

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number
 Five

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 & Institutional Dev.

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
 11 23 1992

7. ESTIMATED DATE OF OBLIGATION
 (Under 'B' below, enter 1, 2, 3, or 4)

A. Initial FY 85 B. Quarter 3 C. Final FY 91

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	2,650	5,000	7,650
(Grant)	(135)	(365)	(500)	(2,650)	(5,000)	(7,650)
(Loan)	(--)	(--)	(--)	(--)	(--)	(--)
Other U.S.	1.					
	2.					
Host Country		145	145	--	4,399	4,399
Other Donor(s)						
TOTALS	135	510	645	2,650	9,399	12,049

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		5,873	--	1,650	--	7,650	--
(2)									
(3)									
(4)									
TOTALS				5,873	--	1,650	--	7,650	--

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 RGEN BO

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
 0 9 8 9 0 9 9 2

15. SOURCE/ORIGIN OF GOODS AND SERVICES

900 941 Local Other (Specify)

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

This amendment increases LOP funding for the Formal Private Sector Component and the Public Sector Component, increasing overall total project cost to \$7,650,000.

17. APPROVED BY	Signature	Alan A. Silva <i>Alan A. Silva</i>	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
	Title	Acting Mission Director	
	Date Signed	MM DD YY 08 01 89	MM DD YY

ACTION MEMORANDUM FOR THE ACTING MISSION DIRECTOR

Date: August 1, 1989

FROM: ^{BWB} Bruce Blackman, Chief, Development Resources

SUBJECT: Private Sector Policy Planning and Institutional Development Project (527-0298): Approval of Project Paper (PP) Supplement and Amended Project Authorization

I. Purpose:

The purpose of this Action Memorandum is to forward and recommend that you approve the following:

- A. The subject PP Supplement (TAB A).
- B. The Authorization Amendment for subject Project (TAB B) which will:
 - Allow extension of Life of Project (LOP) to 12/31/92.
 - Provide a total of \$1.65 million in additional AID Grant funds for the project to be obligated on an incremental basis. The Technical Notification waiting period expired on 07/31/89 without objection. New AID funds will be complemented by the local currency equivalent of some \$475,000 in host country resources and an estimated \$250,000 in other donor resources.

The PP Supplement has been reviewed by the USAID Project Committee. The project amendment is found to be sound and appropriate. It responds to Peru's urgent need for assistance in economic stabilization and will be implemented in a multilateral context.

II. Discussion

Relationship to A.I.D. Country/Strategy Objectives: As expressed in the current CDSS and related documents, the Mission has been implementing a three-phased private sector strategy. Phase I responded to disaster-related needs by providing emergency relief to the private sector. Phase II is underway and it aims to promote policy change from within and to simultaneously strengthen the capacity of key Peruvian public and private sector organizations to address high priority constraints to increasing exports, investment and small enterprise development. It is planned that phase III will address high priority constraints on exports, investment and employment through activities in non-traditional export promotion, agro-industry and small enterprise development.

Relationship to Host Country and Other Donors: The project amendment responds to Peru's severe economic condition and to the country's need for

stabilization planning and support. Appropriate assistance in policy analysis, formulation and execution will be provided to both the BCR and CONFIEP as described in the PP Amendment. Other donors will participate in this effort, including World Bank, Canadian International Development Agency and possible others in the CONFIEP component.

Project Implementation and Management: As expressed in the PP Amendment, this collaborative project will continue to be implemented by host country agencies. The public sector component will be implemented by the BCR, while CONFIEP will continue implementing the formal private sector component.

The Mission will monitor implementation using project committee and administrative procedures currently in effect. Technical backstopping of the new economic policy analysis, formulation and execution activity will be provided by the USAID economist in close collaboration with the USAID project coordinator. Annual audits are budgeted in the grant as is an evaluation of performance under the project amendment.

Feasibility Concerns: This amendment provides for additional funding of the "software" type of inputs that were authorized under the initial project. As such, appropriate technical, financial, economic, administrative and social analyses have been performed and stand in support of the extended activities. The project amendment addresses urgent problems of hyperinflation and destabilization in the Peruvian economy. Its usefulness will depend heavily on the country's commitment to systematically resolve the economic problems it faces. In this context, funding obligations will be made on the basis of events as they unfold, including the national elections scheduled for mid-1990. Authorizing this project amendment now puts the USAID in position to respond appropriately and quickly with assistance in economic stabilization during the extended project period.

Environmental Concern: A negative Environmental Determination was made and approved with project authorization in 1985. The present amendment does not change the scope of activities approved under the original negative determination, neither directly nor indirectly. Therefore, the original determination remains valid (opinion of the Regional Legal Advisor).

