

ACTION PLAN

FY 1993-1994

USAID/Peru

February 1992

Agency for International Development

Washington, DC 20523

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I. STATUS OF STRATEGIC OBJECTIVES

The Peru Country Development Strategy Statement (CDSS) was approved in June 1991. No changes in strategic objectives have been made by the Mission, other than in wording. Some modifications have been made in the definition of performance indicators, based on this year's guidance on the Program Performance Assessment System. The Mission decided to use a smaller set of indicators, which can be monitored more easily as part of USAID's normal workload. In the case of macro-economic policies, we have adopted an "economic policy" score index which we believe is particularly appropriate to track progress towards creation of policy conducive to equitable and sustained economic growth.

This is the first year for reporting on program outputs. The selected output indicators may be subject to modification in the next Action Plan. This is a transition period for the USAID project portfolio, with old projects ending and several major activities to be designed in the next two years. The program outputs reported in this Action Plan represent current activities, and preliminary plans for future inputs.

II. PROGRAM PERFORMANCE

A. Establishment and maintenance of sound economic policies and structural reforms that promote economic stabilization and sustainable economic growth

The first eighteen months of the Fujimori administration in Peru have been marked by the initiation of an economic reform program of unprecedented proportions. At the macroeconomic level, the exchange rate has been unified, interest rates have been freed to reach market levels, and the central Government is now living within the budget constraint set by its tax revenues and prudent borrowing for productive purposes. This is an achievement of immense importance. It means far more than that a credible macroeconomic stabilization program has been introduced. It also means that special interest groups in the public and private sectors can no longer obtain preferential access to credit and foreign exchange. They have to compete on a level playing field with everyone else. It also means that the Central Government can no longer finance its activities by imposing an inflation tax on the economy. It now has to rely on tax revenues that in turn must be based on effective tax administration and legislative approval of tax rates and tax bases. These were not easy decisions to take.

At the microeconomic level, the economic reform program aims at opening up the economy from a stranglehold of special interest groups that had historically limited economic opportunities for the large majority. The ports through which Peru's exports and imports had to pass were monopolized by powerful unions which extracted extremely high "rents" from exporters and importers. These monopolies have been abolished. Importers had to import through a group of especially designated import agents who also used their monopoly position to extract fees far in excess of the value of their services as customs agents. This monopoly also has been abolished. Tariff rates have been consolidated and lowered, substantially reducing the incentives for and

payment of bribes. Internal monopolies for providing transport services have been abolished. A major privatization program has begun and is making good progress. The Government has eliminated its exclusive right to provide a host of public services that can be provided by the private sector. Laws guaranteeing equality of treatment between domestic and foreign investment have been passed. Land tenure laws have been modified to create a functioning market for the purchase, sale and mortgage of rural agricultural land. In each case, the result has been a cost reducing improvement in the functioning of the economy. Moreover, this list and its favorable implications for Peru's economic future could be multiplied substantially and still not cover the depth and breadth of the reform effort to date.

Enormous progress has been made on economic stabilization and structural reform. President Fujimori's economic policy reform program has won the support of the IMF, the IBRD, and the IDB. This, in turn, has enabled Peru's official debt to be rescheduled on terms whose generosity reflected extraordinary confidence in Peru's policies. Peru has demonstrated that it is willing to take the tough decisions necessary to open up the economy from the stranglehold of special interest groups in the public and private sectors that had acquired positions of special privilege through political and legal favoritism. The privileges of these special interest groups were bought at the expense of marginalizing a large percentage of the population from gainful participation in economic activity and provided the fertile ground in which terrorism and narcotics trafficking have flourished. The reform program is a direct attack on these special interest groups and the privileges they have acquired.

Serious problems still remain, however. The exchange rate remains overvalued. Tax revenues, currently at around 8% of GDP, are significantly below the 15 to 18% of GDP that will be required to finance public sector services in a market-oriented economic policy environment. Privatization needs to move faster. Only a full-fledged tax reform will provide a solid revenue base. Rates of unemployment and underemployment are still extremely high. Terrorism and narcotrafficking continue as headline stories. Special interest groups are still trying to reverse the reform process, as evidenced by the Legislature's recent passing of an emergency agrarian law which would undermine agricultural reforms (and which the President is refusing to implement). There has been laudable progress, but the country's situation is still precarious.

A.I.D. assistance to the Fujimori government has contributed significantly to achieving many of the gains to date. Policy dialogue and studies, sponsored under the Economic Stabilization and Recovery Program (ESRP), the Policy Analysis, Planning and Implementation (PAPI) project and other USAID projects have guided macro-economic decisions as well as influencing policies in health, agriculture and private sector-related areas. Advisors provided by PAPI have played critical roles in recommending policy reforms to overextended senior economic decision makers. Balance of payments support, through ESRP and Title III, helps the government maintain political support and enables Peru to continue strengthening relations with the international financial institutions (IFIs). Local currency funds associated with the two programs helps maintain investment levels. Problems encountered

in the past year in balance of payments support revolve around conditionality issues. The release of ESF balance of payments assistance has been a matter of great frustration for the GOP and USAID, as the USG has shifted narcotics-related conditions on more than one occasion. Improvement must be made in coordination of USG decision making in this regard, if we are to be more supportive of Peru's reform agenda.

The Mission is also supporting the reform program by providing a social safety net to the poorest Peruvians, through a combination of direct feeding, targeted interventions for at-risk mothers and children, and temporary job creation -- provided through commodities and monetization under PL 480 Title II (and until 1992, Section 416). Over 3 million Peruvians are receiving food assistance through this program. In addition, we are distributing some \$20 million in excess DOD food, which is providing supplementary feeding to some 30,000 additional Peruvians. The Section 416 program will reach 250,000 beneficiaries and provide employment for up to 50,000 Peruvians in community-based programs leading to future productivity gains.

This assistance is absolutely vital. A recent USAID-financed study, for example, showed that the middle and low-income segments of the population have reduced their caloric and protein intakes from levels several years ago. Analysis also shows that poorer citizens are foregoing other purchases (such as for health care) in order to provide for a minimal family diet. On the other hand, data also indicates that the nutrition status of residents in the areas where supplementary feeding activities are concentrated have not been significantly impacted by the dramatic economic adjustment program. Policy change does not, unfortunately, guarantee immediate economic gains for the poorest citizens. Food assistance will continue to form an essential part of USAID's program during the Action Plan period. Uses of Title II food aid will shift as studies indicate that targeted feeding can decrease, and that a higher portion of the proceeds from monetization can be freed for productive activities, such as job creation programs by PVOs.

The Mission's highest priority strategic objective is the economic policy environment itself. It is the one variable affecting macroeconomic outcomes in all sectors that is under the control of the Government and that the Mission, through its policy dialogue and conditionality, can affect. The quality of the overall economic policy environment is critical to achieving all other strategic objectives.

In order to measure and track changes in the policy environment the Mission will use an "economic policy" score index. The index has been designed to quantify the extent to which a country's economic policies and legal, regulatory and judicial environment promote or suppress competitive market forces in resource allocation. Table 1.1 presents Peru's economic policy score index for three historical time periods and a target score for the 1993-1994 Action Plan time period. The "baseline" can be most appropriately thought of as 1989. It represents the policy environment that was inherited by President Fujimori in 1990 and the baseline for the current and ongoing reform effort.

As is evident from the policy score data in Table 1.1, the reform program being implemented by President Fujimori has sharply improved the policy environment. To put this in international perspective, Peru's policy score in 1990-91 ranks third highest in the group of 39 developing countries for which policy scores were obtained in the study from which the policy score index was taken. By contrast, Peru was in virtually last place in 1989. The study was financed by the International Center for Private Enterprise.

Our efforts to improve the policy environment during the Action Plan period will be centered in four specific areas: (a) trade policy, (b) tax and expenditure policies, (c) role of the State, and (d) the legal, regulatory and judicial environment.

Trade policy targets:

In the trade policy area we will focus on the following specific targets during the Action Plan period:

- Elimination of tax exemptions on agricultural imports.
- Reduction of non-tariff barriers on agricultural tradables, such as phytosanitary restrictions to cotton and other products' imports.
- Elimination of compensatory surcharges on the import of agricultural inputs.
- Unification of tariff rates into one tariff level.

Tax and expenditure policies targets:

Our objective is consistent and comprehensive tax reform that increases tax collection and improves tax administration based on three criteria: (a) administrative ease, (b) economic efficiency, and (c) equity. This tax reform will include the simplification of the tax system into four main taxes: income tax, sales tax, excise tax, and import tariffs.

Role of the State targets:

We will support the implementation of a coherent privatization process. The timing and length of the privatization process will depend on the scale and financial situation of particular public enterprises. It is expected that a financial assessment program will be carried out and that a privatization schedule will be set up to indicate time targets for liquidation or privatization.

Legal, regulatory and judicial (LRJ) environment targets:

The implementation of reforms in the LRJ environment that promote private competitive market forces in resource allocation is our final objective in the area of the policy environment. Among others, these include the establishment of clear, transparent and delimited property rights, the establishment of efficient and transparent procedures in the antimonopoly and safeguard processes, and the establishment of an efficient arbitration system.

We expect that a score of approximately 80.0 on the economic policy score index will be achieved by the end of this Action Plan period as a result of economic policy adjustments. The 4.0 point increase in the score is positive but of even greater importance is the fact that the progress already made will be preserved and strengthened. Improvements in the economic policy design and implementation are expected to be achieved through the following activities: (a) the PAPI project, which provides technical assistance and studies as the basis for decision making; (b) the ESRP project, whose conditionality for disbursements includes the implementation and progress of reforms in these areas; (c) the PL 480 Title III program, which includes agricultural sector conditionality; (d) the PL 480 Title II program, which enables the GOP to continue on its bold economic adjustment program; and (e) the Institute for Liberty and Democracy (ILD), Administration of Justice, Judicial Strengthening and Democratic Initiatives projects, all of which are focused on increasing the efficiency of public institutions and ensuring the protection of individual, property and contractual rights.

B. Reactivated labor-intensive private sector generating employment and foreign exchange for small business, non-traditional exports and agriculture sectors

The Fujimori Administration's comprehensive adjustment program is providing a solid foundation for the reactivation of the private productive sectors. Among the most important reforms of the last several months is the law of agrarian promotion, which promotes private land ownership, gives incentives for collective farms to become private estates, and abolishes restrictions on the marketability of land and its use as collateral. The government also decided to move away from the massive subsidies that it was providing the agricultural sector through its marketing agencies and the Agrarian Bank — steps that will also contribute to the more efficient development of the sector. The rice marketing monopoly, ECASA, has been abolished, and the food inputs monopoly, ENCI, has been forced to compete with the private sector. And, the government is divesting itself of a large agricultural research structure that it is unable to finance. Reforms aimed at increasing production and exports include changes in tariff structures, liberalization of customs procedures and port operations, and overhauling of the agencies involved in these areas, the planned privatization of 23 smaller state enterprises, improvements in tax administration and liberalization of labor markets.

In some instances the administration's efforts to stimulate private investment and growth have been flawed. Political factions have attempted to reverse many of the reforms, or slow their implementation if reversal is not possible. In some cases the government itself has limited the effect of reforms by introducing conflicting measures, after the fact. Special interest groups are still very powerful, and opposed to change. Congress recently passed an emergency agrarian law which would undermine the administration's efforts to eliminate price distortions in the agricultural sector. The Executive has indicated that it will not implement the law's provisions, calling it unconstitutional. This particular incident is indicative of the great difficulties and political risks in reform. Policy dialogue and policy conditionality are still required in the USAID program.

Our strategy to support private sector participation in sustainable productive activities focuses on non-traditional exports, the small business community and agriculture. The new economic reforms have set the stage for major steps toward sustained growth throughout the productive sectors of the economy and will provide an appropriate framework for the assisted sectors to grow rapidly, generate employment and increase incomes. However, these results will be seen in the medium term, as the private sector will need time to adjust to, and develop confidence in, the new government policies and institutional changes being implemented. Our two new projects focusing on exporters and small enterprises, the Investment and Export Promotion (IEP) Project and the Small Business and Employment Expansion (SBEE) Project, will play an important role in this process. In addition, the Employment and Natural Resources project initiated last year will combine efforts to increase employment and incomes with sustainable resource management in Peru's largest nature reserve.

IEP, obligated in September 1991, will strengthen Peru's non-traditional export sector, helping it boost investments and exports in agriculture and industry. The project builds upon the radical shift in Peru's economic policy, from a highly regulated and protected industry to a market-based economy with greatly reduced tariffs and a unified, floating exchange rate. The strategy is to provide the technical assistance necessary to Peruvian exporters so that they can improve their productivity and marketing to the point where they can compete effectively in the international marketplace. Late Washington guidance on ESF conditionality delayed initiation of this project by approximately six months.

The Mission is also involved in the preparation and design of the SBEE project, which is geared to creating and supporting productive and sustainable employment in Peru's small enterprise sector. We have been able to identify specific industries and sectors that have managed to grow and expand their operations in the last ten years despite Peru's overall economic decline. The Mission will be targeting its efforts to support small firms in these areas with technical assistance and credit and thereby to improve their productivity and employment-generating potential. This project is to be obligated in mid-1992 if ESF resources are available in a timely manner.

The Action Plan period is marked by a transition in the agricultural portfolio of the Mission. New policy analysis and agricultural technology transfer activities are being designed to build on lessons learned in past assistance to the sector. USAID is taking advantage of the GOP's elimination of the government-subsidized credit systems (public agrarian bank) to promote new, private, rural financial markets. A bilateral project is currently planned for FY 93 start. If preliminary analysis, due to begin soon, indicates more rapid progress is possible, we will consider using HCOLC from PL 480 Title III or designing a component for the Policy Analysis for Private Agricultural Development (PAPAD) project to finance the new system. The PAPAD project will carry out analytical studies and provide experts to senior agricultural sector officials to strengthen their capacity to design and execute appropriate policies in this important sector.

The policy agenda relating to the private sector includes proposed conditionality under the 1992-93 PL 480 Title III program concerning the

reduction of the State's role in food import and marketing, agricultural research and rural financial markets. Macro-economic policy studies and dialogue, sponsored under ESRP and PAPI in particular, include many issues touching on promotion of private enterprise, and the concomitant requirement for elimination of vestiges of the statist approach to the economy. Both the Administration of Justice and ILD activities support private sector growth through administrative simplification, a rapid unified business registry, property titling and more rapid adjudication of contractual issues.

C. Improved health status through access to quality primary health care

Peru, more than most countries in the LAC region, has entered the decade of the 1990s with decidedly mixed results in the efficient provision of quality primary health care. This has had detrimental effects on the quality of life for Peruvian families. Infant mortality rates in Peru continue to be the third highest in the hemisphere. Population growth rates of around 2.6 percent per year constrain progress towards steady economic growth. Almost two thirds of women in union who want to limit their family size are not using modern, effective methods for contraception. Fertility rates are high at 3.8 children per woman, and are considerably higher in rural areas compared to Lima. The maternal mortality rate of 30 per 10,000 is very high, influenced by poor access to professional pre-natal care, unattended deliveries, and illegal abortions among the non-contracepting.

Peru has been selected as one of four LAC countries to participate in the new BIG Population Strategy that AID/W has developed. Total population funding for Peru will be increased from around \$4 to \$6 million for FY 92 from mission and central AID/W resources, depending on the outcome of the foreign aid appropriations bill. These additional funds will be programmed to expand family planning services in the private and public sectors, particularly for long-lasting, modern methods. Substantial increases in support for information-education-communications programs, medical education in family planning, as well as policy and program evaluation are also planned.

Malnutrition is a chronic problem particularly in rural and urban slum areas. Food aid has been critical during the structural adjustment period to prevent major increases in malnutrition. With the deep economic recession, families are spending a larger share of their income on food to maintain nutritional levels, leaving less disposable income for health care. However, USAID efforts to target food to nutritionally vulnerable groups through PVO Title II programs, to increase access to family planning services, and to provide immunizations and other primary health care services to control major killers - diarrheal diseases and acute respiratory infections - should result in steadily declining rates of childhood malnutrition and infant mortality/morbidity.

With an infant mortality rate hovering at 80/1000 or higher, the GOP needs to take additional measures to institutionalize Child Survival programs over the next two to three years. Our policy reform agenda with the MOH is focused on securing this. Peru's foundation for sustained and solid improvements in quality primary health care and thus in its health indicators will be strengthened through changes obtained under the proposed non project assistance program for the health sector starting in FY 93. Within the

existing Child Survival program, USAID continues to focus particular attention on improving the treatment of diarrheal disease, which is a major cause of infant mortality. USAID is aiming for an increase in the number of infant diarrhea episodes treated with ORS from 5% to 40% in 1995, assuming targeted Child Survival efforts and a new emphasis given to health communications. The country's ability to respond very effectively to the cholera epidemic last year demonstrated the benefits of substantial earlier investments in oral rehydration salt production and training of health sector personnel in diarrheal management.

The percentage of Peruvian children under the age of one year who are immunized against diphtheria, polio, measles, and tuberculosis increased steadily up until 1991 with USAID and international donor support. Labor strife and disjointed efforts in 1991 led to some back-sliding. Peru will continue to need support for a few years to institutionalize this program. USAID, PAHO and UNICEF are working with the Ministry of Health to accomplish the eradication of wild polio virus from Peru in 1992, and aims to achieve sustainable levels of 80-85 percent immunization coverage in 1994 and 1995.

