PD-ABC-842

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

PERU

**PROJECT PAPER**

INVESTMENT AND EXPORT PROMOTION

AID/LAC/P-631

PROJECT NUMBER: 527-0349

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

# PROJECT DATA SHEET

1. TRANSACTION CODE A = Add C = Change D = Delete PD-ABC-842 Amendment Number

DOCUMENT CODE 3

2. COUNTRY/ENTITY PERU

3. PROJECT NUMBER 527-0349

4. BUREAU/OFFICE LAC 05

5. PROJECT TITLE (maximum 40 characters) Investment and Export Promotion

6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 03 31 97

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

A. Initial FY 91 B. Quarter 4 C. Final FY 93

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

| A. FUNDING SOURCE | | FIRST FY 91 | | | LIFE OF PROJECT | | |
|---|---|---|---|---|---|---|---|
| | | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | | 4,000 | 500 | 4,500 | 16,700 | 2,800 | 19,500 |
| (Grant) | | ( 4,000 ) | ( 500 ) | ( 4,500 ) | ( 16,700 ) | ( 2,800 ) | ( 19,500 ) |
| (Loan) | | ( ) | ( ) | ( ) | ( ) | ( ) | ( ) |
| Other U.S. | 1. | | | | | | |
| | 2. | | | | | | |
| Host Country | | | | | | | |
| Other Donor(s) | | 600 | | 600 | 3,000 | 105 | 3,105 |
| TOTALS | | 4,600 | 500 | 5,100 | 19,700 | 2,905 | 22,605 |

9. SCHEDULE OF AID FUNDING ($000)

| A. APPROPRIATION | B. ACTIVITY CODE | C. PRIMARY TECH. CODE 1. Grant | 2. Loan | D. OBLIGATIONS TO DATE 1. Grant | 2. Loan | E. AMOUNT APPROVED THIS ACTION 1. Grant | 2. Loan | F. LIFE OF PROJECT 1. Grant | 2. Loan |
|---|---|---|---|---|---|---|---|---|---|
| (1) ESF | PEBD | | | – | – | 4,500 | | 19,500 | – |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | | | 4,500 | | 19,500 | – |

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

11. SECONDARY ACTIVITY CODE PETI - PEFN

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

| A. Code | NAA | RUR | TWN | CIT | PRT | | |
|---|---|---|---|---|---|---|---|
| B. Amount | 19,500 | 780 | 390 | 780 | 19,500 | | |

13. PROJECT PURPOSE (maximum 480 characters)

Generate employment and to increase Peru's non-traditional exports and investment in export activities.

14. SCHEDULED EVALUATIONS

Interim MM YY 03 94 MM YY 03 95 Final MM YY 02 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[x] 000 [ ] 941 [ ] Local [x] Other (Specify) PERU

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, Controller

17. APPROVED BY

Signature

Title Craig G. Buck Mission Director

Date Signed MM DD YY

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

PROJECT PAPER

INVESTMENT AND EXPORT PROMOTION (IEP) PROJECT (No. 527-0349)

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*SUMMARIES INCLUDED HEREIN. COMPLETE DOCUMENTS ARE AVAILABLE IN USAID/PERU BULK FILES.

## LIST OF ACRONYMS

| | |
|---|---|
| ADEX | Association of Exporters (Asociacion de Exportadores) |
| APEMIPE | Association of Small and Medium Industrialists of Peru (Asociacion de Pequeños y Medianos Industriales del Peru) |
| BCR | Central Reserve Bank (Banco Central de Reserva) |
| CONFIEP | National Confederation of Private Business Institutions (Confederacion Nacional de Instituciones Empresariales Privadas) |
| COP | Chief of Party |
| EOPS | End of Project Status |
| ESAN | Graduate School of Business Administration (Escuela Superior de Administracion de Negocios) |
| ESF | Economic Support Fund |
| ESR | Economic Stabilization and Recovery |
| FOB | Free-on-board |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| GOP | Government of Peru |
| HCOLC | Host Country Owned Local Currency |
| IC | Institutional Contractor |
| ICE | Foreign Trade Institute (Instituto de Comercio Exterior) |
| IEP | Investment and Export Promotion Project |
| IESC | International Executive Service Corps |
| IPAE | Peruvian Institute of Business Administration (Instituto Peruano de Administracion de Empresas) |
| IMF | International Monetary Fund |
| LOP | Life-of-Project |
| MEF | Ministry of Economy and Finance (Ministerio de Economia y Finanzas) |

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| | |
|---|---|
| MICTI | Ministry of Industry, Commerce and Tourism (Ministerio de Industria, Comercio y Turismo) |
| MUC | Singular Exchange Market (Mercado Unico de Cambios) |
| NTE | Non-traditional Exports (Exportaciones No Tradicionales) |
| PAPI | Policy Analysis, Planning and Implementation Project |
| PSC | Personal Services Contract |
| SNE | National Society of Exporters (Sociedad Nacional de Exportadores) |
| SNI | National Society of Industries (Sociedad Nacional de Industrias) |
| RFP | Request for Proposals |
| TA | Technical Assistance |
| USAID | United States Agency for International Development |
| UHV | Upper Huallaga Valley |
| USG | U.S. Government |

# Investment and Export Promotion Project

## PROJECT PAPER

## I. PROJECT SUMMARY AND RECOMMENDATIONS

### A. Recommendations

USAID/Peru recommends authorization of a $19,500,000 Project consisting of an $18,145,000 Cooperative Agreement with the Association of Exporters (ADEX) and $1,355,000 which will be obligated under separate documents, to accomplish the objectives of the Investment and Export Promotion (IEP) Project. The Project will have a life of five (5) years and is expected to be incrementally grant funded over the next three (3) years.

### B. Borrower/Grantee

The Grantee for this Project will be the Association of Exporters (ADEX) under a Cooperative Agreement. A portion of the grant resources under the Cooperative Agreement will be in the form of an A.I.D. direct contract with an institutional contractor capable of managing a program of technical assistance and simultaneously strengthening local export associations' capacities to provide export promotion services. Other individual obligating documents will consist of a PASA with USDA/APHIS and a Personal Services Contract for the Project Coordinator.

### C. Project Summary

The Investment and Export Promotion Project is designed to strengthen Peru's non-traditional export sector, helping it boost in a two to three year time frame investments and exports in agriculture/agro-industry, light industry/metalworking and apparel. The Project will achieve this objective by providing technical assistance to non-traditional exporters in agriculture and industry, and by enhancing the export promotion services capability of ADEX and other export promotion organizations to provide sustained export services after the Project ends. The Project will also provide assistance to exporters of products from the Upper Huallaga Valley (UHV) and adjacent coca growing areas. In addition, a local currency credit line will be made available to exporters from local currencies generated under the Economic Stabilization and Recovery Program, subject to GOP concurrence for use of these funds.

The Project will consist of the following three components: General Export Promotion Assistance, Specialized Technical Assistance, and an Export Credit Line. Under the first component, an Institutional Contractor (IC), will identify export enterprises with the potential to rapidly increase their exports but who require technical assistance to do so. The IC will assist these enterprises in identifying specific constraints to export growth and arranging for the appropriate technical assistance (TA) to alleviate these constraints.

The IC would also strengthen the export promotion services capabilities of ADEX and other appropriate organizations over time, both through the demonstration effect of their own work and through direct skills transfer to their staffs. Selected local export promotion offices will be provided with improved communications equipment (fax, computers) to enable them to put Peruvian exporters in closer touch with world markets and give them increased access to TA sources. With an enhanced skills capability, ADEX will be positioned to take over the IC's role as TA coordinator when the Project ends.

Under this same component, ADEX and other export groups will sponsor seminars and training workshops on key export issues. These organizations will also participate in the Project's Export Sector Panel which will be organized to articulate the interests of the export sector and identify specific concerns for further study under USAID's Policy Analysis, Planning and Implementation (PAPI) Project. Once the Export Sector Panel has identified specific policy oriented, regulatory and operational problems handicapping exporters and hindering investment, they will submit proposals requesting the PAPI Project's private sector implementing entity to commission studies to support their dialogue effort with the GOP on these issues.

The second project component, Specialized Technical Assistance, will make the resources available to provide technical assistance to those export enterprises identified for project support. TA will be provided by both Peruvian and foreign technical specialists as appropriate in the specific areas of production, processing technologies and marketing that the IC and the export enterprises jointly identify as critical. The TA will be provided on a cost-share basis, with the export firms contributing between 30-70% of the cost of the TA and A.I.D. providing the remainder. It is expected that at the end of the Project, export firms will pick up the full cost of TA services to be offered through ADEX.

The final Project component, Export Credit, consists of a local currency credit line of up to $50 million local currency equivalent to be made available to meet the working capital and medium-term lending needs of non-traditional exporters. The funds will be channeled through the Central Reserve Bank (BCR) to selected commercial banks and then lent to exporters on commercial terms. This component is an adjunct to the Project as the funds will come from a source outside this particular project, from the Economic Stabilization and Recovery (ESR) Program, and will be subject to the final arrangements made under the ESR agreement and to the concurrence of the GOP for use of host country-owned local currency (HCOLC) for this purpose.

The life-of-project (LOP) is five (5) years, and implementation is scheduled to begin in April, 1992.

D. Issues

1. Policy and Other Constraints to Export Development

The PID approval cable (Annex B) requested that the Mission define what was meant by a realistic exchange rate, justify any deviation from the standard and lay out a matrix of policy procedural reforms that will need to take place, as well as when and by whom they will be carried out. As part of the discussions with the IMF, Peru unified its exchange rate structure and now has a market determined exchange rate that will be more conducive to future export development. The Mission considers that a unified, market determined exchange rate is a "realistic" rate. (See Section II.B.)

With respect to additional policy/procedural reforms and other constraints to exports, please refer to Sections II. C.and III.D and Annex H which provides a matrix of policy and other constraints which need resolution. During PP development an internationally recognized export development specialist who reviewed export development programs worldwide for the World Bank was contracted to assess the Project's proposed export development strategy. He recommended that with the major macroeconomic elements favoring exports now in place, subsequent constraints to export development could best be identified, prioritized, analyzed, and resolved through a mixed private/public sector Export Sector Panel interacting with the Mission's on-going policy project. Concurrently targeted export service assistance should be provided to individual exporters. The Export Panel will serve as the mechanism to guide the PAPI Project in the selection of export-related policy studies (See Section III.C).

2. Scope of Project and Activities Proposed

The PID recommended that the Mission consider developing a contract mechanism whereby services to exporters/producers could be provided from the outset and defer the creation of a new institution for later (if it was determined a new entity was needed). Likewise, the Mission was asked to analyze whether the Project should concentrate on: a) export rather than investment promotion activities at least initially, and b) phasing and focusing assistance on either agriculture or industry rather than trying to promote exports across the board.

During PP development these issues were carefully analyzed by a specialist in export development strategy and implementation as well as production/export specialists in agriculture, light industry and apparel. The PID guidance was very helpful. The Project will focus on service delivery from the outset using an Institutional Contractor (See Section III.D.). It was also decided to target export promotion efforts in all three sectors i.e. agriculture, light industry and apparel. This was based on the following considerations: a) the technical analyses found that significant potential existed in all three sectors, b) the need to quickly build a critical mass of diversified non-traditional exports to provide support for the GOP's pro-export economic stabilization and recovery program, and c) the fact that an experienced Institutional Contractor would have the responsibility for implementing an export development strategy which would retain flexibility through annual evaluations and recommended adjustments in export service delivery to the three sectors (See Sections II.D., III.D. and IV.C. as well as the technical analysis Section VI.A). The approach is consistent with the Project's market oriented philosophy and the PID review recommendation for flexibility in the Project.

3. Cost Effectiveness and Appropriateness of Overseas Offices

The Project will focus on export rather than investment promotion activities. Therefore overseas promotion offices will not be established (See Section III.D.).

4. Creation of a New Institution

During PP development a number of institutions were analyzed to determine their implementation capability. While no single institution had the capacity to undertake all the export promotion activities proposed, the Association of Exporters (ADEX) was selected as the most appropriate implementing institution. However, the Institutional Contractor will have the responsibility for establishing an export promotion service capability from the outset. No new export promotion entity will be created. (See Section VI.D. Institutional Analysis).

5. Sustainability

The Project strategy is to provide export promotion services and specialized technical assistance directly to exporters and producers to improve the production and marketability of their products so they can compete effectively in the international marketplace. The intention is to build up a critical export mass that can be maintained and built upon with GOP and private sector efforts to address and resolve additional export constraints.

Cost sharing mechanisms will be used for firm-level TA and specific, detailed information requests. However, other more generalized export promotion services will not have their costs covered by fees for services and will be supported fully by the Project. A recent PRE contracted study of Trade and Investment activities by Ernst and Young concluded that full-financing of such activities is not a realistic goal. What can be encouraged is government and other donor contributions and that individual firms contract directly and pay for specific export services.

The Project will demonstrate to exporters the value of targeted, competent firm-level TA and services. In addition, continuing private sector provision of such services when the Project concludes will be carried out by ADEX which will have developed its capacity by working with the Institutional Contractor to identify how and where exporters can access these services.

6. Role of the GOP

The primary role of the GOP is to facilitate and maintain through appropriate policies a favorable export climate and carry out infrastructure activities to reduce transport costs for exporters. However the provision of export promotion services must be led and necessary investments provided by the private sector. Therefore the GOP's primary role and interaction with the Project will be through the GOP ministries that participate in the Export Sector Panel. The GOP will also have to concur with the utilization of the local currencies generated under the Economic Stabilization and Recovery PAAD that will be used for the export credit line to be channeled through the commercial banks (See Section III.D. Project Description).

## II. BACKGROUND

### A. Historical Perspective on Export Sector

Peru's export history is one of booms and busts, of reliance on raw materials exports and accrual of the wealth generated from exports to a small enclave community. This mercantilist heritage insured that few backward linkages were created within the economy that might have encouraged broader-based economic development, and left as a legacy for Peru one of the worst income distributions in all of Latin America.

Some of the exports that comprised Peru's "boom and bust" cycles were guano, fishmeal, cotton, wool, petroleum, copper, gold, silver, lead and a variety of other metals and minerals. While many of these products were exported simultaneously, usually only one at a time was the "boom" commodity that generated great wealth for its exporters -- until supplies were depleted through overharvesting (e.g., guano) or the effects of natural disaster (e.g., "El Niño" and fishmeal).

Peru's traditional exports, as opposed to non-traditional exports, represent between 70 and 75 per cent of total exports and are highly concentrated in a few key commodities. Ten products comprise 70 to 75 per cent of total traditional exports, while four mining products (copper, silver, lead and zinc) comprise 50 per cent of the total (Pilot Export Project Final Evaluation, 1988, p. 5).

Traditional exports declined substantially during the early to mid-1980s, just at a time when illicit foreign exchange earnings from coca sales began to skyrocket. This happened for a combination of reasons: a fall in world prices and anti-export, protectionist domestic policies which resulted in the greater profitability and lesser risk of selling and investing within the domestic market. The most damaging of these anti-export, protectionist policies that discouraged Peruvian businesses from exporting were an overvalued and multi-tiered exchange rate, and a high tariff structure. The exchange rate provided a subsidy to favored categories of imports (which were generally not inputs for exports) and severely discriminated against exports. Until recently, exporters were required to use the market rate for imported inputs, but export earnings were converted using a combination of the market rate and the official MUC (Mercado Unico de Cambio) rate which was generally 50% lower than the free market rate. The second of these anti-export policies, high tariffs, caused imported inputs for export industries to be exorbitantly priced and left local producers of the same goods, protected by high tariffs, free to charge high prices. The cost of imported inputs for exports was further inflated by a monopolistic port authority that charged excessive fees, making Lima/Callao one of the most expensive ports in the world. Therefore, whether Peruvian exporters imported inputs or purchased locally, their cost structure made it difficult for them to be competitive on the world market.

A final factor that depressed export performance during these years was the tremendous domestic purchasing power created by two successive years of extraordinary GDP growth in 1986 and 1987 (an average of 9% per annum each year). This enhanced purchasing power gave producers an easy market at home and reduced the incentive to sell overseas.

After traditional exports, non-traditional exports (NTE) comprise the remaining 25-30% of Peru's total exports. NTE are those products that have been more recently exported and are generally characterized as having high value-added, a short development time and the ability to compete in a sophisticated market where sales are made on the basis of competitive, not comparative advantage. Peru's NTE include fresh, frozen and processed fruits and vegetables (especially asparagus and mangos), frozen seafood, natural colorants, cocoa paste and cocoa butter, textiles, and mechanical engineering and artisan goods. In contrast to the high concentration of traditional exports in a few commodities, NTE are comprised of more than 1,500 different products (Pilot Export Project Final Evaluation, 1988, p. 5).

In the late 1970s, the GOP established special financial incentives designed to encourage the growth of NTE. NTE grew at rates of 64, 57, and 130 per cent, respectively, in 1977, 1978 and 1979, reaching their highest point in 1980 with a level of $845 million (Pilot Export Project Final Evaluation, 1988, p. 4). However, in the early to mid-1980s NTE performance declined for many of the same reasons as did traditional exports -- a fall in world prices and anti-export, protectionist policies. In the period between 1980-86, NTE fell by an average of four per cent per year. The performance in 1989, however, was dramatically improved and can only be explained as a result of Peru's severe recession which dampened local demand and caused traders of necessity to turn to the external market.

The performance of Peru's traditional and non-traditional exports over the last decade is outlined in Table 1.

TABLE 1

PERUVIAN EXPORTS (1980-1989)

| | ($ millions FOB) | | | | | |
|---|---|---|---|---|---|---|
| Traditional Export Sector | 1980 | 1985 | 1987 | 1988 | 1989 | 1990 |
| Mining | 1,795 | 1,205 | 1,219 | 1,205 | 1,548 | 1,471 |
| Petroleum/Petroleum Products | 792 | 645 | 274 | 166 | 217 | 263 |
| Agriculture | 225 | 225 | 177 | 167 | 239 | 177 |
| Fishing (Fishmeal) | 195 | 118 | 223 | 357 | 410 | 340 |
| Other | 64 | 71 | 59 | 49 | 95 | 51 |
| Sub-total Traditional: | 3,071 | 2,264 | 1,952 | 1,944 | 2,509 | 2,302 |
| Non-traditional Exports | | | | | | |
| Textiles | 224.0 | 244.0 | 255.0 | 257.0 | 346.0 | 367.0 |
| Metal working/metallurgy | 139.7 | 116.1 | 135.6 | 158.9 | 201.0 | 190.0 |
| Fishing | 117.0 | 124.0 | 102.0 | 95.0 | 118.0 | 117.0 |
| Agriculture/livestock | 72.0 | 93.0 | 85.0 | 96.0 | 112.0 | 115.0 |
| Chemicals and Petrochemicals | 90.3 | 45.6 | 60.0 | 71.6 | 92.0 | 71.0 |
| Non-metalic minerals | 58.4 | 14.8 | 10.4 | 12.3 | 17.0 | 18.0 |
| Other | 143.6 | 76.5 | 61.0 | 56.2 | 93.0 | 96.0 |
| Sub-total Non-traditional: | 845.0 | 714.0 | 709.0 | 747.0 | 979.0 | 974.0 |
| TOTAL EXPORTS | 3,916.0 | 2,978.0 | 2,661.0 | 2,691.0 | 3,488.0 | 3,276.0 |

Source: Traditional exports -- BCR/Memoria 1988 and Gerencia de Investigacion Economica 3/90, Non-traditional exports -- MEF, BCR and ICE (Columns may not add due to rounding).

While the policies of previous administrations handicapped the export sector, the policy environment in Peru has taken a dramatic turn for the better. The major new economic reform program implemented by the Fujimori administration has opened new possibilities for Peruvian exporters and has given them cause for optimism.

B. Recent Economic Policy Changes in Peru

The new Peruvian administration that took office on July 28, 1990 adopted on August 8th a tough economic stabilization program based on a sharp reduction in the fiscal deficit, the elimination of a broad range of subsidies on key goods and services such as gasoline and most food items, and the unification and floating of the exchange rate. In subsequent actions the Minister of Economy and Finance has expanded on key elements of the economic plan. Among these are: 1) dramatic reductions of import tariff rates and the removal of non-tariff barriers; 2) the elimination of the official exchange rate market (MUC) and of foreign exchange surrender requirements to exporters; 3) a thorough going tax reform; 4) reform and reorganization of the tax administration superintendency; 5) reform of customs, ports and airports authorities; 6) restructuring of the financial system to improve efficiency; 7) establishment of market determined interest rates and reduction of reserve requirements; 8) a new banking law that promotes the adoption of a multiple banking system not limited exclusively to short-term financial operations; 9) the elimination of foreign investment constraints; 10) the liberalization of external capital flows; 11) the liberalization of the labor market and the expansion of causes for the dismissal of workers; 12) the liberalization of the land market; 13) the elimination of state monopolies over the marketing of foodstuffs and some services, and 14) the publishing of the legal framework to privatize public enterprises and of the initial list of enterprises to be privatized.

This comprehensive economic program establishes a solid foundation for long term growth. It also contains the elements required for an IMF stabilization program and represents for Peru a drastic and decisive break with the past. It has set the stage for a rapprochement with the IMF and the reinsertion of Peru into the international financial community. In fact, negotiations on bridge financing to enable Peru to cover its debt service obligations are underway and an agreement is expected by mid-1991.

The GOP commenced its economic program on August 8th by announcing a series of dramatic price increases. The most significant of these price increases was gasoline which experienced a 3,000% increase from an initial level of about 8 cents per gallon in late July, to $2.50 per gallon in mid-August. At the new price, gasoline has become a major source of tax revenue for the government instead of a drain on the budget as had previously been the case. The prices of other basic staple goods such as sugar were initially increased by 100% to 350%, but some price rollbacks have since occurred.

In an effort to reduce the fiscal deficit, the government is limiting its expenditures to the level of tax receipts. Tax receipts and revenue performance have improved substantially as a result of the recent increase in the price of gasoline, the lifting of subsidies and the reduction of inflation. The recent abysmally poor tax revenue performance in Peru has been due primarily to the normal lags in tax collection in a hyperinflationary environment as well to deficiencies in the tax system itself. For the short term, by subduing inflation and eliminating price distortions to make the existing tax system more efficient, the Fujimori government has chosen an effective strategy to increase tax revenues and bring down the deficit. For the medium term, tax simplification is on the reform agenda, and the number of taxes have already been reduced to make control easier and evasion more difficult.

The GOP's stabilization program has had an impact on inflation. As a result of the price increases introduced by the August economic plan, inflation for the month skyrocketed to 300-400%. Gradually, however, some price rollbacks occurred and the overall price level has since normalized. Inflation for the month of September was reported at 13.8% and the rate for October and November were 9.6% and 5.9%, respectively. The inflation rates for December (23.7%) and January (17.8%) were considerably higher due to an additional 60% increase in the price of gasoline that took effect in mid-December. This measure was considered necessary to cover an ongoing fiscal deficit which the IMF viewed as an obstacle to its endorsement of Peru's economic program. The effects of this latest adjustment have also passed through the economy and price levels have stabilized. Inflation rates for February, March and April were 9.4%, 7.7% and 5.7% respectively.

The exchange rate was unified and devalued in the new economic stabilization package. The MUC rate was consolidated (it had formerly consisted of several rates) and the Inti was allowed to float in relation to the U.S. dollar. The official rates had been seriously overvalued and widely disparate from the street rate; the bank rates and the parallel rate now follow one another closely. While Peru now has a market determined exchange rate, it is still overvalued. Estimates in late March suggested the exchange rate overvaluation to be close to 50% of its purchasing power parity value. This overvaluation is the result of a Central Bank-induced domestic currency liquidity squeeze designed to control inflation in combination with an excess supply of dollars from narcotrafficking and large stocks held by the public outside the banking system. While this liquidity squeeze has eased somewhat over the last two months, it will nevertheless continue until prices stabilize further and the demand for domestic currency increases.

Progress is being made on the trade liberalization front as well. In early October, the GOP announced a program of phased import tariff reductions to be accompanied by the elimination of non-tariff trade barriers over a five year period. By the end of March, the GOP had accelerated the implementation of scheduled reforms, having achieved the following: a) the establishment of a two-tiered (15 and 25%) import tariff structure, the lowest levels in modern Peruvian history; b) eliminating an arcane Commission that kept seaport prices among the highest in the world; c) eliminating restrictions to the repatriation of profits and capital; d) simplifying and expanding the coverage of the temporary admissions regime, which allows exporters to freely import inputs needed in their production processes; e) further liberalizing of export earning surrender requirements; f) establishing a drawback mechanism to compensate non-traditional exporters for indirect taxes, this system will be expanded later to cover traditional exports; g) the elimination of state monopolies over the operation of warehouses at airport and seaport facilities, and h) simplifying customs operations.

While these legal and regulatory reforms will substantially improve the operating conditions of the export sector, other deeply-seated constraints will continue to hinder its growth and development. These constraints must also be addressed to broaden and increase Peru's export base.

C. Continuing Constraints on the Export Sector

In common with other developing countries emerging from decades of high protection and pervasive regulation of industrial activity, Peru still suffers from a residual anti-export bias in the price signals facing would-be exporters. Nevertheless, the bold strides made by the new government to address this problem have begun to eliminate many of these price distortions.

The most significant policy-related constraint still confronting the export sector is the overvaluation of the exchange rate. At a level equivalent to about 50% of purchasing power parity, Peruvian export competitiveness is at a serious disadvantage. It is readily apparent that the GOP's primary objective is eliminating inflation, and that it is willing to accept some of the costs, such as the temporary overvaluation of the exchange rate, associated with its inflation fighting policies. Over the next two to three years, the real exchange rate is expected to depreciate steadily to levels consistent with export reactivation. The acceleration of trade reforms in other areas such as customs, capital flows, ports, temporary admission, drawback, and non-tariff barriers represent the GOP's effort to minimize the deleterious effects of the temporary overvaluation of the exchange rate.

After years of operating in an unfavorable policy climate, Peruvian export firms have not had incentives to invest and have thus lost their competitive edge. Now that the price distortions are being eliminated, the next set of constraints facing the Peruvian export sector must be addressed. These constraints are the following:

1. Low Productive Capacity/Inadequate Know-How

As a result of decades of high protection, combined with the additional squeeze on export profitability in more recent years, much of the productive capacity in Peru has fallen badly behind what would be required to produce for export at internationally accepted standards of quality, reliability, delivery performance and price. Moreover, this climate of high protection and low export profitability provided no incentives for Peruvian producers and exporters to stay current with the latest technologies. As a result, they have insufficient know-how along a whole technical range - from production technology to product design and development, process technology, quality control, post-harvest handling, marketing, general management, cost control and finance. Aggravating the problem is that producers and exporters in both agriculture and industry have few local sources upon which to draw technical assistance needed to upgrade their technological processes. There are few producers' organizations promoting the improvement of products for export, setting classification and packaging standards and providing technical assistance to their members.

2. Limited Financing Available

Little affordable financing is available from the commercial banking system in Peru. This is the case for a variety of reasons including the residual impact of hyperinflation on the domestic money supply and the tough GOP anti-inflationary program which is managing liquidity very tightly.

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The recently adopted liberalization of interest rates, combined with tight liquidity, has resulted in a surge in lending interest rates to unaffordable levels. While the monetary authorities have attempted to counter these effects by reducing reserve requirements, it can only proceed gradually to avoid injecting too much liquidity in the system. These efforts will be complemented by a thorough-going reform of the financial system.

The end result is that little financing will be available, particularly to the non-traditional clients of the banking system. This situation will persist until liquidity conditions ease up and financial reforms begin to take effect, with financial markets allocating funds to creditworthy exporters.

3. Operational/Regulatory Problems

Peruvian customs requirements and export procedures are extraordinarily dilatory and inefficient. Exporters must go from office to office to complete the required export forms because no "one-stop window" where they could do this simultaneously exists. An absence of computerization in the customs offices exacerbates the delays.

The export regulatory system is in the process of change. In early October, the GOP began a gradual but sweeping restructuring of the port authority. The first priority is a dismantling of the byzantine structure and a reduction of underutilized personnel. This restructuring process will take time, however, and in the meantime export procedures will continue to be inefficient.

4. Infrastructural Problems

Peru suffers serious infrastructural problems that discourage investment and make transport of goods to market difficult. Public infrastructural problems include energy shortages (in part due to terrorist bombings of electrical transmission towers); too few international airports (only the Lima airport is adequate); poor roads in all regions of the country; and few international ports, with existing ones having inadequate warehouse/cold storage facilities, limited loading equipment, and high incidence of theft. As a result of the dire fiscal crisis of the past several years, the GOP has not made needed investments in infrastructure or maintenance. For example, a recent World Bank Mission found a backlog of over $900 million in needed transport infrastructure improvements.

Private sector firms are handicapped by limited cold storage/transport facilities and inadequate electrical generation capacity. Cold storage/transport is a particular problem for producers of fresh fruits, vegetables and flowers. World prices for fresh produce are much higher than for processed, but without adequate refrigerated transportation, delays in getting to market cause damage to the product and prevent Peruvian exporters from fully exploiting this potential.

5. Other Constraints

Peru is also handicapped by a number of other factors that impede its ability to compete on even terms with others in the international marketplace. The recent outbreak of cholera in Peru has seriously affected both the fishing and agricultural export sectors. While no reliable figures are available yet, estimates of export losses range from the tens into hundreds of millions of dollars. Understandably, Peruvian export products are now being subjected to very rigorous and stepped-up sanitation and health inspection analyses. All these inspections have so far failed to turn up any infected products. However, the perception that Peruvian exports might be contaminated will continue to affect their marketability until some time passes and it is demonstrated that these concerns are unfounded.

Peru is also racked by two terrorist movements, Sendero Luminoso (SL) and Movimiento Revolucionario Tupac Amaru (MRTA). While SL and MRTA have somewhat different philosophies, affiliations and objectives, they are both violent and dedicated to the destabilization and overthrow of the Peruvian government. Additionally, they are both profiting from their working alliance with drug-traffickers, providing protection for drug processing and transport.

Business establishments are often the targets of both organizations and this has necessitated Peruvian businesses investing heavily in additional security measures in order to hinder such attacks. This situation impedes Peruvian competitiveness in a number of ways; not only must they bear the additional security costs, firms are also reluctant to establish larger production facilities that could bring about greater economies of scale for fear of drawing undue attention to themselves and their operations.

The fact that Peruvian businessmen are able to operate, and in many cases prosper, under these conditions is testimony to their perseverance, determination and ingenuity. Security will be a concern for Project implementation as well. The regions in which the Project will be concentrating its efforts are considered to have lessened terrorist activity than other areas of the country. With respect to the UHV, increased security and police presence must be maintained by the GOP before investment in export enterprises can be expected. In all cases, the Project Office will coordinate activities with the A.I.D. Project Coordinator who will keep the A.I.D. Security Office apprised of all field operations as is the practice with other Project field activities.

Another impediment is foreign barriers to Peruvian trade. While Peru is a signatory to the General Agreement on Tariffs and Trade and a member of the Andean Pact, it is still restricted in its access to a number of markets in which it could compete effectively. Perhaps the most striking example of this is Peru's bilateral agreement with the U.S. under the Multi-Fiber Agreement, particularly the access levels for Peruvian apparel. The agreement is due to expire at the end of 1991 and Peru intends to seek a more equitable arrangement under any new agreement.

The Mission expects that the new U.S. trade initiatives proposed by President Bush could serve to correct this problem. The Andean Trade Preference Act is intended to provide the same duty-free access to the U.S. for Andean country products as Caribbean countries enjoy under the Caribbean Basin Initiative. Spurred by the Enterprise for the America's Initiative, Peru has recently signed a bilateral Trade and Investment Framework Agreement with the U.S. The issue of textile and apparel quotas could very well be addressed under this Framework Agreement.

### D. Potential for Increasing Exports

Despite these constraints, Peru has managed to maintain a limited non-traditional export base and a significant potential for Peruvian exports exists. Peru's comparative advantages include an abundance of microclimates that allow the cultivation of a wide variety of agricultural products and a seasonal "window" on the U.S. and European fresh produce markets. Peru produces some of the finest cotton in the world (Pima and Tanguis) which lend themselves exceptionally well to the manufacture of high quality knit and woven products. In addition, Peru has a large, diverse and extremely resourceful and industrious labor force skilled in a wide range of export-related disciplines. In industry, some Peruvian firms already have experience in exporting apparel and light industry goods, and much of it during periods when exporting was difficult. As the macroeconomic situation improves, this experience will enable these exporters to rapidly expand their exports.

Interviews conducted at the firm level indicate that the Peruvian private sector is poised and ready to respond to the improved climate brought about by the new economic policies. This includes a clearly expressed and unequivocal willingness to participate in the cost-sharing TA arrangements proposed herein. If some of the remaining constraints to exporting can be gradually removed through GOP and private sector actions, as well as through the assistance of this Project, returns to Peru in terms of foreign exchange earnings and jobs will be substantial.

## III. PROJECT RATIONALE AND STRATEGY

### A. Link Between Economic Crisis and Coca Production

During the past two decades Peru has experienced a steady deterioration in economic performance. Per capita income has dropped to 1960's levels, while income distribution has continued to worsen. Since mid-1988, Peru has been in the throes of a hyperinflationary recession. In 1989, inflation reached approximately 2,800 percent, while real GDP dropped by 12 percent. During the last six months of the previous administration, from January 1990 to July 1990, accumulated inflation reached over 800% and production stagnated. Macroeconomic mismanagement by the previous administration is largely responsible for the crisis. The Garcia government instituted a series of adjustment measures that were not consistently applied, lacked the integration of a comprehensive strategy, and were designed primarily to contain the widespread damage inflicted on the economy by the hyperinflationary surge of the second half of 1988.

The policies of the previous government had a disastrous impact on the country. Peru became increasingly isolated within the international financial community, as accumulated arrears on the country's $22 billion external debt reached approximately $13 billion. Foreign exchange reserves were fully depleted and severe price distortions and credit shortages permeated the economy. These and other factors served to obstruct market mechanisms and the normal functioning of the economy, widen the gap between rich and poor and exacerbate the underlying causes of social and political unrest in Peru.

This economic and social context promoted the rapid growth of the illegal narcotics industry with deleterious effects on the country's legal fiber. Inefficient economic policies penalized the formation and operation of legitimate business enterprises in Peru, in particular export enterprises, and increased the attractiveness and profitability of illegal coca production.

The economic force of the illicit narcotics industry is evidenced by the generation of an estimated $600 - 700 million in foreign exchange flows per year, and the employment of approximately 60,000 farmers in the Upper Huallaga Valley (UHV). Others are indirectly dependent on the industry. The inflow of foreign exchange outside banking channels exacerbates the country's economic difficulties by robbing the fiscal authorities of needed control over monetary aggregates. These inflows have pushed the exchange rate below its parity level, and further eroded export competitiveness. Narcotics activity also debilitates the Peruvian fiscal system in several other ways. First and most obvious is that illegal, drug-related income does not provide the government with tax revenues, at least not directly. Counter narcotics activities also aggravate the budget deficit through increasingly greater expenditures needed to maintain even minimum standards of enforcement.

B. <u>Project's Support for Andean Counternarcotics and Enterprise for the Americas Initiatives</u>

The Investment and Export Promotion Project forms an integral part of the USAID/Peru Counternarcotics Strategy which was developed in support of President Bush's Andean Counternarcotics Initiative. The decision to provide assistance to the export sector as part of the counternarcotics effort is based on the conviction that only through bolstering the legitimate economy, especially that sector which provides a licit source of foreign exchange earnings and employment, will Peru make the transition away from illicit drug production and trafficking toward a more diversified, growth-oriented economy. As other elements of the counternarcotics program (e.g., interdiction) begin to take effect, reducing the demand for coca leaf and forcing down its price, the country must have alternative and expanding sources of employment and foreign exchange earnings for this transition to become permanent.

The Project will support the counternarcotics effort in two ways: through overall support to the Peruvian export economy in terms of increased employment and foreign exchange earnings, and through specifically targeted assistance to identify and promote non-traditional export products from the UHV. The first will both enable and encourage the GOP to maintain aggressive enforcement programs that keep coca prices depressed and thereby reduce attractiveness of coca production; the second will help find export outlets for UHV agriculture as coca producers move away from coca to alternative crop production. The UHV contains very fertile soils suitable for growing many legitimate crops. The Valley has historically produced and exported products such as coffee, tea, cacao, tropical fruits and several spices and colorants including black pepper, annatto, ginger and cardamom. Through the assistance of this Project, efforts will be directed at increasing the potential to produce and market legitimate export products from the area. This will include the promotion of joint-ventures and laying the groundwork to develop an export capacity from the UHV in the near future.

This Project will also support the various U.S. trade initiatives that have been announced such as the Enterprise for the Americas' Initiative and the Andean Trade Preference Act patterned after the Caribbean Basin Initiative which are directed towards more unrestricted trade between the U.S. and Latin America. An enhanced Peruvian non-traditional export capacity will also help U.S. exporters of inputs and capital equipment.

C. Relation to Other USAID/Peru Efforts

The Investment and Export Promotion Project will be assisted in attaining its objectives through the efforts of the following Mission activities -- the on-going Policy Analysis, Planning, and Implementation (PAPI) and Management Improvement Projects; the Economic Stabilization and Recovery ESF balance of payments support program, and the proposed Selva-Coastal Road Rehabilitation activity. Early identification of export potential will also assist the proposed Selva Economic Revitalization Project in expanding UHV export crops.

The PAPI Project has been designed to assist the GOP in the second stage of its stabilization and recovery program. While the new GOP has already taken significant economic reform measures, more needs to be done to promote stabilization and lay the foundation for future growth. To assist the GOP in this effort, the PAPI Project will make resources available to strengthen the public sector's capacity to analyze, design, and implement sound economic policies. Priority will be given to reactivation of the productive private sector, laying the groundwork for longer-term growth and an improvement in living standards, and assisting the GOP in its efforts to coordinate donor assistance, especially in relation to the counter narcotics effort.

In addition to this public sector focus, the PAPI Project will assist the Peruvian business community to better address the sectoral reforms necessary for firms to operate profitably and expand operations. It will do this by giving the private sector access to PAPI Project funds to commission technical studies and training in areas such as tax policy analysis for investment attraction and export promotion, small enterprise development, privatization of public entities and promotion of non-traditional exports. The Confederation of Private Business Institutions (CONFIEP) will be the implementing institution for the PAPI Project's private sector component. An Export Sector Panel which will serve as an advocate for exporters under the IEP Project, will develop an agenda of issues of special concern to exporters to channel to CONFIEP for attention under the PAPI Project (See Section IV.C).

The Management Improvement Project is designed to strengthen the capacity of five private institutions to carry out more industry responsive and higher quality management education, training, consulting and applied research, and to strengthen the linkages between these institutions and the industries they serve. One of the Project's main components is to develop institutional resources able to provide improved management training by introducing new program elements and training activities in sectors with greatest potential for growth such as agribusiness and international business.

The Economic Stabilization and Recovery (ESR) balance of payments support program will help the GOP stay the course on its macroeconomic stabilization program which is crucial for the success of this Project. The

ESR program will also generate the local currency resources to provide credit resources for non-traditional exports as well as to finance rehabilitation of the coastal-UHV road network.

The Selva-Coastal Road Rehabilitation activity, to be designed in mid-FY91, is an integral part of the USG effort to assist Peru to develop a stable national economy based on legitimate agricultural and non-agricultural production. This activity will finance the rehabilitation of the road that is used to transport goods from the Upper Huallaga Valley and surrounding areas for export and to meet domestic food needs. Rehabilitating this road will be essential to the success of the Investment and Export Promotion Project's efforts to promote exports from the Upper Huallaga Valley.

Lastly, the Selva Economic Revitalization (SER) Project will promote sustainable private sector investments in the Upper Huallaga Valley and surrounding areas and create sustained growth and diversified rural economies in coca and potential coca production areas. The SER Project is designed to alleviate the significant economic dislocations that will occur in the Upper Huallaga Valley and adjacent areas as an increasingly effective counternarcotics program goes into action. This project, also to be developed in mid- to late-FY91, will revitalize economic activities in the area with the potential to produce goods for export. In this way, the IEP Project will lay the necessary groundwork for the SER Project's activities in the Upper Huallaga Valley.

D. Project Strategy

The Project will stress export rather than investment promotion activities and will not be involved in setting up overseas offices. Given persistent security concerns despite an improved economic policy climate, Peru's non-traditional exporters must first demonstrate that they themselves are willing to invest in Peru. While it is expected that joint-venture, in-kind investments (i.e. capital equipment) may result from export promotion activities, significant interest by foreign investors is not realistic until the out-years of the Project.

Export promotion experience in other countries has shown that once market-oriented macroeconomic policies are in place and the anti-export bias (e.g., overvalued exchange rate and protectionist tariff structure) is removed, other constraints to exporting such as low productive capacity/inadequate know-how, limited availability of financing, operational/regulatory problems and infrastructural problems can be effectively addressed. With limited resources, USAID's approach must be carefully targeted to areas where impact will be greatest and results can be demonstrated over the short term. This will help generate the critical mass of export volume necessary to press the GOP for resolution of remaining export constraints.

The Project strategy is to deliver export advisory services and firm level T.A. from the outset rather than first trying to develop an institutional capacity within the Peruvian private sector. The Project will utilize an Institutional Contractor who will be directly responsible for planning, implementing and tracking targeted export promotion efforts at the sector and macro level while assisting private business associations to gradually develop the capability to carry out future promotional programs. In addition, the Project will be addressing the above-mentioned low-productive capacity/inadequate know-how constraint by providing cost-sharing grants for carefully planned and targeted T.A. to selected export enterprises in those sectors identified as having high growth potential.

While the Project will directly address the principal technology/know-how constraint, other constraints will be addressed in the following ways:

TABLE 2

MECHANISMS FOR ADDRESSING EXPORT CONSTRAINTS

| Constraint | Mechanism for Addressing |
|---|---|
| Limited Financing | A $50 million ESF generated local currency Central Reserve Bank of Peru (BCR) rediscount credit line will be available on commercial terms to cover the short- to medium-term credit needs of non-traditional exporters. The funds will be channeled through the BCR to a number of pre-selected commercial banks identified by USAID as best suited to participate in the program due to their experience, capabilities, regional ties and overall financial soundness. |
| Operational/Regulatory | The PAPI Project will fund studies to support the Export Sector Panel's dialogue with the GOP on operational and regulatory problems that impede exports. |
| Infrastructural | The PAPI Project will likewise fund studies/analyses of infrastructural deficiencies, recommendations for improvement and estimated costs. These will be disseminated to bilateral donor agencies and in particular, the IFIs for possible financing. |

Annex H provides a matrix of additional constraints that will need to be addressed by the GOP, the private sector and with the assistance of this and the PAPI Project. An export development specialist recommended that once policy constraints such as the exchange rate and improved export policy climate were addressed, the most significant constraints were firm level technical constraints to elevate Peruvian exporters to competitive international quality and standard levels. Remaining export constraints could be addressed gradually as the Project increased NTE volume.

In order to achieve a more concentrated impact, the Project will focus on selected products and regions in applying technical assistance. The sectors/commodities that USAID has identified as high potential in agriculture are asparagus, mangos, garlic, grapes, tomato paste and beans as well as the above mentioned products in the UHV; in light industry, they are apparel (including alpaca), metal mechanics, auto parts, food additives and medical supplies. While proposals for other products will be considered, it is anticipated that the most promising ones will initially be in these areas. Details on the sectors and product lines with greatest potential are provided in Sections VI. A. 1-3 and Annex L.

The regions chosen for the Project's principal focus flow from the products selected as well as from a variety of other factors that give these areas advantages such as adequate infrastructure, lessened terrorism/security concerns, and experience in non-traditional exporting. These regions are: Piura, Trujillo, Arequipa, Cañete-Chincha-Ica, and Metropolitan Lima. (See Map, Annex F). The Upper Huallaga Valley will also receive assistance under the Project as part of the effort to strengthen the legitimate economy of this region. Annex G provides a more detailed description of these regions and the benefits they offer.

