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USAID/PERU

FY 1987 ACTION PLAN

INCLUDING:

MISSION STRATEGY

AND

IMPLEMENTATION PLAN

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USAID/PERU ACTION PLAN
FY 86-87

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USAID/PERU FY 1987 ABS
ACTION PLAN

SECTION A: MISSION STRATEGY

I. INTRODUCTION

Since the approval of USAID/Peru's FY 86-90 CDSS in April 1984, the Mission has been preparing for policy dialogues with the new GOP about macroeconomic management improvements and parallel changes in the management of key economic development sectors (principally agriculture, health and housing). On April 14, 1985 the Peruvian electorate voted heavily in favor of the APRA candidate, Alan Garcia, rejecting alternatives to the left and right of APRA by wide margins. The July 1985 democratic transition—the first in Peru in four decades—presents the U.S. with what may be a unique window of opportunity to influence the policy and program initiatives of the new GOP. ~~These initiatives will shape the course of Peru's development for at least the next five years and probably for years beyond that.~~ The policy decisions to be made in the rest of 1985 and during 1986 can set Peru on a long-term path of market-led equitable growth or send the country careening back to the statist and unproductive policies of the 1970s. We must be positioned to act catalytically in a leadership role both with the Garcia government and with other donors in encouraging sound economic and developmental policies. If this opportunity is approached in a creative way, AID development investments can pay high dividends for U.S. foreign policy interests in Peru.

However, an adequate level of resources must be made available if we are to support the adoption and implementation of the improved policies that are outlined in this submission. Although these identified policy changes are the product of many careful analytical efforts carried out over the last two years, they are still only a preliminary list of what the Mission believes are, in general terms, the kinds of policy changes that can lead to long-term growth and development in Peru. USAID/Peru believes that about \$800-850 million in an appropriate mix of assistance instruments will be needed for this purpose over the five-year period, as shown in the following table. In this proposal, Development Assistance, ESF, Housing Guaranty authority and food assistance have been structured in an integrated fashion that parallels the inter-related policy changes that we are seeking.

If a significantly lower level of resources is likely to be provided over the next five years, the Mission will have to reconsider what kinds of policy improvements would be possible. This will depend on both the level and mix of resources that are likely to be provided. We believe that we have appropriately scaled the resource request to our objectives. The purpose of this submission is to consider whether the objectives have to be changed to meet the resources that are likely to be available. We believe that the situation argues strongly for changing resource plans rather than changing policy objectives.

We also need to have a stability in resource expectations, such that, once decided, resource levels will not suffer major cuts over the five-year

period. We have to be able to deliver if the GOP makes the policy commitments we are seeking and maintains those commitments over time.

In preparing the submission, USAID/Peru has followed the approved CDSS strategy of preparing three general program options for the 1985-90 period: first, the serious development/foreign policy package presented herein; second, a more projectized, institution-building package that emphasizes project-level policy improvements in key areas; and third, a reduced program that emphasizes building private sector counterbalances to inadequate GOP policies. The last option seems to have been obviated by the election of an APRA government. However, AID and the USG now have to decide between the first two options.

We will shortly want to begin intensive dialogues with the new GOP regarding its entire approach to Peru's key economic and developmental problems and possible improved policy directions. Informal contacts were initiated about a year ago. These contacts and APRA's statements on its platform indicate that we will want to focus on overall macroeconomic policies as well as policies in key sectors, particularly agriculture, health and housing. Overall policy directions in important areas of concern such as private sector development, decentralization, and food aid will also be of special interest to us. There will also be a comprehensive review of coca eradication and crop substitution programs to determine what the USG can and should do to further strengthen these programs. In APRA's campaign statements, the elimination of drug trafficking has been given special prominence.

In addition to these overriding policy discussions, we will want to talk about program and sector-like multi-year funding in the context of the GOP's development policy framework. (The sector-like instruments are largely projectized sector loan/grant combinations tranced over five years or closely related projects developed and implemented within an overall sector framework.) We would like to be able to discuss a five-year program (1986-1990) that totals about \$800-850 million. This amount is seen as the minimum necessary to enable the USG to exercise a significant role in the policy dialogue that deals with fundamental development issues. The five-year program will be closely coordinated with other donors and be designed to complement and support the policy dialogues that other donors will be conducting in FY 1986. This proposal reflects our view that the lack of follow-up after the 1981 Paris Club donors meeting with the then-new Belaunde administration was a mistake that should not be repeated in 1985 and 1986. The basic framework for the proposed program flows will be developed more fully over the next six months. However, we expect that authorizations, obligations, commitments and disbursements would be tranced over five years, based on GOP progress in dealing with key policy issues at the macroeconomic and sector levels.

The program and sector-like approach is appropriate for Peru not only because of the country's serious economic and developmental problems and the opportunities before us, but also because of other actions and conditions that have been integral parts of the USAID/Peru strategy and action plan, as follows:

— First, in carrying out our short-term CDSS strategy (1984-85), the AID pipeline in Peru is being substantially reduced and all major ongoing projects but one—Agricultural Research, Extension and Education—will be fully funded by the end of FY 1985. As a result, the pipeline problem is under control and we will have virtually no mortgage by the end of CY 1985. As indicated in our approved CDSS, the "decks will be cleared" for the beginnings of a new AID program in Peru in FY 1986.

— Second, in implementing AID programs in Peru, the GOP and USAID have achieved or are achieving some important institutional improvements in key areas such as agriculture and health, and in private sector and decentralized programs. While additional institution-building efforts are needed, we have an important base. Significant AID resources can be absorbed more quickly in 1986 and beyond.

— Third, for the past two years, USAID has been developing an improved analytical foundation for better addressing key sectors and problem areas. This has taken the form of USAID assessments and evaluations in important sectors (e.g. agriculture, housing, private sector, nutrition) and the establishment of major new sector policy planning efforts (e.g. agriculture, decentralization, health) that can provide both analysis and program options for discussion with a new GOP. USAID has prepared sector assessments and policy dialogue agendas for all areas of program concentration included in this submission. These will serve as a basis for our policy discussions with a new GOP. Similarly, the IBRD will produce a new Country Development Study (and the IMF will probably prepare a major macroeconomic report) that will provide a further analytical framework of policy changes needed at macroeconomic and sectoral levels for use in coordinated donor policy discussions with the new GOP. We are most interested in cooperating with the IBRD and other donors in the preparation of this framework and will be able to provide significant inputs.

— Fourth, during the past two years, USAID has gained substantial experience by working closely with multilateral agencies and other donors, particularly the IBRD and IMF, and by developing and coordinating our policy agendas with these agencies. We are working closely with the IMF in implementing the first AID program loan ever provided to Peru. We have developed with the IBRD a common policy agenda for the housing sector and have undertaken closely coordinated AID/IBRD housing policy discussions with the GOP. USAID has close working relationships with other donors in the agriculture and health sectors and in areas of private sector development and food aid. In a number of key areas (e.g. health, nutrition, decentralization,

private sector development, population, food aid, agricultural policy analysis, agricultural research and extension, and disaster reconstruction), AID is looked to by the GOP and by other donors as a policy and programmatic leader. This leadership role will be of even more critical importance when the new GOP assumes office.

-- Fifth, given the slower-than-expected recovery in the world economy and Peru's debt burden, the new government will confront balance of payments and budgetary problems at least as serious as those the Belaunde government has had to confront in 1983-84. A new round of negotiations will be needed with the IMF and with Peru's private and public creditors. How Peru deals with the IMF and its international creditors in 1985-86 will be one of the first big tests of the new GOP. Even under the best of circumstances, it is likely that the GOP will have very limited access to private international capital markets. Peru may adopt a stabilization program that will severely limit public sector spending. These economic problems will constrain any GOP public sector program options for dealing with Peru's long-term development problems.

The only major source of funding for development programs will be the IDB, IBRD and AID, which should greatly increase our policy and program leverage with the new GOP, if we have a sufficient level of resources to bring to the table. This fact underscores the need for clear and coordinated donor policy positions. If these three international agencies, together with the IMF, can act in a coordinated and coherent fashion, we can better help guide the new GOP through the difficult period that lies ahead. However, past experience indicates that donors often need aggressive USG leadership to act jointly and coherently in difficult policy environments. (This has certainly been the case with IDB and its approaches to industrial reactivation.) The approach proposed in this submission would allow the USG, through AID, to exercise the type of positive leadership with both the GOP and with other donors that can be highly beneficial to U.S. foreign policy and developmental objectives in Peru.

-- Sixth, our proposed response to the new Peruvian administration in 1985-86 is based on some of the problems (and on some of the lost opportunities) that AID experienced in responding to the new Belaunde administration in 1980-81. The Belaunde government entered office strongly committed to major new policy directions at both the macroeconomic and sector levels that AID enthusiastically supported. However, while the current portfolio of projects is addressing significant policy considerations, in retrospect, AID and other donors did not provide Peru with sufficiently flexible resources early enough (1980-82) to help the Belaunde administration generate rapid policy and program momentum and thereby quickly consolidate its most important new initiatives. While AID resources provided during the 1980-82 period correctly focused on increasing the GOP's absorptive capacity by strengthening key implementing institutions, a sector policy framework in some areas (e.g. health, decentralization, small hydro) might have better

targeted AID resources to important sector constraints that later had to be filled by project design changes and new activities. In 1983-84, the worldwide recession and the El Niño natural disasters had already seriously disrupted the momentum of many of the Belaunde administration's most important policy reforms and new developmental initiatives. However, USAID believes that, in addition to institution building, more policy and program progress could have been made if AID and other donors had more quickly financed programs which better reinforced the GOP's positive policy measures.

Finally, the Development Assistance levels proposed herein average only \$17 million per year above the approved Assistance Program Levels given in State 127207 and, in any case, are below the level of D.A. made available to the Belaunde government. The additional D.A. authority, as an integral element of the proposed strategy, will enable broader and more profound policy negotiations than were possible heretofore.

For all of the above reasons, USAID believes that the program and sector-like approach outlined in the CDSS and further defined in this submission should be the basis for AID's FY 1986-90 budgetary decision-making. In Embassy and USAID discussions with APRA leaders, it is clear that many of them will be looking to the USG for policy input and funding commitments that demonstrate our support for Peru's democratic process and its newly elected government. If the USG is correctly positioned early on in the new administration, and can offer significant multi-year funding assistance, there will be important opportunities for major developmental policy and programmatic breakthroughs along the lines described in our CDSS and in 84 Lima 3702.

However, the AAPL levels proposed in State 127207 for Peru are completely inadequate for carrying out the strategy described above. The AAPL levels will not provide the leverage necessary for the USG to exercise the developmental leadership with the GOP and with other donors needed in Peru in 1985-86 and throughout the 1986-90 period. Except for ESF, the proposed AAPL levels will not even get us a seat at the table where dialogues of major sectoral policies that condition the overall development climate will be discussed, let alone allow us to promote important U.S. foreign policy and developmental interests. Clearly there is a major conflict between our approved CDSS strategy (and the funding and staffing levels presented therein) and the inadequate funding and staffing levels that have since then been proposed to carry out the CDSS strategy. We have based this presentation on the approved CDSS strategy and resource levels. If we cannot get an adequate level of resources, we could not realistically sit down with the GOP to negotiate the kinds of broad policy changes that are needed and identified in this submission. Nor could we do so in good faith.

At the same time, USAID recognizes that comprehensive policy breakthroughs at the macroeconomic and sector levels may not be possible in 1985-1986. In this event, we would fall back to the project approach outlined above in which

we would negotiate assistance in the form of individual projects that would work within sector frameworks that indicate there is a good chance of obtaining valuable development policy improvements. For example, if we do not negotiate for or cannot obtain major macroeconomic policy changes, we would not continue developing the proposed Agricultural Sector Recapitalization program; instead, we would finance only one or two components of this program (such as a second phase of Agricultural Research, Education and Extension). Similarly we would proceed with smaller HG investments through private sector savings and loan associations if a housing sector policy breakthrough is not possible. Within this second option, projects would be developed with both public and private sector entities within most areas outlined in this ASS—but the public sector projects would be funded at significantly lower levels than those shown herein. Our objectives would be significantly reduced in parallel fashion.

We will not be able to act with creativity and dynamic leadership if we cannot begin discussing significantly higher economic and developmental funding levels for Peru. This includes higher Development Assistance levels—about \$17 million per year above the present AAPL levels, with larger increases than that in FY 87-88 and smaller increases in FY 86 and FY 89-90. It also includes higher ESF, PL-480 Title II and Section 416 levels. Above all, we need stability in our resource expectations.

If USAID is to play the catalytic policy role envisioned above and in AID policy directives, we need to get our multi-year funding instruments (ESF, PL-480, HG) and DA resources in place now. The lesson of the 1980-81 transition is that AID and other donors moved too slowly and did not always have the funding instruments in place that were most appropriate. We must take action now so that AID can quickly respond to the foreign policy and developmental opportunities that are now upon us. As we said in our CDSS: "The immediate challenge for the USG is to help Peru maintain the positive policy reforms and private sector directions initiated by the Belaunde government while strengthening those democratic forces that will ensure that these reforms are continued and deepened in the second half of the 1980s."

We must begin taking up that challenge now.

2. OVERALL PROGRAM SETTING

a. U.S. Foreign Policy Interests

The United States has varied economic, political and security interests in Peru. The U.S. is Peru's largest trading partner and the source of the largest part of its foreign equity investment and debt capital. Peru returned to constitutional, democratic government five years ago, and it now boasts a vigorous free press. It has just held remarkably violence-free presidential and congressional elections. Peru has a generally good human rights record despite the need to counteract the violence and sedition perpetrated by the Sendero Luminoso terrorists. It is a traditional third-world leader in international fora. Although Peru is major source of illegal cocaine entering world markets, the GOP has also eradicated more than 4,000 hectares of illegal coca plantings and continues eradication programs in the face of violent reactions from narcoterrorists.

U.S. foreign policy objectives in Peru include: the maintenance of constitutional government and the institutionalization of democratic processes at all levels of government; the preservation of human rights and respect for the rule of law; the suppression of terrorism as antithetical to the above interests; a continued positive Peruvian role in maintaining regional peace and international stability; gaining expanded Peruvian support for U.S. policies; limiting Soviet influence; expanding international trade and investment in general and U.S. commercial trade and private investment in particular; supporting disaster recovery, economic stabilization and long-term economic growth in Peru; and encouraging enhanced bilateral cooperation in areas of special U.S. concern, such as the eradication of illicit coca cultivation and international narcotics trafficking. Advancement of these long-term interests is the objective of all official contacts and programs in Peru.

As a major expression of our overall foreign policy interests, the economic assistance program first approved in the CDSS and further specified herein combines multiple sources of support in a coherent general framework of program and policy priorities. It is designed to advance the above U.S. interests as much as possible, and to do so effectively, efficiently and in accordance with established AID policy on general development priorities, modes of assistance, and technical sector approaches. It is important to maintain and expand progress achieved to date on advancing these interests by providing the needed human and financial resources.

b. Development Context

Peru faces an array of economic, social and political challenges. After 20 years of economic growth spurts and subsequent recession, per capita income is at about the level first achieved in 1965. Population and migration pressures combined with alienation of much of the population from an over-centralized government have spawned pueblos jóvenes, the informal sector, and the Sendero Luminoso--phenomena which have attracted international attention. Peru continues to be a major producer of illegal cocaine and suffers under the domestic and international consequences. On April 14, Peru elected the APRA candidate, Alan García, to the Presidency. The peaceful, democratic transfer of power will be the first in 40 years. APRA, a 60 year old Peruvian nationalist party, has never governed. The charismatic Alan García, at 35, represents a major generational change in political leadership. His political track record is short. Peru's development problems will crowd his agenda.

Economic Performance

Peru approaches the 1985 change in government having passed through one of the most difficult periods of its history. After experiencing a brief economic recovery in 1979-81 following the social and economic disruption associated with the military government, output stagnated in 1982 before plunging 12 percent in 1983 as a result of natural disasters and low world market prices for the country's principal exports. Even leaving aside natural disasters, the economy's performance in the best years of the past decade has been lackluster. In only three years of the past ten has the increase in production been greater than the increase in population. Two of these (1979 and 1984) followed years of substantial decline in production.

The most striking fact has been the failure of output to recover from the catastrophic fall associated with the natural disasters of 1983 and an extremely tight balance of payments situation. Overall output fell 12.0 percent in 1983 and recovered only 4.5 percent in 1984. The Central Bank's projection of the rate of growth for 1985 is only 2.0 percent, lower than the 2.5 percent estimated population growth rate.

The one relatively bright spot in recent years has been the agriculture and livestock sector. Agricultural output fell 7.9 percent in 1983, relatively less than total output (in part, however, because livestock producers increased rates of slaughter in response to drought conditions). In 1984, agricultural production increased by 8.4 percent (versus 4.5 percent for the economy as a whole). The Central Bank projects 1985 agricultural production to increase by 3.8 percent in contrast to 2.0 percent real growth for the economy as a whole. Indeed, since 1981, the agricultural sector has consistently outperformed the economy as a whole. This is in marked contrast to the previous decade when the agricultural sector consistently lagged the rest of the economy. The reasons for this relatively better performance are

several. Following 1980, direct public sector participation in the marketing of agricultural inputs and output was reduced and most price controls on agricultural products were eliminated. These, in conjunction with the liberalization of the international trade regime, have improved the transmission of price signals to the agricultural sector.

Balance of Payments and Debt

The origin of the balance of payments problem lies in continuing depressed prices for most of the country's principal primary exports, together with the country's substantial debt service burden. Overall, Peruvian export prices declined by 30 percent on a weighted average basis between 1980 and 1984. Over the same period, export volumes remained essentially constant. In 1981 and 1982, Peru was able to meet its external obligations by undertaking substantial additional external borrowing. However, as international credit markets tightened and the extent of the fundamental weakness of the Peruvian economy became clearer, the financing gap between export receipts, on the one hand, and debt service obligations and the cost of essential imports, on the other, has been met by reschedulings and, since mid-1984, by arrearages on debt service including interest obligations. Peru's total debt is now about \$14 billion. The country faces external debt service obligations equal to approximately two-thirds of merchandise exports, of which approximately half is interest obligations. Because of accumulated arrearages, Peru faces 1985 debt service requirements which exceed total merchandise export earnings.

The management of a difficult external payments situation has been exacerbated by a chronic fiscal imbalance. The consolidated public sector deficit increased from 4.7 percent of GDP in 1980 to 8.4 percent in 1981 and 9.1 percent in 1982 primarily as a result of falling export receipts of state petroleum and minerals enterprises. The deficit increased to 11.6 percent in 1983, primarily the result of declining tax revenues in the face of the natural disasters. Despite heavy reliance on external financing in 1981-1983, substantial portions of these deficits were financed through the domestic financial system. Economic recovery, increased tax rates, and some improvement in tax administration reduced the deficit in 1984 to 8.1 percent of GDP. Further revenue measures, especially increases in indirect taxes and public sector pricing measures, are projected to reduce the deficit to 7.1 percent of GDP in 1985. The significant claim on domestic and external saving which this deficit represents confronts the GOP with the difficult choice of either facing an increased balance of payments deficit which it is in no position to finance, accelerating the rate of monetary creation and inflation (in effect, imposing an inflation tax), or displacing private sector credit. In the event, the GOP has done none of these. Rather, it has generated additional external saving by accumulating arrearages on debt service obligations. Its ability to continue to do this for any prolonged period of time is doubtful.

Economic Prospects

Unfortunately, the bleak recent past is matched by almost equally clouded medium-term economic prospects. The country's mineral deposits, a major growth motor for Peru in the past, are fully exploited with little prospect for significant medium-term increases in output. Production of petroleum, currently the nation's number one export, is forecast to decline and the country is projected to be a net importer of petroleum by 1988. Unless significant expenditures on secondary recovery are made, imports could come even sooner.

The mining and petroleum sector accounts for about 10 percent of total output directly and substantially more when the allied operations of refining and smelting are taken into account. The sector experienced a 6.4 percent increase in output in 1984, essentially recovering the output lost because of transportation disruptions in 1983. The Central Bank's projection for 1985 is for 1.4 percent growth. Little more can be expected for the remainder of the decade.

The overall policy environment continues to be unfavorable to the agricultural sector in many respects. The overall levels of import duties remain fairly high, tending to cause the exchange rate to be higher than it would otherwise be, thereby lowering relative prices of internationally traded agricultural commodities and discouraging investment in the sector. Legal obstacles to the sale and mortgaging of land are a serious obstacle to efficient resource use. The relatively strong performance of the sector despite these obstacles suggests that it has considerable potential as a source of medium-term growth.

Growth in the manufacturing and service sectors is closely related to the ability of the country to relax the foreign exchange constraint in the short and medium term. The restrictive demand management policies which the Central Bank has been forced to adopt since 1982, in response to an increasingly stringent balance of payments situation, has been a major obstacle to the recovery of these sectors.

The domestic economy continues to suffer from structural rigidities. Labor stability and industrial community legislation seriously impede the redeployment of labor and capital to new productive opportunities. Over-bureaucratization and regulation of investment and sales transactions exact high overhead costs on private productive capacity and create incentives for growth of the underground (informal) economy. Restrictive demand management practices since 1982 have left the private sector suffering from serious sales liquidity problems--impeding new domestic investment and expanded output.

Social Strains

The shifting of economic and development policy from the nationalistic, leftist import substitution model of the military revolution between 1968 and 1980 to the more open, market-driven and outward looking policies of the Belaunde regime 1980-1985 has exacted a social and psychological toll. To a considerable degree, both models failed—or were never completely implemented. Both caused substantial economic disruption. The collective results are that most of Peru's population feels itself to be worse off today than it was 20 years ago.

The indicators are stark. Formal sector wages have been compressed for 12 years with most wage earners taking home two-thirds or less, in constant soles, of what they were earning in 1973. Health and nutrition indicators show little improvement over the past 15 years. Access to education seems to have expanded dramatically, but recent studies question whether the cost in least quality has crippled the country's ability to train future leaders. Inflation has risen to over 100% per year over the last two years, eroding domestic monetary savings and exacting a major tax on elements of the society least capable of protecting themselves.

These social pressures led to the burgeoning informal sector and unique and still largely unstudied forms of accommodation in urban and rural areas. The most visible urban phenomenon is increasing reliance on community kitchens for daily food needs. The societal and familial consequences in the longer term are unknown. Without question, the general level of violence and other crime in the society is increasing.

Political Challenge

A terrorist movement has continued to hound the society—draining resources into military protection in the emergency zones and casting a pall of uncertainty and insecurity over large numbers of the population as power towers have been dynamited, bridges blown and violent conflict between Sendero Luminoso and security forces in and around large areas of the Southern Sierra have affected most of the population.

The elections of April 14 can only be interpreted as a call for change:

- the governing AP party was routed, gaining only about 5% of the vote.
- the left, running as a single front encompassing many parties and factions, failed to improve over its showing in the 1980 presidential elections and the 1983 municipal elections.

With very nearly 50% of the vote in a nine-party contest, the American Popular Revolutionary Alliance (APRA) was the clear people's choice.

Yet, of all the parties, APRA announced the least specific "program of government." Its campaign was waged against the current economic, social and political stagnation and on the proffered hope that things can get better. On such a framework APRA has gained the most solid fundamental basis for governing possible. They have won the Presidency and hold clear majorities in both houses of Congress. But APRA is no monolith. It has a wide variety of conflicting development philosophies. The struggle within the party over policy and prescriptions for Peru's future will be intense.

The strategy proposed in the action plan is designed to support U.S. efforts to influence Peru's development course at this critical juncture. Some lines of thought within APRA, if ascendent, would be inimical to U.S. foreign policy interests in Peru and, by extension, the Andean democracies. If APRA can be enticed into a generally orthodox policy framework for resolution of Peru's economic and development problems, not only will important U.S. interest be safeguarded, but the stage can be set for restoring growth to Peru's economy and improving opportunity for its citizens. The Mission's policy dialogue agenda and program proposal are directed toward these objectives.

(1) Policy Agenda for Balances of Payments Support

Background

Peru currently faces a serious economic and financial crisis resulting from a combination of serious structural distortions, inept public sector management by the current government, and adverse developments in the world economy. External debt currently stands at over \$13.3 billion and will reach almost \$14 billion by the end of 1985. In 1984, debt service of all kinds exceeded 77% of exports, of goods and non-factor services with interest alone equal to 32.7 percent. Falling world prices for exports whose prices declined by 33% between 1980 and late 1984, and rising real interest rates make the real burden of that debt even greater. A persistent public sector deficit in excess of 8% of GDP, largely financed externally, has further complicated economic management. The GOP's response to the crisis has been mixed. On the one hand, the GOP has taken important revenue measures, adjusted the real exchange rate, and maintained a monetary stance sufficiently tight to prevent further loss of foreign exchange reserves. On the other hand, the economic downturn resulting from the Central Bank's monetary stance has led to numerous calls for industrial protection and the GOP is proceeding down the slippery slope of a return to a de facto import substitution development model. The existence of widespread idle capacity (some of which should be idle) reinforces the clamor for a "reactivation" of the economy through industrial protection.

The incoming APRA government faces a major economic and development challenge. Current debt service and accumulated arrearages exceed Peru's total export earnings. The size and structure of the debt overhang are a crippling mortgage on future export earnings. The new government's highest economic priority will be to obtain debt relief. At the same time, in order to present a credible plan for eventual debt repayment--a plan which will give creditors the confidence necessary to reschedule Peru's debt--the GOP must begin the domestic structural reforms which will increase the country's productive capacity, especially for exports. Given the relatively open nature of Peru's economy and its dependence on a substantial continuing level of imported intermediate goods, the balance of payments resources which can be made available for even rescheduled debt service without crippling domestic productive capacity are limited. Substantial balance of payments financing will be necessary to complement increased domestic resource mobilization for new productive investments. Creditors and donor countries will be asked to share a substantial portion of Peru's financing requirements.

The Country Team has proposed initiation of an ESF balance of payments support program for Peru beginning in FY 1986. Given the long term nature of the structural adjustment program that Peru will have to undertake, ESF support for Peru's efforts should continue through the action plan period.

The Mission's Balance of Payments Support Program, supported by Title I and certain Title II activities, will attempt to maximize medium term growth consistent with balance of payments recovery. It should be emphasized that while certain aspects of the Mission's program are specifically designated as financial support of policy measures taken to improve the macroeconomic environment, many other aspects of that program are dependent upon a favorable overall policy environment. Specifically, much of the Agricultural Sector Recapitalization Program and private sector activities in export promotion and small business development depend on the existence of a policy environment in which those activities contribute to increased productivity. Moreover, financial market and other resources allocation policies must be supported so as to assure that our resources are additional to those which can reasonably be expected to be mobilized domestically and externally. ESF and all other resources proposed in this submission will be used to overcome the problems and constraints that need to be resolved in order to put Peru on a course of self sustaining market-led growth.

(1) Needed Changes

Discussions with the new GOP on macroeconomic policy will focus on the mobilization of resources and the elimination of price distortions and other obstacles to the efficient use of resources. More specifically, the Mission will discuss the need for:

(a) Maintaining a competitive exchange rate and avoiding such distortions as exchange controls and multiple exchange rates. Of particular concern is the adverse effect of tariff and other forms of external protection of final stage manufacturing on the agricultural and urban informal sectors.

(b) Improving, policies and procedures for the selection of public sector investments. For the foreseeable future, financing for public sector investments will be extremely tight. It is imperative that the GOP develop policies and procedures to assure that public investment resources are directed to those activities promising the highest economic rates of return.

(c) Mobilizing savings, public and private, domestic and foreign. In view of the expected acute shortage of private investment, and of resources to finance public investment, it is important that the GOP take maximum advantage of the resources available to it. The needed steps include:

(1) Substantial reductions in the size of the consolidated public sector deficit;

(2) Promotion of foreign private investment to the maximum extent possible;

(3) Development of internal procedures to optimize the use of the sizeable soles resources that should be generated by external debt reschedulings.

(d) Improving the efficiency with which resources are allocated by the financial system. It is particularly important that policies be implemented which increase the attractiveness of saving in soles instruments. Present controls on soles interest rates have led to a steady increase in the proportion of domestic financial system deposits held in the form of dollar certificates. While these generate some domestic credit, the need to maintain confidence in their convertibility requires that the banking system maintain large foreign asset balances as reserves for the certificates. The solution to this problem is not to restrict the certificates (which would simply drive savings offshore) but to make soles saving more attractive. There are several options available for doing this.

(e) Implementing other measures to improve the functioning of markets. These include:

(1) The elimination of unnecessary or counterproductive regulations and reporting requirements, and

(2) The elimination of laws and regulations which interfere with the effective management of business enterprises, including requirement for worker participation and labor stability legislation.

(2) Proposed Strategy for Policy Dialogue

The development policy dialogue with the new APRA government will be multifaceted and complex. It will begin with discussion between Peru and its creditors. While a few public trial balloons have been launched by Alan Garcia, the forum(s) for and actors in the debt and economic policy discussions have not yet been announced. The Mission believes that discussions of debt relief are not separable from discussions of the stabilization and adjustment policies which the government will choose to pursue. It will be important to coordinate bilateral rescheduling options with our policy dialogue package. Bilateral reschedulings will be a major source of external financing over the next several years. In the past, the domestic counterpart of such rescheduling has been captured by the original borrowing agency and there is little evidence that such additional domestic financing has been efficiently used. Improved allocation of that counterpart could represent an important source of additional domestic investment financing available for reallocation to highest priority investment uses. The initial focus of our development dialogue must be on macroeconomic stabilization and adjustment issues. The dialogue objectives are framed by the preceding list of needed changes.

The principal instrument for negotiating the macroeconomic policy agenda will be the ESF-funded balance of payments support loans. Discussion of specific issues which affect the agricultural sector (e.g. intersectoral pricing distortions resulting from trade policy and financial market issues) will be initiated as well in conjunction with the negotiation of the

Agricultural Sector Recapitalization project. Similarly, issues which affect the non-agricultural private sector, particularly financial market distortions and unnecessary regulation, will be raised in the macroeconomic context and continued in the course of negotiating several private sector projects. Policy issues affecting the housing sector, such as financial market obstacles to improved housing finance, improved investment priorities in housing and improved resource allocation procedures, also must be linked to the macro policy dialogue. Reasonable agreements on these issues will be essential to full implementation of the sector strategies proposed in the action plan. If only partial agreements are obtainable, we will review the various sector strategy dialogue proposals and proceed with those which are consistent with the new government's chosen policy options. If sector strategy agreements cannot be achieved, we will select project areas where targeted development interventions may continue to make sense.

(a) APRA Position on Macroeconomic Policy Questions

Although no comprehensive statement of APRA positions on major economic policy questions yet exists, a number of public statements by the presidential candidate and a few of his close advisors give a strong indication of the likely plans and priorities of the next government. First, it is clear that the style of economic policy under a APRA government will be far more state oriented and interventionist than has been the case under the present government. Much of our policy dialogue effort in the early days of the new government may have to be focused on dissuading the new administration from taking measures which are superficially attractive but counterproductive to their ultimate goals.

Expressed priorities of APRA include a high priority for the agricultural sector (particularly in the sierra), measures to promote private saving, and a recognition of the need for a substantial reduction in the public sector deficit. Although some statements talk of the need to reduce interest rates, it is generally in the context of progress in the reduction of inflation. In these areas there is already some convergence of views on appropriate policy.

In other areas, we seem to be farther apart. The most important of these is in the area of trade and exchange rate policy. There is a strong protectionist streak in the published statements of APRA and past problems with inefficient protected industries are attributed to details of implementation (e.g. the need for a more vertically integrated productive structure) rather than a recognition of fundamental flaws in the protectionist model. There is absolutely no recognition in APRA statements that protectionist measures merely act to distort domestic price relations and that the government protects one industry only by disprotecting another, in a futile effort to increase the total returns from a negative sum game. APRA statements talk of the need to increase tariffs on final goods, progressively reduce the rate of devaluation, apply an "adequate" system of exchange

controls, and establish a system of multiple exchange rates to promote "the obtaining of imported mass consumption goods at adequate prices." Early and extensive dialogue on these issues may prevent serious erosion of the country's economic position later on.

Another area of potentially serious problems may arise in the area of worker participation in management decisions. Some APRA documents talk of increasing worker participation and giving workers an effective voice in management decisions (rather than simply a right to participate in profits as at present). While these proposals have been described only in vague terms up to this point, they could present the private sector with a major challenge if a new government should attempt to implement them.

On questions of external reschedulings and relationships with the external financial community, there have been very mixed signs thus far. While the President-elect has spoken of refusing to deal with the IMF and negotiating directly with external creditors and called for the formation of a Latin America debtors cartel, a prominent APRA Senator-elect (and former Finance Minister) has outlined a detailed plan for multi-year debt restructuring. The plan also calls for a substantial reduction in the fiscal deficit, primarily through revenue measures, while taking unspecified measures to reduce unemployment and limit the adverse impact of stabilization measures on low-income families.

(b) Ongoing Policy Dialogue Activities

The principal vehicle for macroeconomic policy dialogue activities in the recent past has been the Disaster Assistance Program Loan signed in May 1984 to counteract the continuing adverse balance of payments effects of the 1983 natural disasters. Conditions in the loan agreement required adherence to the 1983 IMF standby agreement as a condition for disbursement. The chief condition of that agreement was a substantial reduction in the level of the public sector deficit through a combination of revenue measures and expenditure reductions. Other conditions of the agreement focused on administered prices and on efforts to reduce the burden of unnecessary regulation which are believed to be a major obstacle to the efficient operation of the economy. The failure of the GOP to meet the IMF targets and the adoption by the GOP of an alternative program which the U.S. could support has led to extensive discussions with the GOP over the shape of short-term fiscal, monetary, and exchange rate policy. The GOP has implemented a program to reduce public expenditures, increased sales interest rates, and continued to adjust the exchange rate in excess of the rate of inflation. The GOP has also institutionalized procedures for the review of existing and proposed regulations with a view to limiting their burden on the public.

