PD-ABD-869

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: 76026

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: PERU

3. PROJECT NUMBER: 527-0348

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): Alternative Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 05 DD 15 YY 00

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

A. Initial FY 95 B. Quarter 2 C. Final FY 95

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

A. FUNDING SOURCE	FIRST FY 95 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	11,867	18,133	30,000	11,867	18,133	30,000
(Grant)	(11,867)	(18,133)	(30,000)	(11,867)	(18,133)	(30,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country (HCOLC & in-Kind personnel		7,800	7,800		14,000	14,000
Other Donor(s)						
TOTALS	11,867	25,933	37,800	11,867	32,133	44,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. ACTIVITY CODE	C. ACTIVITY CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ESF	AGIF					30,000		30,000	
(2)									
(3)									
(4)									
TOTALS						30,000		30,000	

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

11. SECONDARY ACTIVITY CODE: AGAB, AGCR, AGTE, PEBD

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

A. Code	NAR	PSD	PVL	REF	TIC	IRR	IAS
B. Amount	30,000	9,600	3,375	3,480	3,525	3,750	7,500

13. PROJECT PURPOSE (maximum 480 characters)

The purpose of this project is to increase employment and income from alternative licit economic activities in the project areas, in order to achieve the project goal.

14. SCHEDULED EVALUATIONS: Interim MM 09 YY 97; Final MM 09 YY 99

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

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

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

James B. Sanford

17. APPROVED BY

Signature

Title: George A. Wachtenheim, Director

Date Signed: MM 05 DD 12 YY 95

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

PROJECT AUTHORIZATION

Name of Country: Peru

Name of Project: Alternative Development

Number of Project: 527-0348

1. Pursuant to Part II, Chapter 4, Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Alternative Development Project for Peru, involving planned obligations of not to exceed Thirty Million United States Dollars (US$30,000,000) in grant funds (the "Grant") over a one year period from the date of authorization, subject to the availability of funds in accordance with the USAID/OYB allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is five years from the date of initial obligation.

2. The Project seeks to increase employment and income from alternative licit economic activities in the project areas, in order to achieve the Project goal which is to reduce coca cultivation in the target areas pursuant to the GOP National Drug Prevention Control Plan. The Project will finance community-based private sector investment activities; small, local level social infrastructure; infrastructure improvements necessary for sustained reactivation of licit economic activities, agricultural production, including research and extension activities; credit, commodities, including improved seed varieties, vehicles, construction equipment and computer.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with USAID regulations and Delegations of Authority, shall be subject to the following essential terms and conditions, together with such other terms and conditions as USAID. may deem appropriate:

a. **Source and Origin of Goods and Services**

Commodities financed by USAID under the Grant shall have their source and origin in the United States and/or in Peru (pursuant to Local Procurement Guidelines as set forth in USAID Handbook 1, Supplement B, Chapter 18), except as USAID may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have Peru (pursuant to Local Procurement Guidelines as set forth in USAID Handbook 1, Supplement B, Chapter 18) or the United States (USAID Geographic Code 000) as their place of nationality, except as USAID may otherwise agree in writing. Ocean shipping financed by USAID under the Grant shall, except as USAID may otherwise agree in writing, be financed only on flag vessels of the United States. Motor vehicles financed by USAID under the Project shall, except as USAID may otherwise agree in writing, have their origin in the United States.

a

b. **Conditions Precedent to Disbursement**

Prior to the first disbursement under the Grant or to the issuance by USAID of documentation pursuant to which disbursements will be made, the Grantee shall, except as USAID may otherwise agree in writing, furnish to USAID, in form and substance satisfactory to USAID:

(a) A legal opinion of the Legal Counsel of the Ministry of Foreign Relations of Peru, or other counsel acceptable to USAID, stating that this Agreement has been duly authorized, or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

(b) A statement of the name(s) of the person(s) holding or acting in the office of the Grantee specified in Section 8.2 of the Agreement and of any additional representatives, together with a specimen signature of each person specified in such statement.

