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UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

PERU

PROJECT PAPER

POLICY PLANNING AND INSTITUTIONAL DEVELOPMENT

AMENDMENT NOS. 3 & 4

AID/LAC/P-413
CR P-324 P-288

Project Number: 527-0298

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE: C (A = Add, C = Change, D = Delete) Amendment Number: FOUR DOCUMENT CODE: 3

2. COUNTRY/ENTITY: PERU 3. PROJECT NUMBER: 527-0298

4. BUREAU/OFFICE: LAC 05 5. PROJECT TITLE (maximum 40 characters): Policy Planning and Institutional Dev.

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 1 2 3 0 9 0

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' 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	1,800	4,200	6,000
(Grant)	(135)	(365)	(500)	(1,800)	(4,200)	(6,000)
(Loan)	()	()	()	()	()	()
Other U.S. 1.						
Other U.S. 2.						
Host Country		145	145		3,380	3,380
Other Donor(s)						
TOTALS	135	510	645	2,647	6,733	9,380

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	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) SDA	700	800		3,891				6,000	
(2)									
(3)									
(4)									
TOTALS				3,891				6,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 840 830 890 930 950

11. SECONDARY PURPOSE CODES

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code: INTR RGEN BU

B. Amount

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

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

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

This amendment increases funding for informal private sector component by \$550,000. The original Project total cost, design, purpose and goal remain unchanged.

17. APPROVED BY: Signature Donor M. Lion Title Mission Director Date Signed MM DD YY 12 29 88

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY 12 29 88

PROJECT AUTHORIZATION
(Amendment No. 4)

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 and amended on June 23, 1986, August 27, 1986 and September 29, 1987. That authorization, as amended, is hereby amended as follows:

A. Section 1 is deleted and substituted in lieu thereof by the following:

"1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Sector Policy Planning and Institutional Development Project for Peru (the "Cooperating Country") involving planned obligations of not to exceed Six Million United States Dollars (US\$6,000,000) in grant funds (the "Grant") as follows:

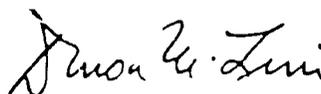
- Informal Private Sector Component - US\$1,941,400 over a forty-two month period from the date of authorization (June 20, 1985)

- Formal Private Sector Component and Project Guidance and Coordination Component - US\$2,458,600 over a fifty-four month period from date of authorization (June 23, 1986); and

- Public Sector Component US\$1,600,000 over a four year period from date of authorization (August 27, 1986).

All planned obligations are subject to the availability of funds in accordance with the A.I.D. OYB/allotment process. Funds will be used to help in financing foreign exchange and local currency costs for the project. The planned life of the project is sixty-six months from date of initial obligation."

2. Except as specifically amended or modified herein, the terms and conditions of the authorization, as previously amended, remain in full force and effect.



Donor M. Lion
Mission Director

29 FEB. 86

Date

PROJECT AUTHORIZATION
(Amendment No. 3)

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 and amended on June 23, 1986 and August 27, 1986. That authorization, as amended, is hereby amended as follows:

A. Section 1 is deleted and substituted in lieu thereof by the following:

"1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Sector Policy Planning and Institutional Development Project for Peru (the "Cooperating Country") involving planned obligations of not to exceed Six Million United States Dollars (US\$6,000,000) in grant funds (the "Grant") as follows:

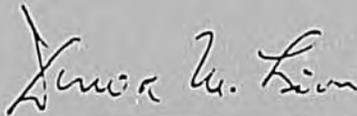
- Informal Private Sector Component - US\$1,391,400 over a three year period from the date of authorization (June 20, 1985)

- Formal Private Sector Component and Project Guidance and Coordination Component - US\$3,008,600 over a fifty-four month period from date of authorization (June 23, 1986); and

- Public Sector Component US\$1,600,000 over a four year period from date of authorization (August 27, 1986).

