PD-ABB-742

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)	Amendment Number	DOCUMENT CODE 3
2. COUNTRY/ENTITY: PERU	3. PROJECT NUMBER: 527-0343		
4. BUREAU/OFFICE: Latin America and Caribbean 05	5. PROJECT TITLE (maximum 40 characters): Policy Analysis, Planning & Implementation		

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 03 DD 30 YY 95

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 90 B. Quarter 4 C. Final FY 95

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

A. FUNDING SOURCE	FIRST FY 90 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	1,185		1,185	7,150	200	7,350
(Grant)	(1,185)	( )	(1,185)	(7,150)	(200)	(7,350)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	1,185		1,185	7,150	200	7,350

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) ESF	792	710				1,185		7,150	
(2)									
(3)									
(4)									
TOTALS						1,185		7,150	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 840 | 631 | 650

11. SECONDARY PURPOSE CODE: 660

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

A. Code	RGEN	TNG	BR	BU			
B. Amount	3,000	1,000	3,575	3,575			

13. PROJECT PURPOSE (maximum 480 characters)

To assist the new GOP and the private sector in developing sound economic policies and strengthening the policy dialogue and decision-making process.

14. SCHEDULED EVALUATIONS
Interim MM 08 YY 92 | MM YY | Final MM 01 YY 95

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

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

Mission Controller has reviewed and concurs with the methods of implementation and financing included herein.

Paul Kramer, CONT

17. APPROVED BY	Signature: Craig G. Buck		18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
	Title: Director	Date Signed MM 07 DD 29 YY 90	MM DD YY

PROJECT AUTHORIZATION

Name of Country: PERU
Name of Project: Policy Analysis, Planning & Implementation
Number of Project: 527-0343

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Policy Analysis, Planning & Implementation Project for Peru involving planned obligations of not to exceed Seven Million One Hundred and Fifty Thousand United States Dollars ($7,150,000) in grant funds ("Grant") over a four 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. The planned life of the project is fifty five months from the date of initial obligation.

2. The project consists of grant assistance to the Government of Peru (GOP) and the private sector, to be administered and implemented through a contract with a private firm. The project will provide assistance for the analysis and impact of current and proposed GOP economic policies, support GOP economic policy dialogue, develop and reinforce the policy decision-making process, and assist the public and private sectors in establishing their own capacity to design and implement sound economic policies in the future.

3. The Project Agreement, 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 the United States, except as A.I.D. may otherwise agree in writing. The suppliers of commodities or services financed under the Grant, including those of ocean shipping services, shall have the United States as their place of nationality, except as A.I.D. may otherwise agree in writing.

b. Conditions Precedent to Disbursement

Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, Peru will except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(1) A statement of the name of the person holding or acting in the office specified in Section 8.2 of the Project Grant Agreement, any of any additional representatives, together with a specimen signature of each person specified in such statement;

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(2) Evidence that a full time Project Manager has been appointed by the Secretary of the Presidency (SEP).

(3) Evidence that the SEP has established a Consultative Council composed of one representative each of the Committee for Inter-ministerial Economic and Financial Affairs (CIAEF), the Ministry of Economy and Finance (MEF), the Secretary of the Presidency (SEP), the Central Reserve Bank (BCR), the National Confederation of Private Business Institutions (CONFIEP), the National Planning Institute (INP), and A.I.D., for the purpose of providing guidance in the overall direction and implementation of the project, and making recommendations for longer term strategic planning.

(4) A plan for the intended use of project resources for technical studies proposed by the SEP and the criteria for selection of technical personnel required to perform the studies.

c. Conditions Precedent to Private Sector Disbursements

Prior to any disbursement under this Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made to finance project activities for the private sector, the National Confederation of Private Business Institutions (CONFIEP) will, except as the Parties may otherwise agree in writing:

(1) sign a letter of understanding with A.I.D. which details the responsibilities and operational arrangements for the delivery of assistance to the private sector over the life of the project; and

(2) provide evidence in writing to A.I.D. that one individual has been designated as its official project representative.

d. Condition Precedent to Disbursements for Host Country Contracting

Prior to any disbursements under the Grant for Host Country Contracting of technical assistance or studies/analyses, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for Host Country Contracting, Peru will, except as the Parties may otherwise agree in writing, submit to A.I.D., in form and substance satisfactory to A.I.D., the following:

(1) Evidence that the SEP has the administrative and financial capabilities required to carry out Host Country Contracting in accordance with the rules and regulations contained in A.I.D. Handbook 11.

e. Condition Precedent to Disburements for the Donor Coordination Unit (DCU).

Prior to any disbursement under this Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made to finance project activities for the Donor Coordination Unit (DCU), the Secretary of the Presidency will, except as the other Parties may agree to in writing, submit to A.I.D. in form and substance satisfactory to A.I.D., the following:

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(1) A Plan of Action which details the functions and responsibilities of the DCU and the location of this unit within the GOP.

f. Condition Precedent to Additional Disbursements

Prior to any disbursements beyond the first $200,000 disbursed under the Grant for the purpose of funding GOP/SEP requests for technical studies/assistance, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for this purpose, Peru will, except as the Parties may otherwise agree in writing, submit to A.I.D., in form and substance satisfactory to A.I.D., the following:

(1) An Annual Plan which details the GOP/SEP priorities for project assistance during the first calendar year.

g. Special Covenants

(1) Project Evaluation

The Parties agree to establish an evaluation program as part of the Project and to carry out joint annual evaluations of the Project. Except as the Parties otherwise agree in writing, the Program will include, during the implementation of the Project and at one or more points thereafter:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and,

(d) evaluation, to the degree feasible of the overall development impact of the Project.

(2) Other Covenants

Peru covenants that, except as A.I.D. may otherwise agree in writing, it will:

(a) ensure that CIAEF members (government Ministries and entities) provide adequate counterpart support; and

(b) disseminate economic policy information obtained through project funded technical studies/assistance and training programs to other government entities and national universities as appropriate.

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h. Waivers

(1) Waiver for Permitting Local Procurement

A waiver for the local procurement of up to $700,000 for Peruvian technical assistance services, and up to $10,000 for the local procurement of American-made commodities, over the four and one half year life-of-project, are effective as of the date of your signature of this Project Authorization.

(2) Waiver of Procurement of Travel for Participant Training

A waiver for the procurement of all travel costs related to participant training activities over the four and one half year LOP for all GOP participant trainees selected under the project, is effective as of the date of your signature of this Project Authorization.

(3) Authority for Project Authorization by the Mission Director

Although 620 (Q) and Brooke/Alexander sanctions have prohibited the provision of A.I.D. assistance to the GOP, Section 518 of the FY 1990 Appropriations Act provides an exemption for narcotics-related projects, and the PAPI project is integrally related to the U.S. Narcotics Control Program. The PAPI project was included in the Mission's strategy (Reftel '89 Lima 17037, STATE 024026) approved to operationalize NSD-18.

Pursuant to Delegation of Authority Number 752, you have the authority to approve projects in amounts of up to U.S. Dollars 20 million and with lives-of-projects that do not exceed ten years. The new project description review for the PAPI project was approved by AID/W in February, 1990 (STATE 53178).

Based on the above justification and that contained in the project paper, by signing below I also hereby approve a nationality and source waiver permitting local procurement of services up to an amount of $700,000, and the local procurement of U.S.-made commodities up to an amount of $10,000, as per the justification contained in A.I.D. Handbook 1, Supplement B, Chapters 5D, 10a(1), and 5B, 4a, respectively; and a waiver for the procurement of travel for project participant trainees, as per the justification for the Mission Director's authority contained in A.I.D. Handbook 10, Chapter 16, Section C.5; over the four (4) and one half (1/2) year life-of-project.

Date: 9/27/90

Craig G. Buck
Director
USAID/Peru

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I. SUMMARY AND RECOMMENDATIONS

A. Facesheet

B. Recommendation

The project committee recommends that a grant (the Grant) be authorized with the GOP for the amount of $7,150,000 to accomplish the objectives of the Policy Analysis, Planning, and Implementation (PAPI) Project. Of this amount, it is expected that 20 percent, or $1,430,000, will be utilized in support of the private sector, represented by the Confederacion Nacional de Instituciones Empresariales Privadas (CONFIEP). The Project will have a life of four (4) and one half (1/2) years and is expected to be incrementally grant funded over the next three (3) fiscal years.

C. Summary

1. Background

Over the past two decades, Peru has experienced a steady deterioration in economic performance. Per capita income levels dropped to 1960s' levels, while income distribution continued to worsen. Since mid-1988, Peru has been experiencing the ruinous effects of a hyperinflationary recession. In 1989, inflation reached approximately 2,800 percent, while real GDP dropped 12 percent. Given the policies of the past administration, Peru has become increasingly isolated within the international financial community. Accumulated arrears on the country's $19 billion external debt reached approximately $12 billion. Exacerbating the economic problems are the sustained expansion of two terrorist insurgencies in rural and urban areas, and the presence of the illegal narcotics industry, which pose a combined threat to democratic stability. The narcotics trade represents a considerable economic force that, if left unchecked, is capable of undermining legal economic activity and rendering ineffective the support of democratic institutions -- essential to bringing about a stabilized economy and providing the necessary policy framework to allow for future growth.

2. Rationale

A new Peruvian administration, led by President Alberto Fujimori, took office on July 28, 1990. This new government faces the daunting challenge of putting the economy back together under the growing threat of narcoterrorism and armed subversion. As an initial step, the GOP adopted a tough economic stabilization program based on a sharp reduction in the fiscal deficit, the elimination of government controlled prices for all goods and services except petroleum products and public utilities, and the unification of the exchange rate and its determination by market forces. Cognizant of the deleterious effects of these measures on low income sectors, the GOP also initiated the implementation of a social emergency program. To bring about stabilization and lay the foundation for future growth, however, much more remains to be done. The GOP needs to formulate, design, and implement a longer-term strategy to reactivate the economy on a sustained basis. If this is to be achieved, the GOP policy strategy must incorporate and rely on market forces, while the private sector must build a coalition of support for policies that are consistent with the intended liberalization of the economy. There is an immediate need to help strengthen the GOP's policy formulation capabilities, and to develop and reinforce a policy decision-making process that draws on the technical skills and takes into account the interests of different public entities as well as the private sector. To this end, the PAPI project will provide resources to strengthen the public and private sector's capacity to analyze, design, and implement sound economic policies.

The new GOP must obtain, in a timely manner, high level technical expertise needed to help plan, develop, implement, and monitor economic policies, programs, and projects. Assistance is required in continuing the formulation and implementation of policies that can bring about economic stabilization, -- a necessary condition for implementation of the USG's counternarcotics economic strategy in Peru -- renewed growth, and social development. The new Peruvian administration will be faced with unforeseen technical problems and policy constraints, all of which require careful but rapid study. The GOP and the private sector also need assistance which complement their technical skills through training and information dissemination.

3. Project Description

The PAPI project will fill an important niche by providing high level technical expertise in response to the immediate and longer term policy and training needs of the new government. USAID/Peru will enter into a long-term contract with a private firm, which in turn will contract technical expertise as required and will be responsible for the organization and implementation of project resources and activities. The contract will provide for the services of a long-term senior economist, a project deputy economist/technical specialist, a training/technical specialist, and an administrative support office. Short-term technical assistance will be supplied for high priority macroeconomic analyses in areas such as fiscal reform, monetary policy, investment and export promotion policies, and assistance in the design and implementation of a social compensation program. Key sectoral areas addressed through short-term assistance provided under the contract include but are not limited to agricultural pricing and marketing, agricultural credit, non-traditional exports, small enterprise development and labor relations.

Project funded training and information dissemination will be directly related to policy analyses and the decision-making process. PAPI technical resources will also support activities which directly complement the USG's narcotics control initiative. The project will provide funding for feasibility studies to assist the GOP in leveraging additional international resources for development activities supportive of narcotics control.

In the public sector, the Inter-ministerial Committee for Financial and Economic Affairs (CIAEF), together with the Office of the Secretary of the Presidency (SEP), will have a central role in channeling and analyzing respectively the requests for assistance, and ensuring the quality and applicability of final studies/analyses supported by project technical assistance. CIAEF will serve as the forum through which demand for project services will be channeled. The high level nature of this committee will ensure that the project will address priority policy areas. The SEP will serve as the technical secretariat to CIAEF as the implementing institution of this project. To assist in project implementation and coordination, the Project will fund the establishment of a technical unit within the office of the SEP. In the private sector, CONFIEP will be used to organize and help administer project assistance in support of policy analysis directed toward the private sector. Some project interventions will be geared to address high priority topics such as non-traditional agricultural exports, small enterprise development, labor markets, and other areas with a direct impact on the lower income members of the private sector.

In addition to channeling requests for policy analysis and technical assistance from the private sector to the project's institutional contractor, CONFIEP will also play an important role in the project's training and information dissemination component. CONFIEP will help design and organize in-country training seminars/conferences on economic policy issues for private sector representatives. The confederation will also serve as a resource for gathering project information and providing library facilities for disseminating this information to key policy decision makers.

As a means of strengthening project management and providing USAID/Peru with a close liaison with day-to-day project activities, the project will finance the services of a long-term project coordinator to be contracted as a PSC. This individual will work with the contracted private firm in facilitating the administration of project technical studies/assistance and in carrying out training and information dissemination activities. The project coordinator will also be responsible for reporting and monitoring the progress of the project.

4. SUMMARY FINANCIAL PLAN
(US$ 000's)

Project Component	Total
I. Program Costs	
A. SEP Technical Unit	
1) Coordination Staff	310
2) Technical Studies/Assistance	400

Sub-total	710
B. Institutional Contractor	
1) Contractor Support Costs	2153
2) Technical Studies Assistance	1903
3) Training/Information Dissemination	1000
4) Other Direct Costs	144

Sub Total	5200
C. Direct A.I.D. Implementation	200
Total Program Costs	6110
II. Administration Costs	
Project Coordinator	600
Evaluation	100
Audit and Financial Reviews	150

Total Administration Costs	850
III. Contingency and Inflation	190

TOTAL PROJECT	7150
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II. BACKGROUND

A. Background Overview of Economic Policy and Country Setting

Peru is currently at a critical economic, social and political juncture. On the economic side, the country is making initial attempts to get out from under the crushing effects of a hyperinflationary depression that has been raging since the second half of 1988, and to restore minimally acceptable standards of living to the majorities after nearly three decades of poor economic performance. The country is experiencing a rapid widening of the gap between rich and poor with concomitant and increasingly strident social unrest. On the political front, the newly elected administration is trying to restore economic order through a politically unpopular economic adjustment program, and is continuing efforts to restore civil order in areas infested with narcoterrorists and the fighting of two bloody insurgency movements.

From the beginning of 1990 to the end of the outgoing administration's term in July, 1990, accumulated inflation had reached over 800%, while production stagnated. Macroeconomic mismanagement by the previous administration is largely responsible for the crisis. The GOP's economic policy stance during the 1988-90 period can be fairly characterized as directionless -- comprised of a series of individual adjustment measures applied inconsistently and without regard for the integration of a comprehensive strategy. These policies were designed primarily to contain the widespread damage inflicted on the economy by the hyperinflationary surge of the second half of 1988.

The results of past policies have been disastrous. Peru's foreign exchange reserves were nearly depleted, with the proliferation of severe price distortions and credit shortages permeating the economy. These and other factors served to obstruct market mechanisms and the normal functioning of the economy, and exacerbate the root causes of social and political unrest and upheaval.

Within this economic and social context is the growing illegal narcotics industry with its deleterious effects on the country's legal fiber. Inefficient economic policies penalize the formation and operation of legitimate business enterprise in Peru; and increase the relative profitability of illegal coca production. These undesirable effects are compounded by the near absence of government authority in the coca producing zones, thereby worsening political instability in these areas.

The economic force of the illicit narcotics industry is witnessed by the generation of some \$600 - \$800 million in foreign exchange flows per year, and the employment of approximately 80,000 workers in the Upper Huallaga Valley. Many more are indirectly dependent on the industry. Much of this foreign exchange enters the country by means of money laundering schemes via the banking system, or by informal and illegal channels through the "underground" economy.

The growing social discontent in Peru has provided a fertile ground for recruitment into terrorist groups. The outgrowth of terrorism, and the concomitant diminishing respect for Peru's legal system, have made it easier for narcotraffickers to move in and expand their activities. As such, the prolonged economic recession continues to foster both terrorism and growth of the narcotics trade. Other disruptions to the economy, in addition to those caused by inadequate economic policies, are attributable to the narcotics industry. For example, the inflow of foreign exchange outside banking system channels has robbed the monetary authorities of needed control over monetary aggregates. These inflows have pushed the exchange rate below its parity level, thereby eroding export competitiveness. Narcotics activity also debilitates the Peruvian fiscal system in several ways. First and most obvious is that illegal, drug-related income does not provide the government with tax revenues. Counternarcotics activities also exacerbate the budgetary deficit through increasingly greater expenditures needed to maintain even minimum standards of enforcement. In addition, generalized government subsidies on certain inputs (e.g. fertilizers, kerosene) for agricultural and household uses, unintentionally serve to stimulate narcotics activity, given that these chemicals are used in the processing of coca leaf.

As an initial step, the new GOP announced and has begun to implement a tough economic stabilization program that relies on a drastic reduction of the fiscal deficit, the elimination of a broad range of subsidies on key goods and services, the unification of the exchange rate and its determination on the basis of market forces. The inherent risk of this strong economic package is that it could provoke a social outcry from marginal income and disenfranchised populations. To prevent this outcome, the GOP is implementing a social emergency program designed to cushion the negative impact of the adjustment program and, if necessary, provide continued social support beyond the timeframe of economic transition. A second stage of the GOP program consists of implementing a broad range of structural adjustments designed to put the economy on the path to economic recovery.

Against this backdrop, the proposed Policy Analysis, Planning, and Implementation project (PAPI) will play a key role in the mission's overall strategy to assist the GOP to: stabilize the economy -- a necessary condition for implementation of the USG's counternarcotics economic strategy in Peru -- with first priority being reactivation of the productive, private sector; lay the groundwork for longer-term growth and an improvement in living standards; provide assistance that is a fundamental component of the Mission's counternarcotics program; and assist in GOP efforts to coordinate donor assistance, especially in relation to the counternarcotics struggle.

B. Constraints/Problem

The project's primary objectives are to help alleviate and resolve constraints to developing an effective economic policy dialogue, and to establish a stronger, more effective process of economic policy decision-making within the GOP. Several GOP institutions and entities are involved to varying degrees in the analysis, formulation and implementation of macroeconomic policies. These include: the office of the Presidency; the Ministry of Economics and Finance (MEF), the Central Reserve Bank (BCR), the National Planning Institute (INP), and the Inter-ministerial Committee for

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Economic and Financial Affairs (CIAEF). For sectoral economic policy development, some or all of the above institutions and corresponding government Ministries may have a role in the policy formulation process.

In practice, the economic policy dialogue and decision-making process in Peru has tended to be carried out in a vacuum, with most of the policy analysis and formulation responsibilities remaining the exclusive domain of a few economic advisors to the President of the Republic and other cabinet members. While this approach may be desirable for a very limited number of sensitive policies, a healthier and sounder process for the development of an economic policy strategy would require that differing opinions and policy options be fully considered by representatives of the groups more likely to be affected by policies under consideration. In line with this process, a consensus of opinion would be reached, providing a broad basis for the sustainability of adopted policies over the longer-term.

The primary constraints to the development of a stronger and more effective policy dialogue and sound policy decision-making process in Peru, include: 1) a lack of sound technical knowledge and information needed to analyze and guide the formulation of policy, as well as the means of providing dissemination of information and independent forums for policy discussion and review; 2) an absence of skilled policy analysis professionals both within the government and private sector research entities; and 3) a cumbersome and inefficient ministerial organizational/management structure, which does not have the capacity or flexibility needed to respond to the policy development challenge which Peru now faces.

Given the current economic crisis in Peru, accomplishing the goal of economic stabilization and building a foundation for renewed growth will require strong economic policy development capabilities which are not available to government Ministries. GOP policy-makers must have access to analytical, design and implementation resources needed to formulate and put in place coherent economic policies. At the same time, policy information must be disseminated swiftly to government, private sector and legislative officials and representatives, to allow for better understanding and modification and/or change according to current circumstances and the need for longer-term, sustainable economic impact.

Economic sectoral policy development also depends on the institutional capabilities of each Ministry. One of the most pervasive problems in the Peruvian public sector is the fragmentation of policy analysis and planning functions. In general, each government agency formulates and applies policies and regulations relevant to its own area of responsibility. Hence, there is a lack of broad guidance and coordination from MEF/INP in the design and implementation of macroeconomic and sectoral policies.

There also exists a shortage of well trained and experienced technical and administrative personnel within the public sector. This is the result of low salaries, limited opportunities for advancement, job dissatisfaction, political interference and overall instability within the public sector. The only notable exception is the BCR, which in the last two decades has been able to develop and maintain a capacity to train and retain a staff of highly qualified professional economists. Together, these shortages constitute a major constraint to effective economic policy design and implementation.

Current policy reforms must address a number of complex issues and policy trade-offs, each requiring specialized economic and technical expertise needed to provide the basis on which informed policy decisions can be made. Some of the major trade-offs which must be evaluated before a comprehensive policy package and strategy can be formulated include: weighing the impact of deflationary policies against economic reactivation needs; choosing between divestiture and reorganization of public enterprises; blending resource allocation with fiscal revenue needs; and weighing the need to reduce consumer subsidies against the need to assist the poorest segment of the population. Given these difficult policy trade-offs, and the need for in-depth yet rapid policy analysis and a healthy policy dialogue, the project will assist in strengthening the process for arriving at final decisions.

C. Project Rationale and Strategy

The Fujimori administration's economic package included tax increases, government spending cuts, the elimination of subsidies and the partial opening up of the economy through reduced import tariffs and trade liberalization. A social compensation program was also adopted to provide direct assistance to the poorest segment of the population during the difficult economic transition period and beyond.

This new policy framework will help determine the course of the Peruvian economy over the near term. Actual performance, however, will depend in large part on the implementation of new and complementary policies needed to reactivate the economy on a sustained basis. This task can be supported through the provision of short-term, technically specialized expertise, needed for timely and sound economic analysis and the formulation of economic policies. Of equal importance are technical studies and accompanying technical assistance, and in-country and offshore training activities, which need to be planned and implemented to support and strengthen the GOP's policy making process.

The PAPI project will respond to the economic policy needs of the new government through the provision of technical assistance in the form of technical studies/analyses, and training and policy information dissemination activities. To accomplish project objectives, USAID/Peru will enter into a long-term contract with a private firm (i.e. "institutional contractor"). The institutional contractor in turn will be responsible for responding to requests for assistance by planning and organizing project activities, contracting specialized technical and training personnel, and administering project resources. The institutional contractor's in-country team will be comprised of a senior economist, a project technical expert and a training/technical specialist, supported by an administrative office. The firm will have the central role of interacting with and responding to GOP implementing agencies, the private sector and the USAID mission in carrying out project technical, administrative and implementation responsibilities included under the contract.