George A. Wachtenheim
Mission Director

Date: 5/12/95

Clearances:

OLGAD:MBroady		Date: 3/17/95
PDP:JBoyer		Date: 3/21/95
CONT:JSanford		Date: 3/30/95
RLA:PRamsey	(by e-mail)	Date: 3/20/95
RCO:AEisenberg	(by e-mail)	Date: 3/29/95
DD:DBoyd		Date: 4/24/95

b

USAID/Peru
Office of Local Government and Alternative Development

PROJECT PAPER

ALTERNATIVE DEVELOPMENT PROJECT

(527-0348)

March 8, 1995

ALTERNATIVE DEVELOPMENT PROJECT
(527-0348)
TABLE OF CONTENTS

Chapter	Page
Table of Contents	i
Acronyms	iv
I. SUMMARY	
A. Overview	1
B. The Problem and Progress in Addressing it	3
C. The Alternative Development Option to the Coca-Based Economy	5
1. The Alternative Development Concept	5
2. The USAID Role	6
3. The Empirical Basis for the Project	7
(a) USAID-Sponsored Program Experience	7
(b) Other Donors'-Sponsored Program Experience	9
D. The Project	10
1. Project Goal and Purpose	12
2. Project Components	13
(a) Employment and Income Generation Component	13
(b) Essential Services/Community Development Component	14
(c) Environmental Protection and Awareness Component	15
3. Conditionality	15
4. Implementation Arrangements	16
5. Financing	19
E. Project Paper Approval Factors	21
1. Lessons Learned	21
2. Other Design Issues	22
3. Project Analyses	24
II. BACKGROUND	
A. The Setting	28
B. The Coca Economy	29
C. Population in Coca-Growing Areas	30
D. The Effects of Coca Production Growth	30
E. GOP and Other Donors Counternarcotics Programs	31
1. GOP	31
2. Other Donors	33

III. PROJECT RATIONALE and STRATEGY

A. Rationale 35

1. U.S. Foreign Policy and Interests 35
2. GOP Policy and Commitment 35
3. Project Benefits 36

B. Project Strategy 37

1. Basis for the Project Strategy 37
2. The Strategy 40

IV. PROJECT DESCRIPTION

A. Goal and Purpose 41
B. Assumptions 43
C. Project Component 44

1. Overall Project Approach 44
2. Detailed Component Description 47
   a. Employment and Income Generation Component 47
      (1) Overview 47
      (2) Planned Assistance 49
      (3) EIG Component Outputs 57
      (4) Project Inputs for ES/CD Component 58
   b. Essential Services and Community Development (ESCD) Component 59
      (1) Overview 60
      (2) Planned Assistance 64
      (3) ES/CD Component Outputs 68
      (4) Project Inputs for ES/CD Component 68
   c. Environmental Protection and Awareness Component 70
      (1) Overview 70
      (2) Planned Assistance 71
      (3) Outputs 71
      (4) Project Inputs for the Environmental Protection Component . . 72

D. Role of Women 74

V. PROJECT IMPLEMENTATION PLAN

A. Arrangements with the GOP 75
B. Institutional Implementation Arrangements 76
1. INADE 76
2. Cooperative Agreement/Technical Assistance 79
3. COFIDE 79
4. USAID/Peru 79

C. Implementation Actions 80
1. Technical Assistance 81
2. Training 82
3. Commodities 82
4. Committing PIL with COFIDE 82
5. Other Costs 82
6. Host Country Contracting 83
D. Implementation Schedule 83
E. Environmental Considerations 87
F. The Data Collection, Monitoring and Evaluation Plan 88
1. Implementation Arrangements of the Monitoring and Evaluation Plan 88
2. Evaluations 89

