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45964

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE
 A = Add
 C = Change
 D = Delete
 Amendment Number ONE

DOCUMENT CODE 3

2. COUNTRY/ENTITY PERU

3. PROJECT NUMBER 527-0298

4. BUREAU/OFFICE Latin America and Caribbean 05

5. PROJECT TITLE (maximum 60 characters) Policy Planning and Institutional Dev.

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM DD YY
11 30 90

7. ESTIMATED DATE OF OBLIGATION
 (Under "2" below, enter 1, 2, 3, or 4)
 A. Initial FY 85 B. Quarter 3 C. Final FY 90

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY <u>85</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	135	365	500	2070	2330	4400
(Grant)	(135)	(365)	(500)	(2070)	(2330)	(4400)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country		145	145		2480	2480
Other Donor(s)						
TOTAL	135	510	645	2070	4810	6880

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO- PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SPA	700	800		500		3900		4400	
(2)									
(3)									
(4)									
TOTALS				500		3900		4400	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)
 590 830 930

11. SECONDARY PURPOSE CODES

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
 A. Code INTR RGEN BU
 B. Amount 4400 1700 1200

13. PROJECT PURPOSE (maximum 480 characters)

To promote policy dialogue and reform through: 1) the improvement of the institutional capacity, in both the private sector and GOP, to research and analyze key issues of national importance and to engage in constructive policy dialogue on these issues; 2) the institutional organization of the private sector (formal and informal) around key policy issues; and 3) the enhanced understanding of the positive role of private enterprise and its potential economic contributions.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
1 0 8 6 1 2 8 7 0 6 9 0

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

Controller Methods of Financing
 Clearance: *[Signature]*
 R.A. Bonington: Controller

17. APPROVED BY

[Signature]
 John A. Sanbrailo
 Title: Mission Director

Date Signed: MM DD YY
06 23 86

18. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
 MM DD YY

PRIVATE SECTOR
POLICY PLANNING AND INSTITUTIONAL DEVELOPMENT

(527-0298)

PROJECT PAPER

JUNE - 1986

Best Available Document

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ACRONYM CHART

BCR	:	Peruvian Central Reserve Bank
CONFIEP	:	Confederación Nacional de Instituciones Empresariales Privadas
GOP	:	Government of Peru
ILD	:	Instituto Libertad y Democracia
INP	:	National Planning Institute
MEF	:	Ministry of Economy and Finance
MICTI	:	Ministry of Industry, Commerce, Tourism and Integration
PSC	:	Personal Services Contract(or)
T.A.	:	Technical Assistance

1. SUMMARY AND RECOMMENDATIONS

A. Facesheet

B. Recommendations

It is recommended that a grant (the Grant) be authorized for the formal private sector and guidance and monitoring components in the amount of US\$ 3,200,000, of the \$6,000,000 AID contribution for the Private Sector Policy Planning and Institutional Development Project (the Project). A grant for the informal private sector component (\$1,200,000) was previously authorized on June 20, 1985. A grant for the public sector component (\$1,600,000) will be authorized in FY87. The Project will be obligated and implemented through three (3) separate grant agreements with: the Confederación Nacional de Instituciones Empresariales Privadas (CONFIEP), the Instituto Libertad y Democracia (ILD), and the Government of Peru (GOP), and four (4) personal services contracts, two (2) for Project guidance and monitoring and two (2) for technical assistance in investments, savings and export promotion. The Project will have a life of five (5) years and is expected to be incrementally grant financed over the next five (5) fiscal years, including FY86 (but excluding FY85 during which the first grant increment of the ILD component was financed).

C. Summaries

1. Background

Peru is presently in the midst of a severe economic crisis characterized by an unmanageable foreign debt, limited growth, high unemployment and underemployment, threatening of hyper-inflation, and little recovery in standards of living. Although external factors such as commodity prices and weather related disasters have aggravated the situation in recent years, the crisis must be primarily attributed to the development strategy, economic policies and poor economic management of the past two decades.

The principal factor contributing to this structural (rather than temporary crisis) has been the large-scale intervention by the State in the economy, particularly since 1968. This intervention can be seen in: the high level of regulation of all aspects of the economy; direct Government investment in productive and service enterprises; increasing controls on private economic activity in "exchange" for special incentives or protection for high priority sectors; the emergence of a very large informal sector; and, most dramatically, in the very high foreign debt incurred in large measure to help finance the Government's intervention in the economy. In addition, state interventionism has been manifested in an extraordinary large number of laws and regulations often contradictory and emanating from many state entities not always acting in coordination.

Since private savings and investment have been declining to very low levels due to this policy climate, the Government has felt obligated to compensate by increasing its own spending. This spending has

mostly been financed by further foreign and domestic borrowing and the printing of money, but has not been nearly sufficient or adequately targeted and managed to revitalize the economy, address unemployment and low living standards or generate the foreign exchange needed to pay off the debt.

Given the magnitude of the requirements in Peru for jobs, foreign exchange and improved standards of living, the principal challenge facing the country is how to generate sufficient investment in productive activities. Since the Government clearly lacks the resources to meet these requirements (without even considering whether the resources would be efficiently managed) and can no longer depend as before on foreign borrowing, it is evident that for the economy of Peru to grow and create the jobs required to at least meet the population expansion it must rely on a large-scale increase in private savings and investment.

2. Problem, Rationale and Strategy

Although the primary answer to the economic crisis must be found in private investment, the ability of the private sector to respond to the challenge is constrained by the policy framework. At the same time, the fragmentation of the private sector (informal vs. formal, regional vs. Lima, sector vs. sector), and the weak institutional capability to research, formulate and promote policies that are more conducive to private savings mobilization and productive investment, have prevented the institutional leadership from assuming a more protagonist role in the design of policy. In addition, the possibility of reforming the present policy framework is limited by the corresponding lack in the public sector of an institutional capacity for policy analysis, planning and consensus-building required to promote private investment.

In this context, it is necessary to develop the institutional capability, in both the private and public sectors, to analyze the economic situation and formulate appropriate and consistent policy responses to constraints limiting investment and growth. In addition, it is necessary to help the private sector (formal and informal) coalesce around key issues of national importance and to facilitate a public-private policy dialogue around these issues leading to the removal of the constraints and the promotion of private investment.

To the extent that this assistance contributes to the development of a national consensus on the definition of the problem, as well as to a better understanding of the role of the private sector, the likelihood of achieving a consensus on the policies required will be greatly enhanced.

The proposed Project is an outgrowth of a comprehensive Peruvian Private Sector Assessment carried out by Coopers and Lybrand (1983), 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, and other in-depth studies/evaluations prepared by Development Alternatives and, most recently, by Arthur D. Little.

The Project strategy is to support the development of an adequate policy analysis, dialogue and consensus-building capability by

providing institutional support and technical assistance to existing organizations with the potential for serving as focal points in the formulation of an appropriate economic policy. The Project will strengthen CONFIEP, ILD, regional chambers and key GOP units in terms of their staffing, professional excellence and ability to carry out (or sponsor) studies, conferences, publications and other activities aimed at policy reform and increased private investment. The guidance and coordination component will identify and support Project efforts leading to the harmonization of economic policies, the definition of priorities, coordination of activities and the efficient and effective use of Project resources.

3. Project Description

The goal to which this Project contributes is the promotion of economic growth and employment through the alleviation of policy, institutional and attitudinal constraints to private savings and investment. The purpose of the Project is to promote policy dialogue and reform through the improvement of: 1) the institutional capacity of the private sector to research and analyze key issues of national importance and to engage in constructive policy dialogue with the GOP; 2) the institutional organization of the private sector (formal and informal) around key policy issues of broad significance; 3) the institutional capability of the GOP to research and analyze similar policy issues; and 4) the enhanced understanding of the positive role of private enterprise and its potential economic contributions.

The Project consists of four basic components:

- a) Institutional development of CONFIEP (the most comprehensive representative of the private sector in Peru) and strengthening of the research and analysis capability in the formal private sector (including assistance to sectoral and provincial association. The principal thrust of this component involves the strengthening of CONFIEP as the major representative of the private sector on key cross-cutting policy matters and as a generator and catalyst of economic research and policy dialogue. Major activities include: hiring and development of staff to guide and implement the program of economic studies, public affairs/publications and membership affairs; studies and publications; meetings, forums and conferences; technical assistance and training. These activities will be focused on two basic themes:
 - (a) opportunities and constraints for private savings and investment; and (b) the role and potential contribution to economic development of private enterprise in the Peruvian context.
- b) Strengthening the economic policy analysis capability in the public sector. The principal thrust of this component is to identify and develop the appropriate unit or units in the GOP as the focal points for policy research and analysis of investment related issues. Activities would include: funding of studies to analyze constraints and

opportunities for investment as well as other key economic issues; strengthening of the appropriate GOP units, principally in the Ministry of Economy and Finance (MEF) and the Peruvian Central Reserve Bank (BCR); and training and technical assistance to support the professional development of the appropriate staff.

- c) Strengthening of ILD (the foremost authority on the informal sector in Peru) in its efforts to research and document the role of the informal sector in the economy, reduce unnecessary bureaucratic regulations and advocate a policy framework more conducive to investment and "integration" into the formal economy.
- d) Establishing a Project guidance and coordination unit to assist in: insuring permanent linkages and coordination among the principal actors (CONFIEP, sectoral and regional chambers, ILD and GOP); monitoring, evaluation and periodic adjustment of the Project; helping to define scopes of work; identifying opportunities for working with the GOP and initiating dialogue directed at changes in particular policies, regulations and/or administrative practices; identifying and following-up opportunities for private investment and export development.

4. Summary Financial Plan

	Participating	Host Country		T O T A L
		<u>A I D</u>	<u>Counterpart</u>	
I.	Formal Private Sector	2,005,000	1,383,000	3,388,000
	a. CONFIEP	(1,645,000)	(1,276,000)	(2,921,000)
	b. Regional Chambers	(360,000)	(107,000)	(467,000)
II.	Project Coordination	1,195,000	0	1,195,000
III.	Informal Private Sector*	1,200,000	1,097,000	2,297,000
IV.	Public Sector**	\$1,600,000	\$ 900,000	\$2,500,000
	PROJECT TOTAL	<u>6,000,000</u>	<u>3,380,000</u>	<u>9,380,000</u>

* First obligation (\$450,000) occurred in FY85

** First obligation (\$400,000) scheduled for FY87

D. Project Issues

- 1) Issue: The Project should focus on policies which most directly facilitate increased exports and investment.

Response: The entire Project has been designed to encourage change in Peru's development strategy and policy framework

required to mobilize savings and investment. All policy analysis and dialogue activities are focused on two broad themes: (a) constraints and opportunities for private investment; and (b) the role of the private sector and the necessity of relying on private investment. The principal criteria for selecting research topics and defining the agenda for conferences and policy dialogue initiatives would be:

- * Economic impact as measured by the potential for stimulating new savings and investment (and consequently employment and exports).
 - * Likelihood of obtaining a broad private sector consensus around the issues.
 - * Potential benefits to both the private and public sectors from following up the issues.
- 2) Issue: Significant efforts should be aimed at modifying the attitudes of the private sector, GOP and society in general toward the role and potential contributions of private enterprise.

Response: As noted above, efforts aimed at educating and modifying attitudes, on the basis of a broader understanding of the private sector (to include informal enterprises) and its role in the economy, is one of the two basic themes of the activities to be financed under this Project. The formal private sector has come to expect special privileges and protection in return for investment in productive activities. Consequently, it is organized institutionally to protect special privileges, usually at the expense of other elements of the private sector and of the economy as a whole. The activities included in the Project are aimed at modifying these attitudes through a two way education process which: a) educates Peruvian entrepreneurs to be competitive, socially responsible partners in Peru's development; and b) fosters more positive attitudes toward the private sector in the GOP and Peruvian society in general by demonstrating how a system that encourages investment by all private interests would benefit the national economy and the entire private sector. In addition, the Project seeks to address the tendency of informal entrepreneurs to perceive themselves as being outside the private sector.

- 3) Other issues raised during the PID review are addressed in Annex III.

E. Summary Findings

The Project Committee has reviewed all aspects of the proposed Private Sector Policy Planning and Institutional Development Project and concluded that the Project is institutionally, financially, economically, technically, socially and environmentally sound and consistent with the development objectives of the GOP and with Mission strategy and objectives.

The Project Committee recommends that the Project be authorized.

F. USAID/Peru Project Development Committee

- Private Sector Officer	Mark Johnson
- Loan Officer	David Himelfarb
- Private Sector Program Specialist (PSC)	Ursula Odiaga
- Regional Program Economist	Robert Burke
- Regional Contracting Officer	Michael Snyder
- Controller	Robert Bonnaffon
- Legal Advisor	Garber Davidson

II. BACKGROUND

A. Country Setting

The management of Peru's economy over the past 10-15 years has led the country into economic stagnation and enormous foreign indebtedness. Although the crisis is often blamed largely on external factors (depressed world prices for export commodities and weather related disasters) a review of the data suggests that the economic policies and development model adopted during the period, as well as poor economic management, have been even more important factors. The "structural" nature of the crisis implies that Peru is at a crossroads in terms of having to define and implement a new and viable strategy for stimulating sustained economic growth.

In very brief terms, Peru's economic strategy over the past 10-15 years has been characterized by the following features:

- Heavy reliance on exports of commodities (minerals, fishmeal, agricultural products) to finance imports (foodstuffs, capital goods and consumer products) as well as Government investments (infra-structure, and para-statal institutions).
- Import "substitution" in the manufacturing sector, aimed at stimulating the assembly of products for the local market through import tariffs and other special incentives and protective regulations.
- Emphasis on policies favoring manufacturing and services for the urban population, as opposed to agriculture and the rural population.
- An increasing direct state role in the economy, as reflected in the growth of state owned enterprises involved in production and distribution of goods and services, the extensive regulation of virtually all economic activity and the increasing dependence of the economy on public sector investment, consumption and transfers (through social programs).
- A large foreign debt (\$14.1 billion), incurred in large measure to help finance the State's expanding role in the economy, and its consequences.

This approach to economic management has resulted in economic stagnation. Table 1 (page 3) indicates that in the decade between 1975-1985, GDP (in constant terms) increased on average by only 0.6 percent per year. Although the economy actually contracted by an average of 0.4 percent per year between 1980-1985, the slow 1.3 percent average annual growth experienced between 1975-1980 indicates that the stagnation of the economy has been a relatively long term problem.

In general, the productive sectors (agriculture, fisheries, mining, manufacturing, and construction) have performed less well than non-productive sectors (government, services, trade, transport, finance). Furthermore, among productive sectors, manufacturing and construction have shown the worst performances over the period. More export-oriented sectors such as fisheries,

mining, and agriculture have experienced greater growth. Although prices for Peru's principal export commodities have been low in recent years, it would appear from these statistics that the country's economic malaise has more to do with its internal structure than with external factors.

The consequences of limited economic growth can be seen in Table 2 (page 5). Per capita income, measured in 1970 Soles, has decreased 6 percent since 1970, 17 percent since 1975, and 14 percent since 1980. Furthermore, official statistics suggest that unemployment increased from 4.7 percent in 1970 to about 11 percent in 1984. In addition, underemployment (defined as those with less than full time jobs or earning less than the 1967 minimum wage adjusted for inflation) has increased from 46 percent of the work force in 1970 to 57 percent in 1984. In the 1970-1983 period, the economy generated 1.6 million jobs while the labor force expanded by 2 million people.

Economic stagnation can largely be attributed to low and declining levels of investment and savings. Table 3 (page 6) shows that in constant terms, gross fixed investment has declined steadily since 1975. As a percentage of GDP, investment has declined from about 20 percent in 1975 to only 15 percent in 1984.⁽¹⁾ Except for the three years of increased levels between 1980-1982, private sector investment has been declining in both absolute and relative terms. Investment by the public sector has increased slightly over the period such that its share of total investment is now about 36 percent.

Despite low levels of investment, internal savings have been inadequate to fund these investments. Since 1975, savings as a percentage of GDP have exceeded investment only once (in 1979). Extensive foreign borrowing have been necessary to make up the difference and, most recently, to service the debt. For example, of the \$2.7 billion borrowed in 1984, 55 percent went towards the debt, 8 percent towards food imports and other purposes, and only 37 percent was left for investment projects, most of those in the public sector.

(1) In contrast, fixed investment in Ecuador, Colombia, Venezuela and Brazil averaged 24 %.

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TABLE 1

GROSS DOMESTIC PRODUCT BY PRODUCTIVE SECTOR: 1975-1984
(Million 1970 Soles)

	<u>1975</u>	<u>1980</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Average Annual</u>	
						<u>1975-85</u>	<u>1980-84</u>
1. Agriculture	39,106	38,530	41,222	44,886	46,180	1.7	3.7
2. Fisheries	2,623	4,073	2,099	4,028	3,758	3.7	-1.6
3. Mining	18,251	31,330	29,910	31,838	35,508	6.9	2.5
4. Manufacturing	80,582	82,802	66,616	68,474	70,789	-1.3	-3.1
5. Construction	18,603	17,230	15,368	15,603	13,539	-3.1	-4.7
6. Government	24,114	25,420	27,066	27,066	26,795	1.1	1.1
7. Other	127,852	138,594	127,062	132,063	134,248	0.5	-0.6
TOTAL	312,131	337,979	309,343	323,958	330,817	0.6	-0.4
Productive Sectors (1-5)	159,165	173,965	155,215	164,829	169,774	0.6	-0.5
Non Productive Sectors (6-7)	151,966	164,014	154,128	159,129	161,043	0.6	-0.4

* Source: Banco Central de Reserva del Peru, Memoria 1984, and unpublished data.

Foreign private investment has not been a significant factor in recent years. In contrast to a net inflow of \$316 million in 1975 (mostly in mining and petroleum), Peru in 1985 experienced a net outflow of foreign investment capital amounting to \$178 million.

One of the brightest aspects of Peru's economic situation since 1975 has been the growth of its exports and its positive balance of trade since 1978 (except in 1981 and 1982 when there was a major surge in imports). As can be seen in Table 4 (page 7), the value of exports was 134 percent greater in 1984 than in 1975, even though depressed world commodity prices resulted in a 20 percent decline in the value of exports between 1980 and 1984. Furthermore, Peru has kept its imports at or below 1975 levels, except in 1980, 1981, and 1982.

The positive long term trend in exports and the trade balance has unfortunately not been sufficient to compensate for the increasing levels of foreign debt. Negative financial transfers have resulted in a negative current account in every year since 1975, except in 1979. The increasing burden represented by the foreign debt is evident from the debt service to export ratio which reached 63 percent in 1984.⁽¹⁾ The only factor maintaining a positive balance of payments (in most years) has been additional foreign borrowing. Official loans have represented the major inflow of capital, and in 1984 Peru received no new commercial bank credits. The one year GOP restriction on payment of no more than ten percent of its export earnings to service its debt has assured little or no access to commercial (and in some cases official) loans.

In the context of the poor overall economic performance of the past decade, it is important to note the very high - and increasing - level of public sector participation in the economy, as a result of aggressive borrowing and not of taxation. Table 5 (page 8) indicates that in 1984, total public sector expenditures (excluding financial institutions) amounted to 56 percent of GDP, compared to a high of 66 percent in 1983, and 46 percent in 1975. Furthermore, the public sector deficit has ranged from a low of 4.7 percent of GDP in 1980 to a high of 12.1 percent in 1983. Since a significant portion of this deficit has been covered by foreign borrowing, it is evident that the public sector is the major contributor to the debt problem.

Public sector expenditures are now fairly evenly divided between the central government and state owned enterprises. In both cases, most of the resources are being spent on current operations (primarily payroll and goods and services) with only a relatively small percentage being invested in capital formation. In 1984, only 15 percent of total public sector outlays went into investments, although the level was a slightly higher, 19 percent in the state owned enterprises.

(1) Interest and principal obligations for 1985 represented an estimated 122 percent at 1984 exports.

TABLE 2

SELECTED INDICATORS OF ECONOMIC WELLBEING*

	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1983</u>	<u>1984</u> ⁽¹⁾
GDP/Capita (1970 Soles)	18,011	20,410	19,519	16,550	16,856
Employment (thousands)	3,971.4	4,581.3	5,210.7	5,599.0	N.A.
- Agriculture	1,873.6	1,950.0	2,046.0	2,111.0	N.A.
- Non-Agriculture	2,097.8	2,631.3	3,164.7	3,488.0	N.A.
Labor Force(thousands)	4,167.3	4,817.5	5,605.2	6,169.5	
- Unemployment (percent)	4.7	4.9	7.0	9.2	10.9
- Underemployment ⁽²⁾	45.9	42.8	51.2	57.1	57.4

(1) 1985 data is not available

(2) Defined as a person working less than 35 hours or earning less than the 1967 minimum wage adjusted for inflation.

* Sources: Banco Central de Reserva del Peru; Ministry of Labor.

TABLE 3

SELECTED INDICATORS OF SAVINGS AND INVESTMENT

	<u>1975</u>	<u>1980</u>	<u>1983</u>	<u>1984</u> (1)
Gross fixed investment (Thousand 1970 Soles)	58,254	55,039	50,257	46,602
- Government (%)	16.6	22.4	19.7	22.1
- Public Institutions (%)	32.1	23.0	38.2	35.7
- Private (%)	51.3	54.6	42.1	42.2
Internal Savings/GDP (%)	8.5	17.1	11.6	13.9
Investment/GDP (%)	19.8	17.7	17.0	15.4
Difference (%)	-11.3	-0.6	-5.4	-1.5
Foreign Borrowing (Net)(2) (Million U.S. \$)	793	377	1,409	1,068

(1) 1985 data is not available

(2) Net borrowing reflecting different between inflows (new debt) minus outflows (payments of principal and interest)

TABLE 4

TRENDS IN THE BALANCES OF TRADE AND PAYMENTS
(Millions of U.S. dollars)

	<u>1975</u>	<u>1980</u>	<u>1983</u>	<u>1984</u> ⁽¹⁾
<u>Trade Balance</u>	-1,097	826	293	1,007
- Exports FOB	1,330	3,916	3,015	3,147
- Imports FOB	-2,427	-3,090	-2,722	-2,140
<u>Current Account</u>	-1,535	-101	-872	-252
- Net Transfers	-438	-927	-1,165	-1,259
<u>Net Capital Flows</u>	958	823	832	499
- Official Loans (net)	793	377	1,409	1,068
- Other Public Sector (net)	-	-6	22 ⁽²⁾	368 ⁽²⁾
- Private Loans (net)	26	64	-85	-114
- Direct Foreign Investment (net)	316	27	38	-89
- Short Term Capital	-177	361	-552	-734
<u>Balance of Payments</u>	-577	722	-40	247

(1) 1985 data is not available

(2) Reflects non-payment of debt

* Source: Banco Central de Reserva del Peru, Memoria 1984, and unpublished BCR data.

TABLE 5
PUBLIC SECTOR INCOME AND EXPENDITURES
(As a percentage of GDP)

	<u>1975</u>	<u>1980</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Non-Financial Public Sector					
Revenues	36.5	55.0	54.2	48.5	N.A
Expenditures	46.3	59.7	66.3	56.1	N.A
- Fixed investment	(8.9)	(5.2)	(10.2)	(8.7)	(7.7)
Deficit	9.8	4.7	12.1	7.6	4.2
- Foreign Financing	(5.1)	(2.0)	(6.9)	(6.0)	(4.6)
Public Sector Expenditures					
Central Government	24.0	27.6	29.1	29.5	20.4
- Current expenditures	(16.5)	(18.1)	(19.2)	(17.8)	(17.1)
- Capital formation	(2.9)	(3.6)	(3.4)	(3.5)	2.0
Enterprises (non-financial)	22.3	32.1	37.2	26.6	N.A
- Current expenditures ⁽¹⁾	(16.0)	(24.0)	(28.2)	(20.6)	N.A
- Capital formation ⁽¹⁾	(6.0)	(1.6)	(6.8)	(5.2)	N.A

(1) Preliminary

* Source: Central Bank

To summarize, it is evident that the major challenges facing Peru are:

- The need to stimulate substantially higher levels of new investment in productive activities in order to generate employment (and improved standards of living) and the foreign exchange needed to service the foreign debt (once debt servicing is fully reinitiated).
- The critical importance of mobilizing sufficient internal savings (or foreign investment) to satisfy investment requirements.

Internal savings for investment can be mobilized in two fundamental ways: taxation (or forced savings) and encouragement of private savings through the financial system. The former approach is considerably less efficient, particularly in Peru, considering that most of the resources captured by the GOP are utilized for operating expenditures rather than new capital formation. Even if the GOP could increase its revenues through taxation (and recently it has reduced many taxes), most would have to be used to cover the fiscal deficit. In other words, the public sector's potential as a source of savings and investment is very limited. Yet, in order to improve the standard of living of "all Peruvians," as promised by the APRA Government, substantial new wealth must be created.

Based on this assessment, it is evident that any strategy for stimulating sustained economic growth will have to rely primarily on private savings and investment, both domestic and foreign. However, neither the public nor private sectors in Peru have formulated clear economic development strategies or adequately addressed the issue of how to stimulate sufficient savings and investment.

B. Constraints to a Private Sector Response

The ability of the Peruvian private sector to take the lead role in formulating and implementing a strategy aimed at stimulating savings and investment on the scale required is seriously limited by a number of major constraints. These constraints, which are briefly reviewed below, are related to the policy environment, private sector and government institutions, and prevailing public attitudes.

1. Policy environment

The policy environment in Peru over the last several decades, but particularly since 1968, has played a fundamental role in shaping the private sector and its capability to respond to the challenges described above. Some of the key aspects of the policy environment, and their impacts on the private sector, include:

- The extensive Government use of special privileges and incentives as a basic approach to encourage growth or address the stated needs of different sectors. For example, priority industries have received particularly high protective tariffs, duty free privileges for imports of raw materials and equipment and subsidized credit. However, in return, the GOP has often asked the industry involved to go along with other policies and regulations that might not otherwise have

been accepted (such as labor, pricing, taxation and other regulations) and which might be detrimental to the interests of the private sector as a whole. The principal implications of this approach for the private sector have included: a high level of dependence on the special "privileges" provided by Government; a generalized perception in the private sector that the "decision making" process is a zero-sum game with one group's gains coming at another's expense; an extremely complex policy and regulatory framework; the fragmentation of the private sector (further described below); and a general mistrust of the role of the private sector in overall economic development.

- The extraordinary web of often times contradictory policies and regulations, particularly since 1968, (1) that has further fragmented the private sector and acted as a disincentive to savings, investment and job creation. One of the principal impacts of the regulatory maze has been the emergence of an extraordinarily large "informal" sector (estimated by ILD to represent about 60 percent of economic output in the Lima metropolitan area) that operates partially or completely outside the legal and regulatory framework established for private businesses. Compliance with and administration of this system of regulations represent a high economic cost. Moreover, certain economic inefficiencies associated with the informal sector (e.g., the tendency of informal operations not to expand because of inadequate access to credit or the fear of greater "visibility;" the difficulty and cost of obtaining materials and equipment, etc.) severely inhibit greater productivity and growth.
- The trend, since 1968, towards greater direct public sector involvement in the economy. There are now 150 enterprises, wholly or partially owned by the state, involved in a wide range of activities including production, distribution and marketing, utilities and finance. These enterprises represent "nationalized" private companies or investments perceived by the public sector to have been necessary to address either the "inefficiency" of the private sector (e.g. distribution of agricultural products) or the lack of private investment in selected industries (e.g. steel). Since state owned companies are either competitors, buyers or suppliers of most private enterprises (particularly in the formal sector), their existence and the policies affecting them are important aspects of the policy environment.
- The failure of interest and exchange rate policies and other related financial policies to stimulate sufficient levels of domestic

(1) The Instituto de Libertad y Democracia (ILD) has estimated that more laws and regulations have been enacted since 1968 than in all of Peru's previous history.

savings and investment. The steadily declining rate of domestic savings and the corresponding reduction in investment, has already been noted above. The lack of adequate incentives for savings and investment must be considered to be a fundamental policy constraint to economic growth.