Since infectious diseases, nutrition and large family sizes have synergistic effects on demands for health care and on mortality rates, there are high human and economic costs to a policy which places a low budgetary priority on preventive health care. To reduce the burden on the public sector of financing overall health care costs, USAID is vigorously encouraging the participation of the commercial and not-for-profit private sectors in meeting demand for services such as modern contraceptive methods and more expensive curative care. The strengthening of Private Sector Health project (SHIP) is experimenting with more efficient health services provided by PVOs along with increased cost recovering for curative care.

Combined with support for institutional reform, USAID aims to increase the Ministry of Health's (MOH) budget share for primary health care to at least 15 percent by 1995, and boost Ministry efforts in the areas of cost recovery and cost sharing. Through the SHIP project and the Non-Project Assistance planned for the sector, USAID will work with the MOH and PVOs to review models of alternative health care financing and promote the application of measures and new regulations designed to broaden access for the truly indigent and the working poor.

D. Encourage strong democratic institutions that reinforce economic freedom

USAID has two interrelated sub-objectives in this domain: a strengthened Judicial Branch, and increased popular participation in key public institutions to assure accountability, transparency and feedback. Both are areas of great importance for Peru's future. Each is difficult to approach from a technical standpoint (there are so many issues which vie for attention), and each is, of course, very politically sensitive in nature.

During the past year limited progress has been made in judicial strengthening, although the pace has been frustratingly slow. The problems of the Peruvian judicial system are complex, many based on the legal system itself, which is not designed to be responsive to the average citizen. Civil

cases may take years to adjudicate, and suspected criminals may spend years in jail without ever coming to trial. On the other hand, there are inadequate provisions in the legal codes for convicting terrorists, or for plea bargaining. Suspected terrorists often end up being released for technical reasons. There is great popular distrust of the Judiciary. A recent poll showed over 70 percent of respondents had no faith in the judicial system. Peruvian administrations have deprived the courts of the financial means, trained staff and technical capabilities to do their job adequately. Severe problems of corruption have further compounded the inefficiencies of the judicial system. The judicial system does not adequately protect property or contractual rights, thus stifling investment.

The Administration of Justice project provides assistance to improve the judicial system to better adjudicate criminal and civil cases in a fair and timely manner, and assists in improving access to legal services. Recent efforts which include ICITAP assistance are bringing about increased cooperation among prosecuting attorneys, judges and the police, who will assume new roles in implementing Peru's shift to an accusatorial system in mid 1992. USAID is now designing a new Judicial Strengthening project (formerly referred to as Judicial Reform) which will expand our efforts to improve judicial performance. The new project will include information systems for courts, establishment of Legal Aid offices, establishment and implementation of the new Criminal Procedures Code, technical assistance, studies and equipment support for judicial education, human rights, and terrorism/narcotics cases. A major innovation in this effort will be the creation of a non partisan public-private institution that will develop a national consensus on judicial reforms needed and support for their implementation. Given the importance of the effort, USAID has decided to increase its LOP funding from \$5 million to \$15 million, and lengthen project life to 8-10 years.

Human rights is, and will remain, a major element of policy dialogue with the GOP. It is also an issue governing ESF conditionality. We have been assisting the Special Prosecutor for Human Rights to investigate violations which have been reported in order to bring the perpetrators to justice. USAID has just signed an agreement with ILANUD, a United Nations-affiliated regional agency, to assist the government to set up a registry of suspects detained by the police for terrorist crimes, which will be administered by the Attorney General's office. Other, non-A.I.D. funds, will help computerize the already developed military system, which will be united in a national registry. The systems will provide identifying information on all persons detained for suspected terrorism within clearly defined time limits, and with mandatory items of information in each case (such as charge, location, etc.).

USAID's present efforts relating to "democratic initiatives" are seen most clearly in the work of the Institute for Liberty and Democracy (ILD), which receives a significant portion of its funding from a regional project, managed by USAID. ILD is currently working on promoting the resolution of legal disputes through arbitration, reforming regional governments to make them more responsive to the public (by allowing discussion of laws before they are passed, for example), simplifying administrative regulations, and establishing regional land titling services, as well as continuing its efforts to move government out of the private sector. The

Mission now plans to postpone the new bilateral Democratic Initiatives project until FY 1994 rather than FY 1993 as originally scheduled. This delay will allow time for related activities under Judicial Strengthening to be designed and tested as well as enabling us to focus limited staff resources on the judicial sector.

E. Replace coca based employment and foreign exchange with legal alternatives

Last year the United States and Peru signed a framework agreement for cooperation in counternarcotics activities. We also concluded an agreement outlining a strategy for the use of economic assistance resources for alternative development purposes. This strategic framework was endorsed by President Bush during President Fujimori's official visit to Washington in September 1991. It will also be reviewed in the San Antonio Summit scheduled for late February 1992. We anticipate that the "Joint Venture", a mechanism to focus high level United States and Peruvian attention on drug control issues, will convene for the first time in March 1992.

In spite of solid progress in getting the Fujimori administration to recognize the importance of narcotics control, USAID/Peru's ability to have an impact in this area is limited by exogenous factors. The reestablishment of security and government authority in the Upper Huallaga Valley (UHV) and a sustained decrease in coca prices are crucial requirements for effective results. Security problems have continued to restrict the Upper Huallaga Area Development (UHAD) Project, which ends in December 1992. Project related personnel have been murdered, and vital bridges and roads destroyed. On the other hand, coca prices remain high enough to maintain its profitability compared to alternative crops, despite the improvements made in the productivity of some legal crops. Corruption and the inability to mount sustained aggressive GOP enforcement efforts have enabled coca to retain its high margin of profit. Most importantly, NSD-18 ESF funds for a greatly expanded alternative development program have been held up over issues of conditionality --- both within the U.S. executive and legislative branches.

Nonetheless, UHAD Project activities have continued supporting agricultural services and development of community projects. Technical assistance and other services that the implementing agency, PEAH, offers are in great demand due to the absence of other viable institutions or government services in the area. Cultivation of legal crops is expanding, although at a slow pace; the area under legal crops increased from 26,000 hectares in 1981 to more than 51,000 hectares in 1990. The yield of major crops has improved substantially, with rice production in Uchiza and Tocache reaching up to 6 MT/ha. under irrigation. The rehabilitation and maintenance of 1,255 kms. of the main road and subsidiary roads through the Huallaga Valley, as well as the construction of fords replacing six bridges destroyed by terrorists, have reduced travel time by 60 percent between Tingo Maria and Tocache (two major points along the UHV). While legal crops can exit the Valley and reach sales points along the Sierra and the Coast, major reconstruction of the road network is still required. Over 1000 small-scale, high impact community works have been completed. These include the renovation or construction of schools, classrooms, medical posts, latrines and potable water systems. These

community works benefit the rural population of the area and demonstrate government commitment to stimulate alternative development. The project has also provided temporary employment.

We have programmed counterpart local currency from the ESRP balance of payments program for the Selva-Coastal Road Rehabilitation (SCRR) Project, which is to start rehabilitation works in September 1992. USAID is now designing the Selva Economic Revitalization (SER) Project, which will focus USAID alternative development efforts in the Huallaga Valley. The GOP apparently intends to create a new institution --- the Institute for Alternative Development (IDEA) --- to lead GOP alternative development activities in the coca-growing areas; this will facilitate coordination among USAID, other donors and the GOP on efforts to counter coca production.

The demand for "pasta basica" remains high, and farmers increasingly are vertically integrating their operation. They plant coca and produce "pasta basica" which is a much more profitable method to market their crop. Without improvements in security, enforcement and demand reduction, which will drive the price of leaf and "pasta basica" down to a level that will make legal crops attractive, it will remain difficult to fulfill the Mission's strategic objectives for coca replacement.

Other Mission projects contribute directly to this objective. Policy reforms promoted by the PAPI project and ESRP conditionality have improved the economic climate so that legal crops are more profitable, and can now be traded by the private sector rather than inefficient parastatals. Building a consensus against narcotics production, trafficking and use is important. Under the Drug Education and Public Awareness (DEPA) Project, which ends in September 1992, CEDRO continues to strengthen support for aggressive GOP action against drug production and trafficking, while expanding and maturing as a visible A.I.D. supported institutional development success. The percentage of Peruvians who think drugs are a problem for Peru was 43% in 1988; recent surveys although limited in scope have shown an important increase to 70%. Further changes in public concerns will be verified in May 1992, when CEDRO carries out its public opinion survey. The new Narcotics Education and Community Initiatives (NECI) Project will provide a broadened scope of research and educational activities by CEDRO and its partners, along with small, innovative community anti-narcotics programs.

The Judicial Strengthening Project (527-0352) will support the strategic objective by providing technical assistance and training to help the judiciary set up information systems for courts, establish and implement the new Criminal Procedures Code, and acquire equipment to better track and process information concerning human rights and terrorism/narcotics cases. And ILD is preparing a HCOLC-funded project that will establish procedures for land titling, which will be used in coca zones as part of a package of assistance offered to farmers who move to legal productive enterprises.

F. Monitoring and Evaluation Status and Plan

The USAID/Peru strategic objectives are closely tied to LAC objectives and sub-objectives. The Mission is currently engaged in designing a new series of projects and programs consistent with the CDSS. These include

the next phases of balance of payments support (through ESRP and Title III); a more tightly focused food security strategy and programs (using resources from PL 480 Title II and III, dollar support under a planned PVO Support Project, and activities already underway under USAID bilateral projects); new project interventions aimed at reactivating the private sector, including agriculture; expanded interventions aimed at promoting the growth of strong democratic institutions; and project activities directly aimed at offering legal alternatives to coca based employment. These design efforts represent an exponential expansion of most of the Mission's portfolio while retaining a tight focus on strategic objectives. The effort will be completed (except for the new democratic initiatives interventions) at the end of FY 1993, the first year of this Action Plan period.

New projects are being designed to include data collection and analysis specifically aimed at measurable impact, in addition to more traditional reporting on inputs and outputs. For example, the PVO support project will have a component built in to it to measure the impact of our large food assistance program and employment generating activities in helping carry out the economic adjustment program. But, the results will not be seen during this Action Plan period in most cases, as there are currently six new projects to be obligated in FY 1992 and three in FY 1993. Given normal time lags for implementation start-up, they will not provide information in a systematic fashion until early 1994 and 1995, respectively. For that reason, it is important to continue with activities such as the Policy Analysis, Planning and Implementation (PAPI) project, which finances policy-related research on issues relating to economic reform. These studies can provide important information on achievement of strategic objectives of the A.I.D. program. Further, study of lessons learned in alternative development is planned for CY 1992.

Within the health sector the Mission is executing three major analytical activities that should guide future programming. This first involves an epidemiological surveillance system established under the Child Survival project, which provides up to date information on changes in health status. The second includes a health information system under the same project. Third, we are carrying out a new demographic and health survey, which will update information from the 1985 DHS, and serve as a data base for future health and family planning activities.

USAID has spent the last several months setting up a Management Information System (MIS) for activities financed under ESF Counternarcotics funding. The system will be helpful in monitoring the outputs and program level impact of eleven activities, which will represent more than 50% of the Mission's total portfolio of management units. It is, however, a costly system to establish and operate, requiring a full-time professional on USAID staff. Given the extensive and up to date information contained in this system we urge that it be given greater Washington dissemination. Furthermore, because of the management intensive nature of this effort we look forward to AID/W's commitment to reducing this reporting to a semi-annual basis. Tracking of other activities will have to continue to be performed within the context of the various bilateral projects and programs.

G. Country Performance Related to LAC Objectives

Table 4 is a significant step towards measuring what needs to be taken into account when assessing the quality and breadth of a country's own development efforts. We support the initiative and the advances that have been made to date in methodology and in its application to derive "policy performance" scores for A.I.D. countries in the LAC Region. It is in this constructive spirit that we would like to offer suggestions for advancing further in this effort. The product to date is good but it could also be significantly better.

First, a better distinction needs to be made between (1) policies that can affect outcomes and (2) the outcomes themselves. Obviously, we would like LAC countries to register high and rising per capita incomes, low inflation, high investment and the like. Similarly, we would also like LAC countries to register high literacy rates, low drop out rate and close to 100% attendance and graduation rates in primary education. We would also like LAC countries to register low infant mortality statistics and low rates of depreciation of the physical environment.

The common property these measures share is that they are all outcomes. They are not measures of policy. Most important, they do not imply that policies are good or bad. To take an example, suppose that the recorded inflation rate is 50%. Is this good or bad? It could be either. If, for example, the 50% inflation rate results from a rise in tradeable goods prices relative to non tradeables, it would be highly desirable if the trade balance were unsustainable. On the other hand, if the 50% inflation rate reflected a 50% increase in all prices, it would very likely be undesirable. What's the lesson in all this? Policies to contain price inflation are not measures by inflation rates. More generally, make sure that you choose the correct set of policies to measure and that you choose the appropriate way to measure those policies.

A second issue is the set of policies being included and their weighting in an aggregate policy score. What criteria have been used to determine the weighting? What criteria have been used to include or exclude some policies over others? Is there a justification for lumping everything together in a single policy score --- other than the fact that it is mathematically possible? USAID/Peru believes that these issues should be addressed and can be constructively addressed with a better product as the result.

The observations above have direct relevance to our position on Peru's "score" and "ranking." We have no major methodological or scoring issues with the economic policy component of the ranking exercise. Our own aggregate score and LAC's aggregate score are virtually identical. Peru does deserve a perfect 10 on exchange rate policy. On the other hand, we would downgrade Peru slightly in the three areas indicated in Table 4 below.

Peru: Economic "Performance" Indicators

Indicator	LAC rating	USAID rating
1. Macro reform	8.5	8.0
2. Domestic financing	0.5X	0.5X
3. Exchange rate	8.5	10.0
4. Regulatory environment	1.8	1.8
5. Trade regime	8.0	7.5
6. Market pricing	<u>8.0</u>	<u>7.5</u>
SUBTOTAL	35.3	35.3

With respect to the other components of the policy score and the way in which they are measured, we have two problems. First, if LAC cannot come up with a reasonable basis for the weighting maybe it would be better not to aggregate at all. Second, many of the measures used do not seem to measure the policy being assessed.

We have no comments on the non-economic indicators developed by the Bureau, which are as follows:

Social services	6.8
Environmental management	4.0
Democracy/Human Rights	11.0

III. PORTFOLIO ANALYSIS: NEW AND TERMINATING PROJECT AND NON-PROJECT INITIATIVES

A. New Initiatives

The Mission plans to undertake several new activities during 1993-1994, as described in attached new project descriptions beyond the heavy design schedule for FY 1992. They are: Agricultural Technology Dissemination, Agricultural Credit and Rural Savings Mobilization, Non-Project Assistance/Health Policy Reform for 1993 starts, and Democratic Initiatives and a major amendment to Investment and Export Promotion for commencement during 1994.

The Agricultural Technology Dissemination Project (ATD) will build on lessons learned from a current bilateral project, Agricultural Technology Transformation, which will end in FY 1993. ATD will focus on how to deliver existing agricultural technology to farmers organized in producer groups with a major interest in financing the costs of yield-increasing production packages. This is a domain in which the Government of Peru has basically let services lapse, because of financial constraints. The project will contribute to the LAC strategic objective of supporting the achievement of broadly-based, sustainable economic growth. The project will be coordinated closely with the Agricultural Credit and Rural Savings Mobilization Project, which will promote the development of private, non-subsidized savings and credit systems in rural areas.

The Non-Project Assistance/Health Policy Reform Program will address the serious funding and management constraints to quality public health services in Peru. The program builds on knowledge gained from USAID's health and population projects. It also responds to the Fujimori Administration's privatization and decentralization policies by encouraging cost-recovery schemes for curative services in order to shift increased resources to preventive services. Management incentives to improve service delivery also will be supported. The program supports LAC objectives relating to economic growth and accelerated opportunities for the historically disadvantaged.

The Democratic Initiatives Project, for FY 1994 obligation, supports the evolution of stable democratic societies. The project will support democratic change in a number of national and regional institutions in Peru, building on gains from USAID-GOP policy dialogue and current support to institutions such as the Institute for Liberty and Democracy (ILD).

A major amendment is planned for the Investment and Export Promotion Project in FY 1994 to increase its work relating to commercial investment in Peru. The project promotes investment, productive employment and export-led diversification. There will be annual tranches (and PAAD documents) for the Economic Stabilization and Recovery Program, which contributes directly to LAC Strategic Objective I.

Food assistance will remain a key element of the USAID program during this period. A new multi-year PL 480 Title III program will be proposed starting in FY 1994, to follow on from the 1992-93 program. Title II programs will continue as a social safety net, but with the proportion of commodity assistance and funding from monetization shifting increasingly toward employment generation activities, where the Mission already has a number of ongoing programs. As Peru emerges from its deep recession and economic opportunities open up for all strata of society the need for Food for Development programs will not abate during the Action Plan period. Food commodities and the financial resources generated from monetization are an essential element of A.I.D. assistance to Peru, and with the loss of the USAID-managed Section 416 program, starting in FY 1992, Title II assistance will need to be increased to fill the gap.

Proposed funding for food aid activities for FY 92 and FY 93 is as follows:

	(\$000)	
	FY 1993	FY 1994
Title II - commodities	55,100	55,100
Title II - monetization	20,000	20,000
Title III - commodities/ocean freight	50,000	50,000
Farm Bill and Institutional Strengthening Grants for PVOs to work with indigenous NGOs (AID/W funding)	5,000	5,000

Note that there are no uses of HCOLC from PL 480 or ESF that the Mission projectizes and manages directly.

As described elsewhere, Title II resources are used for a variety of social safety net projects managed by PVOs, MCH activities, temporary job creation. Title III resources provide balance of payments support, while HCOLC are programmed in support of Mission strategic objectives.