VI. ESTIMATED COSTS and FINANCIAL PLAN

A. The USAID Contribution 90
B. The GOP Contribution 90
C. Financial Plan 91
D. Other Budget Considerations
1. Methods of Implementation and Financing 91
2. Disbursement Procedures 91
3. Recurrent Costs 92
4. Audit Coverage 92
5. Evaluations 93
6. Capability Assessments 93
7. Financial Reviews 93
8. Reporting Requirements 94

E. Conditions Precedent 94

ANNEXES
1. Logical Framework
1.A. Information, Evaluation and Monitoring Plan
2. USAID/W Approval Cable
3. GOP Letter of Request
4. Programmatic Environmental Evaluation
4.A. LAC CEO Environmental Assessment Approval Cable, March 3, 1995
5. Project Analyses: Institutional, Social, Economic, and Technical
6. Statutory Checklist
7. Upper Huallaga Area Development (UHAD) Project Final Evaluation

Alternative Development Project
(527-0348)
ACRONYMS

AD	Alternative Development
ADEX	Asociación de Exportadores
APEMI	Asociación Privada Equipo Misionero Itinerante
CA	Cooperative Agreement
CAF	Andean Development Corporation
CARE	Cooperative for American Relief Everywhere
CD	Community Development
CECOAH	Central Cooperatives of the Alto Huallaga
CEDISA	Centro de Investigación y Desarrollo de la Selva Alta
CEDRO	Center for Information and Education on the Prevention of Drug Abuse
CEPES	Centro Peruano de Estudios Sociales
CEPTENA	Centro de Estudios y Promoción de Tecnologías de Especies Nativas de la Amazonía
CIPA	Center for Agricultural Research & Promotion
COFIDE	Corporación Financiera para el Desarrollo
CORAH	Special Project for Coca Reduction in the Upper Huallaga Valley, Ministry of Interior
CPs	Conditions Precedent
CY	Calendar Year
DCD	Democratic Community Development
DEA	Drug Enforcement Association
DGFF	General Directorate of Forests & Fauna, MAG
DIGEMA	General Directorate of the Environment, MOH
DISAR	Directorate of Rural Sanitation, DIGEMA
ECASA	Public Rice Commercialization Enterprise
EIG	Employment and Income Generation
EMDEPALMA	Public Oil Palm Development Enterprise
ENCASA	National Rice Marketing Enterprise
ENCI	National Agricultural Input Marketing Enterprise
ENACO	National Coca Enterprise
EOPS	End of Project Status
ES	Essential Services
EU	European Union
ESF	Economic Support Fund
FAP	Peruvian Air Force
FY	Fiscal Year
GOP	Government of Peru
HCOLC	Host Country Own Local Currency
IAPA	Instituto de Análisis de Política Agraria
ICIs	Intermediate Credit Institutions
IDB	Inter-American Development Bank
IIAP	Instituto de Investigaciones de la Amazonía del Peru
INADE	National Development Institute
INC	International Narcotics Control Program
INDA	Institute for the Promotion of Self Development
INDDA	National Institute for Agroindustrial Development, MAG