2. Private Sector Institutions

Another major constraint to the private sector's ability to take a leadership role in the economy and its revitalization is its weakness and fragmentation as a broad interest group. These characteristics, which are clearly reflected in the large number of specialized and relatively weak private sector representative organizations, appear to have resulted from the tendency of each economic sector to look out only for its own interests in its relations with the public sector and other private groups. Although the principal private representative institutions are assessed in Section IV A - Institutional Analysis and Annex I - some general observations would include:

- The historical inability of the private sector to unite to advocate effectively for principles, policies and administrative practices of interest to all private business. (e.g. enforcement of contracts, right of private property, market determined prices, etc.).
- The relatively weak leadership of many private associations in the formal sector because of the tendency of the most important entrepreneurs to maintain a low profile and to delegate leadership of the business community and its associations.
- The absence of institutional mechanisms to resolve conflicts in the private sector - the creation of CONFIEP notwithstanding.
- The lack of a broad private sector "identity" incorporating: formal and informal businesses; Lima and other regions; and enterprises from all economic sectors.
- The widespread perception in Peru that the private sector is both risk averse and synonymous with a small privileged elite.
- The lack of sound economic and technical analysis to promote policy change, reflecting the fragmentation of the private sector and the tendency of the representative associations to react defensively to protect special privileges rather than to propose policies (based on sound research and analysis) aimed at stimulating private investment and savings.
- The absence of formal, regular mechanisms through which the private sector can initiate and sustain dialogue with the public sector. Very few institutional mechanisms exist to engage the government in policy discussions of critical importance to the private sector, and underlying all the above.

- The lack of strong, self sufficient private sector institutions which engage in strategic planning to ensure both long term financial viability and provide valuable services to members which in turn generate financial support from them.

3. Public sector institutions

A third major constraint to an effective private sector response to the economic crisis is the fragmentation of the public sector's policy analysis and planning functions, as well as the lack of a capability to dialogue with the private sector and involve them in the policy reform process. For the most part, each Government agency seeks to formulate and apply policies and regulations relevant to its specific areas of responsibility. However, a number of institutional weaknesses tend to work against the type of sound analysis and policy planning required to stimulate significantly increased levels of private investment and savings. For example, these weaknesses include:

- Poor capability to look at the broader economic situation, clearly "diagnose" the problem, define an appropriate overall strategy, and formulate an internally consistent set of policies for strategy implementation.
- The tendency of the public sector to develop policies on the basis of an "ideological" understanding of major economic issues or as a quick reaction to specific crises or pressure from the most powerful and effective interest groups.
- The inability to evaluate the costs and benefits of proposed laws and regulations (policies), particularly in relation to their impact on investment, employment creation and economic efficiency.
- The conflicting signals (and changing rules of the game) coming from different parts of the GOP, some favoring private sector growth and development and others advising or admonishing against it or advancing new governmental interactions in the economy.
- New themes emerging in the GOP, such as decentralization and privatization of some state enterprises, which have not yet found an adequate response in the policy and institutional frameworks.

C. Definition of the Problem

To summarize, the problem to be addressed by this Project is the severe economic crisis characterized by a stagnant economy, a declining standard of living, inadequate savings and investment, and a heavy burden of foreign debt. Because the magnitude of these problems is so large, and given the very limited resources of the public sector, the primary answer to the crisis must be found in substantial private sector investment to create jobs, foreign exchange and new wealth required by the expanding Peruvian population.

However, an adequate response is presently constrained by the existing policy framework and GOP organizational limitations as well as by the fragmentation and weakness of the private sector and its institutions. In addition, the reform of the policy framework is made difficult by the weak analytical, planning and consensus building capability in the institutions of both private and public sectors.

D. Project Rationale and Strategy

1. Principal Strategic Approaches

The Project is intended to develop the means to address the policy and regulatory framework that has contributed to both the economic crisis and the fragmentation of the private sector. In order to facilitate the formulation of an appropriate economic strategy and policy framework, it is necessary to work separately with the principal actors whose cooperation will be required: the formal private sector, informal private sector and public sector. However, by working towards a common goal, the Project's strategy is aimed at reducing the institutional fragmentation separating these "sectors" while simultaneously contributing to the formulation of policies more conducive to investment and economic growth.

The principal approach of the Project will be to work with the private (formal and informal) and public sectors to:

- Develop the institutional capability, in both the private and public sectors, to analyze the economic situation and formulate appropriate and consistent policy responses to constraints limiting investment and economic growth.
- Facilitate public-private policy dialogue, based on sound analysis of critical economic problems and issues, and aimed at creating an attractive policy framework for stimulating private savings and investment (and consequently job creation). In addition, the policy dialogue would be aimed at addressing fiscal deficits, particularly of public enterprises, which are contrary to capital formation.
- Assist the private sector (formal and informal) coalesce around key issues of national importance and alleviate the institutional fragmentation which has traditionally weakened the sector.

2. Rationale

The formulation of sound economic policies for growth and development requires a clear and realistic understanding of:

- The nature of the economic "problem" and the constraints to growth and investment.
- Opportunities for mobilization of resources and investment, as well as for policy reforms that would stimulate a more efficient utilization (allocation) of resources within the economy.

- Resources that would serve as the basis for new growth and development, including the resources to formulate and implement an appropriate policy framework.

If a broad consensus can be achieved in the "definition" of the problems and constraints, as well as in the realistic appraisal of opportunities and resources, the likelihood of achieving consensus on the policies required to address the problems would be greatly enhanced.

Although it is evident from the background economic analysis that sustained economic growth can only be generated by significant levels of private investment, it is unlikely (given the present political environment) that the current GOP would be interested in "strengthening" the private sector as long as it perceives this as meaning further privileges to a small minority. In order to be successful, this Project, through the analysis of economic problems and formulation of policy recommendations, must demonstrate that its goal is to improve the living standards of all Peruvians, which in turn requires:

- Substantial expansion of national wealth;
- Increased savings and investment;
- Increased employment and productivity;
- Greater exports;
- Debt restructuring; and
- Industry restructuring and privatization of state owned companies.

Because of the fiscal deficit and foreign debt, investment on the scale required can only come from the private sector (local and foreign, formal and informal). Stimulating the needed investment in turn requires the creation of conditions that would greatly accelerate the rate of private saving and investment in the economy (including the informal sector). However, since the traditional model of "private sector" development has involved only the formal component, and has been based on the granting of special privileges, a better understanding is required of private enterprise, its role in the economy and what the private sector could do to contribute to the economic well-being of all Peruvians. This improved understanding, or attitude, is required within both the private (formal and informal) and public sectors.

Ultimately, an evolving, regularly modified "agreement" would have to be worked out between the GOP and the private sector to bring about the needed levels of investment and to insure the private sector's intervention in helping to attract foreign investment and alleviate the foreign debt (for example, by working out counter trade deals, debt for equity swaps or privatization of state owned enterprises).

In this context, the institutional capacity of the private sector to research, analyze and articulate convincingly the problems and

opportunities (for all and not just a privileged few or specialized segment) will need to be greatly enhanced. This institutional development effort should be aimed both at strengthening the research and dissemination (education and dialogue) capability and at creating a concerted private sector effort, aggregating the resources that are presently utilized in inefficiently in disperse and often conflicting activities. As the private sector demonstrates an increased willingness and capability to contribute to the national well being, its position vis a vis the GOP will improve.

For its part, the GOP will require a strong policy analysis capability to address effectively the economic crisis. As the new GOP has developed a sounder understanding of the issues, and particularly of its limited resources in relation to the need, it has become more inclined and prepared to engage in policy dialogue with the private sector. To overcome the problem of fragmentation of the GOP's economic policy analysis and formation apparatus, the Project will have to develop new formulas. The increasing role of the INP and the traditional responsibilities of the BCR, the MEF and the MICTI will have to be rationalized and coordinated. There are signs that the GOP fully recognizes the numerous inconsistencies in policy formation, regulatory requirements and administrative practices and would use this Project to better its internal structures as well as a means to engage the private sector (formal and informal) in resolution of major economic issues.

Finally, the fragmentation of the private sector (informal/formal, sectoral and regional) is largely the result of "special deals", over-regulation and state intervention in the economy. These "artificial" divisions must be minimized to the extent possible in order to restructure the economy and stimulate broad-based growth.

E. Relationship to USAID's Development Assistance Strategy

This Project is not only entirely consistent with AID's Private Sector Development Assistance strategy for Peru but should also become, to a large degree, the centerpiece of this strategy. To increase productive employment and incomes, and increase the human and financial resources available to development activities under present conditions in Peru, the involvement of the private sector is absolutely necessary. Present conditions in Peru, as discussed in the Background section of this paper, suggest serious limitations to the expansion of revenues and GOP resources, severe external (and internal) debt constraints and the need to strengthen market alternatives over administratively decided allocation of resources in order to develop efficiency and productivity in the economy. At the same time over the medium term, Peru can expect no other source of major investment except the domestic and international private sector, and must therefore depend on the greater efficiency and resources of the private sector for sustained growth.

This Project's purpose is aimed at promoting reforms in the economic policy framework to facilitate or allow for the attainment of increased levels of private savings and investment in the economy, and consequently the creation of jobs and exports. To bring about the necessary reforms in the policy framework, the research and analysis capabilities of the private and public sectors will need to be significantly enhanced. However, the first step in this direction will call for the strengthening of the representative institutions of the private sector (CONFIEP, and the sectoral and regional

chambers) and public sectors. While the structure of the GOP in regards to the formation of economic measures is not fully defined, it appears that the Central Bank may be one of the most likely entities to play a leading role both in the economic policy reform area and as interlocutor of the private sector. Regarding the private sector, the record during the first ten months of APRA leadership suggests that it has chosen CONFIEP as the primary organization of the formal private sector with which it will interact. This is particularly important since the Project also contemplates building linkages to the provinces to strengthen the national character of proposed reforms and the broadness of the support they will enjoy. The additional support to ILD that this Project provides is also consistent with USAID's strategy to build upon "successes," both to optimize the use of resources as well as to serve as a catalyst for the mobilization of Peruvian resources. ILD's work has begun to impact GOP policy and, more importantly, will contribute to the removal of constraints to increased savings and investment by the informal private sector as it becomes increasingly legitimized.

The choice of the central theme, savings and investment, cuts across all of the artificial demarcations that today divide the Peruvian private sector and offers the public and private sectors a very powerful rationale for collaboration. This basic theme will allow the Project to build strong institutional links and policy consensus among the participating organizations to facilitate discussion of other more specific and potentially controversial policies and regulations. This will occur as the inter-relationship of such specific policies to savings and investment are realized. Additionally, over the past difficult twenty years, savings and investment have been and remain priority concerns of all sectors. By initiating project activities concentrated on acknowledged priorities the Project will avoid many historically divisive topics while focussing policy discussions and reform initiatives on relatively uncontroversial issues. This emphasis on promoting savings and investment is entirely consistent with AID's development strategy for Peru and supports most of the individual Project goals in the USAID Peru program.

The Project is consistent with the strategic approach that seeks to use limited grant assistance funds in ways that would bring about a significant mobilization of Peruvian resources. By working to remove obstacles to savings and investments by the Peruvian private sector the Project, if moderately successful, could have a major effect on economic growth and job creation in Peru.

This Project represents a major component of USAID's private sector strategy in Peru which in turn is the formula for achieving two of the four Mission goals, i.e. 1) Stimulating Economic Growth with Increased Equity, and 2) Improving Institutional Capacity to Manage Development. This Project will contribute to goal 1 by promoting improvements in the policy and regulatory environment needed to generate private sector investment, production, exports and employment which are a precondition for Peru resuming its debt service payments and meeting domestic needs. The Project will be a cornerstone of the Mission's program to improve the institutional capacity to manage development, both in the private and public sectors by: developing the analytical and policy formulation resources of both sectors; promoting self-sufficient private sector associations which support long term private enterprise development initiatives; and forging dialogue linkages between the formal private sector, the informal private sector and the GOP.

As noted above, this Project is not only related to other Mission projects, but also forms the basis for 1) Project policy directions and technical assistance initiatives to increase the private sector's direct role in all areas of Peruvian development (i.e. health, agricultural, private enterprise and education); and 2) policy dialogue with the GOP which will result in streamlined, rationalized regulatory environment which supports a larger development role for the private sector in Peru.

III. DETAILED PROJECT DESCRIPTION

A. Project Goal and Purpose

The goal to which this Project contributes is the promotion of economic growth and employment in Peru through the alleviation of policy, institutional and attitudinal constraints which inhibit expanded private sector investment, production, exports and employment.

The purpose of the Project is to promote policy dialogue and reform through the improvement of: 1) the institutional capacity of the private sector to research and analyze key issues of national importance and to engage in constructive policy dialogue with the GOP; 2) the institutional organization of the private sector (formal and informal) around key policy issues of broad significance; 3) the institutional capability of the GOP to research and analyze similar policy issues; and 4) the enhanced understanding of the positive role of private enterprise and its potential economic contributions.

B. End-of-Project Status

The components of the Project aim to develop the institutional capability in the private and public sectors required to formulate development strategies and policies for stimulating investment and economic growth. Specifically, the conditions that will exist at the end of the Project include the following.

1. A strengthened private sector umbrella organization, CONFIEP, as indicated by:

. Substantially increased membership, with particular emphasis on provincial, agricultural, informal, financial and other sectoral associations. In addition, linkages would be established with other associations where formal membership in CONFIEP is not immediately possible or desirable.

. Professional economic research and analysis capability based on the hiring of a highly qualified professional and support staff, and the contracting of special studies over the life of the Project.

. National recognition of CONFIEP's leadership role in areas of broad interest to the private sector, developed through: the sponsoring of a presentations by distinguished speaker series, regular luncheon fora and major conferences; the publication of a newsletter, economic analyses and studies; organization and operation of a media campaign to improve public understanding of the private sector and its role in the economy; and an established system

of policy dialogue and review with the GOP on economic and regulatory issues.

. Increased financial support from members or other non-AID sources, reaching, by the last year of the Project, 100% of the costs required to finance CONFIEP's core activities and at least 57% of total Project costs for this component. This increased financial support will insure the continued viability of CONFIEP without further AID assistance.

. Linkages and coordination with the GOP and ILD in the planning and implementation of research activities and conferences.

2. Improved national understanding of the need for private savings and investment in order to stimulate economic growth, to be indicated by:

. The establishment of specific mechanisms (consultative commissions, working groups, etc.) for public-private sector policy dialogue on how to stimulate private savings and investment, generate employment, increase exports, address the foreign debt, privatize state owned enterprises and decentralise the economy.

. The successful organization of the conferences, the speakers series and research/analysis activities around these themes.

. GOP elimination/modification of policies and regulations to improve the business climate.

3. Greater understanding, within and beyond the private sector, of the meaning and role of private enterprise, characterized by:

. Increased recognition among formal and informal enterprises, of the "informals" as an integral part of the private sector.

. Successful organization of one of CONFIEP's major conferences, and the concentration of some of the research activities, around this theme.

. Public-private sector policy dialogue on how to stimulate broad-based savings and investment (and consequently production, employment and exports) rather than on specific "deal making" for further privileges.

. Publication and dissemination of ILD's research.

4. Strengthened policy analysis within the GOP:

. Strengthening the analytical and policy coordination and implementation capacities of policy analysis units principally in the BCR and MEF, to serve more effectively as key focal points for economic research and analysis within the government, at least of issues related to savings and investment and exports.

. Training of individuals within the policy analysis units.

. Completion of studies on constraints to and opportunities for investment and economic growth and subsequent changes/modifications to specific laws and regulations to improve the business climate.

5. Initiation of a constructive private-public policy dialogue focused on how to stimulate investment and economic growth:

. Invitation of public sector officials to participate in CONFIEP sponsored conferences and seminars.

. Establishment of regular linkages between CONFIEP and the GOP's policy analysis units (e.g. monthly lunch meetings).

. Establishment of public-private sector task forces or commissions to study key policy and investment related issues.

6. Strengthened regional private sector associations and development of effective linkages between CONFIEP and the regional associations.

C. Project Activities

The Project consists of four separate but related components:

1) Institutional development of CONFIEP and strengthened research and analysis capability in the formal private sector (including assistance to sectoral and provincial associations).

2) Further strengthening of ILD in its efforts to research and document the role of the informal sector in the economy and to advocate a policy framework more conducive to investment and "integration" into the formal economy.

3) Development of a strengthened economic policy analysis capability in the public sector.

4) Guidance and support to: assure coordination among participants; assure Project monitoring, evaluation and regular Project adjustments; help stimulate and focus dialogue on key Project themes; and identify and follow up opportunities for private investment and export development.

The need to divide the Project into four separate components is a reflection of the problem which the Project is intended to address. Specifically, the policy and regulatory framework has contributed to an economic crisis as well as to the fragmentation of the private sector (formal vs. informal, and along sectoral and regional lines). In order to develop an appropriate economic strategy and policy framework, it is necessary to work individually with the key actors whose cooperation will be required: the formal private sector, informal private sector and government. However, by working with each actor under an integrated Project structure and towards a common goal, the Project will reduce over time the institutional fragmentation as well as lead to the formulation of policies more conducive to investment and economic growth.

The activities associated with each of the three Project components are summarized below and presented in detail in Section IV. A.

1. Formal Private Sector Component

The principal thrust of this component involves the institutional strengthening of CONFIEP as an umbrella organization for the entire private sector and as a more effective catalyst of economic research and policy dialogue. The principal elements of this component will include:

- . Institutional development, specifically the hiring and development of staff for supervising economic studies, public affairs/publications and membership affairs.

- . Studies and publications, including preparation of position statements on major policy issues, publication of conference and working commission papers, publication of a bi-monthly newsletter and funding and dissemination of studies to be prepared and/or sponsored by member associations.

- . Meetings, forums, and conferences organized around two general themes ---- the role of the private sector and its role in economic development and job creation, and the mobilization of private savings and investment.

- . Technical assistance to CONFIEP in organizational development, orientation and support of the economic studies department, and general support in the areas of investment and export development.

- . Training for CONFIEP and member association staff.

- . Funds to strengthen sectoral associations.

In addition to the assistance to CONFIEP, this component of the Project will provide funding to specific regional associations which are members of CONFIEP. Initially assistance will be provided to the chambers of Commerce and Industry of Arequipa and Trujillo, primarily for staffing and strengthening of their economic analysis and investment promotion capabilities. Opportunities for working with other regional chambers will be identified during the course of the Project. The principal purpose of the assistance to the regional chambers is to improve their capability to promote investment in their respective regions, thus contributing to decentralization.

2. Informal Private Sector Component

This component will provide the ILD with financing to continue its research and analysis on the informal sector and its advocacy of legal and regulatory reforms. The latter would be aimed at overcoming the factors that have led many entrepreneurs to establish "informal" rather than formal enterprises. Principal elements would include:

- . Institutional support aimed at improving ILD's capability to review and respond to public policy initiatives, advocate policy reforms and coordinate with formal business sector entities.

- . Studies of legal and regulatory constraints affecting informal enterprises and the economic role of the informal sector.

3. Public Sector Component

The principal thrust of this component is to support appropriate activities within the GOP that strengthen the coordination, policy analysis and implementation capacities of key Policy analysis units in areas relating to private sector investment and export promotion. Major elements would include:

- . Funding of studies to analyze constraints and opportunities for private sector savings and investment, as well as other key economic policy related issues, in order to demonstrate the value of such studies to the GOP.

- . Strengthening of appropriate GOP units principally in the BCR and MEF to serve more effectively as focal points for policy analysis specifically of savings and investment related issues.

- . Training and technical assistance to support the professional development of appropriate staff.

- . Ability to dialogue with the private sector and involve it in the policy reform process.

4. Project Guidance and Coordination

In addition to the direct support for the three components described above, the complexity of the Project requires a separate management and coordination component that involves long term technical assistance to undertake the following:

- . Pursuit of concrete linkages and coordination among the principal actors (CONFIEP, regional Chambers, ILD, and GOP).

- . Monitoring, evaluation and adjustment of the Project to reflect initial results and changing circumstances.

- . Help define scopes of work for studies/analyses and short term technical assistance required in other Project components.

- . Identification of opportunities for working with the GOP, specifically in policy analysis and reform.

- . Identification and follow-up of opportunities involving private sector investment and export development initiatives.

This component of the Project involves three separate elements: 1) the Project Guidance and Coordination, consisting of a Project Coordinator and Assistant Project Coordinator, with responsibility for both assisting AID in the monitoring of the Project and providing guidance and coordination in the implementation of the three principal Project components; 2) technical assistance to the various institutions involved in this Project, in the areas of investment and export promotion. The experts to be funded would provide assistance to CONFIEP, regional and sectoral associations, and the GOP in identifying policy issues affecting savings and investment, defining appropriate studies and policy dialogue activities, and identifying specific opportunities for investment and export promotion that could be followed up by these institutions; and 3) audit and evaluations which will be carried out to

better insure appropriate use of Project funds and success towards meeting Project goals, objectives and benchmarks.

IV. PROJECT ANALYSES

A. INSTITUTIONAL ANALYSIS

1. Formal Private Sector

a. Analysis

The Peruvian private sector is now just emerging from a period of fragmentation, isolation, and weak leadership. Beginning in 1968, the Velasco government launched an attack on the Peruvian landowning "oligarchy" (which eventually came to include most large businesses) and their allies, foreign capital. Given the adverse climate created for the private sector, investment stagnated. In addition, the Velasco government pursued a strategy designed to divide and conquer the private sector, utilizing government privileges and sanctions to play one sector off against another as they struggled to survive in a difficult policy environment. The government-private sector relationship was aptly summarized by Alejandro Tabini, President of IPAE, in a 1974 speech to CADE:

"There is a valid comparison of the Peruvian state and a train coming from afar which, six years ago, took on a new crew, this time in uniform. Those who were at the station waiting to board took different attitudes. Many got on board immediately for different reasons: some to enjoy the ride while it lasted; others to help guide the train for honest and patriotic reasons; and still others to persuade the crew to reroute the train in benefit of their own narrow interests. Others failed to get on board and tried suicidally to derail it rather than adapt to change.

This historical development of the Peruvian private sector poses a challenge and a dilemma. The challenge is to encourage emerging leaders of the private sector to overcome fragmentation, isolation, and the excessive reliance on government privileges, and to speak with one strong voice on national issues through CONFIEP. The dilemma is that sectoral divisions and regional rivalries are still strong, and that CONFIEP is a relatively new organization with few resources. Moreover, many branches of the private sector are either weakly organized (e.g. the Radio and Television Association, many of the regional chambers) or without representation entirely. Thus, it is recommended that a strategy to strengthen the formal private sector concentrate on CONFIEP but also direct resources to the sectoral chambers and the regional associations. The objective is to strengthen existing institutions, and foster strong linkages among CONFIEP and its sectoral and regional members. This will be accomplished through institutional development, studies and communication, technical assistance and training, improved dialogue with the government, and changes/modifications in policies, laws and regulations.

i) CONFIEP

In order to gain credibility, build private sector

consensus, and contribute to improving the economic policy environment, as well as to improve its long term institutional viability. CONFIEP needs to take a leadership position in defining, researching, and discussing the key policy issues affecting private sector investment. It should, in effect, develop a consensus-building rationale of the positive role the private sector can play in helping to overcome the economic crisis. CONFIEP must avoid making pronouncements on all governmental actions considered prejudicial to private sector interests; rather, it should concentrate on issues of national significance, leaving to the sectoral chambers the defense of more narrow interests. The strategy is to define CONFIEP as a national business association, one uniquely capable of initiating policy dialogue with the government.

The first requirement is for CONFIEP to refine its economic philosophy which clearly delineates its role from its member associations. This policy statement should not be a stale repetition of economic liberalism, but rather take account of Peruvian realities, including the role of the state and the need for productive investment. It should elaborate CONFIEP's stated interest in the issues of regional development and decentralization, constraints to savings and investment, labor productivity, the informal sector, foreign commerce, and fiscal and monetary policy. This will enable CONFIEP to establish a conceptual framework for its activities, one which will allow it to set the policy agenda for dialogue with the government and prevent its misuse by member associations for narrow sectoral ends. CONFIEP's "mission" should also enable its board of directors to identify topics of critical importance a year or more in advance to guide research and studies (in-house and by contractors) and to react to issues which arise immediately that legitimately affect broad private sector interests.

The second requirement for CONFIEP is a strengthened organizational structure. The current administrative scheme is appropriate for a small, understaffed association with a very limited budget and designed only to coordinate private sector positions. It will not serve a powerful organization with a growing budget, technical staff, and an expanding membership.

Early in the Project, an organization/process expert will be contracted to undertake an analysis of the organizational structure best-suited to the accomplishment of CONFIEP's objectives (consensus-building, conflict resolution, private sector advocacy) within the Peruvian business and government environment. In addition to examining in detail how Peruvian business associations are structured, the analyst should look at the organizational structures of major business associations in Colombia, Spain, and Venezuela. This might be followed up by exchange visits of CONFIEP leaders with their counterparts in these countries.

CONFIEP has analyzed the national business association confederations of Mexico, Spain, Switzerland and Venezuela (in terms of their goals, objectives, actions, organization, membership, etc.) in order to draw from international experiences of institutions similar to itself. This analysis (see Annex XI, No. 14) has been reviewed and determined to be a valuable guidance document.

The following diagrams present possible organizational

arrangements for CONFIEP at the end of the first year of the Project and by the end of the Project. These are illustrative and will benefit from the recommendations of the organization/process expert.