All planned obligations are subject to the availability of funds in accordance with the A.I.D. OYB/allotment process. Funds will be used to help in financing foreign exchange and local currency costs for the project. The planned life of the project is sixty-six months from date of initial obligation."

2. Except as specifically amended or modified herein, the terms and conditions of the authorization, as previously amended, remain in full force and effect.



Donor M. Lion
Mission Director

9/29/87

Date

Private Sector Policy Planning and Institutional
Development Project: Informal Private Sector Component
with the Instituto Libertad y Democracia (ILD)

PP Supplement

I. Background and Status of Project

The Informal Private Sector component with the Instituto Libertad y Democracia (ILD) is one of three related, but separately implemented, components of the Private Sector Policy Planning and Institutional Development Project (No. 527-0298). The overall Project is designed to strengthen the institutional capability, in both the private and public sectors, to analyze Peru's economic situation and formulate appropriate and consistent policy responses to constraints limiting investment and growth. In addition, the Project is designed to help the private sector (formal and informal) coalesce around key issues of national importance and facilitate a public-private policy dialogue around these issues leading to the removal of the constraints and the promotion of private investment and exports. As described further in the Project Paper (PP), which was approved on June 23, 1986, the three Project components consist of the following:

1) Informal Private Sector - Strengthening of the Instituto Libertad y Democracia (ILD) in its efforts to research and document the role of the informal private sector in the Peruvian economy, reduce unnecessary bureaucratic regulations and advocate a policy framework more conducive to investment and "integration" into the formal economy.

2) Formal Private Sector - Institutional development of the National Confederation of Private Enterprise Institutions (CONFIEP) and strengthening of the research and analysis capability in the formal private sector (including assistance to sectoral and provincial associations).

3) Public Sector - Strengthening the economic policy formulation and analysis capabilities of the GOP's key policy-making entities, interagency coordination among these entities, and dialogue between them and private sector representative organizations.

The Informal Private Sector component with ILD, titled the Institutional, Applied Research and Reform Activities Support Project, was authorized by the USAID/Peru Mission Director on 06/20/85. The Project Authorization document authorized a total grant contribution for this component of \$1,200,000. The Authorization was amended on September 29, 1987 to increase grant funding by \$191,400 to a new total of \$1,391,400 and to extend the Grant expiration date by five months, from November 1, 1987 to March 31, 1988. To date this amount has been fully obligated and committed to finance allowable Project expenditures. As described in Section II below, titled "Justification and Description of PP Supplement Activities", this PP Supplement proposes an increase in grant funding of \$550,000 to finance project activities for the 9 month period beginning April 1, 1988 to December 31, 1988. Thus an extension of the Grant expiration date through December 31, 1988 is required.

The purpose of the ILD component is to provide the organization with institutional support to continue its applied research, analyses and reform activities on the informal sector and on the economic and legal relationships between the formal and informal sectors. The activities being carried out under this ongoing Grant are based on the research work supported by AID and carried out by ILD under previous grant agreements. The emphasis of the ILD Project is on the legal and regulatory framework, specifically concrete actions to alter this framework, rather than to continue further studies and simulations. In carrying out its activities, ILD has taken the initiative and established contacts with the Congress, as well as with various ministries and municipal governments. Additionally, such institutions as the Supreme Court have requested technical support and invited ILD to participate in special projects. ILD also has signed agreements with various entities to test or implement ideas resulting from their research work. Specific areas of activity supported by the Grant are indicated immediately below.

1. Institutional Support. ILD has provided institutional support, primarily technical assistance, information, and advice to Peruvian public sector institutions (such as the Fiscalía de la Nación (Attorney General), municipal governments and Congress) and other institutions (such as formal sector business entities, informal sector business entities, universities, the press, and political parties). These relationships have borne fruit in the sponsorship of the Administrative Simplification and Public Information Acts and the passage of Improved Land and Housing (Construction) Titling acts.