The Project's target market for some of the products, particularly in the metal mechanic sector, will be the Andean region and other Latin American countries. This choice is based on the fact that the product specifications and styling to which Peru's installed capacity is geared, makes it better suited to the tastes and requirements of the regional market. In other cases, such as garments, fresh fruits and vegetables for which there is a virtually unlimited demand, the target markets, will include the United States and Europe.

As most of Peru's export firms are relatively small, the Project will engage the services of technical assistance specialists who are experienced in the problems of small enterprises. The Project will provide assistance in identifying niche markets in both Latin America and the United States where small firms can best compete.

## IV. PROJECT DESCRIPTION

### A. Goal and Purpose

1. Goal: The goal of the Project is to support a rapid and sustainable private sector-led economic reactivation that generates foreign exchange, employment and boosts productivity.

2. Purpose: The purpose of the Project is to generate employment and to increase Peru's non-traditional exports and investment in export activities.

### B. End of Project Status

1. $215 million annual increase in non traditional export earnings.

2. 21,000 workers employed.

3. An enhanced local export promotion services capacity created.

4. At least three non traditional export products are being exported from the UHV or other coca growing areas.

C. Project Components

1. General Export Promotion Assistance

An analysis of existing Peruvian private sector institutions concluded that no one institution has the capacity to develop, implement, monitor, evaluate and make adjustments to an export promotion strategy on the scale contemplated for this project.

However, the Association of Exporters (ADEX), a private, non-profit organization promoting the interests of non-traditional exporters which already provides a variety of export promotion services to its members, was selected as the most appropriate implementing agency for the IEP Project (See Section VI for a summary institutional analysis of ADEX). With the aim of achieving the broadest possible involvement of Peruvian exporters in the Project however, other export groups will be invited to participate in project implementation. ADEX will nevertheless remain the only grantee. Implementation will be arranged in such a way that ADEX will be strongly supported by a team of experienced export promotion professionals. Therefore, part of the grant to ADEX will be made in the form of a direct contract to an institutional contractor (IC) giving the IC responsibility for day to day management of project implementation and the gradual development within ADEX of enhanced export promotion services capability.

The IC team will have seven persons (five in Lima and two in the U.S.). The Lima based team will consist of a chief-of-party with export promotion experience, two agricultural production/environmental specialists and two light industry/apparel specialists with economic development experience in Latin America or elsewhere. The U.S. based team members will be principally responsible for conducting searches for appropriate TA providers for interventions indicated by the Lima based team.

This component will consist of the following activities:

a) Strategy Development and Implementation. Developing and implementing a successful export promotion strategy requires an experienced and flexible unit. Under this component, the Institutional Contractor (IC) will be responsible for taking as a starting point the export strategy outlined in the Project Paper and then, in coordination with ADEX, A.I.D. and project participants, establishing annual export targets, developing bench-mark indicators of performance, monitoring progress toward project targets and making mid-course adjustments in strategy and implementation procedures based on annual evaluations. The IC will also establish and maintain baseline data on Peruvian non-traditional exports by sector along with gender differentiated employment figures.

ADEX and the IC will actively identify and select firms that can best take advantage of the technical assistance to be provided under the Project. With the assistance of SNI and the various regional chambers of commerce, they will publicize the availability of the Project's technical assistance and then actively seek out firms in agriculture and industry that have high potential to rapidly expand their exports in proven product lines/areas. Project representatives will explain the TA program to the firms; including its potential benefit and the cost sharing component. Once the firm indicates its willingness to participate in the program, the IC will proceed to make a careful evaluation of the firm's principal TA needs as part of a formal TA proposal. (For more details on the TA contracting process, see Section IV.C.2. below.) Only proven export activities will be supported under the Project since the objective in the short term is to give an immediate boost to Peru's foreign exchange earnings from exports.

A special project office will be set up outside ADEX to serve as the locus from which the team will operate. ADEX will assign staff from ADEX's Foreign Trade Promotion Division to work directly with the IC team on the export promotion program. A procedures and methodologies manual for export promotion services will be prepared by the IC to help ADEX personnel as they assume responsibility for project activities. The IC team will also hold sessions for other export groups to explain how an export promotion strategy is developed, implemented and monitored. Specifically, private sector groups and firms will be encouraged to learn about export services requirements and develop fee for service operations. The Project's services will in no way be limited to ADEX membership; the decision to place the Project's office outside ADEX's facilities was made specifically to encourage non-members to seek access to the Project's services.

b) <u>Export Promotion Activities</u>. The IC will develop a wide-ranging series of trade promotion events linked to the sectors and product lines identified in the export strategy including such activities as identification of appropriate trade shows and conferences for selling Peruvian products and generating contacts; training trade show participants in boothsmanship and selling skills and accompanying them on selected trade fair visits. They will also provide prospective exporters with needed information on how to penetrate new markets, particularly in the U.S., Europe and the Far East. This will include specific import requirements in these countries (i.e. pesticide residue levels for agricultural products, flame retardant standards for children's sleepwear, labelling requirements, etc.) as well as general market trends.

An additional element of this component will consist of studies, seminars and training workshops to be sponsored by ADEX and other export groups on issues they identify as critical. Industrial training workshops would address quality control issues in manufacturing processes and would be geared to floor supervisors who could put into effect the technical improvement ideas acquired in the courses. Agricultural production seminars would be aimed at organizing and strengthening growers associations in an effort to consolidate the production base and improve output in both volume and quality. The Cooperative Agreement between USAID and ADEX will state that of the total $1,300,000 budgeted for these activities, at least $800,000 will be reserved for joint sponsorship by ADEX and other groups.

c) <u>Export Information Services</u>. The institutional analysis conducted for this Project identified inadequate office communication and information processing/retrieval facilities (fax, computer, telex, etc.) as a weakness of both ADEX and other private sector trade associations. Therefore, the IC will procure communication and data processing equipment for both the Project office and selected regional offices to enhance the Project's capacity to access market information for exporters. The equipment and software will be transferred to ADEX and the regional offices when the Project ends and will become part of their permanent facilities. Firm-level interviews indicate that Peruvian exporters are extremely eager to obtain information about the external market for their products and that they are willing to pay for same because they feel that up to date information on market conditions including prices, future prices, quotas, entry requirements, etc. would greatly improve local decision making. To this end, the project will be able to monitor international markets by subscribing to on-line data retrieval services such as the Foreign Trade Information Service (SICE), and by developing a library of trade publications for exporters. General information will be made easily available in ADEX's library which will be moved to the Project office site. More specific information will be gathered in response to requests, and fees would be charged for this service.

d) Export Policy Reform. The Project will establish an Export Sector Panel which will be comprised of members from the Peruvian public and private sectors, including representatives from the Ministry of Industry, Commerce and Tourism (MICTI); ADEX; the National Society of Industries (SNI); the National Society of Exporters (SNE); the Association of Small and Medium Industrialists of Peru (APEMIPE); and USAID (as represented by a Project Manager or Coordinator). The purpose of this group will be to articulate to the GOP the interests of exporters and to channel issues of concern to exporters to the PAPI Project for further study.

Once the Export Sector Panel has identified specific regulatory and operational problems handicapping exporters and hindering investment, they will submit proposals requesting PAPI funds to commission studies to support their dialogue effort with the GOP on these issues. These problems could include items such as the need to simplify customs procedures to expedite exports (e.g. establishing a ventanilla unica, or a one-stop window to complete export procedures), revision of banking regulations to facilitate exporters' access to credit or improvement of port operations.

As indicated above, the Export Sector Panel will be comprised of the leading producer and exporter associations in Peru, representing large, medium and small industries. The Minister of Economy and Finance recently declared in a nationally televised speech that it is the GOP's firm intention to favor the promotion and development of exports. Given the importance of the Panel's members, the fact that they will have specific proposals to present on priority issues and the GOP's stated interest in promoting exports, we expect the Panel to be effective in achieving policy reform.

Component Inputs. Total A.I.D. financing for the Export Promotion Services component is $10,340,000. This will finance direct and indirect support costs of an Institutional Contractor team of 7 people (five in Peru and two in the U.S.) for a total of 372 person months, (6,750,000) local hire administrative staff, office equipment and supplies for the project office ($1,850,000), underwriting the costs of seminars, studies, conferences, workshops, etc. ($1,300,000) and purchase of computers, vehicles, communication equipment and publications for the Project office, ADEX and regional chambers of commerce ($440,000). (See Annexes P, V, W, X & Y).

2. Specialized Technical Assistance

This project component will support firm and sector level technical assistance under the Project. Some of the areas in which the

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Project will offer technical assistance to exporters are: product design and development, process technology, quality control, finance, marketing, training, variety and seed selection, growing technology, post-harvest handling, phytosanitary regulations (including the contracting of APHIS personnel), packaging and labelling, and grading and standards. It is expected that TA will be provided from a wide range of sources; from industrial practitioners (i.e., persons actively working in similar types of enterprises, most likely in the U.S. or Europe) to specialized technical consultants. Technical assistance funds will also be used to secure the services of International Executive Service Corps. (IESC) personnel and to contract specialists in pesticide residue analyses and to provide training to lab technicians and farmers in proper pesticide use and analysis.

a) Firm Level Technical Assistance

1) TA Framework. ADEX and the IC, in conjunction with USAID, will establish a framework for firm-level TA the Project will be providing. The framework will include such factors as eligibility criteria for firm participation (i.e. proven export activity within the sectors and regions targeted by the Project), cost-sharing guidelines, employment and foreign exchange generation potential and regional diversity. This framework will be reviewed and approved by A.I.D. Given these guidelines, the IC will then proceed with the preparation of TA proposals for the most appropriate firms and make periodic reports to ADEX and A.I.D.

2) TA Contracting and Coordination. The IC will be responsible for subcontracting all of the firm-level TA provided under the Project. This will consist of individually contracted TA as well as TA services provided by IESC. While the IC will be responsible for making all the arrangements for the provision of individually contracted TA, the TA provided by IESC will be arranged by IESC's local office, in coordination with the IC (see IV.C.3 below). The TA proposals will specify the technical assistance needs of participating export firms, a suitable timetable for performing the TA and will identify at least 2 or 3 possible providers of such services.

Representatives of the Project Office, the recipient firm and A.I.D. will select the most appropriate TA provider based upon predetermined selection criteria. The contracts for these services will be directly between the IC and the TA providers. Each contract will specify the terms and conditions and methods of payment specific to that particular project. Contracts will also be prepared so as to conform to all A.I.D. regulations and restrictions. A.I.D. will provide examples of acceptable pro-forma contracts to the IC.

A portion of the cost for these TA services will be underwritten by the Project. USAID's portion of the costs will come from funds provided under the technical assistance contract with the IC. The IC will subcontract the individual TA interventions and make payment for the A.I.D. subsidized portion of same from a special account established for this purpose. Funds for this activity will be advanced on a quarterly basis in accordance with the Annual Plan developed between ADEX, the IC and USAID.

Participating export enterprises will be required to cover between 30-70% of the cost of the TA. Prior to the initiation of TA services, these firms will place that amount in a special dollar based escrow account set up by the IC. Participating enterprises will be expected to assume gradually increasing costs of TA over the LOP. The IC will be responsible for developing a sliding-scale payment arrangement that takes into account firms' financial conditions and whether they have participated in the program previously. Payment for the portion of TA services covered by the export enterprise would be made by the IC from this escrow account.

While the TA teams are in country working with the export enterprises, ADEX and the IC will be responsible for overseeing the process to make sure that there are no problems with the TA being provided. Additionally, in order to assess the Project's progress toward achieving the end-of-project status, the Project Office will maintain contact with the firms after TA has been provided to gather data on their post-TA export and employment performance and also to determine whether additional TA under the Project is warranted. The Project Coordinator, with ADEX and the IC, will develop an appropriate monitoring system for the Project designed to keep USAID informed about implementation progress and provide input for later Project evaluations.

Under this component, the IC is charged with selecting and recommending the most appropriate firms and people capable of performing these tasks. They will also be required to monitor the provision of these services to assess their effectiveness in achieving Project objectives. Since the fulfillment of these duties involves the IC in the selection, recommendation and monitoring of TA services, the Mission feels that, in order to avoid even the appearance of a conflict of interest, both IC team members and any other employees of the IC should be precluded from providing firm-level TA under the Project.

3) International Executive Service Corps. Project funds will be used to support selected International Executive Service Corps TA interventions in investment and export promotion. IESC's worldwide operations are currently supported by a centrally funded A.I.D. grant. However, IESC/Peru has not received any direct support from the Mission and they have stated that unless some local support is forthcoming, they will have to close their office. IESC has been operating continually in Peru since 1965. Some of the areas in which IESC provides services are textiles, food processing, metal mechanics and shoe manufacturing. Since some of the firm-level technical assistance proposed under the Project is very similar to the managerial and technical assistance provided by the IESC, the Mission considered it appropriate to support their local operations and to make use, to the extent practical, of IESC's already existing capacity as well as their experience and familiarity with the market. To that end, the Project will channel a portion of firm-level TA funds to IESC to enable them to provide technical assistance to selected export firms in those sectors in which the Project is concentrating.

In its desire to reach as much of the potentially productive export sector as possible, the Mission feels it is important that the Project provide mechanisms to address the needs and circumstances of small firms that have the capacity to expand exports. The TA provided by IESC is expected to be less costly to firms than that provided under the above described cost-share arrangement. This is due to the nature of IESC operations (senior level experts are volunteers who don't charge for their time) and to the fact that the Project will be underwriting a portion of their overall costs. On a practical level therefore, the firms that will make use of IESC's TA are expected to be generally smaller enterprises that the Project has identified as being in a position to expand exports, but who do not possess sufficient capital to help underwrite the cost of the alternative TA intervention.

The IC will establish selection criteria to determine which firms will be assisted by IESC and which by individually contracted TA providers. On an operational level, the IC will be subcontracting these TA services through IESC. However, payment to the IESC will be on an advance basis so as to allow them to cover their ongoing in-country operating costs. Based on past performance reports and the increased awareness of technical assistance availability generated by this Project, we expect that the IESC will be performing about ten TA interventions annually under the Project. Once it is determined that a participating firm will use their TA, IESC will be responsible for the logistical arrangements necessary. Monitoring, progress and final reports on the TA provided will be made available to the IC and ADEX. Technical assistance funds will not be available for channeling to IESC until such time as the Project becomes fully operative. In order to help support their local operations in the interim the Mission expects to make available to IESC a portion of the ESF generated local currency that will come from the Economic Stabilization and Recovery Program. Approximately $250,000 (in Intis equivalent) will be required for the purpose.

b) <u>Other Technical Assistance</u>

1) <u>Agricultural Pre-clearance Inspection Services</u>. The Project will provide the funds for financing an APHIS inspector working out of the Project office in Lima for a three year period. At present, U.S. regulations require inspection of all fresh produce entering U.S. markets that can serve as host for pests/diseases harmful to U.S. agriculture. The establishment of preclearance programs in Peru would greatly enhance prospects for successful penetration of the U.S. market for Peruvian agricultural products.

The APHIS inspector will be provided through a Participating Agency Service Agreement (PASA) with the U.S. Department of Agriculture. He/she will provide advice to private exporters, the Plant Health Division of the Ministry of Agriculture, the National Institute for Agricultural and Agro-industrial Investigation (INIAA) and other Peruvian institutions and universities on matters relating to USDA entry requirements, and preclear and certify Peruvian agricultural products for entry into the United States. The inspector will also arrange for, or provide, training to appropriate INIAA and Ministry of Agriculture personnel in preclearance inspection, and quarantine techniques so that they can advise exporters and producers and assist them in these matters. Local currency required to provide for these training costs and to enable appropriate personnel and officials to participate in these programs will also be made available from the ESF generated local currency under the Economic Stabilization and Recovery Program. Approximately $250,000 (in Intis equivalent) will be required for this.

The only preclearance program that is currently in force in Peru is financed by private growers for inspection of mangos during harvest season (December-February). The other products initially targeted by the Project do not require preclearance. (Grapes are the exception but they will need about two years to attain export volumes). However, this Project presents an opportunity to provide the in-country expertise and establishment of preclearance programs necessary to substantially build up agricultural exports of additional products. Peru's varied climate and the development of alternative export crops in coca-growing areas will make a large number of other tropical products available for export over the LOP. The APHIS inspector would arrive approximately two years into the Project when specific opportunities and needs in both coastal and high jungle agricultural export will be present and identified.

The Project will provide funds to finance the inspector's salary and living expenses for a three year period. The inspector will work out of the Project office and utilize the office's staff and facilities.

2) Environmental Protection. The Project will provide funds for a series of workshops and field days in areas such as soil conservation, crop specific integrated pest management, pesticide management and safety, irrigation techniques and non-chemical pest control alternatives. Courses will also be given to upgrade the technical expertise of the personnel of chemical laboratories in Peru that perform residue analysis.

In an effort to make the benefits of environmental training as widespread as possible, we intend to use ESF generated local currency funds to finance additional farmer level environmental courses in which the recipients of the Project funded training are used to extend the lessons learned in these courses to as much of the productive agricultural sector as possible. Approximately $500,000 (in Intis equivalent) will be utilized in this extension effort.

Additionally, all the firm-level TA that will be provided under the Project dealing with agricultural techniques and practices will be required to stress the correct application, storage, transportation, and disposal of pesticides, as well as worker and applicator protection and environmental safety. Provisions to such effect will be included in their contracts.

Component Inputs

Total A.I.D. financing for the Technical Assistance component is $5,605,000. Of this amount, $4,000,000 will help finance (along with the assisted firm's contributions) 130 directly contracted firm-level TA interventions. An additional $750,000 will be subcontracted through the IESC to enable them to provide additional technical assistance to Project targeted firms at fees that are substantially less than those charged under the alternative TA arrangement. It is expected that approximately 50 such technical assistance interventions will be underwritten over the LOP.

Funds will also be set aside to finance the salary and other living expense costs of the proposed APHIS inspector. Total costs for the three year assignment are calculated to be $555,000. In addition, $300,000 have been budgeted to finance an ongoing training program of short courses for environmental concerns such as proper pesticide use and analysis. (See Annexes Q, R, S & U).

3. Export Credit Line

This is a complementary activity to the Projec A $50 million local currency credit line will provide working capital and meuium-term financing to export enterprises. These funds will be lent at market rates of interest. The $50 million will come from host country-owned local currency (HCOLC) generated under the Economic Stabilization and Recovery Program and will be subject to GOP concurrence for this use. Once the credit line is established, the Project office will make known to exporters including Project participants, information on how they may access the local currency credit funds. A Credit Demand Analysis carried out in conjunction with the design of this Project identified 76 new investment opportunities in the three sectors in which the Project will be focusing its efforts: agro-industry, garment manufacturing and light industry (See Annex J and Section VI.A-4 Technical Analysis). The fixed and working capital requirements for these projects totals over $122 million. Separate analyses and interviews conducted in each of the above mentioned sectors identified the non-availability of working capital credit as one of the principal constraints to expansion and growth of virtually all the businesses contacted. The amount of $50 million was selected on the basis that it is large enough to serve as a catalyst to several investment projects, and small enough not to threaten the integrity of the GOP's monetary program over the next two years -- the most critical period of the stabilization program. The proposed funding is equivalent to less than 50% of identified investment projects and a small share of the projected monetary expansion for 1992 and 1993.

As part of the preparation of the proposed Credit Delivery Mechanism, a contract team performed an analysis of the current Peruvian economic system. The analysis found the system to be in a very fragile condicion due principally to the sustained economic recession and hyperinflation over the 1988-90 period. Liquidity was at its lowest level in the past fifty years -- 4% of GDP compared with a liquidity level of 27% of GDP in 1972. As part of the economic stabilization program adopted in August, 1990, the GOP is attempting to restore liquidity to historic levels. These efforts, however, are proceeding at a slow pace reflecting the fragility of the banking system and the unwillingness of the public to rebuild Inti balances quickly. The monetary authorities' strategy is to build liquidity carefully on the basis of increasing net international reserves and a gradual liberalization of the financial system. Rapid liquidity surges could destabilize expectations and rekindle inflation. The authorities are also concerned about the financial health of the banking system and the potentially damaging effects the sustained recession may have on their portfolios and the risk of insolvency. The share of bad loans has increased over the last few months.

To date, the GOP has undertaken several major structural reforms in the financial system. It liberalized a previously complicated and arcane interest rate structure that promoted the decapitalization of the banking system. Additionally, the GOP initiated a gradual reduction in marginal reserve requirements for banking deposits. They have been reduced from levels as high as 60% in July to a current 15% rate. These reforms are part of a financial sector reform that will also include streamlining the regulatory functions of the monetary authorities, and reducing direct public sector participation in banking. A new Banking, Insurance and Financial Institutions Law was issued in April; this law instituted a multiple banking system, broadened the scope of banks' financial and non-financial operations, modified the functions of public development banks, and increased the Banking and Insurance Superintendency control on financial institutions operations.

The initial reaction to these reforms was a sharp increase in interest rates, and the widening of the spread between lending and borrowing rates. The former reflected the continuation of high inflationary expectations; the latter reflected the fragility of the banking system. More recently, interest rates have started falling due to a reduced inflation rate, a depressed exchange rate, and to moderately increased liquidity in the financial system. The spread between borrowing and lending rates remains high due to high operation costs of banking institutions. It will take several years before the new market reforms take hold and banking system operations fully perform their financial intermediation functions efficiently.

Against this backdrop, the proposed export investment credit line takes on a special significance. It will insure the availability of resources to the non-traditional export sector during a period in which the financial system is undergoing a structural transformation. Liquidity will continue to be tightly controlled by the monetary authorities until inflation is defeated. The credit line will also make available medium-term credit, which had been virtually non-existent. It is also important to note that the proposed credit and projected disbursement profile will be fully incorporated into the Central Bank's monetary program to ensure consistency with the GOP's inflation fighting efforts.

For this support to be effective, it is imperative that the delivery mechanism utilized to make the credit accessible be both practical and effective. The process will channel the funds through the BCR to commercial banks. All loans will be provided at the prevailing market interest rate. The banks will compete for funds up to a pre-determined maximum limit in order to provide a stimulus to turn out loans rapidly to producers and exporters. No reserve requirements will be placed on these funds nor will use of funds be subject to third party agreements. The BCR will lend to the banks using the prevailing discount mechanism and then debit the banks' accounts directly when loans come due, thereby eliminating the risk that failure to repay will jeopardize the credit fund's integrity. Since the banks will be assuming the risk, they will be permitted to charge a rate which compensates them for this as well as the costs of analyzing proposals and channeling funds. In light of the evolving liberalization of the financial system, it would be premature to establish the detailed operating procedures and interest rate parameters, such as spreads, associated with this credit fund. These will be developed during Project implementation on the basis of market principles and the pace of financial sector reform.

## D. Cost Estimate and Financial Plan

### 1. Financial Plan

The total cost of the Project is estimated at $22,605,000, of which $19,500,000 will be provided by A.I.D. and $3,105,000 by the Peruvian private sector (see Table 3). The $19,500,000 A.I.D. contribution will be made available from the Economic Support Fund appropriation in support of National Security Directive No. 18, President Bush's Counter Narcotics Initiative. The total cost of the Project does not include the $51 million proposed primarily for local currency working capital loans and medium term

## TABLE 3

### SUMMARY OF TOTAL PROJECT COSTS BY FUNDING SOURCE AND FOREIGN EXCHANGE (FX) AND LOCAL CURRENCY COSTS (LC)

(IN U.S. $000)

| Funding Source | FX | LC | TOTAL | % |
|---|---|---|---|---|
| USAID | 16,700 | 2,800 | 19,500 | 86 |
| Private Sector | 3,000 | 105 | 3,105 | 14 |
| Totals | 19,700 | 2,905 | 22,605 | 100 |

## TABLE 4

### SUMMARY COST ESTIMATE A.I.D. FUNDS

($000)

| | | PRIVATE SECTOR | | |
|---|---|---|---|---|
| | AID | HCOLC | Counterpart | TOTAL |
| 1. GRAL EXPORT PROMOTION SERVICES | 10,340 | - | - | 10,340 |
| Institut. contractor services | 6,750 | - | - | 6,750 |
| Project office support | 2,000 | - | - | 2,000 |
| Seminars & Workshops | 1,300 | - | - | 1,300 |
| Communications equipment | 212 | - | - | 212 |
| Trade publications | 78 | - | - | 78 |
| 2. TECHNICAL ASSISTANCE | 5,605 | (1,000)* | 3,000 | 8,605 |
| Firm level TA | 4,000 | - | 2,500 | 6,500 |
| IESC TA | 750 | (250)* | 500 | 1,250 |
| APHIS Advisor | 555 | (250)* | - | 555 |
| Environmental training | 300 | (500)* | - | 300 |
| 3. FINANCIAL SERVICES | - | (50,000)* | - | |
| Working capital | - | (30,000)* | - | |
| Medium term lending | - | (20,000)* | - | |
| 4. PROJECT MANAGEMENT | 1,920 | - | - | 2,025 |
| Administrative cost - ADEX | 820 | - | 105 | 925 |
| Personal Service Contractor | 800 | - | - | 800 |
| Evaluations | 150 | - | - | 150 |
| Audits and financial review | 150 | - | - | 150 |
| 5. CONTINGENCY | 1,635 | - | - | 1,635 |
| GRAND TOTAL | 19,500 | (51,000) | 3,105 | 22,605 |

* A non add item, not included in the Project budget.

lending for plant expansion and equipment, as these funds will be provided by HCOLC generated under the Economic Stabilization and Recovery Program. A summary financial plan for the Project is set forth in Table 4, and a breakdown by fiscal year is provided in Table 5 and a projection of obligation and expenditures of Project funds by fiscal year is presented in Table 6.

The sustainability of the Project's services after 1997 will depend on whether the Peruvian export sector values technical assistance sufficiently to be willing to pay for its full cost. Over the course of the Project, we expect that Peruvian exporters will learn (as have exporters in other countries that have embarked on serious export promotion programs) that TA is a valuable investment, worth several times more to them in terms of increased export earnings than the cost of the initial TA. Therefore, as the Project comes to a close and A.I.D. funds for technical assistance are depleted, Peruvian export firms will be required to pick up the full cost of the TA required.

2. Methods of Implementation

Table 7 outlines the planned methods of implementation and financing for the Project. The majority of the Project will be implemented under a Cooperative Agreement. Table 8 provides a breakdown of the Project activities that will be carried out under the Cooperative Agreement. While this type of agreement is not normally treated as a "bilateral type" project in implementation terms, we believe that the preferred methods established by A.I.D. policy are appropriate under the circumstances to ensure adequate monitoring and control over A.I.D. funds and to provide methods for implementing A.I.D.'s substantive involvement. To ensure and clarify various implementing procedures and clearances that will be necessary during the LOP, the Mission will issue the various PIL type documents normal to bilateral agreements.

The reason for this treatment is to provide ADEX with substantial implementation assistance during the LOP to assure that it develops the increased institutional capacity to carry forward end-of-project objectives. Accordingly, A.I.D. will directly administer a substantial percentage of Agreement funds.

3. Recurrent Costs and Other Financial Issues

Recurrent costs are incremental expenditures associated with activities that must be made on a regular basis during the Project to achieve objectives, and after the Project to sustain accomplishments and continue activities. During the life of the Project, USAID and ADEX will be financing recurrent costs. It is anticipated that ADEX will assume a greater proportion of these costs as the Project progresses. At the end of the Grant, ADEX will be financing all recurrent costs.

The primary recurrent costs are those related to the provision of Technical Assistance grants, seminars, conferences, and the maintenance of a reference library. While some of these costs will be financed through program generated revenues, we anticipate that ADEX will be providing the services of the three sectoral experts to maintain the technical assistance program. In addition, they will continue to run the communications center and on line data retrieval systems and sponsor seminars as appropriate. Anticipated annual costs for all these activities are $140,000.

TABLE 5
SUMMARY COST ESTIMATE
A.I.D. FUNDS
($000)

| | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | TOTAL |
|---|---|---|---|---|---|---|
| 1. GRAL EXPORT PROMOTION SERVICES | | | | | | |
| I.C. services | 1,656 | 1,478 | 1,491 | 1,389 | 736 | 6,750 |
| Project office support | 342 | 357 | 370 | 383 | 398 | 1,850 |
| Seminars & Workshops | 300 | 300 | 300 | 200 | 200 | 1,300 |
| Communications equipment | 226 | 34 | 34 | 34 | 34 | 362 |
| Trade publications | 16 | 16 | 16 | 15 | 15 | 78 |
| | 2,540 | 2,185 | 2,211 | 2,021 | 1,383 | 10,340 |
| 2. TECHNICAL ASSISTANCE | | | | | | |
| Firm level TA (including IESC) | 950 | 1,350 | 1,350 | 650 | 450 | 4,750 |
| APHIS Advisor | - | - | 255 | 150 | 150 | 555 |
| Environmental training | 60 | 60 | 60 | 60 | 60 | 300 |
| | 1,010 | 1,410 | 1,665 | 860 | 660 | 5,605 |
| 3. FINANCIAL SERVICES | | | | | | |
| Working capital | - | - | - | - | - | - |
| Medium term landing | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| 4. PROJECT MANAGEMENT | | | | | | |
| Administrative cost - ADEX | 185 | 185 | 185 | 185 | 80 | 820 |
| Personal Service Contractor | 160 | 160 | 160 | 160 | 160 | 800 |
| Evaluations | - | 75 | - | - | 75 | 150 |
| Audits and financial review | 25 | 25 | 15 | 10 | 75 | 150 |
| | 370 | 445 | 360 | 355 | 390 | 1,920 |
| 5. CONTINGENCY | 325 | 350 | 335 | 340 | 285 | 1,635 |
| GRAND TOTAL | 4,245 | 4,390 | 4,571 | 3,576 | 2,718 | 19,500 |

TABLE 6

PROJECTED OBLIGATIONS AND EXPENDITURES OF PROJECT FUNDS
BY FISCAL YEAR (FY) IN U.S.$000

| U.S. Fiscal Year | FY 91 | FY 92 | FY 93 | FY 94 | FY 95 | FY 96 | Total |
|---|---|---|---|---|---|---|---|
| (Project Year) | 1 | 2 | 3 | 4 | 5 | 6 | |
| 1. Beginning of Year Balance | ---- | 4,500 | 10,255 | 10,865 | 6,294 | 2,718 | ---- |
| 2. Obligation | 4,500 | 10,000 | 5,000 | ----- | ----- | ----- | 19,500 |
| 3. Expenditures | ---- | 4,245 | 4,390 | 4,571 | 3,576 | 2,718 | 19,500 |
| 4. End of Year Balance | 4,500 | 10,255 | 10,865 | 6,294 | 2,718 | ---- | ---- |

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## TABLE 7
## METHOD OF IMPLEMENTATION BY TYPES OF ASSISTANCE AND FINANCING METHOD
## ($000)

| Inputs | Method of Implementation | Method of Financing | Estimated Amount |
|---|---|---|---|
| A. Program Costs | | | |
| 1. Institutional Contractor (including TA subcontracting and operation of Project Office | Contract executed by RCO (PIO/T) | Direct Reimbursement/ Periodic Advances | 13,650,000 |
| 2. ADEX-Seminars, Workshops, Communications Center, Export Sector Panel | PILs under Operating Program Cooperative Agreement (OPCA) with ADEX | Direct Reimbursement/ Periodic Advances | 1,546,400 |
| 3. APHIS TA | A.I.D. PASA Contract (PIO/T) | Direct Payment | 555,000 |
| 4. Purchase of vehicles, computers and office equipment | A.I.D. Direct Purchase | Direct Payment | 193,600 |
| B. Program Management | | | |
| 1. Administrative Costs-ADEX | PILs under OPCA | Direct Reimbursement/ Periodic Advances | 820,000 |
| 2. USAID Coordination | PSC Contract (PIO/T) | Direct Payment | 800,000 |
| 3. Evaluations | Contract (PIO/T) | Direct Payment | 150,000 |
| 4. Audits/Financial Reviews | Contract (PIO/T) | Direct Payment | 150,000 |
| C. Contingency | | | 1,635,000 |
| TOTAL | | | 19,500,000 |

## TABLE 8
## PROJECT ACTIVITIES INCLUDED WITHIN COOPERATIVE AGREEMENT

| Activity | Responsible |
|---|---|
| - Technical Assistance Provision (including TA subcontracting) | IC |
| - General Export Promotion Services | IC |
| - Organization and Sponsorship of Seminars and Workshops | ADEX |
| - Operation of Communications Center | ADEX |
| - Management of Project Office | IC and ADEX |
| Purchase of Office and Communications Equipment | USAID |
| - Administrative Management | IC and ADEX |
| - Evaluations | USAID |
| - Audits and Financial Reviews | USAID |

4. Disbursement Procedures

1. Methods of Financing Foreign Exchange Costs.

USAID will assume responsibility for disbursing funds for some of the foreign exchange costs under the Project. These include the Institutional Contractor (including its subcontracting of technical assistance) the purchase of communications systems, vehicles and office equipment, USAID Project Coordinator, evaluations, audits and financial reviews. These costs will be earmarked through PIO/Ts, at the request of ADEX, and contracted by A.I.D. and paid by both the advance and liquidation process and by direct disbursement.

USAID will advance ADEX the foreign exchange to meet any studies, seminars, workshops or training costs. The procedures for requesting advances and their subsequent liquidations will be transmitted by Project Implementation Letter.

2. Methods of Financing Local Currency Costs

Local currency costs for financing studies, seminars and workshops as well as ADEX program management will all be defined and approved by A.I.D. through the PIL procedure. Funds will be provided on an advance basis, based upon monthly approved cash flow projections, covering basic cash needs. The advances will also be liquidated monthly through the presentation of vouchers and reporting of accomplishments. The above liquidation procedure is based upon the establishment and continuance of adequate financial reviews. If it is determined that the systems are no longer adequate, USAID will require all supporting documents until action is taken to resolve problem areas.

## V. IMPLEMENTATION ARRANGEMENTS

### A. Implementation Plan

Project implementation responsibilities will be carried out primarily by ADEX and the IC, with the occasional participation of other export groups. ADEX will be responsible for the management of the Project's funds provided under the Cooperative Agreement. The Project Coordinator will play a facilitating and reporting role, while USAID will oversee the work of the IC and the Project Coordinator and review monitoring and evaluation reports to determine whether any project design modifications are necessary. A portion of Project funds will be obligated by means of a Cooperative Agreement between USAID/Peru and ADEX. Of this grant amount, $6.75 million will be paid directly to the IC, in addition, approximately $4,750,000 will be channeled through the IC for TA subcontracts. Under separate obligating documents, $600,000 will be used to fund a Personal Services Contract for a Project Coordinator, and $550,000 to fund a PASA with the Dept. of Agriculture for an APHIS advisor.

The implementation of the planned project activities is expected to take a full five years and is outlined in Table 9.

TABLE 9

IMPLEMENTATION SCHEDULE

| | Event/Task | Estimated Completion Date | Responsibility |
|---|---|---|---|
| 1. | Authorize Project | July 1991 | USAID |
| 2. | Sign Cooperative Agreement | August 1991 | USAID/ADEX |
| 3. | Issue RFP for IC | August 1991 | USAID |
| 4. | Hire Project Coordinator | February 1992 | USAID |
| 5. | Sign Contract with IC Team | March 1992 | USAID |
| 6. | Begin Implementation | April 1992 | ADEX/IC |
| 7. | Set up Project Office | April 1992 | ADEX/IC |
| 8. | Organize Export Sector Panel | April 1992 | ADEX |
| 9. | Mid-term Evaluation and Audit | March 1994 | Contractors/PSC |
| 10. | Second Mid-term Audit | March 1995 | Contractors/PSC |
| 11. | Final Evaluation | February 1997 | Contractors/PSC |
| 12. | Project Assistance Completion Date | March 1997 | |

B. Implementation Responsibilities

1. USAID. The USAID Office of Private Sector and Trade will have ultimate responsibility for project implementation, although most of the day-to-day operations will be handled by other Project participants. USAID's specific responsibilities will include:

a. Oversight of the Institutional Contractor' activities,

b. Supervision of the Project Coordinator's activities,

c. Handling of all A.I.D. direct procurements including purchase of all necessary office equipment, vehicles, computers, communications equipment as well as evaluations and audits,

d. Participation in, and review of project evaluations to determine what modifications are needed to keep project implementation on track,

e. Participation in Export Sector Panel, and

f. Continual dialogue with the GOP to keep them apprised of Project activities.

2. Institutional Contractor.

a. The IC team will have the following responsibilities:

- Establishment of Project office facilities and the hiring of support staff in conjunction with ADEX.

- Establishment of baseline data on Peruvian non-traditional exports including current value of exports and gender differentiated employment figures,

- Develop a sliding scale payment arrangement for individually contracted TA services incorporating such factors as firm's financial condition and previous participation in program,
- Establish selection criteria to determine firms that will be assisted by IESC and by individually contracted TA providers,
- Selection of promising export enterprises,
- Analysis of the technical assistance needs of individual export enterprises and assistance to them in preparing requests for technical assistance,
- Participate (along with A.I.D. and the recipient firm) in the selection of the most appropriate TA provider,
- Direct subcontracting of TA provided under the Project including management of TA funds and establishment of escrow accounts for recipient payment portions,
- Oversight of consultants' work while providing technical assistance to export enterprises,
- Selection of appropriate private on-line data retrieval systems, and supervision of ADEX's operation of the system,
- Management and contracting of environmental TA and training,
- Development of a procedures and methodologies manual for export promotion services, and
- Strengthening of the export promotion services capability of ADEX.

b. USAID, in conjunction with IC and project participants, will establish very clear output and performance indicators to be measured within a specified time frame. These performance indicators will include such outputs as number of TA subcontracts performed, improvements in production, productivity, cost-effectiveness and export performance of the firms assisted under the Project.

c. The IC team members will have the following qualifications:

i. <u>Chief of Party (COP)</u>. The COP will have a Ph.D. or Masters degree in one of the required technical specialty fields and at least 15 years experience in

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that field. He/she will have five years of management experience as supervisor of technical teams on economic development and export and investment promotion projects in either the Far East or in less developed countries, with at least three of those years in Latin America. The COP will be fluent in Spanish (minimum FSI 3+/3+).

ii. Agricultural Specialists (2). The Agricultural Specialists will have Masters degrees in agronomy or related fields, and/or M.B.A. degrees, with at least 10 years work experience in agro-business. They will have at least three years experience working on economic development and export/investment promotion projects in Latin America. The Agricultural Specialists will be fluent in both English and Spanish.

iii. Apparel Industry Specialist. The Apparel Industry Specialist will have an M.B.A. with at least 10 years work experience in the apparel industry, preferably with experience in small and mid-sized operations. He/she will have at least three years experience working on economic development projects and/or business development activities in Latin America. The Apparel Specialist will be fluent in both English and Spanish.

iv. Light Industry Specialist. The Light Industry Specialist will have an M.B.A. with at least 10 years work experience in metalworking, electronics or consumer goods industries, preferably with experience in small operations. He/she will have at least three years experience working on economic development projects or related business activity in Latin America. The Light Industry Specialist will be fluent in both English and Spanish.

v. U.S. based personnel. The U.S. based personnel will consist of a Technical Assistance Coordinator and an Administrative Assistant. They will be responsible for conducting the search for qualified TA providers in the fields requested by the Lima-based IC team members. They will maintain close coordination with Lima to make the TA provision process as smooth as possible.

3. Project Coordinator.

a. The Project Coordinator will have the following specific responsibilities:

- Establishment with ADEX and the IC of a reporting system for project monitoring,

- Representation of USAID on the Export Sector Panel and active participation in the review and approval of applications for technical assistance, and

- Close coordination with the IC and ADEX to insure smooth project implementation,

- Preparation of scopes of work for evaluation contracts, and assistance to evaluators in establishing appropriate mid-term benchmarks for project assessment.

- Maintenance of communication with USAID's Economic Development Division on significant implementation issues,

b. This Project Coordinator will have a private sector development background, working experience in Latin America and ideally Peru, familiarity with A.I.D. project implementation and reporting procedures and be fluent in both English and Spanish.

4. ADEX.

a. ADEX's project implementation responsibilities will include:

- Establishment, in conjunction with SNI, MICTI, SNE and APEMIPE, of the Export Sector Panel,

- Active participation on the Export Sector Panel,

- Identification of potentially eligible export enterprises,

- Establishment of trade journal libraries in Lima and in regional chambers of commerce,

- Operation of on line data retrieval systems,

- Monitoring of progress of firms receiving technical assistance and reporting on Project to the Project Coordinator,

- Assistance to the IC with export promotion activities, and gradual assumption of overall Project responsibilities, and

- Sponsorship of seminars and workshops on export issues,

b. ADEX will assign the following staff to the Project Office:

- 3 Sectoral Experts (agro-industrial, light-industry, garment manufacturing)

- 1 Accountant to manage advances and liquidations

- 2 Technicians to operate the on-line retrieval systems

- 2 Secretaries and 1 Messenger.
  (See Annex T for details)

ADEX will provide contributions of approximately $105,000 over the LOP as well as in-kind contributions that will include executive and core administrative staff time along with indirect costs allocable to their level of involvement.

C. Procurement Plan

USAID will make direct procurements for the Project, the most significant of which will be procurement of the services of the Institutional Contractor and the Project Coordinator along with the PASA arrangement for the APHIS Advisor. The services of the IC will be competitively procured through a direct A.I.D. contract for a period of three years, with the likelihood of a two year renewal at a scaled down level of effort. The services of the Project Coordinator will be procured through a Personal Services Contract and will be similarly contracted for a three year period with the possibility of a two year renewal. Approximately $6.75 million in contractor services will be procured directly by A.I.D. for the Project; the technical assistance to be provided to export enterprises under the Project will be subcontracted through the IC and underwritten by Project funds and recipient contributions.

USAID will also procure a limited amount of equipment for use by the Project Office and the regional chambers of commerce. Equipment procurement will not exceed $200,000, and will include computers, vehicles, modems, fax machines and other office equipment. A number of trade journal subscriptions will be procured by ADEX under the Project, as well. Very few local procurements are anticipated under this Project, but in those cases considered appropriate, specific waivers will be prepared.

D. Monitoring Plan

The Project Coordinator will be responsible for establishing a project monitoring system, based on reports to be supplied by the IC and ADEX on a quarterly basis. These reports will assess how well the technical assistance proposal process is operating, any problems in provision of technical assistance, any problems with financial management, and the effectiveness of the Export Sector Panel in articulating export sector concerns and channeling them to the PAPI Project for funding. As an ongoing process to develop information for project evaluations, and to provide status reports to USAID, the monitoring system will generate information on the Project's progress toward achieving the end-of-project-status. This will include feedback from export enterprises on the value of the assistance provided and the impact of the TA on their export performance.

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E. Audit Plan

The Project has budgeted $150,000 for regular audits and financial reviews as required during the life of the Project.

Project audits will be performed under Non-Federal Audit (NFA) concepts, managed by RIG/A/T. They will be performed at the end of the first and fifth years. If the external auditors of the implementing entities meet GAO audit standards (Yellow Book) and are approved by the RIG/A/T, then the additional costs associated with the GAO standards can be financed by Project funds. Confirmation of compliance with standards will be made by RIG/A/T. Financial reviews will be programmed as implementation needs indicate.

F. Evaluation Plan

The overall purpose of the Project is to increase Peru's non-traditional exports and investment in export activities. The final evaluation, therefore, will assess the Project's performance against this standard. The end-of-project status as stated above and in the logical framework provides the benchmarks against which the evaluators will measure final project impact. These benchmarks are: $215 million annual increase in additional export earnings, and 21,000 workers newly employed. Another, less quantifiable end-of-project status that should exist by the time the Project is completed is an enhanced export promotion services capability within ADEX. To assess this, the evaluators can use the objectively verifiable indicators as outlined in the log frame as a starting point. The final project evaluation will be carried out in February 1997.