B. Terminating Activities

A number of USAID projects will end during the Action Plan period. The Upper Huallaga Area Development project (527-0244), which ends in 1992, has established an institutional capacity to deliver services to farmers in the UHV along with higher yielding technologies. A follow-on project in the Huallaga Valley, Selva Economic Revitalization, will begin in FY 1992, and may make use of the strength of PEAH in helping farmers make the transition to legal income-earning alternatives to coca.

Private Sector Management Improvement (527-0272) will end in late 1992. Several successful activities under this project have been incorporated into the Investment and Export Promotion project, which began in late 1991. Human resource development activities developed under the Management Improvement project will continue to be an important input to new small business and export promotion efforts.

Drug Education and Public Awareness (527-0288) will reach its current PACD on September 1992. The project will move from its initial goal to change the public's perception of drugs and drug related issues and expand into a second phase. The Narcotics Education and Community Initiatives Project (527-0347) -- planned for an LOP of 5 years and approximately \$8.5 million -- takes the first project a step further through its strategy of strengthening democratic institutions which will help address the narcotics problem. Private organizations will be used to train public sector staffs and help develop their own strategies to complement our counternarcotic programs.

Agricultural Technology Transfer (527-0282) will end in mid 1993, to be followed by Agricultural Technology Dissemination, which will focus on community level demand driven extension activities. Financing of essential local activities can continue between projects, in case of time lags, using HCOLC from Title III.

The Administration of Justice Project (527-0303) will at the end of 1992. A next phase project, Judicial Strengthening, will begin in late 1992. During its last year, AOJ will continue its activities with the Ministry of Justice, the Judicial Branch, and the Public Ministry. In addition, it will engage in three important new activities: the design of the Judicial Strengthening Project (JUST), the management of the ICITAP program in Peru (related to criminal justice), and the support of ILANUD in its implementation of the Peruvian National Registry of Detainees. Furthermore, it will initiate the process of building a public consensus in support of systematic reforms in the justice sector.

The Private Voluntary Sector Family Planning Project (527-0335) is scheduled to end in September 1993. The external evaluation planned for the end of the third project year will recommend whether the project should be extended to increase coverage of family planning services through the private voluntary sector and will determine the number of PVOs that will continue receiving support in the last project year. The BIG population strategy now being developed will examine additional means to continue our support to the private voluntary family planning community.

The HIV/AIDS Education and Prevention Project (527-0333) ends in FY 1992. This creative project works with high-risk groups through public and private voluntary partnerships to control the spread of AIDS in Lima. The Mission is evaluating options for a low management burden extension, using central A.I.D. funds, to increase educational and epidemiological outreach to other cities.

Child Survival Action (527-0285) is scheduled to terminate in December 1992. The Mission plans to extend the Project Assistance Completion Date to December 1994 in order to complete information and epidemiologic system components. The implementation rate of this project has been seriously hampered by Brooke-Alexander sanctions and disruptions due to labor and budget problems of the GOP. Following the appointment of program directors and with better management of priorities, the new Minister of Health is requesting assistance to institutionalize programs to improve child survival, such as immunization, diarrheal disease control (including cholera) and nutrition education. This will be supported through the SHIP project or with Title III local currency.

USAID has four OPGs with the PVOs which manage Title II commodities/monetized funds. These grants will all end by early FY 1993. The PVO Program Support Project (FY 92 start) will incorporate assistance to PVOs under a single management unit. In addition to strengthening the PVOs' management capacity, this new activity will orient PVO efforts toward longer term impact on problems of maternal and child health, employment generation, and achieving productivity gains.

IV. RESOURCE REQUIREMENTS

A. Program Funding

The Mission's five strategic objectives are consistent with LAC Bureau priorities. As the Mission's program is inter-related and self-reinforcing, resources will frequently support more than one objective. For example, humanitarian food assistance provides a safety net to enable the GOP to sustain the proper macroeconomic policy framework while helping meet nutrition objectives. USAID has three major sources of financing for its program: ESF, PL-480 and DA. Additionally, regional and central funding also contribute to our strategic objectives and are noted in Table 2.

ESF

Our highest priority is for ESF program and project funding. ESF balance of payments support strengthens the GOP's commitment to appropriate macroeconomic policies without which most other objectives cannot be

attained. These resources are also important because they signal the priority we attach to Peru's reform program, thereby leveraging other donor resources. Balance of payments support enables the GOP to sustain its reintegration into the international financial community through the financing of debt to the U.S. or IFIs. ESF project funding also reinforces the GOP's commitment to an appropriate policy framework and needed structural reforms through the provision of policy analyses and expert advisors, working with senior leaders of Peru's economic team. Further, ESF project funding helps reactivate the private productive sectors by financing the promotion of non-traditional export promotion and small business and employment generation activities. ESF project funding also finances all USAID counternarcotics interventions, including activities directly related to coca substitution and alternative development as well as educational efforts to build a consensus on the need to act aggressively against coca production and trafficking. Finally, ESF project funding supports the Mission's democratic initiatives, particularly efforts to make the justice system more responsive to citizens' needs.

Local currency associated with ESF balance of payments funding is an integral part of our program, and is a complement to NSD-18 dollar funds. HCOLC uses for FY-93 and FY-94 can be seen in Table 6. During the Action Plan period HCOLC will be utilized as counterpart for ESF-financed dollar projects and will also support discrete GOP activities consistent with our strategy, such as the rehabilitation of roads between the Upper and Central Huallaga Valleys and coastal markets, and a national land registration and titling program to be carried out by ILD. HCOLC also finances a Mission Operating Expense Trust Fund.

ESF resources will need to be maintained at \$100 million in FYs 1993 and 1994 to accomplish our strategic objective and make the planned impact on economic growth and alternative development. Maintenance of these levels is absolutely essential if the Mission is to ensure the implementation of the important policy reform program and project activities which are central to our approved country development strategy. A decrease in ESF funding during the Action Plan period, or a repeat of the FY 1991 experience, when funds were not available until the very end of the fiscal year because of our inability to agree on narcotics conditions, could make accomplishment of our ambitious objectives difficult, if not impossible.

The proposed levels of ESF will require staff increases to design and implement properly. Monitoring will take on much greater importance as the program matures. Substantial portions of the ESF portfolio are being implemented in areas of the country designated as emergency zones where security is a major problem. This represents a special challenge to monitoring and ensuring that US Government resources are being properly used. Ensuring the proper use and accounting for ESF-generated HCOLC along with Title III local currency, also requires careful tracking.

ESF and PL 480 Title III local currency will be managed by a Technical Unit to be established within the Ministry of Economy and Finance. While the GOP has agreed to set up a unit to include policy level program decision-makers, technical and engineering expertise, and accounting and funds management personnel, the unit has not yet been formally established as the

Ministry is going through a major reorganization and reduction of personnel. However, a Ministerial resolution to create the unit has been prepared and should be issued soon.

During the negotiation of ESF and Title III programs, USAID and the GOP jointly program local currency resources, which are then included in the GOP's national budget. Funds may be reprogrammed at any time by mutual agreement. Implementing agencies then prepare project descriptions and implementation plans for activities they intend to implement. These include regular GOP ministries, PVOs and private sector institutions. Official Peruvian representatives managing dollar-funded projects also will provide the Technical Unit with local currency counterpart funding requirements to be included in the budget. Once individual activities are mutually agreed to by the GOP and USAID, the Technical Unit will be responsible for the timely financing of project activities as well as providing oversight, evaluation and audit.

PL 480

Title II

Food aid programs form an important part of the Mission's strategy to support economic stabilization, structural reforms, and increased productivity and employment. Continued levels of support reflect the urgency of alleviating the heavy burden the poor are bearing under the economic stabilization program, which is exacerbated by already existing chronic malnutrition. PL 480 Title II activities and the existing Section 416 program contribute directly to economic stability by providing a social safety net through activities such as community kitchens, maternal child health feeding and associated health activities, institutional support to community welfare organizations, temporary job creation, and food for work activities to construct or rehabilitate productive facilities.

Slightly less than half of the current food assistance program is focused on activities that directly target the most nutritionally vulnerable or that will result in income or productivity increases through microenterprises, agricultural production, employment generation or food for work activities. The other half is concentrated on relief or supplementary feeding programs in the poorer areas of the country. During this Action Plan period food assistance will be targetted increasingly away from the maintenance of the social safety net among the poorest segments of the population hardest hit by the recession and directed towards programs emphasizing income increases for the same beneficiaries. We propose that the Title II activity continue at the FY 92 level of \$75 million (including ocean freight) in FYs 1993 and 1994. In FY 95 and beyond, the direct food assistance program will be reduced in expectation of renewed economic growth, greater domestic food production and increased income levels. Funding requirements also would be reduced in the next Action Plan period based on this assumption.

The proposed program includes several aspects: Title II commodities for direct distribution by four PVOs, Title II for monetization to cover local costs related to these programs, and Title III counterpart for continuation of

the temporary employment program currently financed by sales of Section 416 commodities. The direct distribution program will increasingly promote employment and productivity efforts. Commodities will be distributed by four PVOs for maternal child health, food for work, and community feeding programs (comedores). This program, currently reaching three million poor Peruvians, has been key to containing social unrest that could jeopardize the Government's maintenance of its economic stabilization and structural adjustment programs.

Approximately \$20 million in Title II commodities will be monetized in FYs 1993 and 1994. Local currency generated from the monetization program will be used to cover the additional in-country transportation, storage, administration and management costs incurred by the PVOs in implementing the food assistance program responsibly. The Title II programs are personnel intensive for management because of oversight requirements for both commodities and monetization funds, adding further to O.E. funding needs.

Title III

PL-480 Title III food assistance is a high priority as the commodities provided play a vital role in balance of payments support to the GOP, in addition to generating local currency for developmental activities. The program supports and helps advance the GOP's economic reform programs. The 1992-93 Title III program will focus on further policy changes needed in agriculture, including improving the efficiency of food import procedures, adjusting import tariffs, privatizing research/extension facilities and creating rural financial markets. Local currency proceeds will be programmed in support of USAID strategic objectives relating to creation of a policy environment conducive to growth, revitalization of the private sector and improved access to quality primary health care services. HCOLC is used both to support USAID projects and to finance NGO activities consistent with our strategic objectives.

The levels requested for 1993 and 1994 (\$50 million per year) are justified on the basis of Peru's continuing strong economic policy performance and the need to support it by assuring commercial food supplies without incurring additional international debt. We assume that by FY 1995, a return to more moderate levels of Title III assistance (\$30 million per year) can be contemplated. Monitoring of Title III policy reform performance, commodity sales and local currency management requires USDH and other O.E.-financed personnel in the Program, Food and Agriculture and Controller Offices.

Development Assistance (DA)

DA levels of \$25.0 million for both FYs 1993 and 1994 are required to foster economic diversification and agricultural investment through building private sector institutional capacity to disseminate new agricultural technology and develop rural credit systems, which will mobilize local resources for investment. Funds will also be used to increase host government support for preventive health, including child survival and population programs, while improving management and financial sustainability of these services. In addition, resources will be needed to continue improving the capacity of private organizations to deliver family planning services and for

Private Voluntary Organizations (PVOs) whose activities contribute to meeting A.I.D. strategic objectives of increasing access to quality primary health care.

USAID could make good use of additional DA resources beyond the control levels we have budgeted, for activities to reactivate private sector growth in agriculture and to increase access to quality primary health care services. An increase in DA levels during the Action Plan period would allow accelerated implementation of important health and agriculture-related projects, for which we will have significant mortgages. In particular, an increase in the DA level would ensure that the health non-project assistance activity could be implemented quickly, with greater GOP resources directed toward preventive care, increased cost recovery for curative services, and stronger rewards for improved personnel performance.

B. Operating Expenses

The FY92 approved level of \$5.350 million and the FY93 level of \$5.927 million provided in the FY93 ABS appear adequate to cover our projected needs in those years. However, OE requirements for FY94 are \$6.804 million and exceed the FY-93 level by 15 percent.

The projected 15 percent increase in FY94 is due to the large number of USDH transfers we have budgeted for that year. Peru is a one tour post, and our experience is that most USDH's will want to transfer to a more comfortable and secure environment at the completion of their tour. Also, four USDH positions are now occupied by tandem couples. We assume that they will transfer in FY94, and that their replacements will more than double the cost of post assignment travel and freight, education allowances, and housing. Office rental cost will also increase in FYs 93 and 94 because of the loss of an offset received through FY92. The offset was a recovery of the value of an AID-owned property transferred to the landlord when the office lease agreement was negotiated.

The estimated FSN salary and related OE costs is almost \$2.8 million in FY92. This includes the accrued severance earned during that year, but excludes cumulative accruals through FY 91. These accrued liabilities total \$900,000, and will increase to \$1.05 million by the end of FY 92. Our FY 93 and 94 OE budget estimates also include the annual accrued severance earned each year. We will need an increase of \$900,000 in our Trust Fund ceiling in FY 1992 to cover this severance pay liability and to avoid future increases if the local severance pay plan is put into effect this year.

FSNs have not received salary increases since June 1991. Based on a recent cost-of-living spot check, a 42.6% salary increase was approved in Washington, retroactive to December 1991. The post has not been able to implement this increase due to lack of budget resources by all agencies. Therefore, in lieu of the salary increase to the basic rates in the FSN Local Compensation Plan, the post implemented a one time bonus. Our inability to finance the salary increase has had a major impact on FSN morale because of continuing local inflation as well as heightened security concerns. We are hopeful that salary increases will be forthcoming during FY92-94, although the amount of increase and timing are not known. Our budget projections include

estimated FSN wage increases and take into account our projection of exchange rate changes. We have assumed FSN wage increases of 20% in FY92, 25% in FY93, and 15% in FY94.

Our OE budget will continue to be high to maintain our current level of operations. As implementation of new programs begins, demand for support will increase. The high cost of doing business in Peru is a reflection of two factors: Peru is one of three critically high threat posts in the world, and Lima is one of the most expensive cities. All FSN employees are entitled to danger pay. The same is true of all USDH and OE-funded USPSCs. In FY91, all USDH employees and non-resident USPSC's started receiving a cost of living allowance. Also due to the Gulf crisis and local security problems, all dependents of U.S. personnel were authorized to leave Post at U.S. Government expense under "authorized departure" orders in early 1991. These costs were unexpected and our estimates do not reflect the possibility of future incidents that might require additional OE resources.

Historically, the cost of security guards services to USAID has been low, since the State Department has been funding most of these services. However, there are indications that A.I.D. will soon have to contribute its share of the total cost, which could add approximately \$300,000 annually to our estimates.

Opportunities to charge costs to program funds are being pursued. We have already identified several current positions which will be transferred to project funding. Support costs for project-funded positions will also be built into new projects. Other short-term measures could be taken to reduce costs, such as discontinuing services to the MDCs, deferral of procurement of non-expendables, and a reduction in operational travel costs. However, a budget reduction or shortfall would affect the implementation of our expanded program.

A Trust Fund agreement was signed during the first quarter of FY92, covering our local costs needs for a period of 18 months. Originally, we anticipated receiving these funds by the end of FY91. However, due to U.S. delays in establishing conditions for and signing of the ESF agreement, the \$4.5 million Trust Funds, have not yet been received. Due to an internal reorganization the Ministry of Economy and Finance has not yet set up its Technical Unit to manage the ESF and Title III local currency program and make available Trust Funds. We anticipate that Trust Funds will be deposited no later than June 1992.

We will require that the GOP deposit in the Trust Fund the equivalent of \$3.0 million in FYs 93 and 94, and that the balances at the end of FYs 1992 and 1993 \$1,600,000 and \$2,600,000 respectively. This assumes that the Mission's overall FY 92 level and the Trust Fund ceiling of \$2.0 million imposed by the Bureau will be increased to allow for the payment of accrued severance through FY 91.

USAID/Peru does not intend to use Trust Funds for reverse accommodation purposes.

Fourteen weaknesses were identified in the Internal Control Assessment. Resolution of most of these unsatisfactory control techniques should occur by March 31, 1992. We do not anticipate any material cost implications to correct these deficiencies.

During the past three years, the Mission has had experience in the administration of Non-Federal audits. The new recipient Audit Program will create additional monitoring responsibilities. A training session on the implementation of the new policy will be given by RIG auditors in March 1992. Representatives of CPA firms, grantees, project managers and coordinators will attend. We will monitor the workload implications of this new program to determine if additional resources are necessary.

As shown below, the actual FY92 FSNDH levels are less than anticipated, while we have more FSNPSCs than projected. USAID policy is to replace FSNDH vacancies in most positions with PSCs, and to use program funds wherever appropriate. Anticipated reductions in OE-funded FSNPSC are behind schedule for two reasons. First, we had to add two temporary positions to administer the program distributing surplus DOD food commodities that became available after the Gulf War. This need was completely unanticipated. Second, plans to shift positions from OE to project funding have been delayed because funds for bilateral projects, expected to become available by early FY92, have been held up due to continued Brooke-Alexander and Section 620(q) restrictions. These reductions should take place by FY93.

We have considered possible changes in administrative staffing that could result in sharing of some service functions with other USG agencies. Currently we are considering the combining of Personnel and Residential Maintenance functions with the Embassy. A joint State/AID working group is doing a feasibility study, which should be completed by mid June. Depending on whether AID or State assumes one of these functions, AID staffing could either increase or decrease. We will make changes only if there is a net reduction in A.I.D. costs or the change is budget neutral. Other than the possibility of increases/decreases in these areas, USAID/Peru will be able to manage its expanding program with the same OE staffing levels.