FIGURE 1

CONFIEP'S POSSIBLE ORGANIZATION - YEAR 1

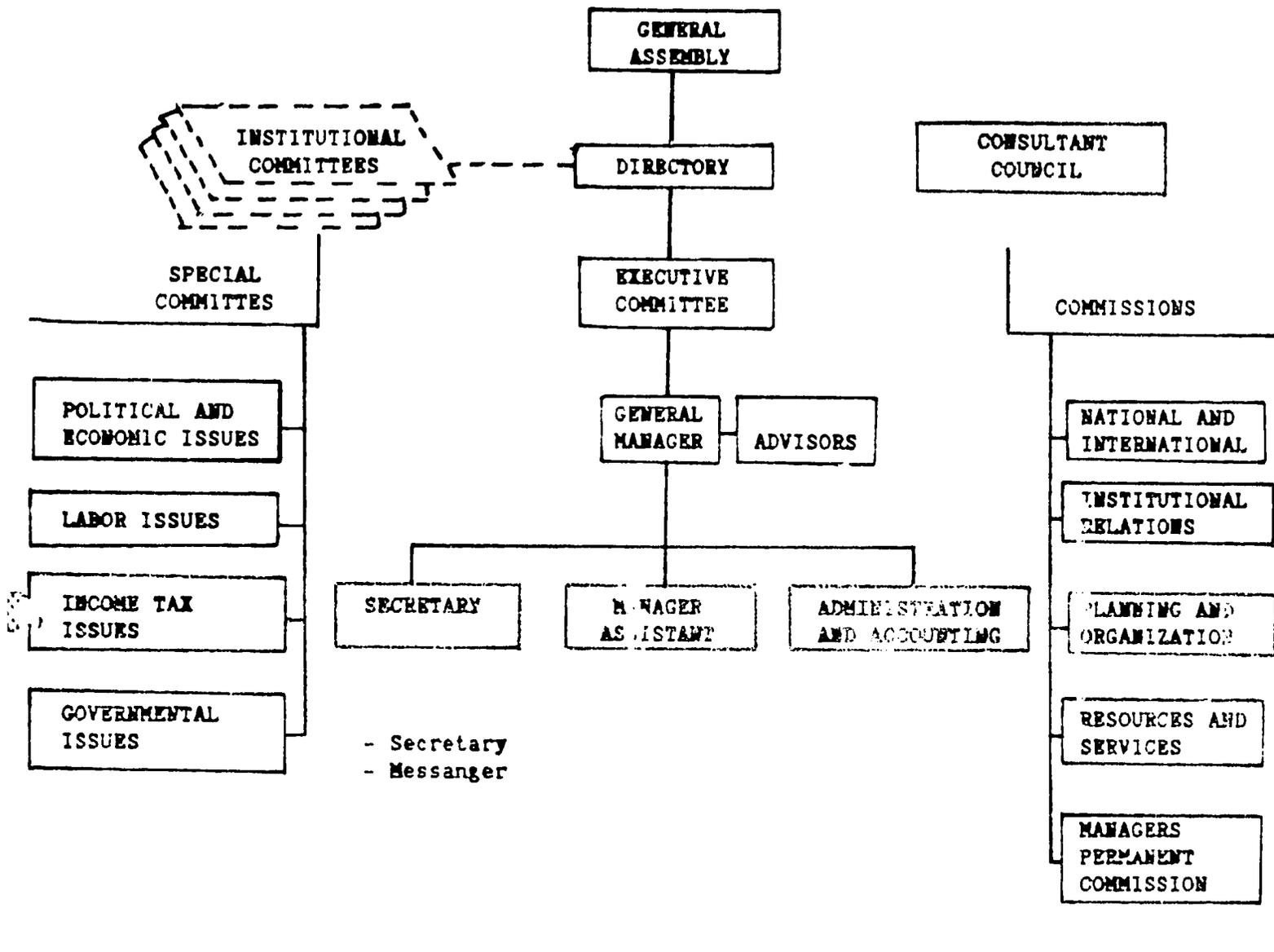
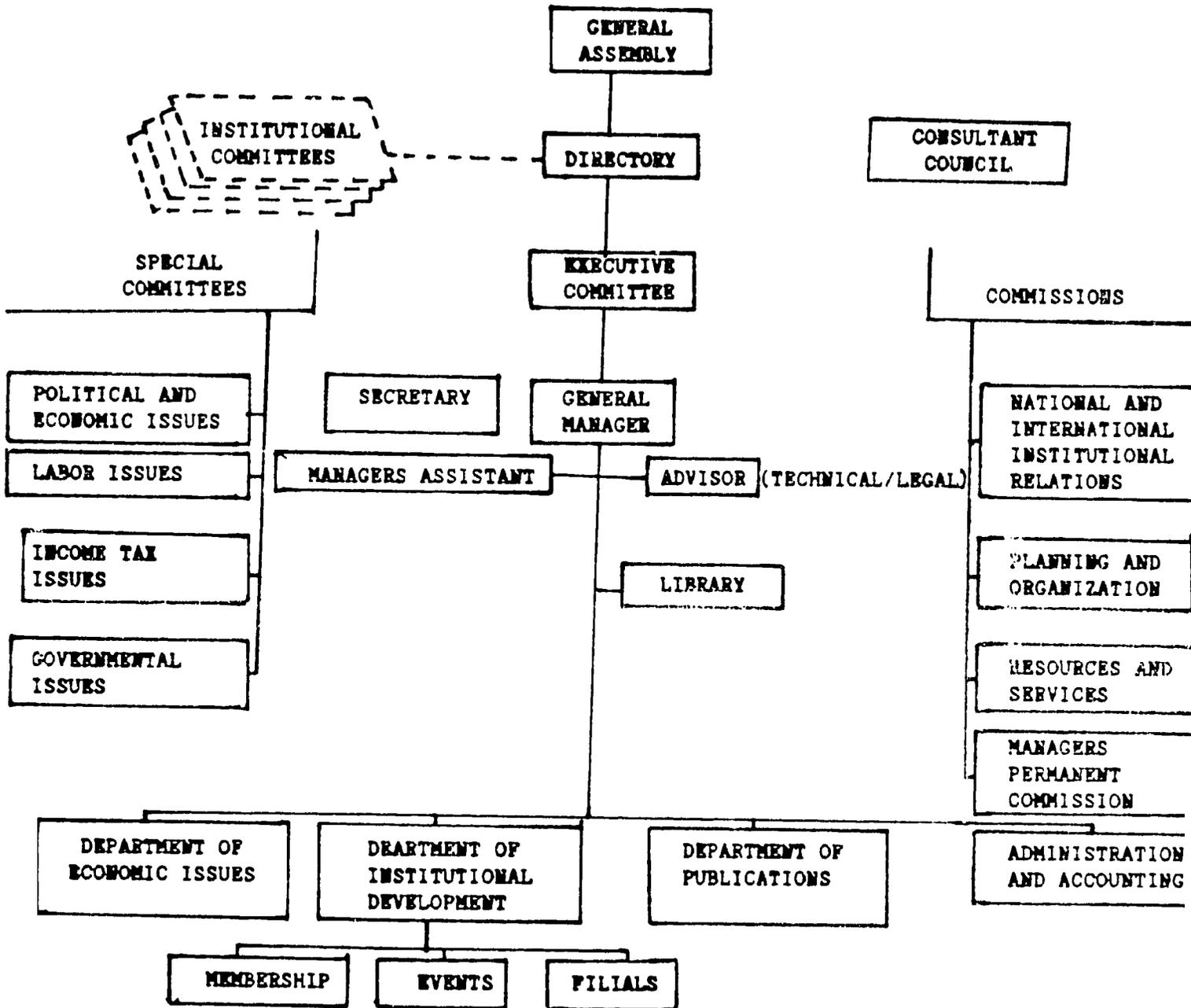


FIGURE 2
CONFIEP POSSIBLE ORGANIZATION - YEAR 4



The third requirement for CONFIEP is the solidification of its national membership base. CONFIEP originally only represented the largest, Lima-based industrial, mining, and commercial concerns. However, more recently large segments of the private sector including services, agriculture, private banks, and regional chambers have become members. This expanded membership base is a major achievement which will require a sophisticated organizational structure and decision making process to respond to diverse demands.

CONFIEP is taking active measures to capitalize on and increase the interest which regional and sectoral associations have shown in it thus far. In May of 1986 CONFIEP held an impromptu meeting open to board of director members of all private sector business associations to discuss the economic situation of Peru since 1970, the role of private enterprise in Peruvian development, and to take stock of private businessmen's concerns under the current government.

The degree of influence which CONFIEP has already gained is portrayed by the fact that the meeting, which was called on very short notice, was heavily attended by board members from regional associations throughout the country; the number of attendees surpassed 200 and thereby far exceeded original expectations of 50-100 people.

The fourth requirement for CONFIEP is the creation of a department of economic studies capable of guiding serious economic research and communicating its findings to the government, the business and academic worlds, and the public at large. Without such a capacity, CONFIEP will not be able to set the policy agenda, respond in a timely fashion to government initiatives, contract and coordinate the economic studies of member associations and other research institutions, nor forge a united position on issues of common concern to the private sector. CONFIEP must have the technical capacity to argue its case before the government and the media, and this position must be perceived as representing the private sector as a whole, not one of the technical studies of its member associations. In addition, the economic studies department would provide an in-house capacity to coordinate and monitor the work of the permanent commissions and direct the work of outside local and international contractors.

The final requirement for CONFIEP is the formation of a leadership cadre dedicated to the success of a national organization and devoted to the promotion and defense of private enterprise in Peru. Evidence of such leadership exists in the very establishment of CONFIEP. However, this commitment will be tested as CONFIEP grows, sectoral disagreements emerge, and the financial viability of the organization becomes an issue. With regard to the latter, AID's financial contribution is designed to decline over time, coming to an end after five years. The Peruvian private sector will have to step forward during this time, providing an increasing share of the financial burden and ultimately sustaining CONFIEP's activities. In this regard, it has been recommended that CONFIEP's current leaders approach leading business figures in Peru to form a "Patrons Council" to underwrite a portion of the association's annual operating budget and/or establish an endowment similar to AID's contribution.

ii) Sectoral Chambers

The requirements of the sectoral chambers vary considerably, depending on their size, representativeness, budget, goals and organizational structure. The National Association of the Fishing Industry (SNP), for example, is well-organized, amply funded (\$744,000 per year) technically competent, and able to promote its members' interests. The Radio and Television Association (ARTP), by contrast, is badly in need of resources to expand its membership base and provide minimal services to its members. In general terms, the most that can be said is that some require funds for institutional development and technical assistance, others could use help only for conducting and publishing sound economic studies, while a third group's interests could best be served through a strengthened CONFIEP. (See Annex-I).

In order to both strengthen CONFIEP and the sectoral chambers, it is recommended that a portion of the grant to CONFIEP (approximately \$295,000 over four years) be set aside to assist the member chambers in developing their institutional capacities. With the approval of CONFIEP's board and within the guidelines established by AID, these funds will be used to support institutional development (e.g., publications, services, technical assistance), conduct economic studies of sectoral issues relevant to the overall approach of CONFIEP, provide for international travel and participation in specialized conferences, and facilitate member chamber's dialogue with the government of Peru. However, for both administrative and institution-building purposes, it is important that resources be disbursed through CONFIEP rather than through separately signed grant agreements with individual chambers. Each member of CONFIEP should be encouraged to formulate a proposal to CONFIEP's board. Priority should be given to those proposals most beneficial to the advancement of the private sector as a whole and to those chambers most in need of funds to strengthen their activities specifically related to investment and export promotion efforts.

iii) Regional Chambers

With the notable exception of Arequipa, Peru's regional business associations are seriously underdeveloped. In part this is due to the excessive concentration of economic power in Lima (over 80 percent of non-agricultural economic activity is concentrated in the capital) and in part to the lack of agricultural associations as a result of the land reform process.

Strengthening of regional chambers of commerce is required in support of the government's (and AID's) objective of economic decentralization. These chambers can play an important role in highlighting (through studies and publications) policies that discriminate against investment in the provinces and agriculture, as well as indicating potential investment opportunities.

CONFIEP will channel \$360,000 to the regional chambers over a four year period. Initially most of these funds would have to be channelled to the Arequipa Chamber (which is easily capable of absorbing and utilizing additional resources) and the Trujillo Chamber (which is badly in need of an injection of resources to provide basic services to members). Other regional chambers may include Piura (to strengthen its activities in agribusiness in coordination with the University of Piura, a participant in the Management Improvement Project), Iquitos, Chimbote and Cuzco. The strategic thrust of these funds will be to promote regional development and

investment in Peru's provinces.

At present, even minimal statistical information on Peru's provinces is unavailable; potential domestic or foreign investors have no one, centralized location to obtain advice on local production capacities and sales, infrastructure, taxes, investment incentives, the labor force, etc. Programs available to the Arequipa and Trujillo Chambers will focus on studies of regional development, investment promotion activities, and organizational technical assistance.

b. Activities

The strategic thrust of this Project is to develop consensus within the private sector on key policy issues and to improve the capacity of business associations to communicate effectively with the GOP. Equally, the program will identify and support those agencies within the government of Peru best able to analyze the problems of savings and investment and implement the results of their research. These objectives will be accomplished through institution building, studies and publications, conferences and seminars, and technical assistance and training.

The Project strategy is to initially focus analyses and GOP-private sector dialogue around savings, investment, and consequently, employment generation, because these topics are "safe" vehicles for policy reform against which neither the GOP nor private sector will have objections. Once the basic consensus for policy reform has been established around these "safe" topics, more specific and difficult areas of policy reform, which are still related to increased investment, exports, etc, can be addressed such as labor stability, deregulation and divestiture.

i) CONFIEP

(a) Institutional Development

Immediate steps are necessary to strengthen CONFIEP's administrative and analytical capacity. The new government has made overtures to the private sector through CONFIEP, partly in response to early contacts which CONFIEP established with the APRA party by presenting working documents which showed that CONFIEP is willing to work with the GOP to overcome the economic crisis in Peru (See Annex XI, Nos. 2 and 3). This opportunity must be maximized by increasing CONFIEP's technical expertise to engage the GOP in meaningful discussion of key economic issues. In the short term, this technical expertise can only be provided through contracting economic consultants, therefore, CONFIEP will use some of the grant funds to develop its administrative capacity to compete, contract and manage technical assistance contractors. The Project envisions CONFIEP contracting four technical studies, to be defined by the board, in the first year of the Project.

Over the longer term - and beginning in 1986 - CONFIEP

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must develop its own department of economic studies. This is essential if CONPIEP is to achieve consensus among its members on broad economic policy issues, gain credibility with the GOP and public opinion, and make rational use of local and international consultants. The department should consist of a senior economist and two assistants (one at the masters level and one a recent university graduate). The senior economist should be widely respected, have both private and public sector experience, be able to communicate with government officials on a technical level, and have a demonstrated capacity to deal effectively with the press. The senior economist will be responsible for initiating and supervising economic studies contracted by CONPIEP, for coordinating the economic work of the permanent commissions, and for insuring the quality of CONPIEP's economic policy recommendations to the government. The two assistant economists will play a key role in preparing position statements on critical policy issues.

A second institutional requirement for CONPIEP is the strengthening of public affairs/publications activities, including the establishment of an appropriate department. The duties of this office would include planning and execution of conferences and meetings (with assistance from consultants), publication of a bi-monthly newsletter on the association's activities, production and distribution of special economic studies, and the planning (with consultants) and publishing of a quarterly magazine of general interest to the Peruvian private sector. This office should be headed by a senior public relations professional, assisted by a highly competent administrative assistant.

CONPIEP's small staff is currently doing an admirable job of issuing public statements in support of private enterprise, planning a national conference (see Annex XI Nos. 11 and 15 respectively), preparing for the first issue of a bi-monthly magazine, and corresponding with key GOP officials (see Annex XI, Nos. 4-10). However, given CONPIEP's ambitious agenda to expand and solidify its regional presence, and the numerous applications for admittance which it is receiving from diverse business associations, CONPIEP will clearly need the full-time services described above to coordinate and produce effective publicity and educational campaigns aimed at improving the image and knowledge of the private sector, as well as promoting policy and regulatory changes needed to stimulate private enterprise.

The third requirement for CONPIEP is the hiring of an assistant director for membership affairs. This individual will be responsible for broadening CONPIEP's membership base, maintaining close contact with sectoral and regional chambers, and providing appropriate services to CONPIEP's members. For example, this office would be responsible for fostering the growth of new associations in unorganized business sectors, strengthening regional chambers, and maintaining liaison with the informal sector. Further, he/she will coordinate CONPIEP's outreach activities, being responsible for arranging specialized seminars and meetings for the regional associations. This office would consist of one professional and a secretary.

Finally, it is essential that CONPIEP acquire its own

office space. This is important not only because CONFIEP's activities will demand more space than can be provided by member organizations (e.g., several offices, a conference room, a large auditorium) but also to establish the identity of CONFIEP as a thriving, active organization with its own headquarters. Within the Peruvian political culture, an association achieves added importance and prestige from its own physical plant.

(b) Facilitating Dialogue

\$245,000 of the grant to CONFIEP is allocated to facilitate dialogue with the government and forge consensus among the private sector. CONFIEP will require an active studies and publications program to achieve this. As mentioned above, the program will consist of special economic studies, a bi-monthly newsletter, and a quarterly magazine.

Initially, the special economic studies will be highly technical studies of key economic issues facing Peru and will offer specific policy recommendations. CONFIEP's board will identify four key policy issues of concern to the private sector, and then commission technical studies by an economic consulting firm or academic research entity. Special care will be given to select cross-cutting policy issues and to avoid those that favor some sectors over others. Topics could include, opportunities and constraints for private savings and investment, private enterprise and its role and potential contribution to development, the food production system and recommended special incentives for production, labor productivity, foreign debt and its implications for private enterprise development, regional/urban/rural economic integration, etc. Approximately four studies will be prepared each year of the Project. These studies would be 40 to 60 pages in length, beginning with a statement of the problem, followed by an analysis of the issues, and ending with concrete proposals of how the private sector and the government can work toward their resolution. Approximately 3,000 copies will be printed and distributed to government officials, businessmen, the press, and universities.

After the first year of policy studies, CONFIEP will broaden the focus of this publication series to include the results of special conferences, the output of the permanent commissions, and the work of the economics department.

A bi-monthly newsletter is an essential internal communications component of CONFIEP's efforts to unite the private sector. The 4 to 6 page newsletter will provide information on the association's activities, highlight upcoming meetings and conferences, publish short articles on the contributions of the private sector to national development and social well-being, and present the association's views on leading economic issues of the day.

A carefully structured program of meetings, forums, and conferences with broad national participation will assist CONFIEP in developing private sector consensus, disseminating its research results, forging links with the government and the informal sector, and building the

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prestige of the organization. Over the next four years, CONPIEP will focus its research and conference activities on two major themes: the role of the private sector in national development and the general issue of savings and investment in the Peruvian economy.

The first thrust of research and outreach activities will be on broadening the concept of the role of the private sector in the Peruvian economy and of its contribution to national development. The objective will be to change public and governmental perceptions that private enterprise in Peru is synonymous with a small elite. Research activities, coordinated by CONPIEP's economic studies department in collaboration with the sectoral and regional associations and the informal sector (ILD), will develop a data base and profile of the Peruvian private sector. This effort will be partly directed at erasing the artificial barriers between the formal and informal sectors which have been one of the indirect economic distortions brought about by defective economic policies (administratively oriented, non-market responsive). In addition, estimates will be made of the private sector's contribution to national development in terms of employment, investment, wealth creation, and national well-being. The results of this research effort will form the basis for a 2-3 day national conference and perhaps a media campaign.

The second research and outreach activity will focus on the necessity of mobilizing savings and investment in the Peruvian economy. The purpose will determine the policy requirements necessary to increase significantly private savings and investment to promote economic growth and export earnings. The results of the research effort will be presented at a joint government-private sector forum designed to discuss and resolve the roadblocks to economic growth in Peru.

Figure 3 (page 34) presents the outline of research in these areas, culminating in a major conference in both 1987 and 1988. However, the immediate needs of CONPIEP to demonstrate a high level of activity and establish a policy agenda require an interim series of meetings before research results and conference activities come on stream. Beginning in 1987, CONPIEP will initiate a distinguished speakers series. Prestigious businessmen and academics from Europe, Latin America, Asia, and the United States will be invited to address selected Peruvian audiences during a 2-3 day visit (2 small meetings, 1 large audience, and, where appropriate, a day visit to Arequipa or Trujillo).

(c) Sectoral Relations

\$295,000 of the grant to CONPIEP will be allocated to support the institutional development and studies activities of its members. In the case of existing CONPIEP members, criteria for the allocation of funds will be as follows: activities that strengthen the private sector as a whole; activities designed to strengthen the institutional and service capacities of financially weaker associations (newsletters, publications, membership drives, information, etc.); and economic studies by member associations which are

directly related to CONFIEP's strategic emphasis on the private sector and national development and the promotion of savings and investment. In the case of new CONFIEP members, priority will be given to activities designed to provide membership services.

In order to minimize or avoid sectoral disagreements over the allocation of funds, a subcommittee of CONFIEP's board of directors will be formed to administer the funds. In conformity with the guidelines established in AID's grant agreement, and in consultation with the AID Project Manager and the Project Coordinator, this subcommittee will decide the most appropriate allocation of these resources.

ii) Regional Chambers

In order to strengthen the private sector generally, contribute to the representativeness of CONFIEP, and build bridges to a government committed to regional development and decentralization, \$80,000 to \$100,000 per year of the grant funds obligated through CONFIEP will be allocated to regional chambers. Since the regional chambers have recently become members of CONFIEP, the money earmarked for them would be channelled through CONFIEP but coordinated with the Project Coordinator.

The strategic approach of the regional activities will be on institution-building and the promotion of regional investment. In the case of the Arequipa chamber, the most pressing needs are: staff support, including an economist to develop an analytical capacity within the association to enable it to dialogue on an equal technical level with the Lima-based members of CONFIEP and the national government, and an investment

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FIGURE 3POSSIBLE CONFERENCES AND STUDIES

	<u>Definition of "Private Sector"</u>	<u>Investment and Savings</u>
Objective:	- Modify attitudes / understanding of private enterprise/sector.	- Determine what is required to stimulate savings and investment.
Studies:	<ul style="list-style-type: none"> - Completion of ILD work-Lima / Arequipa - Analysis and compilations of results. - Review of historic definition of private sector in Peru/elsewhere; experience with associations. - Contribution of private sector in various economic activities. 	<ul style="list-style-type: none"> - Impact of interest rates (other factors) on savings in Peru; elsewhere. - Main constraints to investment: informal sector; agriculture; other sectors. - What would be required to stimulate more private investment?
Workshops & Conferences	<ul style="list-style-type: none"> - Inter-institutional workshop. - Conference 	<ul style="list-style-type: none"> - Preparatory workshops - Conference
Publications/ Media events	<ul style="list-style-type: none"> - Report - Profile of typical firms - Press releases 	<ul style="list-style-type: none"> - Reports conference proceedings - Press releases
Short term Response	<ul style="list-style-type: none"> - Position papers 	<ul style="list-style-type: none"> - Dialogue - Position papers in response to Government initiatives.

promotion specialist; a computer to help maintain a regional statistical data base; and financial support for studies and publications. In the case of the Trujillo chamber, which is struggling to survive, funds will be made available to increase services to members and to develop an investment promotion capacity, including a data bank on the Trujillo region.

With regard to other regional chambers, the Project Coordinator will undertake a study of the most effective role AID can play in assisting the chambers in Iquitos, Cuzco, Piura, and other regional centers.

2. Informal Sector

The informal sector is institutionally weak, by definition, since it consists of enterprises (individuals) that operate partially or completely outside of the formal legal and regulatory framework. Although parts of the informal sector have organized into ad-hoc associations, usually to pursue a short term objective such as seeking better treatment from the regulatory system, the "informales" have serious institutional limitations for several reasons:

. Because they are outside the legal system, individuals associated with the informal operations would prefer to maintain a low profile.

. Because "informales" do not perceive themselves as forming part of the private sector (as indicated by an ILD survey) they tend to lobby for very concrete and specific interests rather than broader "class" interests.

. Ad-hoc associations of "informales" would probably not be recognized as legitimate or of equal standing by the government or the formal private sector; and many "informales" would lack the financial resources to pay membership dues.

. Although in terms of numbers and overall economic importance the "informales" are very significant, both the lack of understanding of their importance and their political diffusion limits their political effectiveness.

Within this context the ILD was founded in 1980 as a research institute seeking to develop a better understanding of the dynamics and economic importance of the informal sector. Based on its initial findings regarding the importance of informal economic activities in the Peruvian economy, it has begun advocating policy and regulatory reforms aimed at simplifying and facilitating the establishment and operation of these enterprises (ultimately allowing them to become integrated into the formal economy).

ILD's program has been evaluated as part of AID's review both of previous support grants and of ILD's proposal (of April, 1985, see Annex IV) for additional support. This proposal, as incorporated into the current Project, will involve:

. Institutional support for ILD to: institutionalize its policy dialogue process; assist in implementing the changes in structure it has recommended to the Fiscalia de la Nacion; promote pilot projects on deregulation at the municipal level; coordinate and work jointly with formal

sector business entities; advocate policy reforms aimed at integrating formal and informal sectors by improving the business climate for all enterprises; and provide recommendations to improve land titling procedures for the informal sector.

Studies of topics such as: the procedures and requirements necessary to establish legally a small enterprise; the simplification of the costs and procedures involved in obtaining different personal identity documents; possible approaches for "formalizing" commercial and construction activities currently carried out informally; and estimations of the relative importance of informal economic activity.

3. Public Sector

The GOP is still in the process of defining its medium and long term economic development strategies. Thus far, the government has focused on political and social concerns (e.g., reorganization of the police force, and the war on drug trafficking and corruption) while limiting its steps in the economic field to important but largely symbolic measures (e.g., the ceiling on foreign debt payments, the campaign against inflation and speculation, consultations with the labor and business sectors). Even the exchange control mechanisms implemented in August of 1985 were more for the purposes of halting the loss of foreign exchange reserves and stabilizing the monetary situation while the government prepares its economic program than part of a long-range strategy.

The APRA--although a major political force for nearly 60 years--has never governed Peru, and lacks a trained cadre of experienced professional managers and technocrats. Moreover, APRA is a heterogeneous party which has never had to confront difficult economic policy choices which potentially can undermine its cohesion and erode its base of popular support. This implies that a coherent economic strategy will be slow to emerge, particularly since the GOP appears surprised at the magnitude of the economic crisis, the bloated size of the bureaucracy, the inefficiency of state enterprises, and the level of official corruption.

Nevertheless, it is clear (as demonstrated in the background section of this paper) that the GOP will need private sector investment if it is to achieve its twin goals, of growth and greater equity in the distribution of wealth, enunciated by the President in his inaugural speech. Given the economic crisis and the government's probable inability to attract foreign capital (either loans or investment), the state will soon realize that it cannot be the engine of growth. As a result, it is expected that an opportunity will exist for a shared role with the private sector in promoting private investment and creating favorable conditions for economic growth. Only by first creating a political, economic and legal environment conducive to domestic investment, will the GOP then be able to attract the selective foreign investment it claims to desire and appreciate.

AID plans to implement the public sector component through the MEK and the BCR. Although the MEK and the BCR will take the lead role in the public sector component of the Project, the INP, and the MICTI may also participate. In addition, AID should be alert to opportunities to assist new governmental commissions or bodies which might be created to study and make policy recommendations on specific issues (e.g., capital markets, labor

stability, small business development, foreign investment, export promotion).

AID resources to the government of Peru will be provided to key policy formulation entities such as the MEP, BCR and other appropriate Ministries in order to improve coordination and sharing of information among these groups and strengthen their capacities to identify and analyze policy options. It is expected that such assistance will help remove obstacles to private sector investment (including informal sector investment) and/or provide incentives to savings and investment. Within this overall thrust, AID will give priority to research and policy formulation that remove artificial barriers between the informal and formal sectors (thus promoting efficiency and growth) and correct the artificial market signals to which the informal sector responds. The goal of the public sector component of this Project will be to promote growth and employment in Peru by reducing policy and regulatory impediments to private sector investment, production, and exports.

Policy reform in the Peruvian public sector will be promoted through institutional development and training, research and studies, and regular dialogue with private sector representatives. Given the fact that the APRA Government's policy planning formulation process is not yet clearly defined, authorization of the public sector component will occur at a later date (FY87) upon a clearer understanding of how the public sector component should best be structured. In fiscal year 1987, it is expected that funds will be made available for studies, training, technical assistance, meetings, conferences and international travel. In fiscal years 1988 and 1989, these activities would be expanded with almost \$1 million being made available. It is anticipated that the success of the MEP and BCR in promoting regulatory reform and increased investment will enable AID to phase out its support activities in 1990.

B. FINANCIAL ANALYSIS

The total Project budget is estimated at \$9.38 million, of which AID contributes \$6 million and the host country (GOP and private institutions) \$1.380 million (see Table 6). The AID financial contribution is divided as follows: formal private sector - \$2.005 million (33%), informal sector - \$1.2 million (20%), GOP - \$1.6 million (27%), and program guidance and coordination - \$1.195 million (20%). Counterpart contributions are expected as follows: formal private sector \$1.383 million, informal private sector \$1.097 million, and the GOP \$0.900 million. Specific allocation of funds will depend on opportunities which develop within the private sector (formal and informal) and the GOP during Project implementation. The Project must be flexibly designed to take advantage of events as they transpire in what will be a highly dynamic policy and institutional environment. As discussed elsewhere, this is especially important since economic policy formulation and implementation are still at an incipient stage.