(c) It is hoped that the IMF and IBRD will play a major role in discussions with the GOP over macroeconomic policies, with the former concentrating on short-run measures (savings mobilizations, reduction in the

fiscal deficit, and exchange rate competitiveness) while the latter would concentrate on public investment selection, financial market reform, and the maintenance of a liberal trade regime. While we expect to work closely with both organizations regarding these respective topics, it is not clear that the new GOP will be able to reach an agreement with either institution. In that case, the Mission must be prepared to proceed without them if necessary in the negotiation of essential policy reform in close consultation with the Fund and the Bank.

(d) Future Steps to Carry Out the Policy Dialogue

It is anticipated that the policy dialogue will begin as soon as new ministers are named by the new government. As in the past, most macroeconomic policy issues will be negotiated with officials of the Ministry of Economy and Finance and the Central Bank. APRA may try to revitalize the National Planning Institute; if so, it could be a third GOP player. However, the precise institutional setting will depend on the organizational structure of the new government. The Mission has a wide variety of analytical work, both completed and ongoing, which we are in a position to share with the new government. These include a number of internal Mission studies of the macroeconomic situation the Coopers and Lybrand report and the analytical work of the Liberty and Democracy Institute. The Mission's Private Sector Policy Analysis Project will provide a vehicle for such additional macroeconomic analytical work as may become necessary as well sector programs (especially in agriculture).

In addition, the Mission will propose plans to utilize a small part of the ESF grant (approximately \$1 million per year) to provide needed TA to the GOP to examine alternative options in macroeconomic policy.

As soon as the key actors in the new GOP are identified, the new government will have to initiate discussions with commercial banks and bilateral creditors to achieve some regularization of its current debt situation. Using our position as a Paris Club creditor, we expect to undertake policy discussions with the GOP on macro-issues.

Our five-year macroeconomic policy reform strategy will be laid out in a PAAD to be presented in Washington in September or October of this year. The general framework for policy reform will be established in the first year and will focus on an efficient reduction in the fiscal deficit, exchange rate competition, prioritization of public investment, financial market reform, and deregulation of the private sector. Our experience in Peru and elsewhere demonstrates that these kinds of reforms cannot be accomplished by one-shot measures but require repeated evaluation, reinforcement and deepening to accomplish their intended purposes. It is our judgment that a 5-year program of policy reform can bring about substantial improvement in resource mobilization and the efficiency of both public and private resource use.

(2) Policy Agenda for Agricultural and Rural Development Program

A. Background

In 1980, when the present GOP came into office, the policy structure affecting the agricultural production, processing and marketing and consumption system was characterized by (1) major state intervention in the domestic pricing and marketing system, (2) state control of agricultural imports and exports, (3) a largely dismantled, weak and ineffective agricultural research and extension system, and (4) a macroeconomic policy structure (e.g., exchange rates, tariff and non-tariff barriers, and public investment priorities) that negatively impacted on agriculture's terms of trade in relation to the rest of the economy. The effects of these policies were reflected in a severely decapitalized agricultural system as evidenced in financial, technological and human capital terms by the following performance indicators: agricultural output per capita, both for domestic consumption and for export, declined from 1969 to 1980 and in 1984 (in spite of improvements since 1980) still was below the levels of the mid-1960's; less land is in production now than in 1965; yields have increased at a rate lower than population growth rates and are lower for many major products than in other South American countries; and, consequently, imports of foodstuffs have increased dramatically during the past several years.

From 1980 through 1983, the GOP made a number of policy changes that (1) eliminated or substantially reduced state intervention in domestic agricultural prices and markets and agricultural import and export markets, and (2) adjusted exchange rate, tariff and non-tariff and public investment policies to reduce the negative terms-of-trade impacts on the system. However, because of a lack of sustained commitment and follow-through to these initial changes, continued policies favoring consumers and imported foodstuffs and continued severe institutional weaknesses in the sector, the required magnitudes of private sector recapitalization are not taking place.

There continues to be a need for clear policies and strong evidence of a strong GOP commitment to agricultural development and to the private sector as the primary source of agricultural system growth. Without stable policies and long-term GOP commitment, private recapitalization of the system in the magnitudes required will not take place.

Recapitalization of the agricultural system involves institutional development as well as productive investments. To be effective, institutional development must take place not only in national level public and private institutions but also at the level of market towns and local governments. Strengthened government and private sector institutions in market towns are necessary to provide the linkages and the services to the agricultural production sub-sector that trigger the production responses indicated by demand signals from peruvian consumers and export markets.

B. Proposed Policy Agenda

AID has actively helped the GOP examine key agriculture and rural development policy questions through special studies and, most recently, through the \$15.5 million Agricultural Planning and Institutional Development project, and the \$16.6 million Integrated Regional Development project. Both projects revolve around improving the capacity of relevant GOP institutions to consider alternative development policies that affect major portions of our target group and to execute development programs.

The USAID/Peru policy agenda for agricultural system development builds on the substantial accumulated experience and expertise established through these projects. It includes: (1) Macro-economic policies related to intersectoral pricing (exchange rate, international trade tariffs, import-export restrictions, and public economic investment decisions); (2) policies affecting factor use efficiencies (marketing and pricing of purchased inputs, irrigation system organization, water pricing, credit markets, agricultural research and extension, soil and water conservation, land ownership markets); (3) intra-sectoral resource use (obstacles to investment in agri-business and to development of rural financial organizations, central government institutional and budget allocation deficiencies); (4) policies related to marketing, processing and demand structure (including market structure and food price policies); and (5) local and market town development policies (improved regional investment planning and implementation, expanded local revenue generation and investment, and increased local participation in investment decisions and implementation).

The government-elect fully endorses the constitutional imperative of priority development emphasis on the agricultural sector. Specific policy changes to be discussed include the following priority areas:

1) Intersectoral Pricing:

Maintenance of competitive exchange rates and elimination of disadvantages to agricultural production and investment resulting from current tariff structure and foodstuff import policies.

2) Mobilization and Allocation of Public and Private Savings and Investments:

Substitute private sector resources for public sector investment in priority areas, thereby reducing the public deficit and improving the efficiency of investment.

Reduce restrictions on and encourage appropriate foreign and joint venture investment in agribusiness.

Remove obstacles to and provide incentive for establishment of new private financial structures in market towns.

3) Improved Allocation of Resources by the Financial System:

Remove obstacles to land mortgaging under selected conditions.

Permit market-determined interest rates.

Direct loan portfolio shares to priority investments related to agricultural production, marketing, processing and market town development.

4) Reduction of Price Distortions and Other Obstacles to Efficient Markets:

Water price policy.

Land sale and rental markets.

Rationalize foodstuffs import substitution policy.

Modernization of input and output marketing systems land and water conservation.

Improved efficiency and profitability of agricultural cooperatives.

5) Agricultural Technology Generation and Transfer:

Human capital development and improved salary scales in appropriate public sector institutions.

Increased private sector involvement in technology generation and transfer process, especially for cash crop, export oriented and coastal agriculture.

Expansion of soil and water conservation programs.

6) Economic Stabilization Support:

Targeted food programs and short-term rural and market town employment generation options.

C. Strategy For Policy Dialogue

USAID is continuing a process that has been under way since 1983, via on-going projects, evaluations and PD&S activities to make available a competent conceptual and analytical base for carrying out a substantive and effective policy dialogue with the incoming GOP. The Agriculture Policy Analysis Group, supported by Title XII advisors under the Agricultural Policy and Institutional Development Project, is conducting a broad range of policy

studies and assisting the Minister of Agriculture with ongoing and mid-term issues which transcend the present administration. AID's leadership in the decentralization policy dialogue is being carried out through the Integrated Regional Development and Disaster Reconstruction Projects that are working with the Office of the Prime Minister, National Municipal Development Institute, National Development Institute, departmental development corporations and, municipalities, and through grants to private policy research institutions and contracts with individuals for key policy studies. In addition, we have had a number of contacts with people making up the technical teams working on APRA's Plan of Government, which includes several persons mentioned as possible Ministers of Agriculture.

USAID's leadership within the donor community in both agricultural development and decentralization has helped facilitate donor coordination. Detailed discussions have been initiated with the IDB and IBRD, as the most recent part of long-standing coordination on approaches and policies. We will share with them our comprehensive policy dialogue papers soon to be finalized, and have already given them the various evaluations and studies now available. We also have been sharing and will continue to provide these documents to the present GOP and the government-elect both now and when it takes office.

USAID plans to provide financial and technical support for transition forums (briefing sessions, seminars, retreats, etc.). The present Minister of Agriculture is actively working with the incoming administration and has designated the Agricultural Policy Analysis Group formed under the APID project to lead the Ministry's contribution to ensuring that the transition results in minimum loss of policy momentum.

We anticipate that the dialogue process will continue throughout the period the new GOP is in office. As deeper mutuality of understanding develops, we expect to support additional specific studies under the APID project to further analyze issues where differences exist.

(3) Private Sector Employment Strategy

I. Background

The approved USAID/Peru FY 1986-90 CDSS and FY 1986 ABS describe the important opportunity which exists to help the private sector demonstrate its productive utility to the Peruvian economy. Briefly, the Government of Peru has attempted to reverse the import substitution economic model which Peru had adopted over the last 20 years and which had led to increasing public sector dominance of Peru's productive capacity. The Belaunde administration tried to open the economy to competition and allow market forces to replace the stifling system of legislative controls established under the prior military regime. These policies fostered good economic growth in 1980, 1981 and 1982, accompanied by increased exports, investment and employment. However, growth was frustrated in 1983 and 1984 by the international recession, the most depressed prices for traditional exports since the 1930's, unprecedented natural disasters, fractious management of domestic budgets and external debt, and mounting terrorist activities. In the face of these challenges, the gradual structural transformation of Peru's economy was halted. The bifurcated nature of Peru's private sector into formal and informal elements has become a source of public policy concern. Except in agriculture, private sector productive performance in the formal sector has not generally responded well to the partial reforms of the Belaunde government.

The incoming GOP faces problems for which the solutions are extremely limited. Basic commodity prices are expected to remain depressed. Peru's debt burden is growing and will require multi-year rescheduling. Labor stability laws and political pressures make it difficult to effect needed cuts in GOP spending and capital transfers to public enterprises. To maintain and deepen the economic reforms and encourage the private sector to take advantage of its new opportunities, it is essential that USAID support economic policies and programs which continue to lead the new GOP away from the controlled market, anti-private sector policies which have proved to be so ruinous in the past.

II. Overall Private Sector Strategy

The objective of the Mission's Private Sector Strategy is to assist Peru realize economic growth through the potential of its private sector to increase exports and employment and attract investment.

The Mission is carrying out a three-phased private sector strategy to achieve this objective. Phase I followed the recommendations of the Coopers and Lybrand Study which recommended that, before meaningful medium to long-term assistance can be made available to the Peruvian private sector, the private sector has to be helped to weather the effects of Peru's unprecedented economic crisis. The Mission, therefore, in phase I of the private sector strategy, is helping economically and financially viable firms to avoid

bankruptcy by making needed working capital loans available. Through the Disaster Assistance Program Loan, Private Sector Agricultural Investment Promotion and Urban Small Enterprise Development projects, the Mission disbursed nearly \$25 million in working and investment capital to medium and small-scale private industrial, service and agricultural firms in 1984 with an additional \$40 million expected to be provided in CY85 under these projects. The Disaster Assistance Program Loan specifically addresses the most pressing short term private sector problem--liquidity--while simultaneously providing balance of payments support.

Phase II of the Mission's private sector strategy is, over the medium term, to assist in creating the basic conditions for private enterprise growth by (a) improving policies that facilitate private sector growth and (b) improving the institutional and technical capacity of key management training institutions, private sector associations and financial organizations in the small industry sector. These activities will help develop positive public attitudes toward the private sector and entrepreneurship; provide for a more consistent and rational private sector policy environment; identify investment opportunities with high rates of return; support a system which promotes private ownership and effectively resolves contract disputes; and make monetary, fiscal and economic policies more predictable.

The Private Sector Policy Planning and Institutional Development Project and the institutional development component of the Small Industry Credit Project proposed herein, combined with the complementary Private Sector Management Improvement and the Agriculture Policy Planning and Institutional Development Projects, represent the beginning of USAID's broader, longer range strategy in dealing with private sector development as do major portions of the Agricultural Recapitalization proposed to begin in FY 86. Through Phase II of the Private Sector Strategy, USAID/Peru will promote rational policy change from within the public sector while simultaneously strengthening key Peruvian private sector organizations (Confederación Nacional de Instituciones Empresariales Privadas, Instituto Libertad y Democracia, and sectoral and regional associations) to participate in the policy formulation process. Increased private sector investments, production, exports and employment will follow as the participating organizations better analyze and evaluate risk alternatives and discuss/lobby for appropriate policies. At the same time, we will add to the strength of the private sector organizational network by promoting institutional changes and contributing to the creation of more positive attitudes toward market mechanisms for economic growth and the role of small enterprises in the economy. Taken together, USAID projects will work to reduce the longer term policy, attitudinal and human resource constraints to private sector development and market-led economic growth.

Phase III of the Mission's private sector strategy will address selected key sectoral constraints. Export and Investment Promotion and other projects in the FY 86-90 period will have strong policy elements. Essentially no capital will be provided for credit funds in Phase III projects, as these

projects will concentrate on technical assistance and training. Phase III projects will help increase exports, attract investment and create employment through policy and technical improvements in non-traditional export promotion, agro-industry development, investment promotion, strengthening financial cooperatives, technical/vocational education and public sector enterprise divestiture. Identification, development and implementation of these projects will be aided by the macro-economic policy, institutional and human resource framework put in place by our preparatory efforts. Current Phase II activities will provide much of the technical knowledge and financial skills needed to help develop these program activities.

III. Proposed Policy Dialogue Strategy

USAID's proposed private sector policy dialogue strategy closely follows the overall private sector strategy outlined above. Policy reforms and accompanying project support are needed in three broad areas: private enterprise development; economic structure; and employment. These policy areas are being addressed in all three phases of our private sector strategy.

A. Private Enterprise Development

1. Use of Market Signals

With the new GOP we will continue our dialogue to keep the evolving Peruvian economic structure away from renewed emphasis on protectionism and towards market-led growth. Earlier policy achievements must be preserved and deepened. Some Peruvians, frustrated with the recent years of negative growth, wish to revert to a protected and statist economy. Our policy goal will be to sustain and deepen the use of market principles, and to continue to reduce the role of government in the economy. This will improve resource allocation and build long-term growth on international comparative advantages.

2. Barriers to Private Foreign and Domestic Investment

Peru has in effect policies which significantly restrict foreign investment and shelter inefficient private enterprises. Major barriers to private international and domestic capital investment and technology transfer exist. New external investments needed to create more and better employment are gravely compromised. Despite some improvement in bureaucratic procedures, the process of approving foreign investment continues to be lengthy and complex, with foreign ownership generally limited to 49% of equity. New foreign and domestic investment is constrained by inflexible regulations of the Industrial Community Law which restrict management's control of private firms. In addition, the GOP requires that settlement of disputes be handled exclusively by Peruvian or Andean Regional courts; foreign investors must forfeit access to international legal processes. Some 150 parastatials, whose production represents nearly 20% of GDP, enjoy protection

from the discipline of the market place. Their continued inefficient operation places severe strains on the GOP budget (nearly 25% of the GOP budget deficit is used to cover costs incurred by these public enterprises). USAID will support a gradual reduction in both local ownership requirements for private enterprise and GOP efforts to privatize certain parastatals. We will assist these initiatives through detailed analyses which propose solutions that minimize labor displacement and insure economically relevant investment. We will also work to convince the GOP of the advantages of entering into an OPIC agreement.

3. Deregulation of the Private Sector

Excessive regulation of the Peruvian private sector has resulted in a misallocation of resources, diminished private sector productive activity, and the flourishing of an informal productive sector. Despite progress under the Belaunde government to take action to reduce price controls and required investment documentation and increase the use of market signals to regulate economic activity, there are still many areas which need to be deregulated, especially if red tape is to be reduced and the informal sector is to be brought into the formal arena. Specifically, the administrative procedures that make it difficult for a business to enter the formal sector require simplification. Regulations that favor large or established businesses over small or new businesses need to be modified. Finally, mechanisms that allow the formal and informal private sector to review and respond to changes in laws and regulations are needed.

B. Economic Structure

1. Import Policy

Over the past 5 years Peru has opened much of its market to imports. Some analyses have indicated that it was done too quickly and was indiscriminate. Import tariffs have since been increased (and now average 40%) and some direct controls have been reapplied. USAID will pursue policies which permit needed imports and eliminate tariff and non-tariff barriers to competition.

2. Interest Rate Policy

Most interest rates in Peru are not market determined. This discourages savings mobilization and misallocates scarce credit. Formal credit, especially for smaller enterprises, is difficult and time consuming to obtain. Moreover, subsidized financial markets increase inflation, encourage the dollarization of the economy, inhibit savings in soles, and raise the costs of channelling limited savings to those investors with the most profitable investment opportunities. AID will continue to press for policies which lead to efficient market-adjusted interest rates. We expect to increase the absolute amount and improve the allocation of investment resources.

C. Employment

1. Labor Stability

Labor stability legislation has exacerbated Peruvian unemployment and under employment. Laws limit personnel management alternatives, reduce employment opportunities, unduly reward longevity, adversely effect productivity, promote capital verses labor intensive investments, and contribute to the stagnation of talent and skills. It imposes costs on those who adhere to it and on those trying to avoid it. These laws and administrative practices must be reviewed, simplified and rationalized to reduce their negative effects and to allow rational resource allocation.

2. Informal Sector

The rapid growth of the Peruvian informal sector is a result of the slow, cumbersome and capriciously administered requirements for the registration and functioning of a business, the inability of the formal sector to meet employment needs, and continuing efforts to protect certain economic activities. As a result, the GOP collects fewer direct taxes and informal enterprises do not benefit from the advantages of formal sector operation--better access to credit, insurance, legal services, contracts, etc.

Tax and licensing documentation requirements, and the way in which the GOP decides regulations, will be examined to ensure that the private sector receives fair opportunity to review and respond to proposed measures. This review will promote reduction of complex and often unnecessary procedures which are formidable barriers to market entry and commercial development and which discriminate most against smaller enterprises. Also, USAID will continue its efforts to assist the government in divesting itself of productive enterprises. Similarly, unfair advantage gained by specific (powerful) private sector organizations, groups or firms will be examined and addressed in an effort to insure competition in the market place. The rational growth and development of smaller enterprises is critical to the development of expanded employment opportunities.

III. Leading Party's Policy Statements

APRA's positions on many economic, employment, industrial and private sector issues have yet to be announced. However, agricultural and small business development designed to increase productive employment, particularly in the sierra, are expected to be a major policy focus. APRA has shown some concern about the size and cost of the public sector, yet they have been careful to assure that employee rights will be protected. APRA shares major concerns for our target beneficiary groups and seems to favor a more efficient yet mixed economy. Nonetheless, some APRA rhetoric is blatantly protectionist. APRA will probably continue to restrict the importation of

certain luxury goods and might expand the prohibited list (cars, electronic equipment and special foodstuffs are commonly mentioned). APRA can be expected to explore the opportunities for further import substitution. Still, APRA statements have held out the possibility of foreign investment in certain priority areas of the economy. Of all the major parties, APRA has most regularly stressed the need to generate more non-traditional exports to earn foreign exchange and to create employment. Other economic management areas will require substantial policy dialogue. APRA's policies appear to conflict with USAID's strategy in financial market development. APRA views interest rates as too high. Although there is recognition of a necessary link between inflation and interest rates, interest rate subsidies may appeal to APRA as an initial intervention. Despite these potential problems, we are optimistic about the outcome of policy dialogue opportunities with a new APRA government.

IV. Results of Approaches/Contacts to Date

To begin the design of the Private Sector Policy Planning and Institutional Analysis PID, we initiated a number of discussions with leaders of major business and trade associations. These have been important as a way of learning of the policies of major political parties and of the probable effects of the election on organized business. Representatives of CONFIEP and other private sector associations have already met with Alan Garcia. We have informally pursued a number of conversations with banking leaders with strong connections to APRA. During the design of the PP, we will be able to review the GOP portion of the project with APRA officials. This will provide us with an opportunity to review and analyze private sector policy positions.

V. On-going AID Policy Activities

The current USAID Private Sector Program is essentially comprised of credit projects for working capital, small enterprise investment and working capital, and medium term agricultural investments, in addition to private sector elements in other portions of the program. Each of our private sector credit projects seeks the use of market determined interest rates. We will continue our discussions on real interest rates. Technical assistance needed to insure regular monitoring and use of real interest rates will form an integral part of the proposed Small Industry Credit Project.

Our ongoing activities with ILD have led to a greater understanding of the informal sector, its problems and potential. Moreover, we have helped establish a mechanism which allows the private sector an opportunity to review proposed legislation and administrative codes before their final promulgation by the GOP. ILD is also carrying out a public campaign to ease the licensing burden on enterprises.

VI. Role of Other Donors in Policy Dialogue

Most other donor organizations active in Peru--the World Bank, the IDB and other bilateral donors--have less interest in specific private sector

policies and issues than AID. While the World Bank is especially involved in the overall structure of the Peruvian economy and interested in employment gains, it does not have major activities carried out through or aimed at private sector organizations. The IDB, following our lead under the Disaster Program Loan, has recognized that the liquidity crisis will permanently damage viable industries and is providing working capital through the Industrial Bank to qualified firms, using the policies and administrative structures established under our assistance.

VII. Future Steps to Carry out Policy Dialogue

Many of our planned dialogues will be carried out as part of project design and implementation. The private sector dialogue will be a long-term undertaking. Through the PS Policy Planning and Institutional Development Project (PID recently approved), we will have established continuing long-term relationships with key formal and informal private sector organizations and with the new GOP. We fully expect the private sector's institutional framework to form the basis of our growing private sector program. However, we also expect to deal with the new GOP about private sector concerns in the context of the discussions on the overall level and composition of a possible five-year program of economic development assistance for Peru.

(4) Policy Agenda for Supplementary Feeding Programs

I. Overview

Under the Belaunde Administration, the Peruvian Government has undertaken a number of P.L. 480 Title II interventions. The CARE food for work PIBA program has constructed 500 schoolrooms, 44 health posts, and 87 community centers and other basic urban infrastructure works in the pueblos jovenes of greater Lima. Under the national food for work (FFW) reforestation program through Church World Services-SKPAS, Peruvians are annually planting over 13 million eucalyptus and pine trees in eight Sierran departments to stem soil erosion and provide sources of fuel and income. This is AID's largest reforestation program anywhere in the world. Drawing on Section 416 dairy products, the Ministries of Health and Education are reaching about 3 million children in their school feeding program and 160,000 pregnant and lactating women and children under five in their maternal and child health care programs (MCH). In addition to these programs, voluntary agencies (Catholic Relief Services-CARITAS, Adventist Development Relief Agency-OFASA, and SEPAS) are conducting supplementary feeding programs reaching about 550,000 recipients, primarily in FFW and MCH activities. Many Title II programs receive GOP technical collaboration and all are partially financed by GOP Title I counterpart funds.

In addition to these Title II and Section 416 food resources (which in 1985 amount to \$9 million and \$7.2 million, respectively), the GOP receives Title II multilateral food resources averaging \$6 million annually from the United Nations World Food Programme (WFP) channeled into agricultural infrastructure and MCH projects. Combined these constitute a significant level of resources, about \$22 million annually. The Mission's supplementary feeding program forms an important part of our overall program and, when coupled with Development Assistance and Title I, provides an opportunity to support constructive policy dialogues with the Government and the voluntary agencies.

II. Bilateral Program

In the Mission's April 17th memorandum to the DCC Food Aid Subcommittee, preliminary economic and nutritional cases were made for increased Title II assistance levels beginning as early as FY 86 and certainly by FY 87. The memo requested reconsideration of the current DCC-AID/W Title II phase-down instructions that would decrease regular program volag Title II assistance until reaching 1978 "pre-crisis" levels. The "pre-crisis" levels were 19,137 MT then worth about \$8.35 million. The "crisis" was the 1977-79 economic recession that saw tremendous foreign exchange shortages, a 24 percent decrease in real wages and positive economic growth for those three years at 0.7 percent. Unemployment and underemployment totalled 57 percent.

As was pointed out in the April 17 memo, unemployment and underemployment now stand at around 68 percent of the labor force. At the same time, blue collar wages dropped 16 percent in 1983 and a further 20 percent in 1984; they are now less than half the real wages received in 1973. These statistics imply that the AID target group has suffered even larger drops in real income. Stabilization programs, which will have to include improved economic and financial management policies, may exacerbate the daily struggle of low income families to maintain themselves. Incomes may well suffer--along with nutrition and health status. It is clear to us that Peru is in much more difficult straits now than it was in 1977-79. For this reason, we are requesting an increase in Title II resources and are projecting a need for Section 416 products through 1989.

It is very likely that the incoming GOP will immediately launch programs to stabilize the economy in the short run and later start an economic restructuring program. These could entail large social costs above and beyond the hunger, associated malnutrition, and unemployment/underemployment problems now plaguing the AID target group. Leading figures in the winning political party have already approached the Mission on the need for the new GOP to soften some of the most acute human costs of the stabilization program. They see increased supplemental feeding programs as an integral and necessary element of their overall efforts. Upon taking office, they will probably request USG assistance to embark upon a large-scale food distribution program. Rhetoric during the campaign has on numerous occasions stressed the need to confront the hunger problem as well as dramatically increase food availabilities through increased production, especially by small farmers.

The Mission believes that supplemental feeding programs, if correctly conceived and administered, can be of great benefit to the AID target group, not only in the short run but also in the long run--if and to the extent that they concentrate on increasing productive capacity and lead to increased consumption capabilities, especially for the purchase of food. Straight give-away programs would be of little long-term usefulness in helping solve the human suffering involved in Peru's present circumstances. As stated in the Agricultural Recapitalization program description, we are trying to affect both the supply and the demand sides of agricultural production because both are important to our program strategy.

Perhaps more importantly, USAID/Peru is convinced that supplemental feeding programs may be essential to the eventual success of economic and financial stabilization efforts. Stabilization efforts will seek to reduce government expenditures, control credit expansion, and thereby depress the level of economic activity. More people may become unemployed or see their real wages decrease. A temporary counterbalance will be needed to cushion the shock for the most seriously affected segments of society. The lack of this cushion may make the stabilization program untenable socially and politically. Failed stabilization efforts usually complicate the process of seeking more effective alternatives. It is therefore important that the

government's first attempt succeed, and that we be positioned to provide at least part of the resources. Although one could justify our support on purely humanitarian grounds as well as in terms of supporting economic development, the crux is that we have strong foreign policy interests in building democracy in Peru and in protecting advances in democracy achieved to date. GOP economic policy improvements will be required to do this.

We are proposing a major ESF/Title I program to help meet the resource needs of stabilization/structural adjustment. The Title II supplementary food being requested will be implemented through a program designed to make the stabilization program more feasible. Therefore, the programs will be targeted to those low income groups most affected by the stabilization program.

It would be premature to guess what form or modality the new Administration will wish to employ in its program for the distribution of supplementary food resources, but it is likely to include one or more of the following:

- a) A continuation of the PIBA urban project which would again elicit the collaboration of several government ministries (Agriculture, Health, Education and the National Food Assistance Office - ONAA);
- b) An enlargement of the PIBA program beyond Lima and Trujillo, including perhaps a nationwide FFW public works/agriculture production program;
- c) An enlarged school feeding/maternal child health care program through the Ministries of Health and Education;
- d) Some type of food and technical assistance package to increase the coverage of public and private sector community kitchens or comedores which offer low cost prepared meals to poor families, primarily in Lima; and
- e) GOP marketing of staples (rice, corn, flour, beans, milk, etc.) at subsidized prices to the poor. In this case, we could be asked for a USG food donation to lower average costs of the program. This would not be an attractive modality from the Mission's perspective.

III. Mission Strategy

Regardless of which modality or combination thereof the new Administration proposes, there are several issues the new Administration will need to address in the near term.

There is an urgent need for the formulation of carefully constructed supplementary feeding policies. The term "supplementary" will be emphasized in the Mission's bilateral discussions as P.L. 480 Title II does not attempt to provide an entire food basket. In MCH and FFW programs, it

provides only those complementary items which will compensate for caloric and/or protein deficiencies. The idea is to supply a ration package that will have a positive income transfer value to the recipient household that will result in improving the diet of the family or increasing their opportunity to engage in income generating or social improvement activities. The Mission will issue its supplementary feeding policy statement by August 1985.

GOP supplementary feeding policies should address the importance of geographic targeting, socio-economic and nutritional impact, productive employment, income generation, minimization of recurrent costs, the role of private sector, and self-reliant/self-perpetuating project activities.

In terms of nutrition interventions, our policy dialogue will closely reflect the results of the National Health and Nutrition Status Survey (KNNSA) data analysis which will provide a clearer picture of the magnitude of Peru's nutritional problem. However, emphasis will continue to be placed on the vulnerable groups. Geographic targeting will be a cornerstone in setting program parameters not only bilaterally and multilaterally but also through Title II regular program volag activities.

In terms of socioeconomic and nutritional impact, parameters or guidelines should be established prioritizing the types of programs which should be implemented, consistent with the intent to achieve development impact (whether nutritional or economic). In terms of the former, nutrition education and growth surveillance need to be strengthened. Both are essential components of any Title II nutrition intervention. This August, 74 nutritionists from four volags and two GOP agencies will participate in a nutrition education course to be conducted by the Institute for Nutritional Investigation utilizing funds under the Nutrition Amendment to USAID Project 527-0219. The course, designed to enable these nutritionists to train other nutrition promoters, is the first step in a multiplier nutrition education effort. In FY 87, a follow-up study will be implemented to evaluate the effectiveness of both the original trainees and their students.

In terms of economic impact, productive employment, income generation, recurrent budget implications, and food self-reliance projects, the Mission intends to continue to concentrate on establishing FFW programs which maximize income producing mechanisms which can be continued once outside resources are no longer available. Less emphasis will be placed on constructing additional infrastructure such as schoolrooms, health posts, and community centers. The Mission will emphasize small-scale, community-based agricultural and income generation FFW projects to assist in: increasing food self-sufficiency and overall food availabilities; increasing income; reducing dependency of imports; and reducing migration to urban areas.

In order to develop self-sustaining projects, the Mission and the volags will be experimenting with the integration of locally-produced staples from FFW projects into our MCH nutrition interventions, thereby linking FFW

and MCH activities in the same community. With GOP technical assistance and collaboration, indigenous protein-rich staples can be incrementally integrated into volag and government-to-government programs. Several Peruvian Institutions are working toward the development of weaning foods. The Title II Ration Study, concluded in April, recommended reducing the number of Title II commodities used. In FY 86, a total of five types will be requested versus nine in FY 85. In addition to simplifying operations, this will also ease the gradual phase-in of locally-produced foods into our supplementary feeding programs. It is also our intent to maximize the use of local resources from the community to reduce costs and increase the community's "investment" in the project. The above constitutes the basic tenets of our multiyear operation plans. Specific and measurable benchmarks will be established and annually evaluated. The first such evaluation will be held in FY 87.

The Mission is currently examining the role that community kitchens (comedores) can play in reaching the poorest strata of Peruvian society and in particular the vulnerable groups. In these centers, poor families pool financial resources in order to prepare a daily low cost breakfast and lunch. In Lima, there are currently 400 comedores reaching 40,000-50,000 beneficiaries and many are providing growth surveillance services and nutrition education classes. The women, which are the backbone of these voluntary neighborhood associations, are also particularly interested in improving their socio-economic conditions through income generation activities. The Mission will soon begin discussions with these groups to explore whether their operations can be made more self-reliant and to determine if and to what extent we should be more actively supporting this rapidly-growing community kitchen movement.

Another area of focus will be improving the level of GOP-PVO collaboration and joint implementation of projects. The PVOs could benefit by increased technical assistance which could be furnished by the GOP. Several PVOs have already demonstrated their ability to work closely with government entities. The use of one or more volags in the design and operation of a bilateral GOP food distribution program would help ensure adequate controls are undertaken. We will encourage the appointment of a Presidential Special Assistant in Supplementary Feeding Affairs to serve as coordinator of a multi-sectoral volag-GOP working group. This individual should have enough stature and rank to resolve operational problems in both GOP and volag programs.

In the MOH Section 416 school feeding (PAE) and MCH (PROCAMI) programs, we hope to reduce our relative support to school feeding and concentrate on increasing MCH, which is more in line with our nutritional strategies. Section 416 commodities can and should be used as an incentive to increase the utilization of health services. In addition, the new Administration will be made aware of the joint CARE-MOH Evaluation of PAE-PROCAMI, which will be available in May, since its findings will assist in determining our recommendations on CY 86 levels for Section 416 commodities.

ONAA should assume a larger portion of Section 416 in-country logistics. However, additional budget resources will be required to accommodate this added responsibility.

IV. Resource Request

	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>
Title II - Volag Program	9.5	12.0	12.0	12.0	12.0
- Stabilization Support	12.5	8.0	3.0	-	-
Section 416 - School Feeding	7.2	6.0	4.8	2.4	-
- MCH	4.8	6.0	7.2	4.8	2.4

The Mission intends to submit a PID in July 1985 for Development Assistance Grants to the volags and selected GOP agencies totalling \$7.0 million for FY 86-90 and for the Title II and Section 416 resources outlined above. We have not negotiated the terms and conditions of either stabilization support or Section 416 commodities. This will be done in the context of our policy dialogue on macroeconomic program assistance if we have preliminary support for such resources as a result of the review of this Action Plan. The need for increased volag Title II levels will be substantiated in the PID. The Mission believes that progress to date in improving the development impact of the volag program--including multi-year planning, recipient targeting and similar breakthroughs--is an excellent basis for increasing ATD support of these programs. We project such an increase starting with FY 87.