Gender Concern: The project amendment will be implemented with gender considerations very much in mind. For example, the project coordinator and project committee will insure that all scopes of work issued under the project provide for gender disaggregated data. To the extent not duplicating gender studies under the Private Sector Management Improvement Project, annual workplans under this project will include specific actions to ensure the participation of women in research activities, as well as long and short-term training. Consistent with current USAID/Peru practice, a goal of 50% or greater participation by women will be sought.

Gray Amendment: Technical assistance procurement under the project amendment is expected to avail, in part, of AID IQCs and centrally-managed contracts. This will permit minority firm participation with appropriate expertise.

Implementation Plan, Issues and Conditions: The implementation plan provides a realistic timetable for carrying out project activities and achieving objectives in the extended period. As noted above and in TAB (A), implementation will be conducted in the collaborative mode, using procedures now in-place with BCR and CONFIEP. In-place procedures center on periodic planning and budgeting exercises by the implementing institutions, with USAID participation and review. Agreements regarding uses of funds are confirmed by project implementation letter. Principal responsibility for implementing agreed plans and budgets is then with the executing agency.

Issues relative to project implementation have been satisfactorily resolved in the view of the Project Committee. In this context, the design of the project - taken together with our practice of funding by increment - provide suitable flexibility for adjustments during implementation. Straightforward conditions precedent to disbursement are envisioned, although not required by the project authorization amendment because they are in accord with normal practice with the implementing agencies. In the BCR case, a countersigned project implementation letter regarding plans and uses of project funds will be required. In the CONFIEP case, we will ask reconfirmation of other donor commitments to support the economic stabilization study.

AID/W Concurrence: The composition of extended project activities will follow "Action Plan" guidance. In addition, AID/W has agreed to the placement of \$300,000 for policy oriented training in the public sector component and \$200,000 for the economic stabilization study and related activities with CONFIEP (see State 235479). All required notifications to the Congress have been made, the final TN expiring on 07/31/89 without objection. All budget allowances required for obligation of the \$500,000 in FY 89 have been received.

III. Recommendation:

It is recommended that you indicate your approval of the subject PP Supplement (Project No. 527-0298), and authorize up to \$1.65 million in additional grant funding for the project by signing (a) the Project Paper Supplement Facesheet (TAB A) and (b) the amended Project Authorization (TAB B).

PROG:LJackson/DR:BBlackman:icp

Clearances:

PROG:LArreaga (ID)

PROG:EVarillas (ID)

DR/PSH:RSparks (ID)

ACONT:JMartin

ADD:JThrower

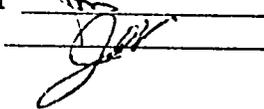




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I. SUMMARY AND RECOMMENDATIONS

A. Facesheet. See above.

B. Recommendations

The Project Committee recommends that an additional \$1,650,000 in grant funds be authorized to continue and expand the activities under the Private Sector Policy Planning and Institutional Development Project (No. 527-0298.) This amendment raises overall Project funding from its previously authorized level of \$6,000,000 to a new level of \$7,650,000. Ongoing activities will continue, while new undertakings will center on the analysis, formulation and technical support of sound economic policies in Peru. Much of the new work will be done in a multilateral context with other donors. Annex A hereto contains host country applications for this collaborative assistance.

II. BACKGROUND

The Peruvian economy faces an unprecedented crisis. Economic performance figures for 1988 provide a grim picture of the situation. Inflation for the 12-month period that ended in June reached 5,837 percent. Real GDP dropped about 8 percent in 1988; the seasonally un-adjusted GDP for the first four months of 1989 dropped 23% in relation to the same period last year. The banking system is in serious trouble. The widespread repudiation of the inti is minimizing the banking system's financial intermediation functions. Although the Central Government fiscal deficit of 1% of GDP for the first 6 months is substantially better than the corresponding figure of 3.4% for the first half of 1988, this year's figure does not reflect the accumulation of Central Government obligations that will have to be met through deficit spending, and that are likely to require inflationary Central Bank financing.

The current situation is the result of an economic policy framework adopted by the current government when it took office in mid-1985. It was designed to increase production, improve the distribution of income, and reduce inflation. To stimulate economic output, the GOP stimulated wage increases and lowered interest rates, taxes, and other production costs under its control. These measures were complemented by a decision to limit debt service to 10% of exports in order to free up foreign exchange to pay for the imports needed to increase production (Full debt service would have required 76% of exports.) To improve the distribution of income, the GOP realigned agricultural/urban prices in favor of the former. To limit inflation, the government, with private sector agreement, established a price control system on wages, goods, public utilities, interest rates and the exchange rate.