OE FUNDED STAFF LEVELS

<u>TYPE OF PERSONNEL</u>	<u>FY92</u> <u>(planned)</u>	<u>FY92</u> <u>(actual)</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>
USDH	18	18	18	18	18
USPSC (expatriate)	2	1	0	0	0
USPSC (resident)	1	2	2	2	2
FSNDH	42	39	38	37	37
FSN PSC	<u>101</u>	<u>109</u>	<u>104</u>	<u>105</u>	<u>105</u>
 T O T A L	 164	 169	 162	 162	 162
	===	===	===	===	===

C. Mortgage Narrative

The USAID/Peru Development Assistance mortgage at the end of Fiscal Year 1991 amounted to \$32,261,000. At the end of FY 1992, it will be \$37,119,000 and in FY 1993 \$73,113,000. In FY 1994 it will decrease to \$49,363,000. The most important factor in the increases in FY 93 and FY 94 with relation to 1991 and 1992 was the abnormally low level of FY 1991 mortgage due to the proportion of the project portfolio which terminated in FYs 1991 and 1992 and which had been forward funded in previous years with deobligated funds.

Eleven projects terminated or are scheduled to terminate during Fiscal Years 1991 and 1992. This contrasts with five new DA-financed projects during 1991 and 1992. This transition period for DA project activities provided for low mortgage overall because most PVO projects in implementation had been forward funded with OYB and prior year deobligations utilizing 123(e) authority. We expect 620 (q) and Brooke Alexander sanctions to be lifted shortly. This will allow obligation of two ongoing bilateral projects as well as certain new projects under design. Progress in Paris club rescheduling needs to continue in order to assure that such projects will not be stalled later because sanctions enter into effect again prohibiting new obligations. The three new projects to be initiated in FY 93 are seen by the Mission as the minimum amounts necessary to achieve the major policy breakthroughs described in this submission. Additionally, Mission intends to fund its ongoing program as well as initiatives started in FYs 1991, 1992 and 1993 at the MCC level of \$25.0 million and expects to fully fund the mortgage by FY 1996.

We also need assurance that Brooke and 620 (q) exceptions for ESF-funded counternarcotics activities continue, so that important Mission interventions are not threatened. Further assistance is needed on narcotics conditionality. The Mission has a large portfolio of programs and projects, with large mortgages, which depend on NSD-18 funding. If Peru fails to meet USG narcotics conditionality in any year, and those funds are blocked, our projects will be stalled quickly.

V. MISSION INITIATED ISSUES

ESF Conditionality

Narcotics-related conditions attached to ESF balance of payments assistance were developed very late in FY 91. The constantly changing nature of these conditions and our inability to give the GOP a detailed outline of requirements created an enormous workload for the Mission and these delays reduced the impact of conditionality. We recommend that AID/W work with the other participating U.S. institutions to ensure earlier agreement on balance of payments conditions for FY 92.

ESF PD&S

The Mission urgently needs ESF PD&S to finance the design of new counternarcotics activities. Our limited Development Assistance (DA) budget

does not contain sufficient resources to cover our needs beyond the DA program. AID/W should ensure the early release of these funds as well as securing clear Congressional agreement on the exemption of ESF PD&S from International Narcotics Control Act (INCA) restrictions.

New USAID Building

The Embassy is constructing a new Chancery on a compound that contains space for a new USAID building. The second phase of the construction plan calls for the installation of an A.I.D. facility. AID/W should work with FBO to determine funding availability for this building. If resources are not made available, USAID needs guidance regarding the long term lease or purchase of our current building.

Backstopping of MDCs

USAID provides Controller and/or Executive Office backstopping for Chile, Colombia and Brazil. At the same time we receive the services of regional contracting and legal offices. Given our growing program, as well as our desire to keep personnel levels down for security reasons, it will be difficult to continue providing backstopping to other posts. We recommend that AID/W quickly conclude its review of regional services with a view towards consolidating them outside Peru.

Trust Fund Cap

FSNs in Peru have been subjected to a sharp limit on salary increases in spite of continued inflation. Furthermore, the Mission has not yet implemented a new severance payment program, for which we have an accrued liability through FY 1991 of \$900,000. We need to have the FY 1992 Trust Fund cap of \$2 million increased to cover this liability. Furthermore, if wage surveys continue to justify wage increases, we may need to have the cap on our Operating Expense Trust Fund level increased to cover these costs in FY 1994.

Security and Staffing

Given Peru's security problems we have purposely attempted to keep down the number of U.S. personnel on long term assignment. We have used Peruvian or other personnel resident in Peru to meet many of our needs, or have relied on substantial TDY assistance. However, as the program grows, the number of U.S. personnel will need to increase. The Mission is again going through an NSDD-38 exercise with the Ambassador to determine future personnel levels. Our program could be affected by the outcome of this exercise.

Shared Administrative Services

USAID is exploring combining certain administrative services between the Embassy and USAID in order to reduce overall U.S. Mission costs and personnel and to improve efficiency. USAID may take on some additional services the Embassy now provides, or could pass to the Embassy some operations that it can perform more effectively at reduced cost to USAID. We hope that this exercise will result in more efficient administrative services for all Embassy and USAID personnel and O.E. cost savings to USAID.

Table 1.1: MONITORING THE ACHIEVEMENT OF STRATEGIC OBJECTIVES

Country: PERU

LAC Bureau Objective: Support the achievement of broadly-based, sustainable economic growth
 Sub-Objective: Encourage economic policies that promote investment, productive employment and outward oriented diversification

Mission Strategic Objective 1: Establishment and maintenance of sound economic policy and structural reforms that promote economic stabilization and sustainable economic growth

Indicator	Unit	Base-line value	date	Target value	date	Current Year 1991 value	date	1992 Target value	date	Data source
Economic policy score index (see attached table)	points	31.1	89	80	93	76.7	90-91	80.0	92-93	CIPE
	1-100									APOYO

Program Output 1.1: Specific improvements in key policy areas

Trade policy	1-19	4.8	89	19.0	93	15.0	90-91	16.11	92-93	CIPE
Tax and expenditure policies	1-10	4.4	89	10.0	93	7.2	90-91	7.4	92-93	CIPE
Privatization	1-10	3.0	89	10.0	93	4.8	90-91	5.6	92-93	CIPE
Legal, regulatory and judicial environment	1-18	9.0	89	18.0	93	10.7	90-91	10.8	9-93	CIPE

Program Output 1.2: Maintenance of internationally credible stabilization policies facilitated by the provision of a social safety net for the poorest segment of the population, which prevents major social unrest

Economic program meets IMF criteria for approval	Yes/No	No	89	Yes	93	Yes	90-91	Yes	92-93	IMF

INDICATOR : ECONOMIC POLICY SCORE INDEX
(Actuals and Targets)

Category Weights	Policy Areas	Policy Criteria	Policy Weights "The Ideal"	Baseline 1 Years 1980-1988	Baseline 2 Year 1989	Current Years 1990-1991	Target Years 1992-1993
			Rating Score	Rating Score	Rating Score	Rating Score	Rating Score
19	Trade policy (*)	Low and uniform nontariff barriers	9	60%	20%	80%	7.2
		Low and uniform tariff barriers	6	60%	30%	70%	4.2
		No local content regulations	4	50%	30%	90%	3.6
14	Exchange rate policy	Market determined exchange rate	9	50%	20%	90%	8.1
		Minimal exchange controls	5	70%	10%	100%	5
11	Credit policy	Market-driven real interest rates	7	70%	20%	90%	6.3
		Minimal preferential interest rates	1	60%	30%	80%	0.8
		Equal access to capital	3	60%	30%	70%	2.1
11	Wage/price policies	Limited wage and price controls	7	70%	20%	90%	6.3
		Minimal subsidies	4	70%	20%	90%	3.6
10	Tax and expenditure policies (*)	Balanced budget / slight surplus	6	60%	40%	2.4	90%
		Reduced marginal tax rate	2	50%	50%	1.0	40%
		Equitable / uniform tax collection	2	50%	50%	1.0	50%
10	Role of State (*)	Divest nonstrategic SOE's	5	40%	20%	1.0	40%
		Franchise out state services	2	40%	40%	0.8	50%
		Simulated privatization	3	60%	1.8	40%	1.2
7	Investment policy	Non-discriminatory treatment	6	60%	3.6	40%	2.4
		Proactive promotion	1	60%	0.6	40%	0.4
18	Legal, regulatory and judicial environment (*)	Free flow of market information	2	70%	1.4	70%	1.4
		Private property rights	9	70%	6.3	50%	4.5
		Efficient gov. administration	2	50%	1.0	50%	1.0
		Legal and accounting system	2	60%	1.2	60%	1.2
		Infrastructure	3	50%	1.5	30%	0.9
			100	59.8	31.1	76.7	80.0

(1) TOTAL REFORM SCORE/WEIGHTED - MEAN REFORM SCORE/UNWEIGHTED

(*) Refer to explanation enclosed

Source: Center for International Private Enterprise; APOYO

Table 1.2: MONITORING THE ACHIEVEMENT OF STRATEGIC OBJECTIVES

Country: Peru

LAC Bureau Objective: Support the achievement of broadly-based, sustainable economic growth
 Sub-Objective: Encourage a vigorous private sector response

Mission Strategic Objective 2: Reactivated labor-intensive private sector generating employment and foreign exchange for small business, non-traditional exports and agriculture sectors

Indicator	Unit	Base-line		Target		Current Year 1991		1992 Target		Data source
		value	date	value	date	value	date	value	date	
Increase employment in targeted sectors (M/F)	thous. jobs			To be determined (*)						MLSP, INS
Increase in non-traditional exports	US \$M	974	90	1400	95	996	91 est.	1000	92	CRBP, ADEX
Increase in private sector investment as % GDP	%	13.6	90	18.7	95	12.7	91 est.	16	93	CRBP

(*) performance indicators to be refined in next Action Plan - IEP Project employment target is increase of 20,000 direct jobs by 1997

Program Output 2.1: Policy framework favoring private sector development

GOP macro-economic policy reforms favor private enterprise		See Table 1.1			CIPE			
Unified Business Registry for micro-enterprise operators	No	80,000	95	30,000	91	40,000	92	ILD semi-annual report
Commodity Exchange or other open, private system for agricultural commodity import & marketing	none	Established	95					Title III reports
Private rural credit institutions allowed to operate with normal banking rules (no subsidies)	No	30	97					ACRSM reports
Agricultural research through public-private cooperation, private sector extension of technologies		Established	95					ATD project reports
GOP reforms ag pricing system to eliminate price distortions		Established	95					various studies

Table 1.2: MONITORING THE ACHIEVEMENT OF STRATEGIC OBJECTIVES

Country: Peru

LAC Bureau Objective: Support the achievement of broadly-based, sustainable economic growth
 Sub-Objective: Encourage a vigorous private sector response

Mission Strategic Objective 2: Reactivated labor-intensive private sector generating employment and foreign exchange for small business, non-traditional exports and agriculture sectors

	Base-line	Target	Current Year 1991	1992 Target
Increased information on external markets	none	90 Established	93	IEP SAR
	center			

(***) will be refined with the implementation of IEP

Table 1.3: MONITORING THE ACHIEVEMENT OF STRATEGIC OBJECTIVES

Country: Peru

LAC Bureau Objective: Support the achievement of broadly-based, sustainable economic growth
 Sub-Objective: Encourage increased economic opportunities for the disadvantaged

Mission Strategic Objective 3: Improve health status through access to quality primary health care

Indicator	Unit	Base-line		Target		Current Year 1991		1992 Target		Data source
		value	date	value	date	value	date	value	date	
Decreased infant mortality rate	No. deaths among live births under 1	81/1000	6/90	65/1000	9/95*			79/1000	9/92	UNICEF
Decreased childhood malnutrition (weight for age less than 2 s.d. of NCHS standard)	Children under 5 years a. rural b. urban	23% 6.5%	84 84	17% 3%	95* 95*	23% 6.5%	10/91 10/91	22% 6%	9/92	PRISMA/IN 9/92 Survey
Decreased total fertility rate		4.1	86	3.3	95	3.8	91	3.7	9/92	DHS II (91) QUIPUS
Increased couple-years-protection		620,000	9/90	1 m	95	700,000	91	800,000	6/92	QUIPUS & service stat.

Program Output 3.1: Increased use of primary & preventive health services, including family planning
 Sub-output 3.1: Increased capability of the public sector to provide preventive health care

Inc. share MOH budget for prim. health care	%	5%	90	15%	95	8%	6/91	10%	6/92	MOH Office Admin/Budget
Inc. % children <1 immunized	%	70%	12/90	85%	12/95	60%	11/91	73%	1/92	MOH/PAHO Offic. Stat
Increase modern contraceptive prevalence age (WCBA)	% women reproductive age (WCBA)	23%	86	40%	12/95	28%	6/91	30%	1/92	DHS II (91) MOH Off. of Fam. Plan

Sub-output 3.2: Increased participation of the private sector in providing primary health services

Inc. sales of oral contraceptives	Thousands cycles pills	1,075	91	1,500**	12/93	1,075	91	1,130**	12/92	A PROPO
Percent operating costs recovered in PVO family planning services	%	10%	6/91	35%	12/95	10%	6/91	15%	12/92	PRISMA Evals.

Table 1.3: MONITORING THE ACHIEVEMENT OF STRATEGIC OBJECTIVES

Country: Peru

LAC Bureau Objective: Support the achievement of broadly-based, sustainable economic growth
 Sub-Objective: Encourage increased economic opportunities for the disadvantaged

Mission Strategic Objective 3: Improve health status through access to quality primary health care

Indicator	Unit	Base-line		Target		Current Year 1991		1992 Target		Data source
		value	date	value	date	value	date	value	date	
Sub-output 3.3: Improve targeting of information - education - communication efforts										
Percent diarrheas treated with ORS	%	5%	90	40%*	95	5%	91	8%	92DHS II (91)	MOH HIS/MIS

* Assuming targeted CS efforts

** Preliminary - to be revised after marketing plan completed

Table 1.4: MONITORING THE ACHIEVEMENT OF STRATEGIC OBJECTIVES

Country: Peru

LAC Bureau Objective: Support the evolution of stable, participatory democratic societies
 Sub - Objective: Strengthen civilian government institutions
 Strengthen public participation in Democratic Process

Mission Strategic Objective 4: Encourage strong democratic institutions that reinforce economic freedom

Indicator	Unit	Base - line		Target		Current Year 1991		1992 Target		Data source
		value	date	value	date	value	date	value	date	
% of public with no confidence in the Judiciary	%	79%	91	45%	95	79%	91	75%	92	Apoyo S.A. pub. op. poll
% of persons in penitentiary awaiting trial	%	75%	91	30%	95	75%	91	70%	92	Stats. Judic.
Average time for judic. process	yr.	2yr2mo	91	1yr	95	2yr2mo	91	1yr10mo	92	Stats. Judic.
Ratio trials processed to trials pending	%	24%	91	70%	95	24%	91	30%	92	Stats. Judic.
Non-partisan institution providing analysis for purpose of drafting legislation		none		Established	94					Proj. repts

Program Output 4.1: Non-partisan institution supporting judicial reform

Non-partisan institution established	0	90	Established	95	begin design	91	continue des.	92	Project repts
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Program Output 4.2: Strengthened judicial and information system

Case tracking system designed and implemented in courts	No. courts using	10	91	193	95	10	91	20	92	Semi-annual report Judic.
Case tracking designed and implemented in Prosecutor's Office	No. courts using	0	91	195	95	0	91	20	92	Semi-annual rept Jus. Min.
Accusatorial system functioning throughout country	%	0	91	100	93		established		92	Project repts
3 academies to train people in new accusatorial criminal code	%	0	91	100	93			50	92	Project repts

Table 1.4: MONITORING THE ACHIEVEMENT OF STRATEGIC OBJECTIVES

Country: Peru

LAC Bureau Objective: Support the evolution of stable, participatory democratic societies
 Sub-Objective: Strengthen civilian government institutions
 Strengthen public participation in Democratic Process

Mission Strategic Objective 4: Encourage strong democratic institutions that reinforce economic freedom

Indicator	Unit	Base-line		Target		Current Year 1991		1992 Target		Data source
		value	date	value	date	value	date	value	date	

Program Output 4.3: Improved Human Rights record

National Registry of Detainees functioning	%	0	91	100	92	0	91	100	92	Project repts
No. of accusations of disappearance cases	No.	300	91	0	93	300	91	100	92	St. Dept & local hum. rts. grps

Program Output 4.4: Improved access to legal aid

Legal Aid Offices functioning and supporting legal defense	No. offices	0	87	100	93	31	91	50	92	Semi-annual rept Just Min
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Program Output 4.5: Enhanced ability of the Judicial System to adjudicate civil, criminal and economic cases in a fair and timely manner

Indicator	Unit	Base-line	Target	Current Year 1991	1992 Target	Data source
Increased conviction rates for terrorists, narco-traffickers and criminals in general	%					

Program Output 4.6: Increased responsiveness of public institutions to Peruvian society

No. of regional governments that pre-publish and discuss draft laws	No.	2	91	11	95	2	91	9	92	ILD semi-annual rept.
No. of administrative procedures simplified	No.	100	90	420	95	120	91	270	92	ILD semi-annual rept.
No. property titles granted	No.			600,000	95	30,000	91	50,000	92	ILD semi-annual rept.