INIAA	National Institute for Agriculture & Agroindustrial Research
INIPA	National Institute for Agricultural Research & Promotion, MAG
LG	Local Government
LGF	Loan Guaranty Fund
LOP	Life of Project
LOUs	Letters of Understanding
LT	Long Term
MAIZSELVA	Corn-growers' Association
MEF	Ministry of Economy and Finance
MIA	Municipalities in Action Program
MINI-DG	Mini-Dublin Group
MIPRE	Ministry of the Presidency
MOE	Ministry of Education
MOFA	Ministry of Foreign Affairs
MOH	Ministry of Health
MOU	Memoranda of Understanding
MRTA	Tupac Amaru Revolutionary Movement
MTC	Ministry of Transportation and Communication
MU	Monitoring Unit
NAS	Narcotics Affairs Section
NGO	Nongovernmental Organization
NTA	Non Traditional Agricultural (Products)
OSP	Office of Special Projects
PACD	Project Assistance Completion Date
PACR	Project Assistance Completion Report
PDD-14	Presidential Decision Directive 14
PEAH	Special Project for the Development of the Alto Huallaga Area
PILs	Project Implementation Letters
PIO/C	Project Implementation Order for Commodities
PRODEMO	Promoción y Desarrollo de la Mujer
PSCs	Personal Services Contracts
PT	Public Treasury
PVO	Private Voluntary Organization
SL	Shinning Path (Sendero Luminoso)
SECTI	Executive Secretariat for International Technical Cooperation, Ministry of the Presidency
TA	Technical Assistance
TAP	Technical Assistance Provider (CA)
USG	United States Government
UHAD	Upper Huallaga Area Development
UHV	Upper Huallaga Valley
UNAS	National Agrarian University of the Selva
UNDCP	United Nations International Drug Control Program
USAID	United States Agency for International Development
WB	World Bank

Alternative Development Project
(527-0348)

I. Summary

A. Overview

Perú is the largest world producer of coca leaf. It supplies approximately 70 percent of the leaves required to meet the worldwide demand of cocaine. The Government of Peru (GOP) estimates coca leaf production at approximately 224,000 tons annually. The dry leaves are sold for approximately $313 million,[1] but illegal processing multiplies several times the value of this production. Although there is no reliable information to calculate precisely the economic impact of the coca industry, some estimates indicate that it generates between $700 to $860 million in foreign exchange yearly.

The United States Government satellite-based annual narcotics crop survey for 1993 estimated that there are 108,800 hectares of coca under cultivation in Peru (the 1994 estimate is expected to be available in February-March. 1995). This was a decline from an estimated 129,100 hectares in 1992. Some Peruvian Government agencies and experts use higher estimates; no responsible estimate is lower. There is consensus that the recent decline cannot be attributed solely to counternarcotics measures, and that further affirmative steps must be taken to implement the Peruvian National Drug Control Plan goal of eliminating all coca cultivation destined for illicit uses.

Coca producing areas employ over 120,000 farmers to cultivate coca. In addition, an estimated 110,000 people are involved in related processing, trafficking and financial operations.

Over the last three decades, as worldwide demand for cocaine expanded, coca farming in Perú has evolved from a traditional crop grown to meet legal domestic demand to be the most important cash crop for many Peruvian farmers. For many of them coca is a survival crop. It grows on a wide range of elevations in acid sloping soils which cannot be used easily for other crops. To increase coca productivity, the farmer uses fertilizers and other chemicals, some very toxic, to achieve up to four harvests throughout the year, thus insuring a steady, predictable income.

Leaves can be processed at the farm level into easily transported cocaine paste or base. The demand is high enough so little marketing effort is required to sell it. In addition, as a critical factor in a farmer's decision on what to plant, he has ample access to credit, as narcotraffickers readily provide it. In contrast, credit through traditional channels for licit crops, until recently, has been almost non-existent. Currently, credit is becoming increasingly available for licit crops but farmers do not have the capability to prepare feasible projects which financial institutions can use to assess credit applications, nor the required collateral to meet credit requirements.

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[1]According to the recently approved GOP's "National Plan for Drug Prevention and Control" published on October 3, 1994, Page 119413.

Despite the perception of the riches that coca provides to coca farmers, the average person in coca-growing areas lives in a state of poverty. In most areas, basic services in health, education, and environmental sanitation either do not exist or are highly inadequate. The nutritional status is generally below international standards and the social and health problems brought about by cocaine addiction and narcotrafficking poses a constant threat to the lives of people in the region. Coca cultivation and processing breeds an environment of violence, both criminal and terrorist, which directly impacts the lives of most of the people living in coca growing areas and many families have family members who have been killed because of narcotrafficking or who have been arrested because of their involvement in the trade.