It is anticipated the institutional contractor will not be in place and fully operational until approximately June, 1991. AID contracting procedures for full and open competition call for a period of five to eight months to allow for the selection and contracting of the institutional contractor. This period also includes the placement of in-country professional staff and the establishment of an administrative office. (See Procurement Plan, Section V.C.). Given these conditions and the urgency of the project, several project activities will be contracted by the Mission outside of and prior to the contracting of an institutional contractor. These activities will provide the new government with an immediate show of substantive support in terms of economic policy guidance and technical assistance, and constitute a head start on the accomplishment of PAPI project objectives.

A PPC Bureau buy-in mechanism (CAER) and other forms of contracting will be utilized to obtain the highest priority technical assistance requested by the new government. In-country training activities supportive of policy development will be carried out with project funds, prior to the start-up of the institutional contractor.

The public sector mechanism for identifying needs and approving requests for public sector project assistance will be centered around the Inter-ministerial Committee for Economic and Financial Affairs (CIAEF). The CIAEF is a broadly representative, GOP inter-ministerial board, which has planning, oversight and coordination responsibilities for economic policy making and implementation.

The project will utilize the CIAEF as a board of directors for longer-term project planning and the establishment of project assistance priorities. In particular, CIAEF will be responsible for the approval of annual and quarterly plans and corresponding project decisions. CIAEF will serve to generate requests for public sector assistance and will have final approval on the priority of technical and training assistance carried out under the project. In this way, CIAEF will set the framework for project assistance, as well as establish a check and balance to ensure the participation of many sectors of the economy in the analysis, design and implementation of economic policies assisted by the PAPI project initiatives. In addition to the demand generated by CIAEF, the project will allow for direct, high priority, requests from the office of the Secretary of the Presidency (SEP).

The primary GOP counterpart institutions for the implementation of PAPI activities will be CIAEF, the Ministry of Economy and Finance, and the Secretary of the Presidency SEP. The project's lead institution, responsible for receiving, reviewing, prioritizing and assisting in the implementation of requests for technical assistance and training, will be the SEP, with support from a technical unit to be established by the project. The technical unit will play a managing role in assuring the quality standards of all project-related assistance. A SEP representative will be assigned to the project to assist in the review of terms of reference for all authorized assistance. The SEP project representative will serve as the project manager for the GOP with administrative liaison functions with the institutional contractor, the USAID project coordinator and other public sector project

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entities and their representatives. Moreover, project support provided by the technical unit will complement the work of project-funded specialists as needed. Support will also be provided by the technical unit for the organization and follow-up of project training and information dissemination activities.

For assisting economic policy development within the private sector, the project will allocate 20% of project funding for technical studies/assistance and training. This assistance will be focused on addressing the primary constraints to improved private sector economic policy development in both macro and sectoral areas. The institutional contractor will have the same responsibilities for contracting assistance and administering project funding as described under the public sector delivery mechanism. However, the lead private sector counterpart entity will be the National Confederation of Private Business Institutions (CONFIEP). CONFIEP is the most representative private sector organization in Peru and is capable of providing the required back-stop support needed to effectively implement project activities and disseminate project results. CONFIEP will be responsible for generating and screening project requests for technical/studies and training assistance.

It is anticipated that private sector assistance will be given high priority in the area of tax policy analysis for investment attraction and export promotion. Other private sector demand for priority project assistance will include non-traditional agricultural export development, small enterprise development, privatization of public entities and labor relations management.

In terms of the Mission's responsibilities for project management, monitoring and reporting, and its relationship with GOP counterpart entities (both public and private sector) and the long-term institutional contractor, the project will fund the position of Project Coordinator to be contracted as a PSC. The Project Coordinator will provide technical and administrative back-stop support for the Mission and ensure that project activities are carried out efficiently and in accordance with AID Handbook criteria. Other support functions include the design of potential follow-on activities/projects in conjunction with USAID direct-hire staff and GOP counterpart personnel. This position will be key to the smooth and effective operation and implementation of project activities, and the overall accomplishment of project objectives.

PAPI technical resources and support services will be utilized in activities which complement the USG's Counternarcotics Control Initiative. The project will provide technical assistance/studies for supporting the establishment of a donor coordinating unit (DCU). The purpose of the DCU will be to coordinate other donor activity (e.g. IDB, UNDP, and the IBRD) in conjunction with the Fujimori government and USG economic initiatives in the control of narcotics production and trafficking. Assistance to the GOP will be provided in the development of feasibility studies and the provision of other support incentives needed to leverage financing for development activities. In addition to mobilizing other donor support, DCU support will be provided to assist the new GOP in gathering background information and preparing analyses required for the design of new project interventions.

D. Relationship to USAID/Peru's Development Assistance Strategy

The Mission's strategy supports a reorientation of the economy toward the opening of external markets leading to economic growth. In order to achieve this, policies and incentives must be in place to promote confidence in the economy, induce wealth-generating private sector investment, encourage the spread of market forces, and emphasize exports and economically efficient import substitution programs. Other elements of the Mission's strategy for supporting economic reform and counternarcotics initiatives include assistance in forming micro- and small industries, developing human resources and creating self-sustaining employment needed to absorb workers as they re-enter the legitimate labor force.

Accomplishing the PAPI policy objectives, combined with the completed objectives of other planned USAID program and project initiatives (including the Economic Stabilization and Recovery Program Assistance, the Social Emergency Fund, the Investment and Export Promotion Project, and the Selva Economic Revitalization Project), will ensure the achievement of development goals for stabilizing the economy and sustaining wealth-generating growth. Over the longer term, the proposed interventions counteract the reasons for and help narrow the gap between the extreme disparities in the distribution of wealth, contribute to bringing about an improved standard of living, and strengthen the fiber of Peruvian democratic institutions.

E. Relationship to A.I.D. Economic Policy Reform/Narcotics Initiative

The PAPI Project is a fundamental component of USAID's Counternarcotics Strategy for Peru, which is a part of President Bush's Narcotics Initiative for the Andean Region. The primary objectives of the Mission's overall strategy, which is key to the success of the counternarcotics strategy, are to assist Peru to stabilize the economy, provide the foundation for sustained economic growth with emphasis on the productive private sector, and help create employment opportunities for re-entry of workers into the legal workforce. In this context, the PAPI project will promote economic stabilization and the adoption of sound economic policies by providing the GOP with technical assistance, economic policy studies and training resources.

The PAPI Project will also serve to coordinate and mobilize other donor support for counternarcotics initiatives. One of the primary functions of the project coordination unit under the PAPI Project will be to assist in developing an awareness of the types of counternarcotics activities which can be effective. These activities will help draw the attention and support of other donors to projects which complement the Peruvian counternarcotics program.

III. DETAILED PROJECT DESCRIPTION

A. Project Goal and Purpose

The Goal of the project is to improve Peruvian economic policies to facilitate economic stabilization and renew growth. To accomplish the project's goal, the Purpose of the PAPI project is to assist the new GOP and the private sector in developing sound economic policies and strengthening the policy dialogue and decision-making process.

B. End of Project Status

The technical studies/assistance component will contribute to economic stabilization and a reorientation of the economy toward growth in the productive, private sector. This will be accomplished primarily through the development of technical studies and the provision of short-term technical assistance needed to help formulate sound economic policies, as well as strengthen the economic policy dialogue and decision-making process in Peru.

As a result of project assistance in this area, it is expected that resources brought to bear by the PAPI project will have a positive impact on alleviating and resolving the major constraints to macro and sectoral economic stabilization and sound economic policy development, and on improving some of the key economic and social development indicators over the four and one half year LOP.

At the Goal level of the project, the specific macroeconomic conditions that are likely to exist at the end of the Project, attributable in part to the technical studies/assistance and training and information dissemination components, include the following:

1. Improved Economic and Fiscal Performance

Elimination of hyperinflation and a reversal in the decline of real GDP (i.e. stopping the decline in GDP, with small growth increases in GDP taking place from 1992 forward). Control of the fiscal deficit, held to approximately 2 to 3 percent of GDP. Balance of payments improvement through increases in non-traditional exports, with increased capital inflows needed to finance imports and open the economy to trade and investment opportunities. A non-traditional export growth rate of at least 5 to 8 percent p.a. beginning in 1992. The price of foreign exchange remains stable and determined by market forces.

Growth in employment, and improved per capital real earnings. Once inflation is stabilized, real earnings should increase by approximately 2 to 3 percent p.a., expected to occur from 1992 forward.

2. Improved Social Development Indicators

Reduction of infant mortality and malnutrition rates. By the PACD, it is possible to decrease by 30 percent and 25 percent, respectively, the rates of mortality and malnutrition, as a result of increased incomes and the impact of improved social policies and growth factors taking hold within the economy.

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At the project's Purpose level, the technical studies/analyses and training and information dissemination activities will serve to improve the analytical capacity of GOP and private sector organizations that have an impact on the formulation and implementation of economic stabilization policies. As a result of the PAPI project, Peruvian economic policy makers will have a greater capacity to develop policies for bringing about economic stabilization and returning to positive GDP growth by the end of the Project.

There are four economic groups that will benefit from the Project training and information dissemination. Participants will be the mid-level policy analysts and decision-makers in the Ministry of Economy and Finance (MEF); selected technical staff of the Banco Central de Reserva (BCR); and other GOP entities that require a better trained staff and can play a role in the design and implementation of sound economic policies.

The second group of beneficiaries include members of the private sector confederation, CONFIEP, which represents 15,000 firms and 63 chambers of commerce throughout the country.

The third group, considered an indirect beneficiary of the training opportunities to be offered under the project, will be the representatives of key labor organizations. By including labor sector representatives in training and the diffusion of project technical information, it is expected that a coalition can be built between private sector groups and labor so as to better achieve the objectives of sound economic policy development and renewed growth.

Lastly, a fourth beneficiary group of the training component will be the Peruvian Parliament and other legislative representatives. If policies which guide economic growth are to be implemented, the legislative branch must play a significant role in support of these policies. The project aims to address the constraints to effective technical information dissemination which currently restrict the law-making body; thus enhancing the Mission's democratic initiatives and reinforcing the long-term development strategy for Peru.

3. An improved economic policy analytical capability in selected GOP organizations.

Macroeconomic policy planning during the LOP requires analysis of reliable economic data by decision-makers. Alternatives must be assessed based on information that is gathered systematically on the performance of the economy for a given period in time. This ongoing process is the responsibility of the mid-level analysts from the MEF, BCR, and to a lesser extent, the INP. This target group will be the primary recipient of project short-term training. Seminars, conferences, short-term courses and third country programs will be the primary modes of training.

4. Economic policy dialogue between the GOP and the Private Sector in developing sound policy decisions.

CONFIEP will design and conduct workshops, seminars and conferences on topics which address the issues of economic recovery and the stabilization reforms of the GOP. Participants will include members of the CONFIEP community, particularly business leaders, representatives of labor, the public sector and members of other chamber organizations representing specific sectors of the economy.

The site of the seminars, workshops and conferences will be determined on the basis of subject matter and according to the needs and interests of the regions. In order to disseminate information to a regionally diverse audience of private sector leaders, the information generated by the studies and technical assistance component of the project will emphasize the need for conferences to be held at various locations throughout the country.

When appropriate, publications, brochures and other materials will be produced by CONFIEP or other private sector entities under the project used to further the policy information dissemination and dialogue effort.

5. Information access network for the Peruvian Parliament.

The results of project studies and training seminars will be made available to the Parliamentary committees. The purpose is to help strengthen the policy dialogue between the Executive branch, the Legislative branch, the private sector and the labor sector, so that coherent policies can be conceptualized and understood, and that eventually laws will be passed which are supportive of the stabilization and economic growth objectives.

Whenever practical and desirable, members of Parliamentary commissions will be included in training events so they are better informed on the progress of economic revitalization measures. The project will make available technical information to selected members of commissions as part of the training component. Publications resulting from the seminars and conferences will be available to members of Parliament upon request and as appropriate.

CONFIEP will maintain a technical information library/data base of project studies. The library will store, and disseminate as appropriate, policy research conducted under the project on the major topics of economic stabilization, social compensation fund issues, trade policies, and other issues related to the stabilization program. This information network can then be accessed by Parliamentary commissions in preparing legislation for economic stabilization and economic revitalization policies.

C. Project Activities

1. Technical Studies/Assistance

The proposed technical assistance to the new GOP and private sector entities will serve to carry out studies and provide follow-up technical assistance leading to the formulation and implementation of policies and programs consistent with sound macroeconomic and sectoral objectives.

Technical studies will be funded and carried out in response to Peru's most urgent development problems. The fundamental criteria used to determine the subject matter and scope of the studies are that they address urgent economic policy constraints, and that project studies provide viable and actionable solutions. A limited number of these studies will be funded prior to contracting the long-term Institutional Contractor (IC), due to the urgency of responding to the GOP's needs for policy studies and the length of time required to contract the IC. Technical studies will be heavily utilized during the initial two years of the project. The technical studies/assistance component will support the Mission's macroeconomic and sectoral policy dialogue with the new GOP. In addition, policy dialogue with the new GOP will include the review of policies put forth by private sector entities engaged in policy research and analysis.

The following is an illustrative list of some of the most important policy reform topics that the Project should address during the next 4 years:

- Stabilization program. This will support a continuation of a process which began in mid-1990. Monitoring the impact on the poorest population and help for an efficient targeting and distribution of food aid will be of paramount importance.

- Pricing policies. The main topics include the establishment of efficient market-determined management of the principal prices in the economy such as foreign exchange, interest rates, wages, and goods and services administered by the State.

- Fiscal reform. Primary areas include the control and reduction of the fiscal deficit, comprehensive tax reform, realistic pricing policies for goods and services administered by the state, reorientation of public investment, public sector deficit financing.

- Monetary policy. A key objective in this area is the establishment of a monetary regime conducive to non-inflationary economic growth. This would involve review and reforms in banking policies, and the rationalization of financial sector regulation.

- Trade policy. Emphasis will be given to trade liberalization issues, the promotion of non-traditional export industries, the reduction and eventual elimination of protective tariffs, and coordination between trade policies and other relevant policy instruments such as exchange rates, monetary policy, and fiscal policy.

- Institutional reform. This area covers a wide range of topics, such as streamlining the role of the state and government regulation, strengthening the policy analysis capability within public sector agencies, restructuring the public sector, improving the management of public enterprises, divestiture, development of selection criteria for public sector investment projects, export promotion activities, customs and port facilities, education and training programs, research and extension programs, public health and social security, urban development and housing strategies.

- External Cooperation. Work in this area will include studies and strategies for securing multinational donor assistance, debt renegotiation and improved access to world markets.

At the sectoral level, the PAPI Project is also expected to provide technical support. Following is an example of the policy areas in the agricultural sector which are of interest to the project: Agricultural pricing and marketing policies; agricultural credit; land tenure; infrastructure; and technical assistance to producers. Of special interest are coca related studies such as the environmental impact of coca growing and processing, agricultural marketing systems in the productive and nearby regions, and the extent and impact of illegal coca cultivation in other areas.

2. Training and Information Dissemination

The training and information dissemination component consists of in-country, short-term training and a limited amount of participant training. The proposed training will be directed toward the following project beneficiaries: GOP Ministerial management and other GOP policy officials; private sector representatives; leaders from the labor sector; and Parliamentary legislative staffs directly involved in the preparation, analysis and/or implementation of stabilization and economic revitalization policies and programs.

The project's training and information dissemination component will seek to achieve three objectives over the four and one half year LOP. First, this component will address the immediate need for trained policy analysts, decision-makers and other key personnel in mid-level management and top levels of the GOP. Second, the project will increase the technical capacity of principal GOP and private sector entities which play a role in the formulation and implementation of policy reforms in support of economic stabilization and growth strategies. Third, project training and information dissemination will help develop the capabilities of a wide range of public and private sector policy entities that carry out public policy analysis and participate in the implementation of projects.

(a) In-country Short-Term Training

In-country training will be conducted through the presentation of seminars/workshops and conferences, as well as the dissemination of research results to principal decision-makers and representatives of both the public and private sectors.

Short-term training will be conducted by faculty from existing post-graduate institutions, complemented in certain cases by outside and other Peruvian experts. Public sector participants will be selected by the GOP entities participating in the project according to the criteria described in (b) below. Those participants eligible to attend the seminars and workshops will continue to receive salaries during their attendance at training courses.

The estimated time of in-country seminars will range from one day to a maximum of four weeks. Subjects will be developed based on those project activities described in Section III., C.1, as well as others which are

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essential to achieving the training objectives of strengthening the policy dialogue/decision-making process, and bringing about economic stabilization and growth. Seminars or workshops will correspond to the specific training needs identified during the course of the project by the GOP Project Manager.

In instances where outside experts have conducted research, the dissemination of results will be done through conferences or publications and by follow-on technical assistance from the external experts themselves. All conferences for the public sector will be organized by the GOP Implementation Manager, and by CONFIEP for the private sector community, with the close involvement in both cases by the Institutional Contractor's personnel.

The institutional contractor (IC) also has the responsibility for coordinating training events with the most appropriate local educational facility. Final design of the workshops will be made with guidance provided by the IC's Training Advisor. During the seminar or conference, project funds will cover the cost of didactic material, classroom rental space, fees, publications, and supplies.

(b) Selection Criteria

(1) Public Sector. Participants eligible for selection must have direct responsibility for the analysis, implementation or legislation of policies related to economic stabilization and growth. The sponsoring agency must agree to cover the cost of salaries and maintenance while the participants attend the training event. Final selection will be determined by the CIAEF through its representative, and in conjunction with the advice of the IC's Training Advisor, who will determine the maximum number of attendees for each training event.

(2) Private Sector. Selection of CONFIEP members and labor leaders at short-term courses will be determined by the CONFIEP Project Manager, in consultation with the IC's Training Advisor. Most training events programmed for private sector groups will be for one day seminars or short conferences.

(c) Contract Training Activities

(1) Short-Term. A limited number of GOP participants will be offered short-term participant training in the U.S. or a Third Country when training is not available in the U.S. The training will consist of short seminars, conferences and/or special events to be planned in conjunction with the IC's Training Advisor. The PIO/P process will be used to ensure that all A.I.D. Handbook 10 requirements are met. The IC's Training Advisor will be responsible for preparing all documentation and forwarding the document to USAID/Peru's Training and Social Development Office. The IC's home office will be required to make all placement arrangements and provide follow-up assistance as needed to ensure the successful completion of the training course by the project participant. Departure orientations will be handled by the Training Advisor in consultation with the Mission TSD Office.

(2) Long-Term. It is estimated that five long-term participant training scholarships will be made available under the PAPI project. The IC will be required to prove that a competitive cost, high quality program has been designed for participants selected for master's level education.

For both short- and long-term training opportunities, the GOP sponsoring agency must ensure that the participant will be reinstated in the same position, or at a higher level, after the offshore training is completed. Moreover, the GOP entity must require that upon completion of the technical training, the participant agrees to continue in his/her position for a period of at least twice that of the training period, or a minimum of one year, whichever is longer. As a counterpart contribution to the project, the sponsoring agency will be required to cover the cost of salary.

The participant training covered by this project is considered the sole responsibility of the IC. The final training plan will be submitted to the Mission TSD Office by the IC's Training Advisor, in compliance with Mission Order 500-8 Section IV (B).

(d) Illustrative Project Training Budget

ILLUSTRATIVE PROJECT TRAINING BUDGET

IN DOLLARS US$

ACTIVITIES	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
I. In-country Training Events	9	12	8	6	35
A. Seminars No. Days	135	180	120	90	525
Number of Participant Days	225	300	200	150	875
a. Instructor Fees $100/dy	13500	18000	12000	9000	52500
b. Didactic Materials $45x30/eac	12150	16200	10800	8100	47250
c. Site Facilities $80/dyx525	10800	14400	9600	7200	42000
d. Refreshments $5/part day	1125	1500	1000	750	4375
e. Instructor External $260/dy	8775	11700	7800	5850	34125
f. Danger Pay 15%	1316	1755	1170	878	5119
g. DBA .399 (sal + DP)	4026	5369	3579	2684	15658
h. Travel RT$1300 ea	7800	7800	5200	5200	26000
i. Per Diem $102/dy	5100	5100	2550	2550	15300
j. Other Direct Costs					
1. Local Transport	1000	1000	1000	1000	4000
2. Communications	300	400	400	300	1400
3. Rental Equipment	600	600	600	600	2400
4. Visas, Taxes, Phone, Fax	550	550	550	550	2200
k. Contingency	3500	3500	3500	3500	14000
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Sub-Total	70542	87874	59749	48162	266327
					266327
B. CONFIEP Training and Dissemination					
Number of Conference Days	40	40	36	20	136
Number of Participants	1200	1200	960	960	4320
a. Instructor Fees $100/ea	8000	8000	7200	4000	27200
b. Materials	6000	6000	4800	4800	21600
c. Site Facilities $100/conf	3600	3600	2400	1200	10800
d. Refreshments	3000	3000	2400	2400	10800
e. Travel $1300RT	5200	7800	5200	3900	22100
f. Per Diem 102	1020	1632	1632	1020	5304
g. Publications	6000	6500	7000	6500	26000
h. Contingency	3000	3500	3500	3500	13500
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Sub-Total	35820	40032	34132	27320	137304
					137304

ACTIVITIES	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
II. Contract Training					
A. Short Term					
Number of Participants US	10	12	4	4	30
Number of Participants Third Cnty	12	14	10	8	44
a. Tuition/Fees $4000/mo	40000	48000	16000	16000	120000
b. Tuition/Fees Thrd Cnty $2500/ea	30000	35000	25000	20000	110000
c. Travel $1300/ea US	13000	15600	5200	5200	39000
d. Per Diem US	18000	21600	7200	7200	54000
e. Per Diem TC	16000	12800	12800	9600	35200
g. Contingency	10800	7800	7800	9800	35400
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Sub-Total	120000	139000	69200	64600	393600
					393600
B. Long-Term Training					
No. of Participants	3	2	0	0	5
Length of Training (Yrs.)	2	2	0	0	4
a. Tuition $14,500	87000	58000	0	0	145000
b. Allowances $15,000/ea.	90000	60000	0	0	150000
c. Travel $500/ea.	4500	3000	0	0	7500
d. HAC Insurance	3000	2000	0	0	5000
e. Materials & Supplies	1500	1000	0	0	2500
Sub-total	186000	124000	0	0	310000
TOTAL					$1000000
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IV. FINANCIAL PLAN

A summary of total project costs by component follows in Table I. The PP provides the estimated total costs for the life-of-project; however, the Mission will be obligating project grant funds on a yearly incremental basis. The project budget presents A.I.D. financed inputs only. It is recommended that approximately $200,000 of either in-kind or local currency GOP counterpart support will be required over the LOP to cover the costs associated with the establishment of the GOP technical secretariat office and a minimum support staff. The programming of these funds will be decided in the first year of the project, when in-kind support levels are determined and local currency needs are better defined.