(5) Policy Agenda for Health Sector Program
(Includes Population, Nutrition and Environmental Sanitation)

A. Background:

Although the Belaunde Administration has undertaken new initiatives to increase primary health care services to both urban and rural population groups, the health status of Peruvian citizens remains poor. The national infant mortality rate is 101 per 1,000 live births, and life expectancy is 58 years. Available statistics confirm that health care disproportionately favors urban areas. Infant mortality exceeds 200 per thousand in some areas of the southern sierra. The malnutrition rate is currently estimated at 50%.

Yet existing health resources in rural areas are underutilized, due to ineffective program planning and management. For example, in spite of the need to train and utilize auxiliaries and para-professionals and GOP programs for this purpose, the universities continue to educate doctors. The result is an oversupply of medical doctors, who remain concentrated in urban areas (80 per cent are in Lima, Trujillo and Arequipa) where there are few opportunities for employment. In 1979, the MOH estimated that there were 2,515 physicians in excess of public sector needs. The figure now is reportedly over 5,000. This situation will become even more critical if the four new medical schools that have been proposed are allowed to operate.

In the past, Peru's health policy evolved on the basis of medical practices of industrialized countries that do not address the main health problems and demands of Peru's population. The Belaunde Government formulated a National Plan of Coordinated Health Actions (PNAC) for 1982-85 with strong emphasis on primary health care. This plan led to a reorganization of the MOH and the preparation of the National Primary Health Care Policy (PHCP), adopted in January 1982. However, while the MOH is now emphasizing Primary Health Care (PHC), there is a clear gap between objectives, financial resources, and operations. There is also a need for clear policies conducive to greater involvement of private sector organizations in national health problems. The actual planning of health programs is constrained by the lack of health management professionals and reliable statistical data needed to analyze health programs and redirect resources and the delivery of services. AID's Health Assistance Policy Paper accurately states that many of these management and policy problems need to be addressed in "second generation" primary health care programs. A strong health policy analysis and planning capability is needed to formulate nationwide policies and collect and analyze epidemiological data to effectively plan programs and to collect and analyze expenditure and service delivery data to monitor the programs of the GOP and private sector agencies. Besides looking at the coverage, quality and community participation of programs, policy-makers must also examine numerous related financial and management issues which have not been emphasized, including alternative methods of financing health care and private sector involvement.

B. Proposed Changes:

Peru has received large amounts of international donor support since 1979 for the development of its health sector. In addition to USAID support, the West German Government, the World Bank, UNICEF, UNDP, and other bilateral and multilateral donors have provided well over US\$ 100 million. Over the next five years, USAID, the Interamerican Development Bank, and other international donors have tentatively programmed about the same level of support. Yet, during Peru's current economic crisis, the government's own financial commitments to the health sector have remained constant, at best, and probably deteriorated.

The government's budget limitations are exacerbated by the national health system's lack of coordination among its public, social insurance and private sector components. Moreover, most existing health services are underutilized due to ineffective management systems in the sector, and the actual planning of health programs is constrained by an inadequate documentation base and information system. The Mission's Health Sector Analysis (HSA) addresses these issues with reference to the country's health resources and health status. In addition to using existing primary and secondary data sources, the HSA incorporates an in-depth analysis of data from the USAID-financed national household surveys in Peru. The HSA will be used to guide rational policy and resources allocation decisions, and sector decisions will for the first time have a strong analytical basis.

Overall policy areas for which the HSA will yield findings and recommendations include: facilities operating costs and cost containment possibilities; improvements in the utilization of existing health care facilities; health system organization and management changes to improve human and pharmaceutical resource utilization and generate cost savings; increasing domestic health care financing with particular emphasis on social insurance and private sector alternatives; and more effective decentralization of planning, programming and budgeting of health services. These policy changes and policy support actions will be implemented during the 1986-1990 period. The HSA is composed of six technical studies: health status; demand for and utilization of health services; physical infrastructure; human resources; pharmaceuticals; and financing. In addition, certain issues addressed by the HSA are sector-wide and include institutional analysis of the sector agencies, management assessment of their implementing systems, coordination among sector institutions (especially MOH and Social Security) to expand coverage, improve quality, and increase efficiency, and definition and estimated coverage of private medical care and its relation to public health and insured health services.

A policy agenda for population is being prepared concurrently with the HSA. Policy issues will discuss some or all of the following concerns:

The commercial pharmaceutical sector is the largest provider of family planning services in Peru. It provides contraceptive commodities to more than 240,000 couples, in spite of laws, regulations and taxes intended to restrict the capacity of the private sector. Specifically, MOH regulations regarding prescription for oral contraceptives are largely ignored but still have a limiting effect on over-the-counter sales. The MOH has some regulations concerning the public promotion and advertising of ethical products. Although not specific, these regulations have prevented the local pharmaceutical laboratories from using the mass media. All modern contraceptive methods are imported. Import duties are imposed, not to protect local production, but to generate revenues. This policy is counter-productive. Revenues generated from import duties are minuscule compared to the cost of providing for unwanted children. The commercial sector as well as the Contraceptive Social Marketing project (CSM) would benefit from a clearer, more consistent policy in the area of advertising and medical prescription for family planning products. The issue of duties is more complex because it impacts on revenue generation for the GOP, but the dampening effect of high prices for contraceptives is an additional constraint for the commercial sector.

The current regulations allow for the importation of donated contraceptive without duties with the proviso that said contraceptives are not subsequently sold. In order to insure the success of the Contraceptive Social Marketing project (CSM), a special exception to this policy is required.

Lastly, in 1981 the MOH and IPSS agreed to provide family planning within their MCH services. A ministerial decree in 1983 permitted promoters to distribute contraceptives. At present, these policies and decrees have had limited acceptance by medical personnel at the hospital area and below, in spite of verifiable data that indicate a very high unmet demand for contraceptive services. Policy dialogue in the public sector will focus on the acceptance and implementation of these norms at all levels of the MOH and IPSS health systems in order to accelerate the delivery of family planning services in the public sector.

Our policy dialogue in nutrition will be mostly determined by analysis of the results of the National Health and Nutrition Status surveys and the Functional Classification Study being conducted by CDC and Sigma One Corporation during the June-September 1985 period. For the first time, the GOP will have a firm estimate of the magnitude of the nutrition problem, disaggregated to the department and health region levels, by functional (occupational) groups. These analyses will also draw upon the S&T/N-financed CEAP study and produce targeting issues and primary health care/nutrition program coverage issues. The S&T/N-financed weaning project, which is using local costs financed under the Mission's Project 219 nutrition amendment, will identify and test specific nutrition education messages and interventions designed to improve feeding practices of weaning-age children (6-12 months).

The nutrition amendment is also financing a study to test culturally appropriate educational messages to increase ORT usage and a study to analyze the effects on nutritional status and diarrhea incidence of specific infant feeding practices (including feeding practices which decrease effectiveness of breast feeding and what foods or liquids are the source of diarrhea causing bacteria or viruses). Another study financed with Mission PD&S funds includes an analysis showing what combination of food and ORT can be given to children with diarrhea in order to keep them from becoming malnourished and to speed their recovery from malnutrition.

Based on the above studies and analyses, a comprehensive nutrition policy dialogue will be drawn up by December 1985. It is clear now, however, that any policy dialogue will emphasize that solving the nutrition problem involves more than just feeding programs and increasing food production; that nutritional status can be rapidly improved with increased coverage of PHC services and water and sanitation; and that feeding programs, an obvious priority of the leading party's platform, can be used as incentives for people to utilize health services that may be as important as the food itself. Lastly, the policy dialogue will attempt to identify sustainable solutions to nutrition problems, many of which may be outside the health sector.

Our policy dialogue in environmental sanitation will be expressed basically in refinements to the on-going project, such as: continuation of the policies for decentralization of system design and construction; continuation of personnel at the regional level including engineers, topographers, and trainers for health education; establishment of a system to compensate DISAR engineers on a basis equal to other engineers working in the water sector; and continued emphasis on operations and maintenance of constructed systems. Additional importance will be assigned to the health education aspects of the rural water and environmental sanitation investment, and incorporation of a stronger latrine promotion, construction, and utilization program. The Mission may suggest that 3 regions be selected to promote an aggressive latrine utilization campaign under the new sector program. Steps will also be taken to maintain system costs at their current level of \$31 per capita. Coordination with IDB and Other Donor investments in the rural water sector will also be discussed during the policy dialogue.

C. Strategy for Policy Dialogue:

During the past year the Mission's Office of Health, Nutrition and Education has met periodically with the leading party's health technocrats, mostly members of the Colegio Médico, to discuss the party's health platform and priorities. Most party members subscribe to WHO's emphasis on primary health care and UNICEF's GOBI strategy for delivering health care (i.e., growth monitoring, oral rehydration therapy, breast-feeding, and immunization). Family planning services are also included in the lead party's definition of primary health care and access to fertility control measures is a high priority. A legislative decree on family planning is about to be

approved by the Peruvian Congress with full support of all political parties and all presidential candidates in the recent elections. During the last few days prior to the April 14 elections, the major party's newspaper gave front page headlines to the problem of malnutrition and infant mortality in Peru, drawing upon the AID-financed 1983 Nutrition Assessment for basic facts. (This assessment had been widely disseminated throughout the public and private sector in Peru in 1984.) As stated above, the Mission is financing a major analysis in the health sector. The broad outlines of this analysis were shared with the leading party before its initiation and received their hearty endorsement.

The Mission, as part of the HSA, has been consulting Other Donors about their policy interests and future investments in the sector. The IDB and the World Bank have both agreed to withhold future investments in the health sector pending the results of the HSA. The IBRD has already laid out a series of policy dialogue subjects which coincide in part with the Mission's own agenda. For example, the Bank is talking about the MOH and IPSS freezing all new investments (basically construction) over the next few years and developing an incentive system for staffing health centers and posts. Another area the Bank is addressing is the overproduction of medical doctors and poor quality of medical education in Peru. Other policy areas for the Bank will be identified once the HSA has been completed.

USAID's strategy is for the international donor community as a group to enter into a policy dialogue with the new government and reach agreement on basic policy issues before any new donor investments are made in the sector. We have such an agreement with the German Government's technical assistance program and the UNFPA.

D. Future Steps to Carry Out Dialogue:

The HSA will be completed by February, 1986. Prior to that date, Stonybrook will prepare a policy agenda by June, 1985, which the Mission can utilize in its preliminary policy discussions with the new government during August and September 1985. A PID for the new sector program will be prepared October-December, 1985 and will incorporate the policy dialogue contents for the negotiations of the new program beginning in CY 1986. The PP will detail the results of those policy dialogues and describe areas of mutual agreement. The dialogue will be conducted by the Mission and PAHO with supporting roles played by the IBRD and IDB representatives and the Germans. For this reason, our strategy has been to "Peruvianize" and "internationalize" the HSA (by using Peruvian and PAHO specialists). We foresee the dialogue being conducted over a series of months in multilateral donor coordinating forums, as well as private discussions by the Mission Director and staff with GOP officials. We further foresee that on many issues PAHO, supported by AID and the banks, will take the leadership role in the discussions. We propose to conduct this dialogue not only with major health sector institutions, but also with the Central Bank, the Ministry of Finance and, for certain aspects of the

nutrition component of the policy agenda, with the Ministry of Agriculture. We will also use the transition period to begin inserting AID policy concerns in briefing papers prepared for the new GOP management team.

(6) Shelter and Urban Services

Background

While there are few official figures on housing for the last four years, there is no doubt that housing conditions in Peru have deteriorated. High interest rates and declining real incomes have virtually wiped out private formal housing finance. Low incomes have also depressed home improvement (upgrading). In 1981, the last year for which national housing data were available, about half of urban housing units and virtually all rural units were built of "non-permanent" materials. Regarding services, about 60 percent of urban dwellings had piped water, 45 percent sewer connections, and 63 percent electricity.

Formal sector housing production in recent years has been far below needed levels. Total formal sector (public and private) housing construction has averaged about 22,000 units annually over the last five years. This suggests that between two-thirds and three-quarters of new urban housing units in Peru are being produced through informal construction.

Housing finance institutions--the BCH and the Mutuales--and the development banks, including BANVIP, have had poor performance in recent years, as measured by key financial indicators. Part of the problem is due to the inability of BCH and the Mutuales to compete for resources with other financial institutions, notably commercial banks. Unlike the banks, BCH and the Mutuales are excluded from the dollar savings market and are obliged by law to lend at rates that are negative in real terms.

(1) Needed Changes

Fundamental changes needed in the structure and policies of Peru's Shelter Sector fall into four broad categories:

- Limiting and focusing public sector shelter programs on infrastructure upgrading, preparation of serviced and non-serviced residential sites and provision of individual small construction/housing improvement loans exclusively for low income families. The Government should get out of the business of developing housing projects entirely and should concentrate public resources on critical infrastructure development, especially water supply and sanitation.

- Facilitating increased private sector efforts in shelter delivery by improving the functioning of the housing supply and demand markets and removing regulatory and structural restrictions that hamper private sector initiatives, distort the pricing of shelter solutions, and separate popular demand from formal supply and finance mechanisms.

- Improving the efficiency of both public and private financial intermediation in the shelter sector by structuring and requiring the use of indexing for lending and savings through out the system, improving the management of financial resources, making possible the flow of private savings into shelter finance and requiring public financial resources not specifically and explicitly earmarked for subsidies to yield a return at or above the market cost for savings. All prospective subsidies in shelter or infrastructure programs should be evaluated prior to initiation of any specific program, its overall long-term cost determined and the source of funds for this subsidy identified and approved beforehand.

- Establishing an on-going public/private shelter sector policy formulation and analysis capability to improve the long range functioning of the shelter sector as it relates to overall economic development objectives and to reduce the possibilities of ad hoc, piecemeal legislation that is currently the practice in Peru.

Within the framework of the four broad categories of needed changes are a host of specific policy issues and corresponding actions that must be taken in order to effectively implement shelter programs in Peru. These specific issues can be prioritized as to importance and timing. These are discussed in detail in USAID Peru's Shelter Sector Assessment. They will be further refined in the final version of the Policy Agenda now being prepared. The principal specific policy and institutional issues at this time are summarized below:

1. Maintenance of Value: In the short run, an indexing system must be implemented for loans in key shelter programs in order to lessen or eliminate the decapitalizing effect of inflation. Likewise, new legislation must be devised to restructure the social housing fund if it is to be continued.

2. Subsidies: Prospective subsidies in shelter programs must be evaluated beforehand. Efforts aimed at reducing subsidies or making them explicit are critical. Financial returns should be as high as possible consistent with affordability and should be realized through indexing. The true value of land, labor, materials, and cost escalations during construction must be reflected in pricing shelter solutions.

3. Targeting of Public Sector Shelter Programs: Public sector programs should focus exclusively on low-cost solutions, especially sites and services, non-serviced sites, basic infrastructure, infrastructure upgrading, and building materials loans.

4. Infrastructure: The government must immediately begin to explore ways of reaching agreement with external donors on new financing for basic infrastructure, especially water supply. This will require a willingness to raise tariffs to more realistic levels and to improve the

management of infrastructure institutions. An investment strategy must be devised for the water supply sector, which has been underfunded and which lacks a coherent set of policies and objectives.

5. Banco de la Vivienda: BANVIP should be reassigned its role as setter of financial policy in the housing sector. It should allocate public resources among various programs, assure financial soundness, and exercise direct control over a restructured social housing fund (FONAVI).

6. Mutuales (Savings and Loans) and Banco Central Hipotecario (BCH): To help the mutuales survive financially, the government should consider allowing them to accept savings in dollars and loosening interest rate controls. Legislation should be passed permitting the S&Ls to reorganize their management and legitimize their broader role in financial intermediation. BCH also needs to be able to compete against the mutuales and the commercial banks on an equal footing; thus controls on savings and interest should be relaxed. The technical quality of BCH management must be improved.

7. Housing Policy Capability: The government should consider forming a high-level housing policy group to provide leadership to the sector. This group should consist of representatives of shelter and economic policy organizations, including the Ministry of Economy and Finance and the Central Reserve Bank. Its main task should be to formulate a national housing policy and advocate appropriate legislation for its implementation. Given that (1) many policies that affect the shelter sector are not under the control of the Ministry of Housing and (2) the Ministry has lost many of its implementing, normative, and technical assistance functions, efforts should be focused on recommending ways to rationalize the Ministry's role and reduce duplication of effort between it and other institutions.

8. Banco de Materiales: The BM must improve internal financial controls and limit operating costs. It should also attempt to reach greater numbers of lower-income families with loans that do not require a mortgage or employment guarantee.

9. ENACE: The government should consider limiting ENACE's involvement in housing. As a prelude, studies should be conducted on the best means of liquidating its current projects and portfolio.

10. Shelter Costs, Standards and Regulations: Changes are required in design specifications to lower costs. The introduction of progressive levels of infrastructure over time should be legitimized. The entire structure for construction permits should be revised and streamlined and public/private construction procedures should be reformed to provide incentives to builders for rapid, on-time performance. New legislation on rental housing is needed.

(2) Proposed Strategy for Policy Dialogue

The Mission has been active in promoting policy reform in the shelter sector for several years. Negotiations were in fact initiated with the current government on many of the priority issues outlined above, only to be curtailed when it was clear that the present administration was not going to take positive action to introduce and support measures that would improve the maintenance of value of public and private financial resources in the sector. This issue is clearly known by the leading political party leaders. Although no clear statements as to the positions of the various political parties have been made on the indexation issue, the problem has been clearly stated by AID and others. Recognition of the tremendous costs involved with large scale government sponsored housing projects by the new GOP will most probably result in a sharp curtailment of this type of public shelter program. AID took steps to make sure representatives of the leading parties were exposed to and understood the above issues, and has tried to influence their policy development prior to the change of government. At this stage of the political process in Peru, however, it is unclear as to what specific policies and actions will be taken in the shelter sector by a new GOP.

Meanwhile, the Mission is finalizing its recently prepared draft Shelter Sector Assessment and is working on a prioritized Policy Agenda for discussion with a newly elected GOP. We believe that the possibility of a multi-year HG will provide an important incentive for encouraging a new government to adopt improved housing sector policies.

(3) Role of Other Donors

AID has been and continues to be the leading foreign donor in shelter sector assistance in Peru. Both the IBRD and IDB have had ~~programs in~~ the shelter sector but are not presently involved with housing loans. IBRD had considered an additional urban development loan. Given problems with the maintenance of value issue and other macroeconomic issues, this loan is no longer being considered. Both donors have active loans in urban water supply and sanitation, an area directly related to the shelter sector's development and critical to specific policy issues. The conditions requiring indexation of water rates have been only nominally complied with and serious issues involving international procurement have slowed disbursements under these critical loans. AID has been coordinating with these donors to assure a compatible approach to the conditioning of assistance on the implementation of critical policy reforms in shelter and urban development. The area of water supply and sanitation will of course be the principal area where a common policy position will be most important in the short term.

(4) Future Steps to Carry Out Policy Dialogue

Peru's shelter sector involves an array of specialized institutions that deal with specific programs and needs for shelter delivery. These

institutions are generally capable of carrying out their mandates. Given presidential interest and action during the past five years, they have not played an important role in formulating sector policy. The leadership roles in formulating policy implementation action will need to be restored to some of these key institutions.

Over the years, the Housing Bank of Peru has been the prime implementing agency for AID's shelter programs in Peru. As things stand now, it will continue to be the key institution for channeling our assistance. However, in order for the shelter policy issue agenda to be effectively addressed, the executive branch and Congress will need to focus their attention on the range of issues contained therein. Several key policy issues will require legislative action involving new or revised laws.

At this time, analytical work to identify the major policy issues has been completed along with technical support material to explain these issues in detail. However, support for major policy formulation and analysis must be done as part of the Project and as agreement to take action on specific issues is reached. For example, work on designing an appropriate shelter sector financial indexing system, revising savings and loan system legislation, rental legislation and legislation to restructure the social housing fund are critically needed. Given the broad scope of the policy agenda, substantial technical work will be required during the next two years. Grant assistance will support an improved policy and planning process in the sector.

AID will continue to build its contacts within the leading party. We plan to work closely with the GOP transition team until such time as major appointments (ministers and agency heads) are known. A detailed, prioritized policy agenda will be made available to the new team. AID will seek to proceed with discussions at the working level as well as the senior level to discuss policy issues germane to shelter sector development.

(7) Special Foreign Policy Concerns

(a) Narcotics

Background:

Peru is one of the two leading producers of cocaine for the illicit narcotics trade. The U.S. is its primary market. Production volume has increased dramatically over the last decade in response to demand in external markets. The effects of this illegal traffic have caused increased concern within the U.S. and have made suppression of illegal narcotics production and trafficking one of the most important bilateral issues between the two countries.

Increasing concern in the U.S. has heightened Peruvian awareness of the narcotics trade within the country, the domestic effects of the narcotics trade on social, economic, and legal institutions in Peru, and the realization that illegal coca production, processing, and trade increases the risks of narcotics abuse to Peru's own population.

In late 1981, Peru agreed to begin an ambitious program of narcotics control and eradication with U.S. support. A joint effort was designed to eliminate illegal cocaine production from a specific geographical area (Upper Huallaga Valley)--estimated to be the source of 25% of Peru's illegal production. Control and eradication programs costing about \$15 million over 5 years (INM/NAU financed) were designed to assist Peru and a special police unit to enforce Peruvian laws against illegal narcotics production. Because of the isolation of the valley and the degree of dependence of the local valley economy on coca production, the GOP also requested assistance in development activities in the area that would generate alternative sources of income and employment. AID designed and authorized an ambitious \$18 million area development project (527-0244) to complement cocaine control and eradication efforts.

Joint control, eradication and development efforts were initiated in 1982 and began full operations during 1983. After about two years of experience;

- over 4000 hectares of coca plantings have been eradicated;
- the complementary development project is providing credit, extension, road maintenance and other services to farmers in the valley;
- three implementing institutions (police, eradication teams and the development project office) are staffed, equipped and operating in the area;

- the isolation of the valley and relative absence of normal civil authority and governmental services has complicated project operation for all three institutions; and
- sporadic but deadly outbreaks of violence in the area from terrorist and/or narcotics interests is forcing eradication and development activities to adapt to the more dangerous operating environment.

To complement the joint U.S. and Peruvian enforcement, eradication and development efforts, USAID has proposed a public education effort to support Peruvian private sector organizations in their efforts to raise consciousness about the incidence and implications of domestic drug abuse and of the drug trade.

Strategy and Constraints:

It is clear that coca production is expanding in Peru. The effects of increased production on Peru's institutions and the challenge which increased trafficking activity poses to the society are slowly being recognized as urgent matters for the country. At the same time, Peru's capability for dealing with the problem of illegal narcotics production and use is not expanding. Police and military units are increasingly occupied with countering the violent terrorist movement in the South Sierra and in controlling a mounting level of crime and social disorder spawned in all sections of the country by years of economic retrenchment. Illegal production of coca leaves is concentrated in the most isolated parts of the country where the government's ability to extend normal police and civil government services is fragile at best.

The additional human and financial resources that will be required to expand active narcotics enforcement efforts into these areas will strain the GOP's administrative capabilities. The GOP's capacity to accompany expanded enforcement efforts with intensified governmental services in order to build its presence in isolated coca growing areas is weak. Yet, it will be important for the GOP to complement increased enforcement efforts in these areas with an improved ability to control production, monitor trafficking and present alternative income and employment opportunities that are both productive and legal.

Many of the coca production zones in the Peruvian high jungle may not lend themselves to traditional area development projects which the GOP could develop for donor financing. Issues of productive potential, access, and population concentrations, among other things, will have to be assessed on an area-by-area basis. However, it is clear that the GOP will request help in establishing or solidifying its presence in areas identified for future coca control and eradication efforts.

Program Description:

USAID proposes to program up to \$60 million of local currency proceeds from Economic Support Fund balance of payments assistance agreements to complement GOP narcotics enforcement and eradication efforts. Specific activities will be planned and developed jointly with the government as new areas for concentrated enforcement and eradication programs are identified. It is not contemplated that local currency proceeds would finance police activities necessary for enforcement of Peruvian laws prohibiting production and trafficking. However, complementary development activities or activities essential to establishing, restoring or reinforcing civilian government presence and services in coca producing zones would be eligible for financing from this source. NAU/INM, DRA and other members of the Country Team Narcotics Task Force will also be active in the design and approval process.

(b) South Sierra

The most economically depressed and socially and culturally traditional area of Peru is in the southern highlands centering on the Departments of Ayacucho, Huancavelica, Apurimac, Cuzco and Puno. The area is characterized by the vast expanse of the high altiplano which is cut by roaring gorges and Andean peaks, by the extreme isolation of all but a few population centers which are served by domestic airlines, and by a population which is overwhelmingly of traditional Indian stock with most adults speaking Quachua as their first language.

The indigenous terrorist movement, Sendero Luminoso, was incubated at the university in Ayacucho--in the heart of Peru's Southern Sierra region. A strange amalgam of Maoist, nihilist philosophy drives the movement to seek the destruction of the existing civil, social and economic order. Since proclaiming the active phase of their "revolution" in 1979, S. L. has proved itself to be a small, but hardy and troublesome movement. Their influence in the South Sierra has spread through use of extreme violence. Their relative effectiveness in the rural high sierra has been complemented by occasional efforts to disrupt major population centers by dynamiting power towers and random bombings of fixed facilities.

A 1983 incident in which seven members of Peru's press establishment were killed in the rural village of Uchuruccay and the investigation report of a special commission established by President Belaunde and headed by Peru's prize-winning novelist Mario Vargas Llosa, dramatized the conditions of isolation and poverty within which S. L. has grown up. It also dramatized the challenge that terrorism presents to Peruvian society.

The 'GOP' has mounted an increasingly expensive police and military initiative to control S. L. depredations in the Southern Sierra. A state of emergency has been declared in some 15 provinces of Ayacucho, Apurimac, and Huancavelica. The Belaunde government has complemented its efforts to exert military and police authority in the emergency zone with development efforts to improve the welfare of the general population supported by an IDB grant.

APRA has clearly stated its reprehension of S. L. terrorism. It has propounded its belief that government efforts to control the area militarily must be accompanied by an extensive development program to limit the social and economic deprivation which is hospitable to terrorist objectives and fosters antipathy towards civil authorities. Initial contacts with APRA policy-level spokesmen indicate that a major development initiative in the Southern Sierra will be a high APRA priority. U.S. can expect to receive an early request for assistance in this effort.

Strategy and Constraints

A development effort in the Southern Sierra would focus on the most impoverished and traditional elements of Peru's population--a high priority

AID target group. However, development activities in the area must overcome a number of constraints.

1. Because of altitude, lack of infrastructure and limited natural resources, the development potential of much of the South Sierra is extremely limited.

2. The violence in the area has made it impossible for nearly all of Peru's heterogeneous private development organizations to work in the area.

3. The isolated and widely dispersed population centers which characterize the area require myriad, small, individually-designed development responses to their problems.

4. The subsistence nature of most productive activities in the region limits the impact of market income and makes it likely that many of the development investments will have a heavy welfare component.

USAID has, however, long institutional experience in the South Sierra. From disaster relief activities in the 1950s, to initial infrastructure investments pioneered by John R. Neal in the late 1950s and 60s to provide access from Puno to the selva, to the 1983 drought disaster, we have been involved in the Southern Sierra for some 30-plus years. The Mission also has developed administrative techniques and capability to finance local development activities directly through the Departmental Development Corporations.

Activity Description

The Mission believes that the most appropriate response to an APRA development initiative for the Southern Sierra is to make available up to \$30 million of local currency generations to support and complement the GOP's own initiative.

The local currency financing will support decentralization initiatives to strengthen government presence in the area. It will allow local development authorities to design appropriate interventions for each area and can be used to coordinate important development services from national organizations in Peru, such as agriculture extension services and small irrigation investments, by use of local agreements between the corporations and other agencies. These mechanisms were piloted under our successful disaster relief experience.

The proposed use of local currency has the added benefit of requiring minimal on-site U.S. management. While the details of this activity

will be dependent on a proposal from the new APRA government, a South Sierra development plan was drawn up by the National Planning Institute in 1983. Mission analysis of the plan was reported in 83 Lima 4242. We foresee no need to seek exception to FAA precepts in programming local currency to respond to an APRA South Sierra development initiative.

(c) Fisheries

Background:

Peru controls one of the world's five most productive ocean fisheries in the world. The cold waters of the Humboldt Current which run along most of Peru's coastline, nourish a wide variety of marine life. Most important in year's past was the anchoveta which drew the birds that created the historically important fertilizer industry in Peru. Until 1972, Peru's fishing industry still was heavily based on this single species which was directly converted to fish meal and oil and the export of which was the country's second most important source of foreign exchange.

The El Niño phenomenon of 1972 largely destroyed the breeding stock of anchovy. Since then, the fishing industry has struggled to diversify itself away from dependence on the industrial fish meal and oil trade and develop the ability to use other available species. During this period fish production fell from 4.7 million metric tons to 3.0 million (1984) and foreign exchange earnings from fishing have declined to \$136 million in 1984 which was a recovery year from the 1983 El Niño.

Peru's major medium term development challenge is to generate additional sources of export earnings which are necessary to service its enormous debt load and finance productive development investments for the future. The fishing sector, given its natural potential, will be a major priority for the GOP. There is a strong foreign policy interest in the fishing sector because of existing treaty arrangements between Peru and the USSR which accords rights for a flotilla of Soviet fishing vessels to exploit Peruvian fisheries in exchange for a percentage of the catch.

The current GOP has made substantial structured changes in the fishing sector. The state owned fishing company (PESCAPERU) has closed inefficient plants, bought out the employment contracts of some 4,500 excess workers, returned price incentives to private boat owners and coops and shifted its regulatory emphasis from a focus on price and quantity of catch as it impacts on domestic markets to a concern for sound environmental management of the natural resource based on overall catch limits and appropriate fishing technology. The West German government is completing a sector assessment in the fishing sector. The assessment will identify sector constraints and detail investment requirements in the sector to speed modernization and increase catch and processing efficiency. USAID is coordinating closely with this effort.

Proposed Program

The fishing sector can be expected to generate export earnings and profits which, overtime, will allow necessary modernizing investments to be made. The FRG can be expected to finance substantial fleet modernization

requirements which this sector assessment will recommend. The IDB has financed artisanal and cooperative fishing credit needs and can be expected to continue these lines.

The GOP has asked the U.S. for specialized technical assistance in two areas:

1. Cooperative research in evaluating and monitoring Peru's fishing resource the rich but fickle Humboldt Current, and

2. Technical Assistance in fish processing technology including quality control and marketing techniques largely for export.

Given the research center at the University of Rhode Island which AID has helped to reinforce over the years and other U.S. sources of technical assistance such as the recently approved "Stock Assessment" CRSP at the University of Maryland Eastern Shore, USAID proposed to design appropriate ribbon arrangements with Peruvian institutions such as IMARPE and the Ministry of Fish to provide access to U.S. technology.

At this time, we believe financing for the venture should come from PD&S buy-ins to existing U.S. institutional arrangements with AID. An alternative of breaking out a small project which might also finance limited training costs in the U.S. of Peruvian researchers and specialists as well as technical assistance will be considered.

The total costs of this initiative are estimated to be less than \$1.0 million over five years.

(8) Regionally-funded Activities

USAID/Peru currently monitors or implements a relatively large number of development activities receiving central or regional LAC funding across virtually the full spectrum of AID program areas. In FY84, these amounted to about \$5 million, operating through approximately 50 separate arrangements with public and private entities in Peru. Because of its size, the richness of local organizations, and its many development challenges, Peru is a natural site for many AID-supported initiatives. All such undertakings are important expressions of our overall U.S. presence in cooperative efforts to assist Peruvian development. Several have been absolutely critical to the achievement of major development advances realized in the past, such as Cooperative Research Study Programs in small ruminants and tropical soils, whose products are being integrated into major activities being undertaken by the Ministry of Agriculture. Of particular note are past activities that have since received Mission funding (such as ILD's study of the informal sector), those that are our principal means of support for high-interest special programs (such as energy, non-project training, and the AID/SCI research program), and those which use U.S.-based intermediaries to implement grass-roots programs with their Peruvian counterparts (such as the PVOs and the population intermediaries).

While AID/W-funded activities require the active participation of USAID/Peru personnel as either monitors or implementation officers and at times imply the provision of Mission support services, we have encouraged the initiation of most AID/W-funded activities in Peru as they were proposed and the continuation of most on-going activities as their original funding was exhausted. AID/W-funded programs can make unique contributions to our ability to develop policy agendas and multiply the channels through which USG development assistance can reach the AID target group. They are also a principal means of transferring appropriate U.S. development technology to Peru.

Because of these factors, USAID/Peru will continue to draw on AID/W-funded sources of assistance to the maximum extent consistent with our development strategy and Peru's capacity to utilize effectively the human and financial resources they make available. Although the private sector nature of many of the arrangements makes it impractical to include the approval of resources in the policy negotiating process, the Mission will continue to make GOP policymakers and the Peruvian general public aware of the significance of this form of development cooperation.

As part of an effort to expand bilateral contacts with Peru, the Country Team has proposed the formation of a mixed private sector/public sector bilateral science and technology council between the U.S. and Peru. A good number of AID/W-funded projects could become important sources of particularly relevant, high-quality expertise to advise the council.

4. ACTION PLAN MANAGEMENT BENCHMARKS

This section presents information on how USAID/Peru plans to negotiate a group of key macroeconomic and sectoral development management policy improvements with the GOP if sufficient resources can be provided. A definitive list of benchmarks for judging the Mission's progress towards the correspondingly higher level of objectives would be premature in advance of resource decisions. Nevertheless, the benchmarks provided below will be reasonable interim measures of the Mission's progress towards current objectives.

As stated in the FY 86 ABS, the four major USAID objectives for FY 85-86 are:

1. Carry out policy dialogue with GOP;
2. Support macroeconomic recovery;
3. Complete implementation of disaster activities; and
4. Successfully implement ongoing portfolio and reduce pipeline.