Thus the vexing question of why fundamentally honest farmers continue to be involved in illicit coca production. Most farmers would likely answer: "What option do we have? We have to earn a living to feed our families and educate our children" In this sense, it is noteworthy that, in spite of the improving economy, the pay of a large percentage of the Peruvian labor force employed in licit activities is still low, yet they continue in such licit jobs knowing that they can make more money in illicit activities, such as narcotrafficking. This indicates that they have made a qualitative decision which means they earn less money but live in a positive social environment. This is an important factor in implementing the AD Project because it shows that the delivery of basic services and a peaceful environment have a positive impact in convincing people to change to a licit economy.

Recent studies and the experience discussed later in this section show that a key reason for the farmers' continuing involvement in coca leaf production is poverty and the lack of reliable and sustained legal alternative sources of income which provide the conditions for illicit activities to flourish. In this respect, it is meaningful to note that the large proceeds generated by the coca industry do not accrue to the farmer but to those involved in processing and narcotrafficking. So he remains poor, deprived of services, and bears the ill effects and possible violence inherent in the illicit coca industry. Under these conditions, recent experiences in coca-growing areas show that the coca-leaf grower is willing to try licit options. To emphasize, at its core, the reason for many farmers' continued involvement in illicit coca production activities lies in social neglect, poverty, and underdevelopment.

The lack of employment options and licit sources of income were the effect of a gradual but steadily and consistent deterioration over many years in Perú's economic situation, bloody terrorist groups, misdirected economic and social policies and a critical lack of financial resources to respond to the needs of poor people throughout the country, and particularly in remote coca-growing areas. Indeed, for decades many areas in Perú's highlands and jungle regions were ignored by government planners. The meager physical infrastructure that existed, such as main and access roads, deteriorated rapidly and in some places disappeared. During the same period, the world's use of cocaine grew rapidly. In the face of this situation, narcotraffickers found in Perú's jungle and highlands the ideal conditions of soils, unemployment and poverty, social discontent and willing labor resources to produce more and more of the raw materials required to meet the swelling world demand for cocaine.

The change of government in 1990 signaled a dramatic change in economic, social and government policies. President Fujimori, through what is commonly known as "Fujishock" freed the economy from restrictive government control, eliminated most government subsidies which were financially draining the government coffers, liberalized banking laws and currency exchange regulations as well as reduced the size of the government payroll. These drastic measures started to show results by the end of 1992. In 1993, the economy grew at the fastest rate in all of Latin

America - more than 7%. The inflation rate dropped from four digit figures per year to less than 30% for 1993 and although somewhat overvalued, the nuevo sol (Peruvian monetary unit) stabilized at an exchange rate which allowed for a growth of exports.

The liberalized economic policies continued to produce dramatic results in 1994. The economy is forecast to grow at 10% per annum, the inflation rate is below 20% per annum, the Peruvian Stock Market is one of the most active in the world and foreign investors, for the first time in decades, are looking at Peru as a viable possibility for investment. Although there is still much poverty and a high level of unemployment, the GOP policies are creating a positive environment for real economic growth in the years to come. The GOP is also upgrading the transportation network throughout the country, a critical factor if economic growth is to take place in the agricultural and mining sectors. The GOP has also stabilized the security environment of the country. One major terrorist group, the MRTA (Tupac Amaru Revolutionary Movement), has almost been totally neutralized and the SL's (Shining Path) power and influence have been greatly reduced. Although many of the underlying causes for the growth of terrorism still exist, the GOP is trying to improve the quality of life for the majority of Peruvians through the provision of basic services such as health, education and drinking water to all parts of the country. The improvement in the economic and social environment are all positive elements which will help the Alternative Development (AD) Project to succeed.