Annual evaluations will also be carried out over the LOP. The first formal evaluation of Project management will be conducted by A.I.D. Project Management one year after the IC team begins Project implementation. The objectives of the first evaluation will be the following:

1) Assess IC team's effectiveness in:

- Preparation and implementation of IEP's strategic plan
- Establishing base line data on non traditional exports
- Selecting appropriate firms for TA
- Analyzing selected firms TA needs
- Identifying the most appropriate TA provider for each firm selected
- Negotiating contracts in a timely manner and assuring that all terms of the contract are met
- Following up with firms after TA is provided to monitor the impact on export performance
- Implementing Environmental Assessment recommendations on control and use of pesticides in Project activities
- Transferring export promotion skills to ADEX.

2) Assess IC's and ADEX's effectiveness as multi-sectoral, multi-regional export promotion coordinators

- Evaluation of the Export Sector Panel's contributions as a spokesman for exporters with the GOP and in channeling issues of concern to the PAPI project for further study

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- Assess the participation and contributions of other export groups in the Export Sector Panel and in the Project office's operations
- Evaluate the data retrieval and communications facilities developed in both the Project Office and in regional offices
- Evaluate the degree of participation of regional chambers of commerce and provincial export enterprises in Project activities
- Assess both the amount and effectiveness of IESC provided TA under the Project.

3) Assess ADEX's and IC team's contributions in export promotion services including number of workshops and seminars offered and level of participation, exporters' attendance at trade shows and conferences, new contracts generated, etc.

4) Assess progress towards established first year outputs.

5) Make recommendations for the subsequent year's export strategy objectives, TA focus and adjustments in sector emphasis as appropriate.

A.I.D. Project Managers and staff conducting the evaluation will access the following sources, among others, in reaching conclusions and in recommending strategy modifications:

- IC and ADEX strategic plan, files, records, statistics, etc.
- TA consultants' reports
- Project Coordinator reports
- GOP statistics
- Participant surveys.

The second annual evaluation will be conducted by an outside contractor. It will consider all of the points of the first evaluation as well as determining how successful the Project has been in incorporating the suggestions and mid-course corrections recommended in the previous year's evaluation. Subsequent years evaluations will again be conducted by A.I.D. personnel and will consider all of the points outlined above.

The Project has budgeted $75,000 for each outside evaluation. The second year and final evaluations will be carried out by independent consultants to insure objectivity, and they will be directly contracted and managed by USAID to insure compliance with A.I.D. Handbook requirements.

## VI. SUMMARIES OF ANALYSES

### A. Technical Analyses

The following technical analyses were commissioned by USAID to assist in the Project design: 1) Production and Marketing Analysis of Non-traditional Agricultural Exports, 2) Competitive Market Analysis of the Apparel Sector, 3) Production and Marketing Analysis of Light Industry, and 4) Analysis of Credit Demand and of a Credit Delivery Mechanism.

1. Production and Marketing Analysis of Non-traditional Agricultural Exports

a. Background. Peru's agricultural sector was particularly disadvantaged by the policies adopted by previous administrations and has been hard hit by the recent economic crisis. With agricultural subsidies and product/input price distortions disappearing as a result of the new economic stabilization program, Peru will have the opportunity to become one of the major exporters of non-traditional agricultural products in Latin America. Peru possesses significant comparative advantages in agriculture including: a summer/winter counter-season that allows Peru to supply crops to the northern hemisphere during the winter months when supplies are low in that market and prices are high; a climate and geography that allows both tropical and temperate crops to be grown at any time of the year; a highly skilled and, relative to other Latin American countries, inexpensive labor force; and potential for high production levels.

b. Products Recommended for Project Support. The agricultural analysis identified six very promising products for project support and another ten as possibilities (See Annex L). The six most promising products were asparagus, mango, tomato paste, garlic, grapes and beans. These products were selected on the basis of having one or more of the following characteristics: current high yield production and established export systems; short growing cycles (3 to 6 months); potential for rapid financial returns from export; and the possibility of development for export within two years or less.

c. Recommendations for Project Design. The study recommended a technical assistance program directed at producer/exporters in the areas of marketing, production, post-harvest handling, processing, logistical planning and transportation - all of the elements needed to successful carry out a non-traditional agricultural product export campaign. The study also offered the following additional recommendations for the Project which could also be covered through targeted TA:

1. Consolidation of production base. The Project should encourage a consolidation of the production base in Peru, including the organization of commercially- and market-oriented groups, to enable the gathering of large product volumes of uniform and optimum quality. Significant volumes of quality products are required to attract the interest of prospective buyers and to make post-harvest handling, transportation and shipping efficient and less costly. Where the production base is highly dispersed and land ownership is limited to small tracts of land, as is currently the case in Peru, growers need to consolidate and pool their collective production and marketing resources. Once formed, growers groups will remain together as long as export activities are profitable. The Project should foster improved management of individual and collective enterprises at all stages of production, handling and shipping. These consolidations could be supported through a medium term program of TA. The IC will be identifying exporter TA needs within the context of a comprehensive constraints/solution approach to increase exports.

2. Consolidation of financial resources. Linked to the above recommendation, the Project should encourage growers' associations to pool financial resources to reduce risks associated with harvest timing and

extraordinary market conditions, as well as improved distribution of market information. Agro-exporters require adequate financial resources to efficiently access market information and acquire technical, marketing and managerial assistance.

2. Competitive Market Analysis of the Apparel Sector

Peru's exports of finished apparel have quadrupled over the past five years from $9.5 million in 1985 to $45.2 million in 1989. In spite of this growth, the apparel export industry is still young and relatively small and there is ample room for both improvement and expansion. Of the 1,200 apparel plants (including shops in the informal sector) less then 10 percent were close to being export ready in 1990. The average company among the "export ready" is medium sized (i.e. has approximately 100 sewing operators). However, its average sewing efficiency is low-just 47 percent, compared to U.S. standards, due to: poor awareness of attainable efficiency; quality of management; mid-level management skill; low level of technology; inadequate systems, procedures and controls; lack of continuity in contract work; and dependence on intermediaries rather than more direct contact with buyers. These internal factors affect the industry's ability to grow but are counterbalanced by an entrepreneurial readiness to expand and invest, low overhead cost and a reliable, trainable and low cost labor force (See Annex L.1).

The internal constraints outlined above can be overcome by targeted TA to improve plant operations. In addition, expertise in marketing and better understanding of market dynamics is needed to make firms more responsive to buyers' delivery deadlines, quality standards, etc. The analysis also provides a recommended strategy and a set of criteria to select firms that will be most likely to benefit and grow from the TA provided. The strategy recommended is to focus on assisting plants that can be used as the cornerstone of large-scale export growth. In particular, the study cautions that the expectations of the export markets not be raised by indiscriminate promotional efforts. A well concerted effort could put Peru on the global map of competitive apparel source countries and help generate the hard currency and employment that the country needs.

Only those firms that satisfy certain basic requirements should be eligible for technical assistance. These include strong desire to be a net exporter or previous experience in exporting; minimum size to justify the cost/benefit of the assistance in terms of employment; active contacts with importers overseas willing to buy their production; willingness to invest in part of the technical assistance cost; and a potential to grow and succeed in the business combined with a potential to improve its current operation. This kind of selectivity will ensure that USAID maximizes the positive impact of its limited resources and develops a solid basis for the development of the image and reputation of Peru as a source country of choice for apparel with the resulting benefits eventually reaching the entire industry.

Other principal (outside the industry's control) external constraints to increased exports that the report identifies are: access to export markets (textile quota); infrastructure limitations such as power outages, lack of financing for capital investment, and lack of plant floor training programs; and weak service and feeder industries. The Textiles Quota Agreement between the U.S. and Peru provides very low access levels for Peru's most competitive products. The report suggests that the GOP actively work to achieve more favorable conditions which the analysts consider the single most important external barrier to growth of apparel exports. The lack of infrastructure which affects plant operations such as power outages are being resolved by plant level investments in electrical generating equipment; lack of capital investment financing will be helped by the local currency credit line and the macroeconomic stabilization program. Likewise, weak feeder industries which result in higher domestic prices of fiber and unreliable dyeing, printing and finishing of fabrics have resulted from macroeconomic policies that fostered high cost protected industries. The reductions of import tariffs will alter this situation over the medium term by allowing apparel companies to access imported inputs if necessary.

In summary, the Project's focus on firm level technical assistance is supported by the findings of the apparel sector technical analysis.

3. <u>Production and Marketing Analysis of Light Industry</u>

An analysis of opportunities for and constraints to increasing Peruvian exports within the light industry/metal mechanics sector was also carried out. The contract team performed extensive field research, interviewing over 80 business managers as well as trade association representatives in metal mechanics (i.e. capital goods, consumer goods, autoparts, electronics assembly); leather and footwear; apparel; and colorants/food additives and medical supplies. The team determined that opportunities exist in a number of these sub-sectors (See Annex I).

One overriding need that was identified in virtually all of the interviews was marketing TA. Another aspect common to almost all the industries was that they were operating at a very low percentage of installed capacity (ranging from 10% to 80%, with 30% being the most common figure cited). While alarming in itself, this means that both production and exports (particularly to other Latin American countries) can be expanded with less capital investment by reactivating unutilized capacity.

a. <u>Metal Mechanics Sub Sector</u>. The team noted that for a large number of firms in the metal mechanics industry, Latin American countries were the principal markets for their final products. The team recommended that the Project support this strategy of targeting neighboring Andean countries, particularly in the mining, fishing and replacement parts sub-sectors where several Peruvian companies have experience and marketing contacts. Marketing assistance could also be provided to Peruvian auto parts and car battery producers to target the U.S. aftermarket (replacement parts). There is a well established group of companies producing auto parts and many of the raw materials used in this sub-sector are produced locally.

The team identified the following requirements for the metal mechanics sub-sector: 1) Short-term - working capital, assistance in market identification-trade show participation, business contacts, and product identification, 2) Medium term (1-3 years) - investment in new machinery and equipment, 3) Long-term (3-5 years) - national quality control and standards training for technical laborers.

b. Apparel Sector: The light industry analysis team also performed a limited overview of the apparel industry since A.I.D. had contracted another firm to carry out a more specific and detailed analysis of this sector. The biggest constraint facing the industry is the current quota arrangement between the U.S. and Peru and particularly the establishment of sub-categories within the 338 and 339 categories (knit tops i.e. polos and T-shirts). This sector also demonstrates the most potential for generating both employment and export earnings within a relatively short period of time. They recommend that TA and on-the-job training be provided to plant supervisors. They also suggest focusing on the use of woven fabric and other areas or quota categories where an immediate demand exists. This would expand their production base and reduce their current reliance on exports of cotton knit garments.

c. Other Light Industry Opportunities: The analysis recommended that while the metal mechanics and apparel areas have priority, leather/footwear and colorants and medical supplies could be provided with some assistance in the future. The analysis recommended that only a limited amount of TA be provided to the leather/footwear sub-sector until its export feasibility is determined. The IC initially may select a few leather/footwear companies to assess their production capability and marketing TA needs.

The team also found some TA requirements by the colorants/additives to the food and cosmetics industry as well as medical supply areas. Peru produces 80% of all the world's carmine which is used as a lipstick colorant along with substantial quantities of annatto, marigold flower and other colorants. Additionally, a Peruvian manufacturer is one of only six companies in the world producing natural "cat gut" sutures. For all of these products the employment impact is high, the gathering and processing of raw materials is very labor intensive. In the colorants and additives industry, opportunities exist for producing more value added locally by increasing production of related items such as lipstick and oleoresin. To achieve this, the industry requires technical assistance in the production process and in the downstream integration of their products. For surgical sutures, assistance is needed to develop a greater share in the hospital supply market.

In summary, the analysis supports a focused TA program in marketing, production, quality control, and distribution that can be targeted at specific firms and groups of firms in light industry.

4. Analysis of Credit Demand and of a Credit Delivery Mechanism

a. Credit Demand. The credit demand analysis identified 76 investment opportunities within the agricultural/agro-industrial, textile and light industry sectors whose total capital requirements exceed $122 million (See Annex J). Of this amount, the demand for working capital is approximately $24 million and plant and equipment costs are about $98 million. Of the 76 projects, 55 are in the agricultural/agro-industrial sector, 13 in textiles, and 8 in light industry. Total potential investment requirements are as follows: $68.8 million in agriculture/agro-industry; $40.6 million in textiles; and $12.6 million in light industry.

The demand analysis also revealed the impact that an uncertain macroeconomic environment and anti-export bias have had on medium and long-term export oriented investment plans. The investment opportunities identified in the demand analysis began as investment ideas only one or two years ago. In addition, 27 of the 76 investment opportunities are at the level of feasibility studies and could be implemented in the first year of the Project. These 27 projects account for approximately 56% ($68.3 million) of the total potential investment demand. A recent internal demand analysis for potential agricultural projects carried out by the Latin American Agribusiness Development Corporation corroborates the findings of the USAID commissioned credit demand study. Investment projects do exist and Peruvian entrepreneurs are ready to move on them if the GOP stays the course on its stabilization and recovery program; many potential projects at the pre-feasibility stage could move quickly to the feasibility and implementation phase. The GOP's economic program should also begin to make investments in non-traditional export projects much more attractive. The credit demand analysis contractor reexamined the investment requirements after the import tariff reductions announced in October which reduced the cost of imported inputs and lowered the estimated investment costs of many projects. In summary, the analysis showed that the potential demand exceeds the proposed $50 million equivalent local currency credit line.

b. Credit Delivery Mechanism. The Credit Delivery Mechanism study analyzed the current Peruvian financial system, evaluated potential financial intermediaries, and recommended organizations most suited to participate in the program due to their experience, capabilities and overall financial situation. (See Annex K).

The Peruvian financial system has been plagued by relatively high inflation rates and controlled nominal interest rates that led to negative real interest rates which greatly discouraged savings. At the same time, extremely high reserve ratios decreed by the BCR (as high as 80%) have impeded an efficient redistribution of credit within the financial system. Faced with this situation, banks were essentially forced into evaluating and approving loans more on the basis of guarantee of loan recovery than on the profitability of the investments. This situation became much more acute in the last years of the Garcia administration. The GOP imposed taxes on savings and checking accounts and, in many cases, banks found themselves in the unique position of recommending to their clients that they deposit their money outside the formal financial system (banca paralela) to avoid the regressive taxes and restrictions decreed by the government. In addition many banks profited from exchange rate operations and made speculative investments dependent on an increasing inflation rate. With the August 8th package, inflation and the exchange rate stabilized, thus reducing bank profit margins. Banks with high operational costs faced sharply reduced operating margins leading to concern over their viability.

While the commercial banking system is in a difficult situation, the condition of the state development banks is far worse. There, excessive numbers of employees and branches coupled with poor managerial and credit control have brought the system to virtual collapse. The most striking example of this is the Banco Agrario where, as of June 30, 1990, 92% of its funds were essentially money "printed" by the BCR. The overall deterioration of the banking system is perhaps best shown in macroeconomic terms. The degree of monetization, (money supply as a percentage of GDP) was 27% in 1972 in Peru, as of July, 1990, the figure had dropped to 3.5%. Thus far, the GOP has refused to recapitalize the state development banks because it would affect its stabilization program.

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The new economic plan instituted by the Fujimori government is addressing many of the distortions within the financial system and, consequently, the way in which financial intermediaries will have to work. Although inflation dropped dramatically from its hyperinflationary levels, the liberalization of interest rates created conditions for sharp increases in lending rates (about 18% in February, 1991), while borrowing rates remained at lower levels (about 10%). While banks argue correctly that tight liquidity conditions force them to live off wide spreads, it is also true that banks have unnecessarily high fixed costs and that internal reforms are needed to make them more competitive.

Banks will need to restructure and downsize their operations to become more productive. They will also have to become more efficient in granting new loans, seeking and evaluating more profitable credit and investment opportunities and not channeling their resources to groups with which they are affiliated. Some banks will find it difficult to withstand the current crisis. It is expected, however, that over the next 18 to 24 months, the gradual remonetization of the economy will bring deposits back into the system and allow for an increased degree of credit availability.

After evaluating nine of the leading private financial institutions in the country, the team recommended two regional banks, Banco Regional del Norte and Banco del Sur, and two banks with national coverage, Banco Wiese and Banco Latino to participate in the local currency credit fund channeled through the BCR. Overall, these banks tended to have higher revenues to capital ratios, lower financial costs to deposits and obligations ratios, and lower operating costs as reflected by reduced personnel costs to operating margin ratio. In addition, they had more favorable deposit/capital ratios indicating a better capacity to attract and maintain depositors. Most had acceptable stock investments/capital ratios reflecting a lower speculative orientation than other banks (See Annex K).

A local currency agreement will be prepared between the Ministry of Economy and Finance (or designated entity which will administer and monitor the Economic Stabilization and Recovery local currency program) and the BCR for the establishment of the $50 million local currency export credit line. A.I.D. will also review and approve the agreement. The agreement will contain the following criteria to evaluate non-traditional export investments eligible for financing under the credit line: 1) Net Present Value of Benefits, 2) Internal Rate of Return (Financial), 3) Employment Generation (full-time equivalents), and 4) Net Foreign Exchange Generated. In reviewing financing proposals, greater weight would be placed on the latter two criteria.

With respect to the terms which the intermediaries would charge for analyzing potential borrowers and their projects and channeling the funds, the contractor was hesitant to determine a percentage rate. Given the inflation and interest rate adjustments occurring at the time of the study, the determination of an interest rate would have been theoretical and not applicable to the situation when credit funds were made available. Therefore the project design team recommends that the rate charged to the final borrower should be calculated using as a base the inflation rate and a spread sufficient to cover loan placement and credit risk. This will be incorporated into the agreement. A clause for adjusting the rate periodically based on inflation will also be included.

Approval by the BCR for individual loans will be minimized by specifying the criteria for eligible loans in the agreement. However, the BCR will carry out sample monitoring of the commercial bank portfolios supported by the credit line. The analysis proposed that each intermediary be limited to a specific amount under the program so that funds are distributed among sectors and the various regions of the country. However, the project design team found this recommendation unsatisfactory. To spur competition among the banks to provide non-traditional export financing, specific amounts will not be allocated to each bank, although there will be a maximum limit on the amount than an individual bank can obtain from the credit line.

The credit line complements the other Project activities. As the macroeconomic program takes hold the financial system should prove better able to capture domestic savings and allocate loanable funds.

B. Economic Analysis

The goal of the IEP Project is to provide the Peruvian economy with legitimate foreign exchange and employment generating alternatives to coca production. To that end, the Project is aimed at providing technical and financial resources to non-traditional exporters in areas where Peru has comparative advantage. In doing so, the Project is addressing the principal constraints confronting the non-traditional export sector: low productive capacity, the use of outdated technologies, and limited financing.

The Mission contracted the services of a Peruvian consultant to carry out the economic analysis of the Project. The summary of that analysis is presented in Annex M. The complete analysis is available in USAID/Peru's bulk files. The contractor was asked to carry out an analysis at two levels: a macroeconomic estimate of the economic benefits of the Project and a microeconomic analysis of individual model investment projects that are likely to be generated by the Project.

At the macroeconomic level, the analysis attempted to generate a broad approximation of the cost-benefit of the Project by estimating the overall stream of the economic benefits and costs associated with it. For this calculation, the benefits from the Project include the net increases in export earnings and the labor value added that would result from Project interventions. The costs include investment outlays from private and Project sources, plus other costs implicitly netted out in the net foreign exchange calculation. Table 10 present the streams of investment, technical assistance, export earnings, net foreign exchange earnings, and the value added of labor associated with the Project. Each is discounted, using a 15% rate, to obtain their net present value. This discount rate approximates the real opportunity cost of capital in Peru. The stream estimates and the relationship between investment and exports are based on data gathered for the credit demand study, historical data, and sectoral input/output tables of the Peruvian economy.

Using Table 10, the overall benefit/cost ratio of the Project was estimated by adding the present value of net foreign exchange earnings ($339.9 million) to the present value of labor value added ($182.9 million), and comparing the sum against the present value added of investment ($128.6 million) plus technical assistance ($11.6 million). The result is a benefit/cost ratio of about 3.7/1. While this ratio shows substantial gains

TABLE 10

COST AND BENEFITS

| Year | (1) Investment (millions $) a/ | (2) Technical Assistance (millions $) | (3) Direct Employment (persons) | (4) Increase in Export Earnings (millions ) b/ | (5) Net Foreign Exchange Earnings (millions $) c/ | (6) Value Added of Labor (millions $) d/ |
|---|---|---|---|---|---|---|
| 1 | 51.4 (10.0) | 3.0 | 5,054 | 51.5 | 17.6 | 9.5 |
| 2 | 44.4 (10.0) | 3.0 | 11,887 | 121.1 | 41.3 | 22.2 |
| 3 | 25.5 (10.0) | 3.0 | 21,123 | 215.2 | 73.4 | 39.5 |
| 4 | 19.6 (10.0) | 3.0 | 21,123 | 215.2 | 73.4 | 39.5 |
| 5 | 11.2 (10.0) | 3.0 | 21,123 | 215.2 | 73.4 | 39.5 |
| 6 | | - | 21,123 | 215.2 | 73.4 | 39.5 |
| 7 | | - | 21,123 | 215.2 | 73.4 | 39.5 |
| 8 | | - | 21,123 | 215.2 | 73.4 | 39.5 |
| 9 | | - | 21,123 | 215.2 | 73.4 | 39.5 |
| 10 | | - | 21,123 | 215.2 | 73.4 | 39.5 |
| Present Value | 128.6 | 11.6 | ------ | 996.5 | 339.9 | 182.9 |

a/ The figures in parenthesis indicate the amounts of HCOLC provided credit capital.

b/ Nominal increase attributable to project activities.

c/ Equal to value of exports less direct and indirect import requirements.

d/ Result of multiplying the number of workers by the average annual salary of workers in the sectors analyzed.

Note: Columns (5) and (6) are the quantifiable benefits used in the calculations. Columns (1) and (2) are the quantifiable costs.

from non-traditional export activities, it should be interpreted only as an indicator of the direction and general order of magnitude associated with the economic viability of non-traditional export production. It should be recognized that benefits are overstated because the estimated value added of labor has not been adjusted by subtracting the social cost of labor. However, in a situation of high unemployment, such as the one that characterizes Peru, it can be assumed that social costs are a relatively small share of value added. It should also be recognized that costs are underestimated because they exclude non-tradeables from the calculation. In any case, from a macroeconomic perspective, these ratios indicate that investment in non-traditional exports is beneficial to the economy.

In order to cross check the validity of these indicators, microeconomic analyses of individual investment projects were carried out. The methodology used consisted of applying Project economic analysis techniques to estimate the financial and economic profitability of investment projects in sub-sectors to be assisted by the Project.

The microeconomic analysis focused on two representative asparagus exporting firms and a representative apparel exporting firm. The asparagus firms were Firm B, which exports fresh and frozen asparagus, and Firm C, which exports fresh and canned asparagus. The apparel firm (Firm A) exports shirts, trousers and shorts. Investment requirements, resulting export values, production costs and other components were estimated to evaluate individual projects and obtain economic and financial indicators. Projects were evaluated assuming three scenarios (optimistic, moderate, and pessimistic) according to different international prices and production costs ranges. The moderate scenario is considered as the most likely outcome and it is presented in Annex M.

Individual projects were evaluated at market prices and at shadow prices. The study calculated internal rates of return using each set of prices. Table 11 shows the results; at market prices, the IRR was 29% for Firm A, 46% for Firm B, and 106% for Firm C. Economic rates of return were 53%, 68% and 86% respectively. These IRRs probably overestimate the economic profitability of these projects. The overestimation problem is associated with the extreme difficulty involved in estimating adequate and reasonable shadow prices in an economy that is emerging out of a hyperinflationary recession. These methodological problems, in the Mission's judgement, are not likely to have a significant impact on the economic feasibility of the export projects the Project will assist. Their comparative advantage is clear and proven by the continued expansion of these activities under the adverse economic conditions of the past three years.

The firms were estimated to generate considerable net foreign exchange revenues per unit of export and per unit of investment. The microeconomic analysis showed that each unit of exports, excluding its imported inputs, generated a net foreign exchange inflow of $0.72 for Firm A, of $0.67 for Firm B, and of $0.75 for Firm C. These results probably overestimate actual results since they did not include the imported component of domestically produced inputs. This omission is not likely to excessively bias the results to the point where it would raise questions about the economic feasibility of non-traditional export projects. The sample analysis showed that Firm A generated exports of $4.93 per dollar invested, Firm B $9.46, and Firm C $24.01. This ratio was calculated dividing the present value of estimated total exports by total investment.

## C. Social Soundness Analysis/Women in Development

### a. Target Beneficiaries

The Project's direct beneficiaries will be the exporters whose businesses will be assisted and profits improved, and the newly employed workers in these enterprises. Based on the estimates provided in the economic analysis, 2,800 full time workers will be employed in agro-industrial enterprises and 18,300 in light industry. Other, indirect beneficiaries of the Project will be growers/producers whose sales to agricultural exporters

TABLE 11
MICROECONOMIC ANALYSIS RESULTS

| | Firm A | Firm B | Firm C |
|---|---|---|---|
| IRR at market prices | 29.38% | 46.13% | 106.15% |
| IRR at shadow prices | 53.00% | 68.00% | 86.00% |
| Net foreign exchange generation ($) | | | |
| a. Per unit of export | 0.72 | 0.67 | 0.75 |
| b. Per unit of investment | 4.93 | 9.46 | 24.01 |
| Investment recovery (years) | 3.0 | 3.0 | 2.0 |

Source: Microeconomic Analysis by local consultants.

increase, as well as other types of suppliers and transporters who will experience increased demand for their services from the Project-assisted export enterprises. It is estimated that approximately 13,300 workers will be indirect beneficiaries. Peruvians in general will benefit from the Project as export earnings increase and disseminate throughout the economy.

b. Skills Constraints to be Addressed

The Project will be responding to, and alleviating, skills constraints that exist on several levels in the Peruvian export sector, from production and processing, to packaging and marketing in both agriculture and industry. The existence of such skills constraints is the result of many factors, including cultural and economic ones. In agriculture, the great majority of producers are small, producing on less than 10 hectares, and most are not geared to commercial agriculture for export. The custom of "sweep" buying (al barrer) by exporters and traders, that is, buying everything a field produces without discriminating as to size or quality, has taken away the price differentiation incentive that would normally motivate producers to improve their growing techniques. This custom has resulted in approximately 70% of the crop being of inferior quality and unsuitable for export. Currently, neither agro-industrial processors nor traders provide any training to improve growing techniques; in fact, their own buying customs perpetuate the problem. Moreover, agricultural extension and research services in Peru are currently inadequate to provide farmers with the necessary pre-harvest and post-harvest technologies for export crops. With few exceptions (notably in the green asparagus industry), growers, packers and shippers have been reluctant to work together to expand their knowledge of markets and production techniques.

The technical assistance to be provided under this Project will address these production-end problems. As agricultural exporters identify outmoded production processes as impediments to improved export performance, TA will be channeled back to their suppliers (producers/growers) upon whom they depend for an exportable product.

Significant skills deficiencies in industrial management exist in Peruvian firms as well. Producers and exporters lack knowledge of plant production organization for export, improved quality control procedures and logistical planning to meet delivery deadlines. Technical assistance under the Project can be used to improve the knowledge base of managers and shop floor supervisors in all elements of export production and processing.

c. Expected Social Impact

The Project will result in new jobs for currently under- and unemployed Peruvians, many of whom will be women. New jobs will signify an improved standard of living for the families of these workers, as well as general income benefits to Peruvians resulting from increased foreign exchange earnings. The technical assistance provided under the Project will help to alleviate the skills constraints described above and will position Peruvian businesses to be more competitive in the international market.

Many of the types of jobs that will be created under the Project are traditionally carried out by women. For example, according to various studies and firm-level interviews, more than 75% of the employees in the garment industry are women (many as production section supervisors), and similar high percentages (approximately 65%) exist in agricultural harvesting and processing. In asparagus production and harvesting, women work as gatherers, sorters, sizers and packagers. Of the total new employment estimate of 21,100, it is estimated that approximately 15,100 women will be newly employed in export enterprises to be assisted by this Project.

## D. Institutional Analysis

To assist in determining the best implementation arrangement for this Project, an institutional analysis examined the missions, goals, organizational structures, financial conditions, past performance, and future potentials for export and investment promotion of five institutions: the Association of Exporters (ADEX), the Confederation of Private Enterprise Institutions (CONFIEP), the National Society of Exporters (SNE), the Institute of Foreign Trade (ICE) (now being restructured by the new GOP), and the Peruvian Institute of Business Administrations (IPAE). The study ranked these institutions according to the following criteria: 1) experience and organizational focus on export promotion activities, 2) linkages, contacts and relationships with major foreign markets, 3) links with producers, 4) financial resources, 5) structural flexibility, 6) quality of staff and management, and 7) infrastructure, facilities, and systems for export promotion.

Annex N provides an overview of the institutional analysis for the various potential implementing entities. The Association of Exporters was recommended as the most appropriate implementing entity.

ADEX is a private, non-profit organization established in July 1973 with the purpose of promoting Peru's exports and defending the interests of its members. ADEX's 1,034 members are mostly non-traditional exporters. ADEX promotes its members' exports through lobbying, publication of product directories, trade fairs, and seminars. It also conducts a limited amount of market research, is active in international negotiations, provides a limited amount of technical assistance in packing, transport, and design, and sponsors a diversified program of export training.

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Structurally, ADEX is organized horizontally with many parallel units and committees and few vertical hierarchies. ADEX has a staff of 124 employees. The organization has two separate groups of units and programs, one dealing with export promotion and the other with academic training activities. All administrative and financial decisions are centralized. ADEX utilizes sectoral and functional committees to facilitate decentralization, broader participation, and consensus-building, but the committee system can tend to slow the decision-making process and follow-up actions. Officially, there are 24 sectoral committees in ADEX; however, only 14 of them have been established to date and only ten are active. The committees that are active work on the problems and export development strategies specific to their sectors. The productivity and effectiveness of the committees depend largely on the energy and personality of the chairman and members.

ADEX has relatively stable and diversified revenue sources: membership dues (41% of total revenues), income from academic services (28%), and sales of publications (16%). The remaining 15% of its revenues are derived from investments and donor funds. ADEX's financial condition is relatively solid and sustainable in terms of assets, net worth, liquidity, stability and diversity of income sources, and the institution is minimally leveraged.

ADEX's weaknesses as an export promotion entity are: 1) a relatively young staff, inexperienced in aggressive, results-oriented export and investment promotion; 2) insufficient financial resources and outreach capacity to mount a vigorous promotional and technical assistance program in agriculture, apparel, and metalworks/light industry; 3) insufficient contacts and linkages with foreign buyers and international trade organizations outside the Andean region; 4) inadequate technology or operating system to monitor a results-oriented export and investment promotion program and 5) inadequate office communication and information processing/retrieval facilities (fax, telex, etc.). However, with the assistance of an experienced institutional contractor an effective non-traditional export promotion program could be implemented.

The report concluded that while no one institution currently possessed the ideal combination of qualities to implement the Project, ADEX was the most appropriate implementing entity. Based on this advice, and its own independent assessment, the Project Design Team agreed that ADEX be selected as the implementing entity. However, as recommended by the institutional analysis ADEX will be strongly assisted by a team of experienced export promotion professionals.

## E. Environmental Analysis

An environmental assessment (EA) was carried out to determine the potential environmental impacts of activities supported by the Project (See Annex O). Among the findings of this analysis were:

1) Agricultural export enterprises receiving technical assistance under the Project will use some pesticides in the production process to increase their yields, and

2) Laboratories in Peru are not adequately equipped for pesticide residue analysis needed to comply with U.S. tolerances on the

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crops intended for exports. Furthermore, laboratory personnel are not sufficiently trained or experienced in pesticide residue analysis.

An EA Addendum on non-pesticide potential environmental adverse impacts identified two different environmental problem sets that the project would face: 1) existing environmental conditions in areas that could make project assisted investments less productive; and 2) potential environmental problems derived from intensive, technified agricultural production systems. The most significant existing environmental condition is soil salinization in the irrigated coastal valleys resulting from inefficient irrigation practices, inappropriate crop selection, and poorly maintained drainage systems-factors affected by the extremely low water tariffs. The EA Addendum noted that progressive farmers producing non-traditional export crop recognize the importance of regulating irrigation and have introduced sophisticated water systems to regulate the harvest season.

The potential effects of intensive agriculture or monoculture (in particular of non-permanent crops) can consist of: 1) exhausting soil fertility thereby requiring increased use of fertilizers, 2) permitting diseases and pest organisms to thrive much more than in mixed agroecosystems environment requiring the greater use of pesticides, and 3) soil cultivation practices that alter soil structure leading to soil compaction. The recommended mitigative actions to address these monoculture problems include crop rotation programs, and selection of plant species with which there is no common sanitary problem. In areas of soil salinization, soil/water analyses and the study of soil characteristics are recommended which will permit the proper selection of crops and the utilization of crop irrigation practices that avoid salinization by minimizing water use.

The recommended mitigative measures to reduce environmental threats of pesticide use in the Project and to advance use of non-chemical alternatives included the following:

1) Only pesticides registered in Peru and falling under the U.S. Environmental Protection Agency's "general use" category should be used for the Project. These pesticides are listed in Table 1.1 of the Environmental Assessment. Pesticides classified by the EPA as "restricted use" category are not approved for use under the Project. If used according to labeled instructions, these "general use" pesticides should not present unusual hazards to humans or the environment. The Project Coordinator should regularly monitor EPA registration status of the pesticides used.

2) USAID should provide training to farmers participating in the Project on the correct use of pesticides and non-chemical alternatives as part of an integrated pest management system. This training should address correct application, storage, transportation, and disposal of pesticides, as well as worker and applicator protection and environmental safety.

3) The Project should upgrade the equipment and technical expertise of chemical laboratories in Peru that perform residue analysis. These laboratories should conduct pesticide residue analyses on produce to be exported and monitor pesticides in the natural

environment at Project sites. The Project should provide technical training in pesticide residue analysis for at least one analyst from each upgraded pesticide residue analysis laboratory.

4) Loans that become available from the credit line should not be used to purchase pesticides not approved by the U.S. EPA. Lending institutions should review proposed loan uses to insure that this does not occur. Loan agreements should specify that pesticide residue analyses must be performed for all agricultural products exported.

5) The Project should fund the purchase and maintenance of appropriate protective devices and clothing in any and all cases where pesticides will be used for project-related crops.

Based on these recommendations the following actions will be taken during project implementation to address these concerns:

- Technical assistance provided to specific firm(s) in export crop production will also include information and recommendations on minimizing pesticide use, carrying out soil/water analyzes prior to crop production, developing crop rotation programs, and on utilization of approved EPA registered products and monitoring use.

- Additional training will also be provided to upgrade the technical expertise of chemical laboratories in Peru. It is expected, however, that laboratories will invest in upgrading equipment to meet the increasing demands of exporters for residue and soil analysis services.

- Specific workshops will be financed to provide general information on pesticide information, utilization and residue (quality control) analyzes. These will be directed at producers/exporters, and field supervisors.

- The agreements for the local currency credit fund will indicate that these should not be used to purchase pesticides, that residue analyses must be performed for exported agricultural products using the credit line and that protective equipment is eligible for financing.

The EA Addendum recommended that a full time Environmental Specialist be incorporated into the Institutional Contractor Team. However, because of the variety of crops and production practices likely to be encountered it is advisable to rely on a variety of short term TA and courses directed at soil/water and pesticide analyses and monitoring, minimizing pesticide use, and on appropriate pesticide utilization practices rather than on a single individual. Section IV.C.2b describes the environmental TA that will be funded under the Project.

## VII. NEGOTIATING STATUS

USAID has maintained close contact with ADEX during the design stage of the Project. ADEX is aware of the Project's goal, purpose and proposed implementation mechanisms and is in agreement with them. Annex E is a letter from the President of ADEX's Board of Directors indicating their understanding of the Project and their willingness to participate as the Grantee under the proposed Cooperative Agreement.

## ANNEX A: Logical Framework

| NARRATIVE | OBJECTIVELY VERIFIABLE INDICATOR | MEANS OF VERIFICATION | ASSUMPTIONS |
|---|---|---|---|
| Goal: To support a rapid and sustainable private sector-led economic reactivation that generates foreign exchange, employment and boosts productivity. | - Foreign exchange inflows from licit sources increase<br>- National employment increases<br>- Per capita income increases | - BCR records<br>- National employment records<br>- National income records | - The GOP economic stabilization program is maintained<br>- Worldwide demand for non-traditional exports supports continued investment in export activities<br>- The price of coca declines<br>- Income benefits accrue to the intended target groups |
| Purpose: To generate employment and to increase Peru's non-traditional exports and investment in export activities. | (E.O.P.S.)<br>- $215 million annual increase in non-traditional export earnings<br>- Over 21,000 workers newly employed<br>- Three non-traditional export products being exported from coca growing areas | - Current Account figures<br>- GOP/firm employment records<br>- GOP/BCR records | - The exchange rate continues to become more favorable for exporters<br>- Inflation is reduced and controlled<br>- Policies favorable to investment and export are maintained by the GOP<br>- The Peruvian banking system has adequate liquidity<br>- Sufficient infrastructure and security is maintained in coca growing areas to allow development of export enterprises |
| Outputs:<br>- Identification and selection of promising export enterprises | - Proposals for A.I.D. assistance received from export firms<br>- Proposals reviewed and approved; technical assistance contracted<br>- Consultants in country working with producers and exporters | - Proposals<br>- Consultants' contracts<br>- Consultants' reports | |
| - Strengthened local export promotion services capability | - ADEX has improved export promotion services capability; i.e., more equipment, better access to market information, and more skilled staff | - Trained staff, equipment, and data base | - Consultants effectively transfer export promotion skills to ADEX over time |

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| NARRATIVE | OBJECTIVELY VERIFIABLE INDICATOR | MEANS OF VERIFICATION | ASSUMPTIONS |
|---|---|---|---|
| **Outputs (cont.)** | | | |
| - Greater information sharing and education within the export sector on critical export issues | - ADEX and other export groups sponsor seminars and training workshops on critical export issues | - Seminars and workshops | |
| - Strengthened capability within the export sector to identify and prioritize needed policy and regulatory reforms and present alternative policy proposals to the GOP for adoption | - Export Sector Panel submits issues for study to the PAPI Project; studies are funded and presented to the GOP | - Studies, interviews with the Export Sector Panel and the GOP | - The Export Sector Panel works effectively as an advocate for exporters |
| - Increased production, management and marketing capabilities of export firms | - Harvest, post-harvest and manufacturing procedures are improved; export volumes and sales are increased | - Sight visits; annual reports of export firms and Ministry of Industry reports | - Sufficient financing is available to producers and exporters |
| - Improved consistency (volume, quality and timely delivery) of production base | - Product rejection rates are reduced | - Records of buyers/exporters | - Agricultural exporters demand higher product quality from their suppliers |
| - Working capital and medium term financing provided to exporters | - $50 Million in loans made to export enterprises | - Reports of intermediary banks | - Commercial banks are willing to on lend to exporters |

**Inputs:**

| | (Millions) A.I.D | HCOLC | Private Sector Counterpart | MEANS OF VERIFICATION | ASSUMPTIONS |
|---|---|---|---|---|---|
| 1) Export Promotion Activities | $10.340 | 0 | 0 | - USAID Controller's Office | - Funds become available |
| 2) Technical Assistance (Ag./Ind./Marketing) | 5.605 | 1.0 | 3.0 | - Contractor/ADEX Records | - Export firms purchase TA services (i.e., provide 30-70% of cost of TA) |
| 3) Financial Services | 0.0 | 50.0 | 0 | | - As part of the ESF agreement, the GOP concurs in the use of $50 M in HCOLC for this credit line |
| 4) Project Management/Contingency | 3.555 | 0 | .105 | | |
| Total: | $19.500 | 51.0 | 2.905 | | |

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SUBJECT: PERU: DAEC REVIEW OF THE INVESTMENT AND EXPORT PROMOTION (527-0349) PID

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A DAEC REVIEW OF THE SUBJECT PROJECT WAS HELD ON APRIL 16, 1990. TERRENCE BROWN, LAC/DR DIRECTOR, CHAIRED THE MEETING, AND ERHARDT RUPPRECHT, DIRECTOR OF USAID/PERU'S OFFICE OF ECONOMIC RECOVERY, REPRESENTED THE MISSION. THE PID WAS APPROVED SUBJECT TO THE VARIOUS CAVEATS/RECOMMENDATIONS FOR PP DESIGN OUTLINED BELOW. THE REVIEW CHAIR DETERMINED THAT THE PP WOULD BE REVIEWED IN AID/W SINCE IT REPRESENTS THE FIRST MAJOR USAID/PERU COUNTER-NARCOTICS INITIATIVE TO BE REVIEWED, THE GOP POLICY ENVIRONMENT WITHIN WHICH IT WILL BE WORKING IS STILL FAR FROM CERTAIN, AND KEY ELEMENTS OF THE PROJECT REMAIN UNDEFINED.

THE ISSUES DISCUSSED, AND DECISIONS MADE AT THE REVIEW WERE AS FOLLOWS:

1. WHAT ARE THE POLICY CONSTRAINTS TO EXPORT DEVELOPMENT IN PERU? HOW WILL THEY BE ADDRESSED BY THE PROJECT?

THE MISSION REP EXPLAINED THAT THE MOST CRITICAL POLICY CONSTRAINT TO EXPORTING IN PERU IS A FIXED, OVERVALUED EXCHANGE RATE. THE ESTABLISHMENT OF A REALISTIC EXCHANGE RATE WILL BE A PRECONDITION TO INITIATING THE PROJECT, AND WILL LIKELY BE A CONDITION PRECEDENT UNDER THE BALANCE OF PAYMENTS AGREEMENT WITH THE GOP. IN THE BOP AGREEMENT, AND ANY OTHER AGREEMENTS THAT GIVE THE MISSION NEGOTIATING LEVERAGE LIKE THE PL-480 AGREEMENTS, THE MISSION MAY WANT TO INCLUDE ADDITIONAL POLICY/PROCEDURAL CHANGES THAT WILL FACILITATE EXPORTS. IN THE PP, THE MISSION SHOULD DEFINE WHAT IT MEANS BY A "REALISTIC" EXCHANGE RATE, JUSTIFY ANY DEVIATION FROM THAT STANDARD, AND LAY OUT A MATRIX OF POLICY/PROCEDURAL REFORMS THAT WILL NEED TO TAKE PLACE IN ADDITION TO THE EXCHANGE RATE AND WHEN, AND BY WHOM THEY WILL BE CARRIED OUT. THE MISSION REP EXPLAINED THAT THE POLICY ANALYSIS PLANNING IMPLEMENTATION (PAPI) PROJECT WILL ADDRESS BOTH THE MACRO AND MICRO-LEVEL (I.E., PROCEDURAL) POLICY CONCERNS THAT WILL BE IDENTIFIED BY PARTICIPANTS IN THIS

PROJECT. UNCERTAINTY WAS EXPRESSED ABOUT THE MECHANISM THROUGH WHICH THIS WILL HAPPEN, HOWEVER. THE MISSION SHOULD EXPLORE OPTIONS FOR MOBILIZING PRIVATE SECTOR INTERESTS IN SUPPORT OF SPECIFIC POLICY CHANGES THROUGH THE EXPORT PROMOTION ENTITY, THEREBY ALLOWING IT TO SERVE AS A POLICY ADVOCATE FOR EXPORTERS. THE EXPORT PROMOTION ENTITY SHOULD ALSO CHANNEL INFORMATION TO THE PAPI PROJECT ON EXPORT-RELATED POLICIES THAT REQUIRE FURTHER ANALYSIS OR SHOULD BE ADDED TO THE MISSION'S POLICY DIALOGUE AGENDA. THE PP SHOULD DESCRIBE THE FACILITATION MECHANISM THAT WILL BE ESTABLISHED BETWEEN THIS PROJECT AND THE PAPI PROJECT.