2. Industry. ILD is implementing the means (through its proposed Law of Industry) of simplifying steps to legally establish small industries, thereby promoting a less complex, less costly process which will encourage legality.

3. Personal Identity Documents. ILD has also assisted in the implementation of legislation and regulations to simplify the formalities for acquiring these various documents, along with the elimination of some and the combination of others.

4. Commerce. ILD continues to propose and help implement means of formalizing commercial activities that are currently carried out informally. A major step in this direction is the recent agreement between ILD and CONFIEP (the National Confederation of Private Enterprise Institutions) to jointly analyze problems relating to informality and to plan and implement a shared program of activities in 1988.

5. Housing. ILD is carrying out two subcomponents, one proposing regulations and legislation concerned with property legalization, the other proposing means of integrating the formal and informal housing sectors. ILD has used its experience in the housing sector, together with a study of the insurance industry, to develop a proposal to provide housing insurance (and thus a source of credit guarantees) to the informal sector.

6. Economic Studies. ILD will continue to quantify the size of the informal sector in terms of the number of people involved, their relative inputs of worker-hours, the size of outputs, and the projected magnitude of informality (if it continues to grow at foreseeable rates).

II. Justification and Description of PP Supplement Activities

The Project purpose and goal remain the same.

Over a three-week period in September/October of 1987, Development Alternatives, Inc. (DAI) performed an assessment of the AID-financed program with the ILD. The assessment reviewed the institute's past activities, identified its comparative advantages and disadvantages, and made recommendations for enhancing their effectiveness in performing policy research and promoting policy reform.

The DAI assessment team determined that ILD has made a significant contribution to the intellectual and political debate on the informal sector in Peru, demonstrated the value of market-oriented regulatory analysis, and energized discussions on the legal framework necessary for economic and social development. It also noted that ILD's best known publication, the book El Otro Sendero, has been influential not only in Peru but also in other Latin American countries. It pointed out that the book's findings on the Peruvian informal sector appear to be applicable, with modifications, to other developing countries.

The Mission believes the DAI assessment of ILD's program is a balanced, well documented piece of work, and fully agrees with the report's conclusion that ILD, is an organization with great strengths, remediable flaws, and worthwhile potential for the future.

The assessment also included several financial projections for ILD using varying income and expense assumptions. The results of virtually all these scenarios is that ILD will suffer serious financial shortfalls. The most realistic of these projections indicates that by June 1988, income will no longer be able to meet expenses. As a result, the DAI report recommended that additional funding be provided to ILD, while at the same time requiring specific improvements in its internal management. ILD's past record of accomplishments and its potential for further influencing the economic policy framework and debate in Peru justify additional funding for ILD. Otherwise, the organization will be forced to make major cutbacks in its program at a time when its activities are clearly demonstrating their importance to Peru and to Latin America in general.

Based on the above, this PP Supplement proposes:

- 1) To increase the ILD Grant Agreement by \$550,000 to maintain program funding at current modest levels (further described below); and

- 2) extend the expiration date of the Grant by nine months, from April 1, 1988 to December 31, 1988.

This level of funding, which most closely corresponds to the "Medium Case" scenario proposed by DAI, will assure that ILD retains the capacity to influence the policy debate on informality in Peru, while allowing it time to implement important programatic and technical improvements identified in the assessment.

As noted above, in addition to DAI's recommendation for additional funding, the assessment made several other important recommendations, that once implemented, will help assure that the ILD program is both sustained and qualitatively improved. The most important among these is the development of a focused, strategic plan for the organization which clearly defines a limited set of objectives and priorities, specifically articulating how and when these objectives will be carried out. Additionally, in accordance with DAI recommendations, ILD will hire two senior staff members: a senior economist and controller. The senior economist is required to present more effectively the methodology and results of ILD's research to the intellectual community and to allow ILD to participate more fully in, and benefit from, the academic debate on informality. The hiring of a controller and provision of financial management training to selected staff addresses significant concerns identified in the financial assessment. These specific concerns centered on the adoption of more advanced financial management and planning tools to assure improved internal controls and accurate up-to-date information to donors.