These involve two kinds of benchmarks: those arising from the implementation of currently committed resources (elements of which appear in all four objectives); and those having to do specifically with the policy dialogue.

A. Implementation Benchmarks. Each major program or project has summary management objectives that capture the essence of the Mission's implementation targets. The following is a list of the Mission's proposed interim benchmarks to be achieved before the end of FY 86 (unless another date is given).

1. Disaster Relief, Rehabilitation and Reconstruction

Project 0277 and PL-480 local currency resources fully disbursed by INADE and by GOP and PVO implementing agencies. About 400 activities related to recuperation of agricultural production and to reconstruction of damaged infrastructure completed by GOP in all 15 departments. GOP coordinating mechanisms fully operational. Title II food resources distributed and over 6,000 PVO-assisted local subprojects completed.

2. Disaster Assistance Program Loan

Project dollars (\$60 million) and local currency generations fully disbursed, the latter through medium-term credit to more than 250 private sector enterprises. Economic management policies improved and better basis laid for more extensive stabilization/structural adjustment program of new GOP.

3. Agricultural and Rural Development

Evidence secured of support of new GOP for Agricultural Research and Extension through signing of \$4.4 million loan amendment. National

livestock program established under project by 12/85 with Small Ruminants CRSP assistance. Integrated pest management and genetic resource programs established by 12/86.

Integrated Regional Development loan funds fully disbursed (by 12/85) and 75 rural public works sub-projects and 20 market town development sub-projects completed (12/85). Final evaluation undertaken. Continuing grant-funded advisory services provided through 12/86.

Agricultural Planning and Institutional Development rural household survey completed and results processed and analyzed (9/85). Area sample frame completed for Peruvian north coast (4/86). Fourteen policy studies completed (seven each in 1985 and 1986).

National Soil Conservation Plan approved and implementation system in place (12/86).

Eighteen irrigation sub-projects completed under Improved Water and Land Use project (Plan MERIS) by 12/85.

Central Selva project evaluated (8/85) and redesign implemented (12/86).

Upper Huallaga credit and extension services redesigned and fully operational (9/86), reaching 80 percent of the rural population in the zone.

Private Sector Agricultural Investment Project fully disbursed through 160 medium-term loans to small and medium farm enterprises.

Small Hydro Development project fully disbursed and 10 sub-projects completed and providing electricity to 205,000 beneficiaries in three departments (12/86).

4. Primary Health Care Services

Some 500 small potable water systems constructed (by 12/86) using decentralized design mechanism.

Private sector agencies providing increased family planning services (from 130,000 in 1985 to 155,000 in 1986) and, in addition, CSM project sales launched (12/85) and providing family planning services to a further 20,000 families (by 12/86). Public sector agencies providing increased FP services (from 172,000 in 1985 to 184,000 in 1986).

Projects 219 and 230 at least 90% expended by 9/86. Major institutional improvements in place (6/30)--improved financial management, logistics, supervisory system, training plan and pilot health information system.

Growth monitoring and nutrition surveillance and education component installed in three health regions, including nutrition training of 1,000 promoters and 500 midwives.

5. Food Assistance

PL-480 Title II agencies have prepared and are implementing multi-year programming for all supplementary food programs (6/86). Personnel trained in management and use of multi-year regional and national plans.

PL-480 Title I local currency generations being provided as counterpart to AID and other donor assisted development projects.

Section 416-provided food commodities being distributed throughout CY 1985 school year to one million school children and to 160,000 maternal/child health beneficiaries in both 1985 and 1986.

6. Urban Low Income Programs

Both non-disaster HGs fully disbursed by 12/85.

Urban Small Enterprise project fully disbursed through 4,500 loans to small-scale urban enterprises. Four Acción Comunitaria offices open and functioning under PVO small enterprise project.

B. Negotiating (Process) Benchmarks. The policy dialogue process itself also affords several benchmarks for appraisal of USAID progress. These tend to be oriented towards inputs and intermediate outputs rather than final products, which in this case would be the adoption of improved policies and the attainment of the desired economic and developmental effects.

In addition to the specific measures listed below, program and project evaluations will be completed for many current projects. These evaluations will be valuable inputs to the policy dialogue process, especially where new activities serve to expand or extend actions initiated under current projects. These evaluations are scheduled in the evaluation plan.

1. Agricultural and Rural Development

The on-going Agricultural Planning and Institutional Development project 0238 will have produced a number of analyses on specific sectoral policy topics, as described in the previous section. In addition, the Mission will have completed comprehensive studies under PD&S funding dealing with agricultural marketing (8/85), agricultural research and extension (9/85), irrigation water rates (9/85), net economic returns to agricultural research and extension (8/85), and public sector agricultural research investment strategy (3/86). Under the Central Selva Resources Management project 0240, the APODESA unit will finalize a major selva development policy paper (7/85).

Under the Integrated Regional Development project, seminars will be held (6-9/85) on decentralization and municipal development (for which an overview document will be prepared by 6/85) and on improving the planning and implementation of decentralization.

2. Primary Health Care

The Health Sector Analysis will be a primary policy negotiation channel even though final outputs will not be received until May 1986. In addition to the six technical studies and a policy recommendations document to be produced as final outputs, a policy agenda paper (8/85) and draft PID (12/85) will be intermediate outputs. These documents will serve as the technical and strategic policy inputs at their respective stages in the policy dialogue process.

3. Private Sector Program

Under the Private Sector Policy Planning project 0298, a body of studies will be produced by CONFIEP in FY 86 regarding actual and proposed policies of the GOP which affect the private sector. (The number of studies completed by the end of FY 86 depends on when our initial funding is provided.) Five sectoral or national conferences will be held (9/86) and the established CODE mechanism for public review and comment of proposed legislation will be re-enforced (12/85). Regional chambers of commerce, informal sector organizations and sectoral business and trade associations carrying on technically-based policy negotiations with GOP.

4. Other Sectors

USAID/Peru will have discussed policy topics with GOP regarding macroeconomic and financial management, narcotics, housing sector finance, small and medium industrial credit, supplementary nutrition programs and development investment priorities. In each case, a policy dialogue position paper will be produced (8/85). We will also discuss deregulation and privatization. All major counterparts will be briefed on current AID portfolio in general and on specific AID activities in their area of responsibility (9/85).

C. Action Plan Submission. The above interim management benchmarks will guide USAID/Peru actions through the initial rounds of negotiations with the GOP. Depending on the results of those negotiations and on AID decisions regarding future funding levels, the Mission would want to revise its approved CDSS and provide a set of proposed definitive goals and benchmarks. We expect that an updated CDSS and Action Plan could be prepared in the first quarter of 1986--if the strategy proposed in the FY 1986 CDSS and elaborated herein is approved and being implemented. If not, a revised CDSS with scaled-down definitive goals and benchmarks would be prepared for submission at that time.

5. PVO STRATEGY

The Mission has a long history of supporting private voluntary organizations (PVOs) in a wide-ranging group of sectors. Building on community-level work, PVOs often develop unique capabilities and areas of expertise which can effectively complement larger bilateral development efforts. Their comparatively small-scale activities--whether funded by AID or not--may also serve as prototypes for larger AID-supported programs. USAID/Peru seeks actively to benefit from this source of experience and expertise, and is currently supporting eleven PVOs in a wide array of PVO activities that are integral components of our main strategy areas. In addition, three of the four PIDs submitted by the Mission in FY 1985 will build on or expand our support for PVOs in areas of major concern: family planning, private sector, and narcotics awareness and education. During FY 1985, we have provided initial Operational Program Grants to PVOs working with agriculture cooperatives and seeking to expand primary health care services. Beyond these Mission-funded activities, there is a large and growing number of centrally-funded PVO programs in Peru.

Because the Mission believes that continued growth of indigenous PVOs is important to Peru's long-term development prospects, over 60 percent of the Mission's PVO portfolio is comprised of support for Peruvian PVOs. Many of these PVOs are providing an important complement to GOP development efforts. In health and family planning, for example, PVOs are serving geographic areas and low-income populations which are beyond the reach of government services. New Mission PVO initiatives in health and family planning are aimed primarily at strengthening such local organizations.

During the Action Plan period, the Mission will continue to work toward the development of multi-year planning with the four PVOs implementing PL-480 Title II programs. The preparation of multi-year plans will provide each PVO with a better basis for designing their separate programs while, at the same time, maximizing the development and nutritional impact of the Food for Peace activities when taken as a whole. It is anticipated that these plans will also enable the Mission to expand its policy dialogue with the GOP with respect to encouraging rational, cost-effective approaches to targeted supplemental feeding and general nutrition programs.

In other sectors as well, Mission support for PVOs goes beyond improving services delivery programs to including PVOs as an integral part of our policy dialogue strategy. For example, work being carried out by the Institute for Liberty and Democracy is providing the nucleus of specialized talent for a multi-faceted dialogue on the integration of the informal sector into the national economy and generally on the deregulation of private enterprise. The new Private Sector Policy Planning and Institutional Development project 0298 will work with CONFIEP (a confederation of private sector trade associations) and similar organizations to enhance the role of the formal private sector in the formation of relevant government policy.

Depending on how negotiations go with the new GOP on overall directions of the development assistance program, the Mission may look to PVOs to carry out a larger share of the program. In any event, the Mission will continue to use PVOs, especially local organizations, to supporting efforts which are central to our overall strategy.

6. FUNDING LEVELS AND TIMING OF RESOURCE DECISIONS

The two following tables show the overall funding levels seen by the Mission as the minimum amounts necessary to achieve the major development policy breakthroughs described in this submission. From the Mission's point of view, the two most important results we hope to achieve as a result of the Program Review are: first, Washington endorsements of our proposed policy dialogue approach and of the general framework of policy changes we believe should be negotiated with the new GOP; and, second, a Washington best-efforts commitment to provide the level and kinds of funding authorities that are required to undertake the negotiations.

SUMMARY RESOURCE TABLE
USAID/PERU FY 86-90
(\$ million)

	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>	<u>TOTAL</u>
ARDN	20.0	30.3	28.3	27.7	23.7	130.0
POP	3.7	4.1	2.1	5.1	3.1	18.1
HEALTH	0.9	10.1	10.0	5.9	7.9	34.8
EDUCATION	3.2	4.3	4.1	1.2	0.1	12.9
SDA	<u>10.0</u>	<u>11.3</u>	<u>10.6</u>	<u>2.9</u>	<u>0.8</u>	<u>35.6</u>
Sub-DA Funds	37.8	60.1	55.1	42.8	35.6	231.4
Memo: Control Level	24.5	26.0	28.0	32.0	35.0	145.5
Difference	+13.2	+34.1	+27.1	+10.8	+ 0.6	+ 85.9
ESF	45.0	60.0	60.0	60.0	60.0	285.0
TITLE I	20.0	20.0	20.0	20.0	20.0	100.0
TITLE II	22.0	20.0	15.0	12.0	12.0	81.0
416	<u>12.0</u>	<u>12.0</u>	<u>12.0</u>	<u>7.2</u>	<u>2.4</u>	<u>45.6</u>
Sub-Approp. Funds	136.8	172.1	162.1	142.0	130.0	743.0
HG	<u>20.0</u>	<u>20.0</u>	<u>20.0</u>	<u>20.0</u>	<u>20.0</u>	<u>100.0</u>
T O T A L S	156.8	192.1	182.1	162.0	150.0	843.0

DEVELOPMENT ASSISTANCE
USAID/PERU FY 86-90
(\$ million)

	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>	<u>TOTAL</u>
<u>ARDN</u>						
Ag Sector	10.0	25.0	23.0	22.0	20.0	100.0
Health Sector	—	1.0	—	1.0	—	2.0
Ag. REK	4.4	—	—	—	—	4.4
Food Aid	1.0	1.5	1.5	1.5	1.5	7.0
Decentralization	—	1.0	2.0	2.0	1.0	6.0
PD&S	1.5	1.3	1.3	1.2	1.2	6.5
Central Selva	0.8	—	—	—	—	0.8
Small Hydro	0.3	—	—	—	—	0.3
OPG TMS Coop. Dev.	0.3	—	—	—	—	0.3
Soil Conservation	0.2	—	—	—	—	0.2
APID	0.5	0.5	0.5	—	—	1.5
IRD	1.0	—	—	—	—	1.0
	<u>20.0</u>	<u>30.3</u>	<u>29.3</u>	<u>27.7</u>	<u>23.7</u>	<u>130.0</u>
<u>Population</u>						
PD&S	0.1	0.1	0.1	0.1	0.1	0.5
230 APROPO	0.6	—	—	—	—	0.6
Health Sector	—	2.0	—	3.0	1.0	6.0
PS Pop.	3.0	2.0	2.0	2.0	2.0	11.0
	<u>3.7</u>	<u>4.1</u>	<u>2.1</u>	<u>5.1</u>	<u>3.1</u>	<u>18.1</u>
<u>Health</u>						
Health Sector	—	9.5	9.5	5.5	7.5	32.0
PD&S	0.6	0.6	0.5	0.4	0.4	2.5
PVO (SIID)	0.3	—	—	—	—	0.3
	<u>0.9</u>	<u>10.1</u>	<u>10.0</u>	<u>5.9</u>	<u>7.9</u>	<u>34.8</u>
<u>Education</u>						
PD&S	0.3	0.2	0.2	0.2	0.1	1.0
PS Mgmt.	1.5	2.0	2.0	—	—	5.5
Narco Education	0.5	—	—	—	—	0.5
Tech/Voc Education	—	2.1	1.9	1.0	—	5.0
OPG TECSUP	0.9	—	—	—	—	0.9
	<u>3.2</u>	<u>4.3</u>	<u>4.1</u>	<u>1.2</u>	<u>0.1</u>	<u>12.9</u>
<u>SDA</u>						
Small Ind.	6.5	5.0	5.0	—	—	16.5
PS Inv. Prom.	—	2.0	2.0	—	—	4.0
PS Pol. Plng (ILD)	.45	.25	—	—	—	0.7
PS Pol. Plng (other)	1.55	1.55	1.2	0.5	—	4.8
Housing/Urban Dev.	0.5	0.5	0.5	0.5	—	2.0
PS Export Prom.	—	1.0	1.0	1.0	—	3.0
PD&S	0.9	0.9	0.8	0.8	0.7	4.1
SDAF	0.1	0.1	0.1	0.1	0.1	0.5
	<u>10.0</u>	<u>11.3</u>	<u>10.6</u>	<u>2.9</u>	<u>0.8</u>	<u>35.6</u>

SECTION B: IMPLEMENTATION PLAN

I. NEW FY 86-87 PROJECTS

a. Pipeline Narrative

The Mission has continued to pursue the strategy described in its most recent CDSS and ABS, namely that of focussing virtually exclusive attention to the implementation of the pipeline developed during the 1979-82 period. These problems occurred because of the complex design of some projects, weak implementing institutions, delays in contracting technical assistance, inadequate Mission staffing and lack of GOP counterpart resources. The effort to accelerate implementation has been an across-the-board USAID priority during the FY 84-85 period. It required the establishment of an improved portfolio management system and the redesign of several projects. As a result of this and similar steps, many long-standing implementation problems have been overcome, and substantive gains were made in implementing the project portfolio. These accomplishments took place while USAID was faced with additional unexpected requirements related to a major disaster relief effort as well as a balance of payments support program.

The pace of implementation has improved significantly. The momentum has been established to assure continued improvements in implementation performance. Analysis of expenditure data indicates a steady decrease in the overall pipeline. FY 84 expenditures, excluding the Disaster Assistance Program Loan, were more than 100 percent higher than the best of the preceding four years. Experience during the first half of FY 85 substantiates that this improved trend is continuing. Thus, our portfolio liquidation rate has steadily increased from 16 percent in FY 83 to 30 percent in FY 84, and the number of years needed to liquidate the portfolio fully has decreased from 6.1 years at the end of FY 83 to 3.3 years at the end of FY 84. Current FY 85 performance shows additional improvement in managing the pipeline; the liquidation rate for the year as a whole will increase to about 80 percent. By the end of FY 85, the Mission expects to have substantially disbursed a large portion of the ongoing program allowing more attention to be placed on the development of new program interventions, utilizing the extensive analytical base available to USAID.

The Mission has also reduced the amount of future funds mortgaged to complete funding of already authorized projects. For FY86, these projects are scheduled to received \$9.4 million, of which the major amounts are for recently approved projects (\$1.8 million) or for on-going projects that need to be extended for a year until sector program funding can be put in place (\$5.6 million).

Thus, the Mission has "cleared the decks" for a new program starting in FY86, judging from both the pipeline and the mortgage points of view.

b. Documentation and Authorization Schedule

The following program for new project development and obligation is based on the projected completion time of preparatory work, a good deal of which is already in progress, and on USAID/Peru's expectations of the length of time required to complete negotiation of overall program and project level policy issues. We believe that it will be advantageous to show the new GOP leaders early on that the USG shares some important basic concerns with them and that we can respond to well-designed, high priority needs. For this reason, the Small Industry Credit project—which we already know will be a high priority of the new GOP administration—is being prepared for obligation late in FY85 (should funding become available then) or early in FY86. Similarly, the Private Sector Policy Improvement and Institutional Development project will be ready for final negotiation and obligation at the same time. (The private sector portion of this project will be obligated in advance of the public sector portion, however.)

Our negotiating strategy will be to address macroeconomic and multi-sectoral policy concerns first, based on overall program objectives. Progress on this front will facilitate the Mission's ability to expand the negotiating framework to other sectoral objectives and programs. For this reason, obligation of the Balance of Payments Recovery Program grant is shown before obligation of other sectoral activities. Of course, the obligation of any sectoral assistance will also depend on reaching agreement on sectoral policy improvements.

<u>FY86</u>	<u>PID</u>	<u>PP</u>	<u>OBLIG.</u>
Ag Sector Recapitalization	8/85	12/85	2/86
Housing/Urban Sector	approved	9/85	12/85
Small Industry Credit	6/85	9/85	9-11/85
Private Sector Policy Planning	4/85	7/85	9-11/85
Food Assistance	8/85	10/85	1/86
BOP Recovery Program PAAD	-	10/85	12/85
Health Sector Efficiency	12/85	6/86	9/86

FY87

Non-Traditional Exports	4/86	7/86	11/86
Investment Promotion	5/86	8/86	12/86
Technical-Vocational Training	2/86	5/87	7/87
Decentralization	4/86	7/86	10/86
BOP Recovery Program PAAD Amendment	-	10/86	12/86

Project Number and Title: 527-0303
Balance of Payments Recovery Program

Proposed FY86 Funding: \$45 million (Grant ESF)

Life of Project Funding: \$285 million (Grant ESF)

Appropriation Account: Economic Support Fund

Purpose: The Mission's proposed balance of payments support program is intended to relieve the acute foreign exchange shortfall in the short term as well as support policy measures expected to be undertaken by the new government to relax the foreign exchange constraint in the medium term in an orderly fashion so as to permit a more rapid expansion of real output.

Background: The nature of Peru's foreign exchange problem is complex, due to long-standing structural problems. Superficially, the Peruvian banking system appears to have ample reserves. Net reserves now equal about three months of imports of goods and non-factor services, and the country recorded a balance of payments surplus of \$250 million in 1984. However, because the financial system has heavy short-term foreign exchange-denominated liabilities to domestic residents, it also has to maintain substantial short-term foreign exchange-denominated assets above and beyond its needs for normal current and capital transactions. In fact, \$222 million of the \$250 million increase in banking system foreign exchange assets in 1984 represents the increase in reserves backing dollar-denominated banking system deposits. At the present time, the banking system has net foreign exchange assets of \$1.02 billion against dollar-denominated liabilities to domestic residents of \$1.75 billion. The monetary authorities regard this as the absolute minimum necessary to maintain confidence in the system and in the systems' ability to meet its obligations. Monetary and exchange rate policies at the present time are therefore focused almost exclusively on preserving the level of exchange reserves.

At the present time, Peru faces an enormous external debt which will approach \$14 billion by the end of 1985. In 1984, the debt service that fell due was equal to 77 percent of exports of goods and non-factor services. Beginning in mid-1984, the GOP began to fall behind in meeting its debt service obligations to external creditors. At the present time, these arrearages are estimated at more than \$300 million. In part, these arrearages are a reflection of the public sector fiscal situation and the refusal of the Central Bank to supply credit to the non-financial public sector. This refusal is, however, itself a reflection of the undoubtedly correct view that any significant extension of

Central Bank credit to the public sector would have unacceptable consequences for foreign exchange availabilities and would lead to balance of payments problems rather quickly.

In the short run, therefore, the Peruvian payments are being balanced by involuntary lending from the international banking community. This is not a viable alternative for more than a short period. A major priority for the new government will thus be the regularization of Peru's external debt situation. What is required to produce a fundamental recovery of the Peruvian economy is a multi-year effort aimed at producing basic structural changes. The dilemma which Peru presently faces is that it must expand its production of tradable goods at precisely the time when it faces a severe shortage of the resources needed to finance such an expansion. Debt rescheduling, even on a multi-year basis, merely achieves a certain amount of breathing room within which to undertake the adjustment.

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The basic dimensions of the problem are stark. Peru currently has merchandise exports of \$3.1 billion; imports, although severely constrained, still require \$2.3 billion. Other non-factor services equal -\$0.2 billion while transfers are about + \$0.1 billion. Thus, the balance on goods, non-factor services, and transfers shows a positive balance of \$0.7 billion. Factor payments of \$1.3 billion transform this into a \$0.6 billion deficit on the current account. Ordinary financing inflows from donors are about equal to this at \$600 million. This leaves nothing left over for any debt amortization. In practice, amortization payments to IFIs and private sector capital outflows have transferred this into a significant deficit. To finance accumulated arrearages and achieve eventual BOP recovery, Peru needs to increase exports by at level \$200 million per year over the next five years. To do that, it will require additional investment resources of \$500-600 million per year. The difficulty of that task underlines the importance of having a favorable policy environment. Our ESF resources can fill a significant part of this savings gap in addition to filling a part of the balance of payments gap.

At the same time, the GOP will have to address other macroeconomic management and policy problems, including the maintenance of exchange rate competitiveness, substantial reductions in the fiscal deficit, and measures to increase the mobilization of domestic savings through the financial system, if it is to make progress on solving the long-term structural causes of its foreign exchange and foreign debt problems.

In the medium term, Peru must find ways to increase the supply of tradable goods in the face of the decline and eventual disappearance of petroleum exports as a net contributor to foreign exchange earnings. This will require extensive structural reform measures to increase export production and rationally substitute domestic production for imports. Thus far, non-traditional export growth has been due mainly, although not exclusively, to the costly tax drawback system (CERTEX) on non-traditional exports and to the use of these products for in-kind debt payments to Bloc countries.

Any successful effort to achieve balance of payments recovery in the medium term must be based on an "IMF-type" medium term stabilization program, whether or not the GOP enters into a formal arrangement with the Fund. The commercial banks, the Paris Club donors and the IFIs are in agreement on this. These measures must include, at a minimum, the maintenance of a competitive exchange rate and a rate of monetary expansion consistent with available sources of balance of payments and other financing. At the same time, financing the public and private investments needed to expand the output of tradable goods requires that the GOP maximize public sector saving as well as resource mobilization through the domestic financial system. For this, it will have to promote private savings and put the domestic financial system on a more solid footing so that more savings are generated locally, allocated to their most productive use, and not eroded by inflation.

The measures listed above are essential preconditions for economic recovery. At the same time, the measures, particularly on the fiscal side, involve basic questions of political priorities and national sovereignty. The Mission does not intend to engage in detailed negotiation of such a program. Rather, it will consider whether the GOP's own program meets the minimum required. If the GOP is not prepared to implement the basic elements of a stabilization program, our balance of payments support would be wasted.

Assuming that the GOP is prepared to implement an adequate multi-year stabilization effort, we propose to support that effort through the disbursement of \$285 million in ESF grant resources over a 5 year period for a series of carefully staged structural adjustment measures designed to expand the production of exportables and rational import substitutes. Of particular importance will be the prioritization of public sector investment (with which the local currency counterpart of the balance of payments support grant will play a significant supporting role), extensive financial system reforms to improve the mobilization of domestic financial resources, modification of restrictions on foreign investment to mobilize external saving and technology transfer, and the elimination of unnecessary obstacles to import and export transactions.

The balance of payments support program will take the form of cash transfers. Peru at the present time has, for practical purposes, no exchange controls and therefore a commodity import program is not practical. We also propose that the cash transfer take the form of a grant. The enormous external debt that

Peru currently faces makes it inappropriate for us to add to that debt burden with additional loan resources, however concessional. In addition, the availability of grant resources will provide a substantial incentive to the GOP to negotiate the policy changes and policy implementation measures that will be needed. It in effect provides us more policy leverage from a program amount which is, frankly, marginal given the total size of the effort needed.

In addition, the Mission proposes that AID waive the requirement for attribution of these resources to U.S. imports. In 1983, the latest year for which full year figures are available, Peru imported \$958 million in merchandise from the U.S. The usual requirement, that the GOP prove to us that they have imported one-twentieth of that amount to be attributed to grant proceeds, would impose a completely unnecessary administrative and paperwork burden, on the GOP and on the Mission, at precisely a time when we are urging the GOP to abolish unnecessary paperwork requirements on the private sector.

Uses of local currency generations arising from balance of payments support will depend to a certain extent on the progress of negotiations both of the balance of payments support program itself and of sectoral assistance projects. In general, local currency uses will be divided into three categories: (a) credit for economically and financially viable private sector activity; (b) financing of activities of high priority to the USG; and (c) financing of high priority public sector investment activities. The list below is illustrative, but represents the Mission's current appreciation of what would be an appropriate distribution of local currency resources. Half of the total to be generated will be used to expand credit to the private sector. Of the remainder, approximately \$95 million will be utilized in support of narcotics control, South Sierra development (many proposed investments in the South Sierra area might not survive a strict cost/benefit test) and civic action programs, and an AID trust fund. The remaining \$50 million will be directed in support of high priority donor development project activities.

Title I local currency generations will also be used to support macroeconomic as well as agricultural sector policy dialogue activities. Heavy emphasis will be given to agreement on investment priorities, financial market reforms, and pricing policies in the sector in support of small farm agriculture. Local currency generations will be used in support of activities of particular importance to the development of rural areas, including the Agricultural Sector Recapitalization Program (\$60 million), Health Sector Program (\$10 million), Decentralization (\$10 million), and other high priority donor projects (\$20 million).

ILLUSTRATIVE LOCAL CURRENCY USES

	<u>ESF</u>	<u>TITLE I</u>
Private Sector Credit	<u>\$140 million</u>	<u>\$60 million</u>
- Ag Sector (Part of Ag Recap. Prog.)	60 million	60 million
- Other Private Sector Credit	80 million	
High Priority Activities for the USG	<u>\$95 million</u>	
- South Sierra Development/Civic Action	30 million	
- Narcotics	60 million	
- AID Trust Fund	5 million	
Support of High Priority Public Sector Activities	<u>\$50 million</u>	<u>\$40 million</u>
- Health Sector	10 million	10 million
- Decentralization Project	10 million	10 million
- Counterpart for other high priority AID and Other Donor projects	30 million	20 million

Project Number and Title: 527-0282
Agricultural Sector Recapitalization

Proposed FY86 Funding: Loan: \$5 million
Grant: \$5 million

Life of Project Funding: Loan: \$65 million
Grant: \$15 million

Appropriation Account: Agriculture, Rural Development and
Nutrition

Complementary Resources: \$120 million

Purpose: To support and accelerate the implementation of policies that stimulate the recapitalization of agricultural production, processing and marketing systems by the private sector and that rebuild the technical and managerial capabilities of public sector agricultural service institutions. This will result in improved efficiencies and a more effective partnership of the public and private sectors in agricultural related investments, technology generation and adoption, institutional capability, natural resource conservation and management, and stimulation of entrepreneurship in agriculture, as the engine of rural and urban growth and development.

Background: Indirect indicators of the present decapitalized state of the agricultural sector are: output per capita, both for domestic consumption and for export declined from 1969 to 1980 and in 1984 (in spite of improvements since 1980) still was below the levels of the mid-1960's. Fewer hectares are in production now than were in production in 1965. Yields have increased at a rate lower than population growth rates and are lower for many major products than in other South American countries. Consequently, imports of foodstuffs have increased dramatically during the past several years.

At the same time, present low levels of productivity and the relatively impressive response of the sector to the more market and price oriented policy changes of the past five years (3.32% annual growth rate during 1980-84 as compared to -4.88% for manufacturing) suggest that agriculture will respond rapidly and aggressively to an appropriate policy and investment climate.

Policy Framework and Major Constraints: Analytical work carried out since 1982 points strongly to the need for a policy framework that encourages increased efficiency of the use of existing factors of production (land, water, human resources, capital). This can be accomplished in the short to

medium term by increasing the application of appropriate technology and capital inputs to the production achieving marketing and processing subsystems. These increases depends heavily upon the economic policy environment within which entrepreneurs in these sub-systems operate. Components of that policy environment of direct concern to development of the system are discussed in the section on the policy agenda.

The overriding constraint to accelerating economic growth with equity in the agricultural production-marketing-processing system is its present decapitalized state and lack of recapitalization. GOP actions and policies from 1965 to 1980 resulted in continuous financial, technical, managerial and entrepreneurial decapitalization of the sector. More market-oriented policies and improved targeting of public investments since 1980 have not been sufficiently aggressive nor far-reaching to provide the stable economic environment and profitability potential necessary to encourage the private recapitalization that would allow the sector to realize its growth potential.

The Mission has identified seven specific constraint areas that must be alleviated through policy changes and public services and investments in order to create the conditions under which accelerated private sector recapitalization can take place:

1. Macroeconomic Policies Prejudicing Agriculture. International trade, exchange rate and price policies continue to negatively bias agriculture's terms of trade. This has affected negatively the relative profitability of agriculture and has been a major contributor to limited capital formation and private investment in the sector.

2. Inadequate Technology and Information Generation and Transfer Services. Public agricultural research and extension services were dismantled during the 1970's. Even though progress since 1980 in strengthening public agricultural research and extension institutions is encouraging, much remains to be done both in terms of scope and quality of activities. Additionally, market and price information services are inadequate, and farm management and market analysis services are virtually non-existent. Private activities in these areas are minimal and existing policies do not encourage private sector entry.

3. Lack of Sufficient Quality and Quantity of Trained Personnel in Agriculture. During the decapitalization period, a large number of well-trained researchers, university professors, trained technical personnel, experienced managers and capable entrepreneurs abandoned the sector. Quality new entrants have not replaced them. Mid-level agricultural technical schools have deteriorated or have disappeared entirely. The teaching and research quality of the National Agrarian University at La Molina (UNA) and regional universities also has deteriorated as poor income prospects and a negative working environment resulted in the exodus of quality faculty and good students. External graduate training in agriculture virtually ceased during the 1970's and still is quite limited.

4. Poorly-organized and Inefficient Marketing Systems. The military government replaced much of the private sector marketing system with a broad range of para-statal institutions that were unable to provide essential services. Though the present government has reversed these trends, there are a number of further actions needed to foster a more market driven agriculture. Present deficiencies result in high transaction costs, poor use of resources, inadequate demand signals to producers, and generally poor integration of supply and demand relationships.

5. Financial System Unresponsive to Agriculture's Needs and Opportunities. The financial system draws savings from the periphery to Lima without either an understanding of, or interest in, potentially profitable growth opportunities in rural areas. The private banking system virtually withdrew from agricultural lending in the 1970's as negative terms-of-trade reduced profitability of traditional agriculture. The National Agrarian Bank (BAP), a state development bank, reaches only 12% of all farmers, usually the best capitalized and usually on the coast. Further, subsidized interest rate policies and poor loan collections erode its capital base and discourage private commercial banks from entering the agricultural market.

6. Deteriorated Land Base and Irrigation Systems. Existing land tenure and irrigation organizational and tariff systems are not conducive to efficient and productive use of land and water, the two most scarce factors of production. As a result, many previously cultivated lands now are not cultivated or are degraded. Soil erosion, deterioration of range and forest land, salinization and water-logging continue apace. Existing policies and programs do not encourage rehabilitation of degraded lands or proper conservation of presently cultivated and pasture lands. Further, there is an almost total lack of natural resource conservation consciousness in Peruvian agriculture both at the producer and professional levels, compounding land and water use problems.

7. Inappropriate and Inadequate Public Investment in Agriculture. Although improvements have been evident during the past five years, investment priorities continue to be overly oriented toward long range, economically doubtful and socially questionable investments in land expansion activities instead of toward investments to improve efficiency and profitability in use of existing land areas and irrigation systems.

Program Strategy: USAID envisions detailed coordination with other main donors, building on AID's resources and comparative advantages, and taking into consideration AID's recognized leadership in many of the proposed interventions. We propose a sector-like project approach, integrating local currency and Title II resources, and with policy reform as the centerpiece. The approach is based on a strong framework for developing a sound agricultural development program from the beginning of the new administration in mid-1985. As stated in our CDSS, a concerted effort to emphasize agricultural policy dialogue is one of our principal undertakings.

The strategy, aimed at both supply and demand, anticipates increased domestic consumption because of lower unit costs of agricultural production, a part of which will be passed on to consumers as lower unit prices. However, because aggregate consumer incomes (and thus, consumer demand for foodstuffs and other agriculture-based products) are expected to rise only slowly in the next three to five years, markets for increased agricultural production will need to be expanded through increased agricultural exports and increased import substitution if aggregate farm incomes are to increase. This also will increase agricultural employment and rural demand for urban-produced goods.

The proposed strategy addresses equity and basic nutritional needs considerations. Technology generation and transfer priorities will be based on both unit cost of production considerations and labor utilization impacts in the production subsystem (i.e., appropriate technology). Not only will total demand for labor in the agricultural production process increase, but it also will have an important multiplier effect because of 1) producing and marketing increased volumes of purchased inputs, 2) marketing and processing increased volumes of outputs, and 3) increased demand for urban produced capital and consumer goods as the result of increased rural incomes. Furthermore, to the extent that increased demand for labor is accompanied by improved labor productivity, there will be a reduction in unit costs of production.