While the initial effects of this program were impressive --- the economy boomed while inflation was cut in half --- three fundamental trends that eventually undermined the success of the program were set in motion. First, the public sector deficit ballooned from 3 to about 10 percent of GDP over the last three years. This resulted from a combination of revenue losses and increased subsidies. In the absence of external flow of funds, the

deficit was increasingly financed with Central Bank credit, or by exchange rate subsidies. Second, the balance of payments went from a surplus to a deficit. The program eroded export profitability while it encouraged imports. International reserve losses amounted to about \$1.7 billion over the last three years. And third, the price control system built up inflationary pressures and distortions. By keeping some prices fixed while others increased, the GOP created distortions that can only be corrected by further price increases.

Over the last 18 months, the GOP has made eight separate attempts to reverse the deteriorating trends. While officials regard the string of adjustments as part of a gradual approach to stabilize the economy, the measures have proven ineffective in successfully addressing the hyperinflationary crisis. The most recent economic program consisted of a set of measures including a string of mini-devaluations, the liberalization of some controlled prices, and price increases for subsidized goods and services. Although there have been intermittent discussions with the World Bank and the IMF, these are not likely to produce financial assistance in the near future. The GOP program is not regarded to be comprehensive enough to warrant financial support. The GOP has lost its credibility as an economic policy making institution and its repeated efforts to develop a Mexican-style labor-management-government agreement have failed.

The outlook for the second half of 1989 is not good. The current balance of payments surplus recorded in the first quarter (\$286 million) was achieved by deflating the economy, through a massive credit squeeze, to unnecessarily low levels, causing excessive hardships on the labor force. This is compounded by a sharp fall in real wages (50% in the case of some economic sectors) which is complicating the socio-political situation. Labor unrest is intensifying, while guerrilla operations and terrorism by two groups (Sendero Luminoso and MRTA) are increasing to further weaken a fragile social fabric. Additionally, the country's increasing dependence on earnings from the drug trade is becoming more evident. Officials have been forced to recognize implicitly the existence of coca dollars by authorizing import transactions which use foreign exchange from non-banking system sources. The spread of drug trafficking undermines democracy and threatens USG interests.

The Mission believes that Peru has no alternative to economic adjustment because the weight of the situation will force the authorities to undertake it. Whether that adjustment is undertaken within the context of an external package of assistance from IFIs, or without one, it will have programmatic and operational implications for our program. It is therefore of utmost importance that the Mission implement, as part of its overall program strategy, a modest macroeconomic policy analysis and dialogue initiative under the Private Sector Policy Planning and Institutional Development Project (527-0298). The aim of the initiative would be to provide technical support and expertise to the GOP and private sector institutions for the design, formulation, and implementation of sound economic policies. The availability of this type of assistance will become particularly critical over the coming year during which time there will be a transition in government. In this context, both private and public sector institutions will be eager to contribute ideas and solutions to help resolve the current dilemma.

III. CURRENT PROJECT STATUS

The project, as originally designed, strengthens the institutional capability, in both the private and public sectors, to analyze Peru's economic situation and to formulate appropriate and internally consistent policies that promote private sector activity and economic growth. In addition, the project aims 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 promotion of private investment. As described further in the PP of June 1986, the Project consists of three components:

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. This project component has been fully implemented. It has been followed by the Private Sector Reform Project No. 598-0772 --- now in place with ILD --- that was authorized by AID/W on March 1, 1989 at a level of \$10.0 million in regional funding.

2) Formal Private Sector. Institutional development of the National Confederation of Private Enterprises (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 key GOP policy making entities (e.g. the Central Reserve Bank, the National Planning Institute and the Ministry of Economy and Finance), including interagency coordination among these entities and dialogue between them and private sector representative organizations.

The project has been fully funded according to its initial design. Component one has been completed with ILD. Components two and three continue to show satisfactory progress, including the development of institutional capacity at CONFIEP and the Central Reserve Bank (BCR).

As described below, this PP supplement proposes an increase in grant funding of \$1.65 million to continue ongoing training activities and support a policy analysis, planning and support effort with both public and private entities in the project. To a large degree, this new policy work will be conducted in a multilateral context in accordance with USAID policy that limited US assistance be coordinated to the maximum extent with the international donor community.

The project provides a sound basis to initiate modest macroeconomic policy dialogue and related economic research and discussion in Peru. The public sector component is proceeding satisfactorily towards meeting its objectives of strengthening the formulation and analysis of private sector oriented economic policy at key participating GOP institutions - BCR, National Planning Institute and the Ministry of Finance - and improving interagency coordination among them. The BCR has completed several studies that are

having a positive impact on the economic policy front. For instance, a study of the structure of export incentives served as one of the bases to develop a draft international trade law that is currently under GOP consideration. The BCR also completed a study that is serving as a basis to improve the Bank's oversight functions with respect to the banking system. The training component has moved forward satisfactorily, with 21 GOP participants having received short-term training, while 8 others are now participants are now in Master's degree programs in the United States and 7 are returning to Peru having completed MS requirements*. This training assistance is instrumental to the USAID strategy of building capacity at key GOP institutions and it is highly valued. BCR participation in the Project has had the side effect of strengthening relations between the Bank and USAID. For example, the BCR has been supportive of Mission efforts to obtain GOP payments of USG debt in a timely fashion.