ILD's formal agreement and a schedule to implement these recommendations will be a condition precedent to the initial disbursement under the proposed Grant Agreement. Subsequent disbursements will be dependent upon the presentation and approval of a calendarized detailed workplan for the extended Grant period that provides benchmarks to assure that ILD is complying with identified targets.

III. Project Outputs During Extended Grant Period

In analyzing the comparative advantages of ILD (policy-oriented survey research, formulating property rights legislation, institutional change, and generating debate on informality), the assessment recommended that ILD should focus its activities on:

- consolidating past work done on the urban informal sector (specifically, publication of a series of research monographs on housing, transport, commerce and industry to complement the book El Otro Sendero and its appendices);
- conducting research on the economic effects of legal institutions and procedures;

- continuing action programs (advocacy efforts, publicity campaigns, and group action) based on solid research; and
- presenting seminars on informality and institutional change directed toward Peruvian social scientists and professionals from other Latin American countries.

Within the above framework, the anticipated outputs during the proposed nine month extension of the grant will include the following:

A. Applied Economics Research.

i. Capital Markets.

- Analysis of the Cost of Credit Access in the Formal Capital Market. This will include the impact of the interest rate structure imposed by State Financial Institutions, negative (in real terms) interest rates and the corresponding scarcity of credit and excessive amounts of time expended in securing loans.
- Analysis of the Cost of Credit Access in the Informal Capital Market. Simulation studies and interviews will be carried on with formal and informal entrepreneurs to ascertain the true cost of credit in the informal sector.

ii. Housing.

Outputs will focus on four areas: adjudication of state lands, simplification of technical norms, the market for rental housing, and development of an insurance policy for land and home possession. Research is already underway in all four areas.

- Adjudication of State Lands. Carry out a cost/benefit analysis of existing legislation and the proposed new law.
- Simplification of Technical Norms. Develop legislative proposals to eliminate unnecessary technical requirements that are creating obstacles to popular access to land for housing. During the nine months of this proposal, reviews of (A) the technical norms required for obtaining and developing land and (B) the technical requirements for housing construction will be completed.
- Market for Rental Housing. Develop legislative proposals to make rental a viable and attractive alternative for popular housing.
- Diffusion and Implementation of Credit Insurance. Negotiate implementation of the already completed and published proposal for credit insurance based on home possession (rather than title). This insurance policy concept already has the support of

various insurance companies, implementation will begin within the next nine months.

B. Research on Rule-making.

- i. Democratic Production of Law. The ILD will continue in its program of increasing citizen participation in the rule-making process, analyzing the impact of rules once implemented and doing cost benefit analyses of proposed norms. ILD will pursue its investigation of the rule-making procedures used by advanced democracies and rapidly developing countries, as well as that proposed by the current Peruvian government, in order to develop reform proposals relevant to the Peruvian reality. Several specific proposals for feed-back mechanisms and cost-benefit analyses will be developed and ready to put into the form of proposed legislation.
- ii. Access to Public Information. Applied research involving the review of the mechanisms (laws, regulations, and bureaucratic practices) which currently deny access to public information in Peru and the review of the criteria advanced democracies use for defining the type of information which should be made available to the public. The objective is to design a series of reforms that would provide access to information necessary for effective citizen oversight of the governing process while guarding that which is crucial to state security. A legislative proposal on access to public information will be designed and published and a program of public education on the issue undertaken.
- iii. Institutional Equilibrium (Checks and Balances). ILD will begin research into the mechanisms of oversight (e.g. congress, judiciary, electoral procedures, inspectors-general, controllers) established by advanced democracies and the means by which informals oversee their organizations. By the termination of this fifth grant period, ILD expects to have identified and detailed several significant oversight mechanisms that will enhance the guarantee of citizens' rights provided for in the constitution.