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TABLE I

ANNUAL AND TOTAL PROJECT COSTS, BY PROJECT COMPONENT

(US$000)

Project Component	Year 1	Year 2	Year 3	Year 4	Total
I. Program Costs					
A. SEP Technical Unit					
1) Coordination Staff	85	75	75	75	310
2). Technical Studies/Assistance	400	-	-	-	400
Sub-Total	485	75	75	75	710
B. Institutional Contractor					
1) Contractor Support Costs	348	568	590	647	2153
2) Technical Studies Assistance	380	508	508	507	1903
3) Training/Information Dissemination	100	300	300	300	1000
4) Other Direct Costs	54	30	30	30	144
Sub Total	882	1406	1428	1484	5200
C. Direct A.I.D. Implementation	200	-	-	-	200
Total Program Costs	1567	1481	1503	1559	6110
II. Administration Costs					
Project Coordinator	150	150	150	150	600
Evaluation	-	50	-	50	100
Audit and Financial Reviews	10	65	10	65	150
Total Administration Costs	160	265	160	265	850
III. Contingency and Inflation	-	50	100	40	190
TOTAL PROJECT	1727	1796	1763	1864	7150

TABLE I.a

INITIAL FUNDING OF FIRST YEAR'S BUDGET
(US$ 000)

Project Component	Year 1
I. Program Costs	
A. SEP Technical Unit	
1) Coordination Staff	85
2) Technical Studies/Assistance	100
Sub-Total	185
B. Institutional Contractor	
1) Contractor Support Costs	348
2) Technical Studies Assistance	214
3) Training/Information Dissemination	100
4) Other Direct Costs	54
Sub-Total	716
C. Direct A.I.D. Implementation	200
Total Program Costs	1101
II. Administration Costs	
Project Coordinator	75
Evaluation	-
Audit and Financial Reviews	10
Total Administration Costs	85
III. Contingency and Inflation	-
TOTAL PROJECT YR.1 FUNDING	1186 *

* Actual Total FY '90 Obligation $1,185,808.

A. BUDGET ELEMENTS

1. Program Costs

Program cost elements are separated into phases of activity. In as much as the Institutional Contractor will not be operative until the third quarter of the first year, alternate means of procuring technical studies and training have been established. Funds have been set aside to provide for the establishment of a Technical Unit within the Secretary of the Presidency (SEP), that will serve as the project liaison with the Office of the Presidency. This input will start at the inception of the project and continue through the LOP. Additionally, funding has been separated to provide the GOP with immediate access to domestic sources of consultants and technical assistance. These costs may be either dollar or local currency, depending upon prevailing practices. It has been estimated that approximately $100,000 of these funds will have been committed prior to the installation of the institutional contractor. The balance of funding available for this input will be folded into the contracted amount for the Institutional Contractor, however, these funds will remain separate and available for the original purpose. An additional input of funds has been made available for the pre-institutional contract provision of technical assistance/consultancy/financing having an off-shore origin. These funds will be managed by A.I.D.

The institutional contractor will provide all subsequent consultancy, technical assistance and training through internal arrangements. The call for such services will be through the GOP coordinating entity and the Private Sector coordinating entity, and approved by USAID/Peru.

2. Administrative Costs

Project Administrative Costs are defined as those related to USAID/Peru monitoring of progress and coordination with the institutional contractor, the GOP and Private Sector implementing entities. Included also are Evaluation, Audit, and Financial Reviews. Evaluations are planned at the close of year two and at the end of year four. The first evaluation will measure progress toward the achievement of project objectives, and will establish changes in budgets or suggest corrective actions, if needed. Financial reviews will be conducted at the start of the project to assure that financial and administrative needs are clearly defined and procedures established to assure compliance, and, after the first non-federal audit to assist in implementing corrective actions, if any. Non-federal audits will be performed near the end of year two activities. The results of this audit will be available for the mid-term evaluation, and, after the end-of-project evaluation to provide for formal project termination reporting.

3. Disbursement Procedures

a) Methods of Financing Foreign Exchange Costs

Program costs allocated to the GOP will be contracted for by A.I.D. The criteria for the eligibility of these costs will be developed and earmarked through a PIL. The contracting mechanism will be defined by PIO/Ts. The funding provision for A.I.D. pre-institutional contract services will be clarified by PIL, earmarked and contracted for through PIO/Ts.

The Institutional Contractor will be financed through the Letter of Credit procedure and charged to the project by advices of charge (AOC). Costs will be earmarked through PIO/Ts, at the request of the Institutional Contractor, and contracted and paid for by USAID/Peru. Reports of contracting and disbursement will be provided to the Institutional Contractor periodically.

Project audits will be contracted through the non-federal audit mechanism established by RIG/A/T. The PIO/T and contract will be executed by USAID/Peru. Payment terms will be specified by RIG/A/T. Financial Reviews will be confirmed and contracted through co-signed PIO/Ts and contracts executed by USAID/Peru.

b) Methods of Financing Local Currency Costs

The local currency costs of the Institutional Contractor will be financed from dollar funds provided through the Letter of Credit, which will be used to purchase intis through banking procedures. The level of local currency procurement cannot be clearly defined at this time.

4. Recurrent Costs and Other Financial Issues

Recurrent costs are those incremental expenditures associated with activities that must be made on a regular basis during the Project to achieve objectives. As the project does not contemplate institutional development and has a discrete and identifiable goal/purpose, there are no recurrent costs beyond the life-of-project.

5. Financial Reviews and Audits

Audits and Financial Reviews will serve as companion efforts in this project. The first intervention will be a Financial Review at the inception of the project to assure full understanding and compatibility of financial and reporting needs of USAID/Peru and the Government of Peru. Project financial and compliance audits required by A.I.D. regulations will be requested from RIG/A/T as per their established procedures concerning non-federal audits. These will be performed at the end of the second year activities and within two months of the project's completion. The second Financial Review will be performed in year three, as a follow-up to the audit recommendations and to assure that compliance is effective.

6. Financial Analysis

The project does not generate revenue from project activities. The objective is to provide the Government of Peru a medium for the development of studies and training activities that will provide immediate impact upon economic recovery in the short- and medium-term. The terms of reference for contracting with the Institutional Contractor that will provide technical assistance, training and studies, will be developed by the implementing entity and USAID/Peru. Contracting will be done by the A.I.D. Regional Contracting Office through full and open competition. USAID/Peru will contract for GOP/SEP Program Costs and Administrative Costs (i.e. Project Coordinator, Evaluations, Audits, and Financial Reviews) through competitive procurement procedures.

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TABLE II

PROJECTED OBLIGATIONS AND EXPENDITURES OF PROJECT FUNDS
BY FISCAL YEAR (FY)

(U.S.$ 000)

U.S. FISCAL YEAR (Project Year)	FY 90	FY 91 (PY1)	FY 92 (PY2)	FY 93 (PY3)	FY 94 (PF4)	TOTAL
1. Beginning-of-year Balance	-	1185	2287	3627	1864	-
2. Obligations	1185	2829	3136	-	-	7150
3. Expenditures	-	(1727)	(1796)	(1763)	(1864)	(7150)
4. End-of-year Balance	1185	2287	3627	1864	-	-

B. FINANCIAL PLAN AND METHODS OF IMPLEMENTATION

1. Financial Plan

The total cost of the A.I.D. Financial Inputs for this four and one-half year project is estimated to be US$7,150,000. The project detailed budget presents only A.I.D. Financed Inputs, as local currency costs cannot yet be clearly defined. It is being recommended that approximately US$200,000 of in-kind and/or local currency support will be required for in-country costs. The programming of these funds will be decided in the first year of the project.

SUMMARY OF TOTAL PROJECT COSTS
BY FUNDING SOURCE AND FOREIGN EXCHANGE (FX) AND
LOCAL CURRENCY COSTS (L.C.)

(IN US$ 000)

Funding Source	FX	%	LC	%	TOTAL	%
USAID	6840	95	310	5	7150	100
In-kind or Local Currency	-	-	200	100	200	100

2. Methods of Implementation

The table below outlines the planned methods of implementation and financing for the project. The preferred methods established by A.I.D. policy are appropriate to assure adequate monitoring and control of funds; and to provide methods of implementing consistent with the degree of involvement of USAID/Peru. To ensure and clarify various implementing procedures during the LOP, the Mission will issue Project Implementation Letters (PILs).

METHODS OF IMPLEMENTATION BY TYPE OF ASSISTANCE AND FINANCING METHOD

INPUTS	METHOD OF IMPLEMENTATION	METHOD OF FINANCING	ESTIMATED AMOUNT ($000)
I. Program Costs			
A. SEP Technical Unit	Contracts executed by A.I.D. (PIL/PIO/T)	Direct Payment	710
B. Institutional Contractor	Contracts executed by A.I.D. (PIL/PIO/T)	Federal Letter of Credit	5200
C. Direct A.I.D. Implementation	Contracts executed by A.I.D. (PIL/PIO/T)	Direct Payment	200
II. Administrative Costs			
A. Project Coordinator USAID/Peru	PSC Contract (PIO/T)	Direct Payment	600
B. Evaluation	Contract (PIO/T)	Direct Payment	100
C. Audits (NFA) and Financial Reviews	Contract (PIO/T)	Direct Payment	150
III. Contingency and Inflation			190

TOTAL PROJECT (A.I.D. FUNDING)			US$7150
			====

TABLE III

INSTITUTIONAL CONTRACTOR
ILLUSTRATIVE BUDGET
($ U.S.)

(FY and Project Yr.)	1991	1992	1993	1994	Total
I. CONTRACT SUPPORT COSTS					
1. SALARIES					
- Economic Policy Advisor ($295/day) (3% increase)	19175	79000	81371	83812	263358
- Training Advisor ($250/day) (3% increase)	16250	66950	68958	71027	223185
Total Salaries	35425	145950	150329	154839	486543
2. FRINGE BENEFITS	6375	23281	27059	27871	87576
3. INT'L TRAVEL, INCLUDING 2 R+R AND 1 HL					
- Senior Policy Advisor (contractor and 3 dependents)	3000	4000	6000	7000	20000
- Training Advisor (contractor and 3 dependents)	3000	4000	6000	7000	20000
Total International Travel	6000	8000	12000	14000	40000
4. TRANSPORTATION OF EFFECTS					
- Airfreight					
Senior Policy Advisor	1750	---	1750	1750	5250
Technical Advisor	1750	---	1750	1750	5250
- Seafreight					
Senior Policy Advisor	9824	---	---	9824	19648
Technical Advisor	9824	---	---	9824	19648
- Storage					
Senior Policy Advisor	1200	1200	1200	1200	4800
Technical Advisor	1200	1200	1200	1200	4800
- Automobile Shipment					
Senior Policy Advisor	3000	---	---	3000	6000
Technical Advisor	3000	---	---	3000	6000
Total Transportation	31548	2400	5900	31548	71396

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TABLE III
INSTITUTIONAL CONTRACTOR
ILLUSTRATIVE BUDGET
($ U.S.)

		1991	1992	1993	1994	Total
	5. TEMPORARY LODGING AND QUARTERS ALLOWANCE					
	- Economic Policy Advisor	21606	16280	16280	21606	75772
	- Training Advisor	21606	16280	16280	21606	75772
	Total Temp. Lodging + Quarters	43212	32560	32560	43212	151544
	6. EDUCATION ALLOWANCE					
	- Economic Policy Advisor	21900	11900	11900	11900	57600
	- Training Advisor	21900	11900	11900	11900	57600
	Total Education Allowance	43800	23800	23800	23800	115200
	7. LOCAL HIRE STAFF					
	- Training/Technical (5%)	25000	26250	27562	28940	107752
	- Accounting/Administrative (5%)	12000	12600	13230	13891	51721
	- Sec/Adm (5%)	6000	6300	6615	6946	25861
	Total Local Hire Staff	43000	45150	47407	49777	185334
	8. INDIRECT COSTS	30000	152160	157356	163251	502767
	9. FEE	108590	131629	133639	138782	512640
	TOTAL SUPPORT COSTS	347950	567920	590050	647080	2153000
II.	TECHNICAL STUDIES/ASSISTANCE	380000	508000	508000	507000	1903000
III.	TRAINING AND INFORMATION DISSEMINATION	100000	300000	300000	300000	1000000
IV.	OTHER DIRECT COSTS (In-country office, Supplies, Equipment)	54000	30000	30000	30000	144000
	TOTAL INSTITUTIONAL CONTRACT COSTS	881950	1405920	1428050	1484080	5200000

V. IMPLEMENTATION ARRANGEMENTS

A. Project Management/Implementation Mechanism

The overall project organizational structure is shown on chart No. 1. (p.33). Under the proposed management structure, the project will have two Peruvian Implementing Agencies. A technical unit located in the office of the Secretary of the Presidency, will serve as the Implementing Agency for project technical support to the public sector. The National Confederation of Private Sector Institutions (CONFIEP) will be the Implementing Agency for project technical support to the private sector.

An institutional contractor (IC), contracted by A.I.D. will provide the required technical support services. The IC will also be responsible for managing project resources. All project disbursements under the contract will be made directly from A.I.D. to the IC.

One Consultative Council will be established to provide longer-term guidance and planning for project activities. The Consultative Council for the public sector will made up of the Deputy Minister of Economics (MEF), the General Manager of the Central Bank, the Secretary of the Presidency, the National Planning Institute (INP), the President of CONFIEP and the A.I.D. Mission Director.

1. Public Sector

The Inter-ministerial Committee for Economic and Financial Matters (CIAEF), will act as a government umbrella committee to generate and regulate demand for policy studies. CIAEF is chaired by the Prime Minister and its members include the Ministers of all sectors of production in the economy. The main role of this umbrella organization is to analyze/debate macroeconomic and sector policy issues. The conclusions and recommendations of this committee are submitted to the Council of Ministers for their consideration and approval.

a. Functions of the Public Sector Implementing Agency

The project's Implementing Agency must have a demonstrated capacity, both technical and administrative, to carry out the following functions/responsibilities:

-Represent the government as the project Implementing Agency. The Implementing Agency must be capable of analyzing the need and priority of policy studies to be carried out under the project. If a request for assistance does not meet the criteria of the project, the Implementing Agency must document the reasons why and provide an explanation to the requesting government entity.

-Review and analyze the proposed the terms of reference for technical requests submitted by the participant government institutions.

-Identify technical personnel to work as counterpart to the IC consultants on each specific study.

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-Review the final draft of the studies prepared by the IC to verify compliance with the terms of reference.

-Conduct meetings and seminars for government Ministries to discuss the studies and propose follow-up activities for training and information dissemination.

-Coordinate with government agencies and the Institutional Contractor all support required by the public sector participating institutions. This support will be geared to specific studies, other technical issues and training.

-Ensure compliance with and implementation of the PAPI project agreement.

-Submit periodic reports to A.I.D. and the GOP on project progress.

b. Criteria for Selecting the Implementing Agency

In line with the above functions, the project Implementing Agency was selected on the basis of the following criteria:

-Technical and managerial capability needed to carry out the functions described above.

-Ready access to economic data and other analytical resources within government institutions and other entities.

-Cooperative linkages with other participating organizations involved in policy analysis.

-Efficiency of the organizational structure and quality of the working environment, low turnover of key technical personnel and good labor relations.

c. Implementing Agency

Given the above criteria, the SEP, with the key technical participation from representatives of the Central Reserve Bank (BCR), was selected as the most appropriate implementing agency for project assistance to the public sector. The SEP will be responsible for receiving, reviewing, prioritizing and assisting in the implementation of requests for technical studies/assistance and training. The SEP will play a key role in assuring the quality standards of all project-related assistance. As the lead and responsible institution, the SEP will nominate a project manager who will serve as administrative liaison to the institutional contractor, the USAID project coordinator and other public sector project entities and their representatives. Moreover, project support provided by the SEP will complement the work of project-funded specialists as needed. Support will also be provided by the SEP for the organization and follow-up of project training and information dissemination activities.

The Central Reserve Bank will have a key support function in project implementation. The BCR will select from its staff an officer to carry out the day-to-day implementation activities.

The Bank employs over 150 well qualified economists from which it can assign technical personnel to provide counterpart support for project activities. The Central Reserve Bank economists work within one of three divisions of the Bank: International Operations; Credit and Regulations; and the Economic Research Division (ERD). The ERD has a staff of 120 economists, with more than 40 holding graduate degrees. Over the years the Bank has maintained a strong scholarship program for its top personnel. The scholarships are for graduate level studies aimed at obtaining a degree, with Bank personnel to date having earned graduate degrees from universities throughout the United States, England and France.

The Bank has developed a strong institutional capacity through sound management and organizational policies which enables it to retain qualified professionals. The Bank maintains close working relationships with several government organizations, and in recent years has provided many of these organizations with key technical support. For example, for the past ten years the Bank has had a program of lending the MEF technical support in economic policy analysis and in other technical areas.

The Bank also has experience in the implementation of USAID projects. In the Private Sector Policy Planning and Institutional Development Project, the Bank played an important role in accomplishing the training and institutional development objectives of the project.

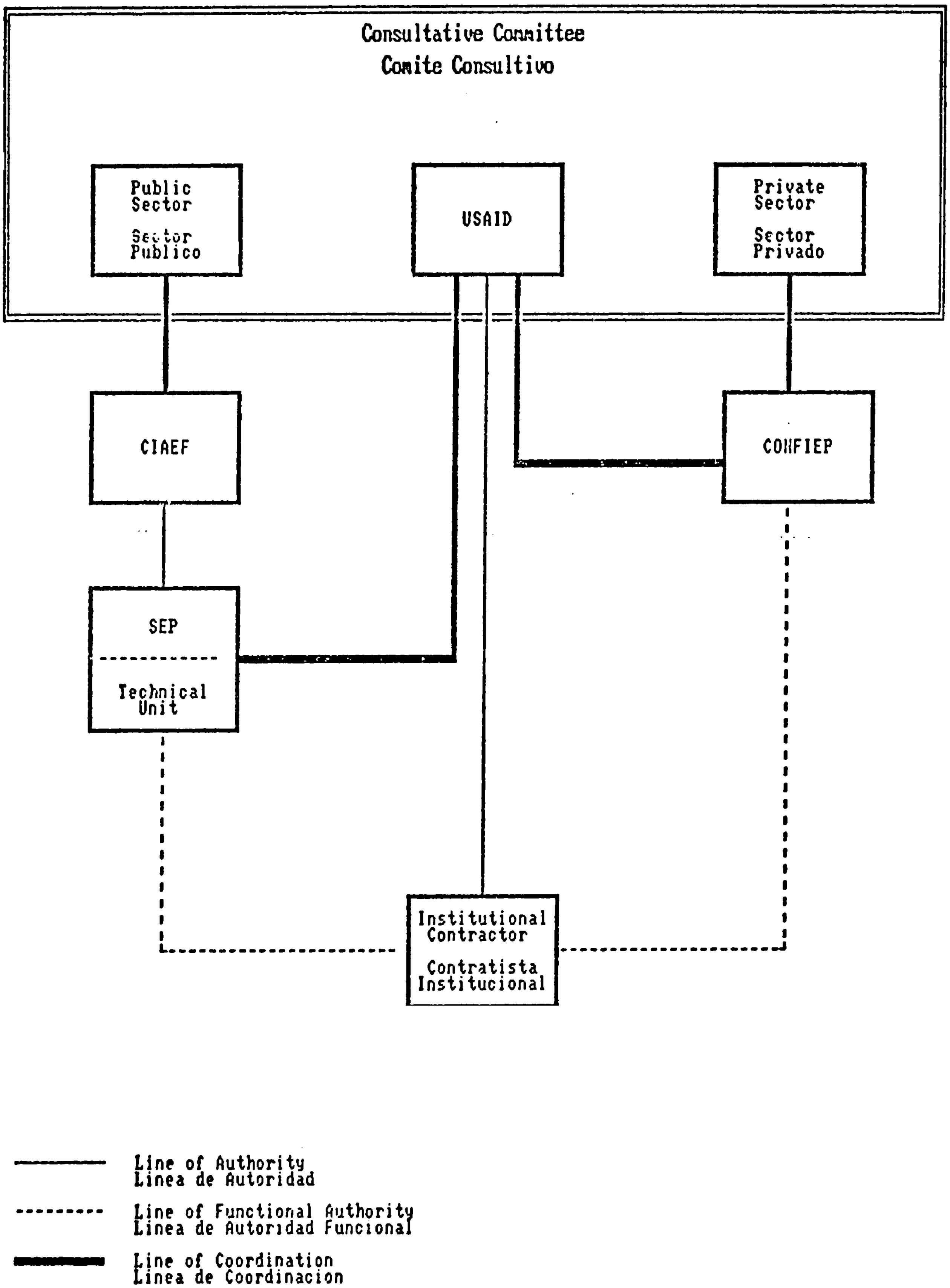
d. Organization

The Inter-ministerial Committee for Economic and Financial Affairs (CIAEF), will serve as the government representative for public sector agencies and the use of project technical services.

Government agencies that will use the technical services of this project are comprised of the Ministries representing the productive sectors of the economy; the MEF and INP and their role in macroeconomic policy development; the Secretary of the Presidency and the Central Reserve Bank. Other public sector institutions may have access to the project through the Ministries that would normally represent them under CIAEF.

As a condition precedent to disbursement under the grant agreement, the SEP, as project Implementing Agency, will provide the Mission with the names of the Technical Unit's representatives responsible for direct implementation of the project. The Minister of Economy and Finance will also provide the name of the Project Liaison Officer for the CIAEF. The Consultative Council to the project will hold an initial organizational meeting within one month following the signing of the project agreement, to allow for the rapid implementation of the project assistance selection process.

Graph No. 1
Grafica No. 1



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e. Project Coordination of the Technical Studies/Assistance Component

The participating government agencies will submit requests for technical studies/assistance to the CIAEF.

The request for studies will normally be presented to CIAEF on a quarterly basis. The technical unit within the SEP will issue instructions to the participating organizations for all information that must be submitted to the CIAEF for initiating the selection process. CIAEF will determine which requests are acceptable, and forward the requests to the technical unit for screening and proposed prioritization.

The technical unit will determine which requests are most appropriate for meeting the objectives of the project. The technical unit (in conjunction with the BCR) will also establish approval guidelines to ensure a more consistent decision-making process. CIAEF will provide final approval and the prioritization of requests for studies after giving consideration to the opinion of the technical unit.

The IC, together with the technical unit, will complete the terms of reference for the study submitted through the CIAEF/technical unit process. The IC will identify the appropriate consultants for the study and submit corresponding resumes for the consideration of the technical unit. Final decision on the selection of the most appropriate consultant(s) for performance of the study/training activity will, however, under the terms of the contract, be that of the IC.

The IC will carry out the study with counterpart support provided by the technical unit. This team will also receive support from a Liaison Officer of the organization that requested the study.

The IC will be fully responsible for the quality of the study carried out by the contracted technical experts. However, the final draft of the study will be reviewed by the technical unit so as to verify the study's compliance with the terms of reference, and to certify the overall quality and applicability of the analysis before submitting the final product to the requesting organization.

f. Project Coordination for the Training Component

The project will provide support for the implementation of the following training activities: 1) Short-term in-country training, 2) Short-term third country and U.S. participant training, 3) Long-term participant training, and 4) Dissemination of Information.

1) Short-Term, In-country Training

The short-term, in-country training program will be designed by the IC in consultation with the technical unit. The IC will submit an annual training plan to the technical unit and A.I.D. for approval of the technical merits of the plan. The technical unit will be responsible

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for the selection of participants for the training events and/or coordination of this function with the project participating institutions.

2) Short-term Participant Training

The technical unit will select candidates for training according to criteria established under the project, and as approved by the IC and the USAID Mission. The IC will make all arrangements to implement the training program once the candidate has been selected by the Implementing Agency.

3) Long-term Participant Training

The technical unit, together with the BCR, will be responsible for the selection of candidates for long-term participant training at the master's level, for economics programs at U.S. universities The primary GOP entity for providing the names of potential candidates for long-term participant training will be the BCR.