National Planning Institute participation in the Public Sector component has been more modest. Preliminary work has been completed on a statistical system designed to routinely collect primary data on key economic indicators of private sector activity. The Institute also sponsored a nine month graduate studies program in regional planning with an enrollment of 41 students. The Ministry of Finance has been beset by frequent personnel changes and this has hindered participation in the project. Still, the Public Sector component of the project has helped establish good working relationships with Peruvian economic policy making institutions.

Private sector participation in the project --- principally ILD and CONFIEP --- also constitute a vehicle for policy analysis, planning and implementation in Peru. ILD research and advocacy work is showing promise here, e.g. in administrative simplification. Further structural reform activity is planned at micro and institutional levels under the above-mentioned new Cooperative Agreement with ILD.

The project has systematically strengthened CONFIEP's capacity as a confederation of private sector Associations. It is proving adept and effective at networking, both within Peru and internationally, including linkages with the multilateral financial institutions and US research and private sector entities. CONFIEP's capacity for coordination provides an important operational mechanism that is available here for realistic policy analysis, planning and support.

IV. RATIONALE AND DESCRIPTION OF PROJECT AMENDMENT

The Mission's plan to support a modest macroeconomic policy analysis and dialogue initiative is based on several grounds. First, economic adjustment in Peru will strain the social, economic and political fabric of the country and this is likely to threaten other important interests here (the preservation of democracy, anti-narcotics programs, external debt). The

* Of the 15 long term MS participants 13 are male and 2 are female; of the 21 short term participants, 17 are male while 4 are female.

initiative will provide the Mission with one more medium through which it can help protect and advance interests that are shared with Peru. Second, economic adjustment under the current crisis is inevitable. In fact, the current rapid and substantial loss in real incomes indicates that economic adjustment is already underway. Establishing a medium for policy work now will enhance the Mission's readiness to assist the economic authorities to make the adjustment more orderly and less chaotic. And third, macroeconomic policy dialogue will complement Mission policy initiatives in other sectors such as agriculture.

At the same time, the Mission does not expect, going in, to have the type of leverage associated with large resource transfer programs. The proposed initiative is collaborative and aims to provide important Peruvian policy making entities (principally BCR and CONFIEP) with the kind of technical support, information and training that is consistent with those elements of policy work and reform that the Mission (and other donor agencies) believes to be both desirable and urgent in Peru. The Project Amendment directs resources to the current economic crisis and the economic adjustment process. This is consistent with the project objective of strengthening the economic analysis and policy making capabilities of key implementing agencies.

Project support will go to the formulation, design and technical support of short - and medium - term economic programs, or components thereof. The severe, nearly unprecedented nature of Peru's economic crisis --- only a few countries in recent history have experienced the degree of hyperinflation the country now faces --- requires that policy formulation and implementation flow from a sound analytic base, including consultations with outside experts, leading to the presentation and review of realistic program options. Important here will be research and analysis work by non-governmental organizations to assist the development of appropriate and effective policies. This work will complement and supplement existing project activity in two ways. One is that it will focus on issues related to the current hyperinflationary crisis (not foreseen during initial project design) and the need for stabilization planning. Second, much of the effort will be undertaken in a multilateral context, including participation by private consultants (both Peruvian and US), as well as the dissemination of research results through seminars and publications.

The new activity is fully consistent with the project goal, namely "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." It is also consistent with the project purpose which 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." Annex D hereto is the Revised Logical Framework Matrix for the project.

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V. FINANCIAL PLAN

Based on the foregoing and on discussions with implementing agencies, it is expected the new project resources will be allocated approximately as follows.

<u>Budget for Project Amendment</u>				
(US\$000)				
	<u>USAID</u>	<u>Host Country</u>	<u>Other Donors</u>	<u>Total</u>
1. Central Reserve Bank (BCR)				
- Policy Analysis/Planning	900			900
- Policy-oriented Training	300			300
- Staffing/Project Support	<u> </u>	400		<u>400</u>
- Sub-Total	1,200	400		1,600
2. CONFIEP				
- Stabilization Planning	100		125	225
- Stabiliz. Plan Dissem.	100		125	225
- Staffing/Project Support	<u> </u>	75		<u>75</u>
- Sub-Total	200	75	250	525
3. Project Services				
- Coordination/Monitoring	200			200
- Audit	25			25
- Evaluation	<u>25</u>			<u>25</u>
Sub-Total	<u>250</u>	<u> </u>	<u> </u>	<u>250</u>
Total	1,650	475	250	2,375
	=====	====	===	=====

The need for this project grant assistance - further detailed below - was agreed at the USAID/Peru Action Plan Review in March 1989, subsequently as modified by the force of events. Amounts and uses of the assistance were concurred by AID/W in State 235479 (Annex B).