1. Formal Private Sector

Of AID's \$2.005 million designated for the formal sector, \$1.645

million is allocated solely to CONPIEP, and CONPIEP will channel \$0.295 million to sectoral associations and \$0.36 million to regional chambers (to be disbursed through CONPIEP). Table 7 (page), presents a breakdown of the formal private sector's budget by type of activity (institution building, facilitating dialogue, strengthening sectoral and regional relations, etc.) and by source of funds, AID grant or recipient counterpart. It is important to note that AID's portion of the total Project cost declines from 76 percent in 1986 to 43 percent in 1989. Moreover, AID's contribution to CONPIEP's core programs is expected to be zero by the end of the Project. As the table indicates, two-thirds of AID funds are devoted to institutional development (staff support, technical assistance, special studies, training, and commodities), with the remainder going to facilitating dialogue (\$245,000) and strengthening sectoral (\$295,000) and regional (\$360,000) members.

Table 7, Part B presents the allocation of funds to the regional chambers. The bulk of these resources are devoted to institutional development and the creation of information centers about investment opportunities in Peru's provinces. Initially, most of AID's funds are earmarked for the Arequipa and Trujillo chambers, with an increasing proportion to be made available to other regional chambers as they propose strategies for their own institutional development, in consultation with CONPIEP-USAID and the Project Coordinator. (In Annex VII a detailed listing of the assumptions on which these financial tables are based is presented.)

2. CONPIEP's Funding Capacity

The ultimate success of CONPIEP will depend on the willingness of the private sector to continue to assume ownership of the organization and its activities. This Project is designed to demonstrate that CONPIEP can play an important role in resolving conflicts within the private sector, producing economic studies and conferences which influence government policies, and sustaining a dialogue with the government on key economic issues. CONPIEP's current annual budget is nearly \$100,000. However, the combined operating budgets of its members total over \$3.0 million (see Annex I). The President and General Manager estimate that CONPIEP's budget grow to \$200,000 in 1987, based on a modest increase in the contribution from its members, the provision of new services and direct contributions from key entrepreneurs.

By the end of the Project period, it is expected that CONPIEP will generate, from non-AID sources, 100% of the revenues required to finance all core activities, and therefore will become financially self-sustaining. The institution-building activities described above will result in both a greater willingness on the part of existing association members to finance CONPIEP's core activities and a much larger and stronger membership base. More importantly, if CONPIEP can achieve its objectives, it will be able to attract financial support from wealthy Peruvian entrepreneurs who support its philosophy and goals, but prefer to remain outside of the formal structure of private business organizations.

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3. Informal Sector (ILD)

\$500,000 of AID's planned \$1.2 million contribution to ILD has already been obligated (June 20, 1985). The remaining \$700,000 will be obligated in FY86 and 87 and disbursed over three years. Approximately 80 percent of AID's grant to ILD is to be used for institutional development, primarily for staff support and studies and publications. Table 9 (page) presents data on the sources and uses of grant funds under the Project by ILD.

4. Public Sector

As noted above, this project component will be authorized at a later date (FY87) upon a clearer definition of the GOP's policy formulation process, and thus a better understanding of how best to structure the component. It is expected that AID's contribution to this Project component will be disbursed over a four year period beginning in early FY87. Table 8 (page) presents a proposed breakdown of the uses of funds by activity and source. This component will remain the most flexible of the four in order to respond to particular GOP needs and to support USAID's general policy dialogue objectives.

5. Project Guidance and Coordination

\$1.195 million is budgeted for program management, with about two-thirds allocated for the Project Coordinator and his/her deputy. The individuals who occupy these positions are crucial to the success of the Project, and they will be contracted by USAID as soon as possible to familiarize themselves with the scope of the Project and its sensitivity within AID's program, and to private sector efforts to engage in dialogue with the government. Funds are also provided in the component for USAID to contract two investment, savings and export development specialists who will work with the various institutions involved in the Project to define key policy issues related to investment, savings and exports, prepare scopes of work for and supervise appropriate studies, recommend policy dialogue activities, and identify investment and export opportunities, and savings possibilities. This direct USAID technical assistance will be critical in insuring that the institutions involved in the Project stay on target with their activities and maximize their effectiveness. Initial contracting and procuring assistance will be provided to CONPIEP through this technical assistance while CONPIEP strengthens its administrative capacity in this area. Finally, funds are budgeted (\$195,000) for a formal audit, financial reviews and evaluations. Given the diversity found in the groups among which this project will coordinate policy dialogue, the sensitivity of the issues involved in this dialogue, and the fluid nature of both the economic environment and the GOP's political needs, this Project has been designed to be flexible in response to the changing conditions of the Peruvian environment. Therefore, evaluations are critical to this Project as they will assess the success of the Project in its current form, determine which changes are needed, if any, and make recommendations on how and when to make needed adjustments. Table 10 (page 44) provides the budgetary details on this component of the Project.

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Table 6
Summary Financial Plan

	AID	BC	Total
I. Formal Private Sector			
a. CONPIEP			
1. Institutional Development	1,105,000	781,000	1,886,000
2. Facilitating Dialogue	245,000	395,000	640,000
3. Strengthening Sectoral Relations	295,000	100,000	395,000
Subtotal CONPIEP	1,645,000	1,276,000	2,921,000
b. REGIONAL CHAMBERS			
1. Institutional Development	250,000	100,000	350,000
2. Facilitating Dialogue	110,000	7,000	117,000
Subtotal Regional	360,000	107,000	467,000
Subtotal Formal Private Sector	2,005,000	1,383,000	3,388,000
II. Government of Peru*			
a. Institutional Development	1,410,000	755,000	2,165,000
b. Facilitating Dialogue	190,000	145,000	335,000
Subtotal GGP	1,600,000	900,000	2,500,000
III. Informal Private Sector			
a. Institutional Development	950,000	1,097,000	2,047,000
b. Facilitating Dialogue	250,000	0	250,000
Subtotal Informal Private Sector	1,200,000	1,097,000	2,297,000
IV. Project Coordination, Support & Evaluation			
1) Project Coordination	650,000	0	650,000
2) Specialized Project Support (T.A.)	350,000	0	350,000
3) Audit and Evaluations	195,000	0	195,000
Subtotal Coordination	1,195,000	0	1,195,000
TOTALS	6,000,000	3,380,000	9,380,000

*Subject to authorization of the Public Sector component.

Table 7
Formal Private Sector

By Project Year (PY)

	Grand Totals			PY 1*			PY 2			PY 3			PY 4		
	AID	HC	Total	AID	HC	Total	AID	HC	Total	AID	HC	Total	AID	HC	Total
FORMAL PRIVATE SECTOR	2,005	1,383	3,388												
CONFLEP															
1. Institutional Development	1,105	781	1,886	372			323			254			156		
a. Staff	290	415	705	94	50	144	94	80	174	67	120	187	35	165	200
b. TA	480	0	480	140	0	140	145	0	145	120	0	120	75	0	75
c. Studies	180	88	268												
TA	77	30	107	45	10	55	22	10	32	10	10	20	0	0	0
Prod'n	103	58	161	17	10	27	26	13	39	30	15	45	30	20	50
d. Training	107	50	157	33	5	38	33	10	43	26	15	41	15	20	35
e. Office Space	0	200	200	0	45	45	0	46	46	0	54	54	0	55	55
f. Commodities	48	28	76	43	25	68	3	1	4	1	1	2	1	1	2
2. Facilitating Dialogue	245	395	640	45	115	160	130	30	160	65	95	160	5	155	160
3. Sectoral Relations	295	100	395	60	20	80	65	30	95	85	25	110	85	25	110
CONFLEP SUBTOTAL	1,645	1,276	2,921	477	280	757	518	220	738	404	335	739	246	441	687
REGIONAL CHAMBERS															
- Arequipa	129	85	214	45	9	54	36	17	53	30	25	55	18	34	52
- Trujillo	91	22	113	25	2	27	23	5	28	24	6	30	19	9	28
- Others	140	0	140	30	0	30	40	0	40	40	0	40	30	0	30
REGIONAL SUBTOTAL	360	107	467	100	11	111	99	22	121	94	31	125	67	43	110
TOTAL FORMAL PRIVATE SECTOR	2,005	1,383	3,388	577	291	868	617	242	859	498	366	864	313	484	797
TOTAL	59%	41%		66%	34%		72%	28%		58%	42%		39%	61%	

PY 1 will begin June 1, 1986 and end May 31, 1987; other PYs follow consecutively in 12 month periods.

h5

Table 8

Public Sector by Project Year (PY) *
US\$ (000)

PROGRAM COMPONENTS	PY 1		PY 2		PY 3		PY 4		PY 5		TOTAL		Total
	USAID	CoP	USAID	CoP	USAID	CoP	USAID	CoP	USAID	CoP	USAID	CoP	
I. Institutional Development													
a. Staffing Support	25	25	75	75	100	125	75	175	25	100			
b. Technical Assistance	25		75		75		50		25				
c. Studies	50	10	150	20	200	20	200	30	100	20			
d. Training	10	10	30	20	40	20	35	20	15	10			
e. Office Space		5		10		10		10		5			
f. Commodities	5	5	10	5	10	10	5	10		5			
SUBTOTAL INSTITUTIONAL SUPPORT	115	55	340	130	425	185	365	245	165	140	1410	755	2165
II. Facilitation Dialogue													
a. Meeting & Conferences	10	5	30	15	40	20	35	20	15	15			
b. Press/Publicity		5	5	5	10	10	5	10		5			
c. Public Educ. Campaign	5	5	10	5	10	10	10	10	5	5			
SUBTOTAL FACILITATING DIALOGUE	15	15	45	25	60	40	50	40	20	25	190	145	335
TOTAL PUBLIC SECTOR	130	70	385	155	485	225	415	285	185	165	1600	900	2500

*Subject to authorization of the Public Sector Component

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Table 9
Informal Private Sector
by Project Year (PY)
US\$ (000)

	<u>PY 0*</u>		<u>PY 1</u>		<u>PY 2</u>		<u>Total</u>	
	AID	HC	AID	HC	AID	HC	AID	HC
1. Institutional Development								
a. Staffing	144	80	140	68	60	52		
b. Technical Assistance	67	0	70	0	70	0		
c. Studies & Publications	200	400	130	300	50	155		
d. Commodities	9	25	10	10	0	7		
SUBTOTAL INSTITUTIONAL DEVELOPMENT	420	505	350	378	180	214	950	1097
2. Facilitating Dialogue								
a. Meetings & Conferences	71	0	80	0	50	0		
b. Press/Publicity	0	0	10	0	10	0		
c. Public Education Campaign	9	0	10	0	10	0		
SUBTOTAL FACILITATING DIALOGUE	80	0	100	0	70	0	250	0
INFORMAL PRIVATE SECTOR	500	505	450	378	250	214	1200	1097

* Although the informal sector component activities through ILD began in 1985, for the purposes of this PP, this precedes PY 1.

Table 10

Project Guidance & Coordination
by Project Year (FY)
US\$ (000)

	PY 1	PY 2	PY 3	PY 4	PY 5	Total
I. Project Coordination						
* a. Project Manager (1)	55	148	124	147	66	540
** b. Deputy Manager (Peruvian)(2)	17	27	28	29	9	110
SUBTOTAL	72	175	152	176	75	650
II. Specialized Project Support						
* a. US Expert (1)	50	122	73			245
* b. Peruvian Expert (2)	10	24	27	28	16	105
SUBTOTAL	60	146	100	28	16	350
III. Audit and Evaluation		30	65	0	100	195
TOTAL	132	351	317	204	191	1,195

Note: A 6.5% inflation related cost adjustment has been included in the calculations.

(1) Includes salary plus travel, shipping, housing, education allowances and other associated costs.

(2) Includes only salary and direct benefits as established by law.

* Starts January 1987

** Starts October 1986

Table 11
Sources & Uses
Summary Cost Estimates and Financial Plan
US\$ (000)

USE	SOURCE		TOTAL
	AID GRANT *	HOST COUNTRY	
I. Technical Assistance			
o Short Term	1,170	30	1,200
o Long Term	1,000	0	1,000
			2,200
II. Training	237	130	367
III. Commodities	118	105	223
IV. Other (including staff, publications, conferences, travels and miscellaneous)	3,475	3,115	6,590
TOTAL	6,000	3,380	9,380

*Includes \$1.6 million for the public sector subject to the authorization of the Public Sector component

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Table 12
Obligation of
AID Grant Funds by FY
US\$ (000)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90	Total
Public Sector*	0	0	500	400	700	0	1,600
Formal Private Sector	0	1,000	605	400	0	0	2,005
Informal Private Sector	500	450	250	0	0	0	1,200
Project Coordination	0	0	449	300	450	0	1,195
TOTALS	500	1,450	1,800	1,100	1,150	0	6,000

This table represents the planned obligations schedule per Project component through their termination.

*Subject to the authorization of the Public Sector component.

Table 13

Expenditure by Project Activity by Project Year (PY)

AID Grant US\$ (000)

Component	PY 0*	PY 1	PY 2	PY 3	PY 4	PY 5	Total
I. Institutional Development	420	914	909	740	567	165	3,715
II. Facilitating Dialogue	80	183	278	158	76	20	795
III. Strengthening Sectoral Relations	0	60	65	85	85	0	295
IV. Guidance, Coordination & Support**	0	132	351	317	204	191	1,195
TOTAL	500	1,289	1,603	1,300	932	376	6,000

This table represents a regrouping of the planned disbursement schedule for the Project per major category of activity as explained in the text and in Tables 6 through 9.

* Although some Project Activities (through ILD) began in 1985, for the purposes of this PP, this preceeds PY 1.

** 1) Includes \$195,000 for evaluations, audit, and financial reviews.
2) Includes technical assistance for investment and export promotion.

Table 14
Expenditure by Currency by Component
by PY
US\$ (000)

	PY 0*			PY 1			PY 2			PY 3			PY 4			PY 5		
	US\$	I/.	Total	US\$	I/.	Total	US\$	I/.	Total	US\$	I/.	Total	US\$	I/.	Total	US\$	I/.	Total
I. Formal Sector				262	315	577	347	270	617	236	262	498	197	116	313			
II. Informal Sector	67	433	500	70	380	470	70	180	250									
III. Public Sector **				65	65	130	190	195	385	225	260	485	190	225	415	90	95	185
IV. Program Coordination				105	27	132	300	51	351	262	55	317	147	57	204	166	25	191
SUBTOTALS	67	433	500	502	787	1289	907	696	1603	723	577	1300	534	398	932	256	120	376

Total US\$ expenditures	=	2,989	49.8%
Total local currency (US\$ equivalent) expenditures	=	3,011	50.2%
		US\$ 6,000	100.0%

This table represents an arbitrary distinction between expenditures to be incurred on U.S. sourced components and expenditures on Peruvian sources or spent components. It is quite probable that the local currency proportion will increase.

*Although the informal sector component activities through ILD began in 1985, for the purposes of this PP, this precedes PY 1.

†Subject to the authorization of the Public Sector Component

Table 15Methods of Implementation and Financing

Budget Item and Method of Implementation	Method of Financing	Budget Estimate
I. Informal Private Sector Specific Support Grant - ILD	Direct Payment	1,200,000
II. Formal Private Sector Specific Support Grant - COMFIEP (Includes grantee contracts for local and foreign TA, commodities and training)	Direct Payment	2,005,000
III. Public Sector * Specific Support Grant (Includes grantee contracts for local and foreign TA, training and Commodities)	Direct Payment	1,600,000
IV. Project Coordination/Guidance Direct AID Personal Services Contracts	Direct Payment	1,000,0000
V. Evaluation/Audit/Financial Reviews Direct AID contract - Evaluation	Direct Payment	100,000
Audit - IG/Non-Federal Audit	Direct Payment	65,000
Financial Reviews - Mission IQC	Direct Payment	<u>30,000</u>
	Total	6,000,000

*Subject to the authorization of the Public Sector component

C. Technical Analysis

The types of activities to be financed under this Project have been described in the Institutional Analysis while the most likely scenario regarding the mix of activities has been detailed in the Financial Analysis. The mix of activities budgeted in the Financial Analysis are considered the most effective means of accomplishing Project objectives. Specifically, heavy emphasis is being placed on institutional development (CONPIEP, regional associations, GOP, and ILD) in order to insure an ongoing capability to research, analyze, dialogue and ultimately formulate and implement an adequate policy framework. The institutional weaknesses in both the private and public sectors in these areas are such that the achievement of Project objectives would not be possible unless this is addressed. Particular emphasis is given to staff development and technical assistance for selected focal organizations* which can begin to alleviate the existing fragmentation (public vs. private, informal vs. formal, Lima vs. provinces and sector vs. sector) and develop a greater consensus regarding a development strategy and policy framework benefitting all Peruvians under a democratic framework.

Similar emphasis is being placed on the studies, publications, conferences and other activities contemplated under this Project. Although these activities will be crucial in developing a national understanding of critical issues and their resolution, their quality and effectiveness will also be a function of the strength and credibility of the sponsoring institutions.

Although the Financial Analysis proposes a specific mix of activities, this Project will require significant flexibility in its implementation. As is described in the Implementation Arrangements, the Project guidance and coordination function is an essential component for insuring the effectiveness of the Project.

The methodology utilized in arriving at the strategic approach and mix of activities recommended for this Project has involved the assessment of possible options for accomplishing Project objectives.** In addition to the PID and guidance cable, various possibilities regarding Project design and activities were identified in extensive interviews with private sector associations (CONPIEP and its member associations and chambers), ILD

* While these have been explicitly identified throughout this paper in the case of the formal private sector (CONPIEP, chambers in Arequipa and Trujillo, etc.) and the informal private sector (ILD), it is not possible to provide the same level of specificity in the case of the public sector since the new administration has not fully defined the role of various ministries in designing economic policy.

** To stimulate economic growth and employment through the alleviation of policy, institutional and attitudinal constraints to savings and investment.

and leading Peruvian economists. Some of the principal design and strategy related considerations included the following:

- o Should the Project focus primarily on financing studies or on developing the institutional framework required to facilitate policy dialogue? Given limited resources, it was determined that emphasis should be placed on institutional development. This emphasis is required in order to insure that policy analysis activities can be properly defined, focused and channeled into effective policy dialogue activities. Because of the weak institutional framework existing in Peru, it was determined that the studies financed under the Project would have limited impact, thus requiring institutional strengthening. Furthermore, the policy analysis and dialogue activities would only be sustained after the Project ends if these institutions are adequately strengthened.
- o Should the formal private sector component of the Project seek to improve the lobbying capability of the various sectoral and regional associations? One of the options considered (and included in the PID) would emphasize channeling resources to CONFIEP's members, in order to improve their policy analysis and lobbying capabilities, rather than strengthening CONFIEP. This option was rejected for several reasons: 1) it would tend to aggravate the existing fragmentation of the private sector and the tendency of each group to seek special deals or privileges in their interaction with the government; 2) it would encourage the perception in government that the formal private sector is only after more privileges without making an adequate contribution to the overall economy, consequently damaging efforts to stimulate policy dialogue, and 3) only a strengthened CONFIEP would be able to marshal the necessary resources and economy-wide credibility to engage in policy dialogue.
- o Should support for regional chambers be channeled through CONFIEP? Given the fact that all the regional chambers of Peru have recently become members of CONFIEP by virtue of CONFIEP's induction of CONFECAMARAS (the umbrella confederation of regional chambers of commerce), and that CONFIEP has a strong commitment to, and its own agenda for, the institutional development of regional chambers, AID support for regional chambers will be channelled through CONFIEP, but jointly administered by the AID Project Coordinator.
- o To what extent should linkages between ILD and CONFIEP be formalized? ILD and CONFIEP are entirely different types of organizations; while CONFIEP is a representative association, ILD is a group researching issues affecting the informal private sector and helping the informal sector organize around activities based on ILD's proposals. However, since close coordination is essential (and should be insured by the Project Coordinator) ILD and CONFIEP will enter into a formal agreement to coordinate their policy analysis and dialogue activities, as well as jointly pursue the objective of a Peruvian investment environment attractive to all investors.
- o To what extent are the recommended skills available in Peru or the U.S.? The success of the Project, as designed, will depend heavily on the calibre of the individuals recruited for key positions. This

makes it particularly important to consider whether those skills are available in Peru or the U.S. Field research indicates that qualified candidates can be found in Peru to fill the positions required within CONFIEP (economist, public relations, membership affairs) as well as the deputy coordinator and one of the export/investment promotion specialists. The most difficult position to fill will be that of economist given the qualifications specified and the need to convince prominent economists to work with an unproven organization. U.S. expertise will be required for the Project Coordinator, (see Annex VII for a description of the Project Coordinator) export/investment promotion and most foreign short term technical assistance. For other short-term technical assistance, it may be necessary to look beyond the U.S., for example, to a Venezuelan with experience in FEDECAMARAS or a Spaniard with experience in the Spanish Confederation of Enterprise Organizations.

- o What would insure effective implementation of this highly complex and experimental Project? Because this Project involves working with three entirely separate components (formal private, informal private, and government sectors) towards common objectives, this Project requires special attention to the monitoring, coordination and support function. This has been provided by a coordinator, deputy coordinator, and two investment promotion specialists. The former two individuals would focus on guidance, coordination, monitoring and adjustment of the Project while the latter two would provide hands on assistance in conceptualizing and undertaking Project related activities and analyses.

D. Economic Analysis

The economic situation fully described in Section II --- Background is characterized by limited growth and investment, declining standards of living, growing unemployment, and an unmanageable foreign debt. Furthermore, these problems are largely structural in nature due to the development strategy, economic policies and management of the economy of the past fifteen years. Of particular importance has been the increasing state intervention in the economy, both through direct investment in state owned companies and extensive regulation of the economy. This has resulted in the emergence of a very large "informal" sector and limited incentives for savings and investment in the formal private sector.

The public sector, which has traditionally attempted to compensate for limited private investment with its own spending (largely financed by foreign borrowing) can no longer financially afford to continue to rely on this model. Furthermore, the macroeconomic situation is so serious that the resources that might be mobilized by the public sector do not even come close to meeting the requirements for jobs, foreign exchange and improved standards of living. Some of the specific challenges facing Peru might be quantified as follows:

The creation of about 300,000 jobs to reduce open unemployment to 1975 levels and an additional 600,000 jobs to absorb new entrants to the labor force over the life of the Project.

The creation of improved employment opportunities for 57% of the

labor force considered to be underemployed.

. The generation (or inflow) of an average of about \$2 billion per year in additional new foreign exchange to be able to meet debt service obligations over the next five years.

. An increase in GDP of 20%, in real terms, over the life of the Project just to restore per capita income levels to 1975 standards (without considering further growth of the population).

In the context of these challenges, it is evident that the estimated \$1.2 billion in gross fixed investment in 1984 (15.4% of GDP) is inadequate. For example, assuming that \$10,000 in investment is required per job created (roughly the actual ratio in Peru), \$1 billion in new investment would generate 100,000 jobs, which if sustained over the life of the Project would not address even the open unemployment problem. Investment levels would have to be doubled, without access to foreign borrowing, such that domestic savings would need to increase correspondingly.

Given the magnitude of the problem, AID's total assistance program (not to mention this Project) can provide only a very small part of the needed resources. Projects must be designed to have the greatest possible leverage in terms of their economic impacts. Specifically, each dollar of AID Project financing must stimulate many dollars of productive investment in the economy (consequently generating jobs, foreign exchange and improved standards of living). This must be the primary criteria for the economic analysis of the present Project.

If properly implemented, the Project can have a significant economic impact well beyond the level of direct AID investment. Although the economic benefits are impossible to quantify, the Project could be described as having the following impacts:

. Improved understanding of the severity of the economic crisis and the need for greatly increased levels of investment, in contrast to the very limited public sector resources available for investment.

. Enhancement, as a result of the understanding of the problem and the limited options available for its alleviation, of the possibility of significant policy reform aimed at creating an attractive investment climate.

. Increased domestic savings and investment, in both formal and informal private sectors, generating needed employment and national income.

. Improved environment for privatization of state-owned companies, which in turn would reduce the fiscal burden on the government and free resources for social services and infrastructure.

. Private and public sector cooperation in the promotion of foreign investment in priority sectors (particularly exports and agriculture).

. Increased exports, providing needed foreign exchange for servicing the debt and financing essential imports.

. Increased economic efficiency resulting from the

elimination/modification of policies and regulations that are costly to administer and comply with, and which aggravate structural distortions in the economy (e.g. policies and regulations that have contributed to: high cost, highly protected industries, disincentives to agriculture and investment in rural areas, and the emergence of the informal sector).

. Increased production and greater competition, benefitting both producers and consumers.

The beneficiaries of the economic impacts generated by the Project can be described as follows:

. The informal sector which would benefit from fewer burdensome regulations and discriminatory policies (for example that provide special privileges to large scale enterprises), as well as from easier access to credit and recognition within the formal system.

. The unemployed and underemployed who would be the primary beneficiaries of new savings and investment.

. Consumers benefitting from increased and more efficient (lower cost) production.

. Producers who would find it easier and more attractive to invest in the Peruvian economy.

In evaluating this Project, it will be important to determine the extent to which the research, institution building, policy dialogue and related activities have resulted in policy reforms with a direct impact on investment and economic growth. Specifically this evaluation should seek to measure the extent to which AID's "investment" has been leveraged in terms of stimulating investment, employment, foreign exchange, national income, and greater economic efficiency. In Section V. F. evaluation needs and means are discussed in greater detail.

E. Social Soundness

The feasibility of this Project depends upon the willingness of the three sides of the triangle (public sector, formal private sector, and informal sector) to collaborate in resolving Peru's economic crisis. Ironically, the very severity of the crisis may push these three sectors of society together. The government appears willing to dialogue with the formal private sector and to reach out to the informales; the private sector has formed CONFIEP in an attempt to speak with one voice; and the most visible exponent of the informal sector (ILD) is already engaged in a research project with the Arequipa Chamber (a member of CONFIEP).

Safeguards for the Project are detailed in the Implementation Arrangements. The risks to the Project are well-known: that the government could increase state intervention in the economy; that the private sector could again fractionalize in the pursuit of narrow sector interests; and that the informal sector could continue to expand rather than legalize* its activities in response to non-market signals (increased regulation, price controls, etc.) from the government. This latter development would probably mean an increasing role for the state as champion of the informales to the

exclusion of other organizations and, at the same time, exercising greater control.

With regard to the activities envisioned in the Project, these fit within the socio-political and cultural parameters of Peru. Studies, publications, conferences, discussion of alternatives, technical assistance, and training all fit within Peru's democratic framework. In addition, there is a history of public-private dialogue in Peru, as exemplified by the annual business executives conference meeting (CADE). This particular effort has been successful because it has been organized by an organization with no specific sectoral interests (IPAE, a participating business educational organization in the Private Sector Management Improvement Project) and around issues that can provide a common forum for all sectors. The lessons of this successful precedent have been incorporated into the present Project.

* Legalization is used here to represent the acceptance by all parties of a minimum set of rules that do not penalize the growth and development of individual enterprises currently considered part of the informales stratum.

V. Implementation Arrangements

To obligate Project funds three (3) separate grant agreements, four (4) AID direct Personal Services Contracts (PSCs) and a series of AID direct institutional and/or PSCs for evaluation and audit will be used.