Table 1.4: MONITORING THE ACHIEVEMENT OF STRATEGIC OBJECTIVES

Country: Peru

LAC Bureau Objective: Support the evolution of stable, participatory democratic societies
 Sub-Objective: Strengthen civilian government institutions
 Strengthen public participation in Democratic Process

Mission Strategic Objective 4: Encourage strong democratic institutions that reinforce economic freedom

Indicator	Unit	Base-line		Target		Current Year 1991		1992 Target		Data source
		value	date	value	date	value	date	value	date	

Program Output 4.7: Increased public awareness of adverse effects of illicit drug production, trafficking, and abuse in Peru

People who think that drugs are a problem for Peru	%	43%	88	75%	95				55%	92 CEDRO polls
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Program Output 4.8: Increased participation and interaction between local government officials and citizens in establishment of a responsive, democratically elected government and the provision of basic human and infrastructure needs

No. organizations incorp. into anti-drug network	No.	0	87	2050	95		1985	91	1990	92 CEDRO
Secondary schools with drug prevention curricula	No.	20	90	500	95		0	91	100	92 Min. Ed. policy rept.

NB: 1995 targets depend on higher funding for judicial reform

Table 1.5: MONITORING THE ACHIEVEMENT OF STRATEGIC OBJECTIVES

Country: Peru

LAC Bureau Objective: Respond to specific challenges

Sub - Objective: Diminish participation in production, trafficking and abuse of narcotics

Mission Strategic Objective 5: Replace coca based employment and foreign exchange earnings with legal alternatives

Indicator	Unit	Base - line		Target		Current Year 1991		1992 Target		Data source
		value	date	value	date	value	date	value	date	
Dec. FX earnings from coca/cocaine	\$M	800	90	400	97	800		700	93 various stat	
Dec. coca farmer employ.	No.	71,000	90	40,000	97	71,000		65,000	93 various	
Inc. areas in production legal marketable crops Huallaga Valley/surr. areas	Ha.	100,000	90	TBD						
Inc. new investment in legal production activities in Huallaga Valley/surr. areas	\$M	0	90	100	97	0		20	93 various	

Program Output 5.1: Increased access to legitimate economic activity in Huallaga Valley and adjacent high jungle areas

Sub - output 1: Increased number of producers with negotiable titles of land

Establishment of a functional land registration/titling system in Huallaga Valley	No.	0	90	1	93			SER, other reports

Sub - output 2: New markets developed for legitimate crops

Access to new markets opened for legal products	No	0	91	8	97		2	93 SER
Value of legal produce leaving target area	TBD			TBD				

Sub - output 3: Increased number of producers using modern agricultural technologies in target areas

No. farmers using recommended varieties & technologies	persons	18,000	91	50,000	97	18,000	91	22,000	93 SER
No. new varieties of seeds developed through research	varieties	0	91	10	97	0	91	7	93 SER

Table 1.5: MONITORING THE ACHIEVEMENT OF STRATEGIC OBJECTIVES

Country: Peru

LAC Bureau Objective: Respond to specific challenges

Sub - Objective: Diminish participation in production, trafficking and abuse of narcotics

Mission Strategic Objective 5: Replace coca based employment and foreign exchange earnings with legal alternatives

Indicator	Unit	Base-line		Target		Current Year 1991		1992 Target		Data source
		value	date	value	date	value	date	value	date	
Sub-output 4: Increased production of legal crops										
Rice	MT	113,900	91	TBD						CORDESAM
Corn	MT	64,860	91	TBD						
Plaintain	MT	33,270	91	TBD						
Cassava	MT	28,288	91	TBD						
Beans	MT	3,347	91	TBD						

Sub-output 5: Infrastructure provided for increased alternative economic activity in target areas

No. kms road rehabilitated or upgraded	rehab new const	0	90	3200	97	0	0	800	93 SER project
		0	90	800	97	0	0	200	93 SER
Inc. elec capacity	new kws	0		20,000	97	0	0	0	SER
Health centers in operation	No.	32	91	80	97	32	91	40	93 SER, MOH sta
No. potable water systems in place	Total	60	91	140	97	60	91	80	93 SER
	No.	800	91	1040	97	800	91	860	93 SER
Classrooms for use local communities	linear meter (LM)	600	90	3000	97	600		1000	93 SER
Areas reforested (hectares)	No. has.	0	90	15,000	97	0		1,200	93 SER

Sub-output 6: Increased availability of financing of alternative economic activity in target area

No. institutions providing credit	No.	2	90	5	97	2		5	93 SER
Increased no. loans	No.	13,826	90	32,000	97			16,000	93 SER
Inc. % repayment	%	40%	90	90%	97			60%	93 SER

Table 2.1: STRATEGIC OBJECTIVE PROGRAM OVERVIEW

Country: Peru

Strategic Objective: Establishment and maintenance of sound economic policy and structural reforms that promote economic stabilization and sustainable economic growth

Other Activity:

Program Outputs	Activities	Source of Support	
		Title	No.
Specific improvements in key policy areas	Policy studies/dialogue	Policy Analysis, Planning & Implementation (PAPI)	527 - 0343
	Policy conditionality/dialogue	Economic Stabilization & Recovery (ESPP)	527 - 0344
	Policy conditionality/dialogue	Title III	
	TA for agricultural policy	Policy Analysis for Private Agriculture Development	527 - 0357
Maintenance of internationally credible stabilization policies facilitated by the provision of a social safety net for the poorest segment of the population, which prevents major social unrest	Social safety net (e.g., food for community kitchens) MCH targeted feeding/health actions by PVOs Institutional support for welfare organizations Temporary job creation	PL480 Title II Title II monetization Section 416 (91 program) Farm Bill/Inst. Strengthening grants to PVOs DOD Section 416	AID/W 527 - 0353
	Food monetization for BOP support/projects	PVO Program Support PL 480 Title III	

Table 2: STRATEGIC OBJECTIVE PROGRAM OVERVIEW

Country: Peru

Strategic Objective: Reactivated labor – intensive private sector generating employment and foreign exchange...

Other Activity:

Program Outputs	Activities	Source of Support Title	No.
Policy framework favoring private sector development	Policy dialogue Policy dialogue Policy studies Land titling, business registry, other policy studies/reforms Agricultural information & policy guidance	Economic Stabilization & Recovery PL 480, Title III Policy Analysis, Planning & Implementation ILD Private Sector Institutional Reform Policy Analysis for Private Agricultural Development	527-0344 527-0343 598-0772 527-0357
Accelerated technology transfer for improved competitiveness on selected marketable goods & services	Agricultural research/extension Dissemination of new agr. technologies Info systems/analysis in ag. Sustainable production/harvesting In protected envr. area Private rural savings/credit institutions non-subsidized credit for ag enterprises TA, training for sm. business TA, train for business TA, research, training in Huallaga Valley for legal crop production, mktng TA, training in Upper Huallaga Valley for legal crop production Microenterprise generation by PVOs Women's income generation	Agricultural Technology Transfer Agricultural Technology Dissemination Policy Anal. for Priv. Ag. Dev. Employment & Natural Resource Sustainability Ag Credit & Rural Savings Mobil. Small Bus. & Employ. Expansion Private Sector Mgmt Improvement Selva Economic Revitalization Upper Huallaga Area Dev. PVO Program Support Title II/PVO Program Support	527-0282 527-0358 527-0357 527-0341 527-0359 527-0350 527-0298 92PACD 527-0348 527-0244 92PACD 527-0353
Expanded export opportunities for selected non-traditional products	Provide firm-level TA on a cost-shared basis to export firms in areas such as production, marketing and crop variety and selection Credit line for capital equipment and working capital Establishment of central & regional info centers with product/price quotations, entry requirements, standards, etc. Promote linkages between export associations to enhance lobbying potential for additional policy reforms	Investment & Export Promotion (HCOLC from ESF)	527-0349 527-0344

Table 2.3: STRATEGIC OBJECTIVE PROGRAM OVERVIEW

Country: Peru

Strategic Objective: Improve health status through access to quality primary health care

Other Activity:

Program Outputs	Activities	Source of Support	
		Title	No.
Increased use of primary and preventive health services	Promotion and family planning services	Private Commercial Family Planning	527 - 0326
	Family planning services	Private Voluntary Sector Family Planning Expansion	527 - 0335
	Support to public health, child survival services	Child Survival Action	527 - 0285
	Primary health care service support, alternative financing systems set up	Strengthening Private Sector Health Institutions	527 - 0319
	Maternal - child health, other	PVO Program Support	527 - 0353
	Policy reform, support to health care services and financing	Health Policy Reform	527 - 0360
	Food for at - risk mothers & children, preventive care assistance	Title II/Monetization	
	Central support:		
	Operations research/policy	Population Council	AID/W
	Family planning services (especially long - lasting methods)	Pathfinder	AID/W
	Family planning services (PVO expansion)	IPPF (INPARRES)	AID/W
	Regional support:		
	Cholera control & prevention		LAC

Table 2.4: STRATEGIC OBJECTIVE PROGRAM OVERVIEW

Country: Peru

Strategic Objective: Encourage strong democratic institutions that reinforce economic freedom

Other Activity:

Program Outputs	Activities	Source of Support	
		Title	No.
Non-partisan institution supporting judicial reform	TA, training, studies, policy dialogue with Judiciary and	Administration of Justice	527-030: ends 93
Strengthened judicial and information systems	TA, training, studies, information systems, human rights work, development new entity for legal reform	Judicial Strengthening	527-035:
Improved human rights record	TA for establishment National Detainee Registry systems	Program Development & Support	
Improved access to legal aid	TA, training, establishment of legal aid offices	Judicial Strengthening	527-035:
Enhanced ability of the Judicial System to adjudicate civil, criminal and economic cases in a fair and timely manner	Assistance provided to Judiciary under JUST	Judicial Strengthening	527-0352
Increased public awareness of adverse effects of illicit drug production, trafficking and abuse in Peru	Educational efforts, media use to inform and organize against drug production and abuse	Drug Education and Public Awareness	527-0288 ends 92
	Educational efforts, seminars, etc. to increase awareness/organization against narcotics	Narcotics Education & Community Initiatives	527-034
Increased responsiveness of public institutions to Peruvian society	TA, training, policy dialogue for strengthening democ. insts.	Democratic Initiatives	527-035: starts 94
	Training	CLASP II	527-034:
Increased participation and interaction between local government officials and civilians...	Policy studies, dialogue, assistance in reform efforts at national and regional levels	ILD Private Sector Institutional Reform	598-0772

Table 2.5: STRATEGIC OBJECTIVE PROGRAM OVERVIEW

Country: Peru

Strategic Objective: Replace coca based employment and foreign exchange earnings with legal alternatives

Other Activity:

Program Outputs	Activities	Source of Support	
		Title	No.
Increased access to legitimate economic activity in Huallaga Valley and high jungle areas	Technical assistance, training, agricultural research, credit TA, training, infrastructure, etc.	Selva Economic Revitalization	527 - 0348 527 - 0344 ends 92
FOLLOWING OUTPUTS ARE ALSO RELATED TO STRATEGIC OBJECTIVES 1, 2, 4			
Increased public awareness of adverse effects of illicit drug production, trafficking and abuse in Peru	Counseling, media campaigns, education about drug abuse, production Education, campaigns about drug dangers to Peru and individuals	Narcotics Education and Community Initiatives Drug Education and Public Awareness	527 - 0347 527 - 0288 ends 92
Increased participation and interaction between local government officials and citizens in establishment of a responsive, democratically elected government	Studies, policy dialogue, TA for reforms Strengthening democratic institutions with TA, training, policy dialogue	ILD Private Sector Institutional Reform Democratic Initiatives	598 - 0772 527 - 0356 start 94
Improvement of the judicial system to adjudicate civil, criminal and economic cases in a fair and timely manner	TA, training, policy dialogue, studies TA, training, studies, information systems, human rights work, dev. new entity for legal reform	Administration of Justice Judicial Strengthening	527 - 0303 527 - 0352
Creation of an environment which allows legitimate and sustained economic growth	Policy dialogue, conditional fund Policy dialogue, conditional assistance Policy studies	Economic Stabilization & Recovery PL 480 Title III Policy Analysis, Planning & Implementation	527 - 0344 527 - 0343
Increased employment in legitimate productive enterprises	TA, training for employment expansion TA, training, studies for expansion of production, export of non-traditional exports credit lines for IEP	Small Business & Employment Expansion Investment and Export Promotion HCOLC from ESF	527 - 0350 527 - 0349 527 - 0344

Table 5: ROLE OF PROPOSED NEW INITIATIVES IN ACHIEVING USAID PROGRAM LEVEL OBJECTIVES

Country: Peru

Proposed New
Project and Program: Economic Stabilization and Recovery Program

Number: 527 - 0344 (may be changed for new tranche)

Activities	Program Outputs	Strategic Objective
Conditional disbursement of dollar resource transfer for balance of payments support	Specific improvements in key policy areas Maintenance of internationally credible stabilization policies facilitated by the provision of a social safety net for the poorest segment of the population, which prevents major social unrest	Establishment and maintenance of sound economic policy and structural reforms that promote economic stabilization and sustainable economic growth

Table 5: ROLE OF PROPOSED NEW INITIATIVES IN ACHIEVING USAID PROGRAM LEVEL OBJECTIVES

Country: Peru

Proposed New
Project and Program: Agricultural Technology Dissemination

Number: 527 - 0358

Activities	Program Outputs	Strategic Objective
technical assistance,	Accelerated technology transfer	Reactivated labor – intensive private sector
training, material	for improved competitiveness	generating employment and foreign exchange
support to build	of selected marketable	for small business, non – traditional exports
capacity of agricultural	goods and services	and agriculture sectors
researchers, seed producers		
farm supply organizations,		
communities to extend/apply		
improved agricultural		
techniques to increase		
production/productivity in a		
sustainable manner through		
private initiative		

Table 5: ROLE OF PROPOSED NEW INITIATIVES IN ACHIEVING USAID PROGRAM LEVEL OBJECTIVES

Country: Peru

Proposed New
Project and Program: Agricultural Credit and Rural Savings Mobilization

Number: 527-0359

Activities	Program Outputs	Strategic Objective
Support to farmer groups, cooperatives, informal farmer organizations, PVO - organized savings and credit institutions	Accelerated technology transfer for improved competitiveness of selected marketable goods and services	Reactivated labor - intensive private sector generating employment and foreign exchange for small business, non - traditional exports and agriculture sectors
to mobilize savings of members and/or channel credit under commercial financial practices to their members	Policy framework favoring private sector development	
production/productivity in a sustainable manner through private initiative		

Table 5: ROLE OF PROPOSED NEW INITIATIVES IN ACHIEVING USAID PROGRAM LEVEL OBJECTIVES

Country: Peru

Proposed New
Project and Program: Non – Project Assistance/Health Policy Reform

Number: 527 – 0360

Activities	Program Outputs	Strategic Objective
Conditional disbursement of dollar resource transfer plus technical assistance, training and studies aimed at strengthening the role of the public sector in the extension and sustainability of quality preventive services; establishing cost recovery and sustainability mechanisms for curative care services; and improving the efficiency of service delivery mechanisms.	Increased use of primary and preventive health services, including family planning – increased capability of the public sector to provide preventive health care;	Improve health status through access to quality primary health care

Table 5: ROLE OF PROPOSED NEW INITIATIVES IN ACHIEVING USAID PROGRAM LEVEL OBJECTIVES

Country: Peru

Proposed New
Project and Program: Investment and Export Promotion (amendment)

Number: 527-0349

Activities	Program Outputs	Strategic Objective
Overseas promotion of investment in Peru; expanded export promotion activities; studies of needed infrastructure improvements; expanded two-way trade; assistance in privatization of state-owned enterprises	Expanded export opportunities for selected non-traditional products	Reactivated labor-intensive private sector generating employment and foreign exchange for small business, non-traditional exports and agriculture sectors

NEW PROJECT DESCRIPTION FOR FY 93

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based, sustainable economic growth. Encourage economic policies that promote investment, productive employment and outward-oriented diversification.

MISSION STRATEGIC OBJECTIVE: Establishment and maintenance of sound economic policy and structural reforms that promote economic stabilization and sustainable economic growth.

PROJECT TITLE: Economic Stabilization and Recovery Program

PROJECT NUMBER: 527-0344 (provisional - tranche may require separate number)

FUNDING: (US\$000) FY 93: US\$70,000
LOP: US\$70,000

TYPE OF FUNDING: ESF

A. Consistency of Project with Mission Strategy: This program supports the Mission's highest priority, to maintain and strengthen Peru's efforts to establish sound economic policy reforms that are the foundation for economic stability with sustained growth. This program is critical to the achievement of all of the Mission's strategic objectives. In particular it is relevant to vital U.S. counternarcotics interests because sound policies must be in place for alternative coca income programs to be effective. In this context, the program supports the Mission's strategic objective of replacing coca-based employment and foreign exchange earnings with legal alternatives.

B. Relationship to A.I.D. and other Donor Activities: This program is intended to help advance Peru's process of reinsertion into the international financial system. The GOP has negotiated a framework to reestablish relations with and obtain financial support from the IMF, as well as from the IBRD and the IDB, who are beginning to design and implement programs for Peru. Continued payment of IFI debt is critical to the successful conclusion of the reinsertion effort.

C. Relationship of Project to Overall A.I.D. Policy Objectives: This program addresses two Agency and LAC strategic objectives: (a) to replace coca-based employment and foreign exchange earnings with legal alternative legitimate activities; and (b) to support a rapid, sustainable, private sector-led economic reactivation that generates foreign exchange, employment, and boosts productivity.

D. Project Description: The goal of the Economic Stabilization and Recovery Program is to assist the GOP's stabilization and structural adjustment efforts by providing balance of payments support. The purpose of the program is to support Peru's commitment and efforts to establish a sound economic policy framework which promotes investment, productive employment, export led economic diversification, and other structural reforms that serve as a foundation for economic stability and growth. The program also responds to the need for international cooperation in addressing the narcotics problem by encouraging the establishment of a macroeconomic framework that facilitates the creation of alternate sources of income within the economy, and providing resources to implement activities that advance counternarcotics objectives.