B. The Problem and Progress in Addressing It.

The major growth in production of coca since the 1970's has promoted a sharp economic expansion in the Huallaga Valley and other coca-growing areas in Perú. Through the early 1990's, USG estimates showed that production grew at an average of at least 10 percent in most years. With worsening economic conditions and high levels of poverty and unemployment as well as a decline (for a variety of natural and governmental-engendered causes) in the viability of coca cultivation in the UHV, cultivation expanded to areas such as Amazonas, Loreto, Puno, and Madre de Dios, where coca farming had been non-existent or minimal. In the Huallaga Valley alone, over 71,000 growers and their families may be dependent on coca production for their main source of income.

The expansion of coca production and trafficking has done serious economic, political, social and environmental harm to Perú. Narco-dollar liquidity has distorted exchange rates. Links between narcotraffickers and terrorists have critically harmed civil governmental authority in the coca-growing areas, promoting anarchy and seriously impeding democratization and broad-based development efforts. Deforestation, erosion and disposal of toxic chemicals resulting from the processing of coca are causing deep ecological damage in these areas. Domestic drug abuse is expanding at a high rate, further compounding Perú's social problems.

Unless farmers already engaged, and those who could potentially be engaged in coca production (as farmers or laborers), are provided with alternative income-producing options so they can escape poverty and improve their standard of living in licit ways, it will remain politically and economically difficult, or impossible, to significantly reduce coca leaf production. On the other hand, its continuation will create immeasurable socio-economic costs to cocaine-consuming and producing countries in addition to aggravating the already serious damages to Perú's natural environment and to the whole Amazon Basin.

The Government of Perú (GOP) is fully aware of the ill effects of coca production and narcotrafficking and, with external support, is committed to the eventual elimination of the illicit coca industry as a source of employment and economic growth. As previously mentioned, the GOP has successfully carried out major economic structure adjustments which are leading to a rapidly growing economy. Because of the high priority it places on eliminating narcotrafficking, the GOP has devoted its limited police and military resources to actively fighting the problem. During the final year of the Upper Huallaga Area Development (UHAD) Project, the GOP provided more than three times the 1993 USG Grant resources for direct Project activities.

Since 1991, the GOP has taken increasingly effective actions by expanding the number of agencies which are implementing counternarcotics programs throughout in Peru. Air Force Tucano aircraft forced over 200 civil aircraft to land for inspection; several were found carrying cash or other contraband. Peruvian Air Force (FAP) aircraft have forced numerous aircraft carrying drugs to land or destroyed them in the air or on the ground, if they refused. FAP and the national police are exercising air traffic control and related enforcement functions at airports located at Yurimaguas, Tarapoto, Tingo María and other locations. As resources allow, they have plans to extend GOP control over secondary airports, such as Bellavista and Picota.

In August 1992, Army troops provided security for CORAH (Upper Huallaga Coca Eradication Accord) personnel and the national police to install concrete obstacles that permanently block the largest identified illegal drug trafficking airstrip in the Huallaga Valley -- Campanilla. Since May, GOP police pilots have replaced U.S. contract pilots operating USG-owned helicopters that support counternarcotics missions from the Santa Lucia Base. Police and DEA personnel have carried out effective enforcement operations in all parts of the Project area, including areas near Tarapoto not formerly reached by drug enforcement personnel. Further, sustained CORAH seedbed eradications over three years have contributed to the declining coca industry around Santa Lucia. Also, on September 16, 1992, President Fujimori announced that Army battalions will open the section of the main highway in the Huallaga Valley which has been closed for the past four years. This highway section is critical to the success of alternative development activities and is open to light traffic.

In addition, the GOP has made excellent progress in controlling and disrupting the alliances between narcotraffickers and terrorist groups in coca-growing areas. The incidence of terrorism has dwindled to a minimum and if the current pace of GOP progress in reducing the number of people involved in terrorism continues, GOP may be able to keep its promise of eliminating it by the end of 1995. In this respect, recent indications are that the MRTA is nearly disbanded and that the Sendero Luminoso threat has been sharply reduced.