Key elements of the proposed supply and demand impact strategy are:

- a. Adjust macro-economic policies to improve terms-of-trade for agriculture vis-a-vis the rest of the economy, and to neutralize explicit and implicit penalties on agricultural exports.
- b. Expand sharply the role of the private sector, especially in the areas of factor and product markets and processing.
- c. Enhance the effectiveness of public and private sector technology generation and transfer services and public sector investments as stimuli to expanded private sector investments.
- d. Expand the role of the marketplace and the pricing system in improving factor use efficiency.

Sector Program Description: Application of the proposed strategy must maintain a balance between improved production efficiency, more efficient and expanded marketing and processing systems and expanded markets. The proposed project components briefly outlined below will be designed to maintain a time-phased balance among the different policy and investment interventions in the constraints areas described.

The Mission proposes to negotiate a \$220 million package (\$70 million loan, \$30 million grant, and \$120 million local currency counterpart for a five year program, with annual tranches. The program will be negotiated in coordination with negotiation for the decentralization planning and investment project described later, and will be linked specific specific agreed-upon policy changes and support actions. The amounts of annual tranches will be linked directly to progress in institutionalizing specific policy changes.

The Development Assistance portion of the program will address the following four components (with preliminary estimates of financing):

- 1) Expanded policy analysis and formulation, and program implementation design and execution (\$15 million).
- 2) Agricultural resource use efficiency improvement (\$20 million).
- 3) Agricultural marketing and processing subsystem development and support (\$30 million).
- 4) Capital market strengthening and development (\$35 million).

These components will be assisted through institution building inputs (technical assistance, commodities, budget support and training) as well as through capital assistance activities integrated with technical assistance and training.

Local currency resources will be used to: 1) provide Sierra Small Farmer credit to assist in implementing rural banking/Caja Agraria policies and provide local cost budget support for design and implementation of other policy change follow through activities, (e.g., severance pay, salary support, research and training endowments, local scholarships, etc.); 2) fund programs to offset the temporary adjustment distortions and may occur in nutritional intake levels of at-risk populations as the result of price and marketing policy changes, complementing Title-II resources; and 3) short-term employment generation in rural and market town areas to provide income improvements until development efforts have a chance to result in permanent employment generation. This short term employment will be dedicated to soil and water conservation, rehabilitation and protection infrastructure construction, and will work through local governments and private sector organizations. The second and third uses of local currency listed here will serve to stimulate demand for domestically produced foods, thereby helping to improve local market prospects.

Specific activities for funding will be defined further during PP preparation, and relative emphasis will be established during programming of annual tranches, as the result of implementation and policy improvement experience.

Activities currently being considered for Development Assistance under each component are as follows:

1. Continued Emphasis on Appropriate Policy Change

a. Expand policy analysis and formulation activities initiated under the on-going APID Project. The Agricultural Policy Analysis Group (GAPA), which now constitutes a major resource in the policy dialogue for both the GOP and AID, will be strengthened and further institutionalized in the public agricultural sector. Resources will be made available for development of a legal and social data base to complement the economic data base, and to integrate the social and legal dimensions with the economic dimension in the policy formulation process.

b. Provide support for development of a university and/or private sector-based agricultural system policy analysis capability as a private-sector institutional counterpart to GAPA.

c. Given the major importance of macro-economic policy orientation to agricultural system development, enhance public sector capabilities for agricultural impact analysis of macro-policies, such as at the Banco Central and the National Planning Institute, and expand assistance for this purpose to the Minister of Economy and Finance. This will include an examination of mechanisms for introducing policy analysis and formulation results into the policy-making process of the Peruvian Congress.

d. Increase public awareness of the needs and opportunities in agriculture, and of the broader development and policy problems, issues and solutions needed to achieve a more efficient and profitable agriculture sector.

2. Improvement of Farm Level Resource Use Efficiency.

a. Institution Building

1) Continued development of INIPA's research and extension capabilities.

2) More intensive incorporation of UNA and selected regional universities into the national research and extension system, and improvement of their academic programs (with focus on masters training at UNA and undergraduate training at selected regional universities).

3) Assistance (perhaps through UNA and selected regional universities) to agricultural technical schools to improve quality of training of field technicians and farm managers and to promote their participation in field testing and extension activities.

4) Assistance to expand participation by private firms, farm organizations and agri-businesses in the agricultural research and extension process.

5) Assistance in improving institutional structures to increase participation by farmers and to enhance human resource capabilities in irrigation system operation and management. This will involve building an INIPA analogue within INAF, including improved on-farm management research and extension capability within INIPA and improved irrigation engineering and administration capability in INAF. AID will provide essential complementary resources to other donor capital investments.

b. Key Technology Generation and Transfer:

1) Livestock Development and Range Management: Assistance to activities identified as high priority under the on-going Small Ruminant CRSP, with expected emphasis on pasture and range management, herd management, animal nutrition and complementary credit. Experience under the CRSP and pilot Soil Conservation projects indicates that considerable resource use efficiencies can be achieved in the short to medium term.

2) On-Farm Soil and Water Management: Progress under USAID's Plan MERIS and pilot Soil Conservation projects points strongly to considerable potential for resource use efficiency gains in the short to medium term from 1) introduction of low cost, farmer-constructed soil conservation investments and improved practices for both rain-fed and irrigated agriculture, 2) better on-farm irrigation water management and 3) improved tertiary distribution systems (construction, maintenance and management).

3) Farm Management Improvement: Improved financial planning and economic analysis of production costs and returns, plus improved technical/economic production systems, enterprise combinations and crop rotations.

4) Cash Crops (especially land and labor intensive non-traditional export-oriented crops) Research and Extension Program Development: through private sector institutions (farmer organizations, agri-businesses). Design of this activity will build on lessons learned from pilot programs and successful agri-business experiences in Peru.

5) Reforestation, Watershed Protection and Selva Resource Management. In support of Soil and Water Conservation under our productivity improvement strategy, a major expansion of reforestation and other off-farm conservation activities is planned as a complement to on-farm soil and water conservation programs. These activities will assure future protection of the productive land and water base and generate employment and enhance labor capitalization in the short run, as well as establish future income producing potential (firewood, timber, agro-forestry, etc.).

In addition, activities in Selva resource management will be expanded and intensified to address critical problems of appropriate land use and protection of the environment in this highly fragile ecological area as population pressures increase the prospects of environmental and economic disaster in the longer run.

c. Human Resources Development: Significant external graduate training program in the US and third countries to provide the technical and managerial leadership required for sustained growth of agriculture.

3. Agricultural Marketing and Processing Subsystems Development: Institution building and technical and capital assistance to enhance the private sector role and to strengthen the quality and scope of appropriate public sector supporting services. In conjunction with S&T/RD and GAPA, we are undertaking a marketing sector assessment to provide more detailed design criteria. Several activities in this component have been tested in pilot programs.

a. Institutional Development and Strengthening

1) Factor Markets: Institutional development and strengthening activities to improve efficiency and scope of the purchased input supply system (with a focus on improved seeds, fertilizer, pesticides and animal health products), greatly expanding the private sector's role.

2) Product Markets: Assistance in organizing and implementing private sector modern wholesale merchandising outlets, plus, at the rural assembly level, assistance to farmer organizations to improve integration of retail and wholesale functions. We also expect to help an appropriate public sector institution to provide accurate and timely current and projected market and price information, and marketing extension services.

b. Training Assistance Activities: External short-term and long term graduate training in agri-business for university faculty and agri-business managers, and establishment of an undergraduate and masters level agri-business curriculum in one or more selected universities.

4. Capital Market Strengthening and Development. Capital markets must function in a way to assure that both credit and equity capital moves into productive uses that improve efficiency and increase returns to all subsystems of the agricultural system.

a. Technical assistance and capital resources to the Banco Agrario for developing and implementing a long term strategy for decentralization and targeting its lending programs to sierra agriculture and medium term investment credit.

b. Technical assistance and capital resources for a program designed to establish locally owned independent banks or cajas agrarias in areas of strong commercial agriculture. This will include provision of assistance to the Superintendency at Banks and the Central Reserve Bank (or other national banking institutions).

c. Technical assistance to assist the GOP in examining the feasibility of requiring minimum loan portfolio investments by commercial banks in rural locations where their branches are located.

d. Technical assistance, training and capital resources for carrying out appropriate feasibility studies and establishment of a pilot integrated technical assistance, equity participation and credit fund facility for agri-business development administered by the private sector.

e. Provide technical assistance and capital assistance for designing and establishing a pilot land purchase mortgage financing/guarantee program.

f. Create a self-capitalizing cooperative investment credit fund for livestock production and marketing, patterned along the lines of the Fondo Ganadero in Colombia.

ILLUSTRATIVE FINANCIAL PLAN
(\$Millions)

<u>Components (ARDN)</u>	<u>LOAN</u>	<u>GRANT</u>	<u>TOTAL</u>
Policy Change	5	10	15
Agricultural Resource Use Efficiency Improvement	10	10	20
Agricultural Marketing and Processing Sub-Systems Improvement	25	5	30
Capital Market Strengthening	<u>30</u>	<u>5</u>	<u>35</u>
TOTAL	70	30	100
Complementary Resources:			
ESF	60		
Title I	60		

Mission Position on PID/PP Approval: This is the only planned new start in Agriculture and Rural Development through FY 87. Due to its importance, USAID/Peru will seek AID/W assistance in design at both the PID and PP approval stages. Mission proposes to send the agricultural system recapitalization PID to AID/W for approval in June, 1985. The PP will be prepared and ready for authorization by October, 1985.

Project Number and Name: 527-0300
Small Industry Credit

Proposed FY86 Funding: \$6.5 million
(\$6.0 million loan)
(\$0.5 million grant)

Life of Project Funding: \$16.5 million
(\$15.0 million loan)
(\$1.5 million grant)

Functional Account: Selected Development Activities

A. Major Development Problem Being Addressed

Managing the current economic crisis is the first step before Peru can effectively pursue longer-range development goals. The crisis has caused an acute shortage of funds available to meet private sector working and fixed capital debt financing requirements. The private sector is faced with limited access to credit and has to contend with declining production, sales and profits. Further, interest rate controls and high inflation have created disincentives to financial savings and weakened capital markets. A result has been very low rates of capacity utilization and a high number of failures of businesses of all sizes. However, smaller industries have shown the capacity to generate increased production and income, and expand employment for low income groups. The small enterprises are efficient and as a whole have the ability to weather serious economic depression. Unfortunately, small enterprises do not have regular access to formal credit markets in Peru. They are often unattractive to bankers because the transactions they generate are small and require intensive supervision. Many small enterprises do not keep formal and verifiable records, and they often cannot meet collateral and guarantee requirements to the satisfaction of Peruvian financial institutions.

Incorporation into the formal economy of the large and rapidly growing informal sector is a serious concern in Peru. The informal sector functions outside of Peru's official regulatory and tax structures and now employs some 50% of the labor force. Many small industries are in the informal sector, which means that they are not registered, regulated or licensed by the Government. These entrepreneurs are often self-financing, or borrow from family or friends, or pay very high interest rates to money lenders (25% per month indexed in dollars in one recent case).

Illiquidity, excessive financial controls (interest rate ceilings and barriers to competition), and concentration of loan resources in the larger firms, all contribute to making formal credit unavailable to many small industries. However, during the current crisis, the small industry sector has proven resilient and innovative, able to generate direct income and employment at low investment costs, and able to improve the standard of living of lower income groups. Nonetheless, the demand for credit by small industry far out-strips resources now available. Therefore, additional financial assistance to small enterprises, both formal and informal, is required. The project addresses specific small industry constraints of: (1) excessive

regulation of financial markets; (2) market barriers to credit access; and (3) timely processing of credit requests. These constraints will be overcome by promoting deregulation of interest rates for savings and loans, thereby fostering competition in financial services.

The five year Project will (1) promote private sector lending at market rates to small formal and informal industries through the use of re-discount or guaranty mechanisms and (2) improve the institutional capability of private sector organizations to analyze the technical, financial and economic value of lending to smaller industries. This will lead to:

- a) privatization of lending to smaller industries and increased individual bank participation in this segment of the market;
- b) more flexibility in collateral requirements;
- c) reduction in documentation required in loan processing;
- d) use of real interest rates and/or indexation.
- e) increased deregulation of financial markets; and
- f) technical assistance to participating organizations and subborrowers.

The proposed Project is an outgrowth of a comprehensive Peruvian Private Sector Assessment undertaken by Coopers and Lybrand, as well as a number of other private sector reports prepared by a PRE Reconnaissance Mission to Peru (1984), the findings of the US Presidential Task Force on International Private Enterprise on small enterprise and financial markets, and the recent DAI evaluation of the Small Urban Enterprise Development Project (527-0241).

B. Relationship to Overall Policy Objectives and to AID Policies

The project is consistent with overall AID policy objectives and directly supports AID's focus on private sector development through emphasis on the use of commercial banks to supply private sector credit to small industries. In general, profitable smaller enterprises use capital effectively and account for a disproportionately large number of industrial sector jobs. This project is a private sector initiative which improves the financial environment for small industries and helps mobilize savings and efficiently channel credit without creating new financial intermediaries. Small industrial firms appear to be labor-intensive -- recent data estimate average costs of \$1,200 per job created. The Project will strengthen linkages between the formal and informal sectors as well as provide needed employment and income opportunities to the AID target group of low income families.

C. Consistency with Approved Mission Strategy and Other Projects

The Mission CDSS stresses the goal of supporting the private sector as a means of increasing employment and development. The short-term private sector emphasis (Phase I of the Mission's Private Sector Strategy) is concentrated on helping economically viable firms weather the present recession while addressing specific issues of financial deregulation. The longer-range Phase II of the Mission's private sector strategy is to improve the environment for private sector growth; while Phase III of the strategy is designed to address sector constraints with specific projects aimed at increasing exports, attracting investment, and creating employment through activities in small enterprise development, export and investment promotion and agro-industry.

The proposed Project will provide critical resources to the smallest industrial firms while simultaneously implementing the longer term structural and financial market development components (Phase III) of the strategy.

D. Project Components, Activities, and Implementing Organizations

The \$15 million Project will be composed of a credit fund and technical assistance, with a small amount of commodity support.

a) Credit Fund

A discount and/or guaranty fund would be housed in an existing intermediary financial institution (IFI). The IFI will administer the funds in trust. It will discount/guarantee loans meeting Project criteria to small industries, those loans will be presented by banks, PVOs, other IFIs, credit unions and similar organizations. A trust fund coordinating unit will review the loans to verify eligibility, which will be based on the economic and financial viability of the subproject. Collateral and processing requirements will be minimized to the extent possible in the Peruvian context.

Discounts and/or guarantees will leverage the capital of the IFI dealing with small industries, will make viable industries creditworthy for more traditional formal financial intermediation, and will enable PVOs and IFIs to mobilize more resources, cover expenses, compensate for risk and make a reasonable profit on these transactions. In the process of working directly with the small industries, the PVOs, principally, and some IFIs, will thereby be able to assist informal sector firms to move into the formal sector and facilitate the "graduation" of firms to more traditional forms of finance. Project will allow sub-borrowers to establish a credit record at IFIs. IFIs will learn to work with this new market segment and be comfortable with lending their own resources by the end of the Project.

b) Technical Assistance and Training

The Mission realizes fully that the successful implementation of credit projects relies heavily on the early provision of technical assistance inputs. Trust fund operations, disbursement mechanisms and subloan criteria must be clearly defined and constantly monitored. The organization housing the discount/guaranty unit must be initially staffed with expert outside assistance. This is particularly critical in this Project as small industry lending still remains an unknown market for more than a few financial organizations.

Therefore, technical assistance will be in place before credit fund disbursements commence. Distinctions will be made between TA to IFIs and TA to sub-borrowers. IFIs require assistance in the following areas: subloan evaluation, treasury operations and cash management, loan collection techniques, protection of assets in an inflationary economy, and in providing needed training to sub-borrowers. Training in business skills for the smaller sub-borrowers is expected to be undertaken by PVOs. As a Condition Precedent to use of the credit fund, these skills must be in-country and available at the credit fund disbursing organization.

E. Financial Plan (\$000s)

<u>Inputs</u>	Private Sector			<u>Subborrowers</u>	<u>Total</u>
	<u>Loan</u>	<u>AID</u> Grant	<u>PVO/IFI</u>		
- Credit	14,500	-	7,500	7,500	29,500
- Technical Assistance		1,500	-	-	1,500
- Commodities	500	-	-	-	500
TOTAL	<u>15,000</u>	<u>1,500</u>	<u>7,500</u>	<u>7,500</u>	<u>31,500</u>

F. Given USAID's extensive experience with credit programs in general and small business lending in particular, we will request that USAID be granted PID/PP approval authority. Project development began with the excellent evaluation of the Urban Small Enterprise Development Project. A Development Alternatives Inc. follow-up team is expected to complete an organizational and financial assessment, analyze small industry credit demand and social soundness, and provide a project implementation and administration framework. We hope to have the PP prepared and the project ready for a late FY85 obligation to utilize deobligation/reobligation funding that may be made available for the Andean democracies.

Project Number and Title: 527-0279
Housing Sector Support

Proposed FY 86 Funding: Grant: \$1,000,000
Loan Guaranty: \$20,000,000

Life of Project Funding: Grant: \$2,000,000
Loan Guaranty: \$100,000,000

Appropriation Account: Grant: Selected Development Activities
Loan Guaranty: Housing Guaranty Program

Background: The Mission in its recent CDSS presented its Housing and Urban Services Strategy as one which will influence GOP policies and resource allocations, and reinforce the sector's institutions to assure the sustained delivery of basic urban services and adequate shelter to low income urban families. The Mission strategy is based on an in depth Housing Sector Assessment and Policy Issues Agenda that identifies the key sector constraints and the policy actions needed to address these constraints. A multi-year HG totaling \$100 million will be the primary USAID vehicle to encourage the GOP to adopt needed policy changes and to implement shelter sector programs from 1986 to 1990. The multi-year HG concept for Peru has already been approved by AID/W.

As with the Mission's other sector programs, those for the shelter sector are strongly determined by the present economic and financial situation in Peru. Nevertheless, the broad objectives established for AID's Housing Guaranty Program provide the basis for the proposed Mission shelter program. The overall objective is to structure and support a sustainable, for the most part financially self sufficient, private sector oriented housing delivery system or systems based on rational housing policy analysis and responsive to the realities of effective demand for affordable, appropriate shelter and residential services. In the current Peruvian context, this means that Government or public sector action should be directed almost exclusively to the orderly and economically sound development of land, infrastructure services and upgrading that is or will be required by current and near-term future demand. Moreover, it is clearly apparent that the government's direct, politically defined development of massive, costly housing projects must be drastically reduced or eliminated in order to cut both explicit and implicit subsidies that in the recent past have proven to be both socially inequitable and economically unaffordable.

Despite recent huge outlays for government built housing, the vast majority of Peru's housing is provided in the context of the private sector, most notably within the informal and quasi-formal private sector. From the stand point of both numbers and economic realities, this has been the most efficient mechanism in the shelter sector. Nevertheless, in the past, Peru's formal

private sector home builders have played an important role in shelter delivery, a role that has been seriously curtailed and distorted by the recent highly subsidized public interventions in shelter construction. To restore formal private sector initiative (and facilitate informal construction) not only must the distortions of high subsidy, public programs be eliminated but also an economically sound, largely self-sustaining public and private financial system must be restructured for both shelter and infrastructure needs. This restructuring will require a major overhaul of Peru's current shelter finance policies and practices and becomes in itself a principal objective of the Mission's shelter sector program.

The above expressed objectives are, considering the case of Peru, medium to longer term goals. Despite Peru's serious economic and fiscal problems, the Mission believes that these program objectives are achievable within a reasonable time frame and that their achievement is absolutely essential if Peru's current macroeconomic and financial problems are to be resolved.

The current GOP administration's well intentioned but extremely costly (in terms of loss of investment return and direct subsidies) program has left the coffers of Peru's housing finance institutions empty. This fact is recognized by many of Peru's potential housing sector leaders. Since current housing policies are exclusively those of the current GOP administration, it is certain that they will be changed by a newly elected administration upon taking office. From the Mission's contacts within APRA thus far, it appears that APRA shares our diagnosis of the policy issues and constraints in the sector. We have a chance to support the adoption of a set of sound policy prescriptions for the housing sector by continuing our policy dialogue and linking substantial financial support through the HG program to the outcome.

The shelter sector program is part of the Mission's total package directed at policy reform in Peru. This program relates directly to overall policy objectives involving credit issues, private sector/market approach, and in limiting direct government programs to those appropriate only to the public sector. Indeed, to the extent that more shelter sector financial policies and practices can be brought into line with financial policies in other sectors, the whole public/private financial intermediation system will benefit. Of course how price inflation, wage levels and devaluation rates behave will determine in the long run how these financial markets will respond. The shelter sector program is completely consistent with AID's policies for shelter and urban development. Environmental issues will be examined; however, at this time no major inconsistencies with AID policy are foreseen. The proposed shelter program is part of the approved CDSS and ABS for Peru and as such remains consistent with overall Mission development strategy. (The FY-86 Congressional Presentation contains a data sheet on this program.)

Purpose: To assist the GOP to improve housing sector policies, to support the strengthening and expansion of private sector participation in housing finance and construction, and to implement shelter and service sub-programs which

increase the effectiveness of sector resources and provide maximum benefit to lower-income families.

Sector Program Description: The program will focus on improving sector policy and planning, financial policies and mechanisms, shelter development and delivery systems, and the participation of the private sector. AID's objective in the housing sector is to influence GOP policy-making and planning so that more efficient and rational investments are made in the sector. In the past, AID has controlled the investment of HG funds in each particular project and has influenced Peruvian Housing Bank (BVP) investment of some of its own resources. Although past HG projects helped a substantial number of people improve their living conditions and also improved BVP operations, the project approach did not make an overall impact on resource allocation policies within the housing sector, nor has it lead the GOP to change its subsidy policy for the housing sector.

The GOP is responsible for generating the resources, the financial mechanisms, and the public and private institutional structures required to resolve housing sector problems, as well as for encouraging the mobilization and participation of private sector resources in the shelter development process. The proposed AID program will support these GOP efforts and influence the way they are carried out. In order to have an impact on the decision-making process, USAID's approach addresses the nature and magnitude of the problems and demonstrates a willingness to enter into a medium-term (five-year) effort with the GOP; a readiness to provide significant resources in relation to the magnitude of the problem to complement GOP resources; and a willingness to discuss a variety of problems affecting the sector, not just those particular to AID's specific project concerns. Thus, the sector approach multi-year HG demonstrates a concern about infrastructure problems at a macro level even though they may not be funded by the program, and demonstrates a concern about housing for middle-income groups even though HG funds will not finance such housing. Special emphasis will also be placed on implementing a long-term strategy for strengthening the savings and loan system.

In examining the changes required in the shelter sector, the Mission concludes that while the overall structure of the sector is in place, many policies and practices have yet to be defined or need to be revised. Thus, AID has the opportunity to influence sector activities at the outset of a new administration, within the framework of a viable institutional structure. In short, 1985-86 is likely to be a fruitful time for attempting to negotiate a sector-type input. Since policy change is not always rapid, AID must be prepared to maintain its presence in the sector over a period of time, pressing continuously for positive changes. At the start AID will press for agreement with the new GOP on key the overall policy directions. These directions can then lead to more specific policy action on specific sectorial and institutional issues and will set the basis for discussing financing conditions and timing keyed to the GOP taking action on agreed policy changes. A continuous programming effort over the life of the project will be

needed to permit the GOP and its housing institutions to continue the planning, implementation, and evaluation of sector activities in the future.

In summary, AID is proposing this multiyear, \$100 million program in order to:

1. Influence sector policy and planning by assisting a new GOP to formulate improved policies;
2. Help increase, through improved financial intermediation, the number of housing solutions produced during the period and assure the maximum return on the resources invested;
3. Support the increased participation of private sector entities in mobilizing and channeling resources for shelter production;
4. Establish a continuous planning process through long-term IA support to the housing sector; and
5. Avoid the limitations that a short-term, project-oriented approach can impose on AID's ability to encourage policy and financial improvements.

In addition, this program will support the Mission's Private Sector Strategy by encouraging an increased role for the private sector in the housing finance and delivery systems. It will also support decentralized activities by working with CORDEs and municipalities in urban upgrading and sites and services projects.

Target Group: The multi-year sector program will focus on three levels: policy dialogue, institutions, and individual families. Over 100,000 below median income urban families throughout Peru will directly benefit from investment in the housing sector. Continued investment will be linked to progress at the policy dialogue level in support of improved redistribution of GOP resources on a cost recovery basis to the target group. Institutionally, the program will improve the effective operation of the Housing Ministry, the Housing Bank and other public and private shelter sector delivery institutions.

Funding: Total HG funding will be \$100 million over a projected four to five year period. This funding would be authorized in tranches of up to \$25 million annually in FY 86 through FY 90. An equal amount of internal Peruvian resources (\$100 million, soles equivalent) will constitute local financing and beneficiary contributions. The grant assistance input will be 2.0 million to be authorized over the FY 86-89 period. The development grants will be used principally for U.S. technical assistance. In summary, the inputs are:

HG Funds	\$100.0 million	Investment
DA Funds	\$ 2.0 million	Technical Assistance
Peruvian Financing	\$ 90.0 million	Investment
Beneficiary Funds	\$ 10.0 million	Down Payments & Equity
	\$202.0 million	

Authorizations will be linked to policy actions. Disbursements will be keyed to the production and delivery of shelter solutions. This will require that the GOP and AID are in agreement on major policy implementation plans which will set the specific conditions and eligibility criteria for use of HG funds. Policy action and agreement can occur at any time within the project implementation period and thereby trigger future authorizations.

In accordance with established practice, the Mission will submit the PP to AID/W for review, the PID having been reviewed in 1983.

Project and Title: 527-0302
Food Assistance Program Support

Proposed FY 86 Funding: \$1.0 million Grant

Life of Project Funding: \$7.0 million Grant

Appropriation Account: Agriculture, Rural Development
and Nutrition

Purpose: To respond to the deteriorating economic and nutritional situation in Peru by providing targeted supplementary food assistance in Maternal-Child Health (MCH) and Food for Work (FFW) programs through private voluntary organizations (PVOs) and specialized GOP entities. To strengthen PVO and GOP institutions implementing on-going and new supplementary food assistance programs using OPG resources for technical assistance and operational support to improve their planning, administrative, implementation, and evaluation skills, and thus increase the nutritional and developmental impacts of their programs.

Background: Since the late 1970s, food aid has been viewed by the Mission as an essential safety-net for the lowest income families to cope with falling real incomes and with widespread malnutrition. At present, rapid declines in real incomes, growing unemployment and underemployment, and the corresponding deterioration in health and nutrition status have considerably increased the need for food assistance. PL 480 Title II and Section 416 resources can provide important income and nutritional supplements to our target groups. When coupled with Development Assistance and Title I, these resources provide an opportunity to support constructive policy dialogue with the GOP.

The deteriorating economic and nutritional situation in Peru, underscores the need for significantly increasing food assistance levels and complementary financial support to expand and qualitatively improve PVO and GOP feeding activities. Rhetoric during the campaign has on numerous occasions stressed that Peru has to confront the hunger problem as well as significantly increase food availabilities through increased production, especially by small farmers. Leading figures in the winning political party have already approached the Mission on ways the USG could contribute to soften some of the most acute human costs of the stabilization program. They see increased supplemental feeding programs as an essential element in their overall efforts. Upon taking office, the new administration will probably request USG assistance to embark upon a large-scale food distribution program.

An impressive history already exists regarding the PVOs' ability to integrate Title II food resources, Title I counterpart funds, and OPG monies to carry-out large-scale feeding programs. Based on the 1984 Title II evaluation, and the latest nutritional status data provided by a series of

AID-financed studies, there is a need to increase program coverage to include more of the most-at-risk groups in the neediest geographic regions. This implies more efficient use of food assistance and increased levels of food and financial resources for improvements in the planning, project implementation, nutrition surveillance and education, and evaluation capabilities of these organizations and of specialized GOP institutions dealing with nutrition.

The Mission's long-range goal is that the GOP assume the responsibility for supplementary feeding. However, the GOP cannot reasonably assume major costs of such programs over the next five years, given that the near-term economic picture remains very clouded. Therefore, while the Mission continues to work to strengthen GOP institutional capabilities to provide required resources and implement supplementary feeding programs. The PVOs will continue to play an essential role in the near future.

Policy Framework: Support for the GOP's economic stabilization measures, in the form of increased PL 480 Titles I/II and Section 416 food assistance to soften the blow of austerity measures on the lowest income groups, is an essential element of the USG foreign policy objective to promote and institutionalize democracy in Peru and assist the GOP to meet the basic human needs of its people. At the same time, AID has embarked on an effort to increase the effectiveness and efficiency of food assistance programs.

In order to respond to the new GOP's concern for increased supplementary feeding programs to deal with the growing hunger problem in Peru and to soften the effect of economic stabilization measures, the Mission is proposing a major bilateral food assistance program. The majority of these food resources will be furnished during FY 86 and FY 87, the first two years of a planned three-year program. At the same time, there is a proposed 25 percent increase in FY 87 for the regular Title II PVO program, which should be maintained through FY 90.

Title II Food Resources
(\$ Millions)

	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>	<u>TOTAL</u>
VolAg Programs:	9.5	12.0	12.0	12.0	12.0	57.5
Stabilization Support:	<u>12.5</u>	<u>8.0</u>	<u>3.0</u>	---	---	<u>23.5</u>
TOTAL:	22.0	20.0	15.0	12.0	12.0	81.0

The Mission is also proposing a major ESF/Title I initiative to meet the resource needs of the macroeconomic adjustment program. The Title II food resources, requested under the above bilateral stabilization support program,

will be targeted to those low-income groups most affected by GOP austerity measures and utilized to make an economic adjustment program more feasible socially and more palatable politically. The Mission has not yet negotiated the terms and conditions of either Title II stabilization support or Section 416 commodities. This will be done in the context of our policy dialogue on macroeconomic program assistance if we have preliminary support for such resources as a result of the review of the Action Plan. However, the GOP will have to formulate constructive supplementary feeding program policies which will target assistance effectively and provide the necessary human and financial resource support to coordinate the implementation of such enhanced programs and policies.

Improvements are being made in our Title II and Section 416 programs in Peru. Increased levels of OPG funding and Title I counterpart will support the qualitative changes required to enhance the developmental impact of PVO and GOP feeding programs (such as materials and training programs designed to improve project planning, targeting, implementation, evaluation, and supervision).

All PVOs receiving Title II food assistance, OPG monies, and Title I counterpart have been requested to submit multi-year operational program plans spanning FY 87-91 which will outline desired improvements in their programs. These plans will include specific annual benchmarks, designed to attain these improvements. Annual evaluations will be conducted to determine progress toward these goals as well as adjustments which may be necessary in the long-term development strategy. The Operational Program Grants will be designed to reinforce the goals and objectives of the multi-year operational program plans. As a first step in this direction, FY 86 PVO operational program plans have included a number of specific benchmarks to be reached during that fiscal year. The level of PVO Title II food and OPG requests for FY 87-90 will be subject to the Mission's review of PVO progress in implementing the program improvements agreed to in the multi-year plans.

AID has long assisted GOP school feeding (PAE) programs. The last Title II resources for PAE were provided in 1980, when AID made a decision that untargeted school feeding programs were relatively inefficient in helping change the nutritional well-being of low-income families. However, Section 416 dairy products were made available in 1983 and 1985 to support PAE and MCH programs of the GOP. Under the 1983 grant, approximately 90 percent of these commodities were used in school feeding and 10 percent in MCH activities. Under the 1985 grant, school feeding was reduced to 60 percent and MCH increased to 40 percent.

The Mission would like to increase the proportion of food resources going to MCH. Therefore, the following Section 416 division is being proposed for the 1986-90 period.

(\$ Millions)

	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>
PAR	7.2	6.0	4.8	2.4	—
MCH	<u>4.8</u>	<u>6.0</u>	<u>7.2</u>	<u>4.8</u>	<u>2.4</u>
TOTAL	12.0	12.0	12.0	7.2	2.4

Major Project Components: In addition to the food resources provided under Title II and Section 416, the Mission will continue to integrate complementary OPG and Title I funding to support its food assistance programs. OPGs will be the main vehicle to finance on-going operational expenses (staffing, project and educational materials, and technical assistance requirements) as well as qualitative changes in PVO and GOP programs which have been cited in the Policy Framework section. OPG funds will be complemented by GOP Title I counterpart monies which will be used primarily for meeting logistic and administrative costs.

Part of the increased funding for continued improvements in the implementation of Title II and Section 416 programs in Peru, will be apportioned to PVO and GOP institutions (especially the Ministry of Health-MOH, and the National Office of Food Support-ONAA, and possibly a presidential-level Food Policy Advisory Office) for technical assistance to formulate constructive policies in supplementary feeding programs and to make improvements in the planning, administration, and evaluation of these programs.

Improved training for PVO and GOP supervisory staff in community organization and social promotion will strengthen community institutions and leadership, as well as increase grass-roots participation in project administration and decision-making.

Through additional OPG funding for PVOs and GOP agencies to implement supplementary feeding programs, the quality and coverage of programs directed to low-income families will be improved and expanded. Such programs will improve basic social services, including access to Primary Health Care; health, nutrition, and vocational education; income generation and disposable income; agricultural production and consumption; family diets; and natural resource/environmental protection.

Financial Plan

(\$ Millions)

	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>	<u>TOTAL</u>
Project No. 527-0302 Grant Funding*	1.0	1.5	1.5	1.5	1.5	7.0
Title II	22.0	20.0	15.0	12.0	12.0	81.0
Section 416	<u>12.0</u>	<u>12.0</u>	<u>12.0</u>	<u>7.2</u>	<u>2.4</u>	<u>45.6</u>
Total by FY	35.0	33.5	28.5	20.7	15.9	133.6

* Specific breakdown by PVO and GOP agency will be outlined in the PID.