The Amendment provides funding for near term policy-oriented work with BCR and CONFIEP in FYs 90 and 91 and spans the country's national elections scheduled for April-1990. The USAID plans to further raise the level of assistance in this Private Sector Policy Project, pursuant to the 1989 Congressional Notification advising Congress of Agency intentions to increase project funding by \$2.9 million. Further amendment/funding increase for the project will be based on a project evaluation scheduled for FY-90.

1) BCR Component. This PP Supplement allocates \$1.2 million to the BCR. Based on Action Plan review, up to \$900,000 will be used for policy-oriented research and planning with emphasis on the problem of hyperinflation and planning for the stabilization and long-term growth of the Peruvian economy. This amount is based on the urgency of Peru's economic problem and the Agency's commitment to be ready to assist on an immediate basis.

It is planned that grant funds will be used for advisory services, publications and seminars to disseminate findings and recommendations as well as for other needed technical support. Priority in committing these funds will be given to policy and stabilization work in multilateral undertakings. BCR will provide staffing, office space and supplies, photocopying, etc. Final budget/activity details will be included in Project action plans covering FYs 90 and 91.*

It is expected that \$300,000 will be used for corollary policy-oriented training of BCR and, as appropriate, other key public sector staff in Peru, e.g. National Planning Institute and Ministry of Economy and Finance. Some 10-11 years of participant training in the US will be sponsored (estimated cost \$25,000 per year). Appropriate short-term training activities will also be supported in monetary and fiscal policy and approaches to hyperinflation and stabilization to help build public sector capacity in economic management.

The 1989 obligation totals \$500,000, divided equally between policy analysis/planning and policy-oriented training. Subsequent obligations of funds will be conditioned by events as they unfold, e.g. Peruvian performance and needs, the 1990 election, etc.

2) CONFIEP Component. From the \$200,000 allocated to CONFIEP, it is planned that \$100,000 will be used in support of a stabilization research and planning study being undertaken by Brookings Institution in coordination with the Group of Analysis for Development (GRADE), a private Peruvian research firm. This research and planning is estimated to cost \$258,000. It will be conducted with multilateral funding, including support from World Bank, Canadian International Development Agency (CIDA) (provisionally) and Interamerican Development Bank (IDB) with possible assistance from private foundations as well (e.g. Ford, Ebert). Grant funding is planned in 1989 for researcher fees, field work, progress meetings and the dissemination of preliminary findings and recommendations, publications and related support costs. CONFIEP will provide administrative back-up, office facilities

* Initial cost estimates indicate the \$900,000 allocation would be used approximately as follows: technical services, \$500,000 (100 person months at average \$5,000 each); seminar costs such as travel, per diem, technical support, \$300,000 (10 seminars at average \$30,000 each); and other costs such as regional coordination, library materials, etc., \$100,000. These estimates will be firmed up collaboratively as obligations are planned and negotiated.

and networking arrangements for conducting the study in a broad-based, consultative way.

Continuing support for this multilateral undertaking is planned for 1990. It will include the dissemination of study results and the promotion of a stabilization plan for Peru. The dissemination is expected to be through newspaper and magazine articles, conferences for elected officials, academic, business and labor leaders and the public in general, including radio and television time as well. The plan and budget for this public information effort is also expected to have multilateral support. Details are expected to be finalized in late 1989.

3) Project Services Component. Some \$250,000 is allocated for project services. Approximately 18 months of contractor services will be needed for project coordination and monitoring. Cost is estimated at \$11,000 per month for a total \$200,000 over the extended project period. Some \$50,000 is budgeted for audit and evaluation.

VI. IMPLEMENTATION ARRANGEMENTS

A. General. The obligation of project funds will be through amendment of existing project agreements with the GOP (for BCR) and CONFIEP. Incremental obligations will avoid excess forward funding and maintain appropriate flexibility.

Implementation will be conducted in the collaborative mode using existing project management and committee structures and administrative procedures now in-place with BCR and CONFIEP. In-place procedures center on periodic planning and budgeting exercises by the implementing institutions, with USAID participation and review. In the case of the new policy activity with the BCR, the Mission expects to be actively collaborative in promoting the areas where research is needed, and in obtaining the services of highly qualified economists using IQC-like arrangements where appropriate (e.g. Consulting Assistance for Economic Reform Project recently designed by PPC/EA). The Mission Economist will develop technical frameworks and backstop this effort in close coordination with the Project Coordinator in the Project Committee setting.

This will be the essence of the policy dialogue initiative. Agreements regarding uses of funds will be confirmed by project implementation letters, as is the case with in-place arrangements. Principal responsibility for implementing agreed plans and budgets is then with the executing agency. In some cases, USAID may be authorized to directly contract on behalf of the BCR.