4) Dissemination of Information

The technical unit, together with the organization that requested the technical study, will prepare a plan for the dissemination of project information. The requesting organization will determine the most appropriate target audience for disseminating the findings and results of the study. The dissemination plan will be submitted to the IC, who will be responsible for making all arrangements for implementation of the plan.

2. Private Sector

a. Implementing Agency

CONFIEP, a non-profit, widely representative private sector organization, will be the primary Peruvian implementing agency for the private sector. CONFIEP is also the most technically qualified Peruvian organization for coordinating and assisting in the implementation of private sector policy analysis and information dissemination.

CONFIEP represents thirty two, nation-wide trade associations, which are comprised of ninety two private sector organizations. These organizations are in turn made up of approximately 26,000 private business enterprises. Based on CONFIEP data, these enterprises provide employment to 1.5 million Peruvians. (Peru's economically active population is currently 10 million, and of this amount unemployment and severe underemployment represent approximately 75%).

The objectives of CONFIEP are directly supportive of the project purpose. CONFIEP's long-term objectives are to:

- Promote the accomplishment of national development objectives and economic growth with social progress; and

- Strengthen the private sector as a system based on personal freedom, individual initiative, private investment, and return on investment within a free market economy.

CONFIEP has a full time staff of eleven professionals and twenty-one research and administrative support personnel. CONFIEP possesses a full institutional capacity for managing and coordinating policy analysis studies. In addition, CONFIEP has considerable experience in the dissemination of information derived from policy studies within specific economic sectors, as well as for government entities and the general public. Over a period of twenty months, from January 1, 1989 through August 31, 1990, CONFIEP carried out thirty nine economic studies on a wide variety of subjects. At least twenty five of these studies are directly related to the types of issues/constraints that will be addressed under the PAPI project. The following two studies are examples of the kinds of policy studies recently undertaken by CONFIEP:

- Economic Stabilization and Growth in Peru - An Independent viewpoint.

- Emergency Social Assistance Program.

CONFIEP's organizational structure provides an effective network for identifying private sector economic policy issues, as well as managing and/or coordinating the studies and disseminating research findings.

CONFIEP's Executive Committee will help generate the demand for policy analysis. The Department of Research and Special Projects (DRSP) makes the arrangements for carrying out studies through its own personnel or other sources of technical support. Other sources include individual consultants, consulting firms, and CONFIEP's own Committees for corresponding economic areas or issues. The committee members are professionals in the private sector who volunteer their time to CONFIEP for assistance on economic policy and/or their private sector issues as needed.

Dissemination of information will require support for carrying out the distribution of project research findings. Between May 1989 and August 1990, CONFIEP organized approximately 40 events related to training, conferences and forums. The organization published and distributed 27,000 copies of 14 studies and reports. In addition, CONFIEP has disseminated information on a large scale through newspapers and journals.

CONFIEP together with the Central Reserve Bank, served as the implementing agencies for the AID-financed Private Sector and Institutional Development Project. In 1989, grant funding provided by USAID for this project and other donations from international organizations represented approximately 74% of CONFIEP revenues. In 1990, CONFIEP estimates that its major sources of funding will be A.I.D. ($540,000) and the Andean Development Corporation ($150,000). Although USAID support for CONFIEP under the Institutional Development project will end on September 30, 1990, CONFIEP is negotiating an extension of six months through April 30, 1991, to allow for continued project activities and benefits.

b. Organization

Implementation of project resources to the private sector will involve the participation of the following institutions: CONFIEP, as the Implementing Agency representing the private sector; and the Institutional Contractor (IC) as the provider of technical services.

c. Coordination of Studies

CONFIEP's general manager will be the Project Implementation Manager for the private sector.

CONFIEP's Executive Committee will generate private sector demand for policy studies. Each quarter the committee will prepare an agenda of the needs for policy analyses for the next period. CONFIEP's DRSP will review this agenda with the general manager in coordination with A.I.D., who will prepare detailed terms of reference for the studies. The general manager will submit the terms of reference to the Committee for approval to proceed with the studies.

The General Manager (GM) will issue work orders and provide the terms of reference to the Institutional Contractor. The GM will also interact with CONFIEP's staff and committees to better organize and coordinate the participation of CONFIEP's professionals in the studies.

The IC's Chief of Party (COP) will prepare the work plan for each study and provide the general manager with both a work plan and the curriculum vitae of the professionals selected. The COP will proceed to implement the work plan after obtaining the general manager's and A.I.D.'s approval.

The general manager will approve the studies submitted by the IC after verifying the IC's compliance with the terms of reference.

d. Coordination of training

Coordination arrangements for the private sector training component will include the following types of training activities:

Dissemination of knowledge gained from the policy analysis studies.

Short-term in-country training through seminars and conferences on specific subjects, and participant training in the United States and other countries as appropriate.

1) Dissemination of Information

CONFIEP will prepare a program for disseminating information derived from each policy analysis study, and in turn will submit the plan to the Institutional Contractor and A.I.D. for consideration. The IC will be responsible for covering the cost of the following items required for the information dissemination activities:

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- Conference room facilities (including coffee breaks).

- Reproduction of documents.

- Equipment and materials.

- Diplomas for participants.

2) Other Short-term Training

The IC will prepare each year a short-term training plan and submit it for the consideration of A.I.D. and CONFIEP's General Manager and Executive Committee.

The program instructors will be composed of professionals provided directly by the IC and by Peruvian training institutions contracted by the IC.

3. Institutional Contractor Implementing Arrangements

The IC will be contracted under an A.I.D. cost reimbursement contract, for a period of four years. The IC will provide two long-term consultants for the full period of the contract, a training/technical expert, and an administrative support staff. The IC will be responsible for identifying and assigning short-term consultants on an as requested basis for carrying out specific studies/analyses and training activities.

a. Chief of Party (COP), Senior Economic Policy Advisor, job description:

- Provide the consultant team with technical and managerial leadership.

- Manage the IC's project office and ensure the effectiveness and efficiency of the project's technical support services.

- Coordinate the IC's technical and management support services with both the Implementing Agency and the USAID Mission.

- Maintain coordination with the IC's home office.

- Design and implement a project monitoring system.

- Keep the USAID Project Coordinator and Project Officer informed of project progress, and make recommendations for strengthening the implementation process and for the feasibility of complementary project activities.

- Submit periodic progress reports to the Mission and the IC's home office.

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- Review and complete terms of reference for specific project technical assistance and training tasks.

- Select the short-term consultants and obtain approval of the Implementing Agency for assigning project technical expertise to specific project activities.

- Help in the design and/or review of the training program.

- Participate in training events and meetings aimed at disseminating information obtained from the policy analysis studies.

- Review and approve the consultants' work plans.

- Supervise the implementation of project work plans.

b. Deputy Chief of Party, Project Technical Specialist (Local Hire)

The second long-term advisor will serve as the Deputy to the COP and will be capable of carrying out most or all of the functions of the COP. The COP will delegate to the Deputy some of the functions indicated above in order to more effectively distribute and carry out the required tasks.

Both the COP and Deputy will have Ph.D. degrees in economics, or master's degrees will an equivalent amount of project experience, and be fluent in Spanish. Both will have at least 10 years of experience in macroeconomic policy analysis. In addition, at least one of them (preferably both) will meet the following requirements: 1) five years of management experience as supervisor of technical teams on economic development projects in less developed countries; 2) three years of experience in Latin America; and 3) relevant experience in the design of short-term training programs for economic policy analysis and related issues.

c. Home Office Support

The IC must have the corporate capability to provide the requested short-term offshore and Peruvian national consultants in a timely way. The firm must also provide the in-country project office with the support required for designing and implementing all project participant and in-country training programs.

d. In-country Project Office

In addition to the consultants, the project office will have the following local personnel:

- One offshore, Coordinator/Technical Expert, for the in-country training program.

- A Project Accountant

- An Administrative Assistant/Secretary

4. USAID Implementing Arrangements

The Mission will hire a Project Coordinator through a personal services contract to carry out the day-to-day project monitoring, coordinating and reporting of project results. The Coordinator will report to the Mission's Program Economics Officer who will serve as the USAID project officer.

The USAID Mission will have minimal, if any, administrative burden for the project given the IC and Project Coordinator's role in project management.

B. Implementation Schedule

DATE	TASK	RESPONSIBILITY
September 28, '90	o Sign PAPI Project Agreement	A.I.D./GOP
October 30, '90	o Initial CPs met by SEP/CONFIEP (Project Liaisons from SEP and CONFIEP)	SEP/CONFIEP
November 15, '90	o Short-term TA from CAER	A.I.D./CAER
November 20, '90	o Project Coordinator position and Institutional Contractor RFPs, advertised/issued	A.I.D./AID/W
December 10, '90	o Organizational structure established for project requests through CIAEF and the SEP, and CONFIEP in the private sector.	CIAEF, CONFIEP, A.I.D.
December 15, '90	o Pro-Ag CPs fully met	SEP, CONFIEP,
January 19, '91	o Selection Committee for Project Coordinator position, interviews if required	A.I.D.
February 2, '91	o Selection Committee for the Institutional Contractor reviews short-list/interviews	A.I.D.
March 1, '91	o Contracting of Project Coordinator	A.I.D.
March 30, '91	o Project Coordinator in-country	A.I.D.
May 3, '91	o Institutional Contractor contracted	A.I.D.

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DATE	TASK	RESPONSIBILITY
June 3, '91	o Institutional Contractor in-country, office operational	A.I.D./IC
June 30, '91	o First meeting of Project Consultative Council	A.I.D./GOP BCR & CONFIEP
July 30, 91	o Initial tranche of technical assistance and follow-on, in-country and participant training.	IC, SEP, CONFIEP
August 1, '91	o Participant trainees selected and scholarship process underway.	IC, BCR, CONFIEP
August 30, '91	o Prepare quarterly request information for 1st quarter '92.	Proj. Coord SEP, CONFIEP
September 30, '91	o Financial Review	A.I.D. Contract
February 1, '92	o Technical assistance, studies and training	IC/CIAEF, SEP, and CONFIEP
January 3, '92	o Prepare annual plan and approve 1st quarter project requests	CIAEF/SEP, CONFIEP, A.I.D.
November 1, '92	o Project Evaluation/Audit	A.I.D. contract
January 5, '93	o Prepare annual plan and approve 1st quarter project requests	CIAEF/SEP CONFIEP
February 1, '93	o Technical assistance, studies and training	IC/CIAEF, SEP CONFIEP.
September 30, '93	o Financial Review	A.I.D. contract
January 15, '95	o Final Project Evaluation/Audit	A.I.D.
March 30, '95	o PACD	

C. Procurement Plan

The primary procurement under the PAPI project will be the services of a long-term Institutional Contractor (IC), to be procured by the USAID Mission through full and open competition. A private firm will be responsible for the performance of this contract. The firm will carry out the contracting and administration of project technical assistance and services and the procurement of a limited amount equipment and materials.

Given the amount of time required for full and open competition, and the urgent need for project resources and economic policy action in Peru, the project contemplates the use of approximately $300,000 in project funds to carry out a series of project activities for the procurement of technical services and training, prior to the contracting of the IC. It is anticipated that several Peruvian and offshore (i.e. U.S. and third country national) economists will be contracted initially by the Mission under a buy-in arrangement, or procured locally through the office of the Secretary of the Presidency. The technical experts will carry out studies and provide assistance to key GOP policy development entities, staff and officials, who either presently or in the near future will be responsible for developing and setting economic policy. Project resources will be used for high priority assistance needs for the purpose of responding quickly to requests for policy assistance from the new government, and before the long-term, project-funded institutional contractor is in place.

Procurement of the services of a Project Coordinator, contracted by the Mission under a PSC, will be financed with PAPI project resources. It is expected the Project Coordinator position will not be filled before a period of approximately six months, required to allow for the full competitive process to take place. This position is required for the provision of management and administrative support to counterpart entities and the USAID mission, as well as specific assistance for the project's beneficiary population.

Other project procurements made over the life-of-project will be for services to carry out a mid-term and final project evaluation, as well as for A.I.D annual audits and project financial reviews as required.

The following Procurement Plan provides the timing of key actions required for procuring the services of an institutional contractor and for contracting the Project Coordinator under a PSC:

DATE	ACTION
10/15/90	Completion of the preparation of the PIO/T for the services of a long-term Institutional Contractor, including the criteria against which the technical proposal will be evaluated.
10/15/90	Completion of the preparation of the PIO/T for the services of a Project Coordinator, to be contracted as an A.I.D. PSC.

DATE	ACTION
10/20/90	RCO/EXO signs RFP for the Institutional Contractor which is sent to the AID/W Office of Small and Disadvantaged Business Utilization (OSDBU) for review prior to publication in the Commerce Business Daily.
10/25/90	RCO/EXO sends out notice for publication in the CBD for the position of Project Coordinator.
11/20/90	RCO/EXO sends RFP to all interested parties and other sources suggested by the technical offices of USAID/Peru.
1/10/91	EXO and the Project Review Committee receives all bids/proposals for selection of the lowest bid which meets all technical requirements.
1/20/91	Selection committee for Project Coordinator PSC position reviews short list of candidates. Interviews held if necessary.
2/1/91	Selection committee for the Institutional Contractor reviews short list of firms and proceeds to best and final offers.
2/25/91	Interviews held with COPs of firms reaching best and final offer stage.
3/1/91	Selection of Project Coordinator and contracting.
4/1/91	Project Coordinator on-the-job.
5/1/91	Institutional Contractor selected and contracted.
6/1/91	In-country IC team in place with locally hired staff, and in-country administrative office operational.

It is anticipated that limited amounts of materials and equipment may be required for project training sessions and for the development of technical studies. A small amount of project funding will be set aside under the institutional contract, and for the technical unit within the SEP, to allow the firm to meet any unforeseen small procurement requirements in a timely way.

D. Negotiating Status

Prior to the first disbursement under the Project Grant Agreement, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the GOP will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- Evidence that a full time Project Manager has been appointed by the Secretary of the Presidency (SEP);

Evidence that the SEP has established a Project Consultative Council composed of one representative from each the CIAEF, Ministry of Economy and Finance (MEF), the Secretary of the Presidency, the BCR, INP, CONFIEP and A.I.D., for the purpose of providing guidance on the implementation and direction of the overall project, and making recommendations for longer-term strategic planning and project modifications as necessary.

Private Sector Disbursements

Prior to any disbursement under this Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, to finance project activities for the private sector, the National Confederation of Private Sector Institutions (CONFIEP) will except as the parties may otherwise agree in writing:

-sign a letter of understanding with A.I.D. which details the responsibilities and operational arrangements for the delivery of assistance to the private sector over the life of the project, and

-provide evidence in writing to A.I.D. that one individual has been designated as its official project representative.

Condition Precedent to Disbursements for Host Country Contracting

Prior to any disbursements under the Grant for Host Country Contracting of technical assistance or studies/analyses, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for Host Country Contracting, Peru will, except as the Parties may otherwise agree in writing, submit to A.I.D., in form and substance satisfactory to A.I.D., the following:

-Evidence that the SEP has the administrative and financial capabilities required to carry out Host Country Contracting in accordance with the rules and regulations contained in A.I.D. Handbook 11.

Condition Precedent to Disbursements for the Donor Coordination Unit (DCU).

Prior to any disbursement under this Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made to finance project activities for the Donor Coordination Unit (DCU), the Secretary of the Presidency will, except as the other Parties may agree to in writing, submit to A.I.D. in form and substance satisfactory to A.I.D., the following:

-A Plan of Action which details the functions and responsibilities of the DCU and the location of this unit within the GOP.

Condition Precedent to Additional Disbursements

Prior to any disbursements beyond the first $200,000 disbursed under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, Peru will, except as the Parties may otherwise agree in writing, submit to A.I.D., in form and substance satisfactory to A.I.D., the following:

(1) An Annual Plan for the first year of the Project which provides a detailed outline of the GOP's economic priorities during the first calendar year.

VI. PROJECT ANALYSIS

A. Economic Analysis

1. Introduction

The PAPI project is a policy based assistance activity because it will provide the GOP with technical assistance in the design, implementation, and monitoring of economic policies. Donor assistance resources from AID and other sources are limited. As such, policy based assistance activities, like those envisaged in the PAPI project, should be selected only if the economic returns from them compare favorably with the economic returns anticipated from more traditional project activities in such areas as health, education, transportation, and agriculture. Ultimately, options for policy based assistance activities need to be compared not only with project based activities but also among themselves as competitors for limited assistance resources.

Reflecting the observations above, AID recently developed a framework for estimating the economic rate of return from policy based assistance activities. The methodology has been applied to the PAPI project for the purpose of estimating the economic rate of return that can be expected from it. In brief, the application of this methodology to the PAPI project suggests that the PAPI project will provide large returns at small costs. From a more quantitative perspective, the economic rate of return can be very conservatively estimated at 20%. Policy improvements facilitated by the PAPI project could result in an average annual per capita GDP growth rate 2.1 percentage points higher than would otherwise be recorded. The basis for this assessment follows some introductory remarks on the nature of the economic benefits that derive from more efficient economic policies. The AID study that outlines the methodology is set forth in the Economic Analysis Annex.

2. The Economic Benefits from Efficient Economic Policies

The benefits from improved economic policies stem from utilizing resources more efficiently. In some cases, the benefits will be directly recorded as income increases in the national income accounts. Suppose, for example, that the same set of final outputs could be produced with 10% fewer intermediate inputs. Alternatively, suppose that a different set of final outputs with 10% higher value could be produced with the same set of intermediate inputs. Since the returns to labor and capital are defined as the difference between the value of final output minus the cost of intermediate inputs, the common thread in both of these two examples is that the returns to labor and capital would be 10% higher. In other words, income would be 10% higher and either or both labor and those who own capital would be better off. It is equally important to note that the benefits from improved economic policies may not and, from a practical point of view, often do not show up as recorded increases in national income and may even be recorded as decreases in national income. Policies that produce benefits in the form of more leisure and reduced contamination of the environment provide examples of economic benefits that may not be recorded as increases in income in the national income accounts. Suppose, for example, that the same set of final outputs could be produced with a 20% reduction in the average work week and an unchanged weekly wage bill. GDP in this example is unchanged because traditional national income accounting methodology does not record a value for increased leisure. Similarly, benefits that take the form of reduced contamination of the environment or enhanced preservation of the resource base for future generations may not show up as recorded income increases in the national accounts. For example, policies that reduce contamination of a stream by imposing a pollution fee could actually reduce national income by raising intermediate input costs to the firm. If, however, the reduced contamination lowers intermediate production costs for downstream users, the effect on recorded income might be neutral.

The point of all the examples above is this: policies that promote efficiency in resource allocation always produce net benefits <u>but</u> these net benefits are only imperfectly captured in the way in which traditional accounting practices record national income.

3. <u>The Economic Return to the PAPI Project</u>

With these cautionary remarks on the imperfect linkage between policies that improve efficiency in resource allocation and recorded growth rates, the relevant questions can be ordered as follows: How large is the scope for more efficient policies in Peru? How large might the benefits be and how might they be measured? Given the cost of the PAPI project, how do anticipated benefits compare with costs?

a. <u>The Scope for Policy Improvements</u>

The AID study contained in the economic analysis Annex provides economic policy "scores" for 42 AID recipient countries in two time periods in the 1980's, the period 1980-1983 and the period 1984-1987. These scores assess the extent to which the economic policy frameworks of each of the 42 countries promoted or suppressed efficiency in resource allocation. Raw policy scores could range between -40 and +40. The raw scores represent responses to 40 questions concerning whether policies and practices in such key areas as fiscal, monetary, tax, pricing, regulatory and the foreign trade and payments policy regimes promote (+1) or suppress (-1) efficiency in resource allocation. The higher the policy score the more efficient is the policy framework in allocating resources. Singapore and the United States were chosen as "control" countries in order to place the policy scores of the 42 AID recipient countries in perspective. Peru is one of the 42 countries covered in the study.

The answer to the first question is clear from the economic analysis Annex. There is plenty of room for improvement in Peru's economic policy score. Peru's economic policy score deteriorated substantially in the latter period of the 1980s, ranking third from the bottom out of 42 AID recipient countries. President Fujimori is quite correct in saying that he inherited an economic disaster, not just in terms of the macro-aggregates but also and more importantly in terms of the policy framework for allocating resources.

b. <u>The Size of the Benefits From Policy Improvements</u>

The next important question is whether the economic benefits from policy improvement are substantial. Using the data in the economic analysis annex the results of regressing the per capita GDP growth rates on the policy framework scores are reported in equation 1 below. These regression results indicate that the economic benefits from policy improvement are substantial. In particular, the regression results imply that per capita gdp growth will rise by .7 of 1% for every 10 point improvement in policy score. (The results are also statistically significant in the sense that the T value indicates that there is less than a 1% probability that an estimate for b would yield a value equal to .07 if the true value for b were in fact equal to zero.)

(1) gdp growth p.c. = a + b*policy score

parameter	estimate	T value
a	- .197	- .54
b	0.70	3.26

$R^{-2} = .70$

It is instructiveto put these results in the perspective of Peru's policy score in the late 1980s. Peru's policy score of -26.5 placed Peru almost 30 points below the average for the 42 AID assisted countries in the sample. If Peru were to raise her policy score by 30 points and to sustain the improvement for 10 (20) years, per capita GDP growth would be 23% (52%) above the growth that would be registered with no improvement in policy score over the 10 (20) year period.

B. Social Soundness Analysis

Social Impact of the PAPI Project

The project will build on a new working relationship between the government and the private sector. Within the private sector, CONFIEP has a well organized leadership involved in both economic and social problems. CONFIEP has the professional staff and capacity to implement, through initiatives by the private sector, the ideas derived from the project's technical studies. Given the government's concentration at present on problems of economic stabilization, CONFIEP has been designated as one of the leading non-governmental organizations helping to administer the Social Emergency Program. CONFIEP representatives are on the board of directors of the emergency food supply system in Lima, the "comedores populares", as well as being an important contributor to the comedores program. Thus, CONFIEP will serve as an effective contact for PAPI technical studies and training in both economic and social problem areas.

The government's pressing problems with economic stabilization and reorganization of the economy mean that low priority is being given for the near term to social programs. However, sound economic policies that help the economy stabilize will do a great deal to lessen poverty through growth in employment and productivity. For example, exchange rates which promote increased exports also serve to generate employment opportunities and increase wages at the level of the export firms. Moreover a positive effect on employment and incomes will come about once the foreign exchange constraints on investment and overall growth can be overcome and resolved. A steady increase in productive employment opportunities with the possibility of continued improvement through economic policy measures that restore capacity for growth, and contribute greatly to an overall reduction in poverty. The PAPI project in its initial stage will provide studies and training activities which address the primary constraints to increasing the productive capacity of the Peruvian economy. Economic growth in itself is not enough, however, to overcome poverty. This is especially true in the Peruvian context, which has experienced over many years the deterioration of falling social investment. Conditions are now so extreme that specific social objectives must be achieved as soon as possible.

The types of studies and technical training having the greatest social impact are likely to be identified through joint initiatives by Peruvian public and private sector entities with existing social programs. The joint social development programs would include planning personnel and economists from the government and representatives of private business organizations. Although social program planners can address constraints and establish objectives, they often lack the skills needed to assess cost and demand factors. Economists, on the other hand, tend to emphasize structural and opportunity costs and alternatives, but are often unaware of social impact and the obstacles to social development. Both sides are essential for a successful program. The PAPI project will serve as an effective vehicle for bringing the two sides together.

