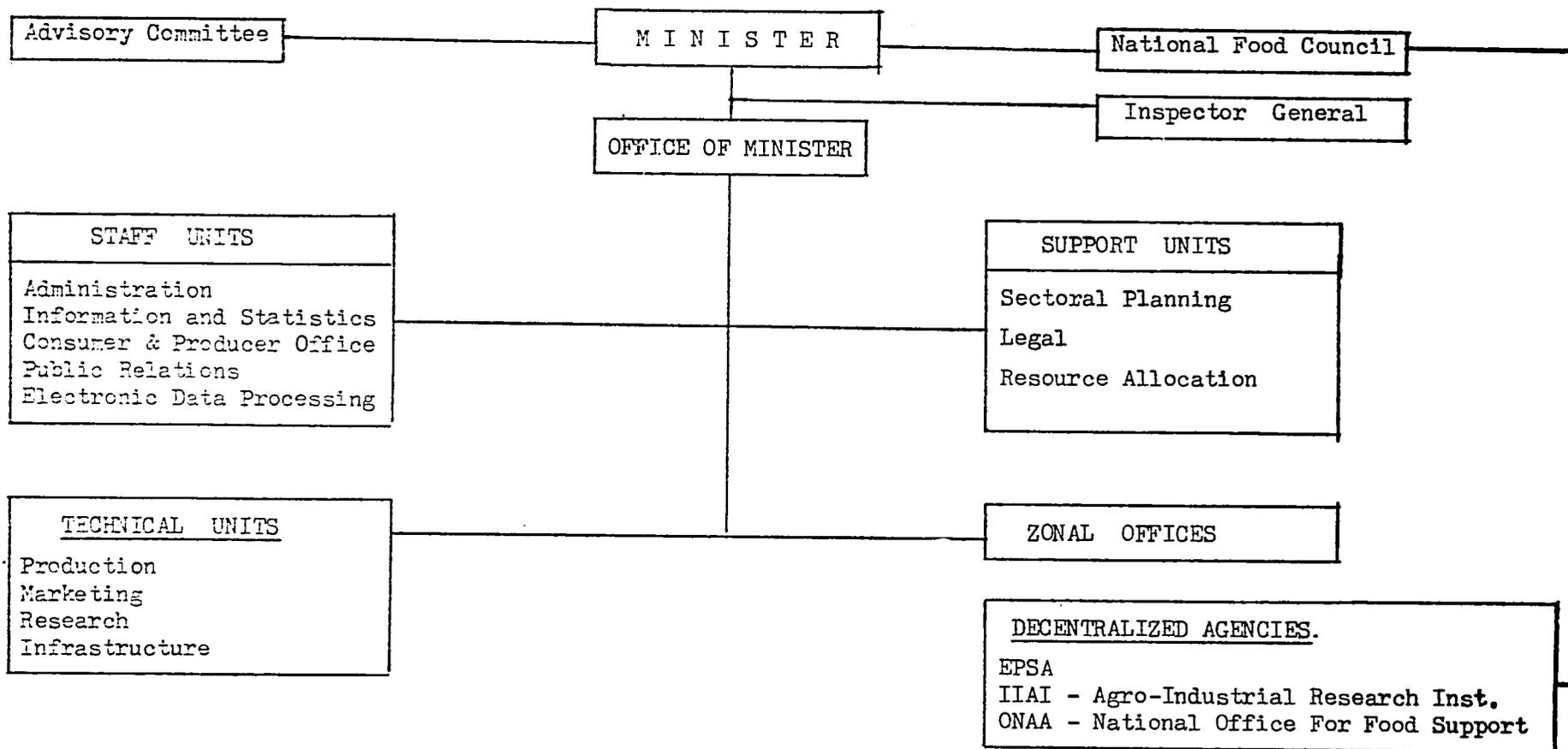
4. Forestry

The MOA seeks to accelerate development of forestry resources through overall regional economic development of forest areas, particularly in the jungle. General forest development programs are linked to large river basin development projects in coordination with the Irrigation and Water Resources Division.