Despite its precarious financial situation and its major austerity program undertaken to stabilize the economy, the GOP has provided, for the first time, significant contributions in cash and in-kind to launch its alternative development initiative in coca-growing areas. Recent cash inputs include $5.46 million through the GOP's Social Emergency Fund for San Martin. Also, for the first time, the Army began civic action programs in areas affected by narcotrafficking and has been rehabilitating roads in areas where security considerations impeded civilian construction activity. As a result, security in coca-growing areas and areas previously controlled by terrorists has improved steadily, thus allowing without interruption since 1993, the implementation of agribusiness and social development activities.

On October 3, 1994, the GOP officially enacted Supreme Decree No. 82-94-PCM titled "*Normas Legales -- Plan Nacional de Prevención y Control de Drogas*" which provides in one comprehensive document the legal framework of the GOP's plan to deal with Peru's drug production, consumption and trafficking problems. A priority aspect of the Plan is alternative development as a way to address the poverty and social development problems of the population.

Peru cannot achieve the goal of eliminating narcotrafficking without sustained national economic growth and substantial cooperation from the farmers who are cultivating coca leaf. They are the most directly affected by any effort to stop illicit coca production and unless they have access to licit sources of income, they will resist efforts to change. Their cooperation can be elicited to the extent that alternative sources of jobs become available to replace income loss from the disruption of the coca industry. These opportunities, however, remain severely limited in relation to need. The GOP does not have the required resources to expand its job creation and poverty alleviation initiatives for people now making a living from coca production and processing activities. It needs substantial and continuing support from the USG and other donors for many years to increase employment and income opportunities at the national level and to continue expanding the access to licit alternative sources of income for people in coca-growing areas.

C. The Alternative Development Option to the Coca-Based Economy

1. The Alternative Development Concept

United States Agency for International Development (USAID) and the United Nations Drug Control Program (UNDCP) have been cooperating with the GOP in carrying out alternative development activities in Perú. The concept of alternative development is radically different from crop substitution. While crop substitution entails direct replacement of coca for other crops, alternative development entails a broad range of socio-economic development initiatives to alleviate poverty, generate licit employment alternatives and improve the well-being of people coca producing areas; complementary measures will have to create incentives for investment and economic growth in out-migration areas which provide migrant labor for coca production. Basically, as applied to the typical Peruvian farmer in coca-growing areas, alternative development is based on the tenet that he/she must have a reliable alternative source of employment and income, which coupled with an improvement in the quality of life, will provide a life style that convinces him/her it is worthwhile to abandon coca cultivation. Law enforcement efforts complement alternative development activities by breaking up the marketing and financing mechanisms and maintaining, or lowering, the farmgate price for coca leaf products.

Alternative development must be broad-based and sustained if it is to have the desired impact. Thus, a sound alternative development strategy includes macro and micro-economic initiatives, improved basic services such as health and education, adequate infrastructure facilities, a responsive government and a secure environment as part of a long-term, sustained development effort that offers people sufficient incentives to switch from a coca-based economy to licit economic activities. It is important to note that any GOP/USG effort to reduce the production of coca leaf destined for illicit purposes must involve both the alternative development component and the law enforcement component. If law enforcement does not create an environment which makes coca leaf production less economically attractive, AD will not achieve its goal of reducing coca cultivation in the target areas pursuant to the GOP National Drug Prevention and Control Plan. If law enforcement activities are implemented alone, they will only drive coca leaf producers to new production areas.

2. The USAID Role

Since 1991, the GOP and the Government of the United States (USG) have been working closely to control narcotics production and trafficking through an integrated approach involving the military, the police and economic assistance. However, inadequate resources, internal violence and turmoil, compounded by deep-seated socio-economic problems, have at times hampered and disrupted such efforts. The USG/GOP signed an overall framework agreement for a comprehensive anti-narcotics program; now under revision, the revised agreement will provide the basis for renewed efforts.