In July 1990, a new GOP Administration, headed by President Alberto Fujimori, took office. The previous handling of the economy has brought about severe recession and a total lack of confidence in the administration's ability to halt further deterioration. By July 1990, the accumulated inflation rate was 854 percent, GDP had dropped about 8 percent, real incomes were equivalent to 1969 levels, and defaulted international debt totalled \$12 billion.

The Fujimori administration instituted a comprehensive package of economic measures designed to stop hyperinflation, reduce the fiscal deficit, and lay the basis for sustained economic growth. The initial steps included the elimination of price controls, tax increases and government spending cuts, combined with an elimination of subsidies and the liberalization of foreign trade. Subsequent structural adjustment measures included the liberalization of the exchange rate and financial markets, a commitment to reduce the State's role in the economy through the privatization of public enterprises, tax and customs reform, and the liberalization of the land and labor markets, among others. In addition, the GOP reached an agreement with the USG on a framework to guide joint efforts to suppress drug trafficking and provide alternative development opportunities to coca farmers. .

The proposed \$70 million Economic Stabilization and Recovery Program complements the US\$50 million provided in FY 1991 for balance of payments assistance in three tranches of US\$20 million, US\$15 million and US\$15 million and US\$70 million proposed in FY 92. The FY 1993 program will directly support the implementation of the GOP's economic reform program while providing budgetary support to finance key counternarcotics activities. This support -complemented by resources from other donors- will be in the form of a cash transfer. The dollar funds will supply scarce foreign exchange resources to service eligible U.S. and multilateral debt, thus contributing to the GOP's economic reactivation and stabilization efforts. In addition, the GOP will deposit an equivalent amount in local currency into a special account in the Central Bank. The local currency counterpart will be used for projects agreed by the Mission and the GOP, and for a Trust Fund for the Mission's related expenditures. Release of funds under the program is tied in part to economic performance and progress toward meeting joint US/Peruvian counternarcotics objectives.

E. Planned Implementation Arrangements: The program will be implemented by the Central Reserve Bank and the Ministry of Economy and Finance (MEF), through a bilateral agreement with the GOP.

F. Sustainability of Proposed Activities: The policy reforms which the balance of payments assistance supports are designed to lay the basis for a sustained improvement in economic performance and development.

G. Mission Management Role: Development of and negotiation of program conditionality, along with the monitoring of compliance is the responsibility of the Program Economics Division along with Mission management. Management of local currency programming is the responsibility of the Office of Project Development and Program. USAID technical offices and the Office of the Controller will be in charge of monitoring the uses of the local currency counterpart.

H. Potential Issues and/or Innovative Program Approaches: The cash grants under ESF funding are subject to macroeconomic conditionality, which is based on the accomplishment of targets and benchmarks established on the program with the IMF, and to progress in counternarcotic activities. Inordinate delays in agreeing on narcotics conditions between the executive and legislative branches has hindered the balance of payments program in the past, and would occur again in FY 93. Also, USAID insistence in jointly programming local currency to help achieve counternarcotics objectives strains the GOP's limited budgetary resources.

NEW PROJECT DESCRIPTION FOR FY 93

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based, sustainable economic growth. Encourage economic policies that promote investment, productive employment and outward-oriented diversification.

MISSION STRATEGIC OBJECTIVE: Reactivated labor-intensive private sector generating employment and foreign exchange for small business, non-traditional exports and agriculture sectors.

PROJECT TITLE: Agricultural Technology Dissemination

PROJECT NUMBER: 527-0358

FUNDING: (\$000) FY 93: \$ 1,457
LOP: \$20,000

TYPE OF FUNDING: DA (ARDN)

A. Consistency of Project with Mission Strategy: The Mission's strategy is to support rapid and sustainable private sector-led growth which generates foreign exchange and employment and boosts productivity, including in commercial agriculture. This project will attempt to increase production yields and foster a demand-driven agricultural technology generation system in which the private sector plays a key role.

B. Relationship to A.I.D. and Other Donor Activities: The Mission's Agriculture Technology Transformation Project (ATT) has been actively engaged in agricultural research, private/public sector institutional development, participant training, and technology transfer. This project will support new efforts with greater emphasis on extension, dissemination and utilization of technologies generated. The International Fund for Agricultural Development (IFAD) is now proposing a highlands extension activity which will complement USAID's technology dissemination activity.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The project supports LAC and Agency objective of encouraging adoption of economic and sectoral policies which address impediments to broad-based growth. This project will reactivate productive sectors by increasing farmer productivity.

D. Project Description: The goal of this five-year project will be to develop a private sector institutional capacity to disseminate new technology that is available or being generated. The project purpose is to strengthen the capacity of local farmer groups, cooperatives and growers' associations to gain access to production technology and make it available to their members on a self-financing basis.

Since 1988 the Government of Peru has not had a public agricultural extension service. To cover this need, the project proposes to reinforce mutually beneficial links between the private sector and the producers. At one level we anticipate supporting private seed producers and farm supply organizations with the capacity to reach out to their consumers with better information to increase per hectare yields. At a second level we will develop the capacity of local producer organizations to finance extension personnel that are responsive to the community's needs.

Project personnel will interface with technology generators, helping orient their work to on-farm needs. They will also work with farm supply establishments to ensure the availability of resources for members of participating producer organizations. With the introduction of productivity-increasing techniques and a focus on local problems and solutions, we anticipate that local organizations will finance the cost of extension agents responsible to them. These activities will provide farmers, farmer groups, and growers' associations with information to lead to the conservation of arable soils, reclamation of marginal lands, optimal use of irrigation water, use of improved seeds and the sound application of chemical inputs. They will have the overall effect of increasing production and of creating a demand-driven technology transfer capability within the country. By increasing yields, introducing more varied crops, and increasing the land base, the agricultural/natural resource sector will contribute significantly to the stabilizing of Peru's fragile economy.

<u>A.I.D. Financed Inputs</u>	<u>Life of Project</u> (US\$000)
Technical Assistance/Training	9,000
Conferences, workshops, publications	2,500
Equipment and materials	3,500
Administrative costs	5,000
T O T A L	20,000

E. Planned Implementation Arrangements: Working with the Ministry of Agriculture, the Foundation for Agricultural Development, producers' groups, private sector suppliers and purchasers, and recently privatized extension organizations, the contractor will build capacity for private seed producers and farm supply organizations to reach clients and members with better information to increase production yields. The design effort will determine the most effective structure and relationship for fostering this contact at the grassroots level, whether via contract with private sector, university, private voluntary organization or a mixture of two or more groups.

F. Sustainability of Proposed Activities: Successful implementation will leave a self-financing system that develops a framework for dialogue between suppliers and producers so that both benefit from the system. The producers would profit from demand-driven technology which targets their needs, and the suppliers from a steady relationship with clients who are increasing income and demand for supplies.

G. Mission Management Role: The USAID Agriculture and Natural Resources Division in the Office of Food and Agriculture will manage the activity. The division has one direct hire who will provide liaison and oversight to the implementing organization, as well as assuring complementarity with the Agricultural Credit and Rural Savings Mobilization Project.

H. Potential Issues and/or Innovative Program Approaches: The project provides an innovative and cost-effective way to encourage useful research and extension services. It develops a productive relationship between the suppliers and producers that should be mutually beneficial. The availability of agricultural credit is critical to the sector's growth. The GOP is considering the establishment of rural savings institutions to mobilize resources and to attract commercial lending. These efforts must be successful if the sector is to prosper and for local organizations to have an interest in financing technology transfer agents.

NEW PROJECT DESCRIPTION FOR FY 93

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based sustainable economic growth. Encourage economic policies that promote investment, productive employment and outward-oriented diversification.

MISSION STRATEGIC OBJECTIVE: Reactivated labor-intensive private sector generating employment and foreign exchange for small business, non-traditional exports and commercial agriculture.

PROJECT TITLE: Agricultural Credit and Rural Savings Mobilization

PROJECT NUMBER: 527-0359

FUNDING: (\$000) FY 93: \$ 1,365
LOP: \$10,000

TYPE OF FUNDING: DA (ARDN)

A. Consistency of Project with Mission Strategy: The Mission's strategy is to support rapid and sustainable private sector-led growth which generates foreign exchange and employment and boosts productivity, including in commercial agriculture. The project fosters the development of an agricultural credit system based on rural savings which will mobilize resources for local investment.

B. Relationship to A.I.D. and Other Donor Activities: USAID's Agriculture Technology Transformation Project (ATT) and the recently completed Agriculture Planning and Institutional Development Project (APID) have established a base which has served to increase and strengthen agriculture technology and encourage change in GOP policies. Along with a general improvement in economic conditions supported by other USAID activities, these projects are creating favorable conditions which encourage the producer to invest more borrowed capital in order to produce better marketable crops. This activity will complement the Agricultural Technology Dissemination Project by mobilizing local resources to provide credit needed to adopt more productive technologies in rural areas. It also complements A.I.D.-financed activities related to the titling of land. Finally, the local mobilization of savings and administration of credit is an important element in decentralization of decision-making authority and in stimulating local initiative.

C. Relationship of Project to Overall A.I.D. Policy Objectives: This project addresses the Agency's and LAC strategy objective to support a rapid, sustainable, private sector-led economic reactivation that generates foreign exchange, employment, and boosts productivity.

D. Project Description: The purpose of the project is to develop a reliable financial system which will address the producers' borrowing needs in a timely fashion, will provide a sound savings investment outlet by mobilizing community savings, and will foster accelerated growth and development of farming areas. This will result in a better agricultural credit system which provides resources at positive real rates of interest and is capable of handling the savings and credit transactions of the small commercial producer.

The GOP is currently very interested in establishing "cajas rurales" in order to provide a country-wide infrastructure which will be able to serve the credit needs of Peruvian farmers. They have also been considering the establishment of an agricultural foundation which may replace the Agrarian Bank.

Once government plans are clearer, the precise project strategy will be defined. However, activities will focus on identifying important producing areas, such as principal valleys, which are organized and have identified a need for a reliable savings and credit institution.

The project will support farmer groups such as cooperatives, informal farmer organizations, or savings and credit institutions, which will mobilize savings of their members and/or channel credit under commercial financial practices to their members. The focus will be on local management of local resources, allowing a variety of alternatives for providing credit and mobilizing savings. It will also concentrate on policy constraints in transforming those informal arrangements into formal financial institutions. The program will examine existing rural organization and credit mechanisms, including local revolving funds in cash and in kind (e.g., potato seed), and working within this context, assist in development of appropriate financial intermediaries for credit and savings. These, over time and within the project framework, can be linked organizationally within the formal financial system and perhaps eventually function as a major banking institution. Creation of the initial financial entities will involve providing technical, financial, and banking training and expertise to develop institutions responsive to small farmers. Title III generated local currency may be used as seed capital for the rural savings institutions.

A.I.D. Financed Inputs

Life of Project
(US\$000)

Technical assistance/training	3,500
Workshops/conferences	3,000
Equipment and materials	1,000
Administrative costs	2,500
T O T A L	10,000

E. Planned Implementation Arrangements: The exact modality for implementation will be worked out during the design process. However, we anticipate competitively selecting a contractor that will be responsible for providing overall technical assistance, management and training. The contractor will work closely with the Ministries of Agriculture and Economics and Finance as well as the Superintendency of Banking. Private commercial banks will be stimulated to supplement local credit resources as the financial viability of the cajas rurales is established.

F. Sustainability of Proposed Activities: The rural financial system can become self-sustaining if, and when, credibility in the institution is developed. Experience elsewhere indicates that this demands time and patience. The system must grow at the pace set by the community. The savings/loan aspect of the effort should develop a sense of ownership by the populations the banks are serving. The meeting of credit needs, in a system administered by known and respected individuals, will develop the needed

confidence in the system. The advantage of real interest rates is known and understood by the small producers. This will allow for earning through savings, as well as serve to develop a renewable capital pool for use in the growing season. The project emphasis on real rates of interest, on covering administrative costs and defaults so that decapitalization is minimized, on savings mobilization and on local management will assist in assuring sustainability of the activities.

G. Mission Management Role: The Division of Agriculture and Natural Resources in the Office of Food and Agriculture will manage the project. A direct hire employee in charge of the Agriculture Technology Dissemination Project will also handle this project, assuring complementarity between the two.

H. Potential Issues and/or Innovative Program Approaches: The Mission will support this activity via conditionality of the Title III program and probably with local currency from the same source. The idea would be to assist in clearing legal, regulatory or juridical barriers to more appropriate financial intermediation in rural areas.

The recent passage of an administration-approved Emergency Agrarian law raises the specter of a revived Agrarian Bank managed on unsound financial principles. This issue must be overcome if the cajas rurales are to flourish.

NEW PROJECT DESCRIPTION FOR FY 93

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based, sustainable economic growth; encourage increased economic opportunities for the disadvantaged.

MISSION STRATEGIC OBJECTIVE: Improved health status through access to quality primary health care.

PROJECT TITLE: Non-Project Assistance/Health Policy Reform

PROJECT NUMBER: 527-0360

FUNDING: (\$000) FY93: \$ 2,330 (HE)
LOP: \$30,000 (14,000 HE; 10,000 CS; 6,000 POP)

TYPE OF FUNDING: DA (Health, Child Survival, Population)

A. Consistency of Project with Mission Strategy: The Mission strategy promotes improved health status through access to quality primary health care, and accelerated participation of the poor in the economy. This assistance mechanism will encourage the Ministry of Health (MOH) to increase budgetary and management support for preventive services, decrease percentage of budget support for urban-based highly sophisticated curative care, and improve management and cost-effectiveness of the MOH.

B. Relationship to A.I.D. and Other Donor Activities: USAID is one of the largest donors in the health sector. PAHO, UNICEF, Rotary International, UNFPA, and bilateral donors from the EEC provide varying levels of support, largely to public sector institutions in primary health care. Virtually no assistance has been provided to date in the development of effective, self-financing and cost recovery strategies for the MOH.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The proposed program conforms with Agency and LAC Bureau policies assuring accelerated participation of the poor in the growth process by promoting access to better quality health services for low-income families thereby improving overall health status, which is required if economic growth is to be sustained.

D. Project Description: The goal of this program is to induce policy reform and institutional change in funding priorities within the Peruvian public health sector. Our purpose is to establish a sound financial basis for the health sector through cost recovery systems and other health financing schemes, and through improved personnel management systems, thus focusing a higher proportion of scarce resources on preventive health programs to reduce malnutrition, mortality and fertility rates. This five-year program will utilize the disbursement of tranches of NPA to promote and reward effective health policy reform within the public sector, either at national or regional levels. Execution of program agreements with one or more Regional Governments would be conditioned on the demonstration of their financial and political viability. The three primary issues to be addressed by NPA support are:

(1) Strengthening the role of the public sector in the extension and sustainability of quality preventive services. This will improve access for all of Peru's citizens to primary health care (PHC) through improved MOH performance and enhance public-private partnerships;

SB

(2) Establishing cost recovery and sustainability mechanisms such as contracting out certain hospital services or charging appropriate user fees, especially for curative care services in order to improve resource allocation for primary health care;

(3) Improving the efficiency of service delivery mechanisms including personnel performance and morale.

Intermediate objectives will be designed to stimulate and encourage the implementation of alternative models of health systems management, some of which will be developed and adapted to Peru under the technical assistance provided through USAID's new Strengthening Health Institutions Project. These milestones will reflect the most notable constraints of the public health sector: provision of efficient preventive services nationwide, cost recovery from curative services, and setting appropriate technical policies and norms. Such conditions might include target percentages of MOH budget for preventive vs. curative care, percent of curative costs recovered, and hardship differentials for personnel assigned to underserved remote or dangerous areas.

BENEFICIARIES: Children under five, pregnant and lactating women, urban and rural marginal classes and indigent families will especially benefit from improved PHC services. MOH staff will benefit from improved skills and management as well as access to a larger portion of MOH resources for PHC services.

MAJOR OUTPUTS:

	<u>Baseline</u>	<u>All years</u>
-Increased MOH budget for PHC	10%	50%
-# MOH staff trained in quality control	50	25,000
-Increased % of MOH costs recovered	5%	35%
-Increased % of curative health care provided by private sector insurance mechanisms	10%	50%

A.I.D. FINANCED INPUTS:

	<u>LOP (\$000)</u>
Technical Assistance/Training	6,000
Policy Development Studies	2,500
Program Assistance	<u>21,500</u>
TOTAL	30,000

E. Planned Implementation Arrangements: The program is estimated to require five years for successful implementation, and will require four years of obligations during FY93-FY96. USAID will approve the release of tranches on the basis of performance by the Ministry of Health and the Ministry of Economy and Finance against mutually agreed indicators. These indicators will reflect targets in the allocation of Public Treasury funds, and human and physical resources. 70% of the funds authorized in the NPA will be released to the GOP based on these performance milestones. In addition, 30% of the authorized funding will be reserved for policy development studies, technical assistance

and training of MOH middle managers and line staff, to be contracted directly by USAID. For technical assistance and policy development studies, the Mission will explore the appropriateness of direct contracting and/or buy-ins to centrally and regionally funded projects such as the Health and Nutrition Sustainability Project, Private Family Health Initiatives, the Data for Decision Making and Quality Assurance Projects.