The USAID monitors the implementation process to help assure that actual outputs correspond appropriately with planned outputs and that good commercial practice is used in contracting, procurement and the drawdown of grant funds. The PIO/P procedure will be used for participant training. Yearly audits are budgeted in the grant, as is an evaluation of performance under the entire project.

B. Schedule. It is anticipated that the following timetable of events will be followed to implement this project amendment.

<u>Event</u>	<u>Date</u>
1) Negotiate/amend Project Agreements	August, 1989
2) BCR and CONFIEP finalize detailed budgets and activities for FY-90 period.	September, 1989
3) Begin policy and stabilization planning activities.	October, 1989
4) Begin policy-oriented training activities.	January, 1990
5) Complete Brookings/GRADE Economic Stabilization Study with Multilateral Support.	March, 1990
6) Begin support for Dissemination of Stabilization Plan Findings and Recommendations.	April, 1990
7) National Elections.	May, 1990
8) Incremental Funding Obligations to Project.	June, 1990
9) Contract Project Coordinator/Monitor (current contract expires July, 1990).	June, 1990
10) BCR and CONFIEP finalize detailed budgets and activities for FY-91 period.	August, 1990
11) Second Interim Evaluation of Project Performance.	June, 1991
12) All long-term training under project amendment is completed. Final Project Evaluation	September, 1992

C. Special Concerns

1. Policy Orientation. The project amendment is fully in accord with Agency emphases on economic policy analysis and reform. Collaborative modes of implementation are particularly suited to the reality that first responsibility for performance and results is always with the host country. Likewise, the project's emphasis on multilateral approaches is appropriate to

the broad-based support required for economic stabilization in Peru. The CONFIEP component has been explicitly negotiated as a multilateral undertaking. Implementation of the BCR component will enlist the involvement of other international donors wherever appropriate.

2. Environment. This project amendment is benign with respect to the environment. A negative environmental determination was issued and remains in effect for this project.

3. Evaluation. Funds are provided for an end-of-project evaluation. Findings and recommendations of the interim FY-90 evaluation of project performance will help guide and strengthen near-term performance.

4. Women in Development. This project amendment will make every endeavor to advance the role and status of women in implementing institutions and project activities. Special effort will be made to involve women in the policy analysis and planning and the training to be sponsored under the project extension. The collection, analysis, and use of data will be gender-disaggregated.

5. Gray Amendment. Technical assistance procurement under the project amendment is expected to avail, in part, of AID IQCs and centrally-managed contracts. This will permit minority firm participation with appropriate expertise.

RECEIVED
MAIL ROOM

BANCO CENTRAL DE RESERVA DEL PERU

ANNEX A

03 JUL -6 AM 9:07
GENERAL

USAID/LIMA

OFICIO No. 026-88-AID/BCR

Lima, 22 de junio de 1988.

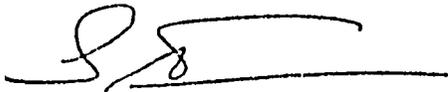
Señor
DONOR LION
Jefe Misión AID-PERU
Presente.-

De mi consideración:

Es grato dirigirme a usted, en relación al Convenio AID No. 527-0298 con la finalidad de coordinar las gestiones orientadas a obtener una ampliación del fondo de la donación equivalente a US\$ 1'000,000 (Un millón de dólares americanos) con el propósito de financiar la capacitación en el exterior de profesionales del Banco Central de Reserva del Perú, correspondiente a los años 1989 y 1990.

Hago propicia la ocasión para expresarle las seguridades de mi estima personal.

Atentamente,



Santiago B. Antúnez de Mayolo M.
GERENTE GENERAL

ACTION	PSH.	Jalo
Info	DR	
	cmf	
	la	

19.07.89

ATTN: SR. BRUCE BLACKMAN
JEFE DE LA OFICINA DE RECURSOS

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MAIL ROOM

ANNEX A

REF.: OFICIO NO. 057-92-AID/BCR
TELEX DE FECHA 12 DE JULIO

19 JUL 20 PM 9:18

USAID/LIMA

EN RELACION A LOS TECNICOS SELECCIONADOS PARA INICIAR ESTUDIOS DE POST-GRADO CON FINANCIAMIENTO DEL CONVENIO NO. 527-0293, CONSIDERANDO QUE EL PROGRAMA PERTINENTE SE INICIA EL 7 DE AGOSTO PROXIMO, QUIJSERA EFECTUAR UN SEGUIMIENTO RESPECTO AL TRAMITE DE PROCESAMIENTO CORRESPONDIENTE. AL RESPECTO MANIFIESTA A UD. NUESTRA DISPOSICION PARA EFECTUAR LAS COORDINACIONES QUE EL CASO REQUIERA.