2. IS THE PROJECT TOO BROAD IN SCOPE? CAN THESE ACTIVITIES REALISTICALLY BE CARRIED OUT BY THE PROPOSED IMPLEMENTING ENTITY?

A CONCERN WAS RAISED ABOUT HOW TO STRIKE THE APPROPRIATE BALANCE BETWEEN THE NEED TO DEVELOP A NEW EXPORT PROMOTION ENTITY (ASSUMING A SUITABLE EXISTING INSTITUTION IS NOT IDENTIFIED BY THE PP INSTITUTIONAL ANALYSIS) AND THE NEED TO MAKE A QUICK EXPORT IMPACT. THE MISSION SHOULD CONSIDER DEVELOPING A CONTRACTING MECHANISM WHEREBY TARGETED SERVICES CAN BE PROVIDED IMMEDIATELY TO PRODUCERS/EXPORTERS WITHOUT WAITING FOR SUCH SERVICES TO BE CHANNELLED THROUGH A NEW EXPORT PROMOTION ENTITY. LATER, THESE SEPARATELY CONTRACTED FUNCTIONS COULD BE FOLDED INTO THE SERVICES PROVIDED BY THE EXPORT PROMOTION ENTITY. INITIALLY, THEREFORE, THE

MISSION MAY NOT WANT TO TIE UP ALL OF THE PROJECT'S RESOURCES IN A COOPERATIVE AGREEMENT WITH THE EXPORT PROMOTION ENTITY. THE MISSION SHOULD CONSIDER CONCENTRATING ON EXPORT, RATHER THAN INVESTMENT PROMOTION ACTIVITIES INITIALLY, WITH THE LATTER BEING SUPPORTED LATER. THE SAME "EITHER/OR" CHOICE MAY HAVE TO BE MADE WITH REGARD TO PROMOTING EXPORTS IN AGRICULTURE VS. INDUSTRY -- TRYING TO DO TOO MUCH ALL AT ONCE WILL OVERBURDEN THE MANAGEMENT AND TECHNICAL CAPACITY OF THE PROJECT'S IMPLEMENTING INSTITUTION(S) AND JEOPARDIZE ACHIEVEMENT OF ITS OBJECTIVES. IT WILL BE ESSENTIAL TO SORT OUT THE EXACT PHASING OF PROJECT COMPONENTS DURING PP DEVELOPMENT. "EITHER OR" CHOICES AND PHASING DECISIONS WILL PROBABLY HAVE AN IMPACT ON THE LOP FUNDING FOR THE PROJECT. THE MISSION SHOULD STRIVE TO DESIGN THE PROJECT IN SUCH A WAY THAT IT REMAINS FLEXIBLE AND RESPONSIVE TO MARKET CHANGES, AND THE PROJECT'S IMPLEMENTATION STRUCTURE SO THAT IT, TOO, REMAINS ADAPTABLE.

3. WILL THE ESTABLISHMENT OF FIVE OVERSEAS OFFICES BE COST-EFFECTIVE AND APPROPRIATE?
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THIS ISSUE IS CLOSELY RELATED TO THE PREVIOUS ONE -- IF EXPORT, RATHER THAN INVESTMENT, PROMOTION IS TO BE THE INITIAL FOCUS OF THE PROJECT, OVERSEAS OFFICES MAY NOT BE NECESSARY. THE MISSION SHOULD DISTINGUISH BETWEEN THE INVESTMENT PROMOTION AND EXPORT PROMOTION FUNCTIONS OF THE OVERSEAS OFFICES IN ORDER TO DETERMINE WHETHER THESE OFFICES ARE REALLY ESSENTIAL TO PROMOTE EXPORTS. IF NOT, THE MISSION SHOULD EXAMINE OTHER POSSIBILITIES FOR EXPORT MARKETING SUCH AS AGENTS AND/OR TRADING COMPANIES. IN ANY CASE, GIVEN THE PROPOSED LOCATIONS OF OVERSEAS OFFICES THE MISSION SHOULD TAKE A LOOK AT WHETHER THE BENEFITS WILL JUSTIFY THE COST. FOR COMPARISON, THE MISSION SHOULD EXAMINE THE EXPERIENCE OF COSTA RICA (CINDE), RDO/C (INVESTMENT PROMOTION AND EXPORT DEVELOPMENT PROJECT), AND EL SALVADOR (FUSADES) WITH OVERSEAS OFFICES -- THE FIRST TWO MET WITH RELATIVE SUCCESS, BUT THE THIRD WITH LESS FAVORABLE RESULTS. DURING PP REVIEW, THE BUREAU WILL EXAMINE VERY CAREFULLY THE COST EFFECTIVENESS OF ANY OVERSEAS OFFICES PROPOSED IN THE FINAL PROJECT DESIGN.

4. SHOULD THE PROJECT BE CENTERED ON THE DEVELOPMENT OF A NEW INSTITUTION? HAS THE MISSION THOROUGHLY EXAMINED THE FEASIBILITY OF WORKING WITH EXISTING ORGANIZATIONS? COULD THE EXPORT/INVESTMENT PROMOTION SERVICES BE PROVIDED BY ONE OR MORE CONTRACTORS? WHAT WILL THE RELATIONSHIP WITH IPAE BE?

WHILE CONCERN WAS EXPRESSED ABOUT THE DELAYS, COST AND SUSTAINABILITY DIFFICULTIES INHERENT IN ESTABLISHING A NEW ENTITY, THE MISSION REP EXPLAINED THAT AN INITIAL EXAMINATION OF EXISTING INSTITUTIONS HAD BEEN CONDUCTED AND NONE WERE FOUND TO BE ACCEPTABLE. HE INDICATED, HOWEVER, THAT THE DESIGN TEAM WILL FULLY ANALYZE THE ORGANIZATIONAL CAPABILITIES OF EXISTING INSTITUTIONS DURING PP DEVELOPMENT BEFORE FINALLY RULING OUT THIS OPTION. THE MISSION SHOULD CONSIDER, TOO, WHETHER SUFFICIENT PRIVATE SECTOR COMMITMENT EXISTS IN PERU TO SUSTAIN THE NEW ENTITY AND PROVIDE IT WITH THE NECESSARY LEADERSHIP. IF IT DOES NOT, THE ENTITY WILL NOT BE WELL-ANCHORED WITHIN THE PERUVIAN BUSINESS COMMUNITY AND WILL NOT HAVE THE LEADERSHIP TO CARRY IT FORWARD AFTR A.I.D. ASSISTANCE ENDS.

WITH REGARD TO THE RELATION BETWEE IPAE AND THE NEW ENTIT, THE MISSION MAY WANT TO CONSIDER PLACING A U.S. PSC EXPERIENCED IN EXPORT PROMOTION INTO IPAE DURING THE START-UP PHASE TO HELP ORGANIZE AND LAUNCH THE NEW ENTITY.

5. SHOULD THE ISSUE OF SUSTAINABILITY BE ADDRESSED IN THE PP AND EARLY ON IN THE PROJECT? IS IT LIKELY THAT THE EXPORT PROMOTION ENTITY WILL EVER BECOME FULLY SUSTAINABLE? HOW WILL THE USER FEES ULTIMATELY PAY THE FULL COST OF SERVICES?

THE ISSUE OF SUSTAINABILITY SHOULD BE ON THE AGENDA WITH

THE IMPLEMENTING ENTITY FROM THE OUTSET AND CONTINUOUSLY THROUGHOUT PROJECT IMPLEMENTATION. THE PP SHOULD DIRECTLY ADDRESS THE ISSUE OF SUSTAINABILITY. DURING PP PREPARATION, THE DESIGN TEAM SHOULD EXAMINE HOW FEES HAVE BEEN STRUCTURED IN OTHER A.I.D.-SPONSORED EXPORT PROMOTION EFFORTS.

6. WHAT WILL BE THE ROLE, IF ANY, OF THE GOP IN THE IMPLEMENTATION OF THIS PROJECT?

THE MISSION REP REITERATED THAT THIS PROJECT IS A PRIVATE SECTOR EFFORT, BUT WHERE APPROPRIATE (E.G., INFRASTRUCTURE IMPROVEMENTS, EASING REGULATORY AND PROCEDURAL REQUIREMENTS) THE GOP WILL ASSIST THE PRIVATE SECTOR TO INCREASE EXPORTS. THE GOP WILL NOT CARRY OUT SPECIFIC COMPONENTS OF THE PROJECT NOR DIRECTLY PROVIDE

EXPORT SERVICES, BUT IDEALLY WILL FACILITATE PRIVATE SECTOR EXPORT EFFORTS THROUGH POLICY REFORM, CLARIFICATION OF THE "RULES OF THE GAME" AND RELATED ACTIONS. THE PP SHOULD DESCRIBE THE ROLE THE GOP WILL PLAY IN THIS PROJECT.

CLARIFICATIONS MADE AT THE ISSUES MEETING WERE AS FOLLOWS:

1. GC/LAC WILL PREPARE A LEGAL MEMORANDUM FOR THE MISSION REGARDING THE RESTRICTIONS THAT THE BUMPERS AND LAUTENBERG LEGISLATION MIGHT IMPOSE ON EXPORT PRODUCTS THE PROJECT WILL CHOOSE TO TARGET FOR ASSISTANCE. (THIS MEMORANDUM HAS ALREADY BEEN SENT TO THE MISSION).

2. THE MISSION WILL EXPAND THE SCOPE OF WORK FOR THE CREDIT DEMAND ANALYSIS PRE-PP STUDY TO INCLUDE AN EXAMINATION OF PROJECT'S PROPOSED CREDIT DELIVERY SYSTEM. THE MISSION MAY ALSO WANT TO KEEP IN MIND THE FOLLOWING SPECIFIC CONCERNS/QUESTIONS THAT AROSE DURING
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THE REVIEW REGARDING THE CREDIT COMPONENT:

- ARE POTENTIAL EXPORTERS NOT RECEIVING CREDIT DUE TO INSTITUTIONAL IMPEDIMENTS IN THE FINANCIAL SYSTEM?
- IS A 4 PERCENT SPREAD ENOUGH TO COVER COMMERCIAL BANKS' ADMINISTRATIVE COSTS AS WELL AS RISK? IN THE MOST IDEAL SITUATIONS, BANKS RECEIVE AT LEAST 3 PER CENT TO COVER ADMINISTRATIVE COSTS AND RISKS. IN SOME STABLE COUNTRIES WITH LESS RISK, COMMERCIAL BANKS HAVE RECEIVED AS MUCH AS 6 TO 7 TO COVER COSTS AND RISKS.
- WILL LIMITING THE CREDIT LINE TO A SMALL NUMBER OF BANKS BE A CONSTRAINT TO MOVING THE MONEY? WHAT WILL BE THE CRITERIA FOR SELECTING THE BANKS?
- SHOULD THE INTEREST PROFIT BE USED EVENTUALLY TO SUPPORT THE EXPORT PROMOTION ENTITY, OR SHOULD IT (ALONG WITH RECOVERY OF PRINCIPAL) BE USED TO RECAPITALIZE THE CREDIT FUND?

3. THE PP DESIGN TEAM AND LAC/DR/E WILL WORK TOGETHER TO DETERMINE HOW ENVIRONMENTAL CONCERNS CAN BE BUILT INTO THE PROJECT DESIGN AS WELL AS WHAT TYPE OF TDY ASSISTANCE FROM LAC/DR/E WILL BE AVAILABLE TO THE MISSION DURING PP DESIGN.

4. WITH REGARD TO FIRM-LEVEL TRAINING SUBSIDIES, THE MISSION SHOULD NOT FINANCE EMPLOYEE'S WAGES WHILE THEY ARE IN TRAINING AS IS DESCRIBED IN THE PID. INSTEAD, THE PROJECT SHOULD SUPPORT ONLY THOSE COSTS THAT ARE

DIRECTLY ATTRIBUTABLE TO THE PROVISION OF TRAINING.

5. THE PROJECT DESIGN TEAM MUST ALSO INCLUDE IN THE PP A MORE DETAILED EXPLANATION OF HOW THIS PROJECT WILL SUPPORT THE MISSION'S COUNTER-NARCOTICS STRATEGY.

6. WITH REGARD TO STRATEGIC DEMAND ANALYSIS INDICATED AS A PRE-PP STUDY, THE MISSION MAY NOT FIND IT COST-EFFECTIVE TO COMMISSION SUCH A STUDY FOR THE GENERAL CATEGORIES THE PROJECT IS TARGETING BECAUSE THE WORLD DEMAND FOR FRESH AND PROCESSED FRUITS AND VEGETABLES, METAL ENGINEERING, AND APPAREL IS NOT SEEN AS A CONSTRAINT TO EXPORT. THE CONSTRAINT FOR PERU, RATHER, IS ON THE SUPPLY SIDE -- I.E., WHETHER THEY CAN PRODUCE THESE GOODS AT PRICES COMPETITIVE WITH WORLD MARKET PRICES (DEPENDS ON TRANSPORTATION TIME AND COSTS, LABOR COSTS, ETC.) AND AT ACCEPTABLE WORLD STANDARDS (CAN THEY MEET PROPER TECHNOLOGICAL SPECIFICATIONS, PHYTOSANITARY REGULATIONS, ETC.?). THEREFORE, DEMAND WILL NOT BE THE DECIDING FACTOR FOR WHICH PRODUCTS THE PROJECT SUPPORTS BUT RATHER WHICH PRODUCTS CAN BEST AND MOST RAPIDLY ADAPT THEMSELVES TO WORLD MARKET DEMANDS. THIS MAY NOT BE KNOWN UNTIL THE PROJECT BEGINS TACKLING SUPPLY SIDE CONSTRAINTS. BAKER

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## ANNEX C: CERTIFICATION PURSUANT TO SECTION 611(e) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Craig G. Buck, the principal officer of the Agency for International Development in Peru, having taken into account, among other factors, the maintenance and utilization of projects in Peru previously financed or assisted by the United States, do hereby certify that in my judgment Peru has both the financial capability and human resources capability to effectively maintain and utilize the proposed Project: INVESTMENT AND EXPORT PROMOTION.

________________________
Date

________________________
Craig G. Buck
Director
USAID/Peru

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 1991 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. 1986 Drug Act Sec. 2013. (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. FAA Sec. 620(c). 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. FAA Sec. 620(e)(1). 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. |

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| 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.<br><br>(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.) | Yes, taken into account by the Administrator at time of approval of the Agency's 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.

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| 19. | FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? | No. |
| 20. | ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) | The GOP was present at the meeting, but it entered a written reservation subsequently. The Administrator took this into account at the time of approval of the agency's OYB. |
| 21. | FY 1990 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? | No. |
| 22. | FY 1990 Appropriations Act Sec. 539. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? | Not applicable. |

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

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| 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? | Not yet. Awaiting approval of NSD-18 program funding. |
| 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.<br>(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 efforts in areas (a) through (f) via technical assistance provision to non-traditional exporters in agriculture and industry and enhancement of the export services capability of the Peruvian Association of Exporters.

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 designed to encourage investment in Peru from foreign sources including the U.S. In addition, 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 $50 million to fund the credit line component. In addition, local enterprises will be providing $3,105,000 as counterpart contributions to technical assistance and program management activities.

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?

No.

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?

The project does not anticipate funding feasibility studies, prefeasibility studies or project profiles of potential investment in any of these products. In addition, NSD-18 Program funding bills include notwithstanding language for Sections 546 and 547 of the FY 90 Appropriations Act for the life of NSD-18 funded projects.

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?

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| 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).

No, awaiting approval of NSD-18 program funding.

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 disaggregate by gender all employment creation and 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?

Assistance will be furnished that will result in the generation of local currencies during the project. In the preparation of the agreement, A.I.D. will see to it that the terms and conditions of same adhere to all applicable regulations and restrictions.

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.

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| 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. |

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.

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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, and (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.

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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 grassroots activities on behalf of long-term 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.

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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.

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2. Development Assistance Project Criteria (Loans Only)

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| 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

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| 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.<br>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. |

ASOCIACION DE EXPORTADORES

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ANNEX E
Page 1 of 1 Page

P. 152-91

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due date 6/04

ACTION COPY

ACTION TAKEN:

DATE:

INITIALS:

Lima, May 20, 1991

Mr. Craig Buck
Director
**AID** Agency for International Development
Lima.-

Dear Mr. Buck:

In regards to the Investment and Export Promotion Project, we agree with it, and consider it very consistent with the Peruvian and Exporter point of view. Therefore, we are pleased to act as the national counterpart.

In relation to the project strategy, we agree that focusing technical assistance in high potential areas such as Agro-industry, Metal working and Apparel, will have the most impact in the short term for the export sector.

ADEX will have major management responsabilities under the project and therefore needs to be involved in all important decisions concerning the project. For this reason, ADEX wishes to have an ongoing series of meetings as we proceed in initiating project activities to discuss further details about this important project.

We look forward to working closely with you in carrying out this important activity.

Sincerely yours,

PERUVIAN EXPORTERS ASSOCIATION

ASOCIACION DE EXPORTADORES
PRESIDENCIA

CDO Cpb
OEg

Gastón Benza Pflücker
President

rf

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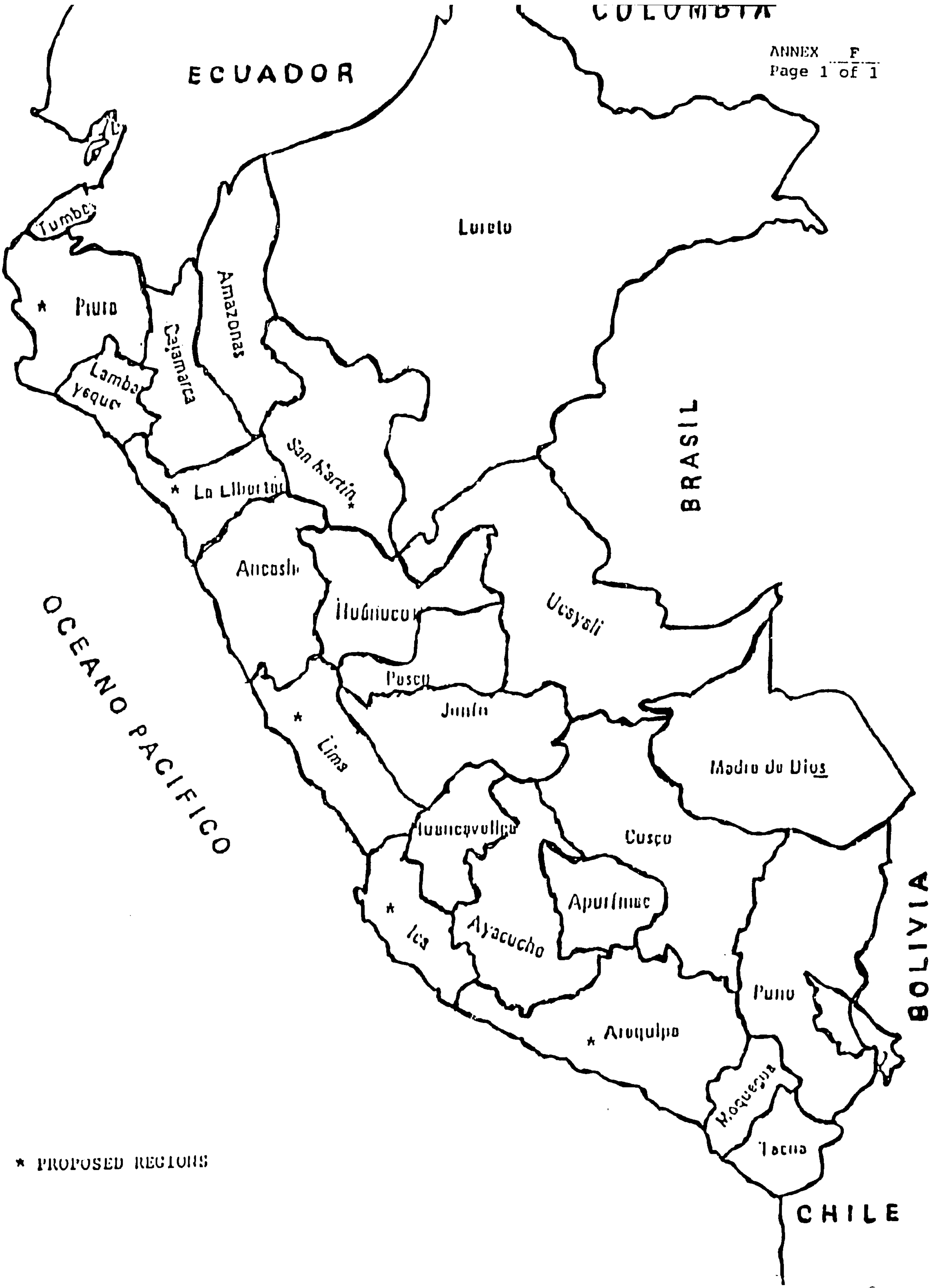


* PROPOSED REGIONS

## ANNEX G: SITES SELECTED FOR PROJECT ASSISTANCE

Piura (Close to the border with Ecuador; 1990 population 1,494,300)

- Large potential for irrigated tropical fruit cultivation
- Skilled labor force
- Top quality university that is already conducting research for and providing technical assistance to agribusiness and industry
- Established entrepreneurial base
- Active chamber of commerce
- Largely free from terrorism

Products: Mangos, asparagus, lime oil, other fresh and processed tropical fruits and vegetables, and textiles.

Viru Valley in Trujillo (North of Lima)

- Possesses some of the most productive lands on the coast
- Largely free from terrorism
- Established entrepreneurial base
- Agricultural crops that are suitable for export

Products: Fresh, frozen and processed fruits and vegetables (particularly asparagus) and textiles.

Arequipa (South of Lima; 1990 population 965,000)

- Established industrial/entrepreneurial base
- Active chamber of commerce and production
- Both highland and coastal climates
- Large irrigated valley
- Agricultural crops that are suitable for export
- Plentiful skilled labor
- Largely free from terrorism

Products: Natural food colorants (cochinilla, carmine, marigold flour), garlic, processed fruits and vegetables (particularly grapes), textiles and apparel (especially alpaca wool)

Cañete-Chincha-Ica (South of Lima on the coast)

- Established agro-industrial base
- Well-organized agricultural producers
- Prior successful experience with A.I.D.-sponsored asparagus export program
- Relative proximity to port/airport in Lima
- Favorable growing climate
- Largely free from terrorism

Products: Asparagus, other fresh/processed fruits and vegetables (particularly grapes), and apparel

Metropolitan Lima (1990 population approximately 7 million)

- Greatest infrastructural base in Peru
- Proximity to international airport and port
- Extremely large, well-trained labor base
- Offers greatest number of amenities to potential foreign investors

Products: Light industry products such as apparel, mechanical engineering, chemicals and some processed food products such as tomato paste.

Upper Huallaga Valley (Central high jungle, east side of the Andes, about 560 Km from Lima; 1990 population 190,000)

- Large potential for rainfed tropical crops suitable for export
- Possesses large productive, fertile alluvial soils
- Favorable growing tropical climate
- Top quality agricultural university that is already conducting research for, and providing technical assistance to, agribusiness

Products: Coffee, tea, cocoa, several tropical fruits, spices and colorants (Palmito, nuts, passion fruit, annatto, black pepper, ginger, cardamom, etc).

## ANNEX H: POLICY REFORM AND OTHER CONSTRAINTS ANALYSIS AND MATRIX

Constraints to exporting in Peru can be categorized as institutional/policy constraints, technical constraints, credit and financial constraints and foreign investment constraints.

### Institutional/Policy Constraints

With exchange rate and export tax constraints resolved the following constraints will still remain:

Absence of an "export consciousness". During much of Peru's recent history, economic policies have been such that production for the domestic market has been more favorable than production for export. The result is that an export mentality has not been developed. Too frequently, producers think in terms of subsidies and high tariff protection.

2) Inconsistent investment and export policies. Exporters cannot count on incentives/regulations/availability of financing being the same from week to week or month to month which makes planning extremely difficult. This lack of clear and stable rules of the game discourages investment and encourages short term speculation and capital flight.

3) Complicated temporary admission procedures for imports. Exporters who import goods as inputs into production must jump through numerous hoops to do so. Complying with the bureaucratic procedures results in delays and added personnel costs for exporters too.

4) Complicated customs procedures for exports. Similar to the above problem -- customs procedures for exporting are byzantine and subject to change without notice. Adding to the problem is the fact that the system is not computerized and exporters must go from window to window to complete the required paperwork. Only the most intrepid (and those willing to "tip" repeatedly) are willing to export faced with these procedures.

5) Limited land tenure (150 has. limit)/small land holders. A result of the land reform that took place beginning in 1968 under the Velasco regime, is that landholdings are limited in size. On the coast, for example, the limitation is 150 has. The existence of numerous small landholders has made well-organized, large-scale exportable production difficult.

### Technical Constraints

1) Insufficient exporting/marketing know-how. Many newcomers to exporting don't have sufficient understanding of how to market their goods. As a result, they produce goods that are inferior to international market standards and/or are the wrong variety and thus have difficulty finding buyers.

2) Inadequate marketing services available. Peruvian exporters have access to little information on prices and volumes demanded on the world market, have few sales contacts and/or co-investement opportunities. ICE, the public sector Foreign Trade Institute was, in theory, the organization responsible for promoting Peruvian exports overseas. However, ICE is to be dismantled . Few, if any, private sector organizations can provide the marketing services that exporters need. Peruvian exporters are on their own attempting to sell their products on the world market.

3) Inefficient plant and equipment/lack of technological know-how. As a result of the above, and due to the almost total absence of new investment, Peruvian producers have inefficient and outdated production processes, plant and equipment. There is also very little vertical or horizontal integration of production. To date, only a handful of Peruvian producers/exporters have positioned themselves to benefit from he efficiency of vertical and/or horizontal integration. For example, few producers export directly and few producers have diversified to both fresh and frozen production of a variety of fruits and vegetables.

4) Lack of post-harvest treatment know-how and facilities. Much of the fresh produce requires special treatment to prepare it for the entry requirements of overseas markets. Most Peruvian producers/exporters do not possess the know-how or the equipment to perform the necessary post-harvest treatment for their products.

5) Lack of producers' organizations to classify products and control quality/volume produced. There are few producers' organizations that promote the improvement of products for export, set classification and packaging standards and provide technical assistance to their members.

6) Phytosanitary problems. Peruvian exporters need information and guidance on meeting U.S. phytosanitary requirements. For example, until recently mango exporters could not export to the U.S. until a treatment protocol against the medfly was approved. As other promising crops are identified particularly tropical crops potential exporters will need assistance in meeting U.S.D.A. Animal Plant and Health Inspection requirements (APHIS).

7) Inadequate cold storage/transport chain. This is a problem particularly for the producers of fresh fruits, vegetables and flowers. World prices for fresh produce are much higher than for processed, but delays in transport (poor roads, few ports/airports) and limited cold storage, prevent Peruvian exporters from fully exploiting this potential.

8) Inadequate infrastructure (power, roads, ports, airports). Peru suffers serious infrastructural problems that discourage investment and make transport of exports to market difficult, costly and time-consuming. The infrastructural problems include energy shortages (worse of late, especially in Lima, due to terrorist bombings of electrical transmission lines); effectively only one international airport; poor roads, especially in the Sierra and Selva regions; few international ports and those that exist possess inadequate

warehouse/cold storage facilities, limited loading equipment and vulnerability to theft.

Credit/Financial Constraints

1) Little or no financing available from commercial banks. As a result of the extreme illiquidity in the banking system due to the GOP's anti-inflationary program, little financing is available to exporters from private sector sources.

2) Public sector export credit funds are undependable and currently have no liquidity. Public sector export credit funds, both short term development funds for non-traditional exports (FENT and FASENT) and long term Development Finance Corporation (COFIDE) loans for regional investment, capital goods, agro-industry, and small businesses that were previously available to exporters, are currently illiquid. Yet, the demand for these funds continues. To illustrate, one recent study of projects registered with development finance institutions identified an estimated $140,813,000 in credit demand for which there is no immediate source of financing. (Demanda de Credito, Draft Report, Manuel A. Cevallos, p.3).

Foreign Investment Constraints

1) Uncertain security situation. Peru's overseas image as a terrorism-plagued country does not help in developing investor interest.

2) Inflexible labor law (Law of Labor Stability). This law places many constraints on employers. For example, once employees have been on the job for three months they cannot be dismissed without their agreement plus a large financial settlement. Employers have found some loopholes, however, and this law is fortunately less of a constraint to exporters since they can utilize the "tratamiento especial" zone regulations. "Tratamiento especial" allows exporters to hire "temporary" workers on contract without placing them on their official payroll and thus obviate some of the negatives elements of the labor stability law.

3) Little understanding on the part of the GOP of foreign investors' needs. There is not a clear understanding by either public or private institutions in Peru of the needs of foreign investors. A 1985 Louis Harris survey on foreign investment identified the key considerations investors took into account in making investment decisions. In order of priority, the top four were: 1) political and economic stability, 2) quality and cost of labor force, 3) ability to repatriate profits, and 4) attitude of host government to foreign investment (including incentives). Peru does not score very well at present on any of these indicators, with the possible exception of number two -- the quality of the labor force is good but costs are higher than they should be due to inflation and overvaluation of the Inti.

## MATRIX OF CONSTRAINTS TO EXPORT PROMOTION AND HOW THEY WILL BE RESOLVED

| Institutional/Policy Constraints | The New GOP Will Resolve | This Project Will Address | Private Sector Will Address |
|---|---|---|---|
| Absence of an "export consciousness" | X | X (1)* | X |
| Inconsistent investment and export policies | X | X (1) | |
| Complicated temporary admission and "internamiento" procedures for imports | X | X (1, 2) | X |
| Complicated customs procedures for exports | X | X (1, 2) | X |
| Limitations on land tenure (150 has limit) | X | X (1) | |
| **Technical Constraints** | | | |
| Insufficient exporting/marketing know-how | | X (2) | X |
| Inadequate market development (prices, volumes, contacts, co-investment, sales contracts) | | X (2) | X |
| Inefficient plant and equipment; lack of technological know-how | | X (2, 3) | X |
| Lack of post-harvest treatment know-how and facilities | | X (2, 3) | X |
| Lack of producers' organizations to classify products and control quality/volume produced | | X (2) | X |
| Phytosanitary problems (e.g., Medfly and mangos) | | X (2) | |
| Inadequate infrastructure (power, roads, ports, airports) | X | X (1) | |
| Inadequate cold storage/transport chain | | X (2, 3) | X |

* Activities:
(1) Policy Dialogue: Export Sector Panel and PAPI Project
(2) Technical Assistance
(3) Credit for Non-Traditional Export Projects

| | The New GOP Will Resolve | This Project Will Address | Private Sector Will Address |
|---|---|---|---|
| **Credit/Financial Constraints** | | | |
| Little or no financing available from commercial banks | | X (3) | X |
| Public sector export credit funds are undependable and currently have no liquidity | X | | |
| High import duty (25%) on GSP products (Chile's, e.g., is only 5%) | X | | X |
| **Constraints to Foreign Investment** | | | |
| Uncertain security situation | X | | |
| Inflexible labor law | X | X | |
| Little understanding of foreign investors' needs | X | X (1) | |

# ANNEX J: THE INVESTMENT AND EXPORT PROMOTION PROJECT (IEP) CREDIT DEMAND ANALYSIS

## I. GLOBAL DEMAND FOR CREDIT

### 1. Potential Demand for Working Capital

The 76 selected investment opportunities require US$24'359,000 for working capital needs. The foreign exchange and local currency demands are the following:

| | | | |
|---|---|---|---|
| Foreign exchange | US$ | 2'367,000 | 10% |
| Local currency | | 21'992,000 | 90% |
| TOTAL WORKING CAPITAL | US$ | 24'359,000 | 100% |

The enclosed summary table shows the distribution of the working capital requirements among the 6 target regions.

### 2. Potential Demand for Fixed Capital

The 76 selected investment opportunities require US$97'656,000 for expansion or new investments for plant and equipment. Their foreign exchange and local currency demands are as follows:

| | | | |
|---|---|---|---|
| Foreign exchange | US$ | 50'228,000 | 51% |
| Local Currency | | 47'428,000 | 49% |
| TOTAL FIXED CAPITAL | US$ | 97'656,000 | 100% |

The enclosed summary table shows the distribution of the fixed capital requirements among the 6 target regions

### 3. Total Potential Demand

The total potential demand for working capital and fixed investment of the selected 76 investment opportunities amounts to US$122'015,000. The break down for foreign exchange and local currency is the following:

| | | | |
|---|---|---|---|
| Foreign exchange | US$ | 52'595,000 | 43% |
| Local currency | | 69'420,000 | 57% |
| TOTAL CAPITAL | US$ | 122'015,000 | 100% |

The enclosed summary table shows the distribution of the demanded total investment among the 6 target regions.

### 4. Required Investment for the First Year of the Program

Twenty seven profitable investment opportunities at the feasibility level (level A) have been identified. Eventually, these investment projects could be awarded USAID/IEP financing. These 27 projects require US$68'333,000, which represents 56% of the total potential demand. Their distribution in the 6 target regions is the following:

| REGION | NUMBER OF PROJECTS | INVESTMENT US$ | % |
|---|---|---|---|
| Piura | 3 | 11'158,000 | 16 |
| Chiclayo | 3 | 1'066,000 | 2 |
| Trujillo | 2 | 7'266,000 | 11 |
| Lima | 6 | 18'591,000 | 27 |
| Ica | 5 | 17'015,000 | 25 |
| Arequipa | 8 | 13'237,000 | 19 |
| TOTAL | 27 | 68'333,000 | 100 |

5. Impact on Employment

In the addendum, the potential impact in terms of number of jobs created is shown for the selected 76 investment opportunities.

| | | |
|---|---|---|
| DIRECT NUMBER OF JOBS | 10,803 | 65% |
| -Permanent jobs | 6,778 | 63% |
| -Temporary jobs | 4,025 | 37% |
| INDIRECT NUMBER OF JOBS | 5,713 | 35% |
| TOTAL NUMBER OF JOBS | 16,516 | 100% |

This means that the average investment per job is about US$5,913. The average investment per job increases up to US$9,040, if only the direct jobs created are considered. The enclosed tables show detailed information on the corresponding investment per job in each of the target regions.

6. Impact on the Exports

The selected 76 investment opportunities have a potential impact on exports which amounts to US$280'617,000 per year. This means that the IEP Project could generate, yearly, the equivalent to US$2.30 of exports for each invested US$1.00. The enclosed summary table shows this information.

7. Impact on the Foreign Exchange Generation.

The needed foreign exchange to import machinery, equipment and other inputs was deducted from total exports, in order to estimate the net generation of foreign exchange. The enclosed summary table shows that US$1.49 could be generated from each invested US$1.00.

## SUMMARY TABLE

(In Thousand US Dollars)

| | TOTAL INVESTMENT | | | FIXED INVESTMENT | | | WORKING CAPITAL | | |
|---|---|---|---|---|---|---|---|---|---|
| | INTIS | DOLLARS | TOTAL | INTIS | DOLLARS | TOTAL | INTIS | DOLLARS | TOTAL |
| PIURA | 18,458 | 15,636 | 34,094 | 13,000 | 15,538 | 28,538 | 5,458 | 98 | 5,556 |
| CHICLAYO | 10,177 | 5,832 | 16,011 | 6,962 | 5,582 | 12,544 | 3,217 | 250 | 3,467 |
| TRUJILLO | 8,674 | 5,232 | 13,906 | 5,261 | 3,650 | 8,911 | 3,413 | 1,582 | 4,995 |
| LIMA | 7,330 | 13,505 | 20,835 | 5,229 | 13,269 | 18,498 | 2,101 | [illegible]6 | 2,337 |
| ICA | 12,388 | 6,542 | 18,930 | 9,546 | 6,452 | 15,998 | 2,842 | 90 | 2,932 |
| AREQUIPA | 12,391 | 5,848 | 18,239 | 7,430 | 5,737 | 13,167 | 4,961 | 111 | 5,072 |
| TOTAL | 69,420 | 52,595 | 122,015 | 47,428 | 50,228 | 97,656 | 21,992 | 2,367 | 24,359 |

# ANNEX K: ANALYSIS OF CREDIT DELIVERY MECHANISM

## CREDIT PROGRAM PROPOSED BY USAID

The program proposed by USAID to promote exports and investment in Peru, will play an important role, not only in the support of export-oriented activities, but also because it will constitute the first medium-term loans available to the private sector in many years. As pointed out above, the current economic and financial environment does not have the stability that the proposed Program requires, nevertheless, such a credit program will complement the GOP economic stabilization efforts.

In order to make effective this support under the present economic environment, simple and efficient credit channels are needed. This is a requirement to assure the objective of export-oriented investment promotion.

For this reason, at least for the first stage, the loans should be channeled through private banks as a credit line that the Central Reserve Bank (CRB) will receive, as part of its Monetary Program.

Regarding the private banks that might participate, we recommended the participation of regional banks (Banco Regional del Norte and Banco del Sur) to support the loan operations in Piura, Lambayeque, La Libertad and Arequipa. The other target regions may be covered by Banco Wiese and/or Banco Latino because of their nation wide coverage. It is important to point out that the Credit Bank and the Associated Banks are not recommended because of their slow loan operation systems, as well as the financial restructuring that they are facing and the subsequent instability of the associated banks (Continental, Internacional and Popular).

The criteria that must be used to approve the loan requests are mainly profitability, the employment generation of low-skilled workers, and the foreign exchange generation.

Regarding the banks that may participate in the channeling of the program's funds, we feel that the above mentioned banks are the most appropriate. This is due to their experience and success with the exporter sectors, as well as their entrepreneurial characteristics and ability to allocate loans.

The financial costs that the participant banks may charge for their services, will depend on the conditions under which the loan is granted to the Central Bank. It is estimated that the banks will not have a differential higher than 4% for their services for funds transferring, analysis of investment studies, and loan requests evaluations. Therefore, if the Bank receives the loan at a rate of LIBOR - 2%, the loan beneficiary is supposed not to pay a rate more than LIBOR+ 2% .

In addition, the amount of funds assigned to each bank should not be less than US$10 millions. This will maintain the banks interest in allocating more loans thereby financing activities to more than one entrepreneurial group.

## ANALYSIS OF THE FINANCIAL INTERMEDIARIES

In order to analyze the financial intermediaries that eventually could participate in the Project, the environment in which the banking activity has been developing and the relationships among the financial intermediaries have been taken into account.

The analysis was concentrated in six possible participant banks because they were considered as the most appropriate for the Project. A branch banking network with offices in the target regions and experience with export sectors involved in the Project, were the qualifications for consideration.

At the end of this document, financial statistics of the commercial banking in general, and the selected banks in particular, are shown.

The participation of regional banks is recommended. This could be an important step towards financial decentralization, which in turn, could help sustain regional development. At the same time, credit evaluation and approval at the regional level would be simplified.

What follows is a brief analysis of the four banks recommended for participation in the Project.

1. Banco Regional del Norte

Within the framework of analysis that we have established, the Banco Regional del Norte (BRN) can be considered to have adequately responded to the economic crisis. Its profits/net worth ratio was 51% for 1989, as is shown in the enclosed table. This is a higher ratio than the one for the other five candidate banks. It should be pointed out that for the same year the Banco de Credito's corresponding ratio was 7%. For the first semester of 1990, the BRN continues as the leader with 56% profits/net worth ratio.

The BRN also seems to have managed its expenses adequately. For 1989, the 19% financial expenses/current liabilities ratio is the lowest among the five candidate banks and close to the Banco de Credito's corresponding ratio. Likewise, the personnel expenses/operating margin is the lowest among the referred banks, which indicates that BRN maintains a prudent policy of relatively low operating expenses.

Another important aspect is its ability to attract and maintain clients. For 1989, its 65% deposits/net worth ratio was higher than the Banco de Credito's corresponding ratio and 19% higher than the average ratio of the analyzed banks. Moreover, the BRN market share of deposits has succesfully increased from 1.5% (1987) to 2.5% (1989), in spite of being a small bank within a strong competitive environment.

On the other hand, the BRN has apparently been particularly cautious in granting credit. The BRN loans/current liabilities ratio is substantially lower than the corresponding average ratio for the analyzed banks, which showed some prudent approach.

Most of its income comes from the interest on the loans, as is shown by the interest and commissions/loans ratio, which is close to 1 for 1989. Consequently, other sources of incomes showed lower income share; thus, the stock investments/net worth ratio was only 25% in 1990, and reflects the speculative or temporary investments with respect to the net worth.

2. Banco del Sur del Peru

The Banco del Sur (BDS) also obtained acceptable results in 1989, as was shown by the profits/net worth ratio (30%), which was practically equal to the banks' average ratio.

On the other hand, the BDS has been careful in granting the loans as is shown by its liquidity level. Thus, the current liquidity ratio (1.1) is close to the standard of good perfomance.

In addition, the BDS has a high funds turn over. In other words, it has been able to rapidly recover the granted loans, and invest them again in short maturity investments and medium term activities like non-traditional exports.

Furthermore, most of its income comes from lending activities, rather than speculative investments. This is reflected in the interest and commissions/loans ratio, which, by the way, is higher than the corresponding average ratio of the other institutions.

3. Banco Latino

The Banco Latino has had a good record of profits. Its profits/net worth ratio was 31% in 1989 and 38% in the first semester of 1990. These returns are higher than the corresponding ratios for the analyzed banks.

In addition, the financial expenses/current liabilities ratios for the last three semesters were lower than the corresponding average ratios of the other banks. However, the personnel and overhead expenses with respect to the operating margin showed similar ratios to the corresponding average ratios of the analyzed banks.

With respect to the loans/current liabilities ratio, the Banco Latino has had lower ratios than the corresponding average ratios of the analyzed banks. For the first semester of 1990, this ratio was 57%.

On the other hand, the current ratio (96% in 1990), shows that the Banco Latino has enough assets to back its current liabilities. With respect to the sources of income, the stock investments/net worth ratio shows that most of its income comes from speculative operations. However, this is not a major problem given that in 1989, 46% of its income came from its financial intermediary function. In 1990, this ratio was reduced to 41%, which still could be considered acceptable.

4. Banco Wiese

The Banco Wiese presents profitability levels slightly lower than the average level of the analyzed banks. However, they are still at what could be considered acceptable (24% in 1989 and 23% in 1990) levels.

This, in a way, could be considered the reflection of an adequate strategy of control of expenses. That is, the personnel and general expenses with respect to the operating margin ratios are close to those of well-managed banks.

On the other hand, its 97% current ratio in 1990 shows that it is solvent with enough assets to back its current liabilities. Most of its income comes from financial intermediary activities. Thus, its 56% interests and commissions/income ratio is at a very acceptable level.

EVALUATION AND SELECTION CRITERIA FOR INVESTMENT OPPORTUNITIES

The Program objective is to generate productive employment through export-oriented agro-industry, textiles, and metal working activities.

To achieve that objective, USAID/Peru, and the financial intermediaries that eventually participate in the program, should apply a procedure that in general terms will have two stages. The first stage will be the reception and rapid elimination of all loan requests that fail to meet the basic requirements such as the productive activities, target regions, foreign markets, amount of investment, etc. The second stage will be the evaluation according to: 1) The Net Present Value of Benefits (NPVB), and the Internal Rate of Return (IRR), and 2) Indicators that measure the generated employment and foreign exchange earnings.

1) In this group of indicators are those that estimate the global profitability of an investment opportunity. The two most accepted indicators in this group are the NPVB and the IRR, which in order to estimate the global profitability should take into account the following two alternative approaches:

a. Financial analysis. The NPVB and the IRR should be estimated according to the financial conditions under which the loan is granted.

b. Economic analysis. In this case, in addition to providing similar treatment to the investment with own capital and with loans, it is convenient to correct the flow of expenses and returns. These corrections should be carried out using coefficients that recognize the current market distortions related to the investments under the project. Thus, the estimation of profitability will show the impact of the project on the Peruvian economy. It is important to point out that the economic analysis should use "shadow prices" or "accounting prices" because they correct the market distortions and give premiums to those investments that have intensive low-skilled labor, and to those that increase the generation of foreign exchange earnings.