F. Sustainability of Proposed Activities: A policy dialogue has already begun with the MOH under the bilateral Child Survival Action Project. Recent legislation and the decentralization of authority to regional governments has demonstrated that the GOP is wrestling with approaches to a structural reform of the health sector, including the Ministry of Health and the Peruvian Institute of Social Security (IPSS). A favorable regulatory and policy environment exists in the GOP for new private health insurance schemes and the development of HMO-like bodies.

G. Mission Management Role: Primary technical responsibility for the NPA lies with the Chief of the Health, Population, and Nutrition Division, supported by her deputy. The Division Chief will be backstopped by the Chief of the Office of Human Resources. Initially, the NPA will require substantial technical management for the definition and implementation of technical assistance and policy study requirements. The Mission will need to hire a PSC to coordinate these essential inputs for the first two years. As the NPA will commence as other bilateral support with the Ministry of Health is winding down, the resources required from the technical and Controller's office will not exceed current levels.

H. Potential Issues and Innovative Program Approaches:

The policy environment for health financing initiatives and reform of public sector institutions is very favorable in Peru now. Thus feasibility of this assistance package is supported by the Mission's SHIP project (527-0319), which will test alternative models of delivering comprehensive health services in the private sector.

1) The health sector is a complex component of the Peruvian economy and the Mission will need a comprehensive approach to address the major structural problems. Limited studies to date have demonstrated that Peruvians are willing to pay for quality health care.

A free health care policy in the public sector has prevented the generation of revenues to finance the improvement of facilities and services. This policy was originally intended to protect the poor, but it is not providing access to health care of acceptable quality to any social group.

Vigorous expansion of private health services, public-private partnerships for shared use of facilities, and prepaid health care schemes would relieve government health care facilities and budgets of a considerable burden. Sufficient HPN staff are required to synthesize options based on an analysis of Peruvian health care economics, and negotiate with the GOP a package of favorable regulatory, legislative and financial measures to encourage the expansion of private sector services.

2) The responsibilities for the management of the network of primary and secondary health care facilities has been transferred to regional governments. The design phase of this assistance package needs to define instruments and mechanisms for channelling assistance at both the regional and national levels.

3) The nationwide impact of this program assistance will depend significantly on the reduction of terrorism and narcotics trafficking in the emergency zones of the country.

4) In light of the privatization and transformation of the Peruvian Social Security Institute (IPSS), and the national pension and health insurance funds, the involvement of IPSS must be an important design issue.

5) As structural changes reinforce the role of the regional MOH departments as the providers of last resort for the profoundly indigent, the development of GOP strategies to provide for the adequate funding for appropriate services and a resilient public health safety net, will require creative and innovative legislation and regulation.

NEW PROJECT DESCRIPTION FOR FY 94

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based, economic growth. Encourage economic policies that promote investment, productive employment and outward-oriented diversification.

MISSION STRATEGIC OBJECTIVE: Reactivated labor-intensive private sector generating employment and foreign exchange for small business, non-traditional exports and agriculture sectors.

PROJECT TITLE: Investment and Export Promotion (Amendment)

PROJECT NUMBER: 527-0349

FUNDING: (\$000) FY 94: \$ 5,000
LOP: \$44,500

TYPE OF FUNDING: ESF

A. Consistency of Project with Mission Strategy: This project amendment will expand the focus of the IEP Project from export promotion to include additional two-way trade activities, such as investment promotion, in order to further increase foreign exchange earnings and create additional employment opportunities.

B. Relationship to A.I.D. and Other Donor Activities: The Mission's IEP Project has been actively engaged in promoting non-traditional exports from various productive sectors. This project will augment those efforts through increased emphasis on attracting foreign investment and on overall strengthening of private sector activities throughout Peru.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The Project is an integral part of the USG effort to develop a stable national economy and support broadly-based sustainable economic growth based on legitimate agricultural and industrial production, processing and related export activities.

D. Project Description: The original focus of the IEP Project has been fostering the growth and expansion of commerce in non-traditional exports, particularly by providing the technical assistance and credit necessary to make production and marketing processes competitive in the international marketplace. This amendment will expand and continue those activities, while also carrying out activities that take advantage of the GOP's radical shift in economic policy, marked by measures including a unified, market determined exchange rate, reduced tariffs, numerous investment incentives and unrestricted repatriation of profits.

The project will continue to build Peru's productive export base by providing: overseas promotion of investment in Peru; expanded export promotion activities including overseas market development and arranging buyer contacts in importing countries; studies of needed infrastructure improvements required by the export trade, such as wholesale markets, airport facilities-cold storage, port modernization and roads, industrial parks and free trade zone development; expanded two-way trade supporting the use of U.S. technology and equipment; and assistance in privatization of state-owned enterprises. The amendment will expand training opportunities under the project considerably.

NEW PROJECT DESCRIPTION FOR FY 94

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the achievement of broadly-based, sustainable economic growth. Encourage economic policies that promote investment, productive employment and outward-oriented diversification

MISSION STRATEGIC OBJECTIVE: Establishment and maintenance of sound economic policy and structural reforms that promote economic stabilization and sustainable economic growth.

PROJECT TITLE: Economic Stabilization and Recovery Program

PROJECT NUMBER: 527-0344 (provisional - tranche may require separate number)

FUNDING: (US\$000) FY 94: US\$70,000
LOP: US\$70,000

TYPE OF FUNDING: ESF

A. Consistency of Project with Mission Strategy: This program supports the Mission's highest priority, to maintain and strengthen Peru's efforts to establish sound economic policy reforms that are the foundation for economic stability with sustained growth. This program is critical to the achievement of all of the Mission's strategic objectives. In particular it is relevant to vital U.S. counternarcotics interests because sound policies must be in place for alternative coca income programs to be effective. In this context, the program supports the Mission's strategic objective of replacing coca-based employment and foreign exchange earnings with legal alternatives.

B. Relationship to A.I.D. and other Donor Activities: This program is intended to help advance Peru's process of reinsertion into the international financial system. The GOP has negotiated a framework to reestablish relations with and obtain financial support from the IMF, as well as from the IBRD and the IDB, who are beginning to design and implement programs for Peru. Continued payment of IFI debt is critical to the successful conclusion of the reinsertion effort.

C. Relationship of Project to Overall A.I.D. Policy Objectives: This program addresses two Agency and LAC strategic objectives: (a) to replace coca-based employment and foreign exchange earnings with legal alternative legitimate activities; and (b) to support a rapid, sustainable, private sector-led economic reactivation that generates foreign exchange, employment, and boosts productivity.

D. Project Description: The goal of the Economic Stabilization and Recovery Program is to assist the GOP's stabilization and structural adjustment efforts by providing balance of payments support. The purpose of the program is to support Peru's commitment and efforts to establish a sound economic policy framework which promotes investment, productive employment, export led economic diversification, and other structural reforms that serve as a foundation for economic stability and growth. The program also responds to the need for international cooperation in addressing the narcotics problem by encouraging the establishment of a macroeconomic framework that facilitates the creation of alternate sources of income within the economy, and providing resources to implement activities that advance counternarcotics objectives.

NEW PROJECT DESCRIPTION FY 94

LAC BUREAU OBJECTIVE/SUB-OBJECTIVE: Support the evolution of stable, participatory democratic societies. Strengthen civilian government institutions.

MISSION STRATEGIC OBJECTIVE: Encourage strong democratic institutions that reinforce economic freedom.

PROJECT TITLE: Democratic Initiatives

PROJECT NUMBER: 527-0356

FUNDING: (\$000) FY94: \$ 4,000
LOP: \$10,000

TYPE OF FUNDING: ESF

A. Consistency of Project with Mission Strategy: The Mission's strategy to promote strong democratic institutions that reinforce economic freedom includes two basic elements: a) strengthening the judicial system; and b) securing wider public participation in selected political institutions and practices to ensure their openness and transparency, public accountability and responsiveness. This project will address the second element of this strategic objective.

B. Relationship to A.I.D. and Other Donor Activities: The project will complement activities supported by the new Judicial Reform Project, which will continue efforts to strengthen Peru's Judicial System. This project will also incorporate and expand the efforts developed by the Institute for Liberty and Democracy (ILD) in administrative simplification, property rights, democratic rule making and anticorruption. Although other donors express interest in the issue of human rights, A.I.D. is currently the only donor helping strengthen Peru's democratic institutions.

C. Relationship of Project to Overall A.I.D. Policy Objectives: A.I.D.'s highest priority is to maintain and strengthen Peru's commitment and efforts to attain economic stability with sustained growth. The project will promote strong democratic institutions which constitute the necessary foundation for economic growth.

D. Project Description: The project goal will be to strengthen democratic institutions that reinforce economic freedom. The project purpose is to support the development of democracy in Peru by promoting popular participation in political and economic activities and ensuring responsiveness of public institutions to society.

The project is directed to re-orient many activities carried out by the Peruvian State which affect the country's nascent democratic tradition and stifle economic freedom, creativity and legitimate entrepreneurial activities. It will include a complex but inter-related series of interventions in the areas of increased popular participation, executive branch rule making, improved legislative understanding of critical issues, increased controls and attention to the integrity and accountability of government functions, and improved civic education. Anticipated activities include the expansion of the administrative simplification and property rights programs, establishment of a democratic rule making process at national and regional levels, creation of an information center for the legislature, creation of an anti-corruption function, the development of stronger pluralistic community organizations, and depending upon their financial viability, possible assistance to regional governments.

The proposed FY 1994 program will directly support the implementation of the GOP's economic reform program while providing budgetary support to finance key counternarcotics activities. This support -complemented by resources from other donors- will be in the form of a cash transfer. The dollar funds will supply scarce foreign exchange resources to service eligible U.S. and multilateral debt, thus contributing to the GOP's economic reactivation and stabilization efforts. In addition, the GOP will deposit an equivalent amount in local currency into a special account in the Central Bank. The local currency counterpart will be used for projects agreed by the Mission and the GOP, and for a Trust Fund for the Mission's related expenditures. Release of funds under the program is tied in part to economic performance and progress toward meeting joint US/Peruvian counternarcotics objectives.

<u>Project No. and Title</u>	<u>PACD</u>	<u>Discussion</u>
<u>Agriculture Rural Dev. & Nutrition</u>		
527-0282 Agricultural Technology Transformation	8/31/93	Terminating as scheduled. Most successful elements of ATT will be followed up by activities under the Agricultural Technology Dissemination project.
527-0323 PRISMA - MOH Feeding Program	12/31/92	OPGs will terminate as scheduled but OPGs will be followed by the PVO support mechanism with an easier management load for the Mission.
527-0328 OPG ADRA/OFASA - Nutrition & Food for Work	12/31/92	"
527-0330 OPG CARE - Food Assisted Integrated Development	12/31/92	"
<u>Population</u>		
527-0335 Private Voluntary Sector Family Planning Services Expansion	9/30/93	The external evaluation planned for the end of the third project year will recommend whether the project should be extended to increase coverage of family planning services through the private voluntary sector and will determine the number of PVOs that will continue receiving support in the last project year.
<u>Child Survival</u>		
527-0285 Child Survival Action	12/31/92	This project is scheduled to terminate in December 1992. Mission plans to extend PACD to December of 1994 in order to complete information and epidemiologic system components.

AIDS

527-0333
HIV/AIDS Education and Prevention
9/30/92
This creative project works with high risk groups through public and private voluntary partnerships to control the spread of AIDS in Lima. The Mission is evaluating options for a low management burden extension, using Central AID funds, to increase educational and epidemiological outreach to other cities.

Private Sector Energy & Environment

527-0272
Private Sector Management Improvement
9/15/92
Project will terminate as scheduled. Some of the activities will be continued under the Investment & Export Promotion project.

527-0298
Private Sector Policy Planning - BCR
9/15/92
Project will terminate as scheduled. However, support will continue to some activities related to planning, economic studies and training under the Policy Analysis Planning and Implementation Project.

ESF

527-0244
Upper Huallaga Area Development
12/31/92
The project will be terminating as stated in the PACD. The Selva Economic Revitalization project will build on the successes in the Upper Huallaga Valley and surrounding coca growing areas.

527-0288
Drug Education and Public Awareness
9/30/92
This project will terminate as scheduled and expand into a second phase Narcotics Education and Community Initiatives (527-0347) also with CEDRO.

527-0303
Administration of Justice

12/31/92

Project will terminate as scheduled. The Judicial Strengthening Project (527-0352) will build on the experience of the AOJ project particularly with respect to giving greater emphasis to human rights and narcotics and terrorism prosecution issues.

527-0344
Economic Stabilization & Recovery

9/30/92

The program will terminate on schedule. We are planning a follow on activity that will continue our support for the implementation and maintenance of Peru's program of economic adjustment and structural reform leading to sustainable growth. The breadth and depth of economic changes that are needed and that are being implemented require time and effort and continue to need support through policy based disbursements.

TABLE 6
FY 1993
LOCAL CURRENCY UTILIZATION
(\$000)

A. <u>USES</u>	<u>ESF</u>	<u>PL 480 II</u>	<u>PL 480 III</u>	<u>SEC 416</u>	<u>OTHER</u>	<u>TOTAL</u>
HB Budget Gen	—	—	—	—	—	—
HG Budget Sector	—	—	—	—	—	—
HG Contribution to AID Projects	34,000	—	24,000	—	—	58,000
HG Managed L/C Proj. (Govt. or Private)	34,000	—	3,000	—	—	37,000
AID Program Trust Fund	—	—	—	—	—	—
AID OE Trust Fund	3,000*	—	—	—	—	3,000*
Section 108	—	—	—	—	—	—
Other	500**	13,000***	3,000***	—	—	16,500
TOTAL	71,500	13,000	30,000****	—	—	114,500
B. <u>CHANNEL FOR ASSISTANCE</u>						
Public Sector	49,000	—	25,500	—	—	74,500
Private Sector	22,500	13,000	4,500	—	—	40,000
TOTAL	71,500	13,000	30,000	—	—	114,500

* Balances available at end of FY. FY 92: \$1,600,000, FY 93: \$2,600,000.

** Audit and Evaluation.

*** NGOs.

**** See Resource Requirements Narrative for Mission proposed levels.

TABLE 6
FY 1994
LOCAL CURRENCY UTILIZATION
(\$000)

A. <u>USES</u>	<u>ESF</u>	<u>PL 480 II</u>	<u>PL 480 III</u>	<u>SEC 416</u>	<u>OTHER</u>	<u>TOTAL</u>
HB Budget Gen	—	—	—	—	—	—
HG Budget Sector	—	—	4,000	—	—	4,000
HG Contribution to AID Projects	40,000	—	20,000	—	—	60,000
HG Managed L/C Proj. (Govt. or Private)	34,000	—	3,000	—	—	37,000
AID Program Trust Fund	—	—	—	—	—	—
AID OE Trust Fund	3,000*	—	—	—	—	3,000*
Section 108	—	—	—	—	—	—
Other	500**	10,100***	3,000***	—	—	13,600
<hr/>						
TOTAL	77,500	10,100	30,000****	—	—	117,600
B. <u>CHANNEL FOR ASSISTANCE</u>						
Public Sector	50,000	—	25,500	—	—	75,500
Private Sector	27,500	10,100	4,500	—	—	42,100
<hr/>						
TOTAL	77,500	10,100	30,000	—	—	117,600

*Balance available at end of FY 94 \$3,600,000.

** Audit and Evaluation

*** NGOs

**** See Resource Requirements Narrative for Mission proposal levels.

Table 7
Summary Program Funding Table
 Dollar Program

<u>Project No. and Title</u>	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>	<u>Mission Strategic Objective No.</u>
	(\$000)			
DEVELOPMENT ASSISTANCE				
Bureau Sub-Objective I.A: Encourage economic policies that promote investment, productive employment and outward-oriented diversification				
Agriculture, Rural Development and Nutrition				
527-0353				
PVO Program Support	700	2,300	2,257	1
Sub-Total	700	2,300	2,257	
Bureau Sub-objective I.B: Encourage a vigorous private sector response				
Agriculture, Rural Development and Nutrition				
527-0000				
Program Development and Support	514	465	500	2
527-0282				
Agricultural Technology Transformation	651	1,150	—	2
527-0357				
Policy Analysis for Private Sector Agr. Dev.	—	1,556	1,944	2
527-0358				
Agricultural Technology Dissemination	—	1,457	2,500	2
527-0359				
Agricultural Credit and Rural Savings Mobilization	—	1,365	3,463	2
Education				
527-0272				
Private Sector Management Improvement	317	—	—	2
Private Sector Energy and Environment				
527-0357				
Policy Analysis for Private Sector Agr. Dev.	360	—	300	2
Sub Total	1,842	5,993	8,707	

<u>Project No. and Title</u>	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>	<u>Mission Strategic Objective No.</u>
Bureau Sub-Objective 1.C: Encourage increased economic opportunities for the disadvantaged				
Population				
527-0000 Program Development and Support	—	99	100	3
527-0319 Strengthening of Private Sector Health Inst.	630	—	—	3
527-0326 Private Commercial Family Planning	1,900	2,496	—	3
527-0335 Private Voluntary Sector Family Planning Services Expansion	1,270	—	—	3
Child Survival				
527-0000 Program Development and Support	100	—	—	3
527-0285 Child Survival Action	3,850	4,167	—	3
527-0319 Strengthening of Private Sector Health Inst.	2,050	1,515	2,850	3
527-0360 Non-Project Assistance/Health Policy Reform	—	—	3,000	3
Health				
527-0000 Program Development and Support	—	150	300	3
527-0319 Strengthening of Private Sector Health Inst.	—	3,670	—	3
527-0360 Non-Project Assistance/Health Policy Reform	—	2,330	5,606	3
Sub Total	9,800	14,427	11,856	

<u>Project No. and Title</u>	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>	<u>Mission Strategic Objective No.</u>
Bureau Sub-Objective I.D: Encourage preservation and sustainable use of the natural resource base				
Agriculture, Rural Development and Nutrition				
527-0341				
Employment and Natural Resource Sustainability	1,475	—	—	2
Sub Total	1,475	—	—	
 Bureau Sub-Objective II.B: Strengthen public participation in Democratic Process				
Education				
527-0000				
Program Development and Support	14	30	50	4
527-0340				
CLASP II	1,729	2,000	1,830	4
 Private Sector, Energy and Environment				
527-0000				
Program Development and Support	40	150	200	4
527-0061				
Special Projects	100	100	100	4
Sub Total	1,883	2,280	2,180	
Sub Total DA	15,700	25,000	25,000	
 ECONOMIC SUPPORT FUND				
Bureau Sub-Objective I.A: Encourage economic policies that promote investment, productive employment and outward-oriented diversification				
527-0000				
Program Development and Support	1,376	400	—	1,2,4,5*
527-0343				
Policy Analysis Planning and Implementation	2,021	1,483	—	1
527-0344				
Economic Stabilization and Recovery	70,000	70,000	70,000	1
Sub Total	73,397	71,883	70,000	

*Project contributes to more than one Mission Strategic Objective.