Grant agreements will be negotiated with organizations representing the three components of the Project -- the formal private sector, the informal private sector and the public sector. To date, Project design envisions grant agreements with CONFIEP, ILD and the public sector, most likely the BCR.

The task of coordinating and guiding these diverse and potentially antagonistic elements will fall, of necessity, outside the three groups. The decision on how best to plan and execute the Annual Implementation Plans required under the grant agreements will have to be made in the manner that least compromises the impartiality and ability of the USAID Project Coordinator and Deputy Project Coordinator to work with all parties involved. The task of the Project Coordinator and his/her Deputy will require special care and sensitivity to recognize the existing divisions within and between sectors and to strive to overcome them. Improving communication and enhancing collaboration on all fronts are the fundamental pillars for building consensus. Therefore, the guidance and coordination component is critical and will be implemented through four (4) AID direct PSCs.

To provide needed objectivity in the evaluation and audit of the Project, \$195,000 is available for AID direct contracting under institutional and/or PSC modes.

The following pages provide specific guidelines for negotiation, project financing, procurement and implementation.

A. Private Sector

1. The Formal Private Sector

A specific support agreement will be signed with CONFIEP with a threefold purpose:

- . Strengthen the institution and its member sectoral and regional organizations (including the attainment of financial self-sufficiency).
- . Develop its economic/policy research and analysis capability.
- . Develop its opinion/consensus forming capability.

The initial focus will be in the institutional strengthening area with a gradual shift towards the development of study and dialogue capabilities. Since it will take time for CONFIEP to develop organizationally, technical assistance, commodities and training opportunities, especially in the earlier phases, will be contracted by CONFIEP through a series of institutional contracts. The institutional contracting mechanism will be used to facilitate access to needed local and foreign skills and reduce CONFIEP's contracting burden. A US/Peruvian consortium approach will be used to avoid too strong a non-Peruvian identification of this sensitive effort.

CONFIEP will accomplish (1) the contracting of technical assistance; (2) the purchase of goods and commodities; (3) the selection and hiring of new staff; and (4) the organization and financing of conferences and public education activities. CONFIEP Management and the Board of Directors realize that the accounting and financial control as well as contract management operations must be strengthened and must adhere to AID approved requirements, standards and procedures (CONFIEP has already received the Spanish version of HB 11). CONFIEP, its member organizations and the individual entrepreneurs who comprise all these associations have the requisite skills to manage and control Project resources. USAID, the Project Coordinator and the Deputy Coordinator will periodically review the growth in CONFIEP's staff to assure that administrative functions are expanding in accordance with the program elements and project objectives.

2. The Informal Private Sector - Institute for Liberty and Democracy (ILD)

This Project component has already been obligated with ILD through a specific support grant agreement on June 20, 1985. Funding is made available to continue ILD's work involving the preparation of studies on the informal private sector, the publicity of their findings and the preparation of a book on the informal sector. The result of ILD's work to date has been an increased awareness on the part of the government and the general public of the size, functioning and importance of the informal sector and of the need to reduce the regulatory and legal maze which impedes the evolution of the informal sector to formalized legal status.

Based on ILD's substantial earlier experience in successfully implementing a series of AID-financed activities it is fully conversant with AID project requirements. The organizational structure is in place and capable of administering the remaining grant resources as planned.

B. Public Sector

Traditionally, the key economic policy making entities in Peru have been the BCR and MEF, and to a lesser extent, the MICTI and the INP. Indications from the Garcia government show that the office of the Prime Minister (which currently shares portfolio with Economy and Finance) and the newly established Ministry of the Presidency will also play a decisive role in economic affairs. However, as noted earlier, given the fact that the policy formulation/analysis process of the APRA government is not yet well-defined, authorization of this component will be postponed until early FY87, when the Mission will have a better understanding of how this component should best be structured.

USAID has had much experience with the MEF, the BCR and numerous other GOP agencies in the design and implementation of both grant and loan financed projects. All organizations being considered for participation in this component of the Project have implemented or are implementing USAID assisted activities. Additionally, all are fully aware of AID financial and contracting requirements and will comply with these responsibilities.

C. Project Coordination and Guidance

Because the Project aims to facilitate dialogue between an institutionally weak private sector and an inexperienced government, the task of guidance and coordination of Project components becomes critical. This task is all the more delicate due to the current atmosphere of social and economic crisis. Given the fluid present situation, frequent adjustments will probably have to be introduced in the implementation of the Project. These adjustments will be made on the basis of periodic reviews and evaluations of the progress, problems and opportunities encountered as the activities unfold. This component of the Project, therefore, will be implemented at the earliest possible time. The budget figures shown in Table 10 (page 44) reflect the importance attached to this component, which is key to the success of the whole Project as well as individual components.

The Project Coordination and Guidance component will be implemented directly by USAID through four (4) PSCs. Two (2) of the PSCs will provide USAID and the Project with general project coordination and guidance skills. These two senior coordinators (one U.S. and one Peruvian) contemplated under long term personal services contracts will have complementary skills in order to adequately monitor and evaluate the progress of the three principal operational components of the Project. The US PSC Project Coordinator will be selected and contracted with FY87 Project resources and is expected to start work in Peru in January 1987. The Peruvian PSC Deputy Coordinator will also be hired with FY87 Project funds but will begin work earlier, probably in October 1986. Should the Deputy Coordinator be identified and available before FY87 Project funding is in place, the Mission will contemplate using Project Design and Support funds for the first period of this two-year contract. This procedure will allow rapid implementation of the coordination and guidance function.

In addition to the Project coordination function, this component also includes technical assistance for investment and export promotion specialists who will help to define and support the work in these fields. These experts, one U.S. and one Peruvian, will be experienced in programs aimed at improving the policy climate for investment, savings and exports as well as in the identification and follow-up of specific opportunities. Both individuals will be contracted through PSCs with USAID in late FY87.

D. Negotiating Status

USAID is fully prepared to negotiate a \$2,005,000 specific support grant agreement with CONFIEP and obligate the first increment (\$1,000,000) of funding. Documentation is also in place for the second increment (\$450,000) of the informal sector grant with ILD. Extensive discussions have taken place over the past two years with CONFIEP, and the ILD agreement was previously signed on June 20, 1985. CONFIEP submitted a grant request proposal on 6/16/86, which, in combination with the analyses in this PP, will be the basis of the specific support grant agreement. All major CPs and covenants for the CONFIEP agreement have been discussed. These include,

a) Conditions Precedent to Initial Disbursement

Prior to any disbursements or the issuance of commitment documents under the Grant, CONFIEP will submit to AID, in form and substance acceptable to AID, the following:

i. Evidence that CONFIEP is duly organized and registered in accordance with the laws of Peru, and

ii. Evidence that CONFIEP is recognized as an entity exempt from taxation under the laws of Peru.

b) Conditions Precedent to Disbursements

Prior to any disbursements after the first \$100,000 has been disbursed under this Grant, CONFIEP will submit to AID, in form and substance acceptable to AID, the following:

i. A copy of a CONFIEP Board of Directors' resolution indicating that there will be increasing self-sufficiency for CONFIEP's core activities during the Grant period and full self-sufficiency for core activities when AID financial assistance terminates.

ii. The first Annual Implementation Plan which provides expected accomplishments for the period, and the anticipated Project inputs, objectives and specific progress indicators for each quarter. The plan will specify the funding source for all proposed Project activities.

iii. Documentation that CONFIEP has developed and is utilizing an improved financial management, internal control and procurement system..

iv. A copy of an executed agreement between CONFIEP and ILD which indicates that these organizations plan to collaborate to promote the integration of the formal and informal private sectors in Peru, and describes the general manner in which this will be accomplished.

c) Conditions Precedent to Subsequent Disbursements

Prior to any disbursement or the issuance of commitment documents under the Grant to finance Project activities not contained in the Annual Implementation Plan in effect at the time, CONFIEP will submit to AID, in form and substance acceptable to AID, the following:

i. An amendment to the Implementation Plan currently in effect, or if appropriate, a new Annual Implementation Plan

ii. Documentation which indicates that CONFIEP has provided no less than the Project counterpart requirements to date as described in its proposal to AID.

d) Covenants

CONFIEP covenants that it will,

- i. Undertake campaigns, studies and other actions that promote and expand private sector investment, production, exports and employment in Peru.
- ii. Conduct public education programs on the important role of the private sector (both formal and informal) in the development of Peru.
- iii. Prepare regular studies, analyses and recommendations that integrate private sector views from the private formal and informal sectors and from Lima-based and regional associations. Publicize the findings and conclusions of these studies, analyses and recommendations and present them in appropriate ways to other private sector organizations, to the general public and to the Government of Peru.
- iv. Work to integrate CONFIEP, sectoral associations and regional associations and strengthen their capacity to promote private sector investment, production, and employment outside of Lima.
- v. Work with appropriate private and public organizations to help integrate Peru's large informal private sector into the formal economy of Peru.
- vi. Implement a fund raising campaign which will lead to increasing CONFIEP revenues from non-AID sources in order that CONFIEP can continue and maintain core project activities when AID funding terminates.
- vii. Seek additional funding for CONFIEP from local sources and, as appropriate, from other international agencies and/or from friendly countries.
- viii. Employ the technical and administrative staff needed to develop successfully CONFIEP's institutional and technical capacity and to implement effectively the AID grant.
- ix. Coordinate CONFIEP activities with other private sector groups being assisted by AID such as Instituto Libertad y Democracia (ILD), Instituto Peruano de Administración de Empresas (IPAE), Escuela Superior de Administración de Negocios (ESAN), Universidad del Pacífico, Universidad de Piura, Acción Comunitaria del Perú, Asociación Promotora de Institutos Tecnológicos Superiores (TECSUP), etc. When appropriate, utilize the research findings and development experiences from these organizations in CONFIEP programs.
- x. Conduct regular project review sessions with AID to discuss,
a) the status of activities being carried out under the grant, b) problems encountered in implementing the grant c) means for addressing these problems, d) progress in developing CONFIEP's institutional capacity and financial self-sufficiency, e) status of private sector counterpart contributions to CONFIEP and f) other issues mutually agreed upon by CONFIEP and AID.

xi. Participate with AID in all project evaluations, financial reviews, and audits and incorporate into the Project appropriate recommendations resulting from such activities as mutually agreed upon by CONFIEP and AID.

xii. Locate, select, contract and purchase all AID-financed project technical assistance, training services and commodities in a competitive manner approved by AID.

The informal private sector component of the Project has already been authorized and includes all source/origin and nationality requirements, as well as Conditions Precedent and Covenants. This authorization is included in Annex 10, Exhibit A. The authorization of the public sector component, final negotiations and signing of a Grant agreement with the GOP will take place in FY87. Conditions and covenants will be determined at that time.

E. PROJECT METHODS OF FINANCING

Table No. 15 (page 49) outlines the planned methods of implementation and financing as required by Policy Statement No. 1 of the Agency's Payment Verification Policy. Planned methods of financing conform to the preferred methods established by AID policy. However, the design anticipates, for critical institutional development reasons, that Grantee contracts will be executed for technical assistance training and commodities. All financial flows for these contracts will be in the form of AID cash advances to the Grantee and then reimbursement to the contractors. CONFIEP has little experience in competing, evaluating, negotiating or managing the type of broad, long-term services contracts contemplated by this Project. Nonetheless, the institutional development considerations of Grantee contracts versus the internal control advantages of direct AID contracts were considered by the design team, with the selection of the former for project implementation. The USAID, Project Coordinator and the Deputy Project Coordinator will provide contracting assistance to CONFIEP in the initial stages until CONFIEP refines its capabilities in this area.

CONFIEP will face also substantial responsibility to monitor the use of, and account for, federal funds going to conduct seminars, studies and other research/policy dialogue activities through sectoral and regional associations. As a result, in addition to enhanced review by USAID and the Project Coordinator and Deputy, the Specific Support Grant may be used to finance the necessary financial management expertise and overview to account properly for incurred costs. Specifically resources will be available under the staff and technical assistance line items in the Specific Support Grant.

While CONFIEP has access to highly trained and internationally experienced business professionals who are members of its confederation, it is nonetheless currently a fragile organization with only three staff, a general manager, a secretary and a part-time accountant. As noted in the detailed CONFIEP analysis (Annex I), CONFIEP is a nascent organization still at the early stage of development, especially from a financial management perspective. As a result Mission management realizes that exceptionally close monitoring of CONFIEP's initial contract execution, management and staffing process will be required along with close oversight of all AID cash resources disbursed to CONFIEP. In this regard, it should be noted that specific and extensive funding for a formal audit and CPA consulting services have been budgeted in the Project as required by AID policy and commitments/disbursements above \$100,000 will require CONFIEP to improve, as a Condition Precedent, its accounting and financial controls systems in a manner satisfactory to AID.

F. PROCUREMENT PROCEDURES

1. Source and Origin of Commodities, and Nationality of Services

In accordance with the Project's underlying flexibility and desire to use the institutional and policy dialogue/formulation experiences of

countries in the free world (particularly Mexico, Argentina, Colombia, Venezuela and Spain), the following illustrative waivers may be requested during project implementation because in many cases no suppliers from US and Peru will be able to provide the required commodities, services and/or training. These waivers will be analyzed and justified on a transactional level if/at the time they are requested.

a) A.I.D. source and origin regulations will be waived to permit the procurement of up to \$200,000 of commodities, including training, data processing equipment and publications, from countries included in AID Geographic Code 941.

b) A.I.D. nationality regulations will be waived to permit the procurement of up to \$200,000 of services from suppliers whose nationalities are in countries included in AID Geographic Code 941.

c) A.I.D. nationality regulations will be waived to permit the procurement of up to \$200,000 of services from suppliers whose nationalities are in countries in AID Geographic Code 935.

All other standard AID requirements and grant language will be used in the negotiation and obligation of Project funds.

2. Procurement

Procurement of Project goods and services will be the responsibility of USAID, CONFIEP (and its member associations), ILD and the GOP. The coordination and guidance component requires four long-term personal service contractors who will be contracted directly by USAID. All other goods and services will be procured by the grant recipients using competitive practices approved by USAID. Full consideration will be given to small, minority and women owned businesses for the provision of all goods and services. It is expected that CONFIEP, and possibly the GOP, will use institutional contracts, with a US firm(s) or US/Peruvian consortium(s), to provide much of the technical assistance, commodities and training. This will reduce the number of contracting transactions and the resulting administrative requirements. The audit and evaluations will be conducted by outside contractors contracted by AID, for which a total of \$195,000 has been allocated.

The inputs to be covered under each of the obligating agreements are summarized below:

a) Long term personal services contracts

- Project coordinator (48 person months)-US
- Deputy Project coordinator (48 person months)-Peruvian
- U.S. investment, savings and export promotion expert (24 person months)- US
- Peruvian investment, savings and export promotion expert (48 person months)

b) Grant agreements

CONFIEP

- Staff support
- Studies*
- Commodities*
- Other Associations
- Conferences, public education, meetings, speakers
- Technical Assistance*
- Training*

GOP

- Training*
- Commodities*
- Meetings, publications, public education
- Technical assistance*

ILD

- Staffing Support
- Studies
- Commodities
- Public education campaign

* Approximately 75% of these inputs are expected to be procured through institutional contracts possibly with Peruvian and/or U.S. institutions.

G. Implementation Plan

An organizational structure indicating lines of communication and responsibility are shown in Figure 4 (page). Figures 5 and 6 (pages and) summarize the key implementation arrangements over the life of the Project and, specifically, for the first twelve months. The principal tasks required to insure that the Project gets underway in a timely and efficient manner (following Project Authorization) are described below:

1) Negotiate and amend grant agreements: A new specific support grant agreement will be negotiated with one of the three principal institutional beneficiaries of the Project (CONFIEP). A grant agreement has already been signed with ILD and a grant agreement will be negotiated with the GOP in early FY87. Hence, the initial focus will be on CONFIEP, and through it, the regional and sectoral associations. Recommended conditions and covenants, are further described under "Negotiating Status" (page).

2) Contract for Project Inputs: Because CONFIEP presently lacks the organizational capacity to administer fully the entire range of discrete activities to be provided under the Project, related activities will be grouped together where possible and CONFIEP will competitively select, where

possible, institutional contractors to manage the detailed technical assistance, training and commodity procurement actions. CONPIEP will contract directly with some individuals, but institutional contractors will be used to provide the largest portion of Project inputs. These contractors may be Peruvian and/or US and/or from a 3rd. country. As discussed earlier, given the sensitivity of the Project, a Peruvian/US consortium may be the preferable mechanism to introduce needed foreign technical assistance, training and commodities. It is expected that institutional contractors will be responsible for the following areas,

- . Providing short term assistance to CONPIEP in the areas of organizational development, economic and investment analysis, and organization of conferences and other Project related activities.
- . Providing short term technical assistance or study teams to be in position to respond to requests for assistance from CONPIEP.
- . Identification, organization and provision of suitable training.
- . Computers and other equipment needed by the formal private sector.
- . In order for the institutional contracts to be finalized by January 1987, it will be necessary to issue requests for proposal in mid-September.

3) Establish the Project Guidance and Coordination Component: The Project Coordinator should begin to work in Lima in January 1987. The Deputy Project Coordinator, a Peruvian, should be on board in October as he/she will be easier to identify and contract. First priority will be given to establishing good working relations with CONPIEP, ILD and the key public institution(s). Working with CONPIEP to develop and execute its Annual Implementation Plan will be particularly important. The search for the U.S. and local export and investment experts will begin as soon as possible. While contracting these individuals is important to Project success, first attention will be given to the Project and Deputy Project Coordinator PSCs. Contracting for the export and investment PSCs will take place in mid to late FY87.

4) Initiate institutional development of CONPIEP: As indicated above, defining the specific tasks required to strengthen CONPIEP must be initiated almost immediately. It is recommended that the AID Project Officer and the Deputy Project Coordinator work on an Annual Implementation Plan with a select committee of CONPIEP board members and the general manager. This plan will specify how the various elements of the grant agreement will be implemented, with specific attention to:

Staffing

- . Increased membership and member contributions
- . Financial self-sufficiency
- . Training
- . Organizational changes and development
- . Studies
- . Technical assistance and community requirement
- . Conferences, and workshops.

Figure 4
Organization Structure

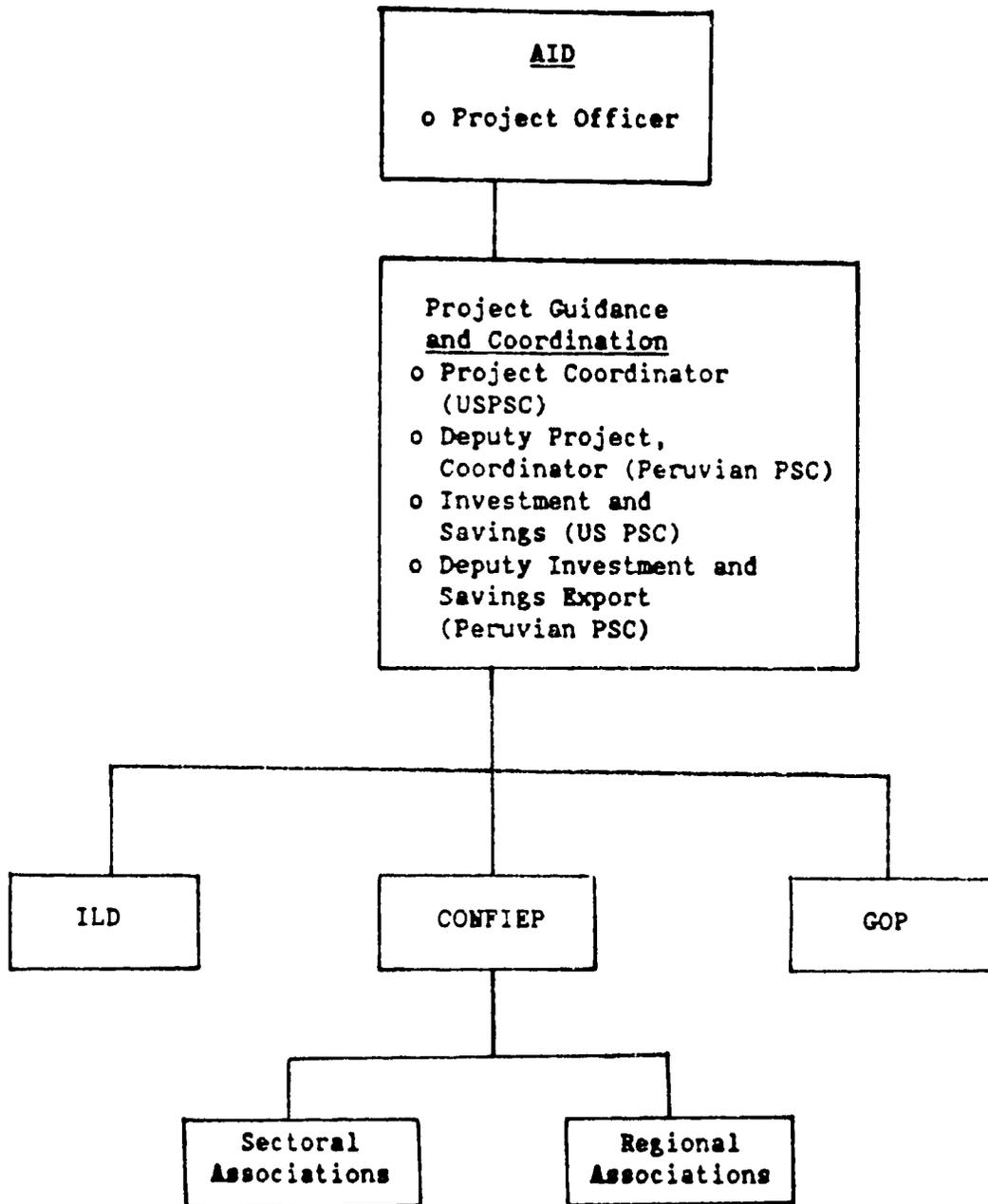


Figure 5

Project Implementation Schedule

Project Years (PY)

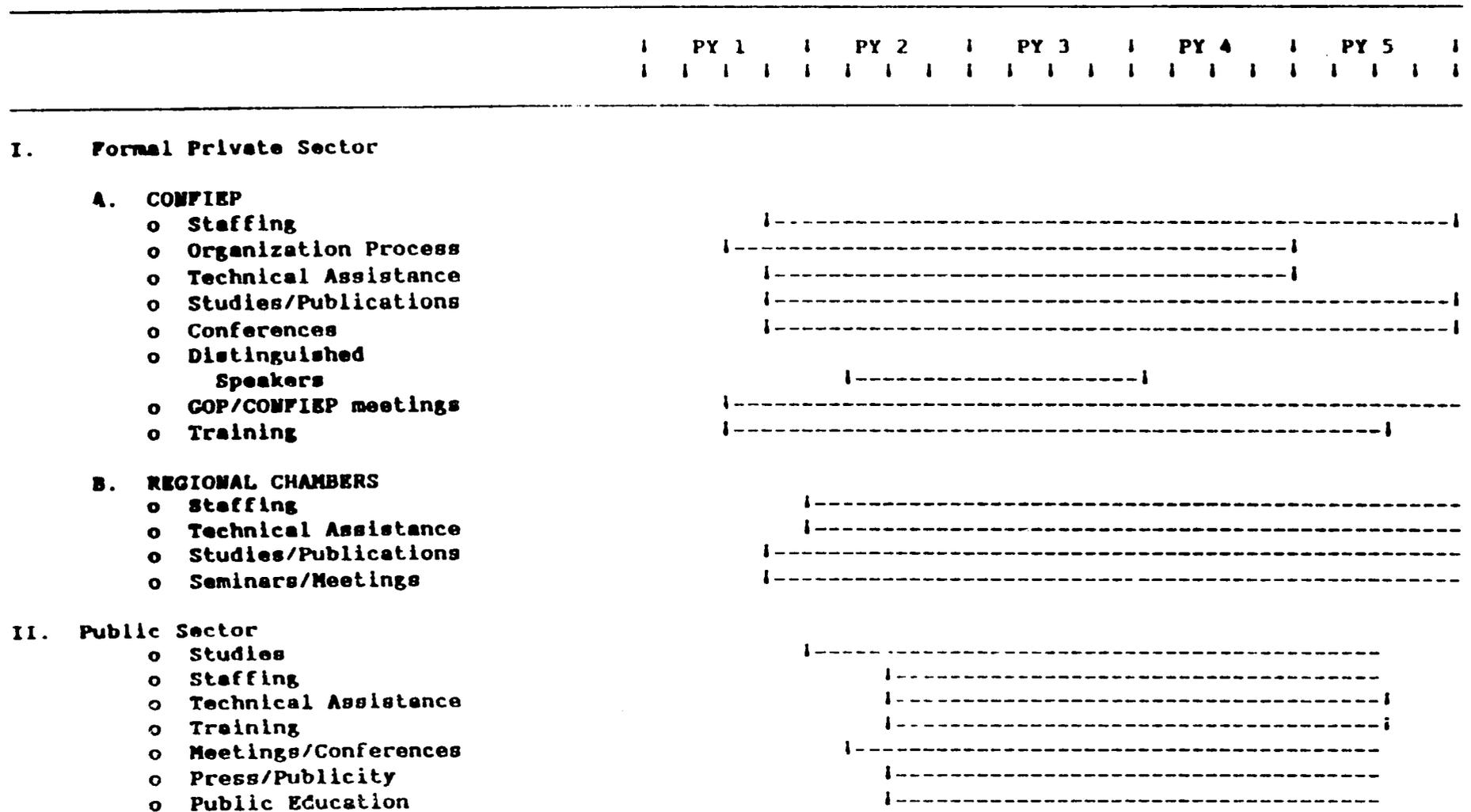


Figure 5 (cont'd)

Project Implementation Schedule

Project Years

	1985*	PY 1	PY 2	PY 3	PY 4	PY 5
III. ILD						
o Staffing						
o Technical Assistance						
o Studies/Publications						
o Meetings/Conferences						
o Press/Publicity						
o Public Education						
IV. Project Coordination						
o Project Coordinator						
o Deputy Coordinator						
o U.S. Expert						
o Peruvian Expert						

* Although the informal sector component activities through ILD began in 1985, for the purposes of this PP, this precedes PY 1.

Figure 6

First Year Implementation Schedule

Date	Task	Responsibility	
1985	June 20	o Sign ILD agreement	o AID/ILD
1986	June 16	o Approve project paper	o AID
	June - December	o Negotiate grant agreements	o AID/CONFIEP/GOP
	July	o Prepare CONFIEP Implementation plan	o CONFIEP
	December	o Select a Project Coordinator	o AID
	August	o Recruit additional CONFIEP staff	o CONFIEP
	August - November	o Monitor ILD progress	o AID
	September	o Issue RFPs for technical assistance	o AID
	September	o Initiate CONFIEP reorganization	o CONFIEP
	September	o Recruit Deputy Coordinator	o AID
	October	o Contract initial studies	o CONFIEP
	November	o Recruit CONFIEP economics/support	o CONFIEP
	November	o Define initial CONFIEP studies	o CONFIEP/AID
	November	o Initiate Regional Chamber activities	o Chambers/AID
1987	January	o Project Coordinator in Lima	o AID
	January	o Sign contracts for Project inputs	o CONFIEP
	January	o Initiate CONFIEP/GOP meetings	o CONFIEP/AID
	January	o Organize distinguished speakers series	o CONFIEP
	February	o Recruit staff - Regional Chambers	o Regional Chambers
	February	o Define initial public sector studies	o GOP
	February	o Recruit U.S. & Peruvian Experts	o AID

VI. EVALUATION AND MONITORING PLANS

A. General

The paramount goal of the Project is to stimulate economic growth and employment through promoting private investment and savings in Peru. To this end, the Project seeks to create a policy and regulatory environment conducive to the expansion of domestic savings/capital mobilization and the attraction of foreign and domestic private investment. In turn, an improved policy environment will result from greater private/public sector participation in policy design. Given the nature of the Project's overall goal, performance could be evaluated by measuring macroeconomic variables such as: (a) increases in private investment; (b) increases in domestic savings; and (c) relative participation of the state in the GDP

Also, given the Project's purpose of changing the policy and regulatory environment to facilitate increased private sector production and employment, success could be measured by the following: a) number of laws eliminated, changed and/or introduced; b) quality of legislation and regulations as perceived by the private sector; and c) identifying which Project outputs lead to the earliest and/or most effective policy modifications.