C. Monograph Publication.

Based on work already completed or well underway, ILD will compile and publish several research monograph series. Material which served as the background for El Otro Sendero will be updated with additional information and findings which have become available since the publication of the book. The subject areas include housing, transport, commerce, and methodological guides for the calculation of informality at a macroeconomic level.

A

D. Seminars.

ILD has several research projects underway on capital markets, democratic production of law, and access to public information which is of interest to different groups of professionals in Peru. ILD will hold at least four roundtables or seminars to present its research results to the Peruvian research and policy community for discussion and analysis.

E. Institutional Reform.

The DAI assessment recommended that certain internal management reforms be carried out to improve administrative operations within ILD. To that end, ILD will hire a controller and senior economist before the start of the fifth grant period. It will also provide an integrated fundraising plan for calendar years 1988 and 1989 as recommended by the DAI assessment team.

V. Revised Financial Plan

Total Estimated Project Budget
(April 1, 1985 - December 31, 1988)

	<u>PREVIOUSLY APPROVED PLAN</u>	<u>ADDITIONAL OBLIGATIONS</u>	<u>TOTAL</u>
AID GRANT	1,391,400	550,000	1,941,400
OTHER DONORS	<u>1,286,476</u>	<u>354,800</u>	<u>1,641,276</u>
TOTAL	\$2,677,876	\$904,800	3,182,676

Obligated Amount - (April 1, 1988 - December 31, 1988)

<u>Expenses Category</u>	<u>Foreign Exchange Costs</u>	<u>Local Currency Costs</u>	<u>Total AID Funding</u>
Wages/Salaries	\$38,700	\$326,250	\$364,950
Travel/Per Diem	\$15,600	\$ 20,800	\$ 36,400
Direct Proj. Oper. Exp.		\$ 10,350	\$ 10,350
Indirect Proj. Oper. Exp.		\$ 23,850	\$ 10,350
Administrative Expenses		\$ 84,450	\$ 84,450
Equipment		\$ 14,000	\$ 14,000
Printing		<u>\$ 16,000</u>	<u>\$ 16,000</u>
Total	\$54,300	\$495,700	\$ 550,000

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Allocation Number

THREE

DOCUMENT CODE

3

2. COUNTRY/ENTITY

PERU

3. PROJECT NUMBER

527-0298

5. PROJECT TITLE (maximum 40 characters)

Policy Planning and Institutional Dev.

LAC

05

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
1 2 3 0 9 0

7. ESTIMATED DATE OF OBLIGATION

(Under 'B' 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 85			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	135	365	500	2,647	3,353	6,000
(Grant)	(135)	(365)	(500)	(2,647)	(3,353)	(6,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country		145	145		3,380	3,380
Other Donor(s)						
TOTALS	135	510	645	2,647	6,733	9,380

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	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) SDA	700	800		3,700				6,000	
(2)									
(3)									
TOTALS				3,700				6,000	

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

840 830 890 930 950

11. SECONDARY PURPOSE CODE:

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code INTR ROEN BU
B. Amount

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

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

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

This amendment increases funding for informal private sector component by \$191,400. The original Project total cost, design, purpose and goal remain unchanged.

17. APPROVED BY

Signature

Donor M. Lion

Title

Director

Date Signed

MM DD YY
01 24 87

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 Project: Informal Private Sector Component
with the Instituto Libertad y Democracia (ILD)

PP Supplement

I. Background and Status of Project

The Informal Private Sector component with the Instituto Libertad y Democracia (ILD) is one of three related but separately implemented components of the Private Sector Policy Planning and Institutional Development Project (No. 527-0298). The overall Project is designed to strengthen the institutional capability, in both the private and public sectors, to analyze Peru's economic situation and formulate appropriate and consistent policy responses to constraints limiting investment and growth. In addition, the Project is designed to help the private sector (formal and informal) coalesce around key issues of national importance and facilitate a public-private policy dialogue around these issues leading to the removal of the constraints and the promotion of private investment and exports. As described further in the Project Paper (PP), which was approved on June 23, 1986, the three Project components consist of the following:

1) Informal Private Sector - Strengthening of the Instituto Libertad y Democracia (ILD) in its efforts to research and document the role of the informal private sector in the Peruvian economy, reduce unnecessary bureaucratic regulations and advocate a policy framework more conducive to investment and "integration" into the formal economy.