DE OTRO LADO, EN LO QUE ATANE A LA AMPLIACION DE RECURSOS DEL CONVENIO, DE ACUERDO A LO ESTABLECIDO EN LA REUNION DEL VIERNES 14 DE JULIO RECIENTE ENTRE FUNCIONARIOS DE NUESTRAS INSTITUCIONES, AGUARDAMOS EL TEXTO PRELIMINAR. ESTE BANCO CENTRAL PESTERA LA PRIORIDAD TANTO DE LA CAPACITACION DE NUESTROS PROFESIONALES EN CALIFICADAS UNIVERSIDADES DEL EXTERIOR CUANTO DE LA REALIZACION DE ESTUDIOS RELEVANTES PARA EL PROCESO DE ESTABILIZACION Y CRECIMIENTO DE NUESTRA ECONOMIA. PARA ELLO ENCONTRAMOS CONVENIENTE CONTINUAR CON LAS MODALIDADES Y PROCEDIMIENTOS IMPLEMENTADOS EN LA PRIMERA ETAPA DE EJECUCION DEL CONVENIO.

ATENTAMENTE

SANTIAGO B. ANTONJEZ DE HAYOLO II.
GERENTE GENERAL

See date 7/26

ACTION COPY

RESERVA
++++

20335PE USA
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DATE: _____

INITIALS: _____

7/5 7/20 with draft



CONFIEP

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ANNEX A

San Isidro, junio 13 de 1989
CONFIEP FI-172/89

USAD/LIMA

Señor
DONOR LION
Agencia para el Desarrollo
Internacional (AID)
Ciudad.-

De mi mayor consideración:

Como es de su vuestro conocimiento, en los últimos tres meses se han efectuado diversas coordinaciones entre CONFIEP y GRADE, con el fin de apoyar la realización de un proyecto destinado a diseñar un programa de estabilización económica para el Perú.

Desde aquella primera reunión que tuvimos con usted a la fecha se han efectuado múltiples coordinaciones. Las gestiones efectuadas y el diseño de investigación propuesto, me permiten confiar en que los resultados del proyecto serán de utilidad e interés tanto para el sector privado, que representa CONFIEP, como para la sociedad peruana en general.

A la fecha, el proyecto cuenta con apoyo financiero de The Brookings Institution, del Banco Mundial y GRADE, quienes han comprometido (en conjunto) US\$ 90,000.

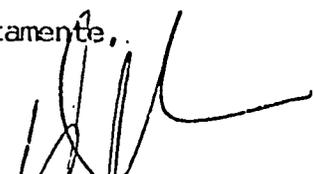
Sin embargo, dada la magnitud del esfuerzo planteado y la calidad del trabajo a realizarse y el nivel de los profesionales nucleados en torno a este proyecto, se requiere de US\$ 100,000 adicionales para un correcto inicio a la investigación.

Nosotros veríamos con el mayor agrado el que la institución tan apropiadamente dirigida por usted otorgue el apoyo financiero correspondiente para el inicio de este proyecto.

Como usted sabe, nuestra institución y los gremios que la componen ha estado y continuará apoyando tanto el diseño como el desarrollo del proyecto.

A la espera de los comentarios que la presente le suscite, me despido no sin antes reiterarle mi consideración y estima personal.

Atentamente,


Reynaldo Gubbins Granger
Presidente

ACTION:	PSH	<i>[Signature]</i>
Info:	DR	
	D	
	UP	
	GRADE	

ACTION: AID-2 INFO: AMB DCM ECOF

ANNEX B

VZCZCPE0746

25-JUL-89

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DT RUEEC #5479 2062016

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BT

UNCLAS STATE 235479

ICN: PROG (FILES)

NFO: DR

CONT

PSH

D

DD

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: PERU PRIVATE SECTOR POLICY-PLANNING AND
INSTITUTIONAL DEVELOPMENT PROJECT (527-0298) - IOP
INCREASE

REF: (A) STATE 103104; (B) LIMA 10073

LAC BUREAU APPROVES INCREASE IN SUBJECT PROJECT
AMENDMENT BY DOLS. 500,000 PER REQUEST. MISSION MAY
PROCEED WITH DEVELOPMENT AND APPROVAL OF A PP AMENDMENT
FOR A TOTAL OF DOLS. 1,550,000 WITH A NEW PAGO OF
DECEMBER 31, 1992. THE COMPOSITION OF PROJECT
ACTIVITIES WILL FOLLOW ACTION PLAN GUIDANCE, PLUS THE
ADDITIONAL DOLS. 200,000 FOR THE CONFIEP ACTIVITIES AND
DOLS. 350,000 FOR TRAINING OF BCR STAFF (IN SUPPORT OF
THE PUBLIC SECTOR COMPONENT). BAKER

BT

#5479

NNNN

PROJECT AUTHORIZATION
(Amendment No. 5)

ANNEX C

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 Public Sector Component of the Private Sector Policy Planning and Institutional Development Project for Peru was authorized on 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 Seven Million Six Hundred Fifty Thousand United States Dollars (US\$7,650,000) in grant funds (the "Grant") as follows:

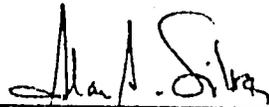
- Informal Private Sector Component - US\$1,941,400 over a forty-five-month period from the date of authorization (June 20, 1985);

- Formal Private Sector Component and Project Guidance and Coordination Component - US\$2,908,600 over a six-year period from date of authorization (June 23, 1986); and

- Public Sector Component - US\$2,800,000 over a six-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 seven years and 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.