The primary social problems that demand most urgent attention are: infant, child, and maternal survival and health care; malnutrition; and provision of both food and productive employment for families in acute poverty. Education, and particularly opportunities for children in rural areas, is another crucial field. With one-third of Peruvian children under 15 lacking even primary education, addressing the underutilization of human potential will be a priority target. The quality of education in most public institutions extremely low at both primary and secondary levels, due to related problems of resource constraints and lack of effective organization and administration. Thus, problems of educational quality may be even more pressing than the need to expand educational capacity. An effective program would address both constraints at once, with a careful prior analysis of how best to allocate resources between these needs. To the extent possible, the PAPI projects technical studies and training will support and complement social programs designed to alleviate poverty and improve standards of living among the poorest segment of the population.

For the development of employment opportunities in poor urban areas, the project will help support the growth of small enterprise. This sector of the economy includes mainly labor intensive enterprises. For able people without regular employment in the formal sector these entities provide an essential alternative either as employees or as independent small businessmen. These small firms and new entrepreneurs have the potential for economic growth through their own technological innovation by focusing on alleviating, or working effectively within the specific constraints of the Peruvian economy. This sector of business can serve as a trial-by-error training ground, with potential for social mobility for those who are successful.

Many of these small firms lack such basic skills as accounting and marketing, often can not access technical information or credit, and rarely make full use of their own technical and financial capacities. The PAPI project could take advantage of existing contacts within organizations in the small business sector to provide selective technical assistance and training, and thereby improve the chances for raising low incomes and providing for greater social mobility.

The project has been designed with the idea of focusing on problems recognized by Peruvians to be important to them, and on working with Peruvian public and private agencies to help identify possibilities for corrective programs. The PAPI technical studies should serve to train more Peruvians in ways to analyze recurrent problems, and to assess alternative responses in the future.

<u>The Social Emergency Program</u>

The design of the social emergency program needed to supplement the economic stabilization program is the result of two socio-economic problems. One is the persistent trend toward worsening poverty in Peru since 1975, running contrary to most of the rest of Latin America. The other is the specific impact of the economic stabilization program. The policy strategy which emphasizes an immediate impact by the stabilization effort strives to prevent poverty from worsening seriously in the near term, and to return quickly to the conditions preceding the stabilization program. The second policy strategy emphasizes the longer term trend, with the objective of reversing the long-term poverty cycle and eliminating acute poverty altogether.

Acute poverty is clearly more widespread and more intense than it was twenty years ago. As of 1970, a study of poverty in nine Latin American countries showed Peru to be close to the median for these countries in terms of urban poverty, though 10 percent worse than the median for rural poverty. Since then, the region as a whole has made considerable progress in reducing the percent of people in acute poverty, but Peru has gone the other way. One revealing indicator is the supply of calories per capita. This indicator is closely tied to changes in poverty because it is the very poor whose calorie consumption changes most in response to income changes. Middle and upper income groups, and even the moderately poor, do not vary their calory intake to any significant degree for economic reasons. For Latin America as a whole, the median increase in per capita calorie intake between 1965 and 1985 was 9 percent. Since the upper two-thirds of the population changes its calorie consumption very little as incomes rise, this implies an improvement for the lowest one-third of approximately 27 percent. However, for Peru, per capita calorie intake fell by 5 percent, implying a decrease on the order of 15 percent in nutrition for the poorest third of the population.

From 1985, changes in the degree of poverty in Peru have been charted by an "index of poverty" published monthly by the journal Cuanto. This index is based on surveys of real earnings of three groups: rural labor, workers in the informal urban sector, and those workers in the formal sector who are at the minimum wage level. This index shows a considerable reduction of poverty levels in 1986 and 1987, followed by a steep increase starting the end of 1987. From December 1987 to June 1990, the index increased by 91 percent, while the number of people in acute poverty nearly doubled. The measure for June 1990 was of course prior to the stabilization program.

As part of the stabilization program, the government announced that it had initiated a social emergency fund on August 6, to "provide basic food, health care and employment to the 7 million most desperately poor Peruvians." Figures given for intended spending include $400 million, to be derived from Peruvian financing, plus $150 million requested from foreign donors. For the longer term, the program proposed allocating 3 percent of GDP toward the goal of eliminating acute poverty, to be complemented by land-improvement work projects financed by regional governments. But in the immediate context, it is not clear that the government can provide the $400 million intended for emergency assistance, within the constraints of its target for fiscal balance. It is also unclear what forms of help are available, apart from food aid to be administered through private charitable organizations and medicines made available through hospitals.

The figure of 7 million people in acute poverty suggests the need for the proposed "programa social de emergencia," which was presented in the GRADE-Sachs study published in May 1990 (chapter 5). The study used a World Bank model to estimate the basic needs of an individual in Peru in 1990, and calculated that a minimum income at $48 per month was necessary to cover basic needs. The study defined the "urgent social deficit" in terms of a scaled-down estimate of immediate needs for minimal food and transportation, equal to approximately $31 per month. The figure for 7 million Peruvians in acute poverty is the number of people with income below the poverty level. The calculation implies a total social deficit of $1.4 billion a year. Including costs of administering the program as outlined, the annual cost would be $1.6 billion. Roughly 20 percent of that amount would be for distribution of food and medicine; with the other 80 percent in support of programs for productive employment, paid for with food aid or with the commodities' monetary value. (Note: All calculations apply to income levels and numbers of people in acute poverty <u>before</u> the price shocks of the stabilization program.)

It is anticipated that the stabilization program will have the hardest impact on urban workers and the middle class. Rural incomes may even be improved, at least for those producers who own their own land and have a marketable surplus. Landless rural laborers, and those with little or no productive output beyond the subsistence level, will gain or lose depending on increases in agricultural output given the improvement in relative prices. Urban workers will be adversely effected by changes in relative prices for products and a highly probably fall in production and employment. Although the government has made an important salary adjustment for minimum wage earners by raising salaries by 300 percent, the question of any change in basic wage scales above the minimum level has gone unanswered. Actions taken thus far provide support to people at the lowest income level, rather than providing compensation for those effected most by price increases.

Rising rates of infant mortality, and of mortality for children under four, plus exceptionally high rates of maternal death, have made clear the need for health programs focused on prenatal and early postnatal care of mothers, and on the nutrition and health problems of young children. Guidelines are needed for the types and costs of actions to be taken. A good example can be seen in the Chilean program initiated in the mid-1970s with similar project objectives. In the course of 15 years, the infant mortality rate in Chile was cut by approximately 80 percent, even though real wages and the standard of living did not rise substantially. Chile's infant mortality rate in 1988 was down to 21 per thousand; while the Peruvian rate remained nearly four times as high, at 81. In the six poorest departments of Peru, the rate is equal to 114 per thousand. Some of the key elements of the Chilean program were the provision of food for expectant mothers, subject to a requirement to come to clinics for medical examinations and advice; a system of trained midwifes to assist at birth outside of hospitals; a follow-up program of nutritional supplements and medical checks in the early months after childbirth; and a special nutritional program for children (under four) identified as seriously malnourished. These measures were accompanied by investments in cleaning up water supplies and sewage in the poorest urban areas, and studies suggest that this may have had the highest payoff of the whole effort. Given Peru's tight economic constraints, it may not be feasible to undertake large scale investments. However, water supply conditions are so poor in Lima that this type of investment deserves high priority for investigation in connection with proposed health interventions.

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Chronic malnutrition raises questions of food supply as well as food distribution. As measured by height-to-age indicator, 38 percent of Peruvian children are chronically malnourished. In Cajamarca, the proportion is 63 percent. (See special folder on social deficiencies published with the August 1990 issue of Cuanto.) School lunch programs and community kitchens may be the most direct means of reducing malnutrition, but these programs must to backed up by measures to increase the supply of food most important to the poor. Food production and distribution involves major questions of agricultural incentives and productivity, and policies with respect to food imports. The stabilization program's elimination of subsidies for food imports will make food more expensive and thus directly hurt the poor, but at the same time will help stimulate food production. The stimulus could be minimal, however, if producers are hesitant given expected policy reversals and the possibility of returning to the earlier efforts to hold food prices down through controls. The initiation of a system of guaranteed prices on basic foods, using as guidelines actual international prices with assurances made to producers (at the time of planting) on the prices they can expect to receive, is one option which appears to be viable. (See proposals in GRAPA, "Lineamientos de Política Agraria, 1990 - 1995," Lima, July 1990.)

The largest component of the GRADE-Sachs proposed social emergency program is for the generation of employment in activities that contribute to national income. Although these proposals might be considered "make work" projects, given the deteriorated state of the country's road network and infrastructure in general and the potential for greater food production capacity from improved land and irrigation, suggest the possibility for real gains from a large scale employment program in rural areas. It is expected the PAPI project will be useful in determining the kinds of projects most appropriate for the accomplishment of longer-term socioeconomic policies.

VII. EVALUATION AND MONITORING PLAN

A. General

The overall goal of the project is to stabilize the economy and establish a policy framework that will enable the country to renew economic growth. To accomplish this, the project purpose is to facilitate a broad-based policy dialogue among key public and private sector entities and representatives, and to establish a policy decision-making process and a cadre of highly qualified policy analysts, that will help ensure the design and implementation of a coherent set of effective economic policies that can be sustained over the longer term. Given the nature of the project's goal, performance could be evaluated by measuring macroeconomic variables such as: (a) reduction in the rate of inflation; (b) reduction/elimination of the fiscal deficit; (c) tax and interest rate policies; and (d) non-traditional exports.

Given the project's purpose of enabling the public and private sectors to develop the capacity to carry out effective analysis, design and implementation of economic policies, success could be measured by the following: (a) number of highly qualified policy analysts in the public sector Ministries and other entities, and the number within CONFIEP and other private sector entities; (b) quality of economic policy legislation and the process leading up to the development of economic policy legislation; and (c) identifying which project outputs lead to the earliest and/or most effective policy modifications.

Nevertheless, to evaluate the project solely on the basis of 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 in the project, it is anticipated that project monitoring and adjustments will be an essential part of the project management and the scope of work of the Project Coordination. Thus, an integrated monitoring and evaluation plan has been developed. Monitoring will be continuous and more intense than is common on most A.I.D. assisted projects. Evaluations of both the goal and purpose of the project will also be conducted during the two formal project evaluations.

The project has budgeted $100,000 for two evaluations, and $150,000 for regular audits and financial reviews as required. These activities will be directly contracted and managed by USAID to insure objectivity and compliance with A.I.D. Handbook requirements.

B. Monitoring

The Project Coordinator will continuously monitor the progress of the project toward the attainment of the project purpose, 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 issues that could obstruct the achievement of favorable results.

One of the early tasks of the Project Coordinator will be to design a matrix to be used to measure progress in implementation and to determine the effectiveness of the participating public and private sector entities. The Project Coordinator will quantify benchmarks to be attained for each period of the project as well as negotiate these targets with the various participating organizations (primarily the BCR and CONFIEP) for inclusion as part of the project Annual Plan. Quarterly progress reports will be required of and prepared by the participating institutions and reviewed in meetings with the Project Coordinator and the A.I.D. Project Officer. Any changes to the Annual Implementation Plans or benchmark progress indicators will be negotiated at that time.

C. Evaluation

The participating institutions and the Project Coordinator, in conjunction with the A.I.D. Project Officer, will conduct an interim evaluation/financial review of the project after the second year of implementation. Short-term Peruvian project evaluators and financial analysts will be contracted respectively for the evaluation/financial review, as appropriate. The interim evaluation financial/review will look at progress to date and develop the Annual Implementation Plan for the subsequent year.

The proposed project strategy to facilitate economic policy dialogue among a broad group of public and private sector entities and representatives, and to strengthen the economic policy decision-making progress, rests on the assumption that through successful implementation of project activities and resultant outputs, sound economic policies will be designed and implemented and the benefits sustained over the longer term. Many other conditions will also impact on the effectiveness and success of the project. However, the ultimate measure of performance of the project will be measured by the stabilization of the economy, and the possibility of achieving renewed growth sometime during the LOP. The final evaluation is scheduled several months before the PACD, or approximately November - December, 1994.

Logical Framework

NARRATIVE	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Goal: To improve Peruvian economic policies in order to facilitate economic stabilization and renewed growth.	Improved economic and fiscal performance as measured by: - Higher real GDP growth rates over the medium-term. - Lower fiscal deficit as a percentage of GDP. - Lower current account deficit in balance of payments as a percentage of GDP. - Employment generation - Elimination of hyperinflation and a reversal in the decline of real GDP (i.e. positive from 1992 forward) - Fiscal deficit held to 2 to 3% of GDP from 1992 forward. - Non-traditional export growth rate at least 5 to 8% p.a. from 1992 forward. - Real earnings increasing by 2 to 3% p.a. from 1992 forward. - Infant mortality & malnutrition decreased by 30% & 50% respectively. - Monthly income for lowest 40% of population increased for \$15 to \$21 by the PACD.	- Central Bank statistical reports. - Project monitoring. - GOP reports. - Coordination Unit reports. - IMF/IBRD reports. - Economic indicators. - (all gender-disaggregated as necessary)	- A political and security climate exists, which is favorable to private sector. - The new GOP will be willing to address sectoral policy issues that will stimulate economic growth, particularly for those displaced workers from the coca producing areas. - Democracy is sustained and counter-narcotics law enforcement efforts are successful. - The new GOP administration will give high priority to economic adjustment, and, there will be new agreements with IFIs.
Purpose: To assist the new GOP and the private sector in developing sound economic policies and strengthening the policy dialogue and decision-making process.	Significantly increased capactity on the part of the GOP to undertake economic analysis and implement policies as evidenced by policy changes, including foreign exchange rate unification; trade and investment promotion and attraction; tax policy reform; and sectoral analyses in agriculture, public services and housing and urban development.	- Project monitoring. - Project evaluations. - Consultants reports. - IFI Economic reports.	- GOP has political will to implement sound economic reforms. - Economic, social and political stability apparent within key democratic institutions of Peru, which allows policies and programs to be implemented as planned.

Logical Framework

NARRATIVE	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	- The design of programs and/or projects that will have a strong impact on accomplishing the primary objectives of economic stabilization and reorienting the economy toward the productive, private sector. - Maintenance of market-determined exchange rate, combined with fiscal and monetary discipline. - Maintenance of positive real interest rates, tax policies that favor savings over consumption, and liberal, transparent and uncomplicated rules for the flow of private capital. - A limited role for the public sector as provider of goods and services, accompanied by minimal governmental control and regulation and reliance on market forces to encourage competitive entrepreneurial activity. - Trade policies that include internationally acceptable export incentives, that minimize tax, foreign exchange and bureaucratic disincentives to exports, and that avoid excessive tariffs, licensing requirements, quantitative limitation and other forms of protection for domestic production.		

Logical Framework

NARRATIVE	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	- Sectoral policies that effectively address impediments to broadly based, sustainable growth, in areas such as agriculture, education, energy, labor, public health, tele-communications, and transportation. - Increased private investment and employment. - Growth in per capita income and in the ratio of private savings to income. - Growth in non-traditional exports and in the ratio of international trade to gross domestic product. - Improved access to primary health services, including increased child survival and diminished malnutrition within an overall context of reduced population growth. - Strengthen civilian government institutions that will merit the confidence of political and military leaders, citizens and investors. - Open, peaceful debate of controversial issues in public fora and the press, and tolerance for opposing views. - Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly-based, sustainable economic growth and the evolution of stable, democratic societies.		

Logical Framework

NARRATIVE	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	- Contribute to the formulation and implementation of United States Government strategies for dealing with issues of particular concern, such as the production, trafficking and consumption of drugs, terrorism and environmental degradation.		
Outputs:			
- Studies/reports carried out with appropriate recommendations, leading to new legislation, draft laws or budget allocations. Improved process of policy formulation and implementation.	- Availability of sound policy and strategy documents and reports which are researched and written by GOP and private sector policy entities.	- Project evaluations. - Project reports and database information.	- The GOP accepts and supports a strong role for the private sector in the pursuit of economic growth.
- A cadre of high level and middle management GOP personnel trained in the formulation, analysis and implementation of sound economic policies which address the primary constraints to stabilization and growth.	- IFI reports. - Participation of GOP staff in preparation of policy/strategy assessments and/or feasibility studies.	- GOP policy and strategic/ planning documents/records.	- Once economic stabilization objectives are achieved, the current political and national environment will permit the GOP to re-direct its human and financial resources from stabilization efforts to sustainable economic growth and wealth generation, with emphasis on continued strengthening.
- Seminars and workshops held for representatives of private and public sector policy related organizations. As a result, better informed and trained technicians capable of policy reform.	- New policies/strategies being implemented in such areas as macroeconomic policy, agriculture, private sector investment, export promotion, public sector utilities and other urban development policies.		- Contracting and procurement mechanism operating efficiently with procurement of technical assistance and equipment/materials carried out on a timely basis.
- Continuing consultations with the GOP by long and short-term advisors. Strengthened policy dialogue.	- Growth of wealth-generating activities and new private sector business and investment opportunities.		- Technical consultants willing to accept long-term contracts (4-5 years) in Peru.

Logical Framework

NARRATIVE	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATIO.	ASSUMPTIONS
- New areas of policy analysis and project or program interventions, including: crop-specific agricultural production (with emphasis on alternative income activities), processing and marketing for exportation and microenterprise development.			
- Improved multi-sectoral economic data base established and utilized by GOP economic policy advisors, IFI and other representatives engaged in policy analysis.As a result, project benefits are sustained and utilized in in policy formation and project interventions.			- Appropriately placed public and private sector trainees can be identified and released for in-country or participant training programs.
- Key GOP personnel and private sector representatives from growth and development sectors, trained in-country and offshore in applied economic analysis, policy design and implementation.			- Security and government authority will be reestablished over time in the UHV and within the country's transportation grid. - The IFIs can work out arrearage problems and become re-engaged in Peruvian development programs.
- IFIs engaged in assistance programs/ projects which support counternarcotics plans and strategies.			- Commerce and investment can begin again to Peruvian economic opportunities.
- Net Inflow of private capital.			

Inputs:

ANNUAL AND TOTAL PROJECT COSTS, BY PROJECT COMPONENT

(US$000)

Project Component	Year 1	Year 2	Year 3	Year 4	Total
I. Program Costs					
A. SEP Technical Unit					
1) Coordination Staff	85	75	75	75	310
2) Technical Studies/Assistance	400	-	-	-	400
Sub-Total	485	75	75	75	710
B. Institutional Contractor					
1) Contractor Support Costs	348	568	590	647	2153
2) Technical Studies Assistance	380	508	508	507	1903
3) Training/Information Dissemination	100	300	300	300	1000
4) Other Direct Costs	54	30	30	30	144
Sub Total	882	1406	1428	1484	5200
C. Direct A.I.D. Implementation	200	-	-	-	200
Total Program Costs	1567	1481	1503	1559	6110
II. Administration Costs					
Project Coordinator	150	150	150	150	600
Evaluation	-	50	-	50	100
Audit and Financial Reviews	10	65	10	65	150
Total Administration Costs	160	265	160	265	850
III. Contingency and Inflation	-	50	100	40	190
TOTAL PROJECT	1727	1796	1763	1864	7150

MEANS OF VERIFICATION

- Implementing agency records, reports ad audits.
- Observation by USAID project manager/review committee.

ASSUMPTIONS

- Sufficient funds will be made available to USAID.
- GOP counterpart contribution is assured.

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ENVIRONMENTAL DETERMINATION

Project Location:	Peru
Project Title:	Policy Analysis, Planning and Implementation
Funding:	FY 1990 Grant $7,150,000
Life of Project:	4 1/2 years
Prepared by:	Claudio Saito, Mission Environmental Officer June 19, 1990

Project Goal and Purpose: The Goal of the Project is to improve Peruvian economic policies to facilitate economic stabilization and renewed growth. The Project Purpose is to ensure that a series of sound economic policies are in place, which enable the GOP to accomplish the project's goal of economic stabilization and renewed growth.

Project Description: The project will provide high level Peruvian and foreign expertise to assist the new Peruvian government and the private sector to formulate and develop coherent economic policies, programs and project. This will be achieved by: a) providing the GOP and the private sector with policy advisory services and technical assistance; b) performing technical studies; and c) providing training to strengthen the capacity of the GOP and the private sector to design and formulate economic policies.

Statement for Categorical Exclusion: It is the opinion of USAID/Peru that the Project does not require an Initial Environmental Examination because its activities are within the classes of action described in Section 216.2, paragraphs c(i), c(2) (i) and (xiv) "Categorical Exclusions of 22CFR Part 216".

"Section 216.2 c(i)": "The action does not have an effect on the natural or physical 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 (such as construction of facilities, etc.)."

"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 designated to result in activities directly affecting the environment."

Recommendation: The Mission Environmental Officer (MEO) and/or REA/SA should be in continuous communication/coordination with the PP design team.

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ANNEX B
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Concurrence of the Mission Director: I have reviewed the above statement and concur in the determination that the "Policy Analysis, Planning and Implementation Project" does not require an Initial Environmental Examination.

Craig G. Buck
Director
USAID/Peru

Date: 9/29/90

ENVIRONMENTAL THRESHOLD DECISION

Project Location:	Peru
Project Title:	Policy Analysis, Planning and Implementation
Project Number:	527-0343
Funding:	FY 1990 $7,150,000
Life of Project:	4 1/2 years
Recommended Threshold Decision:	Categorical Exclusion
Bureau Threshold Decision:	Concur with recommendation
Comments:	None
Copy to:	Craig G. Buck, Director USAID/Peru
Copy to:	Luis E. Arreaga, USAID/Peru
Copy to:	Claudio Saito, USAID/Peru
Copy to:	Howard Clark, REA/SA
Copy to:	IEE file

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

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ANNEX C. ECONOMIC ANALYSIS

GROWTH AND INTERNAL POLICY

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TEXT TABLES AND FIGURES

ANNEXES

GROWTH AND INTERNAL POLICY

Summary

An empirical investigation was undertaken in A.I.D. to address two questions. Do LDC economic policy frameworks promote or suppress efficiency (i.e., competitive market forces) in resource allocation? Are growth rates likely to be higher for those countries whose economic policy frameworks promote efficiency in resource allocation? The investigation covered forty two A.I.D. recipient countries for two periods in the 1980s, 1980-83 and 1984-87. The economic policy frameworks of the forty two countries were ranked in accordance with the score received on a questionnaire designed to assess the extent to which each country's economic policy framework--its fiscal, monetary, trade, pricing, regulatory, etc. policies--promoted or suppressed efficiency in resource allocation.

The results of the investigation undertaken in A.I.D. are easy to summarize. There is room for substantial improvement in the efficiency with which LDC policies allocate resources <u>and</u> good evidence that such improvements could result in quantitatively important increases in LDC growth rates. In brief, the gap in growth rate between the 10 countries with the highest policy framework scores and the 10 countries with the lowest scores was at least 2.3 percentage points. The gap in growth rates between the top scoring group and the average growth rate of all three lower scoring groups was at least 1.5 percentage points. These differences are significant. In round numbers, the year 2000 is ten years away. A growth rate is that 2.3 or 1.5 percentage points above what would otherwise prevail would result in an income per capita level 25% or 16% above what would otherwise result in the year 2000. Put another way, suppose that in the absence of improved policies, LDC growth rates would only keep per capita income from falling. A favorable shift in the policy environment, in contrast, could change such a no-growth-in-per-capita-income scenario for the 1990s to a case with a 25% or 16% increase in per capita income. Over a 20-year period--the traditional measure of a generation--this would compound up to a 57% or 35% increase in income per capita. At the 5.0 percentage point differential between highest and lowest policy scorers in 1984-1987, the additions to per capita incomes over coming decades would be much larger.