Mission Position on PID Approval: A PID will be presented in August 1985. It will present a consolidated plan of support to PVOs and other organizations which administer the feeding programs designed to alleviate the effects of deteriorating economic conditions (as outlined above) and which support the Policy Agenda for Supplementary Feeding Programs. The PID also will demonstrate the need for and request increased supplementary feeding resources for Peru (in terms of both food and financing) and outline the Mission's interest in continuing to increase the integration of these programs into our overall development strategy. We believe an AID/W review of the PID both by the LAC Bureau and by the DCC Food Aid Subcommittee will be a useful input to the design of the USAID/Peru feeding program.

Project Number and Title: 527-0285
Increasing Health Sector Efficiency

Proposed FY87 Funding: Loan: \$5 million (HE)
Grant: \$7.5 million
(4.5 million HE,
2 million POP,
1 million ARDN)

Life of Project Funding: Loan: \$20 million (HE)
Grant: \$20 million (\$12 million HE,
\$6 million POP, \$2 million
ARDN)

Appropriation Account: Health, Agriculture, Rural Development
and Nutrition, and Population Funds.

Purpose: To support the implementation of specific health sector policies which increase the efficiency and viability of the health care system, and to continue strengthening the primary health care (PHC) system in the private and public sectors in order to expand cost effective system coverage (including maternal child health, family planning, oral rehydration therapy (ORT), immunizations, growth monitoring, nutrition education and rural water and sanitation services) to the more than 30% of the population not currently attended.

Background: The Mission launched its primary health care strategy in 1979 with the authorization of a \$1.4 million pilot project, Sur Medio, and the \$7.1 million extension of Integrated Primary Health Project (527-0219). It was followed quickly by the \$11 million Rural Water and Sanitation Project (527-0221) in 1980, and the \$10.8 million Integrated Health Family Planning Project (527-0230) authorized in 1981. These four projects formed an integrated package for PHC which included family planning, water, and environmental sanitation. With the Mission's FY 84 Nutrition in PHC Project Amendment to Project 0219, the remaining component, nutrition, was added to the health portfolio. In addition, in FY 1985 the Mission will add another \$3 million to its health portfolio for the policy analysis and private sector components including Child Survival initiative. The above projects, totaling \$34 million, have been implemented as integrated components within our overall health sector strategy and have been focussed on management improvement of the PHC system, increasing service coverage in both the private and public sectors, policy analysis, and private sector delivery systems.

In FY 1985 the Mission initiated a comprehensive \$1.3 million Health Sector Analysis (HSA) which is being carried out under a cooperative agreement with Stonybrook in conjunction with the Pan American Health Organization (PAHO), the Ministry of Health (MOH), and an array of Peruvian institutions including the Peruvian Institute of Social Security (IPSS), the Graduate Business School

(ESAN), Central Bank, Cayetano Heredia University, and other US consulting firms under contract to Stonybrook. The HSA consists of six technical/analytical studies which will yield research findings and policy recommendations for: (1) facilities operating costs and cost containment possibilities, especially of regional and area MOH/IPSS hospitals; (2) improvements in utilization of existing health care facilities; (3) health system organization and management changes to improve human and pharmaceutical resource utilization and generate cost savings; (4) increased domestic health care financing with particular emphasis on social insurance and private sector alternatives; and (5) decentralization of planning, programming and budgeting of health services to the regional and hospital area levels. The HSA will serve both the analytical needs of USAID and Other Donors for making future investment decisions in the sector and the needs of Peruvian health sector agencies to identify their principle problems and constraints to intersectorial coordination, future investment requirements for expanding system coverage, and improving management and administration of the Peruvian health care system. The HSA will stimulate demand for information and analysis for health sector policy making; upgrade the government's capacity to conceive and analyze different health sector policy options; improve the information base on which policy decisions are made; and strengthen the capacity of sector institutions to efficiently and effectively carry out their functions. On the basis of experience gained in implementing the present HSA a policy agenda will be developed and specific health sector interventions will be designed in order to negotiate a FY 1987 \$60 million comprehensive health sector program. This program will be implemented over a five-year period and will be funded in three tranches. The funding for each tranche will be tied to GOP progress in implementing specific policy initiatives for each sector component. Included in the \$60 million is \$40 million in Development Assistance funds and about \$20 million in complementary local currency resources.

Policy Framework and Sector Constraints: Analytical work in the health sector has been initiated with the National Nutrition and Health Status Survey (NNHSS) which gathered data from 18,000 households for expenditures for health services and provided health and nutrition status baseline data. Subsequently, a World Bank/PAHO/AID-financed provider survey gave us a picture of the supply side of the sector. A series of evaluations funded by USAID of the mid-wife and promoter systems, the financial management study of the Ministry by a local accounting firm, the project evaluations for 219/230/Sur Medic/and Rural Water and Sanitation, and the strategy for increasing coverage and financing for QRT and expanded immunization programs, developed by PRITECH, along with the HSA findings described above, will assist the Mission to identify basic policy issues in the sector and to formulate a policy agenda to be discussed with the new government during FY 85 and FY 86.

Most of the basic constraints in the sector are known: policies which are counterproductive to efficient resource use, lack of health management professionals operating in the sector, limited resources for PHC programs

because of heavy expenditures for high cost curative and tertiary care facilities, large portion of recurrent cost budget devoted to personnel expenditures (80%), oversupply of high cost physicians in excess of public sector needs (some 5,000), a total of nine medical schools operating in Peru helping to increase this excess supply yearly, inadequate health planning resulting in poor programming of GOP resources for expanding PHC, and grossly under-expended GOP counterpart funds for planned program activities, etc. The constraints are numerous, complex, and interrelated. Our strategy is to use the AID financing (plus local currency counterpart resources) to encourage improved policies which will begin addressing these constraints. Besides examining demand, coverage, quality control, and community participation of programs, policy makers need to look at numerous financial and management issues which, to date, have not been emphasized by any of the donor programs in the sector, including alternative methods of financing delivery of health care, private sector involvement, and hospital cost containment proposals.

Sector Program Description: The \$60 million program, (\$20 million in loan, \$20 million in grant, and about \$20 million in counterpart) will be authorized over a five year period with four major bilateral tranches. It will be negotiated based on a specific policy agenda which will outline required policy changes or policy support actions. This agenda is a specific output of our FY 85 HSA.

The \$40 million Development Assistance portion of the program will be composed of four components: (1) health policy planning and institutional development (\$7 million); (2) primary health care service delivery including MCH, family planning, growth monitoring, ORT, immunizations, and nutrition education (\$20 million); (3) water and environmental sanitation (\$11 million); and (4) private sector support including financing alternative health delivery systems (PVOs, HMOs, etc.) and support for basic and operations research being conducted in the private sector in diarrhea, nutrition surveillance, and targeting food aid (\$2 million). This \$40 million DA package is only slightly above the \$34 million currently authorized for the health sector. The size of each of the components is roughly the same as in the existing portfolio, i.e. \$20 million for PHC, \$11 million for water etc. However, the new element is health policy planning and institutional development, which under the existing program is only funded at \$1.3 million for the HSA. At the same time it is the most critical component of the new sector approach. Consequently, the initial \$12.5 million tranche is composed of the first \$3.0 million for the \$7 million policy planning and institutional development component, \$9.0 million for expansion of PHC services including family planning, as well as \$500,000 for private sector alternative health delivery systems and private sector research. This first tranche should be phased to coincide with termination of the activities financed under the existing projects, i.e. June 30, 1986. For this reason, the Mission will accelerate project design and, if funds are available, project authorization to FY 1986. If not the PACDs for projects 219/230 will have to be extended to first quarter FY 1987 in order to cover the gap between the old and new program. The second tranche is phased to coincide with the termination of existing project activities in July 1987 and

is composed of \$6 million for water and rural sanitation activities to be authorized in FY 1988, \$3 million for the health policy planning and institutional development component and \$500,000 for private sector health activities. The third tranche, \$8.0 million, will be allocated for the PHC component, with smaller amounts for policy planning and private sector activities. The last tranche will complete project funding. The first tranche will most likely support policy changes in any or all of the following areas: increased system efficiency resulting from higher MOH/IPSS facility utilization rates, lower MOH/IPSS unit costs, well defined job descriptions and delegations of authority for primary health care workers, especially the health promoter, more effective MOH supervisory system, redesigned MOH/IPSS training programs resulting in modularized, individualized, competency based skills training programs for primary health workers, restructured MOH financial, administrative managerial, and logistics systems, facility and staff sharing between MOH/IPSS, reduction in number of medical doctors trained for public sector, decentralized health planning and program budgeting, promulgation of diarrheal research strategy for Peru, restructuring of existing or establishment of a new school for public health administration, inserting nutrition into medical school curriculum, and development of a cadre of trained public health administrators to manage the MOH's health region/area hospital administrative units. This list of policy issues is illustrative pending the results of the HSA.

The second tranche would reinforce the above policy changes and introduce policy reforms related to the water and environmental sanitation component. These policy agenda items would most likely include: (1) continued decentralization of DISAR's design and approval system; (2) continued simplification of water systems design; (3) ways to improve construction and utilization of latrines at the community level; (4) continued focus on operations and maintenance training; (5) establishment of a human resources development unit in DISAR to oversee health education activities; and (6) establishment of a system in which compensation of DISAR engineers is on a basis equal to that of other engineers working in the water sector. The third tranche would provide financial and policy support for activities already initiated under the first two tranches.

The \$60 million program will be negotiated as a single package with the new administration so that the greatest leverage possible can be obtained for the policy changes we view as essential for rationalizing the sector. Therefore, the entire policy agenda will be developed by the time of the first tranche. The Mission will work in close collaboration with other donors (IBRD, IDB, German bilateral program) to maximize our impact. A donor coordinating mechanism for Peru in the health sector is already in place. If plans for the Consultative Group approach materialize, health will be added to these negotiating sessions as well. Project beneficiaries will be the institutions whose planning and management capabilities will be strengthened under the project through rational sector policies, and families who will benefit from expanded, cost effective PHC services in both the public and private sectors.

Financial Plan

(000's)

A. Project Components by Tranches and Funding Source.

	<u>FY86/87</u> (1st tranche)	<u>FY88</u> (2nd tranche)	<u>FY89</u> (3rd tranche)	<u>FY90</u> (4th tranche)	<u>Total</u>
1. Health Policy Planning & Inst.Dev.	\$3,000 (grant HE)	\$3,000 (grant HE)	\$1,000 (grant HE)	--	\$7,000 (grant HE)
2. Primary Health Care (PHC)	\$9,000 (\$5,000 loan HE) (\$1,000 grant HE) (\$2,000 grant POP)* (\$1,000 grant ARDN)	--	\$8,000 (\$3,000 loan HE) (\$1,000 grant HE) (\$3,000 grant POP)** (\$1,000 grant ARDN)	\$3,000 (\$2,000 loan HE) (\$1,000 grant POP)**	\$20,000 (\$10,000 loan HE) (\$2,000 grant HE) (\$6,000 grant POP) (\$2,000 grant ARDN)
3. Water & Sanitation	--	\$6,000 (grant \$1,000 HE) (loan \$5,000 HE)	--	\$5,000 (\$5,000 loan HE)	\$11,000 (grant \$1,000 HE) (loan \$10,000 HE)
4. Private Sector Delivery/Research	\$500 (grant HE)	\$500 (grant HE)	\$500 (grant HE)	\$500 (grant HE)	\$2,000 (grant HE)
TOTAL:	\$12,500	\$9,500	\$9,500	\$8,500	\$40,000

* FP equipment & TA.
No contraceptives.

** Contraceptives & FP
equipment & TA.

Mission Position on PID/PP Approval:

The Mission proposes to send the Health Sector PID to AID/W for approval in Dec. 1985. The PP will be prepared and ready for authorization by June 1986 in case FY 86 funds become available. Because the PID will detail a comprehensive policy agenda and contain preliminary findings from the HSA, plus a detailed health sector strategy and preliminary results of early policy dialogue with the new GOP, the Mission will request PP approval and authorization authority in order to facilitate a possible late FY 86 obligation. If project obligation slips to FY 1987, Mission will send PP to AID/W since the \$40 million LOP Development Assistance amount exceeds Mission's delegation of authority of \$20 million.

Project Number and Name: 527-0286
Private Sector Non-Traditional Export
Promotion

Proposed FY87 Funding: \$2 million grant

Life of Project Funding: \$4 million grant

Functional Account: Selected Development Activities

A. Major Development Problem being Addressed

Peru today is suffering through the worst recession in modern times. Peru's options for confronting these critical time are extremely limited. Prices for Peru's traditional exports will remain deeply depressed; Peru's current debt burden and mounting principal and interest arrearages will prevent private banks from increasing exposure in Peru and may force them to accede to further debt rescheduling; and the new government coming to power in July 1985 will be under severe pressure to defer and avoid difficult but imperative cuts in government spending.

Over the near and medium term, Peru must significantly increase the value of its non-traditional exports to generate foreign exchange. However, much of its industry has developed within highly protected domestic markets and is not competitive in international markets. The real prices of its traditional mineral exports are the lowest since the 1930s and the forecast is for at best a halting and gradual recuperation of prices. Further, many analysts believe Peru will not be a net exporter of petroleum after 1988. Therefore, Peru is turning more frequently to barter trade agreements with controlled economies to reduce its overwhelming debt and ensure some imports. In this context, it becomes vital to increase the variety and absolute value of non-traditional exports from Peru.

The GOP and the private sector have joined in sponsoring several initiatives in the past to promote exports. They have had mixed financial and political success, with non-traditional exports not growing at the rates expected let alone required.

The proposed project is a major effort to (1) improve the flow of external information, and knowledge to promote non-traditional exports; (2) promote more direct and regular contacts between agro-industrial groups and other industrial groups, trade associations and individual firms in Peru and their counterparts in the U.S.; and (3) provide marketing strategies/services and technical information for new and existing private enterprises to develop and launch new products for foreign markets. This will be accomplished on a systematic, product-by-product basis, in accordance with market research, extrapolation of present trends and market demand analyses. Policy and training interventions to promote non-traditional exports, initiated under the Private Sector Policy Planning and Institutional Development and the Private Sector Management Improvement projects, will be continued and more fully institutionalized under this project. The innovation contemplated here is to try a new approach to transferring practical, hands-on know-how to make Peruvian industrial products, particularly agro-industrial products, more

acceptable in international markets. Likely topics of knowledge transfer include product quality control, health and packaging requirements, pricing, stability and volume of supplies, information networking, timeliness of filling orders, credit possibilities and market penetration strategies.

The proposed Project is an outgrowth of a comprehensive Peruvian Private Sector Assessment undertaken by Coopers and Lybrand, as well as a number of other private sector reports prepared by a PRE Reconnaissance Mission to Peru (1984), and other in-depth studies/evaluations prepared by Development Alternatives Inc. and Arthur D. Little.

B. Consistency with Approved Mission Strategy and Other Projects

The approved Mission CDSS, in concert with the AID Policy paper on Private Enterprise, places a high priority on both short-term and longer-term initiatives to strengthen the private sector and, in so doing, to promote exports and employment. It states that assistance will be aimed at increasing exports by identifying market opportunities with high rates of return on investment and introducing new product possibilities and by providing practical know-how, access to management, capital and technology resources necessary to expand exports and to use existing capacity more fully. This will directly support and employ market mechanisms as detailed in the Presidential Task Force on International Private Enterprise.

C. Relationship to Overall Policy Objectives and AID Policy

This Project, part of Phase III of the overall Private Sector Strategy, complements and grows from Phase II activities, especially the Private Sector Policy Planning and Institutional Development and Private Sector Management Improvement Projects. The proposed Project fits in with the objective of using U.S. trade association expertise to augment Peruvian private sector efforts to their mutual advantage. Experience with a similar projects confirms that this is a cost-efficient way of introducing local manufacturing and agri-business groups, and individual firms, to international markets.

D. Project Components, Activities, and Implementing Organizations

The proposed project has two major inter-related components:

a) Information Supply and Support Services

A time sensitive and reliable information service will be established between a Peruvian private organization or organizations and a U.S. intermediary firm. This linkage will facilitate the provision of timely and accurate information to Peruvian clients. To complement the information service, a series of workshops and seminars will address specific exporter problems and strengthen the implementor's role as an effective contributor to the policy making process on issues relating to non-traditional exports. This component will also support improved strategic planning by financing a series of analyses to identify high potential export products and provide potential exporters with guidance to develop activities in these areas.

b) Improvement of the Technical Infrastructure

The network of private sector organizations supporting Peruvian industry and agro-business export is small and weak. A particularly vulnerable area is the dissemination of appropriate and current technical information on international demand for products, regulations and business practices, trade channels, required standards and production needs. The entire network of private sector associations and universities as well as individual firms and the nearly independent government export promotion agency are viewed as critical actors in this process. These channels must be improved and protected from government intervention and influence. Moreover, the international links to major foreign markets will be enhanced and, as necessary, forged through formal agreements with the information supply organization(s) described in "a" above and with US import associations.

c) Firm Specific Marketing Expertise

Due to the previously large role of import substitution policies in Peru, many firms do not have the knowledge and experience to sell successfully in the international marketplace. Too frequently, those firms which try end up floundering since they are unaware of the requisite procedures and analyses required to penetrate external markets. The majority avoid trying altogether since the perceived risks, are too high of moving into previously unknown areas of activity.. Greater training and direct firm level technical assistance is imperative to overcome marketing, quality control and production constraints to export growth. The ability of the enterprise to analyze intelligently risk and use information (made available through component "a" above and other sources), as well as to plan, identify and assess opportunities will be improved by this component.

E. Financial Plan (\$000s)

<u>Inputs</u>	<u>AID</u> Grant	<u>Private Sector/</u> <u>GOP</u>	<u>Total</u>
- Technical Assistance	3,000		3,000
- Training	1,000		1,000
- Commodities		1,000	1,000
- Oper exp.		1,000	1,000
TOTAL	4,000 =====	2,000 =====	6,000 =====

F. Mission Position on PID/PP Approval

Given the experiences of the LAC Bureau in the Caribbean and Central America to stimulate exports, and the need to avoid unnecessary duplication of export promotion efforts among countries in the region, the Mission will have the PID for this project reviewed in AID/W. PP approval will remain delegated to the field.

Project Number and Title: 527-0284
Decentralized Planning and Investment

Proposed FY86 Funding: Grant: 1.0 million
(under Project 527-0178, Integrated
Regional Development)

Life of Project Funding: Grant: \$6.0 million

Appropriation Account: Selected Development Activities

Major Development Problems Being Addressed: For the past several decades, Peru has been struggling with the problems of how to move away from its highly centralized society, economy and government. How best to decentralize so as to promote a more efficient use of resources is one of Peru's fundamental development problems.

The Belaunde government entered office committed to developing decentralized planning and implementing units at the municipal, departmental and regional level and to better decentralize Lima-based ministries and autonomous agencies. As a result, in 1980 the municipalities were given greater local autonomy through the election of their own mayors and through the promulgation of a new Municipalities Law assigning development planning and implementation responsibilities to municipalities. In 1981 new Departmental Development Corporations (CORDEs) were established to carry out local interest public works and other locally planned development projects based on the model formulated by the National Planning Institute (INP) for approval by the Peruvian Congress to regionalize the country and eventually establish true regional governments. The interest is to bring decision making closer to the people, thereby strengthening democracy, rather than simply to add another layer of bureaucracy to the process of government. In 1985, municipalities started receiving the proceeds of a one percentage point add-on to the national general sales tax. This is an important new source of municipal revenues. In addition, several departments which are important to natural resource extraction are receiving a share of the central government's revenues from those resources. These are two significant ways that the GOP is meeting its objective of greater decentralization.

In addition, a number of central government ministries and autonomous agencies have also implemented decentralization programs by establishing regional or special project offices throughout Peru. The El Niño disasters of 1983-84 have accelerated the investment management and construction responsibilities of the CORDEs in those departments affected by disasters. All of these initiatives are part of Peru's continuing efforts to decentralize its development programs so as to improve the efficiency of resource use, better meet local needs and strengthen the democratic process in Peru.

However, Peru's historic and political traditions, hesitancy to take difficult but necessary decisions, institutional and human resource weaknesses, and insufficient funding combined to limit the ability of the Belaunde administration to implement and rationalize all its long-term decentralization policies and programs. The GOP has not been able to dedicate sufficient technical and financial resources to fully develop the CORDEs and the municipalities; they remain weak institutions for the most part. The plan to regionalize the country and to develop regional governments is only now beginning its first stage of implementation. While some progress was made in decentralizing Lima-based ministries and autonomous agencies, greater efforts are needed to rationalize and coordinate the various GOP decentralization and regionalization strategies that include the CORDEs, municipalities and the regional and special project offices of central government agencies. Efforts to develop the CORDE system, to strengthen municipalities, and to decentralize national-level ministries and autonomous agencies represent important new initiatives that need to be further strengthened and deepened following the 1985 national elections.

Relationship of Project to Overall Policy Objectives: Based on our discussions with various Peruvian groups, USAID expects that any new government entering office in July 1985 will launch a major new decentralization program aimed at further strengthening regional governments, CORDE-like institutions and the municipalities. We want to be ready to support efforts to build upon the overall decentralization policies and directions initiated by the present administration as an expression of a general Peruvian consensus that the country should and must evolve a more responsive form of government.

The decentralization policy dialogue is one of two integrally linked components of the agricultural and rural development policy dialogue. The policy issues concerning decentralization focus on strengthening sub-national levels of government, mainly municipalities and CORDEs, related to: 1) improved technical quality of regional investment planning and implementation; 2) expanded local revenue generation and fiscal autonomy; 3) enhanced capacities to stimulate private investment; 4) strengthened roles in coordinating development activities across sectors; and 5) increased democratic participation of beneficiaries/constituents in setting investment priorities and managing implementation. The implementation of these policies will require major modification in the legal and institutional structure of the Peruvian government. Budgetary processes, laws and regulations regarding promotion of private investment and generation of local revenue, and the reorganization of sectoral Ministries and Special Project Offices to devolve coordination of implementation of regional, departmental and local activities to the corresponding level of decentralized institutions will all be necessary to carry out these policies. These changes and a program of technical assistance and training for decentralized institutions will be the foci of future AID and GOP collaboration under the proposed Project.

Relationship of Project to General AID Policies: AID special concerns are comprehensively pursued through this Project. Institution-building will be at the heart of the program. Technology transfer of planning, administration, management, private sector promotion, communications, data processing and engineering will be expanded, based on the accomplishments already realized through the on-going Integrated Regional Development (IRD) and Disaster Reconstruction projects. Policy dialogue and formulation is the key aspect of the Project, building from the dialogue with the entering government in the last stages of the IRD and Disaster Reconstruction projects and expanding to the whole range of new decentralization policies, resource allocations and the strengthening of decentralized entities. Private sector promotion will also be an important part of this program in that local investments that open up new profit possibilities can stimulate several times their cost in private investments.

Finally, the GOP and AID will further develop a comprehensive policy and programming framework early in the new government so as to attract other donor financing. AID is recognized as the leader within the donor community in this area. AID will be creating the absorptive capacity so that other donors can channel their funding into this important area.

Consistency with Approved Strategy/Policy Dialogue: The Mission's CDSS places high priority on improving Peruvian decentralization policies and strengthening decentralized development planning and implementing entities. The FY 86 ABS and CP continued that support indicating that, given Peru's very localized and diverse geographic, economic, and socio-cultural structures, there is a growing consensus that more efficient use of Peru's resources requires more effective decentralization policies and programs on investments that reflect departmental and local priorities.

Major Components, Activities, and Implementing Organizations: USAID has been supporting Peruvian decentralization policies and programs through our Integrated Regional Development Project that terminates on December 31, 1985. Based on a mid-1983 evaluation of the IRD project, a national-level decentralization policy planning, technical assistance and training program was launched to assist the GOP to design and implement decentralization policies and strengthen the CORDEs and municipalities. This policy planning component is creating a comprehensive decentralization framework that we expect will be used by the next government to structure and continue its decentralization programs.

Furthermore, large amounts of AID Disaster Reconstruction Assistance are flowing through the CORDEs. While these resources are not intended to address long-term institutional weaknesses, they are promoting the development of the CORDEs as effective expressions of regional priorities and as managers of significant investment resources. These AID disaster resources should be almost fully disbursed by the end of CY 1985.

Building upon our experience with the IRD and Disaster Reconstruction programs, USAID proposes to continue to support Peruvian decentralization policies and programs from 1986-90. An FY 1987 grant project will encourage the new GOP to continue to improve decentralization policies while further strengthening decentralized planning and implementing agencies.

The program will be designed first and foremost to support improved decentralization policies. Within the context of various PD&S policy studies, other dialogue activities, and final evaluations of the IRD and Disaster Reconstruction programs, we are beginning negotiations on improved decentralization policies and thereby preparing to help a new GOP mobilize greater international agency support for these policies and programs and to strengthen the organizations responsible for administering the increased revenues discussed earlier. The Project will take advantage of our project experience and a broad range of PD&S-funded preparatory activities. With the proposed Project, we will have the means to support an inter-related set of components designed to better support decentralization policies and improve coordination among different Peruvian decentralization strategies, closely coordinated with the Mission's new 1986-90 agriculture, health, housing and private sector programs. Financing will be provided for the following:

1. Institution-Building: AID-funding will strengthen the CORDEs and municipal governments through technical assistance, training and other support in regional planning, public administration, engineering, data processing, and financial/fiscal management, including revenue generation and collection. Given Peru's serious central government budgetary problems, special emphasis will be placed on promoting subprojects that generate local resources and leverage private sector investment. This TA and training program will also help other donors better direct their funding to decentralized entities.

2. Urban-rural Linkage Subprojects: Funding will be provided to continue efforts to establish in Peru the urban-rural linkage regional planning methodology, essentially continuing the types of small rural-urban subprojects being implemented in our current IRD project which concentrate investments to improve productive and transport infrastructure in rural areas and create a local environment which increases private sector product processing, marketing, and input supply capacity in urban areas linked to them. Agricultural marketing, agroindustry, infrastructure improvements and other activities will be financed in small market towns and the rural areas linked to them, in the context of an overall regional planning framework. AID funding will come from local currency resources.

3. Subprojects that Promote Improved Coordination among Decentralized Peruvian Entities: Financing will be provided to promote better development coordination among municipalities, CORDEs, regional governments, and regional offices of central government ministries and autonomous agencies. For example, the rural-urban linkage subprojects will promote improved coordination at the planning and implementation level between the CORDEs and

central government programs, particularly in the health, agriculture and housing sectors and in the autonomous Special Project Offices. Through the USAID disaster reconstruction program, the CORDEs are already gaining worthwhile experience in this area and we would like to further support this trend after 1985-86.

4. Private Sector and Revenue Generating Subprojects: Mechanisms will be supported whereby regional governments, CORDEs, and municipalities can better promote private sector productive profit-making activities within their jurisdictions. This element will be closely coordinated with USAID private sector and agricultural strategies. A key element in promoting decentralization is producing local revenue sources to lessen dependence on central government transfers. Subprojects will be financed that produce local revenue generating activities (e.g., public markets, urban cadastral surveys). Financing is expected to come from local currency counterpart generations.

5. Subprojects that Improve Local Maintenance Capability: Local level maintenance of equipment, roads, irrigation systems and other infrastructure remains a major problem both at the CORDE and municipal levels. During project preparation, more work will be done to see how best to deal with this problem through the CORDEs and municipalities.

Financial Plan
(\$ million)

	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>	<u>TOTAL</u>
Tech. Assistance (D.A.)	(1.0)	1.0	2.0	2.0	1.0	6.0
Local Currency	<u>-</u>	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>	<u>20.0</u>
T O T A L	(1.0)	6.0	7.0	7.0	6.0	26.0

The bracketed amount appearing above will be added to the on-going IRD program, with the current PACD being extended by one year for the technical assistance component only. While we view this as a necessary bridge in the overall program, it is not considered technically a part of this project. The local currency amounts shown above are a tentative order-of-magnitude estimate.

In accordance with established policy, the PID and PP will be prepared and approved at the Mission.

Project Number and Title: 527-0301
Technical and Vocational Education

Proposed FY87 Funding: \$2.1 million Grant

Life of Project Funding: \$5.0 million Grant

Appropriation Account: Education and Human Resources

Purpose:

To strengthen the institutional capacity of selected private and public institutions to carry out technical skills/vocational education training responsive to labor market demands, and to establish linkages between these institutions and the employers of their graduates.

A. Background:

The Mission has been supporting technical/vocational education activities in Peru since FY 1978 when it first initiated OPG support to the vocational training activities of the local organization, Fé y Alegría, in the pueblos jóvenes of Peru. The project was extended for three years in 1981 and a total of \$720,000 has been provided to date. A recent project evaluation cited more than 12,000 students were trained in 1984; in 1983 more than 11,000 were trained. Specialities were offered in carpentry, sewing, typing, mechanics, and electricity. The Mission has also been supporting a local private organization, ISEFA, since FY 1983 with a grant of \$540,000 for vocational education activities in pueblos jóvenes of Lima, especially in the crafting of alpaca sweaters for export to the U.S. and Europe. To date, more than 400 women have been trained. Starting in FY 1981, the Mission financed, under an OPG for \$575,000 with the Asociación Obras de Bien Común, community services centers in various pueblos jóvenes which support technical skills training for women, such as book binding, sewing, carpentry, and other arts and crafts. The Mission in its FY 1986 budget proposes a \$900,000 OPG to TECSUP, Promotion Association for Advanced Technological Institute, a formerly PRE-assisted technical skills training institute to continue the institution building activities begun under the 1983 PRE grant of \$1.2 million. This new OPG will further strengthen TECSUP's capabilities in setting up financial, personnel, administrative systems and further expand its course curriculum. A demand study will be conducted with private sector firms to confirm the size of the schools' enrollment, its curriculum content, and private sector financial support to the school.

Furthermore, in the public sector USAID supported three public sector vocational educational training centers under its now terminated \$1.6 million Education Service Centers project. Under the Special Development Activities Fund more than 50 disparate, small training centers have been supported. Finally, the Mission supports several vocational skills training programs through its PL 480 Title II program. In summary, the Mission has been financing numerous activities in the field of vocational education and technical skills training. We believe it is now time in the FY 1987 program to pull together a more coherent strategy in the area and support a selected number of high priority institutions based on a needs assessment to be initiated in FY 1986 and completed in FY 1987.

B. Development Problem Addressed:

The Mission's 1983 Private Sector Assessment by Coopers & Lybrand identified private sector human resource development, in general, and the area of technical skills training, in particular, as necessary inputs to a renewed export-oriented economy. In addition, the demand study conducted in preparation for the Mission's FY 1985 Private Sector Management Improvement PP described the need to strengthen technical training programs generally, and mentioned an unmet demand at the post-secondary, institute or certificate level of business training in Peru. Manufacturers of whatever size gave the highest priority to speciality and technical skills training, especially in the extractive industries (mining, petroleum) and among artisan groups. It is clear that, based on the Mission's analyses to date, technical skills training is a high priority investment area in order to implement the Mission's private sector strategy, which is discussed below.

Along with Coopers & Lybrand, the reports of a PRK 1984 Reconnaissance Mission to Peru, the U.S. Presidential Task Force on International Private Enterprise and studies by Development Alternatives and Arthur D. Little have identified private sector human resource development as an area of great importance. Strategically, Peru must adapt its institutions and population to a more competitive world which is demanding less of what has been traditionally produced. Persons will have to receive training and instruction with an outward, export orientation; organizations will have to be managed and directed in more efficient and effective ways; and systems will have to be more spontaneous in their response to rapidly changing conditions in a market oriented economy. For Peru to compete more effectively in the marketplace, improved private sector technical skills and institutions with timely access to information and technology are essential. This Project will address these needs and create linkages between training institutions and the businesses they in effect serve.

C. Relationship to Overall Policy Objectives and to AID Policies

This Project supports AID policy on private sector development through its emphasis on: a) allowing the private sector to play a dominant role in Peru's economic development, and b) assisting GOP efforts to liberalize the economy. Project activities specifically address constraints to private sector growth, and are geared toward stimulating employment and raising income levels. These objectives will be achieved by developing a work force whose skills reflect the demands of the productive marketplace.

D. Consistency with Approved Mission Strategy/Policy Dialogue

The Mission is currently carrying out a three phased private sector strategy. Phase I followed the recommendation of the Coopers and Lybrand Study to provide emergency relief to the private sector through medium-term

working capital loans. Phase II of the Mission's private sector strategy is, over the medium to long term, to assist in creating the basic conditions for private enterprise growth through: a) improving policies that facilitate long term growth of the private sector, and b) improving the institutional and technical capacity of key management training institutions and private sector associations.

Our human resources strategy is geared to assisting several private and public institutions in communicating the technical and business management skills necessary for productive employment. Strengthening the capacity of selected public and private sector training institutions to carry out more relevant and quality vocational and technical education is an integral part of Phase II of the Mission's strategy which supports institution building, in this case to expand in-country capacity to produce graduates with needed technical skills in areas of special concern to A.I.D. This strategy is fully consistent with priorities identified in the LAC Strategy Paper and Management Plan, USAID's CDSS, and builds on all important areas of AID interest.

The human resources strategy also fits into Phase III of the overall Private Sector Strategy which seeks to improve Peruvian business output in key sectors. In this case, the export sector will acquire technical skills needed to boost exports, generate foreign exchange earnings, and create employment in the nontraditional export and agro-industry sectors of the economy.