2) Formal Private Sector - Institutional development of the National Confederation of Private Enterprise Institutions (CONFIEP) and strengthening of the research and analysis capability in the formal private sector (including assistance to sectoral and provincial associations).

3) Public Sector - Strengthening the economic policy formulation and analysis capabilities of the GOP's key policy-making entities, interagency coordination among these entities, and dialogue between them and private sector representative organizations.

The Informal Private Sector component with ILD, titled the Institutional, Applied Research and Reform Activities Support Project, was authorized by the USAID/Peru Mission Director on 06/20/85. The Project Authorization document authorized a total grant contribution for this component of \$1,200,000. To date this amount has been fully obligated and committed to finance allowable Project expenditures only through October 31, 1987. The expiration date of the Grant is January 31, 1988. As described in Section II below, titled "Justification and Description of PP Supplement Activities", this PP Supplement proposes an increase in grant funding of \$191,400 to finance project activities for the five month period beginning November 1, 1987 to March 31, 1988. Thus an extension of the Grant expiration date through March 31, 1988 is required.

The purpose of the ILD component is to provide the organization with institutional support to continue its applied research, analyses and reform activities on the informal sector and on the economic and legal relationships

between the formal and informal sectors. The activities being carried out under this ongoing Grant are based on the research work supported by AID and carried out by ILD under previous grant agreements. The emphasis of the ILD Project is on the legal and regulatory framework and actions to alter this, rather than on further studies and simulations. Areas of activity supported by the Grant include:

1. Institutional Support: ILD is providing institutional support, primarily technical assistance, information, and advice to Peruvian public sector institutions (such as the Fiscalía de la Nación, municipal governments and Congress) and other institutions (such as formal sector business entities, informal sector business entities, universities, the press, and political parties).

2. Industry: ILD is implementing the means (through its proposed Law of Industry) of simplifying steps to legally establish small industries, thus developing a less complex, less costly process which will encourage legality.

3. Personal Identity Documents: ILD has also assisted in the implementation of legislation and regulations to simplify the formalities for acquiring these various documents, along with the elimination and combination of some.

4. Commerce (Ambulantes): ILD continues to propose and help implement means of formalizing commercial activities that are currently carried out informally.

5. Housing: ILD is carrying out two subcomponents, one proposing regulations and legislation concerned with property legalization, the other proposing means of integrating the formal and informal housing sectors.

6. Economic Studies: ILD will continue to quantify its work in the informal sector.

II. Justification and Description of PP Supplement Activities

The Project purpose and goal remain the same.

Present funding levels are insufficient to adequately carry out the activities in the ILD Project component. A Grant increment is therefore required to ensure the completion of these activities. This PP proposes: 1) to increase the ILD Grant Agreement by \$191,400 to help defray Project expenses for the five month period from November 1987 to March 1988; and 2) to extend the expiration date of the Grant by two months, from January 31, 1988 to March 31, 1988.

The primary rationale for additional funding is that during the third period of the Grant ILD has moved slower than expected in obtaining the originally planned level of non-AID donor assistance, and thus faces severe budgetary problems at a time when its research findings and advocacy programs are having an effect on the debate on informality in Peru. While in general, non-AID assistance to ILD has progressively offset AID's contribution, this

) transition has been hindered, in large part, because Hernando de Soto, ILD's President, has concentrated much of his time and energy during this period of the Grant on the launching and publication of ILD's book, El Otro Sendero. This book is one of the key outputs required in the Grant Agreement. Due to his efforts, some 3,000 articles have been written on the book, both in Peru and other Latin American countries. The book, now in its 6th edition, is available in Colombia and Ecuador; publication is pending in Central America, Mexico, Brazil and Argentina; and a publication contract has been signed in Spain with others under negotiation in Canada, France, Germany, and Italy.