2) In this set of indicators are included those that isolate a given characteristic of the investment project. Taking into consideration the objectives of the program, it was considered the indicators that measure the employment generation of low-skilled workers, and the generation of foreign exchange.

a. Impact on the employment generation. In this estimation, it is important to consider only the employment generated exclusively by the project. This implies that only be considered the permanent and temporary workers directly employed by the project. The temporary workers must be expressed in annual rates if the analysis is in annual terms.

A way to present the information may be by adding the permanent and permanent-equivalent employment generation by the project in a typical day of the year. Other possibility will be by relating the employment generation and the investment of the project. When the second possibility is used, it is important to indicate if the data used is the total investment, total investment less the working capital, or the annual investment.

b. Impact on foreign exchange generation. A first indicator is the export values of the Project. Nevertheless, it is most likely that the project uses some of the foreign exchange generated, because of its necessity for foreign inputs, goods, and machineries. It is important to estimate the net foreign exchange generation by subtracting the foreign exchange used on the acquisition of imported inputs, machineries and goods. In this case, it is important to illustrate the "domestic cost of the foreign exchange", which indicates the costs of foreign exchange generation through the project. If the "domestic cost" is estimated using the "shadow prices", the two factors of interest of the program (impact on employment and foreign exchange generation) will be combined in one indicator. This is because the principal internal cost of the evaluated loans of the projects, is the labor, which, in economic terms, is very close to zero.

Therefore, the ideal investment projects of the Program should have foreign exchange at low domestic costs. This is because they use high intensive low-skilled labor, and because they generate relatively high amount of foreign exchange.

CREDIT CHANNELS FOR THE INVESTMENT AND EXPORT PROMOTION PROGRAM

The proposed system to make available the funds of the Project to interested entrepreneurs, has the following steps:

1) The Central Reserve Bank (CRB) will receive the funds, act as trustee, and take direct supervision of the loans. To do this, the agreement between the CRB and USAID/Peru must indicate that the CRB will be responsible of funds distribution in concordance with Peruvian rules, and the target regions requirements.

The Agreement must indicate:

a. Criteria for the banks selection participation into the Program.

b. Definition of areas of influence for each participant bank.

c. Criteria for funds distribution to target regions participants.

d. Criteria that define the loan limit amounts, which will be based on the activity, economic sector, and target areas.

e. Procedures to establish the programming of loans use. The programming will indicate also the working plan of the borrower. The working plan should be approved by the participant bank allowing it to schedule and to carry out the disbursements and supervision of the project's progress.

f. Conditions under which the loans are granted. It should be indicated the percentage of the total investment that have to be covered by own capital, as well as the deadlines for credit reimbursements and the grace periods. It should indicate also the interest rates that the CRB will charge to the banks and those that the banks will charge to the borrowers; and the other commissions needed. Finally, it should indicate the guaranties characteristically asked of the borrowers.

2) In order to assure the full compliance of the USAID/CRB's Agreement, the CRB must sign agreements with the selected financial intermediaries (banks) that agreed to participate in the Program.

3) Once the Program starts, the CRB will gradually distribute the funds to the financial intermediaries according to the percentages and pre-established amounts.

4) The financial intermediaries will evaluate the investment applications requested. The results of the evaluation, and the documented guaranties and other requirements will be submitted to the CRB. Then, the CRB after review will decide the final credit approval of the application.

5) If the CRB approves the credit application presented by a financial intermediary, the CRB will also make the tranfer to the corresponding financial intermediary's account in the CRB books. Then, the banks will distribute the resources through their regionals and provincial offices.

6) The requirements asked for by the CRB to approve and make the credit disbursements are as follow:

a. Background of the investment. This must have the name of the borrower, the amount of the credit, dates of approval, due dates, etc. The information presented must have the complete documentation.

b. Request forms signed by the authorized financial intermediary person and by the borrower.

c. Submission of the promisory note for the total amount of approved credit, signed by the financial intermediary and borrower.

7) In order to assure a rigorous supervision on the loan use, two steps of supervision and control are needed:

a. The first supervision will be carried out by the financial intermediaries.

b. The second supervision will be performed by the CRB in coordination and participation with the USAID if they consider it necessary.

8) If the CRB finds out that there is a non-authorized use of funds, or that there are not achievements of the Program's objectives, the CRB will notify the supervision findings to the financial intermediary, and to charge the expense to its CRB's account. The financial intermediary will do the same to the correspond g borrower.

9) When the beneficiary does not comply with the agreement, the CRB will instruct the financial intermediary to immediately stop the loan and to force the borrower to reimburse the funds that have been loaned. When the financial

intermediary does not comply with the established agreement with the CRB, the CRB will sanction the financial intermediary with a first warning. If the financial intermediary relapses, the CRB will penalize with a fine (previously established in the Agreement). The continuous non-authorized actions will be penalized with the suspension of the established credit lines.

| FINANCIAL RATIOS | CREDITO 1988 | CREDITO 1989 | CREDITO 1990 | WIESE 1988 | WIESE 1989 | WIESE 1990 | LIMA 1988 | LIMA 1989 | LIMA 1990 |
|---|---|---|---|---|---|---|---|---|---|
| 1. Profits/Net Worth | 0.07 | 0.07 | 0.31 | 0.11 | 0.24 | 0.23 | 0.10 | 0.31 | 0.23 |
| 2. Assets/Net Worth | 4.73 | 8.24 | 17.34 | 6.35 | 9.42 | 10.52 | 8.69 | 16.23 | 14.97 |
| 3. Deposits/Net Worth | 2.93 | 5.49 | 6.75 | 2.83 | 5.29 | 4.90 | 5.21 | 12.98 | 8.80 |
| 4. Disposable Funds/Deposits | 0.63 | 0.67 | 0.77 | 0.91 | 0.64 | 0.86 | 0.74 | 0.61 | 0.78 |
| 5. Financial Expenses/Current Liabilities | 0.09 | 0.20 | 0.27 | 0.10 | 0.23 | 0.28 | 1.06 | 3.39 | 1.41 |
| 6. Operating Margin/Current Liabilities | 0.34 | 0.10 | 0.21 | 0.15 | 0.14 | 0.13 | 1.13 | 1.03 | 0.70 |
| 7. Personnel Expenses/Operating Margin | 0.23 | 0.36 | 0.60 | 0.26 | 0.35 | 0.47 | 0.20 | 0.34 | 0.20 |
| 8. General Expenses/Operating Margin | 0.12 | 0.30 | 0.19 | 0.15 | 0.19 | 0.26 | 0.15 | 0.28 | 0.18 |
| 9. Deposits/Number of Persons (1) | 46.32 | 98.49 | 103.5[illegible] | 28.96 | 71.59 | 141.35 | 38.18 | 131.48 | 168.46 |
| 10. Bad Debts/Loans | | 0.03 | 0.22 | | 0.07 | 0.09 | | 0.08 | 0.22 |
| 11. Loans/Current Liabilities | 0.48 | 0.37 | 0.05 | 0.54 | 0.48 | 0.74 | 3.25 | 4.20 | 2.32 |
| 12. Stock Investments/Net Worth | 0.02 | 0.58 | 0.49 | 0.08 | 0.82 | 0.37 | 0.03 | 1.29 | 0.58 |

(1) Thousand US$ by person.

| FINANCIAL RATIOS | LATINO 1988 | LATINO 1989 | LATINO 1990 | MERCANTIL 1988 | MERCANTIL 1989 | MERCANTIL 1990 | FINANCIERO 1988 | FINANCIERO 1989 | FINANCIERO 1990 |
|---|---|---|---|---|---|---|---|---|---|
| 1. Profits/Net Worth | 0.27 | 0.31 | 0.38 | 0.20 | 0.41 | 0.04 | 0.13 | 0.28 | 0.04 |
| 2. Assets/Net Worth | 7.46 | 10.76 | 12.44 | 5.73 | 9.04 | 7.33 | 7.09 | 15.53 | 11.18 |
| 3. Deposits/Net Worth | 4.48 | 7.52 | 5.13 | 3.02 | 6.22 | 3.61 | 5.13 | 11.81 | 7.68 |
| 4. Disposable Funds/Deposits | 0.61 | 0.34 | 0.60 | 0.64 | 0.65 | 0.95 | 0.73 | 0.50 | 0.48 |
| 5. Financial Expenses/Current Liabilities | 0.15 | 0.41 | 0.40 | 0.18 | 2.27 | 0.55 | 1.82 | 3.11 | 1.86 |
| 6. Operating Margin/Current Liabilities | 0.16 | 0.14 | 0.24 | 0.15 | 1.11 | 0.32 | 1.09 | 0.43 | 0.33 |
| 7. Personnel Expenses/Operating Margin | 0.24 | 0.33 | 0.36 | 0.15 | 0.23 | 0.28 | 0.25 | 0.23 | 0.21 |
| 8. General Expenses/Operating Margin | 0.19 | 0.27 | 0.21 | 0.13 | 0.35 | 0.51 | 0.17 | 0.35 | 0.25 |
| 9. Deposits/Number of Persons (1) | 35.98 | 60.73 | 102.88 | 57.27 | 79.44 | 142.67 | 65.92 | 172.06 | 266.10 |
| 10. Bad Debts/Loans | | 0.07 | 0.17 | | 0.04 | 0.06 | | 0.00 | 0.03 |
| 11. Loans/Current Liabilities | 0.58 | 0.43 | 0.57 | 0.63 | 2.32 | 1.13 | 3.55 | 3.20 | 2.35 |
| 12. Stock Investments/Net Worth | 0.05 | 1.90 | 0.83 | 0.17 | 0.43 | 0.10 | 0.04 | 1.56 | 0.99 |

(1) Thousand US$ by person.

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| FINANCIAL RATIOS | DEL NORTE 1988 | DEL NORTE 1989 | DEL NORTE 1990 | DEL SUR 1988 | DEL SUR 1989 | DEL SUR 1990 | CONTINENTAL 1988 | CONTINENTAL 1989 | CONTINENTAL 1990 |
|---|---|---|---|---|---|---|---|---|---|
| 1. Profits/Net Worth | 0.30 | 0.51 | 0.56 | 0.16 | 0.30 | 0.41 | 0.30 | 0.36 | 0.15 |
| 2. Assets/Net Worth | 19.18 | 16.66 | 15.37 | 9.92 | 12.55 | 26.24 | 26.66 | 28.09 | 27.55 |
| 3. Deposits/Net Worth | 6.36 | 9.02 | 9.86 | 3.41 | 5.84 | 6.38 | 13.28 | 14.19 | 10.90 |
| 4. Disposable Funds/Deposits | 1.46 | 0.62 | 0.99 | 1.18 | 0.72 | 1.70 | 0.98 | 0.80 | 0.84 |
| 5. Financial Expenses/Current Liabilities | 0.13 | 0.19 | 0.23 | 0.07 | 0.14 | 0.28 | 0.19 | 0.65 | 0.39 |
| 6. Operating Margin/Current Liabilities | 0.13 | 0.12 | 0.23 | 0.09 | 0.09 | 0.19 | 0.30 | 0.36 | 0.28 |
| 7. Personnel Expenses/Operating Margin | 0.21 | 0.22 | 0.26 | 0.21 | 0.25 | 0.35 | 0.20 | 0.40 | 0.56 |
| 8. General Expenses/Operating Margin | 0.15 | 0.20 | 0.19 | 0.17 | 0.20 | 0.24 | 0.15 | 0.22 | 0.20 |
| 9. Deposits/Number of Persons (1) | 49.76 | 111.94 | 197.78 | 35.44 | 91.98 | 102.97 | 53.01 | 62.09 | 117.93 |
| 10. Bad Debts/Loans | | | 0.47 | | | 0.21 | | 0.11 | 0.25 |
| 11. Loans/Current Liabilities | 0.22 | 0.16 | 0.32 | 0.46 | 0.58 | 0.97 | 1.60 | 1.69 | 1.70 |
| 12. Stock Investments/Net Worth | 0.06 | 0.34 | 0.26 | 0.09 | 0.44 | 0.46 | 0.23 | 1.23 | 0.17 |

(1) Thousand US$ by person.

| FINANCIAL RATIOS | AVERAGE 1988 | AVERAGE 1989 | AVERAGE 1990 |
|---|---|---|---|
| 1. Profits/Net Worth | 0.17 | 0.29 | 0.25 |
| 2. Assets/Net Worth | 9.94 | 12.96 | 15.68 |
| 3. Deposits/Net Worth | 4.65 | 7.78 | 7.07 |
| 4. Disposable Funds/Deposits | 0.85 | 0.59 | 0.80 |
| 5. Financial Expenses/Current Liabilities | 0.40 | 1.14 | 0.60 |
| 6. Operating Margin/Current Liabilities | 0.39 | 0.42 | 0.30 |
| 7. Personnel Expenses/Operating Margin | 0.21 | 0.30 | 0.37 |
| 8. General Expenses/Operating Margin | 0.15 | 0.26 | 0.24 |
| 9. Deposits/Number of Persons (1) | 43.35 | 98.18 | 152.10 |
| 10. Bad Debts/Loans | 0.00 | 0.07 | 0.20 |
| 11. Loans/Current Liabilities | 1.39 | 1.72 | 1.33 |
| 12. Stock Investments/Net Worth | 0.08 | 0.84 | 0.42 |

(1) Thousand US$ by person.

## ANNEX L.1.: PRODUCTION AND MARKETING ANALYSIS OF LIGHT INDUSTRY

The following is excerpted from Kira Inc., Export Opportunities and Constraints for Peru's Non-Traditional Products: A Private Sector Perspective; October 1990. The complete report is available in the USAID/Peru Project Bulk Files.

## VII. Recommendations and Observations

A series of recommendations are presented in this section. The general and more specific sector-technical assistance-training recommendations are based on the findings of the four-week in-country investigation and the one-week follow-up research and analysis conducted in the U.S. These recommendations have been prioritized based on their importance as perceived by team members.

### 1) General

#### a. Urgent Need for Export Credit Fund:

Even though the interest rate has been falling recently, there still are few affordable sources of credit, i.e. at internationally competitive rates. The working capital needs of exporters are usually greater than for companies which produce for the local market because they must contend with both pre and post-export financing requirements. Without access to adequate levels of working capital, businesses are unable to export.

Exporters are further constrained in this area since U.S. banks are opening fewer letters of credit to finance international trade transactions with Peru. Peru's poor reputation, due largely to the stance taken by the Garcia administration in the past with respect to repayment of international debt obligations, has meant that most Peruvians now have restricted access to international financing.

b. Project Management Structure:

It is recommended that the Project be managed by a U.S. consulting firm which is housed in offices separate from any local organization. In this way, there would be a greater likelihood that businesses from all sectors would participate, and not only those which are members of the particular organization in where it is housed. If the team is placed within a particular organization, it is suggested that the Mission build in safeguards to prevent this from occurring.

Existing organizations should be used as conduits for Project activities in which they have a comparative advantage. For example, it is recommended that the associations listed below be selected to implement the following areas of the Project:

1. ADEX should implement export promotion, agricultural and agroindustrial activities and activities in the other regions through its agreements with the Chambers of Commerce in those areas
2. SNI should implement metal mechanics, apparel, leather and miscellaneous sectors activities

c. Decentralization:

The Mission should takes steps to ensure that the regions outside of Lima (e.g. La Libertad, Piura, Ica, and Arequipa) have ready access to Project resources. According to individuals from these regions, often in the past Lima has received the bulk of resources from projects of this nature. One method of maintaining open lines of communication with the North and South (i.e. Trujillo and Arequipa) would be to hire a foreign service national (FSN) (either a native of the area or someone with experience with the business sector there) to manage project activities in each area.

The U.S. consulting firm which manages the Project could sign contracts with local organizations, such as the Chambers of Commerce for example, to have them recruit and provide this professional and whatever administrative support (i.e., a part-time secretary, an office, telephone) he/she would require to carry out Project activities. Sufficient funds should be budgeted in this contract to ensure that the FSN's would be able to travel to Lima at least once every two to three months to meet with project administrators at the central office.

d. Organize businesses within some industries to obtain critical mass necessary for export:

As has been cited throughout this report, most of the companies that will be participating in the Project have limited production capabilities. Thus, the Project Management Team should organize businesses within specific sectors in order to obtain the production volume required for exporting. This will be particularly helpful for small and mid-sized companies who would otherwise find it very difficult to begin exporting. It would also be beneficial to companies in other regions of the country that are finding it difficult to export.

e. Participation of Viable Small and Medium-Sized Firms in addition to Large Firms:

Care should be taken to ensure that Project activities are made available to firms of all sizes. That is, viable small and medium-sized firms should not be squeezed out of access to Project resources by participating large firms. In this way, the Project would be supporting the development of a broad sector of economy. This should increase the probability that the Project would have a broader, more long-term developmental impact on the economy.

These firms could participate as subcontractors, or indirect exporters, to much larger firms. They should also be provided with the technical and marketing assistance that will enable them to find and sell to niche markets in the Andean region and throughout Latin America, if appropriate.

Small and medium-sized businesses have special needs which should be addressed throughout the Project. These would include, for example, technical assistance to improve their production techniques and the quality of their final product to become more competitive and help in finding the right markets in which to sell their product.

f. Capitalize on local raw materials and support businesses which transform them to increase value added:

Peru should take advantage of its abundance of natural resources and provide incentives for businesses which transform them to increase value added. One important signal to businesses which work in this area would be to remove the current price distortions of many of their raw materials. If these raw materials were competitively priced, these firms would be able to compete much more effectively in the global marketplace.

Incentives should also be provided to firms which focus on downstream integration. In this way, more value can be added locally by using abundant, cheap labor.

g. Develop linkages to U.S. groups through mutual visits:

These linkages could be developed by using a coordinating entity in U.S., such as trade organizations. The U.S. counterpart organization could provide assistance in selecting appropriate trade shows, obtaining trade publications and accessing new technology. It could also be used to assist in setting up a reference library which would include trade publications and other pertinent information related to the industries served through the Project.

The counterpart organization, in conjunction with the Project Management Team in Peru, could organize "exchange programs" between groups of businesspeople in Peru and U.S. where individuals from each country could share their experiences and insights.

To begin operating this program within a less competitive environment, it is recommended that efforts in this area be focused toward the central U.S. and away from the coastal areas where most Latin and Asian countries have been directing their efforts.

The Project Management Team should also try to develop contacts with medium-sized firms in the U.S. Targeting these firms as purchasers of Peruvian products would be one way of matching the current rather limited production capacity to the potential demands of clients.

h. Use of IESC:

The use of the International Executive Services Corp (IESC) in the Project should be examined. This can be a cost efficient mechanism to access some types of technical assistance and marketing contacts from U.S. IESC has experience throughout the world and has been operating in Peru for many years.

A cost-sharing mechanism could be set up under the Project to access this type of technical assistance. For example, the Project could cover 50% of cost of a volunteer and the recipient company would finance the remainder.

i. Reactivation of "Ventanilla Unica":

The Mission should investigate the feasibility of providing support for the start up of a "ventanilla unica" or one-stop window for licensing exports in Peru. A successfully functioning "ventanilla unica" could greatly reduce "red tape" and the attendant opportunity cost associated with exporting. The new administration may be more open to taking the steps necessary to activate the existing mechanism.

One way in which the Project could support this process would be to finance a "fact finding" tour by key public and private sector individuals. These people could visit successfully operating ventanilla unicas in other countries (e.g. Costa Rica and Guatemala,) to observe what kind of a positive impact this mechanism could have.

j. Advertising -- Promote Peru:

According to survey respondents, Peru's negative image has had a negative impact across almost all exporting sectors of the economy. To begin to reverse this situation, the Project should contract out a feasibility study early on in the Project to determine the best approach of changing this situation.

Peru should consider placing ads in trade rather than retail publications because they are less expensive. Efforts should be focused on industries such as apparel for which there is a large global demand, particularly for items that are under U.S. quotas. This activity should be developed based on some kind of cost-sharing mechanism with the industries who will reap the major rewards of the advertising. Activities should be planned and carried out in coordination with Peruvian groups in other countries, where possible.

2. Sector Specific

a. Metal Mechanics Sector:

In this sector, Project assistance should be focused on products which contain lead and explore the sale of other products that can no longer be produced in the U.S. due to recent changes in environmental laws. Care should be taken, however, to ensure that appropriate controls are observed in order to protect Peru's environment.

Auto parts is another area that should receive special attention under this Project. Marketing efforts should be directed toward the aftermarket (i.e. replacement parts) in the U.S. By providing assistance to this subsector, the Project would be capitalizing on the fact that there is already a well established group of companies producing auto parts and that many of the raw materials used in this subsector are produced locally.

Mining and fishing equipment and replacement parts is also a very promising area within this sector. Surrounding Andean countries should be the primary targets for exports of these products. Several Peruvian companies have experience in the production of these products and some companies already have contracts and are exporting into these markets. The Project should help the companies in this subsector find appropriate niche markets in the region for their products.

The Project should also consider providing assistance to establish a (or improve an existing) central quality control laboratory which would coordinate rational standards acceptable to organizations such as Underwriters' Laboratory in the U.S.

b. Leather/Shoe Sector:

Initially Project assistance to this sector should be minimal. Due to raw material, design and production constraints it is recommended that only a limited amount of

T.A. be provided until the feasibility of exporting from this sector is demonstrated.

However, the Project should provide some technical assistance to the newly formed group of six companies who are interested in exporting footwear. This could take the form of assistance in their production processes, styling techniques, and, when appropriate, in appropriate markets for their products. Additionally, marketing assistance should be provided for those companies that are currently producing other items made of leather, such as clothing, portfolios, billfolds which meet the quality requirements of foreign markets.

An illustrative list of specific companies and their products who could be targeted for assistance in this sector can be found in Table 6.

c. Apparel Sector:

This sector is the one which demonstrates the most potential for generating export earnings within a relatively short period of time.

Efforts should be made to increase Peru's quota in specific categories (i.e. 338/339) or have it eliminated altogether. It should be noted here that Columbia, another of the countries which falls under the Bush administration's anti-drug effort, has no quotas on apparel exports to the U.S. In fact, in 1989 Columbia's exports in this category reached $113 million, while Peru's were only $41 million. The Peruvians should be encouraged to retain an expert in this area to assist in this task.

The apparel sector in Peru should increase their exports of garments made of woven fabric. This could be accomplished by providing medium-term financing through the credit mechanism for the purchase of the specialized, expensive machinery required to do this. Also, the Project could explore, for participating companies, the feasibility of having companies purchase woven fabric from other producing countries, such as Brazil, which could be cut and sewn in Peru. This would reduce their current reliance on exports of garments made of cotton knit.

Peru should focus on areas and/or quota categories where an immediate demand exists. For example, high inflation rates in the U.S. imply a willingness on the part of U.S.

distributors to shift more production offshore. Also, local companies should manufacture products in new quota categories which Asia, and other more mature competitors, won't produce (e.g. low priced 341 and 347 items.) Peruvians should take advantage of the immediate opportunities in these areas today, then raise unit prices in the longer term.

The Project should also support a mechanism to train more supervisors for this sector. This issue is discussed at greater length in the Training Needs Assessment portion of this document and in recommendations related to training which appear later in this section of the report. In addition, the Project should offer quality control and industrial engineering assistance to participating companies, where appropriate.

Please see Table 6 for a list of companies that are indicative of the kind of company which should receive assistance through this Project.

d. Food Additives and Medical Supplies:

This sector should have the same priority as the Leather and Shoe sector for Project assistance. The Project could provide appropriate technical assistance to specific companies on a case by case basis. This should be determined by TAP Administrator.

For a list of firms in this sector which could qualify for assistance under the Project, please see Table 6.

3. Technical Assistance/Marketing/Financial Requirements

Recommendations with respect to this category are ranked according to when they should be phased into the Project. These are arranged according to the following guidelines: Short-term is less than one year, medium-term one to three years, and long-term three to five years.

a. Metal Mechanic Sector:

In the short-term, efforts for the metal mechanics sector should focus on making working capital available and providing assistance in marketing, identifying appropriate trade shows to attend, establishing contacts, and creating product identities for specific products.

Medium-term efforts for this sector should support investment in new machinery and equipment to modernize operations.

Over the long-term, Project assistance should be provided to help establish a national quality control and standards institute. Also, the need to provide advanced training for direct labor to ensure that they keep abreast of improved production techniques should be evaluated, and assistance provided if appropriate.

b. Leather and Shoes Sector

In the short-term companies in the leather and shoe sector should be allowed access to working capital financing through the credit facility to help promote the exports of the newly-formed group (if sufficient need is demonstrated and demand exists.)

Over the medium-term, this sector may require technical assistance to improve the quality and/or style of their products and assistance in locating appropriate markets if export viability is demonstrated.

c. Apparel/Alpaca Sector

In the short-run, the apparel sector should receive assistance with product design, where required. Assistance will also be needed in the areas of marketing, quota management, selections of trade shows to attend (and partial financing of attendance), and locating contacts for sales in foreign markets. Businesses in this sector will also require access to working capital.

In the medium-term, businesses (especially small and medium-sized businesses) in this sector will probably benefit from assistance in improving their production processes and in improving their quality control methods.

Over the long-term firms in the apparel sector will continue to require access to affordable financing, particularly to fund the purchase of new capital equipment and raw materials. In addition, companies in this sector may require assistance to establish management information systems.

d. Food Additives and Medical Supplies Sectors

Firms in these sectors will probably only require assistance over the short-term. This assistance should take the form of access to working capital and help in locating additional markets for their products.

4. Training Requirements:

Recommendations in this category, like those in the previous section, are ranked according to when they should be phased into the Project. They are also presented based on the following guidelines, short-term is less than one year and medium-to-long term one to five years.

a. Metal Mechanics Sector

In the short term, the existing industrial and mechanical engineering programs should be evaluated in order to determine the best method of increasing the number of appropriate engineers needed in the metal mechanics sector.

Over the longer term, Project administrators should act on evaluation recommendations, if appropriate. They should also determine whether the current technical training programs are adequate.

b. Leather and Shoe Sector

If this industry demonstrates that it has sufficient potential to export its products, the Project should fund training for middle management and/or supervisors and plant workers, where required.

c. Apparel/Alpaca Sector

In the short term, Project resources should be used to develop a pilot, cooperative training program to train supervisors. The program which is described in detail in the Training Needs Assessment section of this report should be developed using TECSUP, experts from a U.S. entity such as the Fashion Institute of Technology, and managers from participating companies to train supervisors.

Over the medium-to-long term the pilot supervisory training program should be evaluated, modified and expanded, as required, to meet industry needs. Also, a training program for sewing machine mechanics should be developed (or existing programs strengthened.) The Project administrators should also offer more sophisticated training programs for direct labor in the apparel sector as factories begin to use more complicated equipment to produce higher priced garments.

d. Food Additives and Medical Supplies Sector

Based on the information available, there does not appear to be a priority need for training in these sectors at this time.

## ANNEX L.2.: PRODUCTION AND MARKETING ANALYSIS OF NON-TRADITIONAL AGRICULTURAL EXPORTS

Following are excerpts from ATMA Inc., Production and Marketing Analysis of Non-Traditional Agricultural Exports, Sept. 1990 which identify

1. Fundamental requirements for successful agribusiness export activities.

2. Most promising non-traditional agricultural export products from Peru by targeted region.

3. Other products of importance.

4. Financial considerations, technical assistance needs and keys to success (for exporting): Asparagus, Mango, Tomato Paste, Garlic, Grapes, Beans.

## E. FUNDAMENTAL REQUIREMENTS FOR SUCCESSFUL AGRIBUSINESS EXPORT ACTIVITIES

The success of any export program for non-traditional agricultural products depends on six fundamental requirements:

1) Identification of specific demands in strategically targeted markets that have expansion potential,
2) a stable and significant production base capable of supplying, with consistency and continuity, the volumes and the quality of products demanded by international markets,
3) Innovative, efficient and resourceful management,
4) access to pre-harvest and post-harvest technology,
5) financial resources, and
6) other support systems such as skilled labor, complementary services, research, technical assistance, etc.

Intrinsic requirements beyond these basic production and marketing endeavors include socio-political and economic-financial environments which are conducive to exporting objectives. Furthermore, a balance of profits and responsibilities among those involved, and especially between producers and exporters, will be imperative to success. While all these factors need to be addressed, the fundamental principals always focus on making purchase of the product as effortless for the buyer as possible.

The greatest financial returns from export activities are only possible through the identification of appropriate markets. These markets (target markets) would have several desirable characteristics: highest paying, easy access, sound financial base, adequate facilities to protect the products, good inter-personal relationships, etc. Optimal timing of deliveries to take advantage of marketing windows must also be specified. In addition, precise knowledge of what each market wants, when supply is lowest and prices highest and how the market operates (distribution networks, marketing channels, specialty and ethnic markets, high-volume terminal markets, etc.) is vital to success. All of these facts are meaningless if the exporters do not have the commitment and the perseverance to

Different markets have different preferences relative to variety, size, maturity, etc. Information systems must therefore exist to collect, process, analyze and distribute crucial information (prices, volumes, standards, etc.) from significant markets to all of those involved in the export operations at all levels, including the producers.

Production systems and cultural practices must be in accordance with specific market standards to maximize shipments of the most marketable sizes and best quality specifications. Harvest timing must correlate with market demands in order to hit market "windows" and sell at premium prices. By understanding the requirements and idiosyncracies of the individual markets, the exporter groups can further simplify purchase of their products by using preferred packaging, containerization, palletization, unitization, etc.

Export markets require a highly consistent product as far as quality and standardization is concerned. This means the product must have uniform color and size within the package. When the buyer opens the package the visual effect must be aesthetically pleasing and symmetrical. To achieve this consistency, optimal varieties and cultural practices that guarantee uniformity are essential. Quality assurance measures and procedures must be in place before and after harvest to protect uniformity and marketability of the products. Highly trained and skilled labor will therefore be required, as well as effective management at all stages of production, handling and shipping.

The term "quality" further refers to a product which is fresh, with no external or internal damage. Appropriate post-harvest procedures are essential to achieve these specifications. Pre-cooling the product after harvest (and before packing) to lower field heat will greatly extend shipping and shelf life. Success in these post-harvest operations will, again, depend on highly trained labor and management possessing competent and timely technical expertise and planning skills.

A stable and adequate production/supply base that operates under economics of scale is another of the keys to success. Significant volumes of uniform quality are required to attract the interest of prospective buyers and to make post-harvest handling, transportation and shipping efficient and less costly. The buyer must also be convinced that similar volumes can be expected in succeeding seasons in order to build and expand distribution networks. Furthermore, producers and exporters will need the ability to forecast shipment volumes, determine appropriate destinations and optimal timing of arrivals in order to consolidate their position in the market, increase pre-selling activities and carry out financial and logistical planning in advance.

In cases where the production base is highly dispersed and land ownership is limited to relatively small tracts of land, a stable and significant production foundation is only possible by grouping producers together. There are other numerous compelling reasons why growers should consolidate and form strong associations. The concept of "strength in numbers" applies very well to the objectives of exporting non-traditional agricultural products. By forming associations and pooling their collective production and marketing resources, the growers have the best chance of achieving their goals. In addition:

* Volumes much greater than the individual farmer could produce are required for successful exporting.

* Ability to deliver a standard product in terms of production, harvest and post-harvest procedures, quality control, consistency in packing, etc. is necessary.

* Economies of scale will be realized in every activity undertaken.

* Pooled financial resources with potential to:

    - efficiently access and distribute market information,
    - hire technical, marketing and managerial assistance,
    - finance research and development projects, and
    - open sales offices in important destination and locations to increase the ability to promote and market their products.

* Utilize a "pooling" payment system to reduce risks associated with harvest timing and extraordinary market conditions.

It should be emphasized that these grower groups will remain together as long as the export activities are profitable. Experience show that this is only possible through strong marketing efforts. The organizations, in addition to selling products and positioning themselves in the market, also collect, analyze and distribute critical market information, allowing members to maximize their production efforts and receive maximum financial returns. However, each grower is responsible for his own production in terms of volume and quality and will profit or lose in direct relation to their own enterprising ability.

## F. MOST PROMISING NON-TRADITIONAL AGRICULTURAL EXPORT PRODUCTS FROM PERU BY TARGETED REGION

To determine "most promising" products the following criteria was used:

* Potential for very rapid impact in terms of dollar returns.

* Existing permanent crops that are now yielding high value fresh and processed products for export markets, and have "functioning" export systems comprised of a production base; post-harvest, storage and processing facilities; transport services; and exporters with established markets.

* Short cycle crops (3 to 6 months) with a good export market potential in terms of volumes or high unit value.

* Products with a very high export market potential that can be developed in one or two years.

The table below contains the list of "most promising" products matched to the Region(s) that offer <u>the most ideal physical and biological conditions</u> to produce the quality of product and the volumes demanded by international markets:



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| Product | Region | Market Potential | Development Time |
|---|---|---|---|
| Asparagus | Trujillo, Ica, Chincha, Canete. | Excellent to good. Becoming more competitive. | Already in place. |
| Mango | Piura, Chiclayo. | Excellent opportunities for U.S. markets. | Already in place. |
| Tomato Paste | Lima. The central coast from Ica to Chiclayo also has good conditions. | Good. World-wide demand increasing rapidly. | Some infrastructure already in place. |
| Garlic | Arequipa | Good. Timing is important for better returns. | Already in place. |
| Grapes | Ica and Arequipa. | Excellent opportunities for large volumes at premium prices if harvest takes place before Chile's harvest. | Two years to begin shipping initial volumes. |
| Beans (Menestras) | Chiclayo has drying facilities in place. The whole coastal area could produce large volumes. | Mostly a volume market with small profit margins. | Three to four months. |

## VIII. OTHER PRODUCTS OF IMPORTANCE

| Product | Growing Regions | Market Potential | Benefit Cost Ratio | Experience |
|---|---|---|---|---|
| Green Beans | Lima, Ica | High demand for frozen product in U.S., Japan and Europe | 1.25 | Began freezing and exporting in 1987 |
| Sno Peas an Sugar Peas | Lima, Ica | High demand for frozen product in U.S., Japan and Europe | 1.25 | Began freezing and exporting in 1987 |
| Broccoli | Lima, Ica | High demand for frozen product in U.S., Japan and Europe | 1.20 | None |
| Artichoke | Arequipa | High demand for fresh and processed products in U.S., Japan and Europe | 1.50<br>2.00 | None |
| Oranges | Lima, Ica | Some demand for peeled-seedless oranges | 1.15 | None |
| Mandarines | Lima, Ica | Satsuma variety has high acceptance in Canada and Europe | 1.15 | Exporting to Canada at present |
| Key Limes | Piura | Market for oil has reacted. Mexico remains in the market | 1.15 | Peru has been exporting oil for several years now |

| Product | Growing Regions | Market Potential | Benefit Cost Ratio | Experience |
|---|---|---|---|---|
| Avocados | Lima, Ica | Good possibilities for Hass variety in fresh market November - January | 1.20 | None |
| Chirimoya | Piura, Chicalyo, Trujillo. High costal zones | Very good potential for fresh markets in Europe, U.S. and Canada. Fruit fly problem for U.S. | 1.50<br>1.75 | None |
| Pepino Dulce | Central Coast | Some demand in U.S., Canada and Europe | 1.15 | Exporting to Canada and Europe in 1988. Chile is competeing with lower prices |
| Melons | Piura, Lima, Ica | High demand in Canada, Europe, Far East and U.S. Fruit fly problem for U.S. | 1.20<br>1.30 | Experience with shipments to Europe and Canada |
| Cochinilla Carmin | Lima, Ica, Arequipa | Very high demand in Canada, Europe, Far East and U.S. | 1.35 | Peru is major supplier in the world |



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## D. FINANCIAL CONSIDERATIONS

### 1. Fresh Green Asparagus – U.S. Market

#### a. Unit Cost Analysis

| | U.S.$/Kg | U.S.$/Box |
|---|---|---|
| Field Production | 0.280 | 1.527 |
| Packing | 0.458 | 2.498 |
| Transport to Port | 0.050 | 0.273 |
| Handling | 0.100 | 0.545 |
| Export Charges/Duties | 0.150 | 0.818 |
| FOB Port | 1.038 | 5.662 |

| | U.S.$/Kg | U.S.$/Box |
|---|---|---|
| Shipping | 0.900 | 4.909 |
| Import Duties | 0.229 | 1.250 |
| Handling | 0.100 | 0.545 |
| Commission | 0.458 | 2.500 |
| CIF Importer's Warehouse | 2.726 | 14.866 |

(Source: Field Assessment)

b. Potential Earnings

U.S.$, 12-lb box

| | U.S.$/Kg | U.S.$/Box |
|---|---|---|
| High Price | 6.417 | 35.000 |
| Low Price | 2.383 | 13.000 |
| Mid-Range Price | 4.400 | 24.000 |

Quoted prices are 70% of wholesale prices.

(Source: Federal-State Market News Service)



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C. Profit/Cost Analysis

Sensitivity Analysis of Return on Investment (%)

| | Price/Kg | | | |
|---|---|---|---|---|
| Cost/Kg | 2.25 | 2.38 | 4.40 | 6.42 |
| 1.75 | 29 | 36 | 151 | 267 |
| 2.00 | 13 | 19 | 120 | 221 |
| 2.50 | (10) | (5) | 76 | 157 |
| 2.73 | (18) | (13) | 61 | 135 |
| 3.00 | (25) | (21) | 47 | 114 |
| 3.25 | (31) | (27) | 35 | 98 |
| 3.50 | (36) | (32) | 26 | 83 |

2. Frozen Green Asparagus – U.S. Market

. Cost Analysis

| | U.S.$/Kg |
|---|---|
| Field Production | 0.650 |
| Processing | 0.350 |
| Transport to Port | 0.020 |
| Handling | 0.050 |
| Export Charges/Duties | 0.092 |
| FOB Port | 1.162 |
| Shipping | 0.444 |
| Import Duties | 0.138 |
| Handling | 0.050 |
| Commission | 0.275 |
| CIF Importer's Warehouse | 2.069 |

(Source: Field Assessment)

b. Potential Earnings

| | U.S.$/Kg |
|---|---|
| High Price | 3.850 |
| Low Price | 2.750 |
| Mid-Range Price | 3.300 |

(Source: Frozen Foods Association of America)

c. Profit/Cost Analysis

Sensitivity Analysis of Return on Investment (%)

| | Price/Kg | | | |
|---|---|---|---|---|
| Cost/Kg | 2.50 | 2.75 | 3.30 | 3.85 |
| 1.25 | 100 | 120 | 164 | 208 |
| 1.50 | 67 | 83 | 120 | 157 |
| 1.75 | 43 | 57 | 89 | 120 |
| 2.00 | 25 | 38 | 65 | 93 |
| 2.25 | 11 | 22 | 47 | 71 |
| 2.50 | 0 | 10 | 32 | 54 |
| 2.75 | (9) | 0 | 20 | 40 |

## E. TECHNICAL ASSISTANCE NEEDS

### 1. Production

| | |
|---|---|
| * Production planning | 1 person months |
| * Plantation management | 3 person months |
| * Advanced field technology | 3 person months |
| * Irrigation and water management | 3 person months |



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2. Post-harvest Handling

| | | |
|---|---|---|
| * | Post-harvest handling | 3 person months |
| * | Controlled atmosphere shipping | 2 person months |

3. Processing

| | | |
|---|---|---|
| * | Manufacture of asparagus products | 3 person months |
| * | Processing plant design | 1 person months |

4. Logistical Planning and Transportation

| | | |
|---|---|---|
| * | Stacking and unitization | 1 person months |
| * | Logistical planning | 1 person months |

5. Marketing

| | | |
|---|---|---|
| * | Marketing in Europe | 1 person month |
| * | Marketing in the U.S. and Canada | 1 person month |
| * | Marketing in the Far East | 1 person month |
| * | Marketing in the Middle East | 1 person month |
| * | Marketing in the Caribbean | 1 person month |
| * | Marketing in Latin America | 1 person month |
| * | General Promotion Design | 1 person month |

6. Total Level of Effort

* Twenty eight (28) person months

## F. KEYS TO SUCCESS

### 1. Production

* Introduction of new hybrids and renovation of plantations in the North.
* Technically optimum irrigation and water management practices in the N[illegible] South.
* Introduction of advanced field technology in the North.

### 2. Post-harvest Handling

* Introduction of post-harvest handling and management technology in [illegible] to guarantee product quality and extend shelf life.
* Introduction of controlled atmosphere technology to exploit the possib[illegible] shipping fresh asparagus by sea.
* Continuously research market preferences and demands with re[illegible] packaging, unitization, etc.

### 3. Processing

* Establishment of more processing plants in the North to increase utiliza[illegible] large quantities of raw material available at this time.

### 4. Logistical Planning and Transportation

* Introduction of new and more efficient stacking patterns and [illegible] procedures.

## 5. Marketing

* Unification and stabilization of the production base by grouping together a significant number of farmers and hectares, and by creating a total balance of responsibilities and profits from the export operations for all of those involved especially the growers.
* Constant expansion of the U.S., Europe, Canada, and Japanese markets by extending distribution networks and introducing promotion activities to increase customer awareness and demand.
* Penetration and expansion of other Far East markets and new markets especially in the Middle East, the Caribbean and Latin America.

## D. FINANCIAL CONSIDERATIONS

### 1. Unit Cost Analysis - U.S. Market

| | U.S.$/Kg | U.S.$/Box |
|---|---|---|
| Field Production | 0.250 | 1.250 |
| Packing | 0.259 | 1.295 |
| Transport to Port | 0.043 | 0.215 |
| Handling | 0.100 | 0.500 |
| Export Charges/Duties | 0.092 | 0.460 |
| FOB Port | 0.744 | 3.72 |
| Shipping | 0.340 | 1.700 |
| Import Duties | 0.083 | 0.415 |
| Handling | 0.127 | 0.635 |
| Commission | 0.222 | 1.111 |
| CIF Importer's Warehouse | 1.516 | 7.581 |

(Source: Field Assessment)



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2. Potential Earnings

U.S.$, 5-Kg box, U.S. market

| | U.S.$/Kg | U.S.$/Box |
|---|---|---|
| High Price | 2.520 | 12.600 |
| Low Price | 1.260 | 6.300 |
| Mid-Range Price | 1.890 | 9.450 |

Quoted prices are 70% of wholesale prices.

(Source: Federal-State Market News Service)

3. Profit/Cost Analysis

Sensitivity Analysis of Return on Investment (%)

| | Price/Kg | | | |
|---|---|---|---|---|
| Cost/Kg | 1.26 | 1.89 | 2.25 | 2.52 |
| 1.00 | 50 | 80 | 170 | 260 |
| 1.25 | 20 | 44 | 116 | 188 |
| 1.50 | 0 | 20 | 80 | 140 |
| 1.75 | (14) | 3 | 54 | 106 |
| 2.00 | (25) | (10) | 35 | 80 |
| 2.25 | (33) | (20) | 20 | 60 |
| 2.50 | (40) | (28) | 8 | 44 |

## E. PROCESSING POSSIBILITIES

The possibilities for mango processing are immense in Piura and Chiclayo due to the abundant supply of fruit that does not meet specifications for the fresh export markets, and the large areas planted to the "criollo" variety. In addition, mango is a fruit that lends itself well to processing. The main processed products are frozen pulp, juice, and canned and dried mango slices. The Japanese even make mango wine. All of these products have relatively good market potential. The U.S., Canada, Europe and Japan have strong demand for mango products especially frozen pulp. However, these markets are highly competitive because of the variety and quality of products available.

Piura already has several processing plants. However, they are not sufficient to absorb the available supply of raw materials. More processing capacity could be established
to take advantage of the raw materials situation as long as the marketing efforts continue in order to tap new markets and to improve position in old markets. These new plants would also improve the price structure for the growers.