E. Major Project Components:

The project will be implemented during a five year period (FY87-91) and will incorporate the OPG activity initiated with TECSUP in FY 1986 (\$900,000). The project strategy is to consolidate disparate, ongoing activities, and selected new ones, into a cohesive approach designed to bring about immediate impact and put several on-going Mission activities in context. In addition, it complements other Mission activities designed to strengthen and support Peru's private sector, such as the Mission's management improvement project which focuses on academic and in-service management training. The strategy is based on the premise that upgrading and expanding the base of technically trained manpower will lead to increased productivity in the private sector. From a review of existing analyses already conducted by the Mission and the World Bank, it is clear that:

1. There is an array of Peruvian institutions which are working in vocational training fields;
2. A few of these have mature programs and networks which are functioning fairly well in certain fields;
3. Of these, two particularly should be able to respond immediately to efforts designed to achieve more and better-trained outputs within key areas;

4. More profound overall study of vocational skills training in Peru should be undertaken before proceeding beyond assistance to the two institutions selected for FY 87 support but that;

5. Based on current evidence, there is little reason to hesitate in providing assistance to the two institutions; and

6. That support for these two institutions would be congruent with Mission activity currently directed toward TECSUP.

The two institutions suggested as possible immediate targets, are the public-sector CENECAPE-PROMAR network and the semi-autonomous, largely private sector organization, SENATI. If support to these institutions is to be provided, it should be accompanied by arrangements for a "sector assessment" of Peru's vocational, technical system. The Project therefore includes a component for such an analysis. We hope to initiate the assessment in FY86 using PD&S funds in order to begin to identify the policy issues to be addressed as part of the private sector policy dialogue and confirm the need for assistance of these two new institutions, plus TECSUP. The assessment activities would then continue under the project to identify other technical and vocational education institutions which would qualify for "institutional strengthening" grants from the \$1.5 million fund component of the Project. Project funds will also be used to finance a long term technical/vocational education advisor beginning in FY87, as well as short term, targeted technical assistance.

Initial support to SENATI and CENECAPE/PROMAR will be based on the results of the FY86 initial assessment findings and the World Bank's review of vocational training in Peru (completed in 1982). This support would include local cost support for facility upgrading, improved curriculum, facility enhancement, and other budget support requirements.

The three institutions to be supported initially under the FY 1987 project are related conceptually to each other. USAID institutional support efforts would be linked in the following manner: from (1) working with a key public sector institution influencing and developing individual skill reliance, through (2) supporting efforts of a semi-private sector institution (SENATI) to anticipate future industry needs; to (3) supporting an institution devoted to fulfillment of advanced skills demands (TECSUP). Without taking on the entire societal system for employing people, the proposed Project would provide input to the most influential institutions and, within those institutions, for key programs at appropriate stages. It also could be argued that the Mission thus would be supporting the system in an integrated fashion.

Financial Plan
(\$000)

<u>Component</u>	<u>PROJECT</u>				
	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>TOTAL</u>
1. TECSUP	900 (OPG)	600	—	—	600 (900 non add)
2. SENATI	—	500	500	—	1,000
3. CENECAPB- PROMAE	—	500	500	—	1,000
4. Fund for Institutional Strengthening	—	—	500	1,000	1,500
5. Tec/Voc Ed Assessment	100 (PD&S)	150	—	—	150 (100 non add)
6. Tech Advisor/ Short-term TA	—	350	400	—	750
Total:	1,000 (non-add to project)	2,100	1,900	1,000	5,000

Mission Position on PID/PP Approval:

The Mission proposes to approve the PID and PP at Mission level given that the proposed size is well within the levels delegated to the field. The Mission expects to approve and authorize the project by June 1987.

Project Number and Name: 527-0299
Private Sector Investment Promotion

Proposed FY87 Funding: \$2 million grant

Life of Project Funding: \$4 million grant

Functional Account: Selected Development Activities

A. Major Development Problem Addressed

Peru is in the midst of the most serious economic crisis in its modern history which is in part due to: a) past policies which expanded the role of the public sector in the economy (contributing to large in growing fiscal deficits); b) a huge foreign debt burden; c) three digit inflation; d) severely depressed traditional export prices; e) the El Niño related disasters of 1983-84; and f) increasing terrorism. Per capita GDP in 1985 is lower in real terms than it was 20 years ago. Domestic and foreign investment have fallen dramatically due to poorly designed investment policies, foreign exchange and increased levels of terrorism. On top of investment capital shortages, most private enterprises are adversely affected by severe shortages of working capital. Financing the public sector deficit (brought about in the past by an extensive public sector investment program) through borrowings has created debt service levels now requiring more than 45% of export earnings; this forces increased internal borrowing, and reduces the availability of credit to the private sector. These factors have contributed to the widespread problem of unemployment and underemployment which together now affect over 60% of the economically active population. They have also highlighted underlying structural problems in Peru, including a highly inefficient and risk averse private sector, poor public administration and policy formulation, unstable legislation and an inappropriately large role of state enterprises in the economy.

A related concern is the rapid growth of a large "paralegal" informal private sector functioning outside of Peru's officially established laws, regulations and taxes. The "informal sector," now employing some 50% of the labor force according to some reports, results from severe bureaucratic and regulatory constraints within the formal, organized private sector. Moreover, many formal private sector enterprises are unwilling to invest in an unfair competitive scenario where the informal sector avoids taxes and regulatory burdens are placed on existing formally registered firms.

Peru's options for confronting these critical concerns are extremely limited. Prices for Peru's traditional exports will remain depressed in the near and medium term; Peru's current debt load and mounting principal and interest arrearages will prevent private banks from increasing exposure in Peru and may force them to accede to further debt rescheduling; and the new government coming to power in July 1985 will be under severe pressure to defer or avoid difficult but imperative cuts in government spending.

Over the past 20 years, both domestic and foreign private investment have been discouraged in Peru. The reasons are many and vary in importance at different periods: government regulations, which substitute for market signals;

swings between domestic protection and liberalizing moves to open the economy to international competition; political uncertainties; changing rules of the game regarding ownership of investments and repatriation of profits, and cumbersome, capricious bureaucratic procedures. One constant in this fluid scene has been a lack of accurate and timely information about investment opportunities and the policies and administrative practices affecting them.

This institutional strengthening grant Project will create a positive investment environment with sufficient incentives to benefit both the investors and those in need of capital. It will support the strengthening of institutions which will be responsible for promotion of risk-taking, equity investments, business expansion and private initiative. It will also help to build an organizational infrastructure capable of working with and utilizing international resources. This will be accomplished by providing information to potential investors about new investment opportunities, the procedures and regulations of CONITE (the GOP's foreign investment regulatory agency) and the Andean Pact. Private sector investors will be supported in their efforts to study and analyze investment alternatives. Additionally, the Project will collect, analyze, disseminate and review, with key private groups and GOP agencies, the economic benefits of specific policies which will insure an environment conducive to risk-taking and investment. The need and potential role of venture capital will be analyzed.

The proposed Project is an outgrowth of a comprehensive Peruvian Private Sector Assessment undertaken by Coopers and Lybrand, as well as a number of other private sector reports prepared by a PRE Reconnaissance Mission to Peru, the findings of the US Presidential Task Force on International Private Enterprise, and other in-depth studies and evaluations prepared by Development Alternatives Inc. and Arthur D. Little.

B. Relationship to Overall Policy Objectives and AID Policy

The proposed Project directly supports Agency and USAID policy objectives of supporting private sector growth and greater employment and production. Specifically, increased investment will result from improved exchange of information, improved the quality of investment analyses, reduced risk, and the introduction of unbiased, stable GOP policies.

C. Consistency with Approved Mission Strategy and Other Projects

The Project is one of several projects planned for Phase III of the overall Mission Private Sector Strategy. Basic long range attitudinal, policy and organizational changes will be affected by Phase II projects -- Private Sector Policy Planning and Institutional Development (527-0298), and Private Sector Management Improvement (527-0272) and the technical assistance component of the Small Industry Credit Project (527-0300). Phase I efforts together with the ESF-financed macroeconomic policy improvement program to address working capital needs for larger industries and the extension of formal credit markets to small (informal and formal) sector industrial firms. This Project is built upon Phases I and II, and reinforces these efforts by increasing the flow of information, deepening policy change and reducing start-up costs which make investments feasible, and take advantage of the opportunities put in place by previous projects.

D. Project Components, Activities, and Implementing Organizations

The project will consist of 3 principal components:

1. Information Enhancement

Reliable information to bring together potential Peruvian and foreign investors in joint ventures is nearly impossible to find. More and better communication of information and knowledge of Peruvian investment opportunities will be facilitated through publications, conferences, trade fairs, observational travel, and similar means. This will be beneficial to both the Peruvian and U.S. business communities. Continued strengthening of private sector associations is planned in order that they serve as better, more cost effective conduits of information.

Consideration will be given to an investment promotion unit within the private sector to provide information and facilitate investment procedures. The activities would be placed primarily in Confederación Nacional de Instituciones Empresariales Privadas and other associations, but will be closely coordinated with GOP organizations (e.g. Ministerio de Economía y Finanzas, Ministerio de Industria, Turismo e Integración, Banco Central de Reserva del Perú, Comisión Nacional de Inversiones y Tecnologías Extranjeras).

2. Feasibility Study Fund

For many U.S. enterprises, the risks -- real and perceived -- of investing in Peru are greater than the possible rewards. Many potential investors probably do not know that Peru's internal market is one of the largest in South America, and they have trouble identifying skilled labor sources. Investments are tenuous as the government is less stable, regulations and bureaucratic procedures more cumbersome, infrastructure and labor less reliable and the economy more fragile than in the U.S.. Therefore, feasibility and start-up costs are higher, more time is needed to understand the local milieu, and technologies must be modified. USAID envisages a small fund to finance (probably on a 50/50 basis) studies for potential US/Peruvian partnerships which meet sound development criteria. Investment project identification and the accompanying counterpart requirement is critical to generating investor interest in Peru.

3. Policy and Long-range Risk Analysis

Technical assistance to analyze, recommend and, where possible, implement improvements in investment laws and regulations will be financed by the Project. Specifically addressed will be: political risk insurance (including further study of the possibility of the GOP concluding an OPIC agreement, following the recent examples of Colombia and Ecuador), ownership questions, acceptable returns for risk and proper use of resources, use and protection of technology as part of an investment package, contract security, research and development requirements and economies of scale and product needs for domestic and/or international markets. Attainment of increased information flow may require the organization of informal investment groups or establishment of an investment center.

E. Financial Plan (\$000s)

<u>Input</u>	<u>Grant (USAID)</u>	<u>Private Sector/GOP</u>	<u>Total</u>
- Technical Assistance	\$ 3,000	\$ 1,000	\$ 4,500
- Feasibility Studies	800	800	1,600
- Commodities	200	200	400
Total	<u>\$ 4,000</u>	<u>\$ 2,000</u>	<u>\$ 6,500</u>

F. Mission Position of PP/PID Approval

USAID requests approval at the Mission level for both the PID and PP. This Project closely supports the USAID Private Sector Strategy and the efforts to be started under the recently approved PS Policy Planning and Institutional Development Project. Moreover, it is a relatively small project to be designed with and implemented by institutions of which we have considerable knowledge.

3. EVALUATION PLAN

The Mission's evaluation plan for FY 86-87 is designed to reflect the major Mission objectives for the period: (1) continued progress in program implementation; (2) expansion of the institutional and analytical bases for the initiation of sector programs, and (3) continued policy dialogues.

a. Program Implementation

Project implementation continues to be an important Mission concern. The combination of increased counterpart availability and effective use of evaluations to identify problems and appropriate project modifications has improved or will improve significantly the implementation process for several projects during the last two years (0202 Land Use Inventory and Environmental Planning, 0192 Agriculture Research, Extension and Education; 0221 Rural Water Systems and Environmental Sanitation; 0220 Soil Conservation).

The Mission will continue to use evaluations as an important implementation tool both for major projects approaching their midpoint during the period (0238 Agriculture Planning and Institutional Development) and for innovative Private Voluntary Organization programs (0293 Technoserve Cooperative Management; 0294 SIID Peruvian PVO Health Promotion Network; 0230 Integrated Health and Family Planning--APROPO component).

b. Expand Institutional and Analytical Bases for Initiation of Sector Programs in 1986 and Beyond

The major activities in the Mission's portfolio are addressing high priority development problems. It is therefore anticipated that activities in these critical areas will be continued in some form as the Mission moves toward broader sector strategy programming.

Final evaluations of projects ending during the planning period will document major lessons learned and enable the Mission to design future programs from a solid basis of actual implementation experience. We will look to these evaluations to indicate the most appropriate form and context of future activities in related fields (0192 Agriculture Research, Extension and Education; 0202 Land Use Inventory and Environmental Planning; and 0220 Soil Conservation). The mid-term evaluation of projects 0219 Extension of Integrated Primary Health and 0230 Integrated Health and Family Planning conducted by Clapp and Mayne in mid FY 1985 is providing a basis for the FY 86-87 health sector program. The final evaluation of lessons learned from these two projects will take place during the planning period.

Evaluations of the PVO OPGs related to the PL 480 Title II Program, in conjunction with a new, multi-year planning effort, will facilitate joint Mission-GOP efforts to make food assistance and nutrition targeting efforts

more effective within the context of both health and agriculture sector policy dialogues.

c. Continued Policy Dialogue

Policy dialogue will continue to be a major Mission priority, especially as we begin to design new programs with the GOP which will assume office in July 1985. The evaluation process itself provides a forum for initiating and supporting policy discussions as the Mission encourages the government to take appropriate steps to help overcome economic problems and restructure the economy. Each evaluation carried out in FY 86 and 87 will seek to identify means of increasing policy dialogue opportunities. Some projects are specifically targeted toward policy development (Agriculture Planning and Institutional Development 0238). The Health Sector Analysis funded under FY 85 PD&S will also be an important part of this process. These activities will examine major sectoral policy issues and how we will have dealt with them.

Of particular importance in this regard will be the annual evaluation of program assistance, starting in FY 86 with an evaluation of the Disaster Assistance Program Loan 0278. USAID will begin to provide ESF program assistance to Peru in FY 1986 in support of GOP economic stabilization and adjustment efforts. The ESF program will be designed to support the U.S. development policy dialogue in Peru. Key features of the program will include improvements in a number of economic and development policies by the GOP and the programming and use of ESF resources, both dollar disbursements and local currency generation, to support the balance of payments, assist the GOP to carry out policy improvements and finance development investments which complement structural changes which the GOP seeks to foster.

USAID will mount an annual evaluation of ESF program performance designed to improve the design of successive ESF program authorizations and to ensure that AID and the GOP monitor the effects of economic and development policy improvements.

The Mission's move toward sector programs is closely linked with the continuing policy dialogue. The joint evaluation carried out in FY 1985 of the two health projects, Extension of Integrated Primary Health 0219, and Integrated Health and Family Planning 0230, indicated possible components of future health sector programs. The final evaluation of Agriculture Research, Extension and Education 0192 will indicate appropriate directions for future agriculture sector programs and policy dialogue.

An important evaluation to be conducted in FY 86 will be of the Upper Huallaga Program 0244. This evaluation will not only provide a final assessment of major project components but also identify areas for increased policy dialogue during the design of a follow-on program of ESF local currency activities related to narcotics.

In all cases, policy dialogue progress will be evaluated and goals and benchmarks will be reevaluated in light of achievements and changing circumstances in Peru. In this way, Mission strategy will be current and realistic, and thus more likely to achieve its objectives.

LIST OF PLANNED EVALUATIONS

PROJECT LIST (Title, No. and Functional Account)	Last Eval. Completed (Mo./Yr.)	FY 1986		FY 1987		Reasons/Issues	Funding		USAID Person Days	Collateral Assistance
		Start (Qtr)	To AID/W (Qtr)	Start (Qtr)	To AID/W (Qtr)		Source	(\$000)		
527-0278 Disaster Assistance Program Loan		1	2			<u>PACD:</u> To analyze the effects of (a) foreign exchange and LC resource use and (b) macroeconomic and development policy changes.	PD&S/OG	40	30	L4C/DF
527-0238 Agriculture Planning and Institutional Development (ARDM)		2	3			<u>PACD: 12/88</u> To measure progress towards policy develop- ment goals as well as analyze implementation and management issues.	PD&S	50	15	IQC
527-HQ-010 527-HQ-011A Housing Guaranty	7/84	2	2			End of project evalu- ation to assess achievement of project objectives.	PD&S	15	5	
527-0231 OPG-SEFAS (ARDM)		2	3			<u>PACD: 5/86</u> To assess progress made in program coordination, planning and management.			30	

PROJECT LIST (Title, No. and Functional Account)	Last Eval. Completed (Mo./Yr.)	FY 1986		FY 1987		Reasons/Issues	Funding		USAI0 Person Days	Collateral Assistance
		Start (Qtr)	To AID/W (Qtr)	Start (Qtr)	To AID/W (Qtr)		Source	(\$000)		
527-0220 Soil Conservation (ARDW)	11/84	3	4			PACD: 6/86 Final evaluation to review project activi- ties undertaken as a result of FY 83 evalua- tion and to determine appropriate future activities.	PD&S	15	5	
527-0274 OPG Acción Comunitaria Micro-Enterprise Promotion (SDA)		3	3			PACD: 12/87 Mid-term evaluation to analyze the impact of the project on small- scale private sector enterprises and employ- ment generation.	PD&S	20	10	
527-0277 Disaster Relief and Rehabilitation (ARDW/SDA/Other)	9/84	3	4			PACD: 7/86 Final evaluation to measure progress in attaining disaster relief goals and objectives.	Project	50	60	
527-HG-011B Disaster Housing Guarantee		3	4			Project Completion Date: 9/85 End of project evaluation to review the relationship and coordination between this HIG and other disaster loans.	Office of Housing	10	15	

PROJECT LIST (Title, No. and Functional Account)	Last Eval. Completed (No./Yr.)	FY 1986		FY 1987		Reasons/Issues	Funding Source (\$000)	USAID Person Days	Collateral Assistance
		Start (Qtr)	To AID/W (Qtr)	Start (Qtr)	To AID/W (Qtr)				
527-0293 OPG-Technoserve Cooperative Management (ARDM)		4	4			PACD: 9/87 Mid-term evaluation to analyze the impact of the project on the management, adminis- tration and produc- tivity of agricultural cooperatives.	PD&S 10	5	
527-0284 Policy Improvement Program Assistance				1	1	Assessment of effects of economic and de- velopment policy changes as an input to successive NSF author- izations.	Project 20 527-0303	30	
527-0226 Small Hydro Development (ARDM)				1	2	PACD: 11/86 Final evaluation to measure progress toward project objectives.	PD&S 20	80	
527-0244 Upper Huallegu Area Dev. (ARDM)				1	2	PACD: 9/88 Final evaluation to assess achievement of project objectives. (Project activities beyond FY 86 limited to training.)	PD&S 150	40	MAU/INR/DBA

PROJECT LIST (Title, No. and Functional Account)	Last Eval. Completed (Mo./Yr.)	FY 1986		FY 1987		Reasons/Issues	Funding		USAID Person Days	Collateral Assistance
		Start (Qtr)	To AID/W (Qtr)	Start (Qtr)	To AID/W (Qtr)		Source	(\$000)		
527-0287 ILD-Informal Sector (SDA)				1	1	PACD: 9/85 Mid-term evaluation to measure progress toward policy development goals.	PDSS	35	10	
527-0192 Agriculture Research, Extension, and Education (ARDN)	1/84			2	3	PACD: 8/87 Final evaluation to as- sess progress in at- taining project ob- jectives and to provide guidance for develop- ment of future policy dialogue.	PDSS	50	10	PSC M Whittaker Utah State Univ
527-0219 527-0230 Extension of Integrated Primary Health Integrated Health and Family Planning (Nutrition) (Health/ARDN/Family Planning)	5/85			2	3	PACD: 6/86 Final evaluation to assess impact of project. (PACD to be extended).	PDSS	75	40	
527-0202 Land Use Inventory and Environmental Planning (ONERN) (ARDN)	8/84			3	4	PACD: 6/87 Final evaluation to assess progress in fulfilling project ob- jectives as defined during 8/84 evalu- ation, and define possible future AID role.	PDSS	35	10	

PROJECT LIST (Title, No. and Functional Account)	Last Eval. Completed (Mo./Yr.)	FY 1986		FY 1987		Reasons/Issues	Funding		USAID Person Days	Collateral Assistance
		Start (Qtr)	To AID/W (Qtr)	Start (Qtr)	To AID/W (Qtr)		Source	(\$000)		
527-0240 Central Selya Resource Management (ARDM)	5/85	3	4			PACD: 9/87 Final evaluation to assess achievement of project objectives.	PD&S	30	10	
527-0294 OPG-SIID Peruvian PYO Health Promotion Network (Health)		3	4			PACD: 9/87 Final evaluation to analyze the impact of the project's first phase and to determine whether to make funding available for phase II.	Project	20	10	
PL-480 Title II Multi-year Operational Plans (all implementing agencies)		3				To assess voluntary agency performance and implementation of their multi-year plans.	PD&S	25	55	
527-0221 Rural Water Systems and Environmental Sanitation (Health)	4/85	4				PACD: 9/87 Final evaluation to assess impact of project and achieve- ment of project ob- jectives.	Project & PD&S	30	30	WASH
527-0230 Integrated Health and Family Planning -APROPO component (Health & Family Planning)		4	4			PACD: 6/89 Mid-term evaluation of the contraceptive social marketing com- ponent sponsored by APROPO.	Project & AID/W	10	10	Futures Group

PROJECT LIST (Title, No. and Functional Account)	Last Eval. <u>Completed</u> (Mo./Yr.)	FY 1986		FY 1987		<u>Reasons/Issues</u>	<u>Funding</u>		USAID Person <u>Days</u>	Collateral <u>Assistance</u>
		<u>Start</u> (Qtr)	<u>To</u> AID/W (Qtr)	<u>Start</u> (Qtr)	<u>To</u> AID/W (Qtr)		<u>Source</u>	<u>(\$000)</u>		
527-0272 Private Sector Management Improvement						PACD: 9/81 Mid-term evaluation to analyze progress toward project ob- jectives.	Project	100	15	
527-0293 OPG-Technoserve Cooperative Management (ARDM)	9/86					PACD: 9/87 To analyze impact of project on the manage- ment and productivity of agricultural cooper- atives and determine if future AID support of TNS model is appropriate.	PD&S	10	5	

4. GRAY AMENDMENT IMPLEMENTATION

USAID/Peru was recently visited by a contracted consultant team which examined how the Mission is implementing the Gray Amendment, including knowledge within the Mission of the provisions of the Gray Amendment and the resources within AID to facilitate compliance with this provision of law. The team received information on the level of Gray Amendment commitments made by the Mission in 1984.

USAID/Peru has a solid record of contracting with minority and women-owned businesses. As we undertake program development and project design during the Action Plan period, we will continue to give emphasis to the utilization of minority resources as contractors and recipients during the PID and PF development and review processes.

Working with the Regional Contracting Officer, the Mission will continue to seek out and identify minority organizations which, by virtue of their technical and management capabilities, constitute a reliable source of required expertise. The recently announced ASSRT system developed by the Office of Small and Disadvantaged Business Utilization will be called upon for minority resource identification. This will be an important addition to our ability to use Gray Amendment resources, since we anticipate that changes in AID procurement practices required by the Competition in Contracting Act of 1984 will create many more instances in which the use of minority contractors will avoid unreasonable delays on relatively small procurements.

The Mission is taking two specific steps to ensure continued compliance with the provisions of the Gray Amendment. First, a standing committee comprised of the Office of Development Resources, the Program Office, and the Executive Office will meet on a bi-monthly basis to review all on-going and planned procurement actions for both project design and implementation. The Office of Development Resources will serve as secretariat to the committee and will maintain a record of Mission procurement actions covered by the legislation and the acquisition/assistance actions directed towards appropriate Gray Amendment organizations as contractors, subcontractors, grantees, subgrantees, recipients, and subrecipients under both Mission and host country contract and grant awards. This record will be reviewed periodically by the Director to ensure that the Mission is meeting its share of the Bureau's goals. The establishment and functions of the committee will be the subject of a Mission Order.

Second, all Mission contracting and project implementation training sessions, as well as orientation briefings for newly arrived employees, will give special emphasis to the requirements of the Gray Amendment. We will thus ensure that all Mission employees are aware of the mechanisms for obtaining the services of minority and women owned businesses, historically Black colleges and universities, and minority private and voluntary organizations.

Operating Expenses and Personnel Narrative

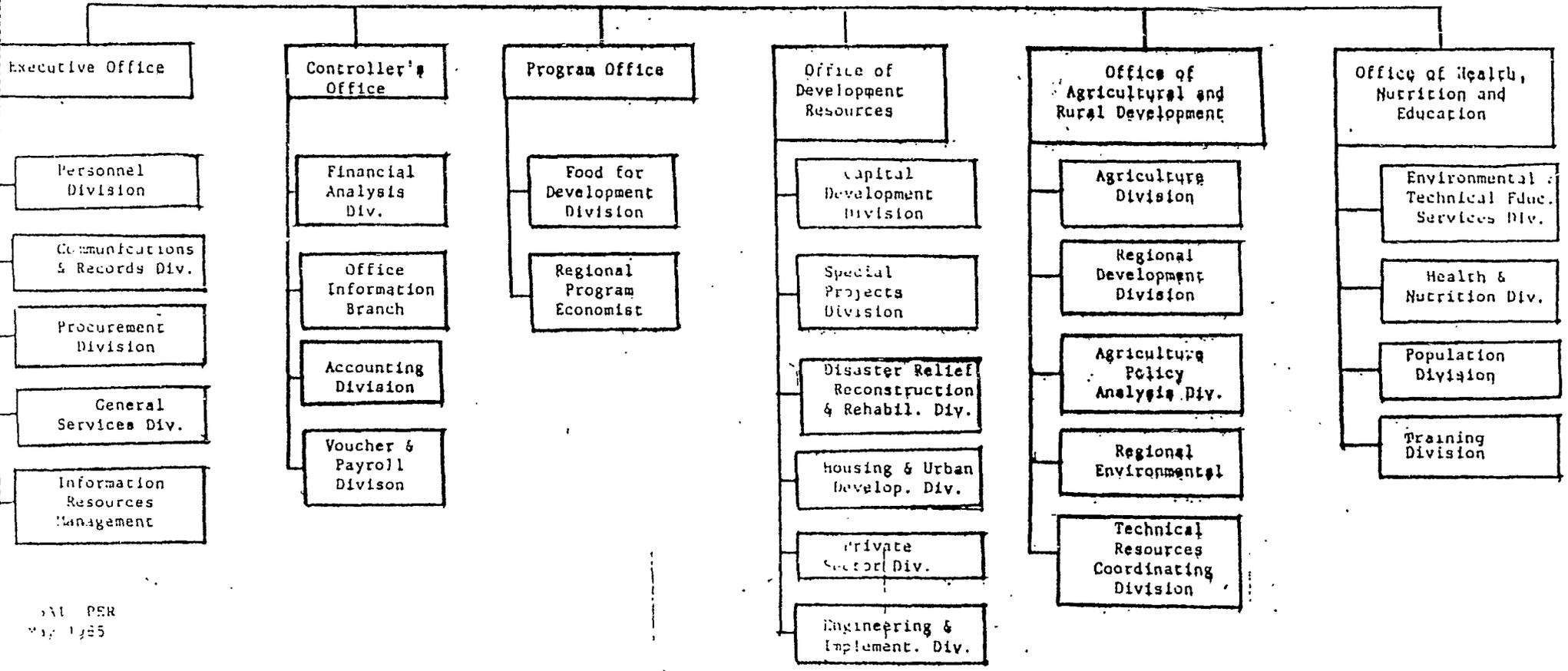
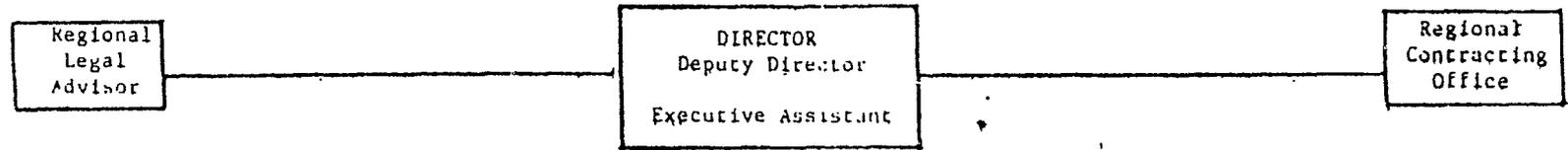
The attached detailed schedules reflect the Mission's requirements for Operating Expense funds in FY 86 and FY 87 to manage the USAID/Peru program portfolio. Two funding levels are provided for each year corresponding to the current AID/W provided position level and the Mission's identified staffing needs. The budgets reflect office operations costs on the assumption that the major initial cost elements associated with the office relocation are funded in FY 1985.

The effective management of planned resources will require an appropriate level and skills mix of USDH personnel. The Mission's plan for 27 full-time permanent positions in FY 1986 and 29 in FY 1987 will provide the necessary personnel to insure the effective utilization of Foreign Assistance resources in the achievement of U.S. foreign policy and developmental objectives in Peru. The positions and functions identified for USDH employment represent the minimum number of core staff necessary to effectively represent the direct interests of the Agency in program negotiations, procurement procedures and effective internal control of project activities. Reviewers should note that the USAID Mission in Lima acts as a regional office supporting the Bolivia and Ecuador Missions with regional contracting services, a regional economist, a contract regional environmental advisor, a regional housing advisor, and we propose to re-establish a regional legal advisor position by FY 87. USAID/Peru also is the regional accounting and paying office for the AID affairs offices in Brazil.

We believe three additional USDH positions for the bilateral program (plus the regional legal advisor) will be necessary to carry out the strategy. An assistant program economist will be necessary to manage joint studies and analyses which will be part of the macroeconomic policy dialogue with the GOP. The sensitive policy advisory nature of this task requires a USDH officer to successfully carry it out. A deputy executive officer is required to help manage the large administrative support services office. Increased program personnel, a new office building and a much upgraded computer capability have increased the amount of assets under management by the EXO. Maintenance of adequate supervision and effective control over Mission assets requires this additional position. The major growth area proposed to carry out the action plan strategy is in the private sector. In addition to an enlarged number of projects which will require management oversight, the nature of creative private sector development requires USDH project manager authorities and responsibilities. Each of these positions is important to adequately direct and safeguard agency assets.

Beyond the core USDH staff budgeted, extensive use of Foreign Service National employees in key developmental professional positions is planned. The Mission's staffing plan has integrated personnel requirements and costs into project activities where appropriate, based on the functions to be performed by the position. Overall staffing levels will remain roughly the same from FY 85 through FY 87. However, within the totals, substantial shifts will occur as the major disaster relief program comes to a close and new initiatives outlined in the action plan begin.