However, to evaluate a Project solely based on macroeconomic and legislative figures would be unrealistic as it will not provide timely detection of either Project problems or opportunities. Given the relatively large number of institutions involved, and the diversity and complexity of the activities programmed, Project monitoring and adjustment will be an essential part of the management process and the direct responsibility of the Project Coordinator and his/her Deputy. Therefore, an integrated monitoring and evaluation plan has been devised. Monitoring will be continuous and more intense than is common on most AID assisted projects. Additionally, evaluations of both the goal and purpose levels of the Project will be conducted.

The Coordination and Guidance Counterpart includes \$195,000 for evaluation, financial review and formal audit costs. These activities will be directly contracted and managed by USAID to insure objectivity.

B. Monitoring

As stated above, the Project Coordinator and Deputy will monitor continuously the progress of the Project towards the attainment of its purposes, outputs and inputs. Equally important will be the frequent testing of the strategic assumptions that have been made in the design of the Project, and the detection of problems and opportunities that could retard the achievement of favorable results. Because this is a very complex and ambitious Project, management will need to be resourceful and adaptive.

One of the early tasks of the Project Coordinator and his/her Deputy will need to be the design of a matrix to measure progress in implementation and to determine the commitment of the various grant recipients. Some of the benchmarks that could be established will have to focus more on the mechanisms (means) than the ends.

5/11

The monitoring parameters outlined below are illustrative. In each case, the Project Coordinator and Deputy will have to quantify benchmarks to be attained for each period of the Project and negotiate these targets with the various organizations as part of each Annual Implementation Plan. Quarterly progress reports will be required of and prepared by the participating institutions and reviewed in meetings with the Project Coordinator and AID Project Officer. Any changes to Annual Implementation Plans or benchmarks will be negotiated at that time.

Below is a list of probable benchmarks which will be included in the Annual Implementation Plans of participating organizations.

The Formal Private Sector

CONFIEP

- Increases in membership - new associations joining
- Increases in revenues from membership dues and other non-AID resources
- New agreements to extend services outside Lima
- Progress towards restructuring to include "Board of Patrons"
- Development of the internal organization
- Quality and quantity of economic studies
- Conferences organized and type and number of attendees
- Workshops, meetings and consultations by GOP officials
- Effective financial management

Other associations (sectoral and regional)

- Increases in revenues
- Development of the organization (staffing)
- Development of new services to the membership
- Expansion of the membership
- Participation and sponsorship of regional private sector, workshops, conferences and meetings towards the promotion of investment.

The Informal Private Sector

I L D

- Publication and dissemination of book tentatively titled "the Emergence of the Informal Sector in Peru"
- Publication of technical papers containing the results of studies in progress
- Increases in non-AID financial support
- Progress towards the institutionalization and effective functioning of CODE
- Progress towards the effective functioning of the Fiscalia de la Nacion
- New agreements for research and analysis with national and regional associations of the formal private sector.

- Conferences, workshops and meetings cosponsored with CONFIEP and other associations of the formal private sector.

The Public Sector

- Studies of critical economic issues affecting private savings and investment
- Development of stronger and better coordinated focal points for the study of policy reform to promote private savings and investment.
- Development of the staff for policy analysis
- Participation and sponsorship of workshops, meetings and conferences leading to policy reform to improve opportunities for private savings and investment.
- Participation in promotional activities to attract private investment to Peru
- Formulation and enactment of policies removing obstacles to savings and investment.

C. Evaluations

The participating institutions and the Project Coordinator, in conjunction with the AID Project officer, will conduct an interim evaluation/financial review of the Project in the second year, for which \$30,000 is available in the budget. Short term Peruvian contractors may be included in the evaluation/financial review, as needed. The interim evaluation financial/review will look at progress to date and develop the Annual Implementation Plan for the subsequent year. \$65,000 has been budgetted for an extensive formal audit which will take place during the third year of the Project.

As repeatedly stated throughout this paper, the strategy proposed to overcome the paucity of private investment in Peru, rests on the assumption that greater participation by the private sector (in its broadest sense) in the design of economic policy will result in a freer policy environment and one that will stimulate capital mobilization and investment. Thus, the ultimate measure of success will be found in increased savings and investment. It is obvious however, that many other conditions will also impact these variables. Therefore, other parameters will also be measured and evaluated. This final evaluation in mid 1990 will be conducted by an outside study team and is expected to cost \$100,000.

g/b

CONFIEP and Its Member Organizations

More than forty business associations exist in Peru to express the interests of Peruvian entrepreneurs at the national level. The most recent - and most comprehensive - of these associations is the National Confederation of Private Enterprise Institutions (CONFIEP), established in October 1984 to develop a private sector consensus on economic issues of national importance and to articulate these positions vis-a-vis the government of Peru. CONFIEP, in turn, is comprised of fifteen sectoral organizations which represent the majority of business activity in their respective sectors: AA - the Shippers Association; ADEX - the Exporters Association; ARTP - the Peruvian Radio and Television Association; CAMCO - the Lima Chamber of Commerce; CAPECO - the Peruvian Chamber of Construction; CONACO - the National Confederation of Merchants; SNI - the National Association of Industrialists; SONAMINPET - the National Association of Mining and Petroleum; SMP - the National Fishery Association; ABP - Peruvian Banks Association; APESEG - Peruvian Association of Insurance Enterprises; AHORA - Hotels and Restaurants Association; CANATUR - National Chamber of Tourism; ONA - National Agrarian Organization; and CONFECAMARAS - National Confederation of Peruvian Chambers of Commerce and Production. In addition, there are several regional chambers, the most important of which are the Arequipa and Trujillo Chambers of Commerce.

CONFIEP was the latest and most advanced effort of the fragmented Peruvian private sector to overcome particularistic interests and to unite to defend private enterprise against a steadily encroaching state. Its establishment comes at a critical time: Peru is experiencing its worst economic crisis of modern times; the APRA Government is apparently willing to discuss and possibly accept policy proposals formulated by the private sector; and there is a growing awareness among entrepreneurs that the private sector must speak with one strong voice or face increasing state regulation and control. Conversely, some members of the private sector fear the loss of privileges and government largesse without compensating arrangements. Thus, CONFIEP has the potential to become an important, effective institution which defends the private sector and represents its interests through dialogue with the Government.

As a nascent institution, (one year ago) CONFIEP had a number of weaknesses and faced a number of challenges. The weaknesses included:

- Unrepresentativeness

CONFIEP was the creation of only 9 institutions, all of which are based in Lima and have only limited contact with businesses in the provinces. In the past year CONFIEP has successfully met the challenge of reaching beyond this Lima based group as is demonstrated by the inclusion of the private banking sector, the services industry, agriculture, the regional chambers, and dialogue with small businesses (informales) to eventually include them in CONFIEP.

- A Cumbersome Decision-Making Structure

All fifteen members of CONFIEP's board of directors have veto power

over organization policies, activities, and pronouncements. Moreover, the Presidency is to be rotated each year among the associations, with no president serving more than one year. CONFIEP is currently in the process of analyzing the effectiveness of this kind of decision making structure, in view of its expanded membership base and ambitious agenda for the future, and will consider making changes in its statutes if necessary to increase its effectiveness. Thus far, however, the veto power has not created a bottleneck in the decision making process. Board members, discuss controversial issues among themselves until they reach a consensus, rather than calling a vote which is subject to a veto.

A Lack of Resources

At present, CONFIEP's budget is about \$100,000. Its personnel consists of a general manager and a secretary. For the past year and a half the association occupied free office space from CAPECO, whose president Mr. Julio Piccini was the first president of CONFIEP. CONFIEP has imminent plans to move into its own, spacious locale within a month.

An Absence of Technical Expertise

CONFIEP has no independent technical expertise and must rely on its member institutions for economic studies and advice. To achieve credibility, and achieve its objective as the spokesman of the private sector, CONFIEP needs to develop a capacity to analyze economic problems of national significance and communicate these findings to the Government, business community, the press, and the public.

The challenge to CONFIEP was to expand from its modest beginnings to become Peru's premier defender and promoter of private sector interests. The opportunity exists; leadership is critical; a combination of national and international resources is essential. CONFIEP has grown from 9 to 15 institutions, and more importantly, expanded its membership from Lima-based organizations to include most of the major regional associations. CONFIEP's challenge now is to solidify its membership base, become self-sufficient and institutionalize the capability to provide valuable services to its members and the private sector in general, as well as to be technically capable of engaging the GOP in sound economic policy dialogue aimed at promoting investment, production, employment and non-traditional exports.

CONACO

The private sector organization with the largest membership is CONACO, which claims to represent 130,000 enterprises, has a budget of \$200,000 and occupies a large building next to the National Congress in downtown Lima. CONACO, which is largely a merchants' association, was formed in October 1945 by a group of dissident members of the Lima Chamber of Commerce. CONACO represents medium and small businesses, and has four offices in the provinces to attend to member needs.

CONACO is formally run by a President, an 18 member board of directors, and an extensive consultative council system. However, the true power in the

organization is Dr. Herles Buzio, who has been general manager for 37 years and is clearly in command of the organization and its policies and programs.

To a much greater extent than other Peruvian business associations, CONACO places great emphasis on the provision of services to its members. In the case of CONACO, these services include: low cost medical insurance to members and their families; legal services regarding tax, commercial, trade, and labor regulations; a claims division for outstanding debts; credit information on potential borrowers; and specialized publications relevant to small and medium size businesses. CONACO is financed primarily through membership dues.

Although CONACO claims to represent the interests of its members vis-a-vis the government, this is clearly secondary to providing concrete services to its members. The association lacks an economic studies department and publishes few technical studies. If CONACO plays a lobbying role, it is through informal channels of access and the public pronouncements of its colorful general manager.

C A M C O

The Lima Chamber of Commerce, founded in 1888, has 1,900 members, including most of the largest commercial firms in Peru. It has an annual operating budget of \$140,000, 83 percent of which comes from membership dues, which are pro-rated based on a member's capital base.

The Lima Chamber has a complex but very workable administrative structure. The general assembly meets once a year to review the association's activities and finances and to elect the board of directors. There are eight categories of members (based on monthly dues) and each elects two members to the board for one year terms. In addition, the presidents of the chambers of eight sectoral committees sit on the board, as do the past presidents from the previous four years, making a total of 28 members. The board of directors elects the association's officers, sets policy, and oversees its implementation by the executive committee. The executive committee meets weekly to discuss issues of importance to CAMCO's members and takes action to implement policies.

The Lima Chamber is administered by a general manager, who also serves as the association's legal counsel. He is supported by a staff of 52 people, including a manager of professional services, a manager of public relations, one economist, six lawyers, one customs adviser, and accountants and secretaries.

CAMCO offers its members a wide variety of services and foremost among these are legal and regulatory advice on commerce, taxes, labor laws, and international trade matters, including tariffs, export credits, and custom regulations. In addition, it publishes a nationally circulated bulletin on supply and demand information, and weekly bulletins on legal and regulatory developments. The Lima chamber also offers seminars and conferences both specific to the interests of its members' business activities and on more general macroeconomic themes. Finally, the Lima Chamber is relatively active in pressing its demands before the government. CAMCO consistently supports policies to reduce inflation, curb fiscal spending, and rationalize the labor stability law. The chamber also supports a government reorganization which

would centralize all activities relating to commerce in one ministry, but strongly opposes the creation of an Institute of Foreign Commerce, which would separate domestic and international commercial activity.

S N I

The National Association of Industries, founded in 1896, has approximately 1,590 members and is one of the better organized and more powerful business organizations in Peru. Originally created by large estate holders investing surplus funds in industry, it now also represents small and medium-sized industrialists, who make up about 80 percent of the membership. The Association's goals are: to protect and advance members' sectoral interests; defend the private sector from state encroachment; and study macroeconomic issues through the Institute of Economic and Social Studies.

The SNI is governed by a general assembly which meets once a year to review association activities, finances and policies, and to elect the 67 member board of directors, which is the organizations' general policy-making body. A fourteen member executive committee meets 3 or 4 times a month to make decisions and enact measures following the board's policy guidelines. A General Secretary oversees a staff of 54 professionals (economists, lawyers, accountants, public relations, etc.) and 20 assistants and secretaries. The SNI's annual budget is approximately \$187,000 of which 98 percent comes from member dues. A major feature of the SNI is its extensive network of sectoral committees based on the United Nations industrial classification scheme, which enhances membership participation.

As with other business associations, SNI offers a wide variety of services to members. These include legal services, customs and taxes, labor relations, and international trade. SNI publishes a directory of manufacturers, a bi-monthly bulletin, a monthly magazine, and various pamphlets of special interest to members. The Association also supports the Institute of Economic and Social Studies which publishes studies of inflation, monetary policy, integration, industrial development, etc., and communicates the results to government and business leaders. Finally, the SNI holds a national congress to bring together leaders from business, government, and the academic world to discuss policies affecting the industrial development of Peru.

C A P E C O

The Peruvian Chamber of Construction was established in 1958 to defend and promote the development of the construction industry in Peru. CAPECO has about 663 members and claims to represent over 95 percent of the construction companies in Peru. The chamber operates on a budget of \$143,000, 66 percent of which comes from member dues.

CAPECO is organized into five governing bodies (General Assembly, Board of Delegates, Board of Directors, Executive Council, Arbitration and Ethics Committee) and seven permanent committees based on different branches of the construction industry. The Board of Directors consists of twelve members elected by the General Assembly and the seven presidents of the permanent committees, and sets objectives and policy for CAPECO. A six-member executive committee implements policies and oversees the administration of the organization, but real power in CAPECO is concentrated in the President of the

Association.

The general manager of CAPECO is responsible for the work of a full-time staff of forty, including 9 professionals. The chamber has six departments which offer services to the members: technical and economic studies; legal advice on laws and regulations; publications; computer services; conferences and seminars.

The Chamber lobbies on behalf of its members' interests, and serves on several councils and boards of government institutions to represent construction interests. Yet CAPECO is in a relatively weak position vis-a-vis the government because its members are heavily dependent on the government for contracts and privileges.

S O N A M I N P E T

The National Mining and Petroleum Association was founded in 1968 and consists of 103 members. Unlike other associations, SONAMINPET is a mixture of state and private companies, with the government responsible for 2/3 of the mining sector and 1/3 of Petroleum. SONAMINPET operates on a budget of \$298,000, all of which is from member dues. Members pay dues according to the association's budget requirements and in accordance with each member's net profits.

SONAMINPET is guided by a 32 member board of directors (26 from mining, 3 from petroleum, and 3 from related industries) elected yearly. The board elects the association's officers, who serve as the executive committee; this body meets weekly to implement policy.

SONAMINPET is managed by a powerful general manager who presides over a staff of 4 professionals. The services the association provides are primarily technical and scientific, relating to studies, conferences, and seminars. Although SONAMINPET representatives maintain a dialogue with key ministries, it is neither an effective lobby nor a defender of private sector interests in general. This is because the state enterprises which are association members are constrained from such activities, while the private sector members are affiliated with powerful, highly visible multinational mining and petroleum companies.

A D E X

The Exporters Association was founded in 1973 by a group of exporters dissatisfied with the representation of their interests by SWI. Its formation was encouraged by the Velasco government, which bestowed special privileges on certain exporters in exchange for their support of other government policies prejudicial to industrial interests. ADEX now has 760 members and operates on a yearly budget of \$257,000, only one-third of which comes from membership dues. The main goal of the Association is to promote the development of non-traditional Peruvian exports and to lobby the government for export incentives.

Like most Peruvian business associations, ADEX is governed by a general assembly which meets twice yearly to establish policy guidelines. The general assembly consists of thirteen sectors (based on economic activity or products), each of which names a representative to the board of directors.

The board selects the Association's officers; names the secretary general; and meets monthly to determine policy and review the actions of the executive council, which meets weekly.

The general secretary directs a staff of 39 people, including 3 lawyers and 6 export promotion specialists. ADEX provides its members the usual business services: information, legal advice, technical studies, and organization of seminars and meetings. However, ADEX is unique among business groups in that it has developed a School of Foreign Commerce (founded in 1975) to train professionals in international commerce and exports. The school currently generates 35 percent of ADEX's operating revenues.

ADEX is very active in lobbying government officials who decide Peruvian trade policies. The Association has been very active regarding the CERTEX program to assist non-traditional exports.

AA

The Peruvian Shippers Association - founded in 1919 - represents 11 of the 18 shipping companies active in Peru (only one member is state-owned). It is primarily a service organization devoted to the development of the shipping industry and the promotion of its efficiency. AA's annual budget of \$84,000 comes totally from member dues, which are based on the amount of services a member utilizes.

Given the Association's small membership, its organizational structure is fairly simple. A six member executive council oversees the work of the general manager, sets association policy, and discusses issues of importance to the well-being of AA's members.

The general manager is responsible for a small fulltime staff of 2 assistants and secretaries; professionals are hired on a contract basis. The main services offered to members by the AA are legal counseling, customs advice, a computerized cargo-tracking system, and a library of statistical and technical information.

AA has been active in lobbying against government attempts to monopolize cargo shipments in state hands. In addition, the Association serves as a watchdog over the industry to assure industry compliance with shipping regulations and standards.

ARTP

The Radio and Television Association of Peru is a small (160 members), newly-formed (1983) organization devoted to freedom of the press and protection of television and radio stations from state intervention. The President of the Association - Mr. Humberto Maldonado, owner of a small Lima radio station - conducts the group's activities from his office. ARTP's annual budget of about \$8,000 is largely consumed by a \$3,500 payment to an international association and \$2,400 to CONFIEP.

Due to financial limitations, the ARTP is unable to offer services to its members. If resources were to become available, the ARTP would like to: provide its members access to technical training; publish a bi-monthly bulletin on the broadcasting industry; and lobby the government for a

reduction in electricity rates for radio and television, exoneration of tariffs for broadcasting equipment, and freedom from state control.

S N P

The Association of the National Fishing Industry, established in 1952, is a vigorous lobby for the private sector fishing industry. SNP currently has about 120 members, and operates on a budget of approximately \$744,000. The Association's revenues come from member dues (60 percent) and the commissions they pay to CODICO, a marketing operation for fishmeal and fish oil administered by SNP.

SNP is governed by a general assembly, divided according to economic activity (i.e., canners, freezers, shippers and others). Positions on the 15 member board of directors are distributed as follows: canners-9; freezers-2; shippers and others-4. An executive committee meets weekly to implement board policy.

The general manager of SNP administers a highly professional staff of 27 people. The Association provides marketing information, publishes scientific and technical studies, and distributes a monthly magazine.

SNP is an active and effective representative of the private fishing industry, which accounts for about 70 percent of the total. The Association utilizes the media well, and was very successful in its national campaign to promote the domestic consumption of sardines as an inexpensive and high protein alternative to meat and poultry. In addition, SNP maintains close contact with government officials who regulate the industry, and lobbies for tax, customs, and export incentive policies which benefit its members.

Arequipa Chamber of Commerce and Industry

The Arequipa Chamber is the second oldest in Peru (founded in 1877) and one of the nation's most effective and representative. It has about 200 members, and is virtually the only business association in the Arequipa province. The Chamber's annual budget is approximately \$100,000, 60 percent of which comes from member dues, 20 percent from interest on capital investments, and 20 percent from services and publications. The Chamber provides the same basic services offered by other business associations (legal, information, telex, publications) but does not have a department of studies, an investment promotion specialist, or a data bank on the southern region.

The Chamber is governed by a member Board of Directors, assisted by an executive committee which meets regularly to make decisions and implement policies. The Chamber also features an extensive committee system to respond to the sectoral needs of its diverse membership.

Administration of the Chamber is carried out by a general manager (Stanley Simon, who is highly respected) and 2 deputy managers who oversee the work of 14 secretaries and assistants. The Chamber owns its own headquarters - a house with sufficient space to accommodate seminars and classes. The Chamber has an agreement with FOPEX to promote non-traditional exports, has agreed to conduct a joint study with ILD of the informal sector of Arequipa, and is exploring an agreement with IPAE to provide professional training for

its members.

The Chamber lobbies the government of Peru, but is somewhat constrained by the concentration of power in Lima. The association wants to form a technical studies department to focus on decentralization, regional development, and investment promotion.

The Trujillo Chamber of Commerce, Industry, and Tourism

The Trujillo Chamber, established in 1902, focuses on small and medium businesses. Due to the economic recession and the lack of governmental resources directed to the La Libertad province in recent years (an Aprista stronghold) the chamber's membership has fallen from a high of 900 members to 550. The chamber's operating budget is about \$14,000.

The Chamber is run by a general manager supported by four assistants, operating out of their own headquarters. The limited budget results in minimal services, including a bi-monthly newsletter, a magazine which is published when advertising revenues cover the printing costs, and legal counseling. The government's export promotion office, FOPEX, also operates an office in conjunction with the Chamber.

Below are brief descriptive summaries of the six associations which have joined CONFIEP after the first year.

A B P

The Peruvian Banking Association was founded in 1967 to represent and defend the legitimate interests of its members in the commercial banking sector vis a vis the government and foreign banking interests. It is comprised of 16 banking entities including both Peruvian banks and Peruvian branches/offices of international banks.

The Board of Representatives, the highest authority within ABP, is made up by the presidents or directors of the banks, and in the case of foreign branches/offices, the highest representative in Peru. The Board names a six member Executive Committee, presided by the president of the board, which is in charge of overseeing ABP's administration. The actual administration is undertaken by the Committee of General Managers of each bank, which is headed by the general manager of the bank whose president is the president of the board.

The Committee of General Managers work with an 8 member staff and is aided in the implementation of ABP's activities by specialized technical committees and ad hoc committees which respond to specific issues/agenda items.

ABP's most important services include the publishing of technical reports and news publications, consulting services and other information provision.

A P E S E G

The Peruvian Association of Insurance Companies had its beginnings in 1904 and currently represents the 21 insurance companies in Peru. APESEG is divided into three organizational areas: 1) the governing bodies which are the Board of Directors and the Executive Committee; these make APESEG policy and guide the direction of its activities; 2) the technical committees which reflect the various branches of the insurance industry; these are comprised by

representatives from the relevant technical offices of the member associations, and respond to specific industry issues, queries, concerns, etc., in addition to articulating conditions for insurance coverage and tariff processes; and 3) APESEG's internal staff of 25 which is divided into general, administrative and technical management branches.

A H O R A

The Hotel and Restaurant Association was founded in 1943 to represent hotel, restaurant and related enterprises vis a vis the relevant authorities, and to provide its members with sectoral consulting services.

AHORA is comprised of 14 regional associations which represent a total of 500 enterprises.

The General Assembly is AHORA's highest authority which elects the members of the board of directors and the Hotel and Restaurant Committees. A general manager works with a staff of 10 to administer the Association's activities. AHORA's services include sectoral support, advices, information provision, etc., on legal, tax, labor and other relevant matters to its members.

C A N A T U R

The National Chamber of Tourism was founded in 1971 to represent all people and organizations involved in tourism in Peru, and has been recognized by the GOP as the official representative of the tourism industry in Peru.

CANATUR's major objectives are to contribute to the economic and social development of Peru, and to promote tourism in Peru.

CANATUR is comprised of 12 tourism associations through the country, as well as individual tourism firms. All are members of the General Assembly which elects the Board of Directors and the Executive Committee, both of which are led by the President of CANATUR.

A general manager directs a staff of 8 which administer CANATUR's activities and services. The latter include consulting, publishing of sectoral information, maintaining a library and promoting infra-industry communication.

C O N F E C A M A R A S

The National Confederation of Peruvian Chambers of Commerce and Production was founded in 1970. CONFECAMARAS joins 5 regional federations which in turn represent 80 Chambers of Commerce, Industry and Production throughout Peru. Its objective is the defense of regional commercial and industrial interests vis a vis the GOP and the achievement of political, business and administrative decentralization.

The General Assembly and the Board of Directors are both comprised of the Presidents of the member federations, both of which set policy directives; the administration of CONFECAMARAS' activities is directed by its general manager. Its services include lobbying for the interests of its regional members, along with the provision of legal and business information tailored

to regional needs.

ONA

The National Agrarian Organization was founded in 1980 to defend the interest of agri-businessmen and to promote agricultural and agri-business development. ONA represents 235 sectoral organizations which represent 400,000 agri-business and livestock enterprises.

The General Assembly, the highest authority, is comprised of the presidents of the National Committees of Production and the presidents of ONA's regional members. The Board of Directors and the Executive Committee are responsible for setting policy and overseeing ONA's management, which is actually carried out by a managerial and technical staff of 40 people.

ONA's technical staff provide such services as marketing of members products and providing equipment, technical information, and financial consulting.

	Number of Members	Annual Budget	Dues per Member % of total	Number of Staff	Decision-Making Structure	Principal Activities/Services
ASOCIACION DE ARMADORES	11	\$ 84,000	100 %	3	Consensual; only 11 members with similar interests	-Computerized freight system -Lobbying gov't -Contracted studies
ADEX	760	257,000	33%	39	General Assembly, Executive Directorate, President and General Manager important.	-Legal Advice -Export Promotion -Information -Studies -Lobbying
ARIP	160 (Lima - 40 Prov.-120)	\$ 8,000	100 %	1	President Conducts Activities	-Lobbying
CAMCO	1,900	\$ 140,000	83 %	52	Board of Directors Executive Directorate, and President.	-Legal and Commercial Services -Publications -Business Contacts -Seminars -Lobbying

	Number of Members	Annual Budget	Dues per Member % of total	Number of Staff	Decision-Making Structure	Principal Activities/Services
CAPECO	663	\$ 143,000	66 %	9	Powerful President	-Legal Advice -Information -Statistical data -Lobbying
CONACO	130,000	200,000	100%	8 Managers 238 people in Lima; 167 in provinces	Powerful General Manager	-Insurance -Studies -Publications -Legal and commercial advice -Credit ratings
SAI	1,590	\$ 187,000	98 %	74	Strong Committee System; Executive Directorate manages but does not govern decisions.	-Lobbying -Legal, Customs Taxes, Commercial Advice -Publications -Information
SONAMINPET	103	\$ 298,000	100 %	4	Strong Board of Directors; Executive Committee can act in urgent situations.	-Technical Studies -Lobbying
SNP	120	\$ 744,000	60 %	27	Strong Board Executive Committee and General Manager	-Lobbying -Media Campaigns -Marketing Services

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TAGS:

SUBJECT: PRIVATE SECTOR POLICY PLANNING AND INSTITUTIONAL DEVELOPMENT PID (527-0298)

1. THE DAEC REVIEWED AND APPROVED SUBJECT PID ON APRIL 8, 1985. MISSION IS AUTHORIZED TO NEGOTIATE AND SIGN OFC AGREEMENT WITH INSTITUTE FOR LIBERTY AND DEMOCRACY (ILD) PRIOR TO PP DEVELOPMENT. GUIDANCE TO ASSIST USAID IN PREPARATION OF THE PP FOR OTHER ACTIVITIES DESCRIBED IN PID FOLLOWS.