Another major factor contributing to the need for additional funds relates to increases in personnel costs, which overall, amount to approximately 70% of total grant expenditures. Between May 1985 and May 1987, for example, the purchasing power of ILD's staff had fallen by 40%, during which time no salary increases were provided. This compensation problem has resulted in the loss of several members of ILD's core professional group including four economists and one lawyer. It has taken years for ILD to train and develop this group of specialists, and the funding made available through this PP Supplement will help assure that some critical personnel are replaced and that remaining members stay on board while other donor assistance is being actively solicited by Mr. de Soto.

With ILD's book successfully launched, Hernando de Soto has turned his attention to securing other donor financing, which we are confident he will obtain (ILD surpassed Grant targets for non-AID donor contributions during the 2nd grant period). In this regard, Annex A to this PP Supplement includes a letter from ILD stating the names and the corresponding amounts of funding that other donor organizations will provide to ILD starting in November 1987. It should be noted that this total amount of anticipated non AID financing amounts to \$1.03 million over a sixteen month period. This amount should be sufficient to meet ILD's operational costs after AID financing ends on March 31, 1988.

A final important consideration for providing the additional funding and the extension of the Grant expiration date relates to the upcoming assessment of ILD to be undertaken by Development Alternatives, Inc. in October/November 1987. The assessment will concentrate on courses of action to consolidate and strengthen ILD's gains in its research and public advocacy activities, including means of enhancing ILD's future effectiveness in performing policy analysis and promoting policy reform. The completed assessment will help ILD more clearly articulate its future programming and, as such, will provide some basic information that ILD can use to its advantage as it seeks to further diversify its funding sources. Thus the proposed additional resources will provide "bridge financing" from the period of the assessment (October/November 1987) through March 1988, by which time it is expected that ILD will be able to finance its programs without AID funding.

Major outputs during the last five months of the Grant will include:

- Completion and presentation of a proposal to simplify municipal procedures for transferring GOP-owned land to residents on the land.

- Complete legal and economic analysis of rental market for houses and apartments which will serve as basis to prepare legislative initiative.
- Prepare a report on the administrative and operational procedures relating to Congressional and Judicial functions.
- Complete the redesign of a project proposal relating to availability and public access to public information.

In addition, ILD will continue its research and advocacy activities on: the legal and administrative procedures which inhibit private sector growth; determining actual costs for small businesses to become legally integrated into the formal private sector and continue operating within a legal framework; a statistical model to estimate the costs for ambulantes to have access to the legal system and remain within the system; and the relationship between formal and informal capital markets.

III. Revised Financial Plan

	<u>PREVIOUSLY APPROVED PLAN</u>	<u>ADDITIONAL OBLIGATIONS</u>	<u>TOTAL</u>
AID GRANT	1,200,000	191,400	1,391,400
OTHER DONORS	<u>1,104,044</u>	<u>182,432</u>	<u>1,286,476</u>
TOTAL	\$2,304,044	\$373,832	\$2,677,876

1. Obligated Amount - (November 1, 1987 - March 31, 1988)

	<u>AID</u>
<u>Wages/Salaries</u> (Peruvian: 127,230) (Foreign: 11,090)	138,320
<u>Travel/Per Diem</u> (Peruvian: 2,765) (Foreign: 4,195)	6,960
<u>Project Operating Expenses</u> (Direct Cost: 3,435) (Indirect Cost: 10,240)	13,675
<u>Administrative Expenses</u>	26,145
<u>Equipment</u>	2,000
<u>Publications</u>	<u>4,300</u>
TOTAL	191,400