<u>Project No. and Title</u>	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>	<u>Mission Strategic Objective No.</u>
Bureau Sub-Objective I.B: Encourage a vigorous private sector response				
527-0348 Selva Economic Revitalization	10,000	17,617	18,000	2,5*
527-0349 Investment and Export Promotion	10,000	5,000	5,000	2
527-0350 Small Business and Employment Expansion	4,000	—	—	2
Sub Total	24,400	22,617	23,000	
Bureau Sub-Objective II.A: Strengthen civilian government institutions				
527-0352 Judicial Strengthening	1,000	4,000	2,000	4
527-0356 Democratic Initiatives	—	—	4,000	4
Sub Total	1,000	4,000	6,000	
Bureau Sub-Objective II.B: Strengthen public participation in Democratic Process				
527-0347 Narcotics Education and Community Initiatives	2,000	1,500	1,000	4,5*
Sub Total	2,000	1,500	1,000	
Bureau Sub-Objective III.B: Diminish participation in production, trafficking, and abuse of narcotics				
527-0000 Program Development and Support	(1,376)	(400)	—	
527-0343 Policy Analysis Planning and Implementation	(2,021)	(1,483)	—	1,5*
527-0344 Economic Stabilization and Recovery	(70,000)	(70,000)	(70,000)	1,5*

*Project contributes to more than one Mission Strategic Objective

<u>Project No. and Title</u>	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>	<u>Mission Strategic Objective No.</u>
527-0348 Selva Economic Revitalization	(10,000)	(17,617)	(18,000)	2,5*
527-0349 Investment and Export Promotion	(10,000)	(5,000)	(5,000)	2,5*
527-0350 Small Business and Employment Expansion	(4,000)	—	—	2,5*
527-0347 Narcotics Education and Community Initiatives	(2,000)	(1,500)	(1,000)	4,5*
527-0352 Judicial Strengthening	(1,000)	(4,000)	(2,000)	4,5*
527-0356 Democratic Initiatives	—	—	(4,000)	4,5*
Sub Total	(100,397)	(100,000)	(100,000)	
Sub-Total ESF	100,397	100,000	100,000	
PL 480				
Bureau Sub-Objective I.A: Encourage economic policies that promote investment, productive employment and outward-oriented diversification				
PL 480 Title II	76,335	51,000**	51,000**	1
PL 480 Title III	30,000**	30,000**	30,000	1
Sub Total	106,335	81,000	81,000	
PROGRAM TOTAL	222,432	206,000	206,000	

*Project contributes to more than one Mission Strategic Objective

** See Resource Requirements narrative for Mission proposed levels.

Mission Workplan, 1992

LAC S.O.I.A. Encourage economic policies that promote investment productive employment and outward oriented diversification

USAID S.O.1: Establishment and maintenance of sound economic policy and structural reforms that promote economic stabilization and sustainable economic growth

1. Undertake evaluation of GOP economic program and prepare negotiations for FY 92 and FY 93 balance of payments assistance February and November 1992
2. Evaluation of economic conditionality for disbursement of dollar resource transfers for balance of payments assistance under the 1992 ESRP (Monthly)
3. Negotiation of amount and schedule for US contribution as part of the Support Group assistance for Peru's external debt financing for 1992 March 1992
4. Analysis of options for uses of local currency counterpart of second and third tranches under ESRP for 1991, and for 1992 March 1992
5. Contracting of PAPI Institutional Contractor and arrival of key personnel March-April 1992
6. Monitoring compliance for ESP program benchmarks March, June, September, December 1992
7. Evaluation of and proposal of framework for bilateral external debt negotiation under Paris Club for 1992 and 1993 March and November 1992
8. PAPI Institutional contract signed March 1992
9. USAID Food Security Strategy published April 1992
10. Negotiation of FY 92-93 Title III agreement April 1992
11. Multi-year Title II plans for PVOs and USAID submitted April 1992
12. First meeting of PAPI Consultative Council: prioritize requests and design Annual Plan April-May 1992
13. Institutional Contractor designs PAPI monitoring system April 1992
14. Institutional Contractor designs PAPI Annual Training Plan May-June 1992
15. PVO Support Grant PP approved June 1992

16. FY 92 food assistance maintained for 1993
(will need increase in ABS projections to cover
loss of Section 416 and Title II monetization which
was considered separately) June 1992
17. Studies for FY 92-93 Title III program conditionality June-Dec. 1992
18. PAPI quarterly requests prioritized and planned June, Sept. and
December 1992
19. PAPI Master Candidates (2-4 from BCR) begin
long-term training August,
September 1992

LAC S.O.I.B. Encourage a vigorous private sector response

USAID S.O.2: Reactivated labor intensive private sector generating
employment and foreign exchange for small business,
non-traditional export and agriculture sectors

1. Policy Analysis for Private Agricultural
Development (PAPAD) PID developed March 1992
2. ADEX export seminar and conference program initiated April 1992
3. Rural finance study completed April 1992
4. USAID private sector credit strategy elaborated April 1992
5. Export Sector Panel established and prioritizing issues May 1992
6. Local currency credit line mechanism designed
(ESF HCOLC) May 1992
7. Small Business and Employment Expansion Project
authorized June 1992
8. Rural Finance PID developed June 1992
9. PAPAD PP developed June 1992
10. IEP Institutional Contract signed August 1992
11. Local currency credit line operation agreed to
by GOP Sept. 1992
12. Rural Finance PP developed October 1992
13. TA contractor for Investment and
Export Promotion October 1992

LAC S.O. I.C. Encourage increased economic opportunities for the disadvantaged

USAID S.O. 3: Improve health status through access to quality primary health care

1. Contracts with pharmaceutical laboratories to market contraceptives (pills) March 1992
2. Action Plan for BIG Population Strategy March 1992
3. Agreement on USAID contribution to GOP/donor 1992-1996 Immunization Plan of Action April 1992
4. Health Services Market and legal studies in Chiclayo April 1992
5. Project Agreement Amendment to extend Child Survival Action Project May 1992
6. PVO Workshop for Subgrants under Strengthening Private Sector Health Institutions Project (SHIP) Southern Component June 1992
7. Nutrition Strategy completed March 1992
8. Agreements with Cooperating Agencies under Population Action Plan April 1992
9. Dissemination of Final Report of 1992 Demographic and Health Survey Sept. 1992
10. Competitive Award of Institutional Contract for SHIP, Northern Component Sept. 1992
11. PAAD for Health Policy Reform Approved Nov. 1992
12. Caritas Title III Child Survival component evaluated Nov. 1992

LAC S.O. II. Support the evolution of stable, participatory democratic societies

USAID S.O.4: Encourage democratic institutions that reinforce economic freedom

1. Evaluation of Institute for Liberty and Democracy (ILD) completed March 1992
2. Award institutional contract for CLASP II April 1992

3. Amendment of ILD Cooperative Agreement April 1992
4. Grant to CEDRO for Narcotics Education and Community Initiatives Project May 1992
5. Judicial Strengthening PID completed May 1992
6. Judicial Strengthening PP completed Aug. 1992
7. ICITAP training sessions for new Criminal Procedures Code:
 - a. 3 Investigative Techniques courses Aug. 1992
 - b. 3 Criminal Investigations courses Sep. 1992
 - c. 1 Investigative Oversight course Dec. 1992
8. Cooperative Agreement signed with local PVO to manage SDAF program Aug. 1992
9. Institutionalization of training programs in Judicial Academies Dec. 1992
10. National Registry of Detainees Completed Jan. 1993

LAC S.O. III.D. Diminish participation in production, trafficking and abuse of narcotics

USAID S.O.5: Replace coca based employment and foreign exchange earnings with legal alternatives

1. MTC/MEF Agreement on Selva Coastal Road Financing (HCOLC) April 1992
2. Complete all design work for the Selva Economic Revitalization Project June 1992
3. Selva Coastal Road construction begins Sept. 1992
4. Pilot test of proposed new activities for the Selva Economic Revitalization Project (SER) using the Upper Huallaga Area Development Project as the vehicle Sept. 1992
5. Sign Project Agreement with the Government of Peru for the Selva Economic Revitalization Project Sept. 1992
6. Finalize feasibility/market studies for Tarapoto/Yurimaguas road and port activity Nov. 1992
7. Close out Upper Huallaga Area Development Project Dec. 1992
8. Initiate project activities for Selva Economic Revitalization Project Jan. 1993

Note: Actions under other parts of workplan contribute to S.O.5.

USAID/PERU MORTGAGE ANALYSIS SUMMARY
\$000

<u>Functional Account/ by Fiscal Year</u>	<u>Amount</u>	<u>Obligations</u>	<u>Fiscal Year</u>
<u>AGRICULTURE RURAL DEVELOPMENT AND NUTRITION</u>			
FY 1991	25,900	22,624	3,276
FY 1992	37,400	25,450	11,950
FY 1993	67,400	33,278	34,122
FY 1994	45,100	21,142	23,958
<u>POPULATION</u>			
FY 1991	17,815	9,149	8,666
FY 1992	17,815	12,949	4,866
FY 1993	23,815	15,445	8,370
FY 1994	14,000	5,630	8,370
<u>HEALTH</u>			
FY 1991	3,670	0	3,670
FY 1992	3,670	0	3,670
FY 1993	17,670	6,000	11,670
FY 1994	17,670	11,606	6,064
<u>CHILD SURVIVAL</u>			
FY 1991	29,734	13,412	16,322
FY 1992	29,734	19,312	10,422
FY 1993	39,734	24,994	14,740
FY 1994	39,734	30,844	8,890
<u>EDUCATION</u>			
FY 1991	7,000	6,683	317
FY 1992	13,800	8,729	5,071
FY 1993	6,800	3,729	3,071
FY 1994	6,800	5,559	1,241
<u>PRIVATE SECTOR, ENERGY AND ENVIRONMENT</u>			
FY 1991	0	0	0
FY 1992	1,500	360	1,140
FY 1993	1,500	360	1,140
FY 1994	1,500	660	840
<u>COUNTERNARCOTICS INITIATIVE ECONOMIC SUPPORT FUND</u>			
FY 1991	435,150	58,146	377,004
FY 1992	508,000	157,167	350,833
FY 1993	508,000	256,767	251,233
FY 1994	543,000	356,767	186,233

USAID/PERU MORTGAGE ANALYSIS
\$000

<u>Account/ Project No & Title</u>	<u>LOP Amount</u>	<u>Cumulative Obligations</u>	<u>Mortgage at end of Fiscal Year</u>
<u>AGRICULTURE RURAL DEVELOPMENT AND NUTRITION</u>			
527-0282			
Agricultural Technology Transformation (DA)			
FY 1991	22,300	20,499	1,801
FY 1992	22,300	21,150	1,150
FY 1993	22,300	22,300	0
FY 1994	0	0	0
527-0341			
Employment and Natural Resource Sustainability			
FY 1991	3,600	2,125	1,475
FY 1992	3,600	3,600	0
FY 1993	3,600	3,600	0
FY 1994	3,600	3,600	0
527-0353			
PVO Program Support			
FY 1991	0	0	0
FY 1992	8,000	700	7,300
FY 1993	8,000	3,000	5,000
FY 1994	8,000	5,257	2,743
527-0357			
Policy Analysis for Private Sector Agricultural Dev.			
FY 1991	0	0	0
FY 1992	3,500	0	3,500
FY 1993	3,500	1,556	1,944
FY 1994	3,500	3,500	0
527-0357(PSEE)			
Policy Analysis for Private Sector Agricultural Dev.			
FY 1991	0	0	0
FY 1992	1,500	360	1,140
FY 1993	1,500	360	1,140
FY 1994	1,500	660	840
527-0358			
Agricultural Technology Dissemination			
FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	20,000	1,457	18,543
FY 1994	20,000	3,957	16,043
527-0359			
Agricultural Credit and Rural Savings Mobilization			
FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	10,000	1,365	8,635
FY 1994	10,000	4,828	5,172

POPULATION

527-0326

Private Commercial Family Planning

FY 1991	5,000	604	4,396
FY 1992	5,000	2,504	2,496
FY 1993	5,000	5,000	0
FY 1994	5,000	5,000	0

527-0335

Private Voluntary Sector Family Planning

Services Expansion

FY 1991	9,815	8,545*	1,270
FY 1992	9,815	9,815	0
FY 1993	9,815	9,815	0
FY 1994	0	0	0

*Includes \$1,793,000 transferred to S&T/POP in FY 91 for procurement of contraceptives

HEALTH

527-0360

Non-Project Assistance/Health Policy Reform

FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	14,000	2,330	11,670
FY 1994	14,000	7,936	6,064

527-0360 (CS)

Non-Project Assistance/Health Policy Reform

FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	10,000	0	10,000
FY 1994	10,000	3,000	7,000

527-0360 (POP)

Non-Project Assistance/Health Policy Reform

FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	6,000	0	6,000
FY 1994	6,000	0	6,000

CHILD SURVIVAL

527-0285

Child Survival Action

FY 1991	18,404**	10,387	8,017
FY 1992	18,404	14,237	4,167
FY 1993	18,404	18,404	0
FY 1994	18,404	18,404	0

**LOP \$19,000,000, \$596,000 health funds obligated in prior years.

527-0319

Strengthening of Private Sector Health Institutions

FY 1991	11,330	3,025	8,305
FY 1992	11,330	5,075	6,255
FY 1993	11,330	6,590	4,740
FY 1994	11,330	9,440	1,890

527-0319 (HE)

Strengthening of Private Sector Health Institutions

FY 1991	3,670	0	3,670
FY 1992	3,670	0	3,670
FY 1993	3,670	3,670	0
FY 1994	3,670	3,670	0

527-0319 (POP)

Strengthening of Private Sector Health Institutions

FY 1991	3,000	0	3,000
FY 1992	3,000	630	2,370
FY 1993	3,000	630	2,370
FY 1994	3,000	630	2,370

EDUCATION

527-0272

Private Sector Management Improvement

FY 1991	7,000	6,683	317
FY 1992	7,000	7,000	0
FY 1993	0	0	0
FY 1994	0	0	0

527-0340

CLASP II

FY 1991	0	0	0
FY 1992	6,800	1,729	5,071
FY 1993	6,800	3,729	3,071
FY 1994	6,800	5,559	1,241

PRIVATE SECTOR, ENERGY AND ENVIRONMENT

598-0772***

ILD Private Sector Institutional Reform

FY 1991	(11,289)	(6,476)	(4,813)
FY 1992	(11,289)	(8,276)	(3,013)
FY 1993	(11,289)	(10,076)	(1,213)
FY 1994	(11,289)	(11,289)	0

***Centrally funded

COUNTERNARCOTICS INITIATIVE
ECONOMIC SUPPORT FUND

527-0343

Policy Analysis Planning and Implementation

FY 1991	7,150	3,646	3,504
FY 1992	7,150	5,667	1,483
FY 1993	7,150	7,150	0
FY 1994	7,150	7,150	0

527-0344

Economic Stabilization and Recovery

FY 1991	400,000	50,000	350,000
FY 1992	400,000	120,000	280,000
FY 1993	400,000	190,000	210,000
FY 1994	400,000	260,000	140,000

527-0347

Narcotics Education and Community Initiatives

FY 1991	8,500	0	8,500
FY 1992	8,500	2,000	6,500
FY 1993	8,500	3,500	5,000
FY 1994	8,500	4,500	4,000

527-0348

Selva Economic Revitalization

FY 1991	0	0	0
FY 1992	60,000	10,000	50,000
FY 1993	60,000	27,617	32,383
FY 1994	60,000	45,617	14,383

527-0349

Investment and Export Promotion

FY 1991	19,500	4,500	15,000
FY 1992	19,500	14,500	5,000
FY 1993	19,500	19,500	0
FY 1994	44,500	24,500	20,000

527-0350

Small Business and Employment Expansion

FY 1991	0	0	0
FY 1992	4,000	4,000	0
FY 1993	4,000	4,000	0
FY 1994	4,000	4,000	0

527-0352

Judicial Strengthening****

FY 1991	0	0	0
FY 1992	8,850	1,000	7,850
FY 1993	8,850	5,000	3,850
FY 1994	8,850	7,000	1,850

****LOP increase will be reflected in PID to be submitted to AID/W.

527-0356

Democratic Initiatives

	0	0	0
FY 1991	0	0	0
FY 1992	0	0	0
FY 1993	0	0	0
FY 1994	10,000	4,000	6,000

85