2. SCOPE OF ACTIVITIES. THE LIST OF POLICY CONCERNS THAT COULD BE ADDRESSED BY THE PROJECT IS EXHAUSTIVE. IT WAS SUGGESTED THAT THE PROJECT FOCUS ON THOSE POLICIES WHICH MOST DIRECTLY FACILITATE THE INCREASED EXPORTS AND INVESTMENT OBJECTIVES STATED IN THE PID. IT WAS RECOGNIZED THAT AGREEMENT ON A POLICY AGENDA WOULD HAVE TO AWAIT THE INSTALLATION OF A NEW GOVERNMENT, WHICH IS EXPECTED TO TAKE OFFICE IN LATE JULY. AS INDICATED IN THE PID, THE PP WILL INCLUDE CRITERIA FOR SELECTING RESEARCH TOPICS. TWO SUCH CRITERIA WILL BE: 1) WHAT CAN BE REASONABLY ACCOMPLISHED; AND 2) POSITIVE ECONOMIC AND EMPLOYMENT IMPACT. BASED ON THESE CRITERIA, MISSION REPRESENTATIVES PROPOSED THE FOLLOWING PRIORITY AREAS:

DEREGULATION, CAPITAL MARKETS DEVELOPMENT, LABOR POLICY, AND INCENTIVES FOR DOMESTIC AND FOREIGN INVESTMENT. WE CONCUR WITH ACCORDING HIGH PRIORITY TO THESE AREAS.

2. PROJECT DESIGN.

A. PRIVATE SECTOR ATTITUDES. THE PROJECT IS DESIGNED TO STRENGTHEN THE ANALYTICAL CAPABILITY OF THE PRIVATE SECTOR AND THE GOP TO ANALYZE KEY POLICY CONSTRAINTS TO PRIVATE SECTOR GROWTH, AND TO PROMOTE A PRIVATE SECTOR-GOP POLICY DIALOGUE WHICH WILL LEAD TO ADOPTION OF POLICIES WHICH BETTER STIMULATE GROWTH AND EMPLOYMENT. THE PROJECT WILL SUPPORT A PRIVATE SECTOR LOBBYING AND EDUCATION CAMPAIGN TO FOSTER MORE POSITIVE ATTITUDES TOWARD THE PRIVATE SECTOR IN THE GOP AND PERUVIAN SOCIETY IN GENERAL. HOWEVER, SUCCESS IN ACHIEVING RESULTS WILL ALSO DEPEND ON THE PRIVATE SECTOR CHANGING ITS ATTITUDES, ESPECIALLY IN

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MEMBERS. ACCORDINGLY, IT IS SUGGESTED THAT THE PP CONTAIN A PLAN FOR THE PROGRESSIVE DEVELOPMENT OF CONFIEP STAFF, FINANCING, AND EDUCATION PROGRAM CAPABILITY. THE FUNDS FOR TECHNICAL ASSISTANCE TO CONSTITUENT ORGANIZATIONS PROPOSED IN THE PID SHOULD BE THE MINIMUM NEEDED TO ENSURE CONTINUING CONSTITUENT COMMITMENT TO CONFIEP. THE MAXIMUM AMOUNT THAT WILL BE USED FOR SUCH PURPOSES SHOULD BE SPECIFIED IN THE PP. IT IS ALSO SUGGESTED THAT CONFIEP CONSIDER TAKING ADVANTAGE OF ILD'S EXPERIENCE IN POLICY ANALYSIS AND EDUCATION BY HIGH LEVEL INVOLVEMENT IN CONFIEP, SUCH AS A SEAT ON CONFIEP'S BOARD.

C. GOP POLICY COORDINATION. MOST POLICY ISSUES WILL CUT ACROSS THE LINES OF RESPONSIBILITY WITHIN THE GOP. THIS MAY REQUIRE INVOLVEMENT OF SEVERAL KEY POLICY MAKING ENTITIES, E.G. MINISTRY OF ECONOMY AND FINANCE, CENTRAL RESERVE BANK, MINISTRY OF INDUSTRY, ON KEY ISSUES. TO ENSURE THAT THE RESULTS OF STUDIES COMMISSIONED BY ONE ENTITY ARE NOT REJECTED BY ANOTHER, IT WAS SUGGESTED THAT THE GOP CONSIDER FORMING A SINGLE, HIGH LEVEL GOP POLICY ANALYSIS GROUP TO PROVIDE ASSISTANCE IN POLICY ANALYSIS TO ALL GOP AGENCIES LIKELY TO BE INVOLVED IN THE PROJECT. ALTERNATIVELY, A COORDINATING MECHANISM TO ENSURE THAT ISSUES ARE FULLY VETTED BY THE RELEVANT AGENCIES WOULD SEEM TO BE NEEDED.

3. IMPLEMENTATION ARRANGEMENTS.

A. COORDINATION OF CONFIEP, ILD, AND THE GOP. SEPARATE GRANT AGREEMENTS WILL BE SIGNED WITH CONFIEP, ILD, AND THE GOP. THIS COULD LEAD TO INCONSISTENCY OR MISUNDERSTANDINGS REGARDING PROJECT OBJECTIVES AND THE EXPECTED RELATIONSHIP BETWEEN THE THREE INSTITUTIONS. THE MISSION SHOULD DEVELOP A STRATEGY AND IMPLEMENTING MECHANISMS FOR ENSURING FULL AND COMPLETE UNDERSTANDING OF THE PROJECT BY THE THREE GROUPS, THEIR EXPECTED INTERRELATIONSHIPS IN PROJECT IMPLEMENTATION, AND THE MISSION'S ROLE IN PROMOTING THE POLICY DIALOGUE PROCESS.

B. MISSION CONTROL OF ACTIVITIES FINANCED. THE MISSION SHOULD BUILD IN TO THE IMPLEMENTING ARRANGEMENTS A SYSTEM FOR CONTROLLING FUNDS USE TO ENSURE THAT THE POLICY ANALYSES CARRIED OUT ARE HIGH PRIORITY AND APPROPRIATE FOR A.I.D. FUNDING.

C. PROJECT MANAGEMENT AND SUPPORT. THE FUNDS PLANNED FOR PROJECT MANAGEMENT AND SUPPORT SHOULD ONLY FINANCE CONTRACTORS WHOSE SERVICES ARE NEEDED TO MANAGE AND SUPPORT THIS PROJECT.

4. OTHER CONCERNS AND CLARIFICATIONS: DURING THE REVIEW PROCESS, MISSION REPRESENTIVES ALSO AGREED TO THE FOLLOWING:

A. PROJECT EVALUATION: GIVEN THE EXPERIMENTAL AND SENSITIVE NATURE OF PROJECTS DESIGNED TO PROMOTE POLICY REFORM AND THE MIXED RECORD OF THESE TYPES OF PROJECTS IN THE BUREAU, THE PP SHOULD INCORPORATE AN INTENSIVE

RELATION TO INDUSTRIAL PROTECTION, COMPETITION, DEREGULATION, AND SOCIAL RESPONSIBILITY OF THE PRIVATE SECTOR. THE REVIEW CONCLUDED THAT A SIGNIFICANT EFFORT SHOULD BE MADE THROUGH THE PROJECT TO ENSURE A TWO WAY EDUCATION PROCESS. SIGNIFICANT ACTIVITIES SHOULD BE INCLUDED AIMED AT EDUCATING PERUVIAN ENTREPRENEURS TO BE MODERN, COMPETITIVE, SOCIALLY RESPONSIBLE PARTNERS IN PERU'S DEVELOPMENT.

B. CONFIEP ROLE. RESPONSIBILITY FOR EDUCATING THE PRIVATE SECTOR WOULD REST WITH CONFIEP. WHILE CONFIEP'S ABILITY TO ORGANIZE ITS CONSTITUENTS TO LOBBY THE GOP WAS NOT DOUBTED, IT IS UNLIKELY THAT IT COULD CARRY OUT AN EFFECTIVE EDUCATION CAMPAIGN FOR THE PRIVATE SECTOR WITH THE MINIMAL STAFF AND LIMITED ROLE ENVISIONED IN THE PID.

IT WAS AGREED THAT THE POLICY STUDIES AND ANALYSES (BOTH THOSE CONTRACTED BY THE PRIVATE SECTOR AND THOSE REQUESTED BY THE GOP) SHOULD BE CARRIED OUT MAINLY BY INDEPENDENT "THINK TANK" ORGANIZATIONS (SUCH AS SELECTED PERUVIAN UNIVERSITIES). THESE ORGANIZATIONS WOULD BE ABLE TO PUT BROADER DEVELOPMENT CONCERNS ABOVE MORE PAROCHIAL INTERESTS. HOPEFULLY THIS WILL INCREASE THE ACCEPTABILITY OF THE RESULTS TO ALL PARTIES. BY IN EFFECT PLAYING A BROKERING ROLE BETWEEN THE PRIVATE SECTOR AND THE GOP, THE THINK TANKS WOULD SET THE AGENDA FOR THE TWO WAY EDUCATION CAMPAIGN AND KEEP CONFIEP ANALYTICAL STAFF REQUIREMENTS TO A MINIMUM.

HOWEVER, IT MUST BE EXPECTED THAT MANY OF THE PROPOSED CHANGES WILL NOT BE READILY ACCEPTED BY ONE OR MORE OF CONFIEP'S CONSTITUENT GROUPS. FOR EXAMPLE, THE COMMERCIAL

SECTOR CAN BE EXPECTED TO FAVOR LOW IMPORT TARIFFS ON FINISHED GOODS AND THE INDUSTRIAL SECTOR CAN BE EXPECTED TO FAVOR HIGH TARIFFS. CONFIEP WILL NEED TO PLAY A BROKERING ROLE WITHIN THE PRIVATE SECTOR, AND ATTEMPT TO FORGE UNIFIED POSITIONS ON THE ISSUES AMONG ITS CONSTITUENTS. IT IS HARD TO SEE HOW THE CONSTITUENT ORGANIZATIONS WILL NOT SIMPLY UNDERCUT EACH OTHER WITH THE GOP IF THEY ARE NOT FIRST CONVINCED TO SUPPORT A UNIFIED POSITION ON THE ISSUES. ACHIEVING THIS CONSENSUS WILL REQUIRE A MAJOR EDUCATIONAL CAMPAIGN BY CONFIEP, WHICH WILL BE A MAJOR TASK FOR A WELL ORGANIZED AND DEDICATED PROFESSIONAL STAFF.

THE PROJECT DESIGN SHOULD INCLUDE ARRANGEMENTS FOR DEVELOPMENT OF A STRONG STAFF CAPABLE OF EDUCATING THE PRIVATE SECTOR AND EXERCISING LEADERSHIP WITHIN IT. IT IS RECOGNIZED THAT CONFIEP COULD NOT BE EXPECTED TO PLAY THIS ROLE AT THE OUTSET. PLAYING TOO AGGRESSIVE A ROLE COULD COST CONFIEP SUPPORT FROM KEY CONSTITUENTS AMONG ITS

EVALUATION PROGRAM TO FACILITATE REGULAR ADJUSTMENTS TO THE PROJECT BASED ON IMPLEMENTATION PROGRESS. SUCH AN EVALUATION EFFORT IS ALSO CONSIDERED IMPORTANT IN LIGHT OF THE FACT THAT CONFIEP, ONE OF THE IMPLEMENTING ORGANIZATIONS, HAS ONLY RECENTLY BEEN ESTABLISHED AND THEREFORE HAS NO TRACK RECORD.

B. RESPONSIVENESS TO GRAY AMENDMENT: THE USE OF SMALL BUSINESSES AND MINORITY OWNED FIRMS IN PROJECT DEVELOPMENT AND IMPLEMENTATION WILL BE MAXIMIZED.

5. DETAILED FIRST YEAR IMPLEMENTATION PLAN. MISSION IS ADVISED THAT LAC/DR WILL NOW BE REVIEWING THE IMPLEMENTATION PROGRESS OF NEWLY AUTHORIZED PROJECTS AS PART OF THE SEMI-ANNUAL PIPELINE REVIEW. TO PERMIT INFORMED DISCUSSION, PLEASE INCLUDE DETAILED FIRST YEAR IMPLEMENTATION PLAN IN PP, AND INCLUDE DISCUSSION OF ACHIEVEMENT OF EACH PLANNED ACTIVITY IN SEMI-ANNUAL PROJECT STATUS REPORTS.

6. PROJECT APPROVAL AUTHORITY: THE MISSION'S REQUEST THAT THE MISSION DIRECTOR BE DELEGATED AUTHORITY TO APPROVE THE PROJECT WAS APPROVED. DAM

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ANNEX III

RESPONSE TO PID GUIDANCE CABLE

The principal issues raised in the Guidance Cable, and the response that has been integrated into the Project paper, are summarized below:

1. Issue: CONFIEP should seek to take advantage of ILD's experience in policy analysis and education.

Response: It is anticipated that ILD will provide valuable assistance to CONFIEP in its efforts to demonstrate to the public at large that the private sector is much broader than the privileged elite associated with traditional perceptions. Furthermore, provisions have been made in the Project for the coordination and guidance function to insure linkages between CONFIEP and ILD. Any formal linkage (such as an ILD seat on the CONFIEP Board) appears to be premature at this time.

2. Issue: A single unit in the GOP for policy analysis and coordination should be considered.

Response: Although it appears that the BCK will play a key role in policy analysis, the Project is designed to identify and develop the policy analysis and coordination capabilities of the GOP entity(ies) most appropriate for assuming the lead in the policy formulation and implementation process.

3. Issue: Separate grant agreements with CONFIEP, ILD and GOP could lead to misunderstanding if not adequately coordinated.

Response: Strong emphasis has been attached to the Project Guidance and Coordination function in order to adequately coordinate the different "actors" and insure that they work towards common objectives. This function will also ensure that the policy analyses carried out are of high priority and appropriate for AID funding. Furthermore, regular monitoring and evaluation of the Project will allow for regular adjustments. This is particularly important given the limited experience of the new Government, CONFIEP and ILD and of the lack of traditional inter-relationships among the three.

4. Issue: Consideration should be given to having think tanks and universities, and not CONFIEP, undertake the policy studies.

Response: The principal policy studies will be contracted out by CONFIEP to member associations and outside consultants, universities and think tanks. The role of CONFIEP's economic staff will be to identify key issues, define the scopes of work, supervise studies and coordinate the dissemination of results. Studies carried out

in-house will be limited to the preparation of position papers and relatively simple policy analysis. A list of organizations that might be contracted to undertake policy studies is presented in Annex IX. It should be noted, however, that given the emphasis on institutional development, the resources available for subcontracting of studies is somewhat limited.

5. Issue: An adequate system should be provided for insuring that only high priority studies are financed.

Response: While the PID contemplated the financing of studies on a wide range of policy issues, the Project design has been more narrowly focused on the issue of savings and investment. This has been deemed to be the most critical issue, on the basis of the analysis of the Peruvian economic situation. In addition, it is an issue that would most contribute to a cohesive and non-fragmented policy dialogue.

Since CONFIEP and the other institutions involved in the Project may not have the necessary experience to focus on the most important aspects of the savings and investment question, the investment promotion specialists funded under the Project Coordinator component will be responsible for providing the necessary guidance.

6. Issue: Because of the experimental nature of this Project, special emphasis should be placed on evaluation.

Response: The Project design places heavy emphasis on the role of the Project Coordination function in providing an ongoing monitoring and evaluation capability. On the basis of periodic plans, progress reports and performance reviews, the Project Coordinator will be asked to assess results and recommend appropriate adjustments in Project design and implementation. The ability to make these adjustments will be critical to the success of the Project. In addition to periodic evaluations, provisions have been made for interim and final evaluations, and a formal audit by outside contractors.



AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES AID MISSION TO PERU

C/O AMERICAN EMBASSY

LIMA, 1 PERU

TELEPHONE: 266200

CABLE: USAID/LIMA

June 20, 1985

Mr. Hernando De Soto
President
Instituto Libertad y Democracia
Osa Mayor 157
Urb. Los Granados
Monterrico

Subject: ILD - Institutional and Research Support
Project No. 527-0298
Grant No. 527-0298-G-00-5123-00

Dear Mr. De Soto:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "AID" or "Grantor") hereby grants to the Instituto Libertad y Democracia (hereinafter referred to as "ILD" or "Grantee"), the sum of \$500,000 to provide support for a multidisciplinary study of Peru's urban informal sector and its implications for private enterprise development as described in Attachment 1, the Schedule of the Grant and Attachment 2, entitled "Program Description." The sum indicated above is the first increment of AID funding expected to total \$1,200,000; subsequent increments are subject to the availability of funds for this purpose.

This Grant is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Grantee in furtherance of program objectives during the period beginning April 1, 1985 and ending December 31, 1985.

This Grant is made to ILD on the condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment 1, the Schedule, Attachment 2, entitled "Program Description,"

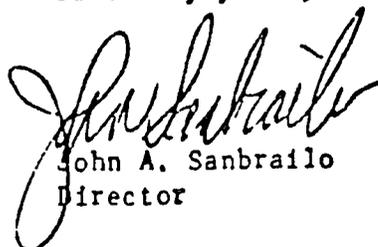
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Mr. Hernando De Soto

and Attachments 3 and 4, entitled "Mandatory Standard Provisions" and "Optional Standard Provisions," which have been agreed to by your organization.

Please sign all six (6) copies of this letter to acknowledge your acceptance of the conditions under which these funds have been granted, and return five (5) copies to USAID/Peru.

Sincerely yours,



John A. Sanbrailo
Director

Attachments:

1. Schedule
2. Program Description
3. Mandatory Standard Provisions
4. Optional Standard Provisions

Acknowledged:

INSTITUTO LIBERTAD Y DEMOCRACIA

By: 
Hernando De Soto

Title: President

Date: June 20, 1985

Fiscal Data:

Appropriation : 72-1151021
Budget Plan Code : LDAA-85-25527-DG13
Project Number : 527-0298
Total Estimated Amount: \$1,200,000
Total Obligated Amount: \$500,000
Funding Source : USAID/Peru

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Lima, 16 de Junio de 1986
CONFIEP-127/86

Señor
JOHN SANBRAILO
DIRECTOR DE A.I.D.
LIMA, PERU

De nuestra mayor consideración:

La presente tiene por objeto formalizar por escrito nuestra solicitud de apoyo financiero tratada con usted en forma verbal en varias ocasiones, entregando, esta vez, nuestro Proyecto CONFIEP-AID que contiene un Plan de Acción a cuatro (4) años para el fortalecimiento y desarrollo de la Confederación Nacional de Instituciones Empresariales Privadas.

CONFIEP, como es de su conocimiento, es una institución de cúpula empresarial, que a la fecha está integrada por quince (15) entidades gremiales empresariales que en conjunto representan más del 80% de la actividad empresarial privada de nuestro país.

La institución tiene como principios: (a) Propiciar el logro de objetivos nacionales de desarrollo y crecimiento con evolución social, al servicio de los intereses nacionales, el mejoramiento de la sociedad peruana y el logro de la libertad y de la superación de la persona humana. (b) Afirmar un sistema de empresa privada, fundamentado en la libertad personal, la iniciativa particular, la retribución al esfuerzo, la propiedad privada y la adecuada rentabilidad de la inversión que se enmarcan en la economía social de mercado y en el libre juego de la oferta y la demanda.

El Proyecto involucra una serie de acciones que conducirán al fortalecimiento de la institución recientemente creada, así como para asegurar su más rápido desarrollo con el propósito de consolidar la acción de una entidad seria, técnica, con gran capacidad de convocatoria y de atención en el ámbito gubernamental coadyuvando en sus esfuerzos por el desarrollo del país. Así, es de particular preocupación la institucionalización del diálogo con los diversos estamentos del Gobierno, especialmente sobre análisis económicos que permitan establecer sistemas y regulaciones que propicien fundamentalmente el incremento de las exportaciones, las inversiones y el ahorro interno.

Deseamos enfatizar que el propósito fundamental del proyecto CONFIEP-AID, propuesto por la presente, es el de fomentar la expansión del ahorro, producción, inversión, exportaciones y empleo en/por el sector privado del Perú. Este proyecto también tiene la intención de ayudar a mejorar la unidad del sector privado Peruano en una organización fuerte. CONFIEP reconoce la muy primordial prioridad de mejorar la integración de los sectores privados formal e informal, así como estrechar mejor las relaciones entre las asociaciones privadas de Lima y las de provincias.

El presupuesto del proyecto está estructurado de tal manera, que el apoyo financiero de AID tiene una proyección decreciente, mientras la contrapartida se presenta en forma creciente, lográndose al finalizar el cuarto año el autofinanciamiento de CONFIEP.

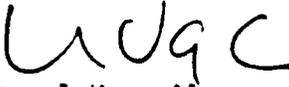
El Directorio de CONFIEP, tiene la convicción y se compromete a hacer los mayores esfuerzos para incrementar paulatinamente los ingresos institucionales por concepto de cuotas y donaciones aún cuando ya el Proyecto contempla moderados incrementos en estos rubros en dólares, lo que en moneda nacional son substanciales debido al proceso inflacionario y la consecuente devaluación.

CONFIEP desea dejar expresa constancia del cumplimiento puntual de las contrapartidas señaladas, y aún más, de alcanzar antes del plazo indicado lo propuesto, solicitando a AID considerar la posibilidad de adelantar los desembolsos en la proporción correspondiente, si ello se produjera.

Les estamos adjuntando la propuesta de donación de CONFIEP, la cual evidencia que CONFIEP está debidamente organizada y registrada de acuerdo a las leyes Peruanas y a su vez exonerada de impuestos.

Hacemos propicia la oportunidad para reiterar a usted los sentimientos de nuestra mayor consideración y estima personal.

Muy atentamente,


Miguel Vega Alvear
Presidente

adj.: Proyecto CONFIEP-AID

MVA/11



MINISTERIO DE ECONOMIA Y FINANZAS
DESPACHO DE HACIENDA

LIMA
MAIL ROOM
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ANNEX VI
Page 1 of 1
[Signature]

Lima, 23 OCT 1985

Oficio Nº 241 -85-EF/11-01

M

Señor
JOHN SANBRILLO
Director
Agencia Internacional para el Desarrollo-AID
Presente.-

Es grato dirigirme a Ud. con el fin de confirmarle por medio de la presente el interés de este Ministerio en poder desarrollar un programa de Cooperación técnico-financiera - con el auspicio de la Agencia que Ud. dirige en el área de planea - miento de políticas económicas y desarrollo institucional.

Como es de su conocimiento la actual administración está abocada a reactivar la economía, especialmente me diante el uso de la capacidad industrial ociosa y la promoción de ex - portaciones de manufacturas. En este sentido, el planeamiento de polí - ticas que permitan alcanzar estos objetivos son de gran interés.

Asimismo, este Ministerio se halla muy interesado en su consolidación institucional y profesional, razón por la que entendemos viable un proyecto de esta naturaleza.

Sin otro particular quedo de Ud.

ACTION:	PRDC	<i>[Signature]</i>
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Atentamente,

[Signature]

LEONEL FIGUEROA RAMIREZ
Vice-Ministro de Hacienda

DETAILED FINANCIAL ANALYSIS AND BUDGETARY ASSUMPTIONS

Formal Private Sector

- Figures for 1986 represent base costs with an inflation related increase of 6.5 % per annum over the life of the Project (LOP).
- Unless otherwise noted, costs represent those attributed to AID
- 1986 salaries are pro-rated according to starting dates.

A. CONFIEP

1. Institutional Development

a. Staff

1. Director @ \$35,000 approx. - CONFIEP picks up entirely (this person is already in place)
2. Economics Studies Department
 - Senior Economist @ \$35,000 / Yr.
 - Master's Level Economist @ \$20,000 / Yr.
 - Recent college grad Economist @ \$10,000 / Yr.
 - Secretary @ \$6,000 / Yr.

This group should be hired as soon as possible with optimal dates November. It is essential to move as quickly as possible to provide CONFIEP's Director and President with sound economic analyses of rapidly changing events in Peru and to take advantage of the new government's overtures to the private sector. Also this staff is needed in order to initiate the process of deciding and contracting studies on investment, savings, private sector definition and other broad issues.

3. Membership Department

- Membership Director @ \$25,000 / Yr.
- Secretary @ \$6,000 / Yr.

This team will be responsible for broadening the membership base among associations and with the regional chambers. Among the activities it will undertake will be: the coordination of dialogue activities with the regional chambers, and the preparation (based on member contributions and announcements) of the bi-monthly newsletter. Those two staff members should be hired mid-year.

4. Public Affairs / Publications Department

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- Public Affairs Director @ \$30,000 / Yr.
- Executive Secretary @ \$8,000 / Yr.

This Department will be responsible for managing and coordinating CONFIEP's publications and its conferences, meetings, etc.

It will work in close cooperation with the economic studies department and the membership Director to coordinate the timing, production and dissemination aspects of publishing. In essence, this team will handle logistics while the Economic Studies and Membership Directors handle substance.

The second set of activities for the Public Affairs Office will be the coordination and implementation of meetings, seminars and conferences designed by the Economic Studies Department in collaboration with outside technical expertise.

These two personnel should be hired as soon as possible in order that studies be undertaken and that meetings be planned and realized early on. Both persons should be highly experienced in conference management and/or publication coordination.

- 5. Librarian @ \$3,500 / Yr. (1/2 time)

As it is important that CONFIEP develop the inhouse capacity to anticipate and to react to timely events, a small library is planned. Such a facility would include not only current economic analyses, at national and international levels, but also would offer information relevant to regional and sectoral chambers/associations. A part time librarian is required with a starting date toward the mid to end of year 1.

- 6. Messengers 2 @ \$2,000 / Yr. (each)

Note:

With the exception of the Director, who is already in place and whose salary should continue to be covered by CONFIEP, all other salaries for staff are calculated at the base rates given above, increasing by approximately 6.5 % per year with AID covering 80 % in year 1, 60 % year 2, 40 % in year 3 and 20 % in year 4. The totals are approximately \$290,000 AID, \$485,000 CONFIEP, totalling \$775,000 over LOP.

- b. Technical Assistance @ approx. \$600,000 over 4 years.

- 1. Economic /Investment Expertise @ approx. \$180,000 over 4 years.

The purpose of this expertise is to assist the Economic Studies Department identify and analyze issues for the preparation of position papers, publications and conferences. Perhaps equally important will be the expertise these personnel can lend to CONFIEP as it initiates dialogue with the government through both formally planned activities (as stated above) and through informal meetings. Funding for this expertise is planned to be

greatest in year one with the amounts diminishing over time. Perhaps 60,000 year 1 declining to 30,000 year 4.

2. Organizational Process Expertise @ approx. \$130,000 over 4 years.

CONFIEP will grow in year 1 from a very small organization to one of substantial size. Especially in years 1-2 and then diminishing substantially in years 3-4, CONFIEP will need expertise in order to broaden its base and scope, take a stronger leadership role and develop the management systems to coordinate a mix of activities which are both sensitive politically and complicated logistically.

3. Conference / Meeting Expertise @ approx. \$160,000 over 4 years

The bulk of this expertise is anticipated for year 2 and 3 of the Project during which time major conferences are planned. In 1986, CONFIEP's Public Affairs Department will be responsible for organizing Public/Private Sector Roundtable Luncheons and for initiating the speakers Series. From a logistics standpoint, neither type of event is terribly complicated. However, as large conferences are planned for 1987 and 1988, CONFIEP will need some guidance toward the end of 1986 and will need a great deal during 1987 and 1988. A possible flow would be \$20,000 in 1986; \$60,000 in 1987-1988 (each) and \$20,000 in 1989.