There is equally clear evidence of room for improvement in the efficiency with which LDC policy frameworks allocate resources. Policy scores could fall in an 80 point range. The U.S. and Singpore, taken as reference countries, fell in the top (tenth) decile of the range in both the 1980-83 period and the 1984-87 period. In these same periods, the lowest 10 scoring countries fell in the second and third deciles and the highest 10 scoring countries fell in the seventh and eighth deciles.

There are, of course, powerful forces that have nothing whatever to do with internal LDC economic policies that are important determinants of LDC economic growth. These include, for example, world market prices and volume demand for the products LDCs export; prices for the products they import from developed countries; interest rates on external debt and the openness of developed country markets to the products in which LDCs have comparative advantage. Given the obvious weight of these exogenous factors determining the level of growth, why should special attention be paid to the role that is played by the economic policy environment that LDCs choose to allocate resources? The answers are clear.

First, the internal policy environment is unique in that it is the only variable determining performance that is directly under LDC control. While LDCs can do little directly to influence world demand and prices for their products, the interest rates they pay on their external debt, and trade openness, they can alter their internal policy environments. Second, while good policies cannot ensure that good growth rates will result, such policies can compress the gap between actual and potential growth rates. In essence, performance will be better with good policies than with bad policies even though the level of growth might be very low or negative because of external factors over which LDCs have no control. Finally, prospects for external resource availability for the LDCs in the 1990s are not good. Private creditors of LDCs, recalling the debt crises of the 1980s are likely to follow the adage "once burned, twice shy" in considering the credit worthiness of private and sovereign risk loans to LDCs. There are, moreover, no grounds for optimism that multilateral and bilateral official flows will grow at levels that will serve to replace a reduction in net private flows. With fewer external resources available, LDCs need policies assuring efficient use of their domestic resources. All three of these factors provide strong arguments for emphasizing the importance to growth of the internal policy framework.

2. Policy and Efficiency

Economic growth is intimately linked with the economic policy framework an LDC chooses to allocate the resources available to it. The policy framework chosen can promote the role of competitive market forces in ensuring that resources are efficiently allocated. Alternatively, it can suppress the role that competitive market forces play in ensuring that resources are efficiently allocated. These points are sufficiently important to merit some brief illustrations because so many elements in the policy frameworks chosen by LDCs fail to promote efficiency in resource allocation.

Ghana and the Philippines are examples of countries that have created public and private monopolies in production and marketing. The resulting monopolies have been insulated from the competitive market forces to which they would otherwise have to respond in the form of raising quality or lowering price. The outcome has been bloated bureaucracies with real and financial cost structures far in excess of those that would have prevailed in a competitive environment. Those costs have been borne by producers who have been forced to sell or market their products through these monopolies and by consumers who have been forced to buy the products from those granted such monopolies.

The Ghanaian Cocoa Marketing Board (GCMB) is a case in point. In order to raise government tax revenue during the 1970s, the GCMB lowered real prices to farmers to well below half of GCMB export receipts. Some farm families were able to smuggle their cocoa to the Ivory Coast. Most simply cut back or abandoned care of their trees. Cocoa production fell from 4000,000 tons in 1970 to 250,000 tons in 1980 and 159,000 tons in 1983/84.

Neglect led to capsid infection and the spread of swollen shoot virus disease. Demoralized farmers were discouraged against planting new areas or replacing old trees. Much of the land formerly devoted to cocoa production ceased producing anything. Ghana has now reversed its policy and currently pays cocoa farmers domestic prices that are much closer to international market price equivalents. Their supply response has been strong. But investment in a tree crop that takes time to bear fruit requires judgments about future prices; and given cocoa farmers' experiences over a prolonged period, they are likely to be cautious about price prospects. In this case, clearly the damage caused by inappropriate economic policies has and will endure long after those policies have been reversed.

Costa Rica and Rwanda are examples of countries that have relied heavily on direct administrative determination of the prices and the amounts of credit that are made available for preselected areas of economic activity--e.g., for industry, commerce, domestic and export agriculture and other specialized areas. Those activities that do not fit within the criteria of the specialized credit lines are, as a result, excluded from access to bank credit even though they may be far more profitable and income generating than activities which are favored by the credit destination system. Moreover, the activities that have often been favored by the credit allocation regimes have not been efficient sources of income and employment generation, relying on artificial credit subsidies to create the illusion of commercial viability.

Liberia is an example of a country that has set loan rate maximums at levels that have made it unprofitable for banks to make loans, sacrificing sources of economic activity that would have been commercially viable at loan rates above the legal maximums set by the state. Moreover, Liberian banks typically have to require 100% offshore collateral for loans as a result of administrative and legal problems that effectively make domestic collateral too risky a basis for making loans.

Panama is typical of countries whose tariff rate structure, by involving high rates of effective protection, has channeled scarce investment and human resources and intermediate inputs into the production of import substitutes. This has had multiple negative consequences. By eliminating the need to respond to competitive market forces from abroad, the protected items are typically higher in cost and lower in quality. In part explaining Panama's long standing balance of payments problems, it has created an anti export bias in Panama's policy framework because high protection at the border for final products, in combination with tariff exonerations on intermediate inputs, has elevated profit incentives for producing goods locally for the internal market relative to the incentives for producing goods locally for external markets. A case in point is provided by the high tariffs provided for the "manufacture" of spiral bound notebooks used by Panamanian school children. All the material inputs--the notepaper, wire and cardboard for covers--are imported with tariff exonerations that make them duty free. "Manufacture" consists of a simple assembly operation. The combination of high border protection for the notebooks with duty free import for the inputs creates a highly profitable import intensive industry. Guaranteeing, moreover, these profits is a system of import licenses and controls that restricts entry by others into the production of notebooks. In effect, Government has created a private monopoly through public policy.

Honduras and Egypt are two examples of the vast majority of LDCs that provide preferences to the Central Government and other public sector entitles in the cost and availability of credit, in taxation and in cost and access to foreign exchange. These preferences either exclude access by the private sector or raise real private sector costs. In Honduras, for example, Government bonds are eligible for inclusion in banking system legal reserves, the interest earned on such bonds is exempt from taxation and the bonds enjoy an automatic repurchase guarantee at the Central Bank at par. The implications for the development of a private capital market are obvious. Private sector instruments can't compete with Government sector instruments that (1) are convertible into cash on demand at the Central Bank, (2) that are exempt from taxation and (3) that can be held to satisfy legal reserve requirements. The net result of these and other like preferences accorded Government is that they typically result in a substitution of less efficient public sector generated economic activities for more efficient private sector generated economic activity. Such preferences also give the false impression that government costs are lower. But they are only lower in the sense that government accesses a command over real resources at financial costs that government itself fixes at below market rates.

Virtually every LDC in Africa decries the absence of domestic entrepreneurship, of low private domestic capital formation in industry and agriculture, of capital flight and of low private foreign investment. These are often precisely the countries that have legal systems that do not provide reliable guarantees of private property rights. Their judicial systems are weak, dispensing judgments not justice. Their legal systems often make land tenure uncertain and costly to achieve. Taken together, these factors create elevated risk premiums for investment with the result that, for example, on farm investment levels and agricultural sector GDP levels are significantly below what would otherwise result.

Brazil and Argentina are typical of the Latin America system of employing regimes for the allocation of foreign exchange that rely heavily on rules that distinguish across products, uses and sources of foreign exchange. These allocation regimes, themselves, create foreign exchange shortfalls by establishing prices for foreign exchange that make it cheap to import and unprofitable and expensive to export. As a result, their policies are part of the root cause of the balance of payments and external debt problems that they currently face.

3. Policy and Growth

The examples above are illustrative as distinct from exhaustive in character. The country examples are virtually a random selection from a vast population of many similar examples which could have been selected. The fundamental point of the examples is that internal economic policy choices do matter. As each of these examples suggests, there are clear linkages between the policy framework that LDCs adopt to allocate the resources available to them, the efficiency with which these resources are allocated, and the growth rates the countries achieve. But, this in itself, does not mean that economic growth will occur or will result from good policies. In fact, there are powerful forces that have nothing whatever to do with internal LDC economic policies that are powerful determinants of LDC economic growth. These are the factors that are traditionally focused upon as "constraints to growth." They include the limits imposed by the domestic resource base and infrastructure; world market prices and volume demand for the products the LDCs export; prices for the products they import from developed countries (DCs) and from oil exporters, interest rates on their external indebtedness; the availability of multilateral, bilateral and private capital flows, and the openness of DC markets to the products that LDCs produce and can produce.

Given the obvious quantitative and qualitative importance of these non-LDC policy related factors determining LDC economic growth, is it not legitimate to ask why the LDC internal policy framework needs to be given special emphasis? After all, can't it be swamped in quantitative significance by the joint or even individual result of other factors determining performance?

What are the answers to these questions? It is certainly true that a host of factors besides internal policies determine recorded LDC economic growth rates. Examples are easy to find. A high price and buoyant demand for LDC exports--e.g., sugar, in the case of the Dominican Republic, bauxite in the case of Jamaica, energy prices in the case of Egypt and Indonesia, and tin and natural gas in the case of Bolivia--will have significant weight in determining growth. An abundance of external resources, whether provided from foreign aid or the fortuitous coincidence of favorable exogenous factors, can enable resource abundance to substitute for good policies and even suppress or postpone the introduction of good policies. Egypt in the early 1980s provides a classic example of how policies that do not promote efficient resource allocation can combine with temporarily supernormal foreign exchange abundance to produce high positive growth.

While growth is the result of a host of factors, it is nevertheless true that the internal policy environment deserves special emphasis. First, the internal policy environment is unique in that it is the only variable determining performance that is directly under LDC control. While LDCs can do little directly to influence world demand and prices for their products, the interest rates they pay on their external debt, and trade openness, they can alter their internal policy environments. Second, while good policies cannot ensure that good growth rates will result, such policies can compress the gap between actual and potential growth rates. In essence, performance will be better with good policies than with bad policies even though the level of growth might be very low or negative because of external factors over which LDCs have no control. Finally, prospects for external resource availability for the LDCs in the 1990s are not good.

Private creditors of LDCs, recalling the debt crises of the 1980s, are likely to follow the adage "once burned, twice shy" in considering the credit worthiness of private and sovereign risk loans to LDCs. There are, moreover, no grounds for optimism that multilateral and bilateral official flows grow at levels that will serve to replace a reduction in net private flows. With fewer external resources available, LDCs need policies assuring efficient use of their domestic resources. All three of these factors provide strong arguments for emphasizing the importance to growth of the internal policy framework.

These relationships among policy, efficiency and growth raise two fundamental questions:

- How divergent are LDC policies from those that would allocate resources efficiently?

- How much higher might growth become with substantive improvement in the policy environment?

4. An Empirical Investigation of the Relationships Among Policy Efficiency and Growth

Table I below presents the summary results of an investigation undertaken in A.I.D. to shed some light on these questions and, more generally, on other key relationships among policy, efficiency and growth. It also provides some interesting examples of the more perverse relationships that can exist between policy and growth and that were outlined above.

TABLE I

INTERNAL POLICIES AND ECONOMIC GROWTH:
AN EMPIRICAL EXAMINATION OF THE LINK BETWEEN THE POLICY FRAMEWORK
AND GROWTH RECORD FOR 42 A.I.D. RECIPIENT COUNTRIES IN THE 1980'S

POLICY SCORE GROUPINGS	PERIOD 1980 ---- 1983 COUNTRY	POLICY SCORE	GROWTH RATE	PERIOD 1984 ---- 1987 COUNTRY	POLICY SCORE	GROWTH RATE	
GROUP I: LOWEST POLICY SCORE	Mozambique	-32.0	-0.95	Egypt	-30.5	-1.14	
	Bolivia	-31.0	-4.95	El Salvador	-27.0	1.62	
	Ghana	-30.0	-7.15	Peru	-26.5	2.69	
	Guinea	-30.0	0.88	Dom. Repub.	-20.5	-3.60	a
	Egypt	-28.5	3.31	Sudan	-20.5	-4.04	
	Dom. Repub.	-27.5	0.16	Mozambique	-20.0	-3.65	b
	El Salvador	-26.0	-5.50	Honduras	-15.5	-0.59	
	Ecuador	-25.5	-3.25	Liberia	-14.5	-3.27	
	Pakistan	-25.5	1.89	Ecuador	-13.5	-1.40	
	Zaire	-25.0	-3.55	Tanzania	-13.5	-1.46	
	AVERAGE	-28.1	-1.91	AVERAGE	-20.2	-1.48	
GROUP II: MEDIUM LOW POLICY SCORE	Sudan	-24.0	1.71	Somalia	-9.0	-8.66	b
	Jamaica	-23.5	0.25	Uganda	-9.0	-0.54	
	Tanzania	-23.0	-4.44	Pakistan	-6.5	3.90	
	Costa Rica	-19.0	-5.33	Guatemala	-6.0	-3.48	
	Somalia	-14.0	-1.38	Mali	-3.5	1.07	
	Madagascar	-14.0	-5.63	India	-2.0	3.03	
	Mali	-12.0	-2.10	Haiti	-1.0	-1.83	
	Kenya	-11.0	-2.74	Senegal	-1.0	0.64	
	Gambia	-11.0	1.77	Rwanda	-1.0	2.17	
	Senegal	-11.0	2.19	Zaire	-1.0	0.09	
	Honduras	-10.5	-4.58	Jamaica	-0.5	-1.58	
	AVERAGE	-15.7	-1.84	AVERAGE	-3.7	-0.47	
GROUP III: MEDIUM HIGH POLICY SCORE	Burundi	-10.0	-0.91	Kenya	1.5	-0.06	
	India	-10.0	4.07	Burundi	2.0	0.90	
	Uganda	-9.0	3.99	Bangladesh	3.5	5.06	
	Guatemala	-9.0	-4.50	Indonesia	4.0	0.56	
	Niger	-8.5	-4.43	Zambia	7.0	-3.36	
	Peru	-6.0	-3.97	Madagascar	7.5	-1.35	
	Haiti	-6.0	-3.63	Ghana	8.0	-0.02	
	Rwanda	-5.0	1.30	Niger	8.0	2.48	
	Philippines	-5.0	0.83	Gambia	9.5	-3.16	
	Bangladesh	-4.0	0.80	Philippines	10.5	-2.85	
	Indonesia	-3.5	5.47	Costa Rica	11.0	0.44	
	AVERAGE	-6.9	-0.09	AVERAGE	6.6	-0.12	
GROUP IV: HIGH POLICY SCORE	Zambia	-3.0	-3.07	Belize	13.5	-0.02	b
	Liberia	4.5	-2.41	Guinea	18.0	-3.62	b
	Belize	7.5	-0.04	Jordan	18.5	0.24	
	Jordan	12.0	2.52	Thailand	18.5	1.62	
	Thailand	14.5	3.18	Botswana	20.0	6.66	
	Malawi	16.0	-3.82	Bolivia	20.0	-4.30	
	Lesotho	20.5	-2.01	Lesotho	20.5	6.43	
	Botswana	22.0	4.59	Malawi	21.5	-1.53	
	Cameroon	24.0	6.30	Cameroon	22.0	2.50	
	Swaziland	28.5	-1.73	Swaziland	29.5	9.06	b
	AVERAGE	14.7	0.35	AVERAGE	20.2	1.70	
AVERAGE OF 42 COUNTRIES		-9.1	-0.88		0.8	-0.10	
REFERENCE GROUP	SINGAPORE	33	7.61	SINGAPORE	33	4.72	
	U.S.A	30	0.55	U.S.A.	30	2.05	

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a=84/86 b=84/85

In brief, Column 1 of Table I orders 42 A.I.D. recipient countries by the "score" each country received from A.I.D. economists responding to a policy framework questionnaire. Column 2 of Table I arrays the recorded growth rates (average annual per capita) alongside the policy framework scores for each of the 42 countries. The policy framework questionnaire was designed to measure, through a series of yes (-1) and no (+1) responses to 39 questions, the extent to which a country's economic policy frame-work suppressed or promoted the role of competitive market forces in allocating the resources available to the country. The higher the score, the more oriented is economic policy towards promoting the role of competitive market forces in resource allocation. Two periods were covered, 1980-1983 and 1984-1987. To provide perspective and a notional upper bound on the scores received by the 42 A.I.D. recipient countries, the questionnaire was filled out for the United States and Singapore. The questionnaire (attached) was quite broad, dividing the 39 questions into seven policy subregimes (pricing, tax/fiscal, foreign trade and exchange, regulatory/legal, credit/monetary and two regimes that characterize the capacity to respond to adjustment requirements). To facilitate comparisons, the 42 countries are divided up into four approximately equal subgroups--the top and bottom subgroups, comprising the ten countries with the highest and the lowest policy scores; and the two middle policy score subgroups, comprising 11 countries each.

The results of Table I are easy to summarize. At the same time, and as emphasized further on, the results should be treated as suggestive rather than definitive.

First, the policy framework alone can and often has minor influence on the level of recorded growth. In fact, the results can be quite "perverse." A number of the perverse cases are identified in Figure 1. From the data in Table I, for example, both Egypt in 1980-1983 and Peru in 1984-1987 recorded quite high real per capita growth rates. Over these same periods both had policy framework scores near the bottom of the lowest scoring group and close to the theoretically lowest possible score. In the case of Egypt, the confluence in the early 1980s of a number of favorable (but transitory) developments--emergence of Egypt as an oil producer and exporter at a high point of oil prices, growth in workers' remittances, in Suez Canal and in tourism earnings and in foreign aid--resulted in very sharp growth in foreign exchange availability over a very short time period. This enabled a correspondingly sharp rise in the capacity of the country to expand domestic demand without running into a foreign exchange constraint that would have limited Egypt's ability to pay for

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Figure 1: Internal Policy and Economic Growth:
The Perverse Cases

Policy Framework Group	Growth Results: Positive Growth	Growth Results: Negative Growth
Lowest Policy Performance Group	Egypt 1980-83 Peru 1984-87 Pakistan 1980-83	
Middle Policy Performance Groups		
Highest Policy Performance Group		Malawi 1980-83 Zambia 1980-83 Bolivia 1984-87

Source: Table I

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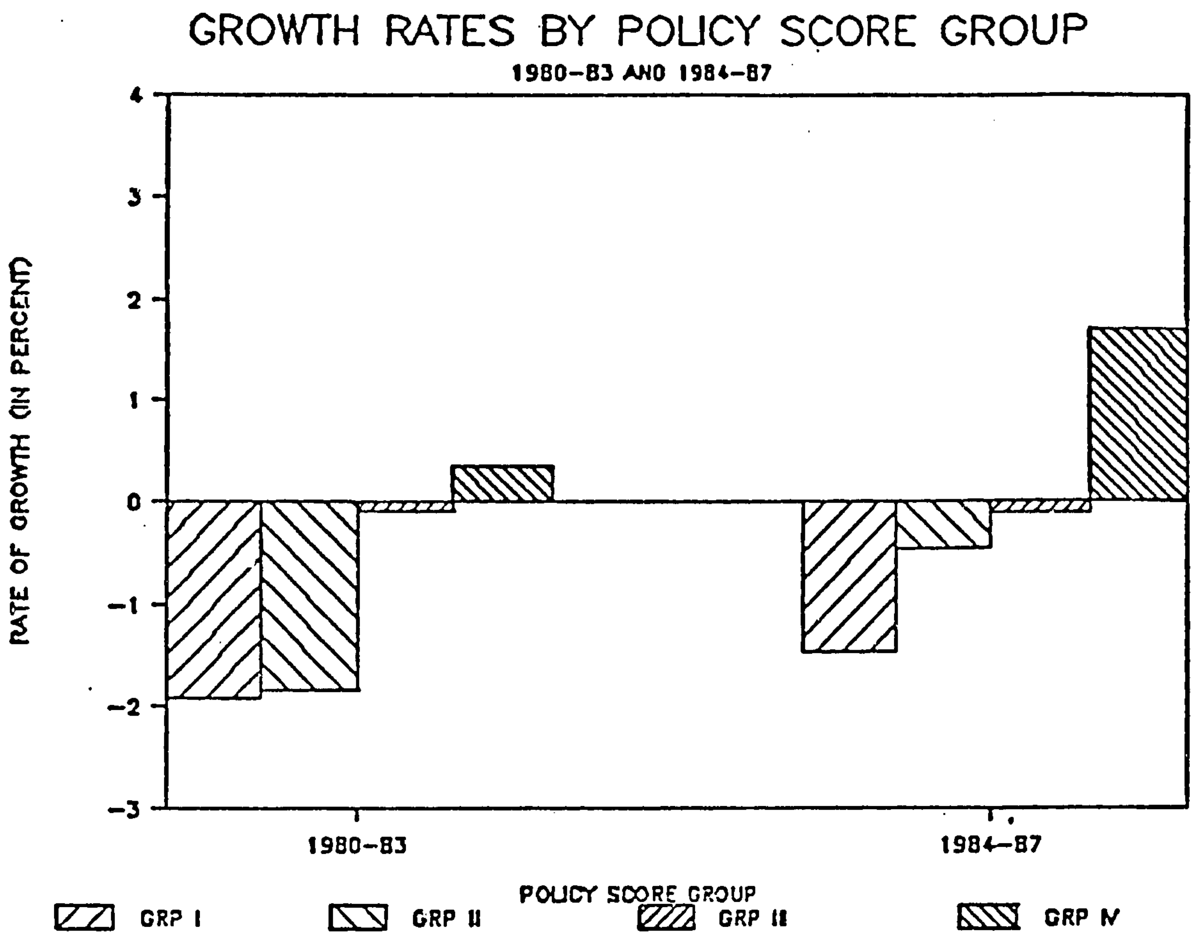
the intermediate import requirements of sharply higher domestic demand. In the case of Peru, a large external reserve position in combination with a policy decision to limit debt service payments provided Peru with a similar ability to achieve temporarily higher growth. Thus, in the cases of both Egypt and Peru, resource abundance could facilitate high growth in the face of policies sheltering inefficiency in resource utilization.

The perversity works in the other direction as well. In marked contrast to Egypt and Peru, Malawi in 1980-1983, Bolivia in 1984-1987 and Guinea in 1984-1987 all registered sharply negative per capita growth rates with policy framework scores well within the highest scoring group. In each of these cases, adverse external developments were major factors explaining the negative rates of growth registered by these countries. In the case of Bolivia, for example, tin prices collapsed, and hard currency payments for deliveries of natural gas to Argentina were delayed.

In the case of Guinea, he sharp improvement in the policy environment after the 1984 change of government will take considerable time to overcome the 26 years of economic mismanagement of the Sekou Toure government. Also, the data base is limited and the economy is dominated by a few large mineral enclaves essentially insulated from the policy environment. In the case of Malawi, the country experienced a substantial decline in foreign exchange availability as a result of being caught between the blades of the scissors of rising import prices (e.g., petroleum) and falling commodity export prices.