USAID/PERU ORGANIZATIONAL CHART



USAID PER
May 1965

GLOSSARY

USDH	-	United States Direct Hire Employee
FNDH	-	Foreign National Direct Hire Employee
USPSC	-	United States Personal Services Contractor
FNPSC	-	Foreign National Personal Services Contractor
OE	-	Operating Expenses
PROG	-	Program Funds (PD&S)
PROJ	-	Project Funds
X	-	Position occupied at the end of fiscal year

OFFICE OF THE DIRECTOR

	<u>POSITION</u>	<u>FUNDING</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
USDH	Director	OE	X	X	X
	Deputy Director	OE	X	X	X
	Regional Contracting	OE	X	X	X
	Regional Legal	OE			X
FNDH	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
USPSC	Executive Assistant to Director	OE	X	X	X
FNPSC	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Contract Negotiator	OE		X	X
	Contract Assistant	OE		X	X

EXECUTIVE OFFICE

	<u>POSITION</u>	<u>FUNDING</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
USDH	Executive Officer	OE	X	X	X
	Deputy Exec. Officer	OE			X
FNDH	Translator	OE	X	X	X
	Personnel Specialist	OE	X	X	X
	Personnel Assistant	OE	X	X	X
	C&E Supervisor	OE	X	X	X
	Mail Clerk	OE	X	X	X
	Mail Clerk	OE	X	X	X
	Procurement Agent	OE	X	X	X
	Procurement Agent	OE	X	X	X
	Contract Assistant	OE	X	X	X
	General Serv. Specialist	OE	X	X	X
	General Serv. Asst.	OE	X	X	X
	Customs Expeditor	OE	X	X	X
	Shipment Clerk	OE	X	X	X
	Travel Assistant	OE	X	X	X
Supply Supervisor	OE	X	X	X	
USPSC	Executive Mgmt. Adv.	OE	X	X	X
	Secretary to EXO	OE	X	X	X
	Personnel Assistant	OE	X	X	X
FSPSC	Clerk Stenographer	OE	X	X	X
	Computer Manager	OE	X	X	X
	Computer Specialist	OE	X	X	X
	Computer Specialist	OE	X	X	X
	Computer Clerk	OE	X	X	X
	Personnel Assistant	OE	X	X	X
	Personnel Clerk	OE	X	X	X
	Secretary	OE	X	X	X
	Support Stenographer	OE	X	X	X
	Support Stanographer	OE	X	X	X
	Mail Clerk	OE	X	X	X
	Contract Assistant	OE	X	X	X
	Purchasing Agent	OE	X	X	X
	Procurement Agent	OE	X	X	X
	Receptionist	OE	X	X	X
	Receptionist	OE	X	X	X
	Secretary	OE	X	X	X
	Shipping Assistant	OE	X	X	X
	C&S Ass. tant	OE	X	X	X
	C&S Clerk	OE	X	X	X
	Travel Clerk	OE	X	X	X
	Warehouse Clerk	OE	X	X	X
	Administrative Asst.	OE		X	X
Programmer	OE		X	X	
Personnel Asst.	OE		X	X	
Property Asst.	OE		X	X	
Shipping Asst.	OE		X	X	

OFFICE OF THE CONTROLLER

	<u>POSITION</u>	<u>FUNDING</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
USDH	Controller	OE	X	X	X
	Deputy Controller	OE	X	X	X
	B & A Officer	OE	X	X	X
FNDH	Secretary	OE	X	X	X
	Financial Analyst	OE	X	X	X
	Supv. Fin. Analyst	OE	X	X	X
	Accountant	OE	X	X	X
	Accountant	OE	X	X	X
	Budget Analyst	OE	X	X	X
	Support Voucher Examiner	OE	X	X	X
	Cashier	OE	X	X	X
	Asst. Cashier	OE	X	X	X
Voucher Examiner	OE	X	X	X	
USPSC	None				
FNPS	Computer Analyst	OE	X	X	X
	Inform. Asst.	OE	X	X	X
	Financial Analyst	OE	X	X	X
	Financial Analyst	OE	X	X	X
	Financial Analyst	OE	X	X	X
	Financial Analyst	OE	X	X	X
	Financial Analyst	OE	X	X	X
	Financial Analyst	OE	X	X	X
	Secretary	OE	X	X	X
	Budget Analyst	OE	X	X	X
	Accounts Mtnc. Clerk	OE	X	X	X
	Accounts Mtnc. Clerk	OE	X	X	X
	Accounts Mtnc. Clerk	OE	X	X	X
	Accounts Mtnc. Clerk	OE	X	X	X
	Steno Clerk	OE	X	X	X
	Voucher Examiner	OE	X	X	X
	Voucher Examiner	OE	X	X	X
	Voucher Examiner	OE	X	X	X
	Voucher Examiner	OE	X	X	X
	Voucher Examiner	OE	X	X	X
	Accounts Maint. Clerk	OE	X	X	X
	Accounts Maint. Clerk	OE	X	X	X
	Accounts Maint. Clerk	OE	X	X	X
	Accounts Maint. Clerk	OE	X	X	X
	Accounts Maint. Clerk	OE	X	X	X
	Voucher Examiner	OE		X	X
	Acct. Technician	OE		X	X
Voucher Examiner	OE			X	
Acct. Tech.	OE			X	
Clerk Typist	OE			X	

PROGRAM OFFICE

	<u>POSITION</u>	<u>FUNDING</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
USDH	Program Officer	OE	X	X	X
	Asst. Prog. Officer	OE	X	X	X
	Prog. Economist (Reg)	OE	X	X	X
	Asst. Prog. Economist (Regional)	OE			X
	IDI	OE	X	X	
	FFD Officer	OE	X	X	X
	Asst. FFD	OE	X	X	X
FNDH	Program Specialist (Gen)	OE	X	X	X
	Program Specialist (Gen)	OE	X	X	X
	Secretary	OE	X	X	X
	Prog. Specialist (Nutrition)	OE	X	X	X
	Prog. Specialist (Nutrition)	OE	X	X	X
USPSC	Asst. Prog. Officer	OE	X	X	X
	Asst. FFD Officer	OE	X	X	X
FNPS	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Clerk-Steno	OE	X	X	X
	FFP Assistant	PROG	X	X	X

OFFICE OF DEVELOPMENT RESOURCES

	<u>POSITION</u>	<u>FUNDING</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
USDH	Project Dev. Officer	OE	X	X	X
	Asst. Proj. Dev. Officer	OE	X	X	X
	Asst. Proj. Dev. Officer	OE	X	X	X
	IDI (Proj. Dev.)	OE	X	X	
	Asst. Proj. Dev. Officer	OE	X	X	X
	Trade Dev. Officer	OE	X	X	X
	Asst. Trade Dev. Officer	OE			X
	Asst. Hsg. & Urban Dev.	OE	X	X	X
	Private Sector Officer	OE			X
FNDE	Admin. Assistant	OE	X	X	X
	Fin. & Prog. ECON.	OE	X		
	Prog. Specialist (UD)	OE	X	X	X
	Secretary	OE	X	X	X
	Engineer, Chief	OE	X	X	X
	Engineer, Gen.	OE	X	X	X
	Engineer, Gen.	OE	X	X	X
	Engineer, Civil	OE	X	X	X
	Secretary	OE	X	X	X
USPSC	Disaster Advisor/Lc.Mgr.	OE	X	X	X
	Private Sector Off.	OE	X	X	X
	Technical Assistant	PROG	X	X	X
	Asst. Proj. Dev. Off.	PROG			X
	Proj. Manager	PROG		X	X
	Asst. Proj. Imp. Off.	PROG			X
	Asst. Proj. Dev. Off.	PROG			X
	Asst. Proj. Manager	PROG			X
FNPSA	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE		X	X
	Program Specialist	PROG			
	Proj. Fin. Analyst	PROG		X	X
	Proj. Fin. Analyst	PROG		X	X
	Secretary, Spec. Proj.	OE	X	X	X
	Secretary	OE		X	X

OFFICE OF AGRICULTURE AND REGIONAL DEVELOPMENT

	<u>POSITION</u>	<u>FUNDING</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
USDH	Ag. Dev. Officer	OE	X	X	X
	Proj. Mgr. Agr.	OE	X	X	X
	Proj. Mgr. Agr.	OE	X	X	X
	Ag. Economist	OE	X	X	X
	Proj. Mgr. - Rur. Dev.	OE	X	X	X
	Proj. Mgr. - Rur. Dev.	OE	X	X	X
	IDI - Ag. Economist	OE	X	X	X
	IDI - Environment	OE	X	X	X
PASA	Soil Conservation	PROG	X	X	X
	Ag. Statistician	PROG	X	X	X
	Ag. Statistician	PROG	X	X	X
JCC	Ag. Economist	OE - FY85			
	Agri. Business	PROG - FY86	X	X	X
FNDH	Admin. Asst.	OE	X	X	X
	Prog. Specialist	OE	X	X	X
	Secretary	OE	X	X	X
USPSC	Spec. Asst.	PROG	X	X	X
	Environmental Mgt. (Reg)	AID/W Reg.	X	X	X
FNPSC	Secretary	OE	X	X	X
	Ag. Economist	OE			
		PROG - 86	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Prog. Specialist	OE			
		PROG - 86	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Librarian	OE	X	X	X
Project Coordinator	PROG	X	X	X	

OFFICE OF HEALTH AND NUTRITION

	<u>POSITION</u>	<u>FUNDING</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
USDH	Gen. Dev. Officer	OE	X	X	X
	Population Officer	OE	X	X	X
	Health Dev. Officer	OE	X	X	X
	Asst. Health Dev. Off.	OE	X	X	X
	IDE Population	OE	X	X	X
PASA	Sanitary Eng. Adv.	PROG	X	X	X
FNDH	Admin. Assistant	OE	X	X	X
	Prog. Specialist	OE	X	X	X
	Prog. Specialist (Educ.)	OE	X	X	X
	Ptp. Trg. Assistant	OE	X	X	X
USPSC	Population Adv.	PROG	X	X	X
	Population Adv.	PROG			X
	Health Planner	PROG		X	X
	Health Advisor	PROG		X	X
	Health Planner	PROG			X
	Health Adv.	PROG			X
	Tech/Voc. Ed. Adv.	PROG		X	X
	Training	PROG - FY85	X		
	PROJ - FY86	X			
TCNPSC	Prog. Analyst	OE	X	X	X
FNPSC	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Prog. Asst.	PROG	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE	X	X	X
	Secretary	OE	X	X	X

PROJECT FUNDED POSITIONS

OFFICE OF DEVELOPMENT RESOURCES

	<u>POSITION</u>	<u>FUNDING</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
US PSC	Disaster Advisor	PROJ	X	X	
	Disaster Coordinator	PROJ	X	X	
	Project Coordinator	PROJ	X	X	
	Departmental Advisor (Chiclayo)	PROJ	X	X	
	Departmental Advisor (Arequipa)	PROJ	X	X	
	Departmental Advisor (Cuzco)	PROJ	X	X	
	Departmental Advisor (Piura)	PROJ	X	X	
	Departmental Advisor (Tumbes)	PROJ	X	X	
	Departmental Advisor (Puno)	PROJ	X	X	
	Housing Advisor	PROJ	X	X	
	Private Sector Mangt.	PROJ		X	X
	Private Sector Mangt.	PROJ		X	X
	Private Sector Policy	PROJ		X	X
	Private Sector Policy	PROJ		X	X
TCN PSC	Departmental Advisor	PROJ	X	X	
	Project Coordinator	PROJ	X	X	
FSN PSC	Financial Analyst	PROJ	X	X	
	Financial Analyst	PROJ	X	X	
	Financial Analyst	PROJ	X	X	
	CORDES Advisor	PROJ	X	X	
	CORDES Advisor	PROJ	X	X	
	CORDES Advisor	PROJ	X	X	
	Secretary	PROJ	X	X	
	Secretary	PROJ	X	X	
	Secretary	PROJ	X	X	
	Secretary	PROJ	X	X	
	Secretary	PROJ	X	X	
Legal Advisor	PROJ		X	X	

OFFICE OF AGRICULTURE AND RURAL DEVELOPMENT

	<u>POSITION</u>	<u>FUNDING</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
USPSC	Project Coordinator	PROJ	X	X	X
FNESC	Prog. Specialist (Agr Econ)	PROJ		X	X
	Prog. Specialist (Irrig)	PROJ		X	X
	Prog. Specialist (Agr)	PROJ	X	X	
	Prog. Specialist (Agr)	PROJ	X	X	

OFFICE OF HEALTH AND NUTRITION

	<u>POSITION</u>	<u>FUNDING</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
USPSC	Training Advisor	PROJ		X	X
FNPSC	MOH Advisor	PROJ	X	X	

05/03/85

O.E. FY 1986

DESCRIPTION	FC	STAFF LIMIT	UNITS	RESIDENCE	UNITS
		LEVEL		ASSIGNMENT	
		(25 USDH)		(25 USDH)	
US DIRECT HIRE					
US CITIZENS BASIC PAY	* 101	1,462.0	32.0	1,552.2	33.0 USDH + IRI's
PT/TEMP US BASIC PAY	* 102	36.8	2.0	36.8	2.0
DIFFERENTIAL PAY	* 103	146.2		146.2	
EDUCATION ALLOWANCE	106	151.1	26.0	151.1	26.0
RETIREMENT US	* 107	124.3		124.3	
OTHER AID/W FUNDED 12	* 109	36.7		36.7	
ALL OTHER CODE 12 US	110	25.4		25.4	
POST ASSIGNMENT TRAVEL	111	17.6	7.0	23.5	9.0
POST ASSIGNMENT FREIGHT	112	100.0	7.0	107.0	9.0
HOME LEAVE TRAVEL	113	51.8	26.0	51.8	26.0
HOME LEAVE FREIGHT	114	29.5	26.0	29.5	26.0
EDUCATIONAL TRAVEL	115				
R & R TRAVEL	116	29.2	12.0	29.2	12.0
ALL OTHER CODE 215 TRAVEL	117	16.6	6.0	16.0	6.0
		<u>2,226.2</u>		<u>2,406.2</u>	
FOREIGN NATIONAL DH					
BASIC PAY	201	404.1	47.7	404.1	47.7
OVERTIME	202	29.8	4.0	29.8	4.0
ALL OTHER CODE 11	203	1.5		1.5	
ALL OTHER CODE 12	204	41.5		41.5	
BENEFITS FOR FORMER ENPL	205	67.0		67.0	
		<u>544.9</u>		<u>544.9</u>	
CONTRACT PERSONNEL					
US PSC SALARIES & BENEF	302	428.7	8.7	428.7	8.0
ALL OTHER US PSC COSTS	303	145.4		145.4	
FN PSC SALARIES & BENEF	304	464.1	25.0	464.1	25.0
ALL OTHER FN PSC COSTS	305	47.8		47.8	
MANPOWER COSTS	306	307.1	77.0	307.1	37.0
JCC COSTS PAID BY AID &	* 307	75.2	1.0	75.2	1.0
		<u>1,468.3</u>		<u>1,468.3</u>	
HOUSING					
RENT-TRANS. APT/D S RESID.	401	56.8	1.0	56.8	
UTILITIES	402	2.7		2.7	
RENOVATION & MAINTENANCE	403	1.1		1.1	
QUARTERS ALLOWANCE	404	377.2	21.0	427.7	21.0
PURCHASE, FURN. (RESIDENT)	405	280.5		280.5	
TRANSF. (FREIGHT)	406	45.5		45.5	
SECURITY GUARD SERVICES	407	10.5		10.5	
OFFICIAL RESIDENCE EXPENSES	408	2.5		2.5	
REPRESENTATION ALLOWANCE	409	2.5		2.5	

OFFICE OPERATIONS

RENT (WAREHOUSE/COOPERAR)	501	774.0		774.0	
UTILITIES	502	25.0		25.0	
BLDG.MAINTENANCE & RENOVA.	503				
OFFICE FURNITURE & EQUIPM	504	96.7		96.7	
VEHICLES	505	89.0		89.0	
OTHER EQUIPMENT	506	90.7		90.7	
TRANSP. (FREIGHT)	507	40.6		40.6	
FURN/EQUIP/REP.MAINT	508	81.8		81.8	
COMMUNICATIONS	509	90.6		90.6	
SECURITY GUARD SERVICES	510	47.1		47.1	
PRINTING	511	1.1		1.1	
SITE VISITS - MISSION PERSONNE	513	68.3	195.0	68.3	195.0
SITE VISITS - AID/W PERSONNEL	514	52.5	21.0	52.5	21.0
INFO MEETINGS (INTL TRAV)	515	0.0		0.0	
TRAINING ATTENDANCE (INTL)	516	2.6	1.0	2.6	1.0
CONF. ATTENDANCE (INTL)	517	31.5	10.0	31.5	10.0
OTHER OPERATIONAL TRAVEL	518	2.9		2.9	
SUPPLIES & MATERIALS	519	275.0		275.0	
FAAS	* 520	52.3		52.3	
MGT/PROF.SERVICES	522	12.0		12.0	
ALL OTHER CODE 259	524	151.0		151.0	
		<u>1,984.7</u>		<u>1,984.7</u>	
TOTAL BUDGET		7,022.0		7,231.6	
RECONCILIATION (AID/W COSTS) *		1,931.5		2,043.1	
MISSION ALLOWANCE		5,090.5		5,188.5	

PERSONNEL FOR FY 1986

USDH:

1. MISSION DIRECTOR	J. SANBRAILO	
2. DEPUTY MISSION DIRECTOR	G. HILL	R & R
3. EXECUTIVE OFFICER	J. THROWER	R & R
4. REG. CONTRACTING OFFICER	M. SNYDER	R & R
5. CONTROLLER	R. BONNAFFON	HL/RTP
6. DEPUTY CONTROLLER	D. ARNOLD/REPL	P.A. OUT/REPL IN
7. PROGRAM OFFICER	W. RHOADS	R & R
8. ASSIS. PROGRAM OFFICER	L. DOURIS	HL/RTP
9. REG. PROGRAM ECONOMIST	R. BURKE	R & R
10. FOOD FOR PEACE OFFICER	A. DAVIS	HL/RTP
11. PROJECT DEVELOPMENT OFF	G. WACHTENHEIM/REPL	P.A. OUT/REPL IN
12. ASST. PROJ. DEV. OFFICER	M. SILVERMAN	HL/RTP
13. ASST. PROJ. DEV. OFFICER	VACANT	P.A. IN
14. TRADE DEVELOPMENT OFFICER	M. JOHNSON	R & R
15. AGRIC. DEVEL. OFFICER	D. BATHRICK	R & R
16. ASST. AGRI. DEV. OFF	D. FLOOD	R & R
17. PROJECT MANAGER AGRI	T. MILLER	R & R
18. AGRICULTURAL ECONOMIST	R. WALDRON	HL/RTP
19. ASST. RURAL DEV. OFF	W. SUGRUE/REPL	P.A. OUT/REPL IN
20. PROJ. OFFICER SPECIAL PROJ	J. WALL	HL/RTP
21. PROJECT MANAGER RURAL DEV	D. HESS	HL/RTP
22. GENERAL DEV. OFFICER	N. PARKER	R & R
23. POPULATION DEV. OFFICER	A. DANART/REPL	P.A. OUT/REPL IN
24. HEALTH DEV. OFFICER	J. LAROSA	HL/RTP
25. HEALTH/POP/NUT	L. KELLEY	

REQUIRED POSITIONS:

26. PRIVATE SECTOR DEV. OFF	VACANT	P.A. IN
27. REG. LEGAL ADVISOR	VACANT	P.A. IN

IDI's:

1. ECONOMICS	T. CREEK	HL/RTP
2. PROJ. DEVELOPMENT	R. WHELDEN	HL/RTP
3. PROJ. DEVELOPMENT	D. HIMELFARB	HL/RTP
4. AGRIC/ECON	D. FAULKNER	HL/RTP
5. POPULATION	B. DOE	R & R
6. ENVIRONMENT	W. DEESE	R & R

JCC:

1. AGRICULTURAL ECONOMIST	F. MANN	HL/RTP
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PART-TIME:

1. VOUCHER SUPERVISOR	M. POLO
2. ASST. FOOD FOR PEACE	S. WHELDEN

SUMMARY

FY-1986

405	Residential Furnishings	\$280,480
	Freight	45,510
504	Office Equipment	96,700
	Freight	8,800
505	Vehicles	89,000
	Freight	18,000
506	Other equipment	90,700
	Freight	13,750
	TOTAL NXP	\$556,880
	TOTAL FREIGHT	86,060
	GRAND TOTAL:	<u>\$642,940</u>

FY-86 NXP PROCUREMENT PLAN

Object Class 405 : Residential Furnishings

<u>Qty</u> <u>Item</u>	<u>Unit</u> <u>Cost</u>	<u>Extended</u> <u>Cost</u>	<u>Pkg./</u> <u>Shp</u>	<u>Total</u>	
<u>Replacement Property</u>					
12	Living room sets	2,000	24,000	24,000	
12	Dining room sets	2,300	27,600	27,600	
12	Family room sets	2,000	24,000	24,000	
12	Masterd bedroom sets	2,750	33,000	33,000	
24	Dependents bedroom sets	2,200	52,800	52,800	
48	Rugs 12' x 9'	220	10,560	10,560	
24	Rugs 12' x 15'	400	9,600	9,600	
12	Freezers 900	900	10,800	5,400	16,200
12	Refrigerators	900	10,800	5,400	16,200
12	Range, electric	500	6,000	3,000	9,000
12	Washers	600	7,200	3,600	10,800
12	Dryer clothes	500	6,000	3,000	9,000
	Lamp table	50	2,400	1,200	3,600
	Lamp foot	50	300	150	450
10	Kitchen sets	400	4,000		4,000
12	Card table/chair sets	220	2,640	1,320	3,960
18	Bookcase, wood	200	3,600		3,600
18	Dehumidifiers	300	5,400	2,700	8,100
	Extended cost		240,700		
	Est. Pkg. Ship			25,770	
	CIF (Destination)				266,470
<u>New Property</u>					
9	Freezers	900	6,100	4,000	12,100
9	Refrigerators	900	8,100	4,000	12,100
9	Range Electric	500	4,500	2,250	6,750
9	Washers	600	5,400	2,700	8,100
9	Dryers	500	4,500	2,250	6,750
9	Kitchen sets	400	3,600	1,800	5,400
9	Card Table/Chair sets	220	1,980	940	2,920
18	Desk Lamps	50	900	450	1,350
9	Dehumidifiers	300	2,700	1,350	4,050
	Extended cost		39,780		
	Est. Pkg. Ship			19,740	
	CIF (Destination)				59,520
GRAND TOTAL:			\$280,480	45,510	325,990

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FY-86 NXP PROCUREMENT PLAN

Object Class 504: Office Equipment

Qty		Unit Cost	Extended Cost	Pkg. / Shp.	Total
<u>Replacement Property</u>					
8	Table end, corner	120	960		960
16	Welcome chairs	180	2,880		2,880
8	Swivel, chairs, executive	540	4,320		4,320
8	Swilvel, chairs, secretarial	420	3,360		3,360
12	Typewriters, Selectric	1,200	14,400	2,000	16,400
12	Calculators, electr.	350	4,200	1,000	5,200
8	Sofas, office	600	4,800		4,800
	Extended cost		\$34,920		
	Est. Pkg. Shp.			\$3,000	
	CIF (Destination)				\$37,920
<u>New Property Requirements</u>					
16	Computer equipment				
	64 K, 5 1/2 Drive	3,250	51,200	4,800	56,000
2	Daisy Printers	330	6,500	1,000	7,500
8	Filing cabinets 4/5 drawers		2,640		2,640
4	Table office	360	1,440		3,440
	Extended cost		\$ 61,780		
	Est. Pkg. Shp.			\$5,800	
	CIF (Destination)				\$ 67,580
GRAND TOTAL			\$ 96,700	\$ 8,800	\$105,500

FY-86 NXP PROCUREMENT PLAN

Object Class 506: Other Equipment

<u>Qty.</u> <u>Item</u>	<u>Unit</u> <u>Cost</u>	<u>Extended</u> <u>Cost</u>	<u>Pkg./</u> <u>Ship.</u>	<u>Total</u>	
<u>Replacement Property</u>					
10	Air conditioners	1,200	12,000	6,000	18,000
16	Floor polishers, domestic	380	6,080		6,080
1	Floor polisher, industrial	1,000	1,000	200	1,200
16	Vacuum cleaners, domestic	300	4,800		4,800
3	Vacuum cleaners, industrial	1,000	3,000	600	3,600
6	Blender	150	900	-	900
6	Irons	70	420	-	420
1	Sewage drain cleaner	300	300	50	350
2	Carpet shampooer machine	800	1,600	400	2,000
9	Ladder steps	100	900	-	900
40	Transformers	80	3,200		3,200
	Extended cost		\$34,200		
	Est. Pkg. Ship.			7,250	
	CIF (Destination)				41,450
<u>New Property Requirements</u>					
20	Transformers step down 5,000 WT. 60 Hz., 110/220	400	8,000	-	8,000
10	Burglar Alarms	300	3,000	500	3,500
6	Air conditioners	1,000	6,000	3,000	9,000
5	Vacuum cleaners industrial	1,000	5,000	1,000	6,000
10	Water dispensers	150	1,500	500	2,000
20	Security radios	1,500	30,000	1,000	31,000
	Warehouse equipment (Hand lift, carts, powered tools, cabinet, racks, etc.)		3,000	500	3,500
	Extended cost		\$56,500		
	Est. Pkg. Ship.			\$6,500	
	CIF (Destination)				\$63,000
GRAND TOTAL:			\$90,700	\$13,750	\$104,450

05/03/85

O.E. FY 1987

DESCRIPTION	FC	STAFF LIMIT	UNITS	MISSION	UNITS
		LEVEL (25 USDH)		REQUIREMENT (29 USDH)	
US DIRECT HIRE					
US CITIZENS BASIC PAY	101	1,462.0	31.0	1,650.6	35.0
PT/TEMP US BASIC PAY	102	36.8	2.0	36.8	2.0
DIFFERENTIAL PAY	103	146.2		165.1	
EDUCATION ALLOWANCE	106	205.2	29.0	264.5	37.0
RETIREMENT US	107	124.3		140.3	
OTHER AID/W FUNDED 12	109	36.7		36.7	
ALL OTHER CODE 12 US	110	44.0		44.0	
POST ASSIGNMENT TRAVEL	111	30.9	12.0	37.2	15.0
POST ASSIGNMENT FREIGHT	112	185.0	12.0	230.0	15.0
HOME LEAVE TRAVEL	113	22.4	13.0	22.4	13.0
HOME LEAVE FREIGHT	114	14.4	13.0	14.4	13.0
EDUCATIONAL TRAVEL	115				
R & R TRAVEL	116	42.7	17.0	46.2	18.0
ALL OTHER CODE 215 TRAVEL	117	17.0	6.0	17.0	6.0
		<u>2,367.6</u>		<u>2,705.2</u>	
FOREIGN NATIONAL DH					
BASIC PAY	201	404.1	47.7	404.1	47.7
OVERTIME	202	29.8	4.0	29.8	4.0
ALL OTHER CODE 11	203	1.8		1.8	
ALL OTHER CODE 12	204	41.8		41.8	
BENEFITS FOR FORMER EMPL	205	67.0		67.0	
		<u>544.5</u>		<u>544.5</u>	
CONTRACT PERSONNEL					
US PSC SALARIES & BENEF.	302	450.1	8.0	450.1	8.0
ALL OTHER US PSC COSTS	303	152.7		152.7	
FN PSC SALARIES & BENEF.	304	480.5	88.0	480.5	88.0
ALL OTHER FN PSC COSTS	305	47.8		47.8	
MANPOWER COSTS	306	322.5		322.5	
JCC COSTS PAID BY AID/W	307	0.0		0.0	
		<u>1,453.6</u>		<u>1,453.6</u>	
HOUSING					
RENT-TRANS.APT/D'S RESID.	401	62.5	3.0	62.5	3.0
UTILITIES	402	3.1		3.1	
RENOVATION & MAINTENANCE	403	1.2		1.2	
QUARTERS ALLOWANCE	404	422.4	30.0	478.7	34.0
PURCHASE, FURN. (RESIDENT)	405	144.2		144.2	
TRANSP. (FREIGHT)	406	27.1		27.1	
SECURITY GUARD SERVICES	407	11.0		11.0	
OFFICIAL RESIDENCE EXPENSES	408	3.0		3.0	
REPRESENTATION ALLOWANCE	409	2.8		2.8	

		<u>677.3</u>	<u>733.6</u>
OFFICE OPERATIONS.			
RENT (WAREHOUSE/COOPEMAR)	501	851.4	851.4
UTILITIES	502	26.3	26.3
BLDG. MAINTENANCE & RENOV.	503		
OFFICE FURNITURE & EQUIPM	504	102.8	102.8
VEHICLES	505	48.0	48.0
OTHER EQUIPMENT	506	14.3	14.3
TRANSP. (FREIGHT)	507	34.4	34.4
FURN/EQUIP/REP. MAINT	508	85.9	85.9
COMMUNICATIONS	509	95.1	95.1
SECURITY GUARD SERVICES	510	49.5	49.5
PRINTING	511	1.5	1.5
SITE VISITS - MISSION PERSONNE	513	71.7	71.7
SITE VISITS - AID/W PERSONNEL	514	55.1	55.1
INFO MEETINGS (INTL TRAV)	515	0.0	0.0
TRAINING ATTENDANCE (INTL)	516	2.7	2.7
CONF. ATTENDANCE (INTL)	517	33.1	33.1
OTHER OPERATIONAL TRAVEL	518	3.0	3.0
SUPPLIES & MATERIALS	519	288.8	288.8
FAAS	520	54.9	54.9
MGT/PROF. SERVICES	522	13.0	13.0
ALL OTHER CODE 259	524	160.0	160.0
		<u>1,991.5</u>	<u>1,991.5</u>
TOTAL BUDGET		7,034.5	7,428.4
RECONCILIATION (AID/W COSTS)		1,860.9	2,084.4
MISSION ALLOWANCE		5,173.6	5,344.0

PERSONNEL FOR FY 1987

USDH:

- | | | |
|--------------------------------|-------------------|-------|
| 1. MISSION DIRECTOR | J. SANBRAILO/REPL | P.A. |
| 2. DEPUTY MISSION DIRECTOR | G. HILL/REPL | P.A. |
| 3. EXECUTIVE OFFICER | J. THROWER | HLRTP |
| 4. REG. CONTRACTING OFFICER | M. SNYDER/REPL | P.A. |
| 5. CONTROLLER | R. BONNAFFON | R & R |
| 6. DEPUTY CONTROLLER | REPL ARNOLD | R & R |
| 7. PROGRAM OFFICER | M. RHODES | HLRTP |
| 8. ASSIS. PROGRAM OFFICER | L. DOURIS | R & R |
| 9. REG. PROGRAM ECONOMIST | R. BURKE/REPL | P.A. |
| 10. FOOD FOR PEACE OFFICER | A. DAVIS | R & R |
| 11. PROJECT DEVELOPMENT OFF | REPL WACHTENHEIM | R & R |
| 12. ASST. PROJ. DEV. OFFICER | M. SILVERMAN | R & R |
| 13. ASST. PROJ. DEV. OFFICER | **UNKNOWN** | R & R |
| 14. TRADE DEVELOPMENT OFFICER | M. JOHNSON | HLRTP |
| 15. AGRIC. DEVEL. OFFICER | D. BATHRICK/REPL | P.A. |
| 16. ASST. AGRI. DEV. OFF | D. FLOOD/REPL | P.A. |
| 17. PROJECT MANAGER AGRI | T. MILLER/REPL | P.A. |
| 18. AGRICULTURAL ECONOMIST | R. WALDRON | R & R |
| 19. ASST. RURAL DEV. OFF | REPL SUGRUE | R & R |
| 20. PROJECT OFFICER SPEC. PROJ | J. WALL | R & R |
| 21. PROJECT MANAGER RURAL DEV | D. HESS | R & R |
| 22. GENERAL DEV. OFFICER | M. PARKER/REPL | P.A. |
| 23. POPULATION DEV. OFFICER | REPL DANART | R & R |
| 24. HEALTH DEV. OFFICER | J. LAROSA | R & R |
| 25. PRIVATE SECTOR DEV. OFF | **UNKNOWN** | R & R |

REQUIRED POSITIONS

- | | | |
|----------------------------|-------------|-------|
| 26. REG. LEGAL ADVISOR | **UNKNOWN** | R & R |
| 27. ASSIST. PROG/ECON OFF | VACANT | P.A. |
| 28. ASSIST. TRADE/DEVELOPM | VACANT | P.A. |
| 29. DEPUTY EXO | VACANT | P.A. |

IDI's:

- | | | |
|----------------------|--------------|-------|
| 1. ECONOMICS | T. CREEK | R & R |
| 2. PROJ. DEVELOPMENT | R. WHELDEN | R & R |
| 3. PROJ. DEVELOPMENT | D. HIMELFARB | R & R |
| 4. AGRI/ECON | D. FAULKNER | R & R |
| 5. POPULATION | B. DOE | HLRTP |
| 6. ENVIRONMENT | M. DEESE | HLRTP |

JCC:

----- NONE -----

PART-TIME:

- | | |
|-------------------------|------------|
| 1. VOUCHER SUPERVISOR | M. POLO |
| 2. ASST. FOOD FOR PEACE | S. WHELDEN |

SUMMARY OF FY-87 NXP PROCUREMENT PLAN

	<u>Extended</u> <u>-Cost</u>	<u>Pkg./</u> <u>Shp.</u>	<u>Total</u>
405. <u>Residential Furniture</u> Replacement Property New Property Requirements	144,170	27,105	171,275
504 <u>Office Equipment</u> Replacement Property New Property Requirements	102,800	18,200	121,000
505 <u>Vehicles</u> Replacement Property New Property Requirements	48,000	10,500	58,500
506 <u>Other Equipment</u> Replacement Property New Property Requirements	14,300	5,700	20,000
Grand Total Replacement Prop.	\$ 309,270	\$ 61,505	\$ 370,775

FY-87 NXP PROCUREMENT PLAN

Object Class 405: Residential Furniture

<u>Qty.</u> <u>Item</u>	<u>Unit</u> <u>Cost</u>	<u>Extended</u> <u>Cost</u>	<u>Pkg./</u> <u>Shp.</u>	<u>Total</u>	
<u>Replacement Property</u>					
6	Living room sets	2,200	13,200	---	13,200
6	Dining room sets	2,500	15,000	---	15,000
6	Family room/den	2,200	13,200	---	13,200
6	Master bedroom sets	3,000	18,000	---	18,000
12	Dependents bedroom sets	2,400	28,800	---	28,800
24	Rugs 12' x 9'	240	5,760	2,880	8,640
12	Rugs 12' x 15'	440	5,280	2,640	7,920
6	Freezers	1,000	6,000	3,000	9,000
8	Refrigerators	1,000	8,000	4,000	12,000
8	Range, electric	550	4,400	2,200	6,600
8	Washers	660	5,280	2,640	7,920
8	Dryers clothes	550	4,400	2,200	6,600
48	Lamp, table	55	2,640	1,320	3,960
6	Lamp, f-ot	55	330	165	495
8	Kitchen sets	440	3,520	1,760	5,280
8	Card table/chair sets	250	2,000	1,000	3,000
8	Bookcase, wood	220	1,760	---	1,760
20	Dehumidifiers	330	6,600	3,300	9,900
Extended cost			144,170		
Est. Pkg. Shp.				27,105	
CIF (Destination)					171,275

FY-87 NXP PROCUREMENT PLAN

Object class 504: Office Equipment

<u>Qty.</u> <u>Item</u>	<u>Unit</u> <u>Cost</u>	<u>Extended</u> <u>Cost</u>	<u>Pkg./</u> <u>Shp.</u>	<u>Total</u>
<u>Replacement Property</u>				
8	1,300	10,400	---	10,400
8	1,300	10,400	---	10,400
8	150	1,200	---	1,200
16	200	3,200	---	3,200
8	600	4,800	2,400	7,200
8	450	3,600	1,800	5,400
4	300	1,200	600	1,800
12	1,350	16,200	2,000	18,200
12	400	4,800	1,000	5,800
4	450	1,800	400	2,200
	40,000	40,000	10,000	50,000
8	650	5,200	---	5,200
		<u>102,800</u>		
			<u>18,200</u>	
				<u>121,000</u>

FY-87 NXP PROCUREMENT PLAN

Object Class 505: Vehicle

<u>Qty.</u> <u>Item</u>	<u>Unit</u> <u>Cost</u>	<u>Extended</u> <u>Cost</u>	<u>Pkg./</u> <u>Shp.</u>	<u>Total</u>
<u>Replacement Property</u>				
3 1987, 4 x 4 Carryalls CK20 Model, Chevrolet	16,000	48,000	10,500	58,500

FY-87 NXP PROCUREMENT PLAN

Object Class 506: Other Equipment

<u>Qty.</u> <u>Item</u>	<u>Unit</u> <u>Cost</u>	<u>Extended</u> <u>Cost</u>	<u>Pkg./</u> <u>Shp.</u>	<u>Total</u>	
<u>Replacement Property</u>					
8	Air conditioners	1,300	10,400	5,200	15,600
20	Space heaters	65	1,300	500	1,800
8	Ladder step	100	800	---	800
20	Transformers	90	1,800	---	1,800
	Extended cost		14,300		
	Est. Pkg. Shp.			5,700	
	CIF (Destination)				20,000