4. Evaluation @ \$60,000 each in 1987-1989

Two evaluations are planned - one at mid point and the other towards the end of the Project.

c. Studies

1. Special Studies

In order to establish a policy dialogue with the new government, the first set of activities should be the preparation of soundly based analyses of the current economic situation. Approximately four studies should be prepared in 1986 and five or six each year thereafter. Because these studies should be of a sophisticated and professional nature, and because CONFIEP will not have the capacity to carry out such studies - at least initially, local technical assistance is called for to conduct such studies. By year 4 of the Project, CONFIEP's staff should assume more of the responsibility to carry out the research and prepare studies in-house and/or contract with member organizations for complementary resources.

The cost of outside local TA to prepare a study was calculated at approximately \$10,000 per study and production costs were estimated at approximately \$12,000-\$15,000 per study at a dissemination of 3000 copies per study. It is assumed that Peruvian organizations would prepare these studies.

2. Monthly Newsletter

The objective of the monthly newsletter is to increase and enhance communications among the member associations and with the regional chambers. The goal is that the Newsletter be prepared in-house and be based upon stories and/or articles written and submitted by member associations. The Public Affairs/Publications Department would coordinate the preparation, production and dissemination of the Newsletter. In year 1, however, approximately \$5000 in local technical assistance is anticipated to work with the newly hired staff. By year two, the operations should be handled in-house.

Production costs were estimated at \$250.00 per 1000 units. With a dissemination level of 3000/issue, the cost per month is approx. \$750.00 (in 1986).

1986	6	issues	=	4,500
1987	12	issues	=	9,600
1988	12	issues	=	10,200
1989	12	issues	=	10,800

d. Training @ approx. \$30,000 - 40,000 / year

While the precise mix of training activities should be decided per the needs of CONFIEP at the implementation stage of the Project, the types of training might include trips to, and exchange programs with, similar private sector associations in other Latin American countries. (i.e. FEDECAMARAS in Venezuela), participation in World Bank Seminars or short US university courses. Training will be provided to CONFIEP Board members (visits to other countries) and staff. The Specific courses for the latter will depend on the needs of the staff hired. This training activity should not be confused with the separate \$100,000 grant agreement for CONFIEP sponsored training.

e. Office Space

@ approx. \$58,000 / annum covered entirely by CONFIEP

It is very important that CONFIEP be located in a facility separate from those of its member associations and begin to take on an identity of its own. A large facility is called for to include sufficient office space for 5-6 professionals, 3 secretaries and other support staff, and to provide space for a library, and an economic studies department with computer capability, and conference rooms of sufficient size to host some of the meetings and seminars planned. A large office space in Miraflores has been used for purposes of estimation.

f. Commodities

- 2 computers @ \$8,000 / each {
- 3 Typewriters @ \$5,500 / each {
- 1 Xerox machine @ \$10,000 { AID
- Approximately \$5,000 maintenance {

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and new supply purchase over LOP []
Office Furniture for staff and []
Conference room @ \$25,000 [] CONFIEP []

2. Facilitating Dialogue

a. Meetings and Conferences

1. Distinguished Speakers Series

@ approx. \$7,000 / event.

Four events are planned in 1986 and six are proposed for 1987. The purpose of the series is to highlight important issues by bringing to Peru (or utilizing local expertise) persons of high reputation and stature. The series is proposed for the first 2 years only to "put the issues on the map."

Costs/event were calculated to include:

International travel for speaker	1,600
Honorarium/fee at \$1000 / day	4,000
per diem @ \$75/day	300
Small luncheons for 25 people	125
Cocktails for 25 people	25
reception for 75 people	150
room rental	50
Breakfast for 25 people	50
Audio / Visual	50
Misc	500
Xerox	300

Approx.	7,000

It is proposed that the "distinguished speaker" spend about 4 days in Peru and

- address a small select group over lunch
- address a larger group that afternoon
- address a small breakfast group
- travel to Arequipa or Trujillo to address a regional chamber with the regional chamber assuming travel costs (speaker, CONFIEP director, etc.) to the region and assuming cost of meals.

2. Luncheon Roundtables GOP/Private Sector

Small luncheon groups (20-25 people) to meet on a regular basis @ approx. \$200/event to cover meals/cocktails.

Seven meetings are anticipated for 1986 and 12 are proposed for each year thereafter.

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3. Conferences

Two major conferences are proposed; one in 1987 and one in 1988. These will be major events - one to address the issue of savings and investment and another to address private enterprise and its role in development in Peru and elsewhere. Participation of several international speakers is anticipated. Attendance is estimated at 200-250 people for 2-3 days at a hotel outside Lima. Each event will cost approx. \$100,000 with AID contributing \$75,000 for conference I and \$50,000 for conference II. Costs above and beyond \$100,000 per event will be covered by the participants in the form of a fee to attend the event.

b. Press Releases / Advertisements

Approx. \$1,500 /year are anticipated with the bulk picked up by the host country institution either in financial terms or in kind, for example, contributions by the Radio TV Association.

c. Public Education Campaign

Approx. \$1,500 / year is planned

Strengthening Sectoral Relations

\$295,000 over 4 years with the amount increasing over time. The purpose of such funds is to strengthen the weaker associations, improve administration where needed and subsidize studies, especially those beneficial to the private sector as a whole. These resources should be channeled through CONFIEP upon approval by CONFIEP's Board of proposals submitted by member chambers.

B. REGIONAL CHAMBERS

\$360,000 over 4 years to Regional Chambers is proposed. This would be divided approx.

\$130,000	Arequipa
\$90,000	Trujillo
\$140,000	Others (Iquitos, Cuzco, Piura, Puno)

1. Arequipa

a. Institutional Development

A small research/studies department is envisioned to investigate means of (a) stimulating and/or attracting investment in Arequipa and (b) creating/forging greater linkages between Arequipa and Lima and other regions.

This research department will require:

1. Staff

- Economist @ \$16,000 / year with AID covering entire salary in year one and diminishing over time.
- Investment Specialist @ \$15,000 / year with AID covering 50 % in year 1 and decreasing over LOP
- Secretary @ \$2,000 covered by HC

2. Commodities

- One computer @ \$8,000
- One Typewriter @ \$4,000 with AID contributing approx. \$100 additional in maintenance over LOP

3. Technical Assistance (Peruvian)

Approx. \$20,000 over LOP for an investment specialist

4. Studies

Approx. \$10,000 over LOP for production costs of studies conducted in-house

b. Facilitating Dialogue

Approx. \$30,000 over LOP to:

- Enable members of Arequipa chamber to travel to and participate in meetings in Lima.
- Cover travel costs and meals associated with the Distinguished Speakers series to bring the speaker plus 1 or 2 COMPIEP representatives to Arequipa to address the Regional Chamber.

2. Trujillo

- A plan on a similar but more modest scale to that of Arequipa is envisioned.

a. Institutional Development

1. Staff

- Economist / Investment Specialist
@ \$16,000 / year covered by AID in year and decreasing over time
- Secretary @ \$2,000 / year covered entirely by chamber

2. Commodities

- One computer @ \$6,000 and approx. \$1,000 in maintenance over LOP

3. Technical Assistance @ approx. \$16,000 over LOP

4. Studies / Publications
Approx. \$9000 over LOP

b. Facilitating Dialogue
Approx. \$20,000 over LOP

Other Chambers

Approx. \$140,000 over years 2,3,4 to enable the smaller chambers to conduct research and participate in national level meetings. Approx. 60% (\$80,000) for Institutional Development and approx 40% (\$60,000 for facilitating dialogue). The Chambers considered are Iquitos, Cuzco, Ayacucho and Puno.

JOB DESCRIPTIONS

1. Project Coordinator

A. Education and Experience

The Project Coordinator should be trained in economics and/or social sciences preferably with a masters' degree level in business or public administration with 10-15 years shared experience in government and the private sector, currently at or near senior levels of management with responsibility for the supervision of other professionals.

He/she should be fully bi-lingual, with writing skills in English and Spanish and should have lived extensively in Latin America.

B. Principal Tasks:

- * Assist AID in the monitoring of the various grant agreements called for in the Project.
- * Assist AID in the definition of the jobs to be performed by the Peruvian Deputy Project Coordinator, the US Expert in investment promotion and the Peruvian Expert in investment and export promotion and the definition of desired professional and personal qualifications.
- * Assist AID in the recruitment and selection of the Project guidance and coordination staff.
- * Assist AID in negotiating with CONFIEP the provision of office space and other support services (not provided for in the budget for this component) required for the Project guidance and monitoring group.
- * Advise CONFIEP on organizational development matters by
 - Assisting in the definition of the functions of the staff to be hired under the grant agreement.
 - Assisting in the description of the functions of the professional staff and the definition of professional and personal qualifications of all the direct staff of CONFIEP.
 - Assisting in setting up the priorities and a schedule to develop the organizational structure of CONFIEP along the lines of what is being proposed in this Project.
 - Assisting CONFIEP in to plan and carry out structural changes in the organization of CONFIEP, i.e., the rules for incorporation of new associations (new members); the composition and linkages of a possible "board of patrons" as proposed; the restructuring of the board of directors; the

formation of specialized committees and others, directly recommended in the Project paper as they may be modified thru negotiations.

- * Assist AID define the terms and covenants (as related to organizational changes) of the grant agreements to be entered into with COMFIEP.
- * Assist AID in the evaluation of opportunities to build linkages to appropriate public sector agencies as called for in the Project.
- * Advise COMFIEP and the appropriate public sector agency(ies) on criteria for prioritizing the program of studies to be supported (funded) by the Project.
- * Advise COMFIEP and the appropriate public sector agency(ies) on the preparation of scopes of work for the prioritized economic studies to be undertaken under the Project.
- * Supervise the "guidance and monitoring" contract team in developing appropriate work plans of collaboration with COMFIEP, the regional chambers, the public sector and ILD.
- * Supervise the activities of the Peruvian Deputy Project Coordinator which will focus in the area of dialogue/consensus development through the program of conferences distinguished speakers series, publications and other information dissemination efforts.
- * Supervise the activities of the US investment and export development expert and assist him/her and the Peruvian counterpart, in developing appropriate linkages with the association members of COMFIEP directly involved in this area as well as with the regional chambers and any appropriate public sector agency(ies).
- * Based on the terms of existing agreements with ILD take principal responsibility for monitoring progress towards the achievement of Project goals and assist ILD's management; make adjustments in program content if this becomes necessary as a result of unfolding events.
- * Assist ILD's management in building linkages with COMFIEP and regional chambers.

C. Reporting Requirements

- * Prepare quarterly progress reports in English and Spanish for the Mission and COMFIEP's President and Board of Directors.
- * Prepare any other reports deemed necessary to alert the Mission and COMFIEP of possible requirements for changes in focus or emphasis resulting from the periodic (interim) program evaluations called for in the Project.

- * The Project Coordinator will work closely with the chief of AID'S Private Sector Division and should attend periodic briefings and program reviews.

POTENTIAL SOURCES OF ECONOMIC EXPERTISE IN PERU

Universities

1. **Universidad del Pacifico**
Bachelors and Masters programs and economic research center, CIUP presently under contract with the IBRD.
2. **ESAN**
Graduate programs and an economic development research institute which also does limited consulting work. Presently concentrating on energy policies issues.
3. **Universidad Catolica**
Graduate and undergraduate programs
4. **Universidad de Lima**
Undergraduate programs and CIESUL a research and analysis institute on socio-economic subjects.

Economic and Management Research and Analysis Organizations

1. **Apoyo S.A.**
Concentrates in publishing and editing periodicals and special papers on economic issues. It also has a large group of private clients for whom Apoyo does policy analysis work.
2. **IPAE**
Principally dedicated to organizing conferences and symposia for the Peruvian private sector, using distinguished (independent) professionals.
3. **GRADE**
Principally concerned with economic analysis of long term prospects.

PROJECT AUTHORIZATION

Name of Country : PERU

Name of Project: Private Sector Policy
Planning and Institutional Development

Number of Project: 527-0298

Grant Number : 527-0298-G-00-5123-00

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Informal Private Sector component of the Private Sector Policy Planning and Institutional Development Project for Peru involving planned obligations of not to exceed One Million Two Hundred Thousand United States Dollars (\$1,200,000) in grant funds ("Grant") over a two and one half year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project component. The planned life of the project component is thirty months from the date of initial obligation. The component being authorized is part of a larger project, totalling approximately \$6.0 million which will include activities with the formal private sector to assist it to become a more effective policy analysis and lobbying force, and with the GOP to strengthen its capacity for making coherent, timely, and informed judgements concerning policy formation.

2. The project (component) consists of grant assistance to a Peruvian private sector entity to enhance its capacity to perform policy analysis and promote policy reform. The component will be implemented through a Specific Support Grant to the Institute for Liberty and Democracy (ILD) in the amount of \$1.2 million. The Grant will support a continuation and expansion of ILD's research on the informal sector, focusing on the legal and regulatory framework and actions to alter this.

3. The Project Agreements, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services (Grant)

Commodities financed by A.I.D. under the Grant shall have their source and origin in Peru or in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services financed under the Grant shall have Peru or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

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b. Conditions Precedent to Disbursement (ILD)

(1) Condition Precedent to Disbursement for Project Activities After December 31, 1985

Prior to any disbursement or the issuance of commitment documents under this Grant to finance project activities after December 31, 1985, ILD will publish and initiate distribution of the book it is preparing on the informal sector, which will contain the results of ILD's work to date.

(2) Conditions Precedent to Disbursement for Project Activities for CY 1986

At least two months prior to any disbursement or the issuance of commitment documents under this Grant to finance project activities for CY 1986, ILD will submit to AID:

(a) An approved detailed workplan for CY 1986 which clearly establishes expected accomplishments for the Grant period, goals, expected outputs, and specific benchmarks.

(b) A listing of all other (non-AID) financial support, by grantor, that ILD has received to further the objectives of the Grant, along with a brief description of the specific purposes of such support and the time period over which it will be utilized. Non-AID support will equal at least 46% of total financial needs for the period.

(3) Conditions Precedent to Disbursements for Project Activities for CY 1987

At least two months prior to any disbursement or the issuance of commitment documents under this Grant to finance project activities for CY 1987, ILD will submit to AID:

(a) An approved detailed workplan for CY 1987 which clearly establishes expected accomplishments for the Grant period, goals, expected outputs, and specific benchmarks.

(b) A listing of all other (non-AID) financial support, by grantor, that ILD has received to further the objectives of the Grant, along with a brief description of the specific purposes of such support and the time period over which it will be utilized. Non-AID support will be equal to at least 70% of total financial needs for the period.


John A. Sanbrailo
Mission Director

June 20, 1985
Date

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AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES AID MISSION TO PERU

C/O AMERICAN EMBASSY

LIMA, 1 PERU

TELEPHONE: 286200

CABLE: USAIDLIMA

Project Authorization (Amendment No. 1)

Name of Country: Peru
Name of Project: Private Sector Policy Planning and Institutional Development
Number of Project: 527-0298

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, the Informal Private Sector Component of the Private Sector Policy Planning and Institutional Development Project for Peru was authorized on June 20, 1985 in an amount of One Million Two Hundred Thousand United States Dollars (\$1,200,000) in grant funds (the "Authorization"). The Authorization is hereby amended to add the Formal Private Sector component and the Project Coordination component involving planned obligations not to exceed three million two hundred thousand United States Dollars (\$3,200,000) in grant funds (the "Amendment") over a fifty-four month period from the date of the Amendment, bringing the total amount authorized for the project to four million four hundred thousand United States Dollars (\$4,400,000) subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the Amendment is fifty-four months from the date of initial obligation under the Amendment. The Amendment and the initially authorized component shall be referred to herein collectively as the "Project".
2. The Amendment consists of assistance to a private sector confederation, which represents the great majority of Peru's formal private sector associations and businesses, and which has assumed a key role in the private sector policy formulation process. The Project, including the previously authorized informal sector component, has been designed to promote policy dialogue and reform by: (1) strengthening the institutional capability of both the private and public sectors to engage in constructive policy dialogue, and (2) enhancing the understanding of the indispensable role of private savings and investment in economic growth. A public sector component is planned to be authorized in the future. AID/Peru is authorized to utilize up to \$1,195,000 of Project funds to contract for goods and services for project coordination, monitoring and evaluation.
3. The Project Agreement(s), which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following additional terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a) Conditions Precedent to Initial Disbursement

Prior to any disbursements or the issuance of commitment documents under the Amendment, CONFIEP will submit to AID, in form and substance acceptable to AID, the following:

1. Evidence that CONFIEP is duly organized and registered in accordance with the laws of Peru; and
2. Evidence that CONFIEP is recognized as an entity exempt from taxation under the laws of Peru.

b) Conditions Precedent to Disbursements

Prior to any disbursements or issuance of commitment documents after the first \$100,000 has been disbursed under this Amendment, CONFIEP will submit to AID, in form and substance acceptable to AID, the following:

- i. A copy of a CONFIEP Board of Directors' resolution indicating that there will be increasing self-sufficiency for CONFIEP's core activities during the Grant period and full self-sufficiency for core activities when AID financial assistance terminates.
- ii. The first Annual Implementation Plan which provides expected accomplishments for the period, and the anticipated Project inputs, objectives and specific progress indicators for each quarter. The plan will specify the funding source for all proposed Project activities.
- iii. Documentation that CONFIEP has developed and is utilizing an improved financial management, internal control and procurement system..

c) Conditions Precedent to Subsequent Disbursements

Prior to any disbursement or the issuance of commitment documents under the Amendment to finance Project activities not contained in the Annual Implementation Plan in effect at the time, CONFIEP will submit to AID, in form and substance acceptable to AID, the following:

- i. An amendment to the Implementation Plan currently in effect, or if appropriate, a new Annual Implementation Plan.
- ii. Documentation which indicates that CONFIEP has provided no less than the Project counterpart requirements to date as described in its proposal to AID.

d) Covenants

CONFIEP covenants that it will:

i. Work to integrate CONFIEP, sectoral associations and regional associations and strengthen their capacity to promote private sector investment, production, and employment outside of Lima.

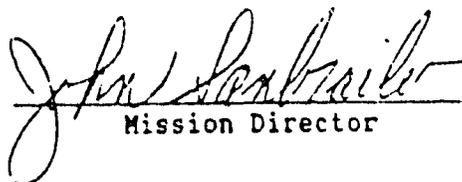
ii. Implement a fund raising campaign which will lead to increasing CONFIEP revenues from non-AID sources in order that CONFIEP can continue and maintain core project activities when AID funding terminates.

iii. Seek additional funding for CONFIEP from local sources and, as appropriate, from other international agencies and/or from friendly countries.

iv. Coordinate CONFIEP activities with other private sector groups being assisted by AID such as Instituto Libertad y Democracia (ILD), Instituto Peruano de Administración de Empresas (IPAE), Escuela Superior de Administración de Negocios (ESAN), Universidad del Pacifico, Universidad de Piura, Acción Comunitaria del Perú, Asociación Promotora de Institutos Tecnológicos Superiores (TECSUP), etc. When appropriate, utilize the research findings and development experiences from these organizations in CONFIEP programs.

v. Locate, select, contract and purchase all AID-financed project technical assistance, training services and commodities in a competitive manner approved by AID.

4. Except as specifically amended or modified herein, the terms and conditions of the Authorization remain in full force and effort.


Mission Director

6/23/86
Date

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5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B.1 applies to all projects funded with Development Assistance loans, and B.3 applies to projects funded from ESP.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

A Technical Notification for the Project was sent on May 30, 1986 and expires on June 18, 1986.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes.
(b) Yes.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required to implement any activity under this Project.

4. FAA Sec. 611(b); FY 1985 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S. C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)

The Project is not a water or water-related land resource project.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has the Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Not applicable.

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

The Project is not susceptible to execution as part of a regional or multilateral project.

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

- (a) The project is designed to increase Peruvian exports as a result of relevant policy improvements, and rationalize economic policies to increase the competitive integration of Peru into the international market.
- (b) The project will foster private initiative and competition by improving the policy environment relevant to private enterprise and increasing the appreciation of private sector enterprise by Peruvian society.
- (c) Not applicable.
- (d) Economic policy analyses and policy reform proposals to be generated through the project will discourage non-competitive, inefficient business/economic practices.
- (e) The project will provide technical assistance to improve the overall, not specifically technical, efficiency of private enterprise.
- (f) Not applicable.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and

The Project is designed to stimulate US, other foreign and local investment in Per.

investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

by developing a stable, rational policy environment which attracts investors. The project will encourage private U.S. participation in the foreign assistance program by utilizing U.S. technical assistance, financing and management skills as well as procurement of specific commodities, as appropriate.

9. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507.

Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The participating institutions will contribute the equivalent of U.S. \$2.48 million to meet the costs of carrying out this Project.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

12. FY 1986 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

Not applicable; the Project will stimulate exports through relevant policy reforms, not through export production assistance.

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests?

An IEE has been carried out for this Project and negative determination has been made.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

Not applicable.

15. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

No.

16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

Full consideration will be given to small and minority and women owned businesses for the provision of all goods and services.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the

(a) The Project goal is to promote economic growth and employment in Peru, with specific components geared to institutionalizing the participation of the poor, and those in decentralized areas, in the benefits of economic development. The project will seek to extend the access of financial and legal services to many (small) enterprises which currently do not enjoy these benefits, and promote decentralized investment.

(b) Not applicable.

(c) The Project will utilize Peruvian experts where possible for TA and training

participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

and the development of institutions.

(d) One of the Project components will undertake gender differentiation studies to determine the specific needs of (mostly poor urban) women entrepreneurs, and use the results of these studies (as appropriate) to develop policy recommendations.

(e) This Project has not been designed to have a regional impact.

b. FAA Sec. 103, 103A, 104, 105, 106.

Does the project fit the criteria for the type of funds (functional account) being used?

Yes.

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

The Project includes the use of technical assistance appropriate to develop the institutional capacity of Peruvian institutions.

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Peru will provide \$2,480,000 of total Project costs of \$6,880,000, i.e. 36% of Project costs.

e. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

The Project will result in more technically qualified, self-sustaining institutions in Peru which are dedicated to economic growth, as well as in the more efficient use of scarce national resources as a result a rationalized economic policy environment.

f. FAA Sec. 128(b). If the activity attempts to increase the

The Informal Sector component of the Project has

institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

been designed to strengthen the institutional capability of a private organization to conduct research and support reform activities whose ultimate beneficiaries are the poor majority. Project evaluation will monitor the success of such activities.

- g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

The Project has been specifically designed to analyze and respond to Peruvian policies and policy reform requirements, and to develop the institutional capacity of Peruvian private sector organizations to dialogue with the government and contribute to the policy formulation process. Peruvian technical assistance, expertise and other resources will be used to the fullest extent possible in Project implementation.

2. Development Assistance Project Criteria (Loans Only)

- a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

Not applicable.

- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

Not applicable.

3. Economic Support Fund Project Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

Not applicable.

- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? Not applicable.
- c. ISDCA of 1985 Sec. 207. Will ESP funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues non-proliferation policies consistent with those of the United States? Not applicable.
- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? Not applicable.

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small businesses to participate equitably in the furnishing of commodities and services financed? Yes.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do Peru does not discriminate against marine insurance companies.

business in the U.S., will commodities be insured in the United States against marine risk with such a company?

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) Not applicable.
5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? Not applicable.
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? No.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes; not applicable
8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes.

9. FY 1985 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes, all U.S. direct contracts will contain a termination for convenience of the U.S. clause.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?

This is not a capital project.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

Not applicable.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)?

Not applicable.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

This project is wholly grant funded.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

Not applicable.

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

Yes.

4. Will arrangements preclude use of financing:

- a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion? Yes.
- b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? Yes
- c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes.
- d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.
- e. FAA Sec. 662. For CIA activities? Yes.
- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.
- g. FY 1986 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? Yes.
- h. FY 1986 Continuing Resolution, Sec. 505. To pay U.N. assessments arrearages or dues? Yes.
- i. FY 1986 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? Yes.

- j. FY 1986 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology? Yes.

- k. FY 1986 Continuing Resolution, Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.

- l. FY 1986 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes.

ENVIRONMENTAL DETERMINATION

Project Location: Peru

Project Title and Number: Private Sector Policy Planning and Institutional Development

Funding: FY 85

Project Purpose and Activities: To promote policy change through improving: (i) the technical and economic analysis within the public sector of key policy and program constraints to private sector growth, and (ii) the technical capacity of Peruvian private sector organizations to analyze key issues inhibiting growth and to build up and support their institutional capacity to lobby for sounder policy and promote attitudinal changes that stimulate economic growth and employment.

Statement for Categorical Exclusion: It is the opinion of the USAID/Peru that the Project does not require an Initial Environmental Examination because its activities are within the classes of actions described in Section 216.2, Paragraph c(i) and c(xiv) "Categorical Exclusions of 22CFR Part 216."

"Section 216.2 c(2) (xiv)":

"Studies, projects or programs intended to develop the capability of recipient countries to engage in development planning, except to the extent designed to result in activities directly affecting the environment".

"Section 216.2 c(2)(i)":

"Education, technical assistance or training programs except to the extent such programs include activities directly affecting the environment."

Concurrence of the Mission Director

I have reviewed the above statement and concur in the determination that the Project "Private Sector Policy Planning and Institutional Development" does not require an Initial Environmental Examination.

3/20/85
Date


John A. Sanbrailo
Director
USAID/Peru

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: Private Sector Policy Planning & Institutional Development
527-02

Life of Project: FY 85 to FY 90
Total U.S. Funding: \$6.0 million
Date Prepared: March 7, 1985

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Project Goal:</u> To promote economic growth and employment by reducing policy and attitudinal constraints inhibiting expanded private sector production, investment and exports.</p>	<p>Improvement in economy as measured by increase in GNP, decrease in debts, reductions in unemployment.</p>	<p>Economic indicators.</p>	<p>Continued political stability. Absence of natural disasters. GOP will act on recommendations</p>
<p><u>Project Purpose:</u> To promote policy change through improving:</p>	<p>Strengthen mechanisms within the GOP to improve technical analysis of policy alternatives affecting the private sector.</p>	<p>Programs & monitoring reports.</p>	<p>Strong leadership in GOP.</p>
<p>1) technical and economic analyses within the public sector of key policy/program constraints to private sector growth;</p>	<p>Strengthen mechanisms within private sector (formal and informal) to articulate sector interests/positions, to influence policy change and to conduct public awareness programs that foster improved attitudes toward private sector growth.</p>	<p>Process and impact evaluations.</p>	
<p>2) technical capacity of private sector to analyze key issues inhibiting growth and to build/support institutional capacity to both lobby or sounder policies and promote attitudinal changes that stimulate economic growth and employment.</p>	<p>a) Private sector policy studies prepared, published and disseminated by the GOP and Private Sector entities. b) Corresponding recommendations for policy change institutionalized in terms of new legislation, draft laws and/or budget allocations. c) Training of GOP staff in policy planning and analysis.</p>		

INNOVATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	<p>d) Strengthening of Private Sector representative organizations through training, assessment of needs and provision of Technical Assistance.</p> <p>e) GOP and Private Sector Seminars and Workshops.</p> <p>f) Public awareness Campaign through radio, TV, and print media.</p> <p>g) Collection and inventory of pertinent macroeconomic and sectoral studies.</p>		
	<u>AID</u>	<u>Private Sector</u>	<u>GOP</u> <u>TOTAL</u>
Inputs (USD):			
Technical Assistance	4,434	1,255	5,689
Training	400	50	450
Information Dialogue	585	400	1,085
Conferences	206	42	292
Administrative/Personnel	220	417	3,033
Evaluation	155	75	180
TOTAL	6,000	2,185	8,729

- Funds Available on a timely basis
- TA is contracted in a timely manner.