Second, while the policy framework may often be a minor influence on the level of recorded growth, the data in Table 1 strongly suggest that the policy framework plays a major role in compressing the gap between actual and potential growth. Reflecting this, higher policy framework scores from group I through group IV are directly associated with higher growth rates from group I to group IV. This is shown graphically by the rise in growth rates with policy framework group scores in Figure 2. Note from the graphical presentation in Figure 2 that this is so both for the period 1980-1983 and for the period 1984-1987. The presumption is that the rise in growth with policy framework group scores reflects a compression of the gap between actual and potential growth rates as the policy framework improves. At the same time, this compression is fully consistent with the possibility that the level of the growth outcome may be quite weak, reflecting low potential growth

Figure 2



Source: Table I

resulting from factors exogenous to the policy framework. For example, the average growth rate was barely positive for the countries in the high policy score group in 1980-1983 but was more strongly positive in 1984-1987. The former result reflects the impact of the recession in the first years of the 1980s and the latter result, the recovery that began to be strongly felt in the mid-1980s.

Some quantitative aspects of the association of improved growth with improved policy are worth noting. Table I and Figure 2 show that countries in the group with the highest policy framework scores registered average annual growth rates 2.3 percentage points higher during 1980-1983 and 3.2 percentage points higher during 1984-1987 than countries with the lowest policy framework scores. The gap in growth rates between the lower three policy framework groups and the high group was at least 1.5 percentage points over both periods. These growth rate differences are significant. In round numbers, the year 2000 is ten years away. A growth rate that is 1.5 (2.3) percentage points above what would otherwise prevail would result in an income per capita level 16% (25%) above what would otherwise result in the year 2000. Put another way, suppose that in the absence of improved policies, LDC growth rates would only keep per capita income from falling. A favorable shift in the policy environment, in contrast, could change such a zero growth in per capita income scenario for the 1990s to a 16% (25%) increase in per capita income scenario. Over a 20-year period--the traditional measure of a generation--this would compound up to a 35% (57%) increase in income per capita. At the 3.2 percentage point differential between highest and lowest policy scorers in 1984-1987, the additions to per capita incomes over coming decades would be much larger.

<u>Third</u>, the data in Table I, presented more graphically in Figure 3 and Table 2, suggest that there is plenty of room for improvement in LDC policy frameworks. In brief, many LDC policies diverge substantially from those that would allocate resources efficiently; and there are wide gaps among the LDCs individually and in their group scores.

Reflecting these generalizations, there is an approximately 80 point range within which individual country and group policy scores can fall (-39 to +39). Table 2 shows the location of each of five country groups among the 10 deciles within this policy range.

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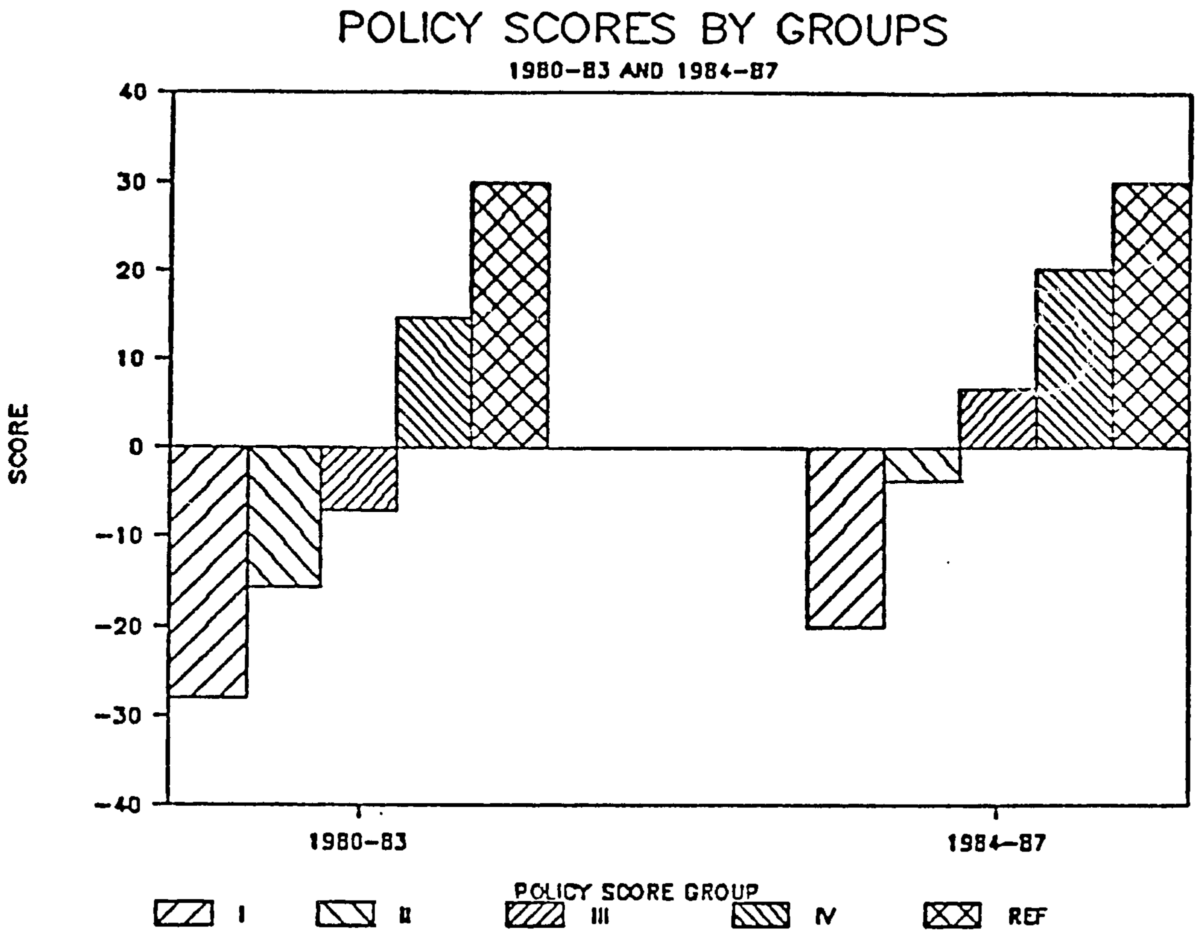
Figure 3



Source: Table I

Table 2.
Policy Group Scores by Decile Rank

Country Groups	Decile Rank 1980-1983	Decile Rank 1984-1987	Change in Decile Rank Between Periods
Reference Group	10th	10th	0
Group I, Hi Policy Score	7th	8th	+1
Group II, Med Hi Pol Score	5th	6th	+1
Group III, Med Lo Pol Score	3rd	5th	+2
Group IV, Low Pol Score	2nd	3rd	+1

Source: Table 1.

The United States and Singapore, the two reference countries, score well into the 10th decile of the range. The highest policy score countries, in contrast, fall in the 7th decile in 1980-1983 and in the 8th decile in 1984-1987. The lowest policy score countries, in even sharper contrast, fall only in the 2nd decile in 1980-1983 and in the 3rd decile in 1984-1987. The apparent improvement between the two periods in the decile placement of the four policy groups is certainly a positive sign. At the same time, there's clearly a long way to go, particularly for the countries in the lower policy framework groups.

In sum, the investigation undertaken in A.I.D. suggests that there is room for substantial improvement in LDC policy environments and good evidence that such improvements could compress by meaningful amounts the gap between actual and potential growth!

5. The Political Economy of Changing the Policy Environment

It is one thing to establish that the policy environment does matter. It is quite another thing to achieve the efficiency improving gains in the policy environment that would enable potentially higher growth rates to be achieved. The problems are two fold.

First, in many instances, policies are not flawed by intent but by lack of expertise in devising proper policies. Politicians who are not trained or do not have access to sound economic advice can all too easily become swayed by simplistic and, ultimately disastrous advice. In the interest of raising urban living standards, they might agree, say, to impose rent controls, fix low prices for food products in urban consumption baskets, reduce interest rates on "productive" loans and, establish high rates of protection to promote local industrial development and jobs. Unless the simplistic appeal of such policies is blunted by pointing out, say, that rent controls will adversely affect housing construction and that food price controls will reduce farmers incentives to produce food products and/or require more imports to supplement domestic supply at a cost to the budget and balance of payments, there is a good chance that politicians will unintentionally introduce policies that promote inefficiency and reduce growth. For this first problem, there is at least a relatively clear albeit only partial solution.

There are well trained economists in a large number of LDCs. Often, however, there are too few relative to the demands on their time. There may be specialized areas where there are gaps in the talent that does exist. There may also be no critical mass in the sense that there are no strong and respected voices in the public and private sectors that press for policies that promote objective efficiency considerations in resource allocation. The talent problem is remediable. The interim solution is to supplement the domestic talent that does exist with technicians from abroad with training in the areas where local capacity is limited. The permanent solution is to create a cadre of well trained economists through a 10-15 year training program. Korea, Brazil and Chile are countries where such training has paid large dividends in creating highly capable indigenuous economic capacity.

Having economic talent is a necessary condition. It is by no means sufficient because disposing of economic talent is quite distinct from using it. The second, and far more serious problem, is the political economy of improving economic policies.

The fact of the matter is that <u>no matter how bad</u> policies may be from an efficiency point of view, there is virtually always someone or some group that benefits directly from the maintenance of the status quo. More often than not these groups and individuals are politically powerful as well as have large investments and high future income flows to protect.

Cases in point are easy to find. Efforts to reduce effective protection in Costa Rica, Panama, Argentina, Chile and a host of other countries have run smack into powerful individuals and groups, often in alliance with one another, that have important economic stakes in maintenance of the status quo. To continue the example cited earlier, the Panamanian firm that "manufactures" spiral notebooks wants monopoly profits maintained. That, to the firm, means three things--that nominal protection on the notebooks remains high, that the firm continues to receive tariff exonerations on its intermediate imported inputs and that import licenses or access to foreign exchange for imports continue to be used as vehicles to control the entry of potential rival manufacturers. The profits and investments that are involved are sufficiently high to lobby for maintenance of the status quo with those who have the power to maintain it.

Throughout much of Asia and Latin America, efforts to rationalize credit policy run into similar barriers. The groups/activities that receive credit in preferential amounts and at preferential rates are the first to protest against efficiency related proposals to end their privileged position in the credit allocation system. It is easy to understand why firms and industries in countries as diverse as the Philippines, Argentina, Egypt and Indonesia have reacted so negatively. Oftentimes real investment in plant, equipment, technology, etc., has been undertaken in support of activities that have been receiving subsidies through the credit system. If and/or when the subsidies end, the value of this investment may have to be substantially written down, if not written off to zero. Again, this provides a powerful incentive to lobby for the maintenance of the status quo and to deploy resources in support of such efforts.

Egypt is the classic and, in many ways, the most poignant example. The composition of investment, production, consumption and employment has been built up over three decades during which the structure of relative prices has become increasingly divorced from the structure that reflects what real relative costs are. The efficiency costs of the distortions are enormous. So also are what the Egyptian Government perceives as the political and social adjustment costs with the result that the preferred path by Government itself is to try to maintain the status quo. The Egyptian dilemma is that it is impossible to maintain the status quo because the real resource requirements of maintaining it simply cannot be met.

To illustrate, take energy and food prices in Egypt and the consequences of what they are as a case in point. Since 1973, energy prices in Egypt have been about 10 - 20% of their real [illegible] to the economy. On the basis of the low financial cost of energy, public and private sector firms and individuals have made choices on what to produce and how to produce it that are intensive in the use of energy. The aluminum and fertilizer industries provide examples. Both produce highly energy intensive products. If Egypt were to close both production facilities and export the oil equivalent of the energy saved, Egypt could import all of the foregone domestic production of aluminum and fertilizer and have a net surplus of export earnings. More generally, firms, farmers and individuals throughout the economy, rich and poor alike, have chosen to use energy intensive technology that is incorporated in motors, irrigation systems, transport equipment and other capital equipment. The equipment uses a lot of energy but is relatively cheap initially as compared with alternatives that may be more expensive initially but use a lot less energy. From a financial perspective, the choices are perfectly rational. From an economic point of view, they are a disaster because, as the aluminum and fertilizer examples suggest, they use resources inefficiently.

Why, therefore, isn't something done to use resources efficiently. To see why, ask what would happen if, overnight, energy prices were to rise tenfold (or fivefold) to their real costs to the economy. While this is not the place to trace economy wide impacts, some things are quite clear. In many cases, firms could not pass on the energy price increases into output price increases, with the result that profits of firms using energy intensive production methods might fall to zero or become negative. Whole industries like aluminum and fertilizer production might close. The energy intensive production technology in place in other industries would have to be substantially written off. Those industries and firms that could still be profitable might be faced with large retrofitting expenditures. Big problems would remain even if firms could pass energy price increases forward into output price increases. There would be at least an initial upward adjustment in prices that could be politically destabilizing or used to achieve destabilization ends by opponents of the regime. What is true of energy prices is also true of food prices. In fact, A.I.D. estimated in the early 1980's that the average household in Egypt would have to receive an income increase of 20 - 25% in order to buy the average food basket if the food items in the basket were increased to their real cost to the economy. Governments do not win popularity contests by raising prices. Egypt's pricing structure for food and energy, when placed in a political context, help to explain the reluctance on the part of many LDC governments to introduce the type of economic policy reforms that are desirable.

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TABLE 3

COUNTRY POLICY TYPOLOGY: TOTAL SCORES BY PRINCIPAL POLICY COMPONENT AND BY GEOGRAPHIC REGION

REGION	COUNTRY	CREDIT/MONETARY POLICY 80/83	CREDIT/MONETARY POLICY 84/87	TAX REGIME 80/83	TAX REGIME 84/87	PRICING REGIME 80/83	PRICING REGIME 84/87	FOREIGN TRADE AND EXCHANGE REGIME 80/83	FOREIGN TRADE AND EXCHANGE REGIME 84/87	POLICY RESPONSE REGIME 80/83	POLICY RESPONSE REGIME 84/87	BUREAUCRATIC REGIME 80/83	BUREAUCRATIC REGIME 84/87	POLITICAL RECEPTIVITY/ IMPLEMENTATION RECORD 80/83	POLITICAL RECEPTIVITY/ IMPLEMENTATION RECORD 84/87	TOTAL SCORE 80/83	TOTAL SCORE 84/87
ANE	Egypt	-3.0	-3.0	-1.0	-1.0	-5.0	-5.0	-5.0	-7.0	-4.0	-4.0	-6.5	-6.5	-4.0	-4.0	-28.5	-30.5
	Indonesia	-3.5	-0.5	0.0	0.0	-3.0	-3.0	5.0	5.0	2.0	2.0	-5.0	-3.0	1.0	3.5	-3.5	4.0
	Jordan	5.0	7.0	-3.0	-3.0	5.0	5.0	5.0	5.0	2.0	3.0	-5.0	-1.5	3.0	3.0	12.0	18.5
	Pakistan	-5.5	-5.5	-5.0	-5.0	-4.5	-4.5	-6.0	5.0	-2.0	4.0	-3.0	-1.0	0.5	0.5	-25.5	-6.5
	Thailand	7.0	7.0	3.0	3.0	-0.5	-0.5	5.0	5.0	-1.0	3.0	-2.0	-2.0	3.0	3.0	14.5	18.5
	Philippines	-5.0	5.0	0.5	1.0	0.0	2.0	-1.0	1.0	4.0	4.0	-5.0	-5.0	1.5	2.5	-5.0	10.5
	Bangladesh	-3.5	2.0	-1.5	-1.5	0.0	1.0	-3.0	-3.0	3.0	4.0	-2.0	-2.0	3.0	3.0	-4.0	3.5
	India	-3.0	-1.0	-0.5	-0.5	-5.0	-1.0	-1.0	1.0	1.0	2.0	1.0	1.0	-2.5	-3.5	-10.0	-2.0
	AVERAGE	-1.4	1.4	-0.9	-0.9	-1.6	-0.8	-0.1	1.5	0.6	2.3	-3.4	-2.5	0.7	1.0	-6.3	2.0
LAC	Belize	5.0	5.0	-1.0	-1.0	1.0	1.0	3.5	3.5	2.0	4.0	-2.5	-2.0	-0.5	3.0	7.5	13.5
	Costa Rica	-5.0	1.0	-2.0	0.0	1.0	1.0	-7.0	3.0	-2.0	2.0	-1.0	1.0	-3.0	3.0	-19.0	11.0
	Dom. Repub.	-3.0	-3.0	0.0	0.0	-5.0	-5.0	-7.0	-3.0	-4.0	-2.0	-5.0	-4.0	-3.5	-3.5	-27.5	-20.5
	Ecuador	-5.0	-5.0	-5.0	-5.0	-4.0	0.0	-1.0	1.0	-1.5	0.5	-5.0	-5.0	-4.0	0.0	-25.5	-13.5
	El Salvador	-6.0	-6.0	-2.0	-4.0	-4.0	-4.0	-3.0	-5.0	-4.0	0.0	-6.0	-6.0	-1.0	-2.0	-26.0	-27.0
	Guatemala	1.0	1.0	-2.0	-2.0	-1.0	-1.0	-7.0	-7.0	0.0	2.0	0.0	1.0	0.0	0.0	-9.0	-6.0
	Jamaica	-3.0	0.0	-3.0	-3.0	-4.0	-4.0	-5.0	3.0	-4.0	2.0	-3.0	-1.0	-1.5	2.5	-23.5	-0.5
	Peru	-4.0	-5.0	-2.0	-2.0	1.0	-3.5	1.0	-3.0	1.0	-2.0	-7.0	-7.0	4.0	-4.0	-6.0	-26.5
	Bolivia	-3.0	5.0	-4.0	-1.0	-5.0	5.0	-7.0	7.0	-4.0	2.0	-4.0	-2.0	-4.0	4.0	-31.0	20.0
	Haiti	-1.0	1.0	1.0	1.0	-3.0	-1.0	1.0	-1.0	0.0	2.0	-5.0	-5.0	1.0	2.0	-6.0	-1.0
	Honduras	2.0	2.0	-3.0	-3.0	-0.5	1.5	0.0	-6.0	-2.0	-3.0	-4.0	-4.0	-3.0	-3.0	-10.5	-15.5
	AVERAGE	-2.0	-0.4	-2.1	-1.0	-2.1	-0.9	-2.9	-0.7	-1.7	0.7	-3.9	-3.1	-1.4	0.2	-16.0	-6.0
AFR	Botswana	3.5	1.5	0.0	0.0	3.5	3.5	7.0	7.0	4.0	4.0	2.0	2.0	2.0	2.0	22.0	20.0
	Lesotho	3.5	3.5	2.0	2.0	0.0	0.0	7.0	7.0	4.0	4.0	3.0	3.0	1.0	1.0	20.5	20.5
	Kenya	-3.0	3.0	1.0	1.0	-3.0	-3.0	3.0	3.0	0.0	2.0	-5.0	-4.5	-4.0	0.0	-11.0	1.5
	Liberia	3.0	1.0	2.0	2.0	-0.5	-0.5	7.0	-4.0	0.0	-2.0	-7.0	-7.0	0.0	-4.0	4.5	-14.5
	Malawi	-1.0	3.0	1.0	1.0	-1.0	-1.0	7.0	6.5	2.0	4.0	4.0	4.0	4.0	4.0	16.0	21.5
	Mozambique	-7.0	-7.0	-4.0	-2.0	-5.0	-5.0	-3.0	-1.0	-4.0	-2.0	-5.0	-1.0	-4.0	-2.0	-32.0	-20.0
	Niger	-3.0	-1.5	0.5	1.0	-3.0	1.0	3.0	4.0	-2.0	1.0	-3.0	-0.5	-1.0	3.0	-8.5	8.0
	Swaziland	5.0	5.0	4.0	4.0	3.5	3.5	7.0	7.0	4.0	4.0	3.0	3.0	2.0	3.0	28.5	29.5
	Tanzania	-6.0	-6.0	-2.0	-2.0	-5.0	1.0	-1.0	-0.5	-4.0	-1.5	-4.0	-3.5	-1.0	-1.0	-23.0	-13.5
	Zaire	-3.0	-1.0	-3.0	-1.0	-5.0	5.0	-1.0	5.0	-4.0	-4.0	-5.0	-5.0	-4.0	0.0	-25.0	-1.0
	Zambia	3.0	3.0	2.0	2.0	-3.0	-1.0	1.0	5.0	-4.0	-2.0	0.0	2.0	-2.0	-2.0	-3.0	7.0
	Cameroon	5.0	5.0	0.0	0.0	3.0	3.0	7.0	7.0	2.0	0.0	3.0	3.0	4.0	4.0	24.0	22.0
	Uganda	1.0	1.0	-4.0	-3.0	-1.0	-1.0	-7.0	-6.0	-3.0	-2.0	1.0	0.0	4.0	2.0	-9.0	-9.0
	Burundi	-2.0	0.0	1.0	1.0	-3.0	-3.0	0.0	3.0	0.0	0.0	-6.0	1.0	0.0	0.0	-10.0	2.0
	Gambia	-2.5	1.5	-1.0	-1.0	-3.0	0.5	2.0	4.0	-4.0	2.0	-1.5	-0.5	-1.0	3.0	-11.0	9.5
	Ghana	-5.0	-2.0	-4.0	-2.0	-5.0	4.0	-5.0	1.0	-2.0	4.0	-5.0	-1.0	-4.0	4.0	-30.0	8.0
	Guinea	-7.0	5.0	0.0	0.0	-5.0	5.0	-3.0	7.0	-4.0	0.0	-7.0	-3.0	-4.0	4.0	-30.0	18.0
	Madagascar	-3.0	1.0	0.0	1.0	-3.0	0.5	1.0	3.5	-4.0	2.0	-3.0	-2.5	-2.0	2.0	-14.0	7.5
	Mali	-2.5	-3.0	4.0	0.0	-3.0	-1.5	1.0	0.5	-4.0	2.0	-4.0	-2.0	0.5	0.5	-12.0	-3.5
	Rwanda	-1.0	1.0	-1.0	-1.0	-1.0	-1.0	-5.0	-3.0	2.0	2.0	-3.0	-3.0	4.0	4.0	-5.0	-1.0
	Senegal	0.5	0.5	-1.0	-1.0	-4.0	-2.5	2.0	2.5	-4.0	-0.5	-4.0	-2.0	-0.5	2.0	-11.0	-1.0
	Somalia	-3.0	-3.0	1.0	1.0	-3.0	3.0	-3.0	-3.0	-2.0	-2.0	-3.0	-3.0	-1.0	-2.0	-14.0	-9.0
	Sudan	-2.0	-2.0	-2.0	-2.0	-5.0	-5.0	-5.0	-5.0	-4.0	-4.0	-2.0	-2.0	-4.0	-0.5	-24.0	-20.5
	AVERAGE	-1.2	0.4	-0.3	0.0	-2.2	0.2	1.0	2.2	-1.3	0.5	-2.2	-1.0	-0.5	1.2	-6.8	3.6
42 COUNTRY AVERAGE		-1.4	0.4	-0.9	-0.6	-2.1	-0.3	-0.3	1.3	-1.1	0.9	-2.9	-1.0	-0.5	0.9	-9.1	0.8

Prepared by PPC/EA
01-Dec-88
Reg.wk1

MEMORANDUM FOR: AA/ANE, Julia Chang Bloch
AA/AFR, Charles Gladson
AA/LAC, Dwight Ink

SUBJECT: November Report

One of the key areas of investigation in the November Report is the relationship between the policy orientation of LDCs and their economic performance. As you know, there is evidence suggesting that a policy orientation that permits competitive, profit-seeking market forces to allocate resources has been a major factor behind the favorable economic growth records of such countries as Korea, Taiwan and Singapore. There is also evidence that suggests that economic performance is hindered by government policies that create distortions in the level and structure of relative prices and that result in direct public sector management of activities that can be run by the private sector. At the same time, it is quite clear that factors wholly exogenous to LDC internal policies both affect LDC economic performance and can "swamp" the effects of either "good" or "bad" policy. It is also quite clear that favorable growth can be (temporarily) achieved through "bad" policies--e.g., external borrowing at levels that cannot be sustained on the basis of export earnings prospects over the repayment period of the loans.