## F. TECHNICAL ASSISTANCE NEEDS

### 1. Production

| | |
|---|---|
| * Production planning | 1 person months |
| * Plantation management | 3 person months |
| * Advanced field technology | 3 person months |
| * Harvesting practices | 3 person months |

### 2. Post-harvest Handling

| | |
|---|---|
| * Post-harvest handling | 3 person months |
| * Vacuum packing | 2 person months |
| * Controlled atmosphere shipping | 2 person months |

### 3. Processing

| | |
|---|---|
| * Manufacture of mango products | 3 person months |
| * Processing plant design | 1 person months |



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4. Logistical Planning and Transportation

| | | |
|---|---|---|
| * | Stacking and unitization | 1 person months |
| * | Logistical planning | 1 person months |

5. Marketing

| | | |
|---|---|---|
| * | Marketing in Europe | 1 person month |
| * | Marketing in the U.S. and Canada | 1 person month |
| * | Marketing in the Far East | 1 person month |
| * | Marketing in the Middle East | 1 person month |
| * | General Promotion Design | 1 person month |

6. Total Level of Effort

* Twenty eight (28) person months

G. KEYS TO SUCCESS

1. Production

* Introduction of new varieties to increase the size of the marketable product and expand the harvest and marketing period.
* Improved fertilizer and irrigation practices.
* Introduction of advanced field technology.
* Improved harvesting procedures.

## 2. Post-harvest Handling

* Introduction of post-harvest handling and management technology to guarantee product quality and shelf life.
* Introduction of vacuum packing and/or controlled atmosphere technology.
* Continuously research market preferences and demands with respect to packaging, unitization, etc.

## 3. Processing

* Establishment of additional manufacturing plants for mango processed products.

## 4. Logistical Planning and Transportation

* Introduction of new and more efficient stacking patterns and unitization procedures.

## 5. Marketing

* Unification and stabilization of the production base by grouping together a significant number of farmers and hectares, and by creating a total balance of responsibilities and profits from the export operations for all of those involved especially the growers.
* Constant expansion of the U.S., Europe, Canada, and Japanese markets by enlarging distribution networks and introducing promotion activities to consumer awareness and demand.
* Penetration and expansion of other Far East markets and new markets especially in the Middle East.

## D. FINANCIAL CONSIDERATIONS

### 1. Unit Cost Analysis

| | U.S.$/MT |
|---|---|
| Field Production | 65 |
| Processing | 300 |
| Transport to Port | 50 |
| Handling | 50 |
| Export Charges/Duties | 92 |
| FOB Port | 557 |
| Shipping | 111 |
| Import Duties | 50 |
| Handling | 100 |
| Commission | 150 |
| CIF Importer's Warehouse | 968 |

(Source: Field Assessment)

### 2. Potential Earnings

FOB Callao Prices per MT

| | U.S.$/MT |
|---|---|
| High Price | 1,000 |
| Low Price | 660 |
| Mid-Range Price | 830 |

(Source: Federal-State Market News Service)

### 3. Profit/Cost Analysis

**Sensitivity Analysis of Return on Investment (%)**

| FOB Cost (MT) | FOB Price (MT) 500 | 667 | 834 | 1,000 |
|---|---|---|---|---|
| 400 | 25 | 67 | 109 | 150 |
| 450 | 11 | 48 | 85 | 122 |
| 500 | 0 | 33 | 67 | 100 |
| 550 | (9) | 21 | 52 | 82 |
| 600 | (17) | 11 | 39 | 67 |
| 650 | (23) | 3 | 28 | 54 |
| 700 | (29) | (5) | 19 | 43 |

## E. TECHNICAL ASSISTANCE NEEDS

### 1. Production

* Identification of hybrid lines and seed selection — 1 person months
* Cropping patterns and rotations — 3 person months
* Pathology and pest control — 3 person months

### 2. Logistical Planning and Transportation

* Logistical planning and design — 1 person months

### 3. Marketing

* Marketing in Europe — 1 person month
* Marketing in the U.S. and Canada — 1 person month

* Marketing in the Far East — 1 person month
* Marketing in the Caribbean — 1 person month
* Marketing in the Middle East — 1 person month
* General Promotion Design — 1 person month

### 4. Total Level of Effort

* Fourteen (14) person months

## F. KEYS TO SUCCESS

### 1. Production

* Introduction of certified imported seed to increase field yields to levels adequate for supporting processing plants.
* Introduction of new crop rotations including high value legumes and vegetables.
* Control of soil-borne diseases.
* Increased efficiency of fertilizer use through soil testing and tissue analysis.

### 2. Logistical Planning and Transportation

* Logistical planning and design in order to increase the gathering efficiency of the harvested product and lower the overall unit cost of post-harvest handling.

### 3. Marketing

* Unification and stabilization of the production base by grouping together a significant number of farmers and hectares, and by creating a total balance of responsibilities and profits from the export operations for all of those involved especially the growers.

Constant expansion of the U.S., Europe, Canada, and Japanese markets by enlarging distribution networks and introducing promotion activities to increase the volumes of quality products shipped.
Penetration and expansion of other Far East markets and new markets in the Middle East, the Caribbean and Latin America.

## D. FINANCIAL CONSIDERATIONS

### 1. Unit Cost Analysis

| | U.S.$/Kg | U.S.$/Box |
|---|---|---|
| Field Production | 0.125 | 1.250 |
| Packing | 0.500 | 5.000 |
| Transport to Port | 0.030 | 0.300 |
| Handling | 0.024 | 0.240 |
| Export Charges/Duties | 0.092 | 0.920 |
| FOB Port | 0.771 | 7.71 |
| Shipping | 0.133 | 1.333 |
| Import Duties | 0.110 | 1.100 |
| Handling | 0.050 | 0.500 |
| Commission | 0.220 | 2.200 |
| CIF Importer's Warehouse | 1.284 | 12.843 |

(Source: Field Assessment)

### 2. Potential Earnings

U.S.$, 10-Kg box, U.S. market

| | U.S.$/Kg | U.S.$/Box |
|---|---|---|
| High Price | 3.080 | 30.800 |
| Low Price | 0.924 | 9.240 |
| Mid-Range Price | 2.002 | 20.020 |

Quoted prices are 70% of whole sale prices.

(Source: Federal-State Market News Service)



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### 3. Profit/Cost Analysis

**Sensitivity Analysis of Return on Investment (%)**

| | Price/Kg | | | |
|---|---|---|---|---|
| **Cost/Kg** | **0.92** | **2.00** | **2.75** | **3.08** |
| 1.25 | (26) | 60 | 120 | 146 |
| 1.50 | (39) | 33 | 83 | 105 |
| 1.75 | (47) | 14 | 57 | 76 |
| 2.00 | (54) | 0 | 38 | 54 |
| 2.25 | (59) | (11) | 22 | 37 |
| 2.50 | (63) | (20) | 10 | 23 |
| 2.75 | (67) | (27) | 0 | 12 |

## E. PROCESSING POSSIBILITIES

Garlic is a product that lends itself well to processing. The main processed products are garlic powder, garlic salt, garlic juice and dehydrated garlic. All of these products have a relatively good market potential, especially in markets near Peru such as Colombia, Brazil, Venezuela, etc. The U.S., Canada, Europe and Japan also have good demand for garlic products. These markets are highly competitive because of the variety and quality of garlic products available.

Processing is a good strategy to vertically integrate the garlic industry in Arequipa and to add value to the garlic crop. There is already a dehydration plant which was established by the Government a few years back that could be put into production very quickly by private groups. The supply of raw material to process garlic is also plentiful since yields of small sizes, not suitable for the fresh export markets, are high.

## F. TECHNICAL ASSISTANCE NEEDS

### 1. Production

| | |
|---|---|
| * Seed production and selection | 1 person months |
| * Cropping patterns and rotations | 3 person months |
| * Pathology and pest control | 3 person months |

### 2. Post-harvest Handling

| | |
|---|---|
| * Drying and storage | 1 person months |
| * Box design | 1 person months |

### 3. Processing

| | |
|---|---|
| * Manufacture of garlic products | 3 person months |
| * Processing plant design | 1 person months |

### 4. Logistical Planning and Transportation

| | |
|---|---|
| * Stacking and unitization | 1 person months |

### 5. Marketing

| | |
|---|---|
| * Marketing in Europe | 1 person month |
| * Marketing in the U.S. and Canada | 1 person month |
| * Marketing in the Far East | 1 person month |
| * Marketing in the Caribbean | 1 person month |
| * Marketing in the Middle East | 1 person month |
| * General Promotion Design | 1 person month |

### 6. <u>Total Level of Effort</u>

* Twenty (20) person months

## G. KEYS TO SUCCESS

### 1. <u>Production</u>

* Introduction of new varieties to rejuvenate the genetic potential of present plantings and increase the size of the marketable product.
* Expansion of seed production in the high lands.
* Selection of optimum seed size at planting time.
* Introduction of new crop rotations including high value legumes and vegetables.
* Control of soil-borne diseases.
* Increased efficiency of fertilizer use through soil testing and tissue analysis.
* Introduction of micronutrients in the fertilizer program, especially sulphur.

### 2. <u>Post-harvest Handling</u>

* Construction of additional drying and storage facilities to process and store product for shipping to markets when prices are most favorable.
* Introduction of a lighter and less costly box.
* Continuously research market preferences and demands with respect to packaging, unitization, etc.

### 3. <u>Processing</u>

* Establishment of manufacturing plants for garlic processed products.

## 4. Logistical Planning and Transportation

* Introduction of new and more efficient stacking patterns and unitization procedures.

## 5. Marketing

* Unification and stabilization of the production base by grouping together a significant number of farmers and hectares, and by creating a total balance of responsibilities and profits from the export operations for all of those involved especially the growers.
* Constant expansion of the U.S., Europe, Canada, and Japanese markets by enlarging distribution networks and introducing promotion activities to increase the volumes of quality products shipped.
* Penetration and expansion of other Far East markets and new markets in the Middle East, the Caribbean and Latin America.

## D. FINANCIAL CONSIDERATIONS

### 1. Unit Cost Analysis

Fresh Table Grapes, U.S. Market

| | U.S.$/Kg | U.S.$/Box |
|---|---|---|
| Field Production | 0.310 | 1.691 |
| Packing | 0.350 | 1.909 |
| Transport to Port | 0.050 | 0.273 |
| Handling | 0.050 | 0.273 |
| Export Charges/Duties | 0.092 | 0.502 |
| FOB Port | 0.852 | 4.647 |
| Shipping | 0.310 | 1.691 |
| Import Duties | 0.138 | 0.750 |
| Handling | 0.100 | 0.545 |
| Commission | 0.275 | 1.500 |
| CIF Importer's Warehouse | 1.675 | 9.134 |

(Source: Field Assessment)

### 2. Potential Earnings

November through January

(12-lb box, U.S. market)

| | U.S.$/Kg | U.S.$/Box |
|---|---|---|
| High Price | 2.567 | 14.000 |
| Low Price | 1.711 | 9.333 |
| Mid-Range Price | 2.139 | 11.667 |

(Source: Federal-State Market News Service)

### 3. Profit/Cost Analysis

Sensitivity Analysis of Return on Investment, %

| | Price/Kg | | | |
|---|---|---|---|---|
| Cost/Kg | 1.50 | 1.70 | 2.14 | 2.60 |
| 1.00 | 50 | 70 | 114 | 160 |
| 1.25 | 20 | 36 | 71 | 108 |
| 1.50 | 0 | 13 | 43 | 73 |
| 1.65 | (9) | 3 | 30 | 58 |
| 1.75 | (14) | (3) | 22 | 49 |
| 2.00 | (25) | (15) | 7 | 30 |
| 2.25 | (33) | (24) | (5) | 16 |

## E. TECHNICAL ASSISTANCE NEEDS

### 1. Production

| | |
|---|---|
| * Production technology to harvest from November to January | 6 person months |
| * Selection of new varieties | 1 person months |
| * Advanced plantation management | 3 person months |
| * Pruning technology | 3 person months |

### 2. Post-harvest Handling

| | |
|---|---|
| * Field packing technology | 3 person months |
| * Forced air cooling technology | 1 person months |

### 3. Logistical Planning and Transportation

| | | |
|---|---|---|
| * | Stacking and unitization | 1 person months |
| * | Bulk shipment of grapes | 1 person months |

### 4. Marketing

| | | |
|---|---|---|
| * | Marketing in Europe | 1 person month |
| * | Marketing in the U.S. and Canada | 1 person month |
| * | Marketing in the Far East | 1 person month |
| * | Marketing in the Caribbean and Latin America | 1 person month |
| * | Marketing in the Middle East | 1 person month |
| * | General Promotion Design | 1 person month |

### 5. Total Level of Effort

* Twenty five (25) person months

## G. KEYS TO SUCCESS

### 1. Production

* Fine-tuning of technology to enable harvesting from November to January.
* Introduction of new seedless varieties to expand current marketing opportunities.

2. Post-harvest Handling

* Introduction of field packing technology
* Installation of forced air cooling facilities

3. Logistical Planning and Transportation

* Introduction of bulk handling and shipping techniques
* Introduction of new and more efficient stacking patterns and unitization procedures

4. Marketing

* Unification and stabilization of the production base by grouping together a significant number of farmers and hectares, and by creating a total balance of responsibilities and profits from the export operations for all of those involved especially the growers.
* Constant expansion of the U.S., Europe, Canada, and Japanese markets by enlarging distribution networks and introducing promotion activities to increase the volumes of quality products shipped.
* Penetration and expansion of other Far East markets and new markets in the Middle East, the Caribbean and Latin America.

## D. FINANCIAL CONSIDERATIONS

### 1. Unit Cost Analysis - Lima Beans

| | U.S.$/MT |
|---|---|
| Field Production | 600 |
| Processing | 200 |
| Transport to Port | 50 |
| Handling | 50 |
| Export Charges/Duties | 92 |
| FOB Callao | 992 |

(Source: Field Assessment)

### 2. Potential Earnings

Lima Beans, FOB Callao Prices per MT

| | U.S.$/MT |
|---|---|
| High Price | 1,100 |
| Low Price | 550 |
| Mid-Range Price | 825 |

(Source: ADEX Menestras Committee)



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### 3. Profit/Cost Analysis

**Sensitivity Analysis of Return on Investment (%)**

| | Price/MT | | | |
|---|---|---|---|---|
| Cost/MT | 550 | 750 | 825 | 1,100 |
| 700 | (21) | 7 | 18 | 57 |
| 800 | (31) | (6) | 3 | 38 |
| 900 | (39) | (17) | (8) | 22 |
| 992 | (45) | (24) | (17) | 11 |
| 1,000 | (45) | (25) | (18) | 10 |
| 1,100 | (50) | (32) | (25) | 0 |
| 1,200 | (54) | (38) | (31) | (8) |

## E. TECHNICAL ASSISTANCE NEEDS

### 1. Production

* Production of certified seed — 3 person months
* Cultural practices — 3 person months
* Design and establishment of seed banks — 3 person months

### 2. Post-harvest Handling

* Design and establishment of selection and drying facilities — 3 person months

### 3. Logistical Planning and Transportation

* Design of logistical systems for shipping mixed cargo — 1 person month

4. Marketing

| | |
|---|---|
| * Marketing in Europe | 1 person month |
| * Marketing in the U.S. and Canada | 1 person month |
| * Marketing in the Far East | 1 person month |
| * Marketing in the Middle East | 1 person month |
| * Marketing in the Caribbean | 1 person month |
| * Marketing in Latin America | 1 person month |
| * General Promotion Design | 1 person month |
| * Accessing information to program bean production | 8 person months |

5. Total Level of Effort

* Twenty three (23) person months

F. KEYS TO SUCCESS

1. Production

* Introduction of certified reliable seed.
* Improvement of yield levels with reduction of pre-harvest and post-harvest losses.
* Establishment of seed banks with large storage capacity.

2. Post-harvest Handling

* Establishment of adequate selection and drying facilities.



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## 3. Logistical Planning and Transportation

Introduction of new and more efficient stacking patterns and unitization procedures.

## 4. Marketing

Establishment of market information systems and market contacts, to allow for programming of production, to tap market opportunity windows that become available in a short period of time with little forward notice.
Unification and stabilization of the production base by grouping together a significant number of farmers and hectares, and by creating a total balance of responsibilities and profits from the export operations for all of those involved especially the growers.
Constant expansion of the U.S., Europe, Canada, and Japanese markets by enlarging distribution networks and introducing promotion activities to increase the volumes of quality products shipped.
Penetration and expansion of other Far East markets and new markets especially in the Middle East, the Caribbean and Latin America.



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## ANNEX L.3.: COMPETITIVE MARKET ANALYSIS OF THE APPAREL SECTOR

The following consists of Section II: Executive Summary and Section IV: Cost Analysis of Sample Export Garments from Kurt Salmon Associates, Analysis of Competitiveness and Export Development Strategy for the Peruvian Apparel Industry; October 1990.

# SECTION II: EXECUTIVE SUMMARY: CONCLUSIONS AND RECOMMENDATIONS

## A: CONCLUSIONS

### Background

Perú's exports of finished apparel have quadrupled over the last four years. The driving forces behind such dramatic growth have been the following:

- A substantial demand for Peruvian apparel in the United States and European markets
- Attractive investment incentives for Peruvian exporters, through preferential exchange rates
- A dramatic recession in the domestic apparel market, which turned the industry's attention outward

As a result, many domestic apparel suppliers became exporters and many new firms were created. In spite of its rapid growth, the Peruvian apparel export industry is still young and relatively small, especially when compared to many developing countries in Asia, South America, and the Caribbean Basin who don't have the natural fiber advantages that Perú has. However, it is encouraging that the Peruvian manufacturers display a commendable level of commitment and enthusiasm.

Although Peruvian exporters have made a great progress in their export awareness and export readiness, there is still ample room for improvement and growth. The industry is poised for the next stage of its development, which could potentially put it in the global map of competitive apparel source countries. Such a process will require a well concerted and well funded multi-institutional effort, in order to generate badly needed employment and hard currency.

## External Analysis

The multi-institutional aspect of the development effort stems from the nature of the industry's constraints. The greatest obstacles that the industry faces today against its further growth are the following:

- Quota constraints in the U.S.:
  - Very low access levels for Perú's most competitive products
  - Probably the single most important barrier to growth
- Inadequate government trade policies:
  - Unfavorable exchange rates
  - Excessive taxation of imports/exports
  - Excessive red tape
  - Inadequate incentives
- Infrastructural limitations:
  - Power/water interruptions
  - Lack of effective training programs
  - Transportation stoppages and costs
  - No financing for capital investment

- Weak service and feeder industries:
    - Domestic prices of fabric are considerably higher than world market prices
    - No short-notice availability of fabric
    - Trim is expensive, mediocre, and limited
    - Unreliable dyeing, printing and finishing of fabrics
    - Poor sources of technical assistance

In this regard, there is a consensus among manufacturers and trade associations. It is also clear that these factors are external and, largely, outside of the industry's control.

The U.S. quota restraints weigh so heavily that a whole section of this study focuses on that problem (Please see Section V: Quota Constraints and Opportunities in the U.S. Market).

Following is a summary of the pros and cons of the environment that the industry operates in.

**Summary of an Environmental Analysis for the Peruvian Apparel Export Industry**

| PROS | CONS |
|---|---|
| Mild climate | Quota constraints in the U.S. |
| Abundant labor force | Weak domestic market |
| Closer to the U.S. than the Far East | Inadequate government trade policies |
| World-class quality of cotton varieties | Infrastructural limitations |
| | Weak service and feeder industries |
| | Limitations on the fiber supply |
| | Political turmoil and instability |

All of these environmental factors produce direct undesirable effects on the operations of the industry. One of the most harmful is the weakness of the service and feeder industries.

The weaknesses in the service and feeder industries produce an imbalance in the textile supply chain. The overall high prices, inconsistent qualities and unreliable deliveries of the industry's suppliers of raw materials and services, has prompted many of the large and medium-sized producers to integrate backwards in order to develop in-house supply capabilities. In the short-term, this is a commendable response to the problem because it provides the industry with greater independence and flexibility, and with lower operating costs.

However, in the long-term this could prove harmful to those very manufacturers who have achieved vertical integration. One of the key differences between the apparel and textile industries is the level of investment required. A manufacturer making the transition from the labor intensive apparel industry to the capital/technology intensive textile industry, becomes immediately impacted by "sticker shock." Thus, he resorts to the acquisition of used equipment, and to small capacities, in order to minimize the investment required.

This means that their equipment is two or three generations old, and that they cannot attain substantial economies of scale. Until now this solution has worked, but as the Peruvian market becomes more open to imports of Brazilian, Far Eastern, or U.S. fabrics, it will be difficult for integrated Peruvian manufacturers to remain cost competitive.

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## Internal Analysis

In terms of factors that are purely internal to the industry, there are a number of important strengths and weaknesses that impact the industry's ability to grow. Obviously, the strengths need to be capitalized upon, and the weaknesses must be eliminated or converted into strengths. These are inventoried on the table in the following page.

The largest internal impediments that the industry faces today are:

- A relatively low manufacturing efficiency:
  - On average, plant efficiencies are at 45 percent of U.S. standards
  - Improving this will be the base for the permanence of the development efforts
- An international reputation for unreliability:
  - Many U.S. buyers avoid Perú because of notoriously late deliveries
  - This is indicative of poor manufacturing controls
- A poor understanding of world markets:
  - Little awareness of market structure and dynamics
  - Causes inadequate product development and service responsiveness

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## Summary of a Diagnostic of the Peruvian Apparel Export Industry

| Strengths | Weaknesses |
|---|---|
| Entrepreneurial readiness to expand/invest | Poor material utilization (large share of cost) |
| Low cost labor force | Limited development of supervisory skills |
| Low fringe benefits | Inadequate manufacturing controls - WIP |
| Stable, trainable, and reliable labor force | - Costs |
| Low overhead costs | Low productivity in cutting room |
| Adequate supply of mechanics | - Equipment (spreaders) |
| | - Methods & incentives |
| | Low expectations of obtainable efficiency |
| | Lower overall efficiencies (45-50%) |
| | Too much backward integration |
| | - Diversion of resources |
| | - Obsolescence of equipment |
| | Excessive focus on knit tops |
| | Unnecessarily high quality control procedures |
| | Poor understanding of world markets |

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Unnecessarily high quality control procedures constitute a "weakness" that requires further explanation.

Given the quality of Peruvian fibers, the garment manufacturers do well to focus on products suited for the upper end of the market. These products require consistently high quality standards. Awareness of this has become prevalent throughout the industry in Perú, and 100 percent in-process quality control procedures are widespread.

This is an appropriate strategy, given the high value-added of such products and the low labor cost of quality inspectors. However, it is not necessary for all of the products, all of the time, because it hinders plant productivity. Quality standards must be maintained, but quality control procedures must be scaled down over time from 100 percent inspection to statistical quality control (SQC). SQC procedures can then be supported by quality conscious operational procedures such as:

- Finding problems "at the needle" (operator awareness)
- Providing quality specifications at the individual workstations (through gauges, markers, etc.) for roving inspectors

Subsequent sections of this report document and illustrate all of these conclusions with ample supporting evidence.



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## B. RECOMMENDATIONS

### 1. External Success Factors

The key success factors for apparel exports, from an environmental standpoint, are the following:

- Access to export markets (quota)
- Abundant labor
- Competitive costs
- Adequate infrastructure
- Supportive government

Access to Export Markets

This is an area where the Peruvian industry can make a difference through two steps:

a. Unification

b. Lobbying

It is important that the industry attempts to proactively dispel the notion that exists in Washington, that the industry is divided and dominated by the big players. The industry must form a monolithic and equitable front and take the initiative to promote this in Washington via personal visits of industry representatives to relevant government offices, and via direct mailings that divulge and illustrate the fact.

NOTE: Page 13 reserved as well as part of Page 14.

Abundant Labor

Labor is abundant in Perú, due to very high underemployment and relatively high unemployment. However, skilled labor is not as abundant so some relevant comments are made in the section on infrastructure.

Competitive Costs

Perú's costs have always been competitive, although that comparative advantage is now somewhat threatened due to artificial exchange rates stemming from an overabundance of coca dollars.

Adequate Infrastructure

Power and water interruptions are widely talked about, but the industry has overcome these problems through the use of power generators and storage tanks. Lack of financing for capital investment is a problem which the AID program can help resolve by offering terms longer than one year.

Training programs in Perú (SENATI and others) are not truly effective because they attempt to develop skills in a classroom environment that can only truly be developed on the sewing room floor. Formal training efforts in classroom environments are only applicable to two areas:

- Pre-training of operators
- Partial training of mid-managers

For their training to be complete, the remainder of it must be provided in the factories.

In order for this approach to be cost effective, and for the transfer of technology to be authentic, Perú should retain trainers and consultants, and purchase training systems, exclusively oriented towards the training of Peruvian trainers. The Peruvian trainers should then go to work for the manufacturers in their plants. The importance of these points cannot be stressed enough.

Supportive Government

Government support to the exports of apparel can only translate into two specific areas:

- Foreign trade policy
- Export/investment incentives
- Foreign trade policy should be geared to facilitate the export process, and the temporary import for re-export process, in terms of time, cost, and simplicity. This includes the treatment of exchange rates.

Export/investment incentives could include any combination of the following, which are customary throughout the region:

- Tax holidays for the firm, its shareholders, or both

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- No import duties for equipment or for temporary internment of raw materials
- No taxes on exports at all
- Preferential port fees
- Exemption from taxes on capital/investments
- Free and open repatriation of capital and dividends for foreign investors
- Partial exemptions from city taxes
- Soft loans for working capital
- Subsidies on rent, in declining scales
- Temporary subsidies for payrolls, during the training periods
- Accelerated depreciation of fixed assets
- Debt/equity swaps in local currency
- Special insurance packages
- Tax incentives for industrial construction
- Guarantees against nationalization
- Temporary exemption from payments of business licenses/permits
- Subsidies for foreign technical assistance
- Subsidies for the training expenses of operators and mid and top level management
- Fast immigration processes for expatriate managers
- Fast registration procedures for new export companies
- Specific customs for apparel
- One-stop-window for export paperwork

No single government offers all of these incentives, but all of the sizable exporters offer some combination of the above. The Peruvian industry can approach its government and lobby for concessions in exchange for continued export growth in this sector.

## 2. Internal Success Factors

The key success factors for apparel exports from an operational point of view are:

- Timely deliveries
- Consistent quality
- Competitive prices
- Manufacturing flexibility
- Qualified management

The momentum of the Peruvian apparel export industry is such that, at this time, addressing these issues will do more to attract overseas buyers and marketing partners than just about anything else. This will require a substantial program in order to transfer technology to the sewing room floor, and to train high and mid-level managers and operators. Such a program is outlined in the section that follows (C. Transfer of Technology).

### Timely Deliveries

Outside of infrastructural issues, this problem is symptomatic of poor or absent manufacturing controls. In Perú, the problem has reached such proportions that the local industry has become notorious internationally. To overcome this, two solutions are recommended:

- Introducing or upgrading manufacturing controls (preferably computerized) in the following areas:
  - Payroll/incentive systems

- Work-in-process inventory controls
- Production planning
- Plant loading
- Line balancing

- A proactive approach, via one-on-one interviews, direct mailings, and press releases, to strengthen the industry's image in this regard.

## Consistent Quality

Although the industry has made a tremendous effort in this area, greater efficiency is needed here. Quality should not be "inspected" into a garment. A more effective approach would focus on preventive management attention and operator awareness, targeted by the results of in-process, statistical sampling and inspection, and followed-up by operation-specific corrective efforts. In other words, there is a need to introduce structured quality control procedures.

## Competitive Prices

The key words in the Peruvian scenario are operator efficiency and plant productivity. This can be accomplished through the following:

- Training of operators by means of a scientific approach that will pace a new operator through the development of dexterity, speed, and stamina; this training must be operation-specific, and must take place on the shop floor.
- Industrial engineering of the plants, geared towards improving plant productivity.

The long-term permanence of the industry will depend more on efficiency than on labor costs or exchange rates.

## Manufacturing Flexibility

The Peruvian apparel exporter still dreams about large contracts with huge production runs of the same garment, that enables his operators to move high-up in the learning curve and produce high efficiencies. On the other hand, the international market seeks manufacturers capable of handling smaller production runs, with frequent style changes, more suitable for the higher-end garments that can be produced in Perú.

This can only be accomplished profitably through training, adequate plant configurations and work flows, manufacturing controls, and appropriate costing/pricing practices. The Peruvian industry will benefit greatly if it can gain access to this type of technology.

## Qualified Management

This requires implementable management skills in marketing, garment construction, product mix focus, manufacturing controls, quality control procedures, and training and development of skilled workers.

Two approaches are recommendable:

- For mid-level management: development of supervisory skills, development of apparel engineers, training of trainers, through a balanced mix of classroom situations and in-plant training programs.
- For top level management: a series of seminars on relevant topics, combined with periodic participation in international trade shows and observation trips to facilities overseas.

The following section proposes a structured and systematic approach to the required transfers of technology that have been outlined here.

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## C. TRANSFER OF TECHNOLOGY (TECHNICAL ASSISTANCE)

### Basic Underlying Concepts

First, it is important to answer the question "What's there?" in terms of existing capacity. The preliminary findings will provide USAID with a baseline against which future progress can be measured.

Then, it is necessary to provide the industry with a clear conceptual understanding and a global vision of the apparel business. Although this might seem very basic, it is essential in order to assist Peruvian entrepreneurs to put their efforts in the right perspective and to understand their competition in the international arena.

Following, a set of criteria must be developed in order to evaluate and select the firms that will be most receptive to technology transfers and that will be most likely to grow and succeed thereafter. Only those firms that satisfy these basic requirements should be eligible for technical assistance. Only through this kind of selectivity will USAID be able to ensure the following:

- Maximize the positive impact of its own limited resources within an acceptable timeframe;
- Succeed in creating "showcase" facilities, which can then be used as the cornerstone of large-scale growth;
- Develop a solid basis for the development of the image and reputation of Perú as a source country of choice for apparel. Eventually, the resulting benefits will reach the entire industry.

Furthermore, only those firms that have made strides toward improved productivity and quality should be eligible for promotional assistance. If the expectations of the export markets are raised by indiscriminate promotional efforts, and then those expectations are not satisfied by the products and services of the Peruvian industry, the end-result will be a further deterioration of Perú's reputation.

Finally, additional consideration should be given to the concept of forward integration into the U.S. market via trading companies owned by the Peruvian entrepreneurs. This mechanism would help overcome some of the concerns about the political risks associated with operating in Perú.

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## Selection and Performance Evaluation Criteria

Since there is a broad range of company performance levels, it is impossible to establish absolute criteria for the whole industry. Therefore, the most basic, generic criteria are offered here.

### COMPANY SELECTION CRITERIA

- A desire to be a net exporter.
- A minimum size to justify the cost/benefit of the assistance in terms of employment.
- Prior experience in exporting to international markets.
- Active contacts with importers overseas who are willing to buy their production.
- A willingness to invest in part of the cost of the technical assistance.
- A potential to grow and succeed in the business, paired with substantial room for improvement in the current operation.

Each company must be evaluated individually, before and after receiving technical assistance. Specific performance goals will vary for each company based on their evaluation, and should be adjusted periodically.

### PROGRESS EVALUATION CRITERIA

- An improvement in operator efficiency.
- An increase in plant productivity.
- A reduction in the incidence of repairs due to quality problems, and of second quality garments.
- A reduction in production throughput and in order turnaround time.
- An increase in value-added of the exported production.
- A growth in employment generated.

If these objectives are reached, then new objectives must be set in order to continue with the assistance as a continuous, ongoing improvement program. Those companies that succeed in this process becomes candidates for promotional assistance.

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## Technology Transfer Formats

Given the key performance gaps in the internal success factors, and the key strategic gap of unavailability of transfers of technology, the solution to the industry's most critical internal problems lies in a carefully planned and clearly monitored process of professionalization and technification of the industry.

The most effective formats to accomplish this are listed below:

- Seminars and lectures on global trends, foreign markets, costing, and on technical topics and skill development:
  - These are relatively low cost and can be self-financing.
  - Good for transmitting concepts, but not for shop floor implementation and results.
- Specialist consulting in plants:
  - An experienced specialist spends one or two weeks in a plant to provide unstructured assistance as required.
  - Most cost-effective way of putting out fires; only good for the short-term or for very small companies.
- Selective engineering programs:
  - The trade associations form a small core of apparel trained Peruvian industrial engineers, to assist a large number of companies with very specific problems, under the direct supervision of international experts.
  - These are absorbed into the industry at the end of a two year period, and replenished as needed.
  - Most effective means to transfer technology; good solution for isolated problems.

- Comprehensive engineering programs:
    - Expert outside assistance is brought in to assist a small number of companies in a broad range of activities, including new plant start-ups and productivity improvement programs for existing plants.
    - Most effective means of creating "showcase" facilities; good only for larger, more promising plants.
- Market penetration studies:
    - Development of product/market specific opportunity profiles and penetration studies.
    - Only good for larger plants, or for homogeneous groups of medium and small plants.

# FORMATS FOR TRANSFER OF TECHNOLOGY

MANUFACTURING

| | | |
|---|---|---|
| Large & Eligible Medium Companies | Comprehensive Engineering Programs (9-12 months) | New plant start-ups<br>Productivity improvement programs |
| Large & Eligible Medium Companies | Selective Engineering Programs (3-6 months) | Manufacturing controls<br>Isolated industrial engineering programs |
| Medium & Small Companies | Specialist Consultants' Programs (2 week visits) | Walk through approach<br>Tips & short-cuts<br>Isolated production problems |
| All Companies | Periodic Seminars & Lectures | On "as needed" basis<br>Requested by the industry |

MARKETING

| | | |
|---|---|---|
| Large & Eligible Medium Companies | Market Penetration Studies | Strategy development<br>Specific product/market focus |
| All Companies | Periodic Seminars & Lectures | Several marketing issues<br>General pointers |

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## D. ACCELERATED GENERATION OF EMPLOYMENT

The industry's quick growth can only be accelerated by a substantial improvement of the U.S. quota situation. Short of that, only two options remain for the industry, and neither of them are short-term possibilities:

**OPTIONS**

| | | |
|---|---|---|
| Diversify product lines<br>(Private Label programs)<br>(Transfer of technology) | ⟶ | - Alleviates quota problems<br>- Industry needs prodding<br>- Long-term proposition |
| Diversify markets further | ⟶ | - European market is fragmented<br>- Japanese market is tough entry<br>- Long-term proposition |

Private label is the name that identifies a product or product line developed by a retailer for its own exclusive use. A retailer's ability to source garments is usually restricted to developing concepts and designing styles, and merchandising (mix of colors, sizes, and products, and inventory levels). Thus, their suppliers normally are contractors capable of supplying a full package (including fabric), and frequently located overseas. The following chart illustrates the attractiveness of this mode of exporting.

# THE PRIVATE LABEL OPTION

**Advanced Exporter**

Marketing of own product lines

- Requires design skills
- Offers higher risks/profits

**Beginning exporter**

Contract work for overseas marketing partners

- Design is not required
- Offers lower risks/profits

Intermediate step:

Private label

- Perú is very well suited (textile base)
- Design is not required
- Eliminates intermediaries
- But requires quicker turnaround times
- And flexibility in the production line
- Plus expediency for fabric imports

As was stated earlier, investing in the internal key success factors will attract marketing partners in view of the virtually unlimited demand for Peruvian export apparel. However, there is one additional option which may also be an attractive source of employment generation:

$\boxed{\text{OPTIONS}}$

| | | |
|---|---|---|
| Make the existing Peruvian industry more attractive (Transfer of Technology) | → | - Will attract buyers/investors<br>- Will create self-sustaining growth |
| Reactivate idle capacity of Pueblos Jóvenes (Central Coordinator of Satellites)<br>- Supervisor (Q.C., W.I.P.)<br>- Centralized cutting & distribution<br>- Marketing support | → | - Will expand benefits to small producers<br>- Short-term results |

In the Pueblos Jóvenes many small, informal sector manufacturers have shut down their operations as a result of the recession in the domestic market. Even if they were reactivated, they would not be export ready without outside assistance. That assistance should take the form of a coordinating agent; someone who can provide the following services:

- secure export contracts;
- source the required fabric;
- operate a central cutting room;
- distribute and pick-up the goods to/from the satellite sewing shops in the Pueblos Jóvenes; and,
- provide supervision, quality control, and work-in-process control to the satellites, in order to standardize quality and coordinate delivery.

There are experienced Peruvian entrepreneurs who are highly interested in playing such a constructive and profitable role. This approach offers a large economic reactivation potential in the short-term, at a relatively low cost since the capacity already exists.

**Investment Requirements for New Capacity**

**ESTIMATED INVESTMENT REQUIRED PER APPAREL JOB IN PERU**

| | |
|---|---|
| Building | $ 1,000 |
| Equipment | $ 2,500 |
| Training & Transfer of Technology: | |
| - USAID | $ 400 |
| - Industry (1) | $ 800 |
| Working Capital | $ 1,500 |
| Start-up Costs | $ 150 |
| TOTAL | $ 6.350 |

(1) Includes the industry's share of technology transfer costs and the usual costs due to productivity losses during the training period for new operators.

The investment required per job in the apparel industry is one of the lowest of any industry. To create one job in the textile sector requires about ten times that.

## SECTION IV: COST ANALYSIS OF SAMPLE EXPORT GARMENTS

### BASIC PARAMETERS

Here we compare the manufacturing costs of two sample garments in three different countries. The garments compared here are:

1. A men's knit polo shirt, boxed collar, short sleeve, no pocket, front placket with three buttons, made with 100 percent tanguis cotton jersey.
2. A basic men's jean, five pocket, zipper, 14 oz. blue denim, with only a rinse.

These two garments were selected for the following reasons:

- One is a top and the other is a bottom
- One is a knit and the other is a woven
- Polo shirts represent high volume, high value-added
- Jeans represent fast growth, lower value-added

All other considerations about product types selected are not very relevant, because the comparisons of competitiveness are based on standard times, and not on products.

The source countries selected for the comparative analysis are:

- Perú - the focus of the analysis
- U.S.A. - the main target market
- México - before and after free trade with the U.S., under U.S.T.C. 807.

All of the cost calculations assume conventional technology

# COMPARATIVE COST ANALYSIS OF BASIC JEAN

| | PERU | USA | MEXICO | Mexico (w/Free Trade) |
|---|---|---|---|---|
| **Material & Trim** | | | | |
| Piece Goods - $/Mt. | $2.65 | $3.18 | $3.18 | |
| Meters/Unit | 1.30 | 1.10 | 1.10 | |
| Piece Goods Cost/Unit | $3.45 | $3.50 | $3.50 | |
| Trim Cost/Unit | $0.86 | $0.93 | $0.93 | |
| **Total Material Cost** | $4.31 | $4.43 | $4.43 | |
| **Labor Cost** | | | | |
| Cutting Cost (No Fringe) | $0.02 | $0.10 | $0.10 | |
| Standard Minutes - Sew/Finish | 18.0 | 10.0 | 13.5 | |
| Efficiency | 70% | 85% | 75% | |
| Total Minutes/Unit | 25.7 | 11.8 | 18.0 | |
| Average Hourly Pay - $/hr | $0.47 | $5.50 | $0.55 | |
| Fringe % | 47% | 35% | 52% | |
| Average Hourly Pay with Fringe | $0.69 | $7.43 | $0.84 | |
| Sew/Finish Cost (No Fringe) | $0.20 | $1.08 | $0.17 | |
| Direct Labor Cost/Unit (No Fringe) | $0.22 | $1.18 | $0.17 | |
| **Overhead** | | | | |
| Multiplier | 3.5 | 1.5 | 4.0 | |
| Overhead Cost/Unit | $0.77 | $1.77 | $0.68 | |
| **Total Cost/Unit of Production** | $5.30 | $7.38 | $5.38 | $5.38 |
| **Freight** | | | | |
| Outbound | - - | - - | $0.09 | $0.09 |
| Inbound | $0.12 | - - | $0.09 | $0.09 |
| **Duty** (17.7%) | $0.96 | - - | $0.18 | - - |
| **Landed Cost Per Jean** | $6.38 | $7.38 | $5.74 | $5.56 |

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# COMPARATIVE COST ANALYSIS OF POLO SHIRT

| | PERU | USA | MEXICO | Mexico (w/Free Trade) |
|---|---|---|---|---|
| **Material & Trim** | | | | |
| Piece Goods Cost/Unit | $3.90 | $4.43 | $4.43 | |
| Trim Cost/Unit | $0.56 | $0.61 | $0.61 | |
| **Total Material Cost** | $4.46 | $5.04 | $5.04 | |
| **Labor Cost** | | | | |
| Cutting Cost (No Fringe) | $0.02 | $0.11 | $0.11 | |
| Standard Minutes - Sew/Finish | 14.0 | 9.0 | 11.5 | |
| Efficiency | 70% | 85% | 75% | |
| Total Minutes/Unit | 20.0 | 10.6 | 15.3 | |
| Average Hourly Pay - $/hr | $0.47 | $5.50 | $ 0.55 | |
| Fringe % | 47% | 35% | 52% | |
| Average Hourly Pay with Fringe | [illegible] | $7.43 | $0.84 | |
| Sew/Finish Cost (No Fringe) | [illegible] | $0.97 | $0.14 | |
| Direct Labor Cost/Unit (No Fringe) | $0.18 | $1.08 | $0.14 | |
| **Overhead** | | | | |
| Multiplier | 3.50 | 1.50 | 4.50 | |
| Overhead Cost/Unit | $0.63 | $1.62 | $0.63 | |
| **Total Cost/Unit of Production** | $5.27 | $7.74 | $5.92 | $5.92 |
| **Freight** | | | | |
| Outbound | - - | - - | $0.06 | $0.06 |
| Inbound | $0.08 | - - | $0.06 | $0.06 |
| **Duty** (21.0%) | $1.12 | - - | $0.20 | - - |
| **Landed Cost Per Jean** | $6.47 | $7.74 | $6.24 | $6.04 |

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It must be settled that none of these cost structures correspond to the circumstances of any given plant, but rather, they reflect a composite of the industry, which can be considered "typical" of Perú.

Also, the Peruvian material costs (piece goods) do not correspond either to domestic market prices, nor to market prices for export, but rather, to approximate transfer prices of vertically integrated producers.

Obviously, in general terms, the Peruvian industry can be much more competitive in knit tops than in basic jeans. Evidently, it has the most competitive fabric costs for vertically integrated producers. However, it has the highest overhead multiplier, reflecting the high costs imposed by factors external to the industry and the reduced overhead absorption caused by inordinately high quality control efforts.

The impact of duties is devastating for Perú, and the prospect of free trade for Mexico will put sever pressure on the Peruvian industry's competitiveness.

ANNEX M

# SUMMARY OF ECONOMIC ANALYSIS OF THE INVESTMENT AND EXPORT PROMOTION (IEP) PROJECT

## I. INTRODUCTION

Peru has a large export potential that has been seriously restrained by inadequate economic policies and capital; the lack of financial resources to finance investment projects and trade has been a traditional constraint. Currently, Peru is trying to shift its domestic market oriented investment patterns to the export sector in order to achieve sustained economic development. The IEP project is designed to help reduce the financial constraints and to increase productivity with a view to improve the utilization of competitive and comparative advantages and expand exports.

## II. SCOPE AND METHODOLOGY

An economic and financial study was contracted by the Mission to measure the macroeconomic impact of manufacturing export promotion in three sectors with large export potential: agroindustry, apparel, and light industry. The agroindustrial sector corresponds to packed and canned fruit and vegetables (CIIU 3113); the clothing sector consists on cotton knits and garment manufacturing, excluding footwear (CIIUs 3213 and 3220); and the light industrial sector to construction of non-specified electric implements (CIIU 3839). These sectors represented 15% of non-traditional exports in 1989, and have grown at considerably larger rates than the rest; however, there is no serious risk of saturating international markets owing to Peru's insignificant share. The study was based on two complementary methodologies: (1) a macroeconomic analysis based on aggregated sectoral data; and (2) a microeconomic analysis of two asparagus exporting firms and an apparel exporting firm. Both of them indicated high rates of return for the project.