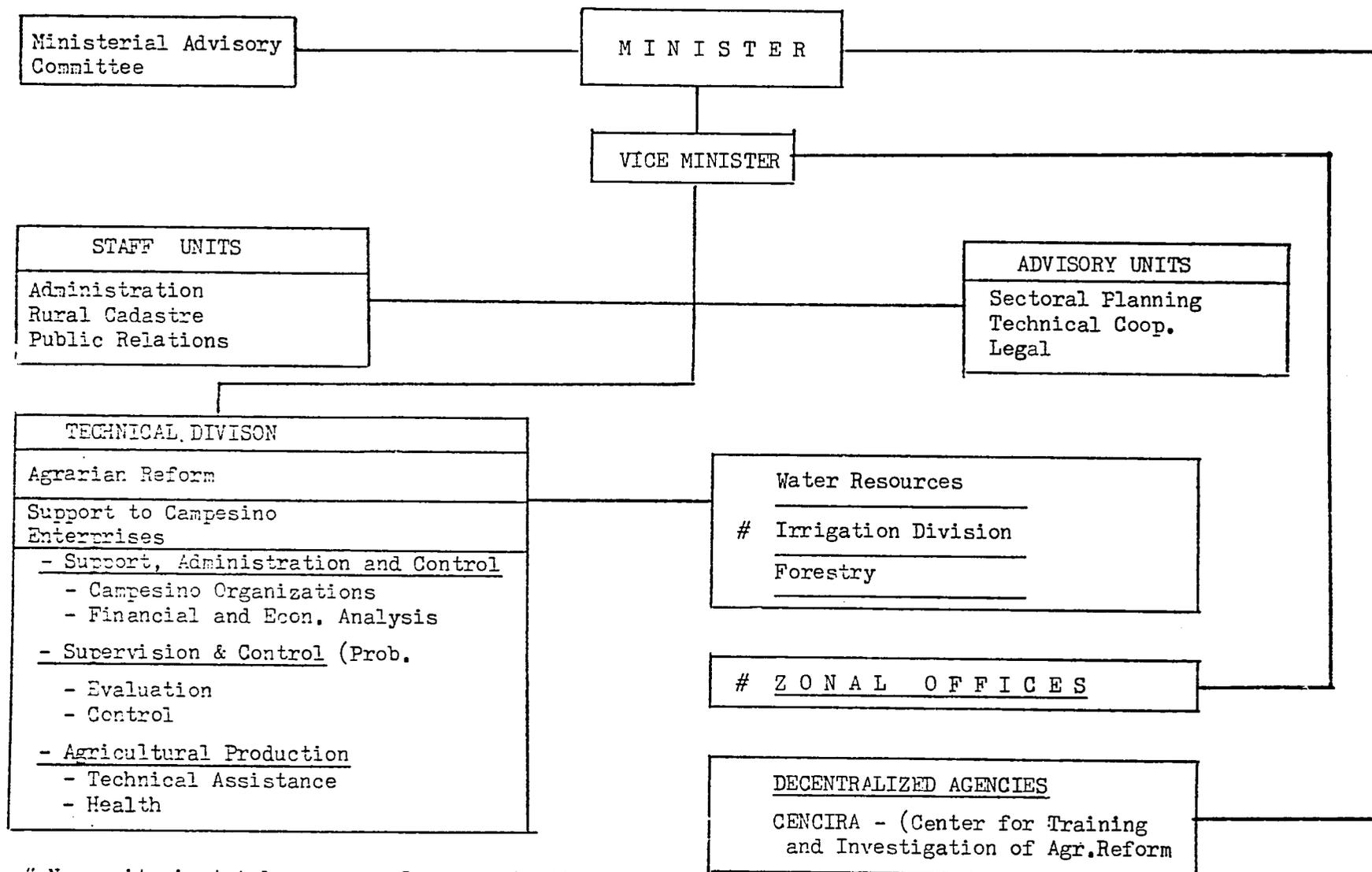
5. Non-Food Agriculture

MOA is also responsible for assistance in the production of non-food crops such as cotton, tobacco, coffee, etc.

MINISTRY OF FOOD



MINISTRY OF AGRICULTURE



New units in total process of reorganization