For the purposes of the November Report, these individual elements need to be separately distinguished from one another. I need your help in this endeavor. The attached questionnaire was developed to this end. It has been reviewed and tested by your chief economists. We believe it lays out a framework for consistent evaluations within and between regions and across time. I am very aware of the imprecision that such an exercise entails unless handled in a consistent fashion within each region and across regions. It is precisely for this reason that each region must take on responsibility for quality control.

This is a high priority task which I've discussed at some length with the Administrator and our new chief economist. At the same time, we are aware of the workload implied by the questionnaire. In the interests of keeping the initial workload down and speeding up the provision of the required information, the period 1965-79 need not be addressed at this time. Moveover, some responses may be indicated as subject to further investigation/verification. Please have your chief economists working towards a 9/05/88 deadline for this. Country compilations should be forwarded as completed to J. La Pittus, Director, PPC/EA.

Clifford M. Lewis
November Report Director

Attachment:
Economic Policy Orientation
Typology

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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

July 26, 1988

MEMORANDUM

TO: ANE/DP, M. Crosswell
AFR/DP, J. Wolgin
LAC/DP, J. Fox

FROM: AAA/PPC/EA, Jerome R. La Pittus JL

SUBJECT: Economic Policy Orientation Typology

The questionnaire has been designed to permit "yes" and "no" responses to each question. Except for section VIII, a "yes" response is indicative of a policy framework that is not market oriented. A "no" response is indicative of a policy framework that is market oriented.

There are alternative ways to score the questionnaire. I ask to bear your indulgence until we discuss the appropriate course to take. The simplest way to obtain a "score" is to quantify yes and no responses with values of -1 and +1 respectively. Using this approach, the proportion of total responses with a +1 value will be 100% if policy is 100% market oriented and 0% if policy is 0% market oriented.

All other scoring systems involve weighting patterns that diverge from equal weight for each question. For example, each subaggregate can be given its own market orientation score using the approach above and they can then be added up in accordance with a weighting system designed to characterize the relative importance of each subaggregate.

Attachments: a/s

PPC/EA:JLaPittus/jcb/647-8558:Doc #3108A

TABLE I. Economic Policy Orientation Typology

	Average over period	1980-87 1980-83	 1984-87	Trends/Explanatio
edit/Monetary Policy				
posit rates less than inflation.				
edit allocation by administrative regulation eater than 20% of total credit.				
eferences accorded public sector:				
l) cost of credit,				
l) allocation of credit.				
inking system nationalized				
of total credit from public banks greater than 20%.				
ntral Bank rediscounts on specialized credit lines e greater than 20% of total credit extended by inking system				
terest rate ceilings exclude/preclude some rrowers from formal banking system.				
OVERALL CHARACTERIZATION/SCORE				
Taxation				
come taxes less than 20% of total taxes.				
ffective rate of protection in excess of 20%.				
terest earned on government bonds exempt from ixes.				
blic Sector entities enjoy exemptions from port, export, other taxes.				
ixes that distinguish between origin and desti- ation of production greater than 20% of total.				
OVERALL CHARACTERIZATION/SCORE				
Prices				
conomically important input prices subject to ntrols, public marketing channels.				
conomically important output prices subject to ntrols, public marketing channels.				
ergy prices held significantly below other mestic prices.				
ignificant distortions in the structure of relative ices.				
er 20% of CPI basket subject to price controls.				
OVERALL CHARACTERIZATION/SCORE				

	Average over period	1980-87: 1980-83	1984-87	Trends/Explanation
Foreign Exchange Regime				
Divergence between official and market exchange rates in excess of 20%.				
Exchange rates not uniform across products, across exporters, importers.				
Public sector enjoys preferential cost/access to foreign exchange.				
Over 20% of foreign exchange transactions outside of primary official rate.				
Access to foreign exchange for imports importantly dependent upon availability of domestic substitutes.				
Country deemed to have multiple currency practices.				
Tariffs, quotas, etc., significantly distort import prices.				
Rationing techniques are used to allocate at least 20% of foreign exchange.				
Exporters are obligated to sell at least 20% of foreign exchange to Central Bank/Monetary Authority.				
OVERALL CHARACTERIZATION/SCORE				
Policy Response to Exogenous Shocks and Other Adverse Impacts				
Domestic prices not permitted to track international price developments for key tradeables (petroleum, energy, grains, other).				
External borrowing excessive relative to debt service capacity.				
Payments arrearages important source of supplementary external financing.				
Stabilization policies not rapidly introduced and not in correct mix/amounts.				
OVERALL CHARACTERIZATION/SCORE				

	Average over period	1980-87: 1980-83	1980-87: 1984-87	Trends/Explanation
Bureaucratic Impacts on Economic Activity				
Licenses/approvals for economic activity common and subject to abuse or provide rent to holder.				
Administrative rules/regulations are costly in terms of time, fees, procedures.				
Judicial system does not guarantee property rights.				
Bribery important factor in gaining approvals.				
Government does not permit decentralized decisions on local taxes or on revenue collected locally.				
Fee for service not established practice in any major area.				
Public sector heavily involved in management/ownership of activities that can be run at least as efficiently by private sector.				
OVERALL CHARACTERIZATION/SCORE				
I. Overall Measures				
Is IMF compliance record poor?				
Is World Bank compliance record poor?				
Are few influential gov't policymakers committed to market liberalization?				
Your overall assessment of antipathy toward markets.				
OVERALL CHARACTERIZATION/SCORE				
II. Sensitivity to Exogenous Shocks/Factors				
Strong impact on domestic economy of OECD level of activity.				
Heavily affected by international energy price developments.				
Drought/other natural disasters frequent.				
OVERALL CHARACTERIZATION/SCORE				

ANNEX D. SOCIAL ANALYSIS

A: Social Analysis

The project will begin at a critical time in Peru. The country's prolonged social and economic deterioration has greatly increased poverty, fostered growing violence, and undermined confidence in the ability of the society to hold together. The changes in economic policy initiated by the Fujimori government open up possibilities for recovery and for long-run social gains, however, questions remain as to the program's near-term social impact and in defining the most appropriate economic course of action over the next several years. The PAPI project will help to identify key problem areas and clarify the costs and gains of alternative policy options. The project can help achieve significant gains through the design and implementation of policy options that are oriented toward reversing the trend of increasing poverty, while strengthening the capacity of the economic system to function effectively.

The social analysis will address the following three issues: (1) the social impact of the government's economic policy reforms, (2) the need for and spread effects of the proposed social emergency program, and (3) the potential social-economic impact of the PAPI project.

1. The social impact of the economic policy reforms

The immediate impact of the Fujimori government's economic policy reforms on the mass of the population has been primarily negative. This negative impact must be quickly reversed, especially for people living under conditions of acute poverty.

The basic thrust of the stabilization program is to stop hyperinflation and the deterioration of the productive system. This will be accomplished by raising government revenues to offset the fiscal deficit and eliminate distortions in the price system, while allowing market forces to operate more freely. A close relationship exists between prices charged by state-owned firms and the subsidies allowed on basic commodities. The previous government incurred large fiscal deficits and financed these deficits through Central Bank funding, which resulted in severe hyperinflationary pressure. Price controls and direct subsidies were imposed on public services in order to hold down specific service and commodity prices. This approach was particularly costly when applied to prices of foreign exchange and state-owned firms. Although it was imperative to correct relative prices, the sudden jump in prices for petroleum products translated into higher costs for gas cooking and public transportation. At the same time, lower income groups were hit particularly hard by the removal of subsidies on food imports and domestic food supplies. Thus, the degree to which living standards fall and the time necessary to improve these standards, will depend on many factors determined by the impact of economic and social policies.

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At present, some of the most pressing issues are: (1) wage policies, employment, and sustainable targets for living standards; (2) policies with respect to food prices, supplies, and distribution; (3) import prices, exchange rates, tariffs, and export incentives; (4) the structure of taxes and government spending; and (5) the nature and scale of the Social Emergency Program ("Programa de Compensación Social").

With respect to wages, employment, and living standards, whatever choices are made need to be supported by technical criteria and the need for practical application. If wages are raised too sharply to compensate for the negative effects of higher food and gasoline prices, and for the higher cost of public utility services, then the stabilization effort could fail. On the other hand, if nominal wages are kept under tight control, implying a very sharp drop in real wages and purchasing power, living standards could be driven down for many people already in acute poverty, with falling demand worsening the rates of unemployment and underemployment, which are already high.

The establishment of a consistent and coherent policy of minimum wage is an area of critical importance for the nations' poor. The government has taken immediate steps to help marginal income people by means of significant salary increases. (Minimum wage earners now comprise approximately 11 percent of the total labor force). However, there most likely exist many more workers in the informal and agricultural sectors who earn far below the minimum wage. As a result, any abrupt change in relative prices can be expected to hit the informal sector particularly hard. At the same time, higher prices may produce a counter effect in terms of increasing rural incomes. The latter is particularly likely since the elimination of import subsidies on food commodities (representing 80 percent of food commodity prices), will raise prices as well as the incomes of producers of agicultural products. Within the agriculture sector, the anticipated gains and loses are not clear. Producers in markets with strong demand should gain, while the more self-sufficient small producers and landless rural labor will most likely lose. The issue of what can be done to neutralize or avoid losses for the poorest population will be addressed through the application of PAPI technical resources.

Financial implications of the reform package include the near-term effect of currency appreciation, particularly with respect to liquidity shortages which could threaten the viability of private firms currently in a sound financial condition. As measured by the *Cuanto* index of consumer prices, the price index increased by 136 percent the day after the announcement of the stabilization program. This implies a loss of approximately 70 percent in real wages and real money supply. A modest downward shift in prices over the next week was attributable to the sudden drop in demand, and the need for currency arbitragers to gain liquidity. However, this same need for liquidity forced people to shift from dollar holdings to the purchase of local currency *Intis*, thereby creating strong currency appreciation just when the government intended to bring about local currency depreciation favorable to exporters. This unforeseen problem illustrates the need for prior identification of key constraints, and prior study of the interrelationships of economic variables before sound and sustainable economic policies can be established.

Within the present policy context, current tariff policies may interact with exchange rate policies in a negative way. For example, a key objective of the government is to reduce tariffs. In particular, the GOP is striving to reduce differentials among tariff rates, while avoiding the possibility of destructive import competition through depreciation of the currency. In the application of an effective policy for tariff reduction, however, delays in tariff reforms are due primarily to misgivings of the government's own economic advisors as to the appropriateness of economic policy proposals, rather than any strong opposition by the private sector. Instead of the originally proposed division between a maximum rate of 50 percent applied to industrial finished goods, and a minimum rate of 10 percent for all other products, the present discussion revolves around a more narrowly defined range of 15 to 25 percent for all imported goods. Although this would lessen market distortions, it also implies less protection for emerging and new industries. With a 15 percent tariff on imported food commodities, it would also imply a marked change in future relative prices as compared to prior subsidies on food commodity imports. The near-term social impact of intensified competition for industry and higher prices for food imports, could result in an extended period of time required to halt acute poverty, and provide some of the means needed to alleviate the conditions of joblessness and create viable employment.

It seems clear that the stabilization program could have serious negative effects on the urban poor, as well as the great mass of urban consumers who are not in the borderline poverty category. Yet the stabilization program will have a positive impact on rural wage-earners. All of these issues and potential constraints will require careful study in order to clarify policy options, and strengthen the policy dialogue and decision-making process.

A recent AID memorandum by Ben Hoskins, "Social Emergency Program", June 27, 1990, describes a wide range of possible actions and recommends immediate action on nutritional studies as a first priority. He also recommends that a team begin to study both the Bolivian Social Emergency Program and programs for targeted commodities. All of these are promising possibilities for design and implementation of programs that could make a significant contribution to alleviating extreme poverty in the years ahead. The new government is understandably swamped by the magnitude of the problems involved in the stabilization effort at present, and has done little as yet in the design of a significant program to reduce extreme poverty. Studies initiated in the next six months could help both to clarify alternatives and to prepare for active programs as soon as resources become available.

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ANNEX E: WAIVERS

JUSTIFICATION FOR WAIVER PERMITTING LOCAL PROCUREMENT

Problem:

There is a need for a source and nationality waiver under the PAPI project to permit the local procurement of services and commodities. A waiver of nationality is required for project services totalling $700,000, and a waiver of source is required for local American-made commodities, estimated to be $10,000.

Discussion:

The PAPI project will provide support to the new GOP in the form of technical personnel and a limited amount of commodities related to the analysis of macroeconomic and sectoral policies. Technical services are required to establish a project technical unit within the office of the Secretary of the Presidency (SEP). The technical unit will play a key role in the review and implementation of project requests for policy analysis, studies, assistance and training. Three long-term Peruvian economists are needed to staff the technical unit of the SEP at an approximate cost of $300,000 over the LOP. In addition, project resources will be used to contract short-term Peruvian technical assistance, up to an amount of $400,000, to respond directly and rapidly to the requests from the SEP for policy technical assistance/analyses.

It is anticipated that a limited amount of American-made commodities will be required to support the efforts of the technical unit. Several computers and software programs related to policy analysis will be procured locally, based on convenience and the availability of American-made computer products.

The availability of a significant number of well trained Peruvian economists is critical to the success of the project. The project could more effectively achieve its objective of developing a cadre of economic policy analysts, needed to strengthen policy dialogue and improve the policy decision-making process in Peru, if procurement of these services were permitted under the project. Local economists procured with PAPI resources would also be capable of complementing and providing follow-up assistance to the short-term technical expertise procured through the Project's institutional contractor mechanism.

Support for the technical unit and short-term technical assistance is required in the form of several American-made computers and related software to effectively carry out policy analyses, and develop a data base of information for measuring project results and comparing progress with other economic policy indicators. Both of these activities are critical to accomplishing the policy analysis and information dissemination objectives established for the project.

Authority:

In accordance with A.I.D. Handbook 1, Supplement B, Chapter 5D, 10a(1), the justification criteria for granting a waiver of nationality for the local procurement of services is based on "such other circumstances as are determined to be critical to the success of project objectives". Likewise, in accordance with A.I.D. Handbook 1, Supplement B, Chapter 5B, 4a, the justification criteria for granting a waiver of source for the local procurement of commodities is based on "such other circumstances as are determined to be critical to the success of project objectives".

Recommendation:

That you authorize a waiver for the local procurement of up to $710,000 of services and American-made commodities, over the four and one half year life-of-project, effective as of the date of your signature of the PAPI Project Authorization.

JUSTIFICATION FOR WAIVER OF PROCUREMENT OF TRAVEL FOR PARTICIPANT TRAINING

Problem:

You are requested to approve a waiver of the requirement that the host government fully fund international participant travel costs, to enable the use of resources authorized under the PAPI project to cover the cost of international participant travel.

Discussion:

The project contemplates an extensive training and information dissemination component, part of which will require participant training in the U.S. and third countries on a short-term basis. The project also includes long-term participant training through the provision of five scholarships for graduate level degrees in Economics.

Project beneficiaries of the participant training activities will include mid-level policy analysts within the key policy-making government Ministries, and other GOP entities such as the Central Reserve Bank and the Secretary of the Presidency. High level policy officials within the new government, together with key private sector representatives of business organizations, are also primary beneficiaries of project participant training programs.

The Project anticipates a considerable amount of in-kind support provided by both GOP Ministries and other GOP entities, in particular the BCR. The extensive use of BCR economists in the design and implementation of policy studies and the in-country training programs is key to the successful accomplishment of project objectives. The Project also relies on the back-stop support of the Secretary of the Presidency in terms of coordination and policy analysis follow-up, and for the provision of in-kind support for office space and limited amounts of secretarial assistance.

GOP financial resources are not adequate to provide for full travel costs for the participant trainees given the current critical economic situation in Peru. Although the majority of the proposed target group for project funded participant training activities are not from economically disadvantaged backgrounds, the level of in-kind support provided by the GOP for project-related activities more than compensates for travel costs funded under the project. Without the proposed participant training activities taking place in the U.S. and appropriate third countries, the project would not be capable of overcoming some of the key constraints to the development of a strong policy decision-making process and the establishment of a cadre of well-trained policy analysts within the primary GOP policy-making Ministries and organizations.

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Authority:

A.I.D. Handbook 10, Chapter 16, provides that the cost of international travel, including incidental costs en route as well as the cost of travel between the participant's city and the points of departure and return in the participant's home country, shall be paid by the host country government or other local sponsor unless, in the case of Mission-funded participants, the Mission Director has justified and authorized full or partial waivers and has so notified the Office of International Training (OIT) in AID/Washington. However, A.I.D. Handbook 10, Chapter 16, Section C.5, provides for the possibility of waiving this requirement and leaves the decision of justification and issuance of such waivers to the Mission Director.

Recommendation:

That you authorize a waiver for the procurement of all travel costs related to participant training activities for GOP participant trainees selected under the project, effective as of the date of your signature of the Project Authorization.

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1990 Appropriations Act Sec. 569(b). Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   No.

2. FAA Sec. 481(h); FY 1990 Appropriations Act Sec. 569(b). (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs

   Yes. The President certified in 1988 INSCAR that Peru has cooperated fully with the United States and that the vital national interests of the United States require the provision of assistance.

are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. <u>1986 Drug Act Sec. 2013</u>. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to

No such report has been submitted to the Congress.

Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer;, or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. <u>FAA Sec. 620(c)</u>. If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

No

5. <u>FAA Sec. 620(e)(1)</u>. If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

Allegations of expropriation have been made against the GOP. A petition to terminate the GSP designation of Peru because of the alleged expropriations has been referred to the Interagency Expropriation Group.

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6.	FAA Secs. 620(a), 620(f), 620D; FY 1990 Appropriations Act Secs. 512, 548. Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further, promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?	No
7.	FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?	No
8.	FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?	Yes. However, the GOP is officially discussing signing the agreement.
9.	FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?	No

10. FAA Sec. 620(q); FY 1990 Appropriations Act Sec. 518 (Brooke Amendment). (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?

(a) As of 8/2/89, the GOP was more than 6 months in arrears on AID Loan No. HIG-527-HG-011.

(b) As of 9/1/89, the GOP has been in default for more than one year on DOD loans Nos. 851D and 852D.

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes, taken into account by the Administrator at time of approval of the Agency's OYB.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

The GOP is in arrears in its obligatory payment of UN dues which must be paid in order to participate. Since the arrears came about after issuance of the "Taking into Consideration Memo", the Administrator did not take it into account in determining the A.I.D. OYB.

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14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? — No

15. FY 1990 Appropriations Act Sec. 564. Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? — No

16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? — No

17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? — No

18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — No

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — No

b. FY 1990 Appropriations Act Sec. 535. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? — No

2. Economic Support Fund Country Criteria

c. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? — No

d. FY 1990 Appropriations Act Sec. 569(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? — Yes

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; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

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

A. GENERAL CRITERIA FOR PROJECT

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?

   A Congressional Notification for the Project was sent on September 14, 1990 and expired on September 29, 1990.

2. FAA Sec. 611(a). Prior to an 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 legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

   No further legislative action by Peru is needed.

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4. FAA Sec. 611(b); FY 1990 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)	Not Applicable.
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	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 on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	The project will encourage Peruvian efforts in areas (a) through (f) through high level economic policy anaysis.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and 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).	The project is not designed to encourage U.S. trade and investment abroad. However, the project will utilize private U.S. participation in the foreign assistance effort through technical assistance and procurement of some commodities.

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	The GOP will contribute the equivalent of at least U.S.$200,000 to meet the costs of carrying out the project through P.L.480 local currency generations.
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. FY 1990 Appropriations Act Sec. 521. 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.
12. FY 1990 Appropriations Act Sec. 547. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?	No
13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other	Not Applicable.

wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 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 (either dollars or local currency generated therefrom)? — Not Applicable.

15. FY 1990 Appropriations Act, Title II, under heading "Agency for International Development." If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? — Not Applicable.

16. FY 1990 Appropriations Act Sec. 537. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? — Not Applicable.

17. FY 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures? — Not Applicable.

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18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).	Yes
19. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?	Not Applicable
20. FY 1990 Appropriations Act, Title II, under heading "Women in Development." Will assistance be designed so that the percentage of women participants will be demonstrably increased?	The project will disaggragate by gender all training activities.
21. FY 1990 Appropriations Act Sec. 592(a). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?	Not Applicable

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Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1990 Appropriations Act Sec. 546 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

Not Applicable.

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

Not Applicable.

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

Not Applicable.

d. FAA Sec. 101(a). 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?

Not Applicable

e. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will: (1) effectively involve the poor in, development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment 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 appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries.

Not Applicable

f. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Does the project fit the criteria for the source of funds (functional account) being used?

NOt Applicable

g. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for

Not Applicable

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use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

h. FAA Sec. 107. Is emphasis placed 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)?

Not Applicable

i. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent 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)?

Not Applicable

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

Not Applicable

k. 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.

Not Applicable

l. FY 1990 Appropriations Act, under heading "Population, DA," and Sec. 535. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

Not Applicable

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

m. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Not Applicable

n. FY 1990 Appropriations Act Sec. 579. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and — Not Applicable 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)?

o. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? ,Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a

Not Applicable

condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; and (11)/utilize the resources and abilities of all relevant U.S. government agencies?

p. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project: (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, ard (2)/take full account of the environmental impacts of the proposed activities on biological diversity?

Not Applicable

q. FAA Sec. 118(c)(14). Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

Not Applicable

r. FAA Sec. 118(c)(15). Will assistance be used for: (1) activities which would result in the conversion of forest lands to the rearing of livestock; (2) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (3) the

Not Applicable

colonization of forest lands; or (4) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

s. FY 1990 Appropriations Act Sec. 534(a). If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

Not Applicable

t. FY 1990 Appropriations Act Sec. 534(b). If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources?

Not Applicable

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to minimize reliance on fossil fuels, (4) help to analyze fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geo-thermal, and advanced biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (9) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank, and Development Assistance Committee of the OECD.

u. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA" (as interpreted by conference report upon original enactment). If assistance will come from the Sub-Saharan Africa DA account, is it: (1) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassro activities on behalf of long-ter development in Sub-Saharan Africa; (4) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take

Not Applicable

into account, in assisted policy reforms, the need to protect vulnerable groups; (5) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

v. International Development Act Sec. 711, FAA Sec. 463. If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote: (4) natural resource management, (5) local conservation programs, (6) conservation training programs, (7) public commitment to conservation, (8) land and ecosystem management, and (9) regenerative approaches in farming, forestry, fishing, and watershed management.

Not Applicable

w. FY 1990 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

Not Applicable

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 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?	Not Applicable
c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?	Not Applicable

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	Yes Yes
b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?	No
c. 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.