## III. MACROECONOMIC ANALYSIS

The macroeconomic analysis generated a broad approximation of the cost-benefit ratio of the Project by estimating the overall stream of social benefits associated with it. It was based on aggregated sectoral data of the agroindustrial, apparel and light industrial sectors, and on input-output coefficients.

The analysis evaluated the economic impact of the IEP project which amounts to $ 15 million in technical assistance, and $ 50 million in local currency credit to finance investment. It was assumed that this credit will leverage investment of $ 150 million.

The following indicators were estimated: (1) investment requirements; (2) impact on direct and indirect employment, and labor value added; (3) net foreign exchange generation; and (4) benefit/cost ratios.

### 1. Assumptions and Methodology

- Investment requirements were estimated on the basis of adjusted capital/output and labor/output coefficients published by the Ministry of Industry, and moderate export growth assumptions. The labor output coefficient was used to estimate employment generation. The largest coefficients were selected to minimize underestimation of investment requirements. Estimated net present value of investment requirements amount to $ 128.6 million.

- The impact on direct and indirect employment did not include the employment generation effects implied in the use of imported inputs. Data was obtained from the most recent input-output table available for the Peruvian economy and from a recent Central Bank study. Net foreign exchange eration was estimated using a similar methodology.

## 2. Macroeconomic Results

Table 2 presents the estimation of the project's social benefit and cost streams, which correspond to investment, technical assistance, export earnings, net foreign exchange earnings, and the value added of labor associated with the Project. Net present values were discounted at a 15% rate which was estimated as the opportunity cost of capital by previous studies for the Peruvian economy.

**Table 1**
**Estimation of Social Costs and Benefits**

| Year | (1) Investment (mill $) | (2) Technical Assistance (mill $) | (3) Direct Employm. (persons) | (4) Increase in Export Earnings (mill $) | (5) Net Foreign Exchange Earnings (mill $) | (6) Value Added of Labor (mill $) |
|---|---|---|---|---|---|---|
| 1 | 51.4(10.0) | 3.0 | 5,054 | 51.5 | 17.6 | 9.5 |
| 2 | 44.4(10.0) | 3.0 | 11,887 | 121.1 | 41.3 | 22.2 |
| 3 | 25.5(10.0) | 3.0 | 21,123 | 215.2 | 73.4 | 39.5 |
| 4 | 19.6(10.0) | 3.0 | 21,123 | 215.2 | 73.4 | 39.5 |
| 5 | 11.2(10.0) | 3.0 | 21,123 | 215.2 | 73.4 | 39.5 |
| 6 | | | 21,123 | 215.2 | 73.4 | 39.5 |
| 7 | | | 21,123 | 215.2 | 73.4 | 39.5 |
| 8 | | | 21,123 | 215.2 | 73.4 | 39.5 |
| 9 | | | 21,123 | 215.2 | 73.4 | 39.5 |
| 10 | | | 21,123 | 215.2 | 73.4 | 39.5 |
| Present Value | 128.6 | 11.6 | | 996.5 | 339.9 | 182.9 |

Source: Macroeconomic analysis made by locally hired consultants.

The value added of labor (column 6) was obtained multiplying the number of direct jobs generated by the amount invested, by the average yearly income of labor. The latter was assumed to be $ 1,870 and included social compensations; it corresponds to the average of labor income for enterprises on the agroindustrial, apparel and light industrial sectors.

Net foreign exchange earnings (column 5) were obtained by subtracting the direct and indirect imported components of inputs and machinery from the annual value of exports (column 4). The imported component of selected non-traditional exports was estimated at 66%; i.e. every unit of export (dollar) implies 66 cents of imported component and 34 cents of locally produced components.

Table 1 shows that non-traditional exports increase benefits in the economy through employment and net foreign exchange generation. Estimated results established that if financing was destined to the agroindustrial, apparel and lightindustrial sectors, exports would increase $ 50 million in the first year, $ 120 million in the second year, and $ 215 million onwards until the tenth year; therefore, resulting flows would be positive right from the first year and the project would reach and maintain its maximum potential beginning in the third year. Approximately $ 1 billion of exports would be obtained in a 10 year period, of which about a third would be net generation of foreign exchange; this means that $ 2.42 in foreign exchange would be generated per dollar invested.

In the case of employment, the IEP project would contribute to increase total employment - direct and indirect-in 34,892 positions, and direct employment in 21,123 positions; the ratio analysis showed that $ 1 invested in the project would generate $ 1.24 of value added for the labor factor.

## IV. MICROECONOMIC ANALYSIS

The microeconomic analysis focused on two representative asparagus exporting firms and a representative apparel exporting firm. The asparagus firms were firm B, which exports fresh and frozen asparagus, and firm C, which exports fresh and canned asparagus. The apparel firm selected was firm A, oriented to the export of shirts, trousers and shorts.

Investment requirements, resulting export values, production costs and other components were estimated to evaluate individual projects and obtain economic and financial indicators. Projects were evaluated assuming three scenarios (optimist, moderate, and pessimist) according to different international prices and production costs ranges. The moderate scenario is considered as the most probable one, so the results presented in this annex correspond to it.

### 1. Assumptions and Stream Projections

1.1 Firm A: This project involved an investment of $ 2 million to finance working capital. It was estimated that the investment would result on annual exports of $ 2.7 million during 10 years, and that 247 permanent jobs would be created. Production costs assumed included the cost of labor, of direct and indirect inputs (electric energy, water, fuel, among others), and administrative and financial costs; present value of annual production costs averaged $ 1.2 million.

1.2 Firm B: The XX group subsidiary planned an investment of $ 4.124 million, of which $ 3.1 million would be invested on a processing plant, and $ 1.024 million on agricultural development. Resulting export stream showed high export revenues over investment, and it was estimated that about 105 jobs would be created. The present value of annual production costs averaged $ 4.8 million.

1.3 Firm C: This project involved a $ 1.04 million investment, of which $ 600 thousand corresponded to the purchase of imported machinery and equipment. Like firm B, it was estimated that firm C would generate a high ratio of export revenues over investment. Calculations show that 310 jobs would be created, and that production costs would reach to $ 2.7 million.

### 2. Project Evaluation

Individual projects were evaluated at market prices and at shadow prices. The shadow prices reflect the economy's relative resource scarcity.

2.1 Internal rate of return: The study calculated the firm's internal rates of return at market prices and at shadow prices. Table 1 shows the results; at market prices, the preliminary IRR was 29% for firm A, 46% for firm B, and 106% for firm C. Economic rates of return were 51%, and ranged between 68% and 86% respectively. The estimated rates of return show that export investment projects in these production lines are profitable, as they were considerably greater than the opportunity cost of capital, estimated by previous studies at 15% for the Peruvian economy.

2.2 Benefit-Cost ratios and investment recovery period: Benefit-cost ratios, which result from dividing the present value of estimated benefits by the present value of estimated costs, reinforced the profitability of this type of investment. These ratios were all greater than 1, ranging between 1.18 and 1.32. On the other hand, the study states that investment can be recovered quickly -averaging a 2 to 3 year period- on the firms selected.

2.3 Net foreign exchange generation: The firms were estimated to generate considerable net foreign exchange revenues per unit of exports and per unit-of investment.

a. Per unit of export: The microeconomic analysis of firms showed that each unit of exports, excluding its imported inputs, generated a net foreign exchange inflow of $ 0.72 for firm A, of $ 0.67 for firm B, and of $ 0.75 for firm C. These results overestimate actual results since they did not include the imported component of domestically produced inputs. This omission is not likely to excessively bias the results to point where it would raise questions about the economic feasibility of non-traditional export projects.

b. Per unit of investment: The sample analysis showed that firm A generated exports of $4.93 per dollar invested, firm B $9.46, and firm C $24.01. This ratio was calculated dividing the present value of estimated total exports by total investment.

Table 2
Microeconomic Analysis Results

| | FIRM A | FIRM B | FIRM C |
|---|---|---|---|
| IRR at market prices | 29.38% | 46.13% | 106.15% |
| IRR at shadow prices | 53.00% | 68.00% | 86.00% |
| Net foreign exchange generation ($) | | | |
| a. Per unit of export | 0.72 | 0.67 | 0.75 |
| b. Per unit of investment | 4.93 | 9.46 | 24.01 |
| Investment recovery (years) | 3.0 | 3.0 | 2.0 |

Source: Microeconomic Analysis by local consultants.

# ANNEX N: INSTITUTIONAL ANALYSIS

The following are excerpts from J. E. Austin Associates Inc., Institutional Support Structure for Export and Investment Promotion in Peru: Analysis and Recommendations, August 1990.

## EXECUTIVE SUMMARY

In this Report, a Study Team analyzed the missions, goals, organizational structures, financial conditions, past performance, and future potentials for export and investment promotion of the following Peruvian institutions (3 private business associations, 1 government agency, and 1 private business school):

1. Association of Exporters (ADEX);
2. Confederation of Private Enterprise Institutions (CONFIEP);
3. National Society of Exporters (SNE);
4. Institute of Foreign Trade (ICE);
5. Peruvian Institute of Business Administration (IPAE).

A) Major Findings and Conclusions of the Study:

1. The 5 institutions have a common noble mission: to contribute to the socio-economic development of Peru. They only vary in their strategies to accomplish that mission. ADEX and SNE promote exports among their members through lobbying, information, trade fairs, seminars, etc. (ADEX's members are mostly non-traditional exporters, while the latter has some traditional exporters). ICE is the government agency that promotes exports and regulates imports. CONFIEP, as an unbrella organization of the private sector, focuses its activities on consensus-building and enhancing the image of the private sector in the eyes of the public. IPAE aims at improving the quality of management in Peru through its undergraduate and executive education programs.

2. Investment promotion is a very minor activity of seemingly low priority among the 5 institutions.

3. Structurally, the subject institutions generally have flatter and less hierarchical organizations than the corporate structures of their member enterprises. The institutions make use of sectoral and functional committees consisting of their members. Such committee structures facilitate decentralization, broader participation, and consensus-building, but tend to slow too much the decision-making process and rate of action due to the ponderous nature of the committee deliberations.

4. The performance and effectiveness of the 5 institutions were difficult to judge because they did not have written measureable annual targets against which their stated accomplishments at the end of each year could be compared by the Study Team. Nevertheless, based on their annual reports and some informal surveys of their members, the following summary conclusions emerged:

a) ADEX - satisfactory services in export promotion and lobbying for incentives; weak in representation of traditional exporters;

b) CONFIEP - satisfactory in building consensus among the various sectoral associations ("gremios" in Spanish), and enhancing a "caring" image for the business sector; very weak in export promotion.

c) SNE - too new to evaluate.

d) IPAE - satisfactory in its educational services, especially the undergraduate, distance education, outreach programs and the annual management conferences and seminars; very weak in export promotion.

e) ICE - satisfactory in export promotion services, particularly in its information, and technical assistance services to the textile and garments, agricultural, and metalworking sectors; negative marks for its political appointees and import control activities; (ICE has been deactivated by the new Fujimori administration starting on August 9, 1990).

5. ADEX, CONFIEP, SNE, and IPAE collect monthly dues from members. Aside from dues, ADEX and IPAE have relatively stable and diversified sources of revenues because of their various services, such as education, training, and publications. CONFIEP has been too dependent on external assistance (USAID), while SNE has only one income source so far: members' dues. All the institutions generally adjust their budgets monthly and their financial statements quarterly for inflation during the hyperinflation of recent months. IPAE and ADEX were found to have the most solid and sustainable financial conditions in terms of assets, net worth, liquidity, stability and diversity of income sources, and low financial leverage.

B) Major Recommendations

1. Based on a systematic diagnosis and ranking of the 5 subject institutions using 8 criteria (see Chapter VI), ADEX was deemed to be the best and most promising organization for export promotion.

2. However, being the best does not necessarily mean good enough. Indeed, ADEX was found to have a few significant inadequacies for implementing alone by itself the Investment and Export Promotion project of the USAID/Peru, the more serious of which are the following:

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a) Inadequate communication and information processing/retrieval facilities (fax, telex, telephone, computers, trade publications, etc); These facilities are critical for linking itself to foreign markets and in rendering technical assistance to the producers in Peru.

b) The staff of ADEX are relatively young and inexperienced in aggressive, results-oriented export and investment promotion;

c) ADEX does not have enough financial resources of its own or outreach capacity for mounting a vigorous promotional and technical assistance program in agriculture, garments, and metalworks/light indutries.

d) ADEX has insufficient contacts and linkages with foreign buyers and international trade organizations outside the Andean region.

e) Inadequate technology or "operating system" for a results-oriented export and investment promotion program.

3. In view of the above limitations of the best Peruvian institution available, and given the concrete short-term goals of the IEP project, the following project structure is recommended in this Report:

a) The IEP project should be granted to ADEX, on the condition that ADEX should hire the services of a Team of Export and Investment Promotion Specialists (TEIPS) to immediately overcome its aforementioned weaknesses.

b) During the first phase of the 5-year IEP project (perhaps 2-3 years), the TEIPS should be in the front-line and perform the actual export promotion activities in the 3 identified sectors, including a mapping and identification of existing and potential exporters, extending technical assistance and advisory services to them, exploring foreign market opportunities for them, linking them with specific buyers abroad, and helping them deliver a foreign order at the specified time, quality and quantity. In the meantime, the ADEX staff should act as <u>understudies</u> of the TEIPS, observing and learning from them on a daily basis, while facilitating their outreach activities for the Peruvian producers.

c) Toward the second half of the project, the ADEX staff should increasingly take over the promotion activities, with the supervision, training and guidance of the TEIPS.

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In effect, the TEIPS will be a short-cut mechanism for achieving these two sequential objectives:

(1) increase actual exports first, and (2) secondly, build up ADEX's capabilities in the process. Another advantage of the TEIPS structure is that even though it would be hosted by ADEX, it should be endowed with autonomy to open its services to all exporters in Peru regardless of affiliation, as well as flexibility to respond quickly to the needs of the exporters and the emerging changes in foreign markets, without being stymied by the ponderous committees of ADEX.

In short, the TEIPS should be allowed to do what it would take to increase exports and investments in Peru. The IEP project should be seen as a joint ADEX-USAID undertaking, and ADEX should try to minimize the constraints and potential excuses of the TEIPS for not achieving the project goals.

## CHAPTER I: MISSIONS, STRATEGIES, AND FUNCTIONS OF FIVE (5) SELECTED INSTITUTIONS

This chapter presents a straightforward description of the written missions, strategies, and operational objectives of the following institutions:

1. Association of Exporters (ADEX);
2. Confederation of Private Enterprise Institutions (CONFIEP);
3. Institute of Foreign Trade (ICE);
4. National Society of Exporters (SNE)
5. Peruvian Institute of Business Administration (IPAE)

Each section ends with brief analytical and comparative comments regarding the institutions' depth of involvement and commitment to export and investment promotion.

### A) OVERALL MISSIONS AND GOALS OF THE 5 INSTITUTIONS

#### 1. ADEX

ADEX is a private, non-profit organization established in July 1973. Its overall mission is to promote the exports of Peru and defend the interests of its members.

#### 2. CONFIEP

CONFIEP is the only confederated type of institution among the 5 subject organizations of this Study. Founded in September, 1984, it is a private, non-profit institution.

The stated mission or organizational philosophy of CONFIEP is to support national growth and development through private enterprise, based on individual freedom, initiative, private property, rewards to efforts, and profits to investments.

#### 3. ICE

ICE is the only government institution among the five subjects of this Study. It was established by the Garcia administration in June, 1986, absorbing the then existing Agency for the Promotion of Non-Traditional Exports (FOPEX), which then became the Export Promotion and Development portion of ICE.

ICE's mandate was expanded from the narrower mission of FOPEX. ICE covered all areas of foreign trade, i.e., imports and exports. Promotion of exports was just one of its major activities.

IMPORTANT NOTE:

During the course of this Study, after the Study Team had spent almost a full week of fact-finding and interviewing of ICE officials and staff, the new Fujimori administration decided to deactivate ICE, as announced in the newspapers of August 10. As of this writing, it was not clear whether a new organization for export promotion on the government side would arise out of the ashes of ICE.

In any case, the Study Team considers it almost pointless to devote space and lead the reader through a sequential treatment of ICE together with the other four organizations, only to say at the end that ICE no longer exists, and thus, cannot be considered as a candidate for the Investment and Export Promotion (IEP) project implementati

On the other hand, there are so valuable lessons to be learned from the ICE experience. In this regard, our Team would like to share our analysis and conclusions concerning ICE's institutional obsolescence and demise, as well as suggestions on a replacement organization for export promotion on the part of the government. Therefore, we will present some comments about ICE in the Annex.

4. SNE

SNE is the youngest among the 5 organizations, having been formally established in 1989, and started operations only in March, 1990. Also a private, non-profit organization of exporters, its overall mission is to support and contribute to a sustainable and competitive export sector, in accordance with the principles of free enterprise.

5. IPAE

IPAE is the only educational institution among the 5 (although ADEX also has a training center). Established in 1959, as a private, non-profit business school, its mission is to contribute to the economic and social development of the country through the study and dissemination of improved methods, systems and practices of management.

## B) COMPARATIVE ANALYSIS AND COMMENTS ON MISSIONS

1. A common thread among the missions of the five subject organizations was contribution to national economic development through private sector-oriented intervention mechanisms, such as export promotion (ADEX, SNE, ICE), training (IPAE and ADEX), and inter-organizational coordination and consensus building (CONFIEP).

2. They only vary in their strategies toward their missions. CONFIEP would enhance the spirit of private enterprise and coordinate the whole private business sector. IPAE would accomplish it by improving the quality of management of enterprises. SNE and ADEX would assist their members to export more, and ICE was supposed to both promote exports and regulate imports.

3. A question which is often asked but seldom answered to the satisfaction of an objective analyst is the obvious duplication between ADEX and SNE. Both profess to promote all exports, traditional and non-traditional. Both aim at defending the common interests of exporters through lobbying, negotiations, foreign linkages, and so forth. Both claim to want to represent and unify the export sector of Peru.

ADEX has the obvious advantage of seniority, having been existing since 1973. But SNE has 104 members, and only 5 withdrew from ADEX to join SNE. This indicates that there were many exporters who were not represented by ADEX before SNE was established. Many of those exporters are the large, traditional exporters of Peru (mining, fisheries, textile, etc). Those exporters wanted an organization that can articulate their collective voice, and they felt that ADEX could not effectively serve that purpose because of its primary orientation toward incentives for and the promotion of non-traditional exports.

Differing philosophies of representation probably complicates the situation also. Many of the large members of SNE feel that their voice can easily get drowned in the deliberations of ADEX, with its more than 1,000 membership.

The net result is that the export sector is currently divided roughly along the lines of traditionals vs. non-traditionals and large/medium vs. medium/small. Such division dilutes the effectiveness of the separate efforts of ADEX and SNE in promoting and defending the interests of the Peruvian export sector.

C) KEY OPERATIONAL OBJECTIVES AND ACTIVITIES

1. ADEX

a) Promote the export of goods and services, traditional and non-traditional, particularly those with high value added;

b) Defend the export activities and interests of members;

c) Assist in efforts to enhance economic integration in the Andean region and in Latin America;

d) Contribute to the creation of an exporting mentality and culture in Peru;

e) Promote and improve the image of Peruvian products abroad, by itself or in collaboration with the public sector;

f) Conduct and participate in national and foreign training programs on international trade;

g) Assist in developing the infrastructure for expanding exports;

h) Foster the unity of Peruvian exporters.

2. SNE

a) Promote the sustained development of the export sector;

b) Defend the collective interests of the members;

c) Conduct or support studies and research related to exportation;

d) Render information and advisory services to members;

e) Stimulate educational institutions that train technicians and professionals in the export sector;

f) At the request of members, act as arbiter in disputes;

g) At the request of any interested party, certify proper export norms and procedures in case existing laws and regulations are vague or silent.

3. CONFIEP

a) Foster the unity of private enterprises and their representative institutions in Peru;

b) Defend the interests and rights of private enterprise;

c) Support dialogue and consensus-building among the public and private sectors, laborers and students.

d) Disseminate to the public the accomplishments and benefits of private enterprise.

4. IPAE

a) Organize and conduct courses, seminars and conferences on management;

b) Foster the interchange of experiences and ideas among entrepreneurs, managers, and professionals in the business sector;

c) Conduct research oriented to the development of a management technology appropriate to Peru's situation and needs.

d) Maintain linkages with similar institutions, both local and foreign;

e) Develop and maintain qualified trainers and professors.

## D) COMPARATIVE ANALYSIS AND COMMENTS ON OBJECTIVES AND ACTIVITIES (4 INSTITUTIONS)

1. A common objective among CONFIEP, ADEX, and SNE is the defense of members' interests, mainly through lobbying with the government and image enhancement before the public. IPAE, on the other hand, does not explicitly profess such an objective, although it, too, is composed of member firms from the private sector.

2. IPAE and ADEX conduct training activities directly, though neither one maintains an in-house full-time faculty, as both rely on part-time lecturers and instructors from the business sector. The courses of ADEX, however, are all related to exporting, while IPAE's seminars/courses only occasionally deal with exporting.

3. ADEX and SNE focus their activities on enhancing their members' capabilities to export their products and services. CONFIEP does not directly deal with individual business enterprises, let alone conduct export-enhancing activities. Nevertheless, as an umbrella-type confederation, it claims to promote exports through the activities of its export-promoting members like ADEX. The fact remains, however, that export promotion is NOT one of CONFIEP's stated operational objectives. Furthermore, a discerning analyst can counterclaim that actually, ADEX does its export-promoting activities as an autonomous organization outside CONFIEP, not as a result of its membership in CONFIEP.

4. None of the four organizations lists investment promotion as an explicit objective, although there have been a few occasional forums, training courses, and special projects related to investments at CONFIEP, IPAE, and ADEX.

## E) PLANS AND STRATEGIES IN EXPORT AND INVESTMENT PROMOTION

### 1. ADEX

Among the 4 institutions, ADEX has the best articulated action plan for 1990, prepared with the assistance of its project with USAID on "Private Sector Management Improvement". Among the notable elements of that Plan are the following:

a) Formulate a "National Plan for Exporting", with help from local and foreign experts;

b) Organize an international forum on foreign trade;

c) Strengthen the Andean Council of Exporters (CONANDEX);

d) Promote their "Bank for Exporters" project by lobbying with the new government.

e) Operationalize collaborative agreements with the regional Chambers of Production and Commerce in Peru;

f) Push the implementation of the indexation of the balance sheets of the business enterprises, a process by which the financial condition of the firms is adjusted for inflation and devaluation in a systematic and uniform manner.

g) Collaborate in the diversification and improvement of Peru's exportable products, with the help of foreign experts under the ADEX-OIM and ADEX-USAID agreements.

h) Implement the recommendations of the ADEX-USAID project on the new organizational structure for ADEX and the data bank/information center.

i) Conduct studies on marketing, freight, new products and new markets such as Africa, Asia, East Europe and the Nordic countries.

2. SNE

SNE is still concerned with organizational and start-up activities. Its immediate plans are to recruit the needed technical staff for its 3 departments: economic studies, administration and finance, and legal. SNE wants to maintain a lean organization of only 12 professionals (including the managers) even when it reaches full operating level.

3. IPAE

IPAE has no well-defined and articulated Plan like that of ADEX. The General Manager said that IPAE was preparing a "master plan" up to the year 2000. However, there was nothing written shown to the Study Team. Based on the verbal descriptions of that Plan, it was nothing more than a general scenario for IPAE's desire to continue being a multi-campus business school in Peru.

Based on our interviews of the General Manager and readings of various IPAE documents, we were able to glean the following major plans of IPAE for the next 1-2 years:

a) Make the information center, which is presently under construction, fully operational with the necessary equipment;

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b) Establish a language center;

c) Construct new classrooms in the various campuses.

d) Strengthen their sectoral training activities in agribusiness and metalworking.

e) Continue geographical decentralization to regions with the most promising development opportunities.

f) Continue its usual academic programs and other educational activities.

4. CONFIEP

CONFIEP has a working paper on a proposed Program of Activities for 1990 - 1995. The working paper affirms CONFIEP's commitments to promoting the socio-economic development of Peru. The proposed strategy for achieving that commitment in 1990-1995 consists of 3 major thrusts, as follows:

a) Studies and recommmendations concerning macro-economic structural adjustment, and the promotion of exports and investments;

b) Assistance and integration of small enterprises and the informal sector;

c) Assistance and contribution to improving social equity, through an expanded Emergency Social Program.

The above proposal was formulated for external donors, among them USAID. CONFIEP has expressed a desire to continue receiving external assistance from USAID, which finances CONFIEP's on-going project on "Education, Dialogue, Integration, and Institutional Development of the Private Sector". This project, started in 1985, is supposed to terminate this year (1990).

In any case, the above proposals seem to be at this point, just that: ideas and proposals. CONFIEP, like the other organizations, has not really fleshed out those ideas into a concrete Plan with objectives, expected outputs, resource requirements, and a prioritized, time-phased implementation program.

F) COMPARATIVE ANALYSIS AND COMMENTS ON PLANS

1. In the very uncertain and crisis-laden economic environment of Peru, the above institutions (and their member enterprises) can be excused for not having any written plan, let alone a long-term one. The hyperinflation in Peru, plus the change in government in mid-1990, made long-range planning at the end of 1989 seem a

frustrating and an almost useless exercise. In such an atmosphere, monthly or quarterly contingency plans would probably be more useful than long-range development plans.

2. We observe that the institutions' plans for 1990 and beyond, whether written or verbal, generally did not have defined timetables for implementation and earmarked budgetary allocations. As such, the plans, even the well-articulated one of ADEX, do not possess sufficient strength and effectivity as tools of organizational growth and management control. Plans usually get implemented only if there is a programmed commitment of time and financial resources.

3. All the 4 organizations claimed to be stymied in their program planning by financial and budgetary constraints. The typical organizational position has been that given more funds, they can recruit more professional staff, who can then plan and implement new export and investment promotion programs. While one can understand the paralyzing impact of lack of funds on program planning, one also can easily see the logical trap in that argument: that all organizations are to be deemed equally capable given more funds! In modern management practice, plans should come first before a commitment of resources. In fact, clearly-articulated plans can be used as instruments of raising additional funds from members, financial institutions, and donor agencies, all of whom generally would not part with their funds on the basis of a mere generalized list of wishes.

# ANNEX O: ENVIRONMENTAL ASSESSMENT

Following are excerpts from the Consortium for International Crop Protection (Carl S. Barfield, Professor of Entomology, University of Florida; William E. Dale, Professor, National Agrarian University, La Molina, Peru; and J. Bruce Mann, Chemist, University of Miami, School of Medicine, Florida) Environmental Assessment and Analysis of Pesticide Use in Investment and Export Promotion Project (527-0349), October 3, 1990. Also the complete Addendum to the Environmental Assessment Non-pesticide Potential Environmental Adverse Impacts: Identification and Mitigative Actions, Dec. 26, 1990 (Reviewed January 1991). The complete document has been provided to the LAC Environmental Officer and is also in the USAID/Peru Bulk Files.

## EXECUTIVE SUMMARY

The purpose of the Investment and Export Promotion Project in Peru (Project 527-0349), financed by the United States Agency for International Development (U.S.A.I.D.), is to promote non-traditional export crops (NTAE). A basic philosophy in this project is that promotion of licit exports from Peru offers the greatest immediate potential for substituting elicit (narcotic) exports as an important source of foreign exchange and employment.

To meet its objectives, the Project will use some pesticides on the non-traditional export crops. To insure that use of pesticides follows U.S.A.I.D.'s Environmental Procedures (22 CFR Part 216), U.S.A.I.D./Peru contracted the Consortium for International Crop Protection (CICP) to prepare this Environmental Assessment (EA). The purpose of the EA is to alert U.S.A.I.D.-officials and host country decision-makers of potential risks and to identify less hazardous pesticides, non-chemical alternatives, and integrated pest management (IPM) systems.

The CICP team reviewed present pesticide use and pest control practices in Peru and determined the country's capacity for meeting pesticide residue requirements in foods exported to the U.S.A. The EA identifies pesticides acceptable for use on crops to be emphasized in the Project and discusses potential hazards of each material.

Training, monitoring, research, and other needs to ensure correct use of the pesticides and mitigate adverse effects are indicated. In addition, the EA outlines requirements for a quality control program for monitoring pesticides in the environment and pesticide residues in crops for export markets and for IPM development and implementation.

Only pesticides registered in Peru and in the U.S.A. in the Environmental Protection Agency's (E.P.A.'s) "general" use category (GU) are proposed. If used properly according to label instructions, these pesticides should not present unusual hazards to humans or the environment. However, U.S.A.I.D./Peru should provide training to farmers participating in the Project on correct use of pesticides and non-chemical alternatives in IPM systems. The Mission should also support research, training, and information services on IPM in the non-traditional export crops to be emphasized. The specific training, research, and requirements for implementation are indicated in this document.

The Project will require that lending institutions (ADEX) fund the purchase and maintenance of appropriate protective devices and clothing if pesticides are included in the loan. Further, the lending institutions will fund purchase of only those pesticides proposed in the EA.

The laboratories in Peru are not adequately equipped for pesticide residue analysis needed to comply with U.S.A. tolerances on the crops intended for exports. Further, laboratory personnel are not sufficiently trained or experienced enough in pesticide residue analysis. The EA includes a section that describes the current efforts in pesticide residue analysis and identifies needs to upgrade the analysis capability.

The EA includes a summary of mitigative measures (Section III) determined necessary to reduce environmental threats of pesticide use in the Project and to advance use of non-chemical alternatives.

agriculture has diversified. Olives, apples, and vegetables are grown along coastal areas and in lower altitudes of western slopes of the Andes. Crop location and scale of agricultural production are tied closely to soil type. Sandy loams along the coast give way to volcanic soils at mid to upper level elevations.

9. <u>The availability and effectiveness of other pesticides or non-chemical control methods.</u>

Pesticides proposed for this project, and many other pesticides as well, are readily available in Peru. Many of Peru's small farmers procure pesticides from other farmers. Unless care is taken and proviso language placed in the ADEX contract and pesticide use is carefully monitored, U.S.A.I.D./Peru will have difficulty enforcing use of pesticides in the Project.

Peru's traditional farmers still use a range of non-chemical methods of pest control such as crop rotation, sanitation (destruction of plant harvest residues, etc.), and hand removal of pests. As discussed in B.3, Peru has had considerable experience with IPM, and IPM is currently being emphasized at the Universidad Nacional Agraria at La Molina. However, non-chemical methods of control are not widely available or even known for many of the pests attacking NTAE crops.

10. <u>The requesting country's ability to regulate or control the distribution, storage, use and disposal of the requested pesticides.</u>

The Ministry of Agriculture, Division of Sanidad Agricola was instrumental in seeking governmental legislation to regulate agricultural chemicals including pesticides. The legislation passed in 1990 and regulations (in Spanish) appears in Annex 2. The legislation deals specifically with the registration of agrichemicals. Further, the MOA has drafted additional legislation (now for internal use and not yet law) to deal more specifically with proper use of pesticides. A copy of the draft legislation (in Spanish) appears in Annex 3. As indicated (B.7), Peru has legislation on preservation of Peruvian natural environments and resources, including biodiversity.

Improved monitoring, regulations, and enforcement procedures are especially needed for pesticide use on crops grown for export. In addition, a pesticide user certification program will be necessary before pesticides can be expected to be used properly and pesticide residue requirements for export markets are met. The training and certification program proposed in B.11 would establish pesticide training and certification that Peru must have if it is to compete successfully in exporting NTAE crops.

11. <u>Provisions made for training of users and applicators of pesticides.</u>

This Project should sponsor a training course on IPM and pesticide user certification. The training should emphasize concepts and methods of IPM and pesticide management for farmers and extension specialists. The user certification portion of the training should stress correct use and disposal of pesticides. However, the training must also stress the ecological principles of pest management, use of non-chemical methods, and combining chemicals and non-chemical methods in IPM systems.

MOA, ADEX, Universidad Nacional Agraria (La Molina, Peru), and chemical company representatives should collaborate in organizing a two-week intensive training course for Project personnel and participating farmers. The course should include instruction on IPM (history, methods, strategies, and tactics) using regional examples. The IPM component should teach ecological principles to show how pesticides interact in the environment and affect non-target organisms. Pesticide use training should stress pesticide safety, calibration of equipment, correct procedures for treating the crops, and correct disposal and storage. MOA should develop criteria for certifying participants who successfully complete the training. A certification program does not now exist. To further enhance IPM and pesticide use training needed in Peru, a stipulation of the participants should be that each, with appropriate backstopping, be required to teach a similar course (using course materials as a basis) at another location in Peru within a year after they are trained. Each participant in courses taught by the initial trainees should be required to pass a rigorous certification exam as part of certification. The initial participants should be selected based on need and on capability as future instructors.

Since 1984, U.S.A.I.D./Honduras has funded a joint project between Escuela Agricola Panamericana (Honduras) and the University of Florida (Gainesville). The project has developed Spanish language instructional materials (text, slides, study guides) in pest management, applied ecology, and pesticide use. Some of these instructional modules have been tested for pedagogical efficacy at the Universidad Nacional Agraria at La Molina. More than 40 modules currently exist and could be used in training sponsored in the current NTAE Project.

The proposed IPM and pesticide safety course should be practical. A field-oriented course is crucial if participants are to offer the course themselves within a year. The training will require short-term assistance of two U.S. plant protection specialists, with experience in Peru or the region and Spanish language capabilities, to work with local experts in developing the course. The first training course sponsored by the Project needs to be held as quickly as possible to meet Project demands for field personnel.

Exact topics to be covered in the training, and logistics, should be decided jointly by U.S.A.I.D./Peru and collaborating Peruvian institutions. A tentative budget for the training follows:

| | | |
|---|---|---|
| Consultant fees for 2 U.S. trainers for 1 week prep and 2 week's delivery @US$250/day | | $10,500 |
| Roundtrip air fare for 2 trainers | | 2,000 |
| US$35/day for 20 participants (per diem) for 22 days (2 travel days) | | 15,400 |
| Course materials (training manual, pads, pencils and others) US$75/participant | | 1,500 |
| Course materials for establishment of field plots to be used during course (materials & labor) | | 3,000 |
| | SUB-TOTAL: | $32,400 |
| 15% Indirect Costs (if a U.S. institution is requested to organize & coordinate) | | 4,860 |
| | TOTAL: | $37,260 |
| 5 year estimate (without inflation) | | $186,300 |

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Mitigative measures (III.2) include training of Project personnel and participating farmers. The training for trainers outlined above should include Project personnel in each of the annual courses proposed. After receiving training and certification, selected Project personnel in each annual course should then serve as trainers for courses in which the participants are primarily Project cooperating farmers. The Project should support a central, annual training course and follow that course with a series of courses held in various locations proximate to Project participating farmers. The exact number of courses and the number of farmer participants should be determined by U.S.A.I.D./Peru and its Peruvian Project collaborators. The budget proposed includes only the annual, central course from which trainers of additional courses each year emerge.

12. Provisions made for monitoring the use and effectiveness of pesticides.

The Project Manager should monitor and enforce the following:

- Correct pesticide practices of project personnel and participating farmers
- Pesticide efficacy
- Potential environmental impacts resulting from pesticide use. Special attention will be given to changes in populations of natural enemies and honey bees in treated areas.
- ADEX procedures: the lending institution(s) should not fund the purchase of any pesticides not approved by U.S.A.I.D./Peru and should loan farmers money for purchase of pesticide safety devices and protective clothing.
- mitigative measures in III.

Another important aspect of monitoring includes monitoring of pesticide residues in fresh or processed fruit for export markets. This Project has little chance of for success without this monitoring. Section IV.A outlines needs for pesticide residue monitoring.

In addition to monitoring produce for export markets, the Project should monitor soil and ground water in the five project sites. Samples could be processed in laboratories that will be used to monitor residue levels.

## III. SUMMARY OF MITIGATIVE MEASURES

Negative environmental impacts of the NTAE Project will be reduced if the guidelines are strictly followed. Adherence to the guidelines should permit fulfillment of the Project objective of producing uniform, high quality agricultural commodities for export while reducing environmental threats.

The Project Manager will be responsible for implementing all of the mitigative measures, summarized here:

1. Use only U.S.A.I.D. Approved Pesticides

The Project will use only the pesticides recommended in the EA for those uses specified (see Tables 1.1 and 1.2). U.S.A.I.D. must approve any additional uses of these or uses of other pesticides. The Project Manager should regularly monitor E.P.A. registration status of the recommended pesticides.

A pesticide use recommended here but later suspended, canceled, or restricted by E.P.A. must be stopped immediately. [See IV.C, budget, for a proposed technical position for this purpose.]

2. Provide Pesticide Training and Safety Devices to Project Personnel and Participating Farmers

The Project will provide pesticide training to all Project personnel and participating farmers using pesticides in the Project. The training will address correct application, storage, transportation, disposal, worker and applicator protection, and environmental safety (See II.B.11).

The Project will provide project personnel and participating farmers pesticide safety devices and enforce their use. The safety devices and procedures should comply with recommendations on pesticide labels.

3. Enhance Pesticide Safety of Peruvian Farmers growing NTE Crops

The Project will place proviso language into contracts with ADEX and any other lending institutions to insure that farmers growing NTE crops can procure loans for purchase of safety devices and clothing. Further, the Project Manager will insure that lending institutions monitor loans when Project money is used for purchasing pesticides. Lending institutions must insist that Project loans are not used for purchasing pesticides not approved by U.S.A.I.D. (see Tables 1.1 and 1.2).

4. Emphasize IPM

The Project should emphasize IPM in training programs and encourage IPM development and implementation in the NTAE crops.

U.S.A.I.D./Peru should take steps to start a program in IPM development and implementation as outlined in IV.C as a component under the NTAE Project or as a separate project.

5. Provide for Pesticide Residue Analyses and Monitoring

The Project should upgrade the equipment and technical expertise of chemical laboratories. The laboratories should conduct pesticide residue analyses on produce to be exported and monitor pesticides in the natural environment at Project sites. The Project should provide technical training in pesticide residue analysis for at least one analyst from each upgraded pesticide residue analysis laboratory.

Pesticide use on farmers' fields, demonstration sites, and other locations should be regularly monitored. Any unsafe practice that would endanger humans, livestock, pets, or the environment should be stopped immediately.

Project loan agreements should specify that growers of NTAE crops must have a pesticide residue analysis of any agricultural products to be exported.

Monitoring requirements appear in II.B.12 and IV.A.

IV. Additional Issues Related to this EA which were requested in the Scope of Work

A. Pesticide Monitoring and Analysis

This section assesses the current capabilities for pesticide monitoring and analysis in Peru and recommends steps to upgrade the capabilities to a level to meet Project requirements.

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8. Develop a pesticide education program aimed at identifying cost-effective pesticides and application techniques that cause the least environmental disruption and harm to humans.

9. Implement a program for demonstrating IPM on farmers' fields and extending IPM practices to the widest farmer audience possible in the shortest time frame.

The estimated budget for a five-year IPM project is as follows:

Personnel

M.S. level Technical Person in Biological Control @ $20,000/yr X 5 years .......... $100,000

M.S. level Technical Person in Host Plant Resistance @ $20,000/yr X 5 years .......... 100,000

M.S. level Technical Person in Ecology and Economic Thresholds @ $20,000/yr .......... 100,000

Ph.D. level Technical Person in Pesticide Database Management @ 30,000/yr .......... 150,000

3 agronomo level field assistants to be allocated among the projects listed above; @$10,000/yr each .......... 150,000

Technical Assistance (from U.S.A.) 3 person months/year over a 5 year period @ $250/day .......... $112,500

Travel and Per Diem

Travel & Per Diem (Domestic) @ $10,000/yr .......... 50,000

Travel & Per Diem (Foreign) @ $15,000/yr .......... 75,000

Field Research

Field Plots for Development of Economic Thresholds and Plant-Pest Dynamics Studies @$2,000/yr .......... 10,000

Supplies

Collection, Storage, Identification and Rearing Expenses @$4000/yr .......... 20,000

Field plot, nursery and Associated Costs @$5,000/yr .......... 25,000

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PESTICIDE DATABASE MANAGEMENT

| | |
|---|---|
| Computer System (640mb, 2 floppy drives, 40mb hard disk, color graphics, color monitor, printer, word processing and analysis software) | 10,000 |
| Sub-Total | $902,500 |
| Indirect Costs (15%) | $135,375 |
| FIVE YEAR TOTAL | $1,037,875 |

The budget does not account for inflation.

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# ADDENDUM TO THE ENVIRONMENTAL ASSESSMENT

## Non-pesticide Potential Environmental Adverse Impacts: Identification and Mitigative Actions

Investment and Export Promotion Project (527-0349)

December 26, 1990
Reviewed: January 1991

Prepared for:
United States Agency for International Development (AID), Peru

Prepared by:
William E. Dale, National Agricultural University, La Molina, Peru. Consultant for Consortium for International Crop Protection

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The Investment and Export Promotion Project will face two different kinds of environmental problem sets, which may be chronologically separated. The first kind concerns to the existing environmental conditions, inside and around the agroecosystems to be developed by the Investment and Promotion Project; some of these conditions, in a dynamic stage of deterioration, should be taken in consideration because they may endanger the investment program in such a degree to make it less productive. The second kind refers to the potential environmental problems derived by the methods used in the intensive agricultural system, a highly technified system which will concentrate the limited resources of the Project to obtain the maximum productivity and an exceptional product quality. To summarize the mitigative actions, both kinds of environmental problem sets were qualitatively evaluated and throughly discussed with the interviewed official and private technical personnel, while visiting the target zones listed in the Scope of Work.

1.- The actual deterioration of the environment in the Project Target Zones: In general, the zones show a manifold and progressive deterioration in their environment, which origin could be traced in part to human activities and to natural phenomena. This deterioration is shown by changes in soil, water and air quality, variation in their microclimates and by the modification of the natural flora and fauna.

The most striking changes observed in the environment, their causes, and their effects, are the following, in order of importance and frecuency of incidence:

* Progressive salinization of soil: most of the project target areas, with the exception of Arequipa, are located at variable distances, but close to the Pacific Ocean, from which they receive both climatic and edaphic influences. The climate is arid and warm, with a narrow seasonal variation in temperature; most of the soil has marine origin, except those in the valleys which are alluvial. Under these circumstances it is possible to find several historical problems of soil salinization, i.e. saline soils, sodium soils and sodium/saline soils. Salinization is related to the prescence of an excess of water soluble salts, which includes the sodium cation; these soluble salts damage the cultivated plants because they increase the salt content in the soil solution and the saturation rate of the interchangeable materials of soil with interchangeable sodium. The extensive and traditional cultivation of cotton and the more recent popularity of asparagus, two highly salt tolerant crops, in these areas are examples of the agriculture adaptative process to the soil conditions.