Alan A. Silva

Acting Mission Director

August 1, 1989
Date

PROG:ECVarillas:rcc:7/31/89

Clearances: PROG:WGRhoads:

ACONT: JMartin:

ADD: JThrower:

WR
[Signature] R.V.

PS:RSparks:

DR: BBlackman:

[Signature]
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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

ANNEX D
Page 1 of 2

Project Title & Number: Private Sector Policy Planning & Institutional Development
527-0298 (Project Paper Amendment)

Life of Project: FY 85 to FY 90
Total U.S. Funding: \$6.0 million
Date Prepared: August 1, 1989

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.</p> <p>Absence of natural disasters.</p> <p>GOP and host country will act on recommendations.</p>
<p><u>Project Purpose:</u> To promote policy change through improving:</p> <p>i) technical and economic analyses within the public sector of key policy/program constraints to private sector growth, and of economic stabilization and structural adjustment needs.</p> <p>ii) technical capacity of private sector to analyze key issues inhibiting growth and to build/support institutional capacity to seek sounder policies and promote attitudinal changes that stimulate economic growth and employment.</p>	<p>Strengthened mechanisms within the GOP to improve technical analysis of policy alternatives affecting the private sector.</p> <p>Strengthened mechanisms within private sector 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>a) Training of GOP staff in policy planning and analysis.</p> <p>b) Private sector, economic stabilization, and structural adjustment policy studies prepared, published and disseminated by the GOP and Private Sector entities with multilateral support.</p> <p>c) Corresponding recommendations for policy change institutionalized in terms of new legislation, draft laws, plans and/or budget allocations.</p>	<p>Program & monitoring reports.</p> <p>Process and Impact evaluations.</p>	<p>Adequate leadership in GOP and host country.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATIONS	IMPORTANT ASSUMPTIONS
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d) Strengthening of Private Sector representative organizations through provision of Technical Assistance and collaboration in planning for economic stabilization and adjustment.
 e) GOP and Private Sector Seminars and Workshops.
 f) Public awareness campaigns through radio, T.V. and print media.
 g) Collection and inventory of pertinent macroeconomic and sectoral studies.
 h) Other indicators as expressed in implementation documentation.

Inputs (\$000) (Project Amendment)

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

	<u>USAID</u>	<u>Host Country</u>	<u>Other Donors</u>	<u>Total</u>
Central Reserve Bank (CBR)				
- Policy Analysis/Planning	900			900
- Policy-oriented Training	300			300
- Staffing/Project Support		400		400
- Sub-Total	<u>1,200</u>	<u>400</u>		<u>1,600</u>
CONFIEP				
- Stabilization Planning	100		125	225
- Stabiliz. Plan Dissem.	100		125	225
- Staffing/Project Support		75		75
- Sub-Total	<u>200</u>	<u>75</u>	<u>250</u>	<u>525</u>
Project Services				
- Coordination/Monitoring	200			200
- Audit	25			25
- Evaluation	25			25
- Sub-Total	<u>250</u>			<u>250</u>
Total	<u><u>1,650</u></u>	<u><u>475</u></u>	<u><u>250</u></u>	<u><u>2,375</u></u>

Consolidated Project Financial Plan
(527-0298)

	<u>Original Authorization</u> <u>Through Amendment # 4</u>		<u>This Authorization</u> <u>Amendment Five</u>		<u>TOTAL</u>	
	<u>A.I.D.</u>	<u>Counterpart</u>	<u>A.I.D.</u>	<u>Counterpart</u>	<u>A.I.D.</u>	<u>Counterpart</u>
Informal Private Sector	1,941,400	1,641,276	---	---	1,941,400	1,641,276
Formal Private Sector	2,005,000	1,383,000	200,000	75,000	2,205,000	1,458,000
Public Sector	1,600,000	900,000	1,200,000	400,000	2,800,000	1,300,000
Project Guidance & Coord. Component	<u>453,600</u>	<u> </u>	<u>250,000</u>	<u> </u>	<u>703,600</u>	<u> </u>
Total	<u>6,000,000</u>	<u>3,924,276</u>	<u>1,650,000</u>	<u>475,000</u>	<u>7,650,000</u>	<u>4,399,276</u>