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The excesive concentration of soluble salts in the soil is tied up to the water movement, which is able to transport the salts in solution. In arid and semiarid regions, the scarcity of heavy rains do not permit the soil washing, the high temperature increase the evaporation rate which concentrates the salts in or near the soil surface and a suction vertical gradient which pumps up the soluble salts deposited in the subsoil and those in solution in the freatic layer, in particular if it is close to the surface, as its happens in the vicinity the ocean. Soluble salts move through the soil mass following the soil and subsoil non-permeable slopes; its speed is determined by the hidraulic gradient and its direction goes to the point which provides the highest degree of loss in its hidraulic charge (Darcy's Principle).
In the peruvian coast, the most important and cheapest source of water for the traditional agriculture is superficial; it is obtained directly from the rivers or from regulating dams, through irrigation channels sponsored by the State. The subsoil water is less important in volume and much more expensive than the surface water; it is pumped from the freatic layer, as a private initiative.
Several authorities coincide that the superficial water is the cheapest in the whole Continent, and this factor promotes a tendency of its overuse in some of the traditional crops. The excesive use of water, coupled with unefficient irrigation and drainage systems (deficient conduction and distribution of water, and poorly maintained or unexistant drainage facilities) promotes soil salinization. This situation is aggravated where rice is cultivated. This traditional crop is highly water demanding; wherever it is cultivated in the upper sections of the valleys, induces soil salinization of the lower sections and, if is cultivated close to the ocean, creates the same problem because it promotes the emergence of salts from the subsoil and from the shallow saline freatic layer. Unefficient irrigation and poorly maintained drainage systems crate additional trouble due to the impounded water, which is the source of the mosquitoes species vectors of human malaria and encephalitis (VEE).
On the other side, those progressive farmers who are developing advanced technology to cultivate non-traditional crops, like vegetables and fruits for exportation, are aware of the importance to regulate irrigation. Many of them use to obtain water from the subsoil, chanelling and applying it through sophisticated watering systems according to the soil humidity and plant phenology. This demands a high initial investment and know-how, but permits to regulate the harvest season, the caliber of the products and eliminate some sanitary problems, in particular those caused by parasitic fungi, besides controlling soil

salinization. Examples of this type of farmers may be found among those cultivating melons, grapes, asparagus and mangoes in Piura, Viru, Canete, Chincha and Ica.

* Uncontrolled growth of the marginal urban areas in Piura, Trujillo, Lima, Ica, Arequipa, and their neighboring towns and villages, by human inmigration. It induces an increasing social pressure to "conquer" new urban land by invassion, unsafe way of living in the border of the agricultural land, organic pollution in the ecotone, and the settlement of human communities in the natural drains, among other factors.

* An obvious and general deforestation of the coastal hills and interfluvial plains by a growing and highly demanding urban and rural population for plants as fuel, construction material and animal food. It results in land desertification, modifying the weather conditions, plant coverture and faunal composition.

* The agriculture in certain coastal valleys may be tampered by soluble salts and inorganic residues, in solution or suspension in the irrigation water, coming from agriculture, subsoil and/or minning activities in the highlands. This is a source of crop contamination and soil deterioration by salinization.

* The air quality may experiment changes in some valleys of the southern coast (Tambo, Majes, Arequipa) by the massive emission of toxic fumes comming from a copper refinery located in Ilo. This represents an unsolved issue, which may originate acid rain destroying sensitive crops, in particular melons and other cucurbits.

* Sand or dune movement caused by constant, strong seasonal winds ("Paracas") represents the destruction of agricultural lands and crops, neighboring the desert, in some of the valleys of the southern coast deprived of a suitable plant coverture, Ica for example.

* Finally, water soil erosion and floods, caused the "The Nino", a climatic phenomenum of certain periodicity, characterized by unusual and prolongued heavy summer rains in the nothern coast (Piura, Trujillo), and the transitory modification of land and water ecosystems. Their effect is displayed by the destruction of soil structure, water accumulation, and a more severe incidence of plant pests and diseases than in the normal dry years.

2.-The potential effect of intensive agriculture in the environment: Intensive agriculture is usually linked with technified agriculture. This is particulary true wherever a crop is established in order to be exported. Its primary objective is to obtain the maximum rentability from the agricultural land by combining, in the right way, all the factors and energy which induce the plants to produce the biggest and healthiest possible crop when necessary, and in the shortest period of time.

Intensive agriculture is usually tied up to monoculture in the absolute meaning of the word, i.e. it relies on the cultivation of certain species, even a particular variety or cultivar, free of competition by other species of plants, including weeds, and of the predation and parasitism of pests and pathogens. Ecologically speaking, this type of man-designed ecosystem is unnatural or artificial, and fragile due to its simplified biodiversity.

We expect that the intensive non-traditional agriculture for exportation in Peru will not differ from the intensive agriculture that is practiced in developed countries, with all its advantages and the following potential general disadvantages, which may be mitigated by certain actionective and preventive actions:

* Monoculture, in particular of non-permanent crops, such as in most of the vegetables, may exhaust the soil fertility and contribute to increase the sanitary problems. The intensive soil exploitation by a particular plant species will stress the depletion of certain nutrients, which are necessary to be restored by the use of fertilizers. Oligophagous and monophagous disease and pests organisms will find in a monoculture environment a place where is easier way to grow, reproduce and spread to the nearby plants cultivated at high density, than in mixed agroecosystems and natural ecosystems where several plant species, susceptible, tolerant and resistant, are mixed or balanced together.

* Intensive use of inorganic fertilizers, which may modify the soil fauna, and contaminate the crop if they are overused and their application is not timed.

* Intensive soil cultivation, using agricultural machinery, may alter the soil structure, predisposing its compaction and promoting local surface soil erosion, if the slope exceeds certain reasonable limits in concordance to the soil texture.

* Intensive use of water, necessary to maintain an optimum moisture tension and an adecuate osmotic pressure around the plant root system. In the slight event that water is overused it

may cause surface soil erosion, inpoundment, soil salinization (vide supra), and weed problems which will demand more intensive use of labor hand and/or herbicides. At this point it is neccesary to comment that all those crops considered in the Project may be classified as not highly water demanding, so the mitigative actions will be easier to apply.

* Intensive use of pesticides to eliminate pests and pathogens, as commented in the main section of the EA.

3.- Mitigative actions: The Project leaders should take into consideration that its success depends in a great deal on organization, education and a close vigilance that the stated actions towards the preservation of the environment are satisfactorily accomplished. This actions will depend on the particular local conditions and the identity of the crop under cultivation.

In general, the monoculture problem on non-permanent crops is mitigated by an adecuate program of crop rotation, selecting a plant species with which there is no common sanitary problems, and the species with which the farmer may obtain the highest rentability. For the associated crops it will neccesary to watch the pest status, selecting those cultivars resistant or tolerant to them and developing an adecuate integrated pest management program against them.

The Project should emphasize the use of organic fertilizers which improve the soil structure, enrich the soil fauna and eliminate the nematode problem. Humus resulting from earth worm rearing, are actually used to fertilize nursery beds of asparagus.

In areas where soil salinization is of common occurence, it may be mandatory a previous soil and water analysis before the crop is established. The study of soil characteristics such as the electric conductivity in the soil solution, the chemical identification of soluble salts, the soil profile, texture and slope, will allow a proper selection of the cultivated crop, the design of additional drainage facilities or the use of corrective chemicals, the amount of water to be dispensed to improve the soil conditions through washing, the amount and type of fertilizers and organic matter to be incorporated to the soil, the type and power of the agricultural machinery to be used, among other factors which improve and preserve the soil conditions and make it productive.

The water to be used, independent to its origin, should have good quality. Those waters which exceed 750 micromhos/cm will cause soil salinization problems. If it is within the range from 750 tp 2250 micromhos/cm it it may be necessary to select a salt

tolerant crop and a close watching of soil characteristics to introduce a very efficient drainage system, before the problem araise. To avoid salinization, the water should be distributed in such a way to prevent losses, and the irrigation of the crop should be controlled to hold back salinization. The modenrn irrigation systems, well accepted for non-traditional crops in the arid coast of Peru, have mechanisms to regulate the water flux.
The existant open drainage systems should be properly maintained, preventing their sedimentation, and the growth of water loving plants which slow down the water speed thus reducing the transporting capacity of the system.
Finally, the use of pesticides should be regulated and the pest natural enemies protected. The project should emphasize the use of the so called integrated pest management (IPM) strategies for each of the crops. These strategy is more ecologically sounded than the restricted use of chemical control combining, when necessary, all the elements which may introduce a mortality factor to the pest population, to reduce it to a subeconomic level of importance.
The control of all these mitigative actions should be part of the duties of a full time Specialist to be asimilated to the Project team.

# ANNEX P: WORKSHOPS AND SEMINARS

The Project plans an ongoing series of training seminars and workshops geared to addressing many of the constraints hindering export growth potential in the sectors that are targeted for assistance.

In the apparel sector, the Project will finance a series of cooperative training programs directed at supervisors and floor managers. These will be short (2-3 weeks), practical courses carried out primarily on the shop floors of participating firms. The program will be orgai zed by participating institutions' committees such as ADEX's Comite de Confeccionistas and SNI's Comite de Frabricantes de Prendas de Vestir. These organizations will see to it that representatives from all interested firms are be able to attend and participate in the courses.

The courses will address such areas as quality control, work-in-process inventory, production planning, plant loading and line balancing. Of the approximately 120 firms that are currently considered export ready, we estimate that about 100 firms will participate in the training program. The courses will be limited to approximately 15-20 supervisors in which the sponsoring organizations, in conjunction with the IC's apparel expert, will determine the selection and assignment of participants. Overall, we anticipate that thirty such courses will be presented over the LOP. The estimated cost for this activity is $825,000 (30 x $27,500). Please see attached Illustrative Budget for an estimation of the cost of a typical training course.

In other light industry sectors, additional training needs were identified in the metal mechanics industry, in both the mid-level management and in technical areas such as tool and die makers and quality control specialists. Under the direction of the IC's light industry specialist, the Project will carry out an in depth assessment of training needs in this sector and design a training program to address the principal problems. Another problem within this sector is the need for a more efficient and responsive sub-contracting mechanism. While such a system already exists, its operations could be greatly improved. This could be an activity financed by the Project if it were determined that it could enhance export capability within the sector. The Project has budgeted $137,500 to finance approximately five training workshops and seminars geared to issues identified under the needs assessment.

One of the principal findings of the Production and Marketing Analysis of Non-Traditional Agricultural Exports was that Peru's production base has to be consolidated to enable the gathering of large product volumes of uniform and optimum quality. The report recommends that a major effort be undertaken to make the production base stable and significant through the organization of commercially and market oriented groups.

To that end, we will support a wide ranging series of agricultural production seminars and workshops aimed at the organization and strengthening of growers associations in the various regions and product sectors targeted under the Project. These activities will include efforts to make producers aware of the numerous compelling reasons for consolidating and forming strong, dynamic associations. Assistance and training will be provided in areas such as production economies of scale, pooling production and marketing resources, contract mechanisms with other growers, production systems and market penetration. We estimate that approximately 12 of these seminars and workshops will be performed over the LOP and have budgeted $330,000 for same.

ILLUSTRATIVE BUDGET
2 Person Training Workshop (3 weeks)

| | | | |
|---|---|---|---|
| I. | Fees: 2 trainers<br>(300/day x 18 x 2) | | 10,800 |
| II. | Per Diem Lima<br>(130/day x 21 x 2) | | 5,460 |
| III. | Danger Pay<br>(10,800 x .15) | | 1,620 |
| IV. | DBA (12,420 x .04) | | 496 |
| V. | Transportation<br>(RT NY-Lima) 1,800 x 2 | | 3,600 |
| VI. | Other Direct Costs | | |
| | Materials | 500 | |
| | Communications | 500 | |
| | Local Transportation | 600 | |
| | Rental of Facilities | 1,000 | |
| | Travel Taxes (200 x 2) | 400 | 3,000 |
| VII. | Contingencies | | 2,524 |
| | TOTAL | | $27,500 |

## ANNEX Q: ILLUSTRATIVE BUDGET
## Firm-Level TA Intervention (6 weeks)

**The total amount of funds available for individually contracted firm-level TA is $6,500,000. This consists of $4 million A.I.D financing and $2.5 million counterpart from firms participating in this activity. We estimate that approximately 130 firm-level T.A interventions will be carried out over the LOP at an average cost of $50,000 each. We expect that about 70 T.A interventions will be in the agriculture/agro-industrial sectors and about 60 will be performed in the light industry/garment manufacturing sectors.**

| | | | |
|---|---|---|---|
| I. | Fees | | |
| | Expert<br>(300/day x 36 x 2.5*) | | 27,000 |
| II. | Per Diem Lima<br>(130/day x 42) | | 5,460 |
| III. | Danger Pay<br>(27,000 x .15) | | 4,050 |
| IV. | DBA | | 1,242 |
| V. | Transportation and Travel | | |
| | (RT - NY - Lima) | 1,800 | |
| | (RT - Lima - Provinces) | 200 | 2,000 |
| VI. | Other Direct Costs | | |
| | Secretary | 1,500 | |
| | Local Transportation | 600 | |
| | Communications, courier, photocopy | 700 | |
| | Computer rental | 1,000 | |
| | Travel taxes | 200 | 4,000 |
| VII. | Contingencies | | 6,248 |
| | TOTAL | | $50,000 |

*Multiplier.

**ANNEX R: ILLUSTRATIVE BUDGET**
**APHIS Advisor**
**3 Years (9/92-8/95)**

| | | | |
|---|---|---|---|
| I. | Salary | | |
| | 1 FSI starting September 92, 79,269 base<br>3 years salary w/projected 3% annual increase | | 245,012 |
| | Allowances (post differential and danger pay<br>30% of 245,012 | | 73,503 |
| | Total Salary and Allowances | | 318,515 |
| II. | Fringes - 20% of Salary and Allowances | | 63,703 |
| III. | Travel (R&R & HL) + 3 dependents | | 30,645 |
| | . International | | |
| | Post assignment (1500 x 4) | 6,000 | |
| | R&R (1000 x 4 x 3) | 12,000 | |
| | HL (1500 x 4) | 6,000 | |
| | . Local | | |
| | (Rt Lima-Provinces) 200 x 15 trips | 3,000 | |
| | Per diems $81 x 45 | 3,645 | |
| IV. | Transportation of Effects | | |
| | Airfreight | 7,000 | |
| | Seafreight | 20,160 | |
| | Storage | 6,000 | |
| | Auto shipment | 6,000 | 39,160 |
| V. | Temporary Lodging | 8,760 | |
| | Quarters Allowance | 48,852 | 57,612 |
| VI. | Education Allowance | | 45,700 |
| | Total Costs | | $555,335 |

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# ANNEX S: ILLUSTRATIVE BUDGET
## IESC Support Costs

IESC has been operating in Peru since 1965. It currently has a staff of three professionals that perform all in-country recruiting, coordinating and logistical functions. They have provided the Mission with figures on their current cost structure, the average number of TA interventions that they perform on an annual basis and the amount of time a typical Volunteer Executive works in country. They have been averaging about fifteen TA interventions a year with the average duration of each being between 6 and 8 weeks.

Since the Project intends to make TA both more accessible and affordable to selected export enterprises, it was considered appropriate to make use of the IESC to provide TA to export firms that might not be able to afford alternative sources of TA. The Project will be publicizing this component and the IC will be charged with identifying the firms that will be assisted by IESC. IESC's total in-country operating costs are estimated to be $250,000 per year over the LOP. This will be offset by approximately $100,000 in payments by recipients (client contributions) to IESC ($10,000 average payment x 10 interventions annually). Therefore, IESC's annual net operating costs for this program will be $150,000, or $15,000 per intervention. Accordingly, as explained in the PP, the Institutional Contractor will advance the IESC $15,000 to cover operating costs for each TA intervention to which it is assigned. These funds will come from the quarterly advances the IC received for payment of TA services to be provided under the work plan.

The calculations for IESC support are as follows:

- $15,000/TA intervention x 10 interventions/year = $150,000/yr.
- $150,000/yr. x 5 years LOP = $750,000

**ANNEX T: ILLUSTRATIVE BUDGET**
**ADEX Administrative Support Staff**

In order to carry out the responsibilities assigned to it under the Project ADEX will require the services of the following personnel dedicated full time to Project activities

Projects

| | |
|---|---|
| 3 Sectoral Experts 35,000/yr x 3 x 4* | 420,000 |

Assigned to Project Office where they will work in close coordination with the Institutional Contractor's sectoral experts learning all aspects of export promotion activities.

Accounting

| | |
|---|---|
| 1 Accountant 20,000/yr x 5 years | 100,000 |

Responsible for managing and coordinating advance liquidations with Project Office accountant.

Communications;

| | |
|---|---|
| 2 Technicians assigned to Project Office and responsible for operation of on-line retrieval systems 20,000/yr x 2 x 5 | 200,000 |

Support

| | |
|---|---|
| 2 Secretaries 8,000/yr x 5 x 2 | 80,000 |
| 1 Messenger 4,000/yr x 5 | 20,000 |
| TOTAL | $820,000 |

*ADEX will be expected to assume the costs for the sectoral experts for the final year of Project operations

35,000 x 3 = $105,000

## ANNEX U: ILLUSTRATIVE BUDGET
## Environmental TA

The Environmental Assessment, contained a tentative budget (below) for an Integrated Pest Management and Pesticide Safety course. The training would require short-term assistance of two U.S. plant protection specialists, with experience in Peru or the region and Spanish language capabilities, to work with local experts in developing the course.

The Project will provide funds for a total of five field courses in areas such as soil conservation, crop specific integrated pest management, pesticide management and safety, irrigation techniques and non-chemical pest control alternatives. Courses will also be given to upgrade the technical expertise of the personnel of chemical laboratories in Peru that perform residue analyses.

Field Courses:

| | |
|---|---|
| Consultant fees for 2 U.S. trainers for 1 week prep and 2 week's delivery at US$250/day | $10,500 |
| Roundtrip air fare for 2 trainers | 2,000 |
| US$35/day for 20 participants (per diem) for 22 days (2 travel days) | 15,400 |
| Course materials (training manual, pads, pencils and others) US$75/participant | 1,500 |
| Course materials for establishment of field plots to be used during course (materials and labor) | 3,000 |
| SUB-TOTAL | $32,400 |
| 15% Indirect Costs (if a U.S. institution is requested to organize and coordinate) | 4,860 |
| Contingencies* | 2,740 |
| SUB-TOTAL | $40,000 |
| 5 courses x 40,000 | $200,000 |

*Not included in CICP budget.

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The project will also provide funds for two Lima based courses geared to upgrading the technical expertise of chemical laboratories' personnel that perform residue analyses. In addition three more field level courses on pesticide related topics would be held. We expect that five such courses will be carried out over the LOP.

<u>Lima based courses</u>

| | | | |
|---|---|---|---|
| I. | Fees: 2 trainers<br>(300/day x 6 x 2 x 2.0*) | | 7,200 |
| II. | Per Diem Lima<br>(130/day x 8 x 2) | | 2,080 |
| III. | Danger Pay<br>(7,200 x .15) | | 1,080 |
| IV. | DBA (8,280 x .04) | | 330 |
| V. | Transportation<br>International (RT NY-Lima) 1,800 x 2 | | 3,600 |
| VI. | Other Direct Costs | | |
| | Materials | 1,000 | |
| | Communications | 500 | |
| | Local Transportation | 500 | |
| | Rental of facilities | 1,000 | |
| | Travel Taxes | 400 | 3,400 |
| VII. | Contingencies | | 2,310 |
| | | SUB TOTAL | 20,000 |
| | 5 courses at 20,000 | | 100,000 |
| | Total Environmental TA Budget | | 300,000 |

* Multiplier

## ANNEX V: ILLUSTRATIVE BUDGET
### Communications and Equipment Costs

Equipment

We will finance the purchase of essential communications equipment for the Project Office along with ADEX office and regional offices in areas targeted by the Project.

For the Project Office we will procure:

| | |
|---|---|
| 6 Computers, 16 MHZ, 1 MB, 2 disk drives, 20/40 MB Hard Disks | 12,000 |
| 3 Laser printers | 4,500 |
| 1 Electric Generator | 25,000 |
| 2 Sets Software (Lotus, DBase, WordPerfect) | 2,500 |
| 2 Modems | 3,000 |
| 3 Jeeps | 69,000 |
| Miscellaneous Office Equipment | 6,000 |
| Office Furniture | 28,000 |
| | $150,000 |

For ADEX's main office we will acquire:

| | |
|---|---|
| 2 Computers, 16 MHZ, 1 MB, 2 disk drives, 20/40 MB Hard Disks | 4,000 |
| 2 Laser printers | 3,000 |
| 1 Set Software (Lotus, DBase, WordPerfect) | 1,200 |
| 1 Photocopier | 1,600 |
| 1 Fax Machine | 1,500 |
| 1 Modem for on-line connection | 1,500 |
| | $12,800 |

The regional offices that we expect to equip under this Project are the following:

Camara de Comercio y Produccion de Piura
Camara de Comercio y Produccion de Trujillo
Camara de Comercio e Industria de Arequipa
Camara de Comercio y Produccion de Ica

The following equipment will be provided to each of the participating regional offices:

| | |
|---|---|
| 1 Computer, 16 MHZ, 1 MB, 2 disk drives, 20/40 MB Hard Disk | 2,000 |
| 1 Laser Printer | 1,500 |
| 1 Set Software (Lotus, DBase, Word Perfect) | 1,200 |
| 1 Fax Machine | 1,500 |
| 1 Modem for on-line connection | 1,500 |
| | $7,700 |
| $7,700 x 4 = | $30,800 |
| EQUIPMENT TOTAL | $193,600 |

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<u>Communications Service</u>

The following illustrative budget is based on the fee structure of the Foreign Trade Information Service (SICE), a computerized trade information system that applies to the U.S. import and export markets.

| | |
|---|---|
| Deposit | 3,000 |
| Right to access code ($500 annual) | 2,500 |
| Ads of Business Opportunities on Supply and Demand<br>$35/week x 52 x 5 years | 9,100 |
| Use of the Service<br>$40/hour* average 4 hrs/week<br>(40 x 4 x 52 x 5) | <u>41,600</u> |
| | $56,200 |

The Project needs to be able to monitor international markets in the U.S., Europe and the Far East. Accordingly, a total of three such on-line trade and information systems will be made available to Project participants.

| | |
|---|---|
| Communications Total<br>56,200 x 3 | $168,600 |
| GRAND TOTAL | $362,200 |

*N.B. The cost of the long distance telephone calls from the Project Office are included in the Project Office's operations cost estimate. The costs of long distance calls to the U.S. from the regional offices will be borne by either the regional office or the individual making use of the service.

# ANNEX W: ILLUSTRATIVE BUDGET
## Publications

The Project will be financing the development of a library of trade publications for exporters. Currently, ADEX's Centro de Documentacion has a limited selection of materials on hand in a satellite office. We intend to transfer those materials to the Project office and to use them as the base for the establishment of a library of trade publications to keep exporters informed on market conditions and opportunities.

We expect to subscribe to a wide range of both general and sector specific export oriented material including such publications as: Directory of U.S. Importers, Thomas Register Database, Thomas Food Industry Register, PMA's International Trade Directory, Tradeshows and Exhibits Schedules, U.S. Custom House Guide.

The IC will be responsible for developing a definitive list of publications. However, for budget purposes, we assume that the Project office will contain a substancial list of appropriate registers, directories, schedules and guidebooks as well as a representative selection of sector specific trade publications in targeted industries and sectors.

The distribution of these publications would be as follows:

| | Project Office | Piura | Trujillo | Ica | Arequipa |
|---|---|---|---|---|---|
| Registers and Directories | X | | | | |
| Fresh Agric. Trade Pub. | X | X | X | X | X |
| Processed Agric. Trade Pub. | X | X | X | X | X |
| Garment Trade Pub. | X | | X | | X |
| Metal Mechanics Trade Pub. | X | | | | X |
| Auto Parts Trade Pub. | X | | | | X |
| Electronics Trade Pub. | X | | | | X |
| Shoe Mfg. Trade Pub. | X | | X | | X |

Accordingly, the illustrative budget for this activity is determined as follows:

| | |
|---|---|
| Directories, Registries, Schedules and Guidebooks<br>20 at average yearly subscription of $250<br>(20 x 250 x 5) | $25,000 |
| Fresh Agriculture Trade Publications<br>4 publications at yearly subscription of $120<br>5 copies (4 x 120 x 5 x 5 yrs) | 12,000 |
| Processed Agriculture Trade Publications<br>4 publications at yearly subscription of $120<br>5 copies (4 x 120 x 5 x 5 yrs) | 12,000 |
| Garment Manufacturing Trade Publications<br>4 publications at yearly subscription of $120<br>3 copies (4 x 120 x 3 x 5 yrs) | 7,200 |

| | |
|---|---|
| **Metal Mechanics Trade Publications**<br>4 publications at yearly subscription of $120<br>2 copies (4 x 120 x 2 x 5 yrs) | 4,800 |
| **Auto Parts Trade Publications**<br>4 publications at yearly subscription of $120<br>2 copies (4 x 120 x 2 x 5 yrs) | 4,800 |
| **Electronics Trade Publications**<br>4 publications at yearly subscription of $120<br>2 copies (4 x 120 x 2 x 5 yrs) | 4,800 |
| **Shoe Manufacturing Trade Publications**<br>4 publications at yearly subscription of $120<br>3 copies (4 x 120 x 3 x 5 yrs) | 7,200 |
| TOTAL | $77,800 |

# ANNEX X: ILLUSTRATIVE BUDGET
# INSTITUTIONAL CONTRACTOR SERVICES

Presented below are the salaries, travel and support costs for an institutional contract team of seven people (five in Peru and two in the U.S.) providing 372 person months of investment and export promotion services to the Project.

| | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 | TOTAL |
|---|---|---|---|---|---|---|---|
| 1)SALARIES | | | | | | | |
| 1 Chief of party,10/1/91-9/31/96 FS-1,$296/day (3% annual increase) | 19,240 | 79,269 | 81,647 | 84,096 | 86,619 | 66.913 | 417.784 |
| 1 Light indu.Spec,FS-1,10/1/91-9/31/95 | 19,240 | 79;269 | 81,647 | 84,096 | 64,964 | | 329.216 |
| 1 Apparel,FS-1,10/1/91-9/31/95 | 19,240 | 79,269 | 81,647 | 84,096 | 64,964 | | 329,216 |
| 1 Ag.Spec,Env.SpecFS-1,10/1/91-9/31/95 | 19,240 | 79,269 | 81,647 | 84,096 | 64,964 | | 329,216 |
| 1 Ag.Spec,FS-2,10/1/91-9/31/95,$241/da | 15,665 | 64,540 | 66,476 | 68,470 | 52,893 | | 268,044 |
| | 92,625 | 381,615 | 393,063 | 404,855 | 334,406 | 66,913 | 1,673,478 |
| 2)DANGER PAY (15% of salaries) | 13,894 | 57,242 | 58,960 | 60,728 | 50,161 | 10,037 | 251,022 |
| 3)POST DIFFERENTIAL (15% of salaries) | 13,894 | 57,242 | 58,960 | 60,728 | 50,161 | 10,037 | 251,022 |
| 4)FRINGE BENEFITS (20% of salaries) | 18,525 | 76,323 | 78,613 | 80,971 | 66,881 | 13,383 | 334,696 |
| 5)A) SALARIES IN U.S.A. | | | | | | | |
| 1 TA Coordinator,10/1/91-9/31/96 | 12,480 | 51,418 | 52,960 | 54,549 | 56,185 | 43,403 | 270,995 |
| 1 Administ.Assistant,10/1/91-9/31/96 | 7,475 | 30,797 | 31,721 | 32,673 | 33,653 | 25,997 | 162.315 |
| | 19,955 | 82,215 | 84,681 | 87,221 | 89,838 | 69,400 | 433,310 |
| B)FRINGE BENEFITS(20% salar.in U.S.A.) | 3,991 | 16,443 | 16,936 | 17,444 | 17,968 | 13,880 | 86,662 |

6)A.- INT'L TRAVEL INCLUDING RR & HL + 3 DEPENDENTS
Ticket cost $1,500*4=$6,000(1way,Home to Lima=3000) )7,000
RR Ticket cost $1,000*4=$4,000(2way,Lima/Miami=4000)
HL Ticket cost $1,500*4=$6,000(2way,Lim/Home/Lima=6000) )10,000

| | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 | TOTAL |
|---|---|---|---|---|---|---|---|
| 1 Team leader | 3,000 | 4,000 | 10,000 | 4,000 | 10,000 | 7,000 | 38,000 |
| 1 Light industry specialist | 3,000 | 4,000 | 10,000 | 4,000 | 7,000 | | 28,000 |
| 1 Apparel specialist | 3,000 | 4,000 | 10,000 | 4,000 | 7,000 | | 28,000 |
| 1 Agribusiness specialist | 3,000 | 4,000 | 10,000 | 4,000 | 7,000 | | 28,000 |
| 1 Agribusiness specialist | 3,000 | 4,000 | 10,000 | 4,000 | 7,000 | | 28,000 |
| | 15,000 | 20,000 | 50,000 | 20,000 | 38,000 | 7,000 | 150,000 |

B.- TDY INT'L TRAVEL
Ticket cost $838(L/MIA/L=576,MIA/NY/MIA=262),Per diem $151*7/day=$1,057
Ticket cost $838(L/MIA/L=576,W/MIA/W=262),Per diem $130*7/day=$910

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1 Team leader | 1,895 | 1,895 | 1,895 | 1,895 | 1,895 | 1,895 | 11,370 |
| 1 Light industry specialist | 1,895 | 1,895 | 1,895 | 1,895 | 1,895 | | 9,475 |
| 1 Apparel specialist | 1,895 | 1,895 | 1,895 | 1,895 | 1,895 | | 9,475 |
| 1 Agribusiness specialist | 1,895 | 1,895 | 1,895 | 1,895 | 1,895 | | 9,475 |
| 1 Agribúsiness specialist | 1,895 | 1,895 | 1,895 | 1,895 | 1,895 | | 9,475 |
| 1 TA Coordinator, US office | | 1,748 | | | 1,748 | | 3.496 |
| 1 Administ.Assistant, US office | | 1,748 | | | 1,748 | | 3,496 |
| | 9,475 | 12,971 | 9,475 | 9,475 | 12,971 | 1,895 | 56,262 |

C.- LOCAL TRAVEL
Ticket cost $110 (Piura)*2 Spec.* 4 Trips/yr=$880
Ticket cost $112 (Arequipa)*2 Spec.* 4 Trips/yr=$896
Per diem $81* 2 Spec.* 14 day=$2268 * 4trips=$9072

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2 Specialist (North) | 2,488 | 9,952 | 9,952 | 9,952 | 9,952 | 7,464 | 49,760 |
| 2 Specialist (South) | 2,492 | 9,968 | 9,968 | 9,968 | 9,968 | 7,476 | 49,840 |
| | 4,980 | 19,920 | 19,920 | 19,920 | 19,920 | 14,940 | 99,600 |

7)TRANSPORTATION OF EFFECTS
Airfreight ($2.5/Lb*700Lb)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1 Team leader | 1,750 | | 1,750 | | 1,750 | 1,750 | 7,000 |
| 1 Light industry specialist | 1,750 | | 1,750 | | 1,750 | | 5,250 |
| 1 Apparel specialist | 1,750 | | 1,750 | | 1,750 | | 5,250 |
| 1 Agribusiness specialist | 1,750 | | 1,750 | | 1,750 | | 5,250 |
| 1 Agribusiness specialist | 1,750 | | 1,750 | | 1,750 | | 5,250 |
| | 8,750 | | 8,750 | | 8,750 | 1,750 | 28,000 |

Seafreight ($1.4*7200Lb)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1 Team leader | 10,080 | | | | | 10,080 | 20,160 |
| 1 Light industry specialist | 10,080 | | | | 10,080 | | 20,160 |
| 1 Apparel specialist | 10,080 | | | | 10,080 | | 20,160 |
| 1 Agribusiness specialist | 10,080 | | | | 10,080 | | 20,160 |
| 1 Agribusiness specialist | 10,080 | | | | 10,080 | | 20,160 |
| | 50,400 | | | | 40,320 | 10,080 | 100,800 |

Storage ($100/month per 10800 lb)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1 Team leader | 400 | 1,200 | 1,200 | 1,200 | 1,200 | 800 | 6,000 |
| 1 Light industry specialist | 400 | 1,200 | 1,200 | 1,200 | 800 | | 4,800 |
| 1 Apparel specialist | 400 | 1,200 | 1,200 | 1,200 | 800 | | 4,800 |
| 1 Agribusiness specialist | 400 | 1,200 | 1,200 | 1,200 | 800 | | 4,800 |
| 1 Agribusiness specialist | 400 | 1,200 | 1,200 | 1,200 | 800 | | 4,800 |
| | 2,000 | 6,000 | 6,000 | 6,000 | 4,400 | 800 | 25,200 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Automobile shipment | | | | | | | |
| 1 Team leader | 3,000 | | | | | 3,000 | 6,000 |
| 1 Light industry specialist | 3,000 | | | | 3,000 | | 6,000 |
| 1 Apparel specialist | 3,000 | | | | 3,000 | | 6,000 |
| 1 Agribusiness specialist | 3,000 | | | | 3,000 | | 6,000 |
| 1 Agribusiness specialist | 3,000 | | | | 3,000 | | 6,000 |
| | 15,000 | | | | 12,000 | 3,000 | 30,000 |
| TOTAL TRANSPORTATION | 76,150 | 6,000 | 14,750 | 6,000 | 65,470 | 15,630 | 184,000 |
| 8)TEMPORARY LODGING & QUARTER ALLOWANCE | | | | | | | |
| (30day/hotel)*[$73(67hot+6meal)]*(4depend)=$8760 | | | | | | | |
| Rent house $1357/month | | | | | | | |
| 1 Team leader | 11,474 | 16,284 | 16,284 | 16,284 | 16,284 | 19,616 | 96,226 |
| 1 Light industry specialist | 11,474 | 16,284 | 16,284 | 16,284 | 19,616 | | 79,942 |
| 1 Apparel specialist | 11,474 | 16,284 | 16,284 | 16,284 | 19,616 | | 79,942 |
| 1 Agribusiness specialist | 11,474 | 16,284 | 16,284 | 16,284 | 19,616 | | 79,942 |
| 1 Agribusiness specialist | 11,474 | 16,284 | 16,284 | 16,284 | 19,616 | | 79,942 |
| | 57,370 | 81,420 | 81,420 | 81,420 | 94,748 | 19,616 | 415,994 |
| 9)EDUCATION ALLOWANCE (2 DEPENDENTS) | | | | | | | |
| Admission fee $5000,tuition $5950Yr,each one | | | | | | | |
| 1 Team leader | 21,900 | 11,900 | 11,900 | 11,900 | 11,900 | | 69,500 |
| 1 Light industry specialist | 21,900 | 11,900 | 11,900 | 11,900 | | | 57,600 |
| 1 Apparel specialist | 21,900 | 11,900 | 11,900 | 11,900 | | | 57,600 |
| 1 Agribusiness specialist | 21,900 | 11,900 | 11,900 | 11,900 | | | 57,600 |
| 1 Agribusiness specialist | 21,900 | 11,900 | 11,900 | 11,900 | | | 57,600 |
| | 109,500 | 59,500 | 59,500 | 59,500 | 11,900 | | 299,900 |
| 10)COMMUNICATIONS IN US OFFICE | 2,500 | 10,300 | 10,609 | 10,927 | 11,255 | 8,695 | 54,286 |
| 11)OVERHEAD | | | | | | | |
| 80% of salary,fring ben,local staff | 88,920 | 366,350 | 377,341 | 388,661 | 321,029 | 64,237 | 1,606,539 |
| 12)CONTINGENCIES | 20,376 | 81,503 | 81,503 | 81,503 | 81,503 | 61,128 | 407,517 |
| 13)FEE 8% of total | 43,572 | 105,500 | 110,810 | 110,274 | 100,396 | 29,448 | 500,000 |
| TOTAL INSTITUTIONAL CONTRACTOR COST | 588,227 | 1,424,244 | 1,495,931 | 1,488,702 | 1,355,352 | 397,543 | 6,750,000 |

# ANNEX Y: ILLUSTRATIVE BUDGET
# PROJECT OFFICE SUPPORT COST

Presented below are the personnel and operational costs for the Project Office. The IC will be responsible for assuring the provision of, and payment for, all the goods and services necessary for the efficient functioning of the Project Office.

| | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 | TOTAL |
|---|---|---|---|---|---|---|---|
| 1)LOCAL HIRE STAFF (5% increase) | | | | | | | |
| 1 Adm.Office Mgr,US50,000/yr | 12,500 | 52,500 | 55,125 | 57,881 | 60,775 | 47,861 | 286,642 |
| 1 Legal Advisor,US50,000/yr | 12,500 | 52,500 | 55,125 | 57,881 | 60,775 | 47,861 | 286,642 |
| 1 Accountant,FSN-10,$38214/Yr+2bonus | 9,554 | 40,125 | 42,131 | 44,237 | 46,449 | 36,579 | 219,075 |
| 1 Accountant,FSN-8,$19494/Yr+2bonus | 4,874 | 20,469 | 21,492 | 22,567 | 23,695 | 18,660 | 111,756 |
| 1 Secretary,FSN-6,$12453/Yr+2bonus | 3,113 | 13,076 | 13,729 | 14,416 | 15,137 | 11,920 | 71,391 |
| 1 Secretary,FSN-6,$12453/Yr+2bonus | 3,113 | 13,076 | 13,729 | 14,416 | 15,137 | 11,920 | 71,391 |
| 1 Secretary,FSN-6,$12453/Yr+2bonus | 3,113 | 13,076 | 13,729 | 14,416 | 15,137 | 11,920 | 71,391 |
| 1 Messenger/Driver,FSN-3,$8265yr+2bo | 2,066 | 8,678 | 9,112 | 9,569 | 10,046 | 7,911 | 47,382 |
| 1 Driver,FSN-3,$8265Yr+2bonus | 2,066 | 8,678 | 9,112 | 9,568 | 10,046 | 7,911 | 47,382 |
| 1 Driver,FSN-3,$8265Yr+2bonus | 2,066 | 8,678 | 9,112 | 9,569 | 10,046 | 7,911 | 47,382 |
| 1 Office boy,FSN-3,$8265Yr+2bonus | 2,066 | 8,678 | 9,112 | 9,568 | 10,046 | 7,911 | 47,382 |
| | 57,032 | 239,533 | 251,510 | 264,086 | 277,290 | 218,366 | 1,307,816 |
| 2)OTHER DIRECT COSTS | | | | | | | |
| (In country office,supplies,equipment,other) | | | | | | | |
| -5PC mainten$35/month,1 Cent$52month | 261 | 1,044 | 1,044 | 1,044 | 1,044 | 783 | 5,220 |
| -Tires $90.91 * 4 each/yr,3jeep | 0 | 1,091 | 1,091 | 1,091 | 1,091 | 1,091 | 5,455 |
| -Mainten 3 Jeeps $456, 4 times/yr | 1,368 | 5,472 | 5,472 | 5,472 | 5,472 | 4,104 | 27,360 |
| -Gral MaintJeep eve5000 mile,$248.73 | 0 | 1,492 | 1,244 | 1,244 | 1,244 | 1,244 | 6,467 |
| -Gasoline $2.73/gln, 50km/day,trips | 1,490 | 5,960 | 5,960 | 5,960 | 5,960 | 4,470 | 29,798 |
| -Insurance 3Jeep,$1230.7/yr per jeep | 923 | 3,692 | 3,692 | 3,692 | 3,692 | 2,769 | 18,461 |
| -Office supplies | 2,288 | 9,150 | 9,150 | 9,150 | 9,150 | 6,862 | 45,750 |
| -Courier DHL,($63/2kg month*12month) | 189 | 756 | 756 | 756 | 756 | 567 | 3,780 |
| -Phone, $2.1/minute * 600min/month | 3,780 | 15,120 | 15,120 | 15,120 | 15,120 | 11,340 | 75,600 |
| -Fax, $2.1/60secon*400pag*17sec/page | 714 | 2,856 | 2,856 | 2,856 | 2,856 | 2,142 | 14,280 |
| -Security guard,L-V 12h/day*2*$300/m | 1,800 | 7,560 | 7,938 | 8,335 | 8,752 | 6,892 | 41,276 |
| -Office rent, $2500/month | 7,500 | 30,000 | 30,000 | 30,000 | 30,000 | 22,500 | 150,000 |
| | 20,312 | 84,193 | 84,322 | 84,719 | 85,136 | 64,764 | 423,447 |
| 3)CONTINGENCIES | 6,059 | 24,235 | 24,235 | 24,235 | 24,235 | 15,740 | 118,737 |
| TOTAL OFFICE SUPPORT COST | 83,403 | 347,961 | 360,067 | 373,039 | 386,660 | 298,870 | 1,850,000 |

# ANNEX Z: ILLUSTRATIVE BUDGET
# PSC PROJECT COORDINATOR

Presented below are the salaries and support costs for the PSC Project Coordinator, a U.S. citizen or third country national providing 60 person months of service to the Project.

| | YR1 | YR2 | YR3 | YR4 | YR5 | YR6 | TOTAL |
|---|---|---|---|---|---|---|---|
| 1)SALARY | | | | | | | |
| 1 PSC, 10/1/91-9/31/96 | 15,873 | 65,397 | 67,359 | 69,379 | 71,461 | 55,203 | 344,672 |
| FS-1,$244.20/day (3% annual increase) | | | | | | | |
| 2)DANGER PAY (15% of salary) | 2,381 | 9,810 | 10,104 | 10,407 | 10,719 | 8,281 | 51,701 |
| 3)POST DIFF[illegible]NCIAL (15% of salary) | 2,381 | 9,810 | 10,104 | 10,407 | 10,719 | 8,281 | 51,701 |
| 4)FRINGE BE[illegible]ITS (20% of salary) | 3,175 | 13,079 | 13,472 | 13,876 | 14,292 | 11,041 | 68,934 |
| 5)A.- INT'L TRAVEL INCLUDING RR & HL + 3 DEPENDENTS | | | | | | | |
| Ticket cost $1,500*4=$6,000(1way,Home to Lima=3000) | | | )7,000 | | | | |
| RR Ticket cost $1,000*4=$4,000(2way,Lima/Miami=4000) | | | | | | | |
| HL Ticket cost $1,500*4=$6,000(2way,Lim/Home/Lima=6000) | | | )10,000 | | | | |
| 1 PSC | 3,000 | 4,000 | 10,000 | 4,000 | 10,000 | 7,000 | 38,000 |
| B.- TDY INT'L TRAVEL | | | | | | | |
| Ticket cost $829(L/MIA/NY/MIA/L) | | | | | | | |
| Per diem$151*7/day=$1057 | 1,886 | 1,886 | 1,886 | 1,886 | 1,886 | 1,886 | 9,430 |
| C.- LOCAL TRAVEL | | | | | | | |
| Ticket cost $112 *1 PSC* 4 Trips/yr=$448 | | | | | | | |
| Per diem$81*1PSC*14day=$1134*4trips | | | | | | | |
| Per diem per 4 trips =$4536 | 1,246 | 4,984 | 4,984 | 4,984 | 4,984 | 3,738 | 21,182 |
| TOTAL TRAVEL | 6,132 | 10,870 | 16,870 | 10,870 | 16,870 | 12,624 | 61,612 |
| 6)TRANSPORTATION OF EFFECTS | | | | | | | |
| Airfreight ($2.5/Lb*700Lb) | 1,750 | | 1,750 | | 1,750 | 1,750 | 7,000 |
| Seafreight ($1.4*7200Lb) | 10,080 | | | | | 10,080 | 20,160 |
| Storage ($100/month per 10800 lb) | 400 | 1,200 | 1,200 | 1,200 | 1,200 | 800 | 6,000 |
| Automobile shipment | 3,000 | | | | | 3,000 | 6,000 |
| TOTAL TRANSPORTATION | 15,230 | 1,200 | 2,950 | 1,200 | 2,950 | 15,630 | 39,160 |
| 7)TEMPORARY LODGING & HOUSING ALLOWANCE | | | | | | | |
| (30day/hotel)*[$73(67hot+6meal)]*3depend | | | | | | | |
| + Rent house $1357/month | 12,831 | 16,284 | 16,284 | 16,284 | 16,284 | 19,616 | 97,583 |
| 8)EDUCATION ALLOWANCE (3 DEPENDENTS) | | | | | | | |
| Admis fee $5000,tuit $5950Yr,each one | 21,900 | 11,900 | 11,900 | 11,900 | 11,900 | | 69,500 |
| TOTAL PSC COST | 79,903 | 136,349 | 149,042 | 144,323 | 155,195 | 130,675 | 797,487 |