During recent years, the USAID assistance program to Perú evolved the alternative development strategy elaborated in this Project Paper. Given the magnitude of the coca economy and the severe economic deterioration during decades of public mismanagement in virtually all sectors of the Peruvian economy, the USAID assistance strategy places high priority on macroeconomic revitalization. The long-term goal of the macroeconomic aspects of the strategy includes three key objectives: (1) to stabilize the economy by encouraging macroeconomic adjustments that will reduce inflation and fiscal, monetary, and trade disequilibria; (2) to open up the economy so that expanded non-traditional exports and efficient production for a growing domestic market can replace coca exports; and (3) to promote legal employment opportunities to attract labor force entrants away from the coca industry. The USAID-sponsored alternative development portfolio supports these macroeconomic objectives through balance of payments support, policy dialogue, and assistance to improve Perú's economic policy analysis and implementation capability.

At the micro level, the USAID strategy seeks to improve alternative economic opportunities for those in coca-growing areas and for potential migrants to those areas, resulting in abandonment or prevention of coca cultivation and leading growers to cooperate in, or consent to, its elimination. From ESF/Counternarcotics funds, USAID/Peru is funding four additional projects which complement the AD Projects. Each one of these projects help to create the necessary conditions needed to implement a comprehensive counternarcotics strategy and complement the Alternative Development Project. Currently, the following projects complement the macro-level alternative development activities:

- **The Local Government Development Project (527-0371)** will strengthen the institutional capability of local governments to provide basic services and will develop participatory mechanisms that promote sustainable development. This Project will help to create the public environment for development to take place.

- **The Microenterprise and Small Producers Support Project (527-0349)** will increase the income and employment opportunities of micro-entrepreneurs, small producers and small farm-holders and to strengthen their democratic grassroots producer organizations. MSP will help to provide jobs and economic livelihood for those who were previously dependent on coca production.

- **The Participatory Democracy Project (527-0356)** will expand people's participation in decisions affecting Peru's development and their personal well-being, building local, regional and national consensus on development issues while enhancing the ability of public institutions to respond to people's needs and concerns.

- **The Narcotics Education and Community Initiatives Project (527-0347)** will stimulate national awareness leading to activities that counteract drug production, trafficking and abuse.

There are several other USAID/Peru Projects funded from non-ESF sources which will have a direct impact on social and economic impact in the AD Project implementation area. They include:

- PL 480-Title II funded NGO activities to improve the nutritional and health status of poor segments of the population.

- **The Project 2000 (527-0366)**, which seeks to strengthen child and maternal health services and improve the efficient use of health care resources.

Complementing economic and development assistance, the USG also provides strong support to help the GOP in its law enforcement and narcotrafficking interdiction efforts. Yet, given the magnitude of the problem, and limited USG resources, multi-donor support is vital. This support is being elicited by the GOP and strongly encouraged by the US Mission in Peru through both formal and informal coordination mechanisms.

Currently, the USG is a key supporter of GOP efforts to implement its policy of drug control and law enforcement in coca-growing areas. The USG, through USAID, also has been supporting GOP alternative development initiatives, but only on a very limited basis. The Alternative Development Project will help the GOP in addressing the major problems related to the lack of sound, sustainable and legal income producing opportunities which provide alternatives to coca production. These opportunities in turn will lead to significant reduction of coca leaf production in targeted project areas. An improvement in infrastructure and basic services and a strengthening of the institutions involved in carrying out socio-economic development programs in the coca-growing areas will help to provide the environment for economic growth. The Project will build on the experience gained through the final stages of the Upper Huallaga Area Development (UHAD) Project by broadening both the geographic scope and the intensity of development actions.

By itself, the AD Project cannot attain the vital objective of reducing the flow of coca and cocaine from Perú. However, without the types of development activities which the Project proposes to sponsor, all other efforts -- including forced eradication if it were to be undertaken -- will likely fail. Experience shows that even with strong law enforcement, it would be extremely difficult to convince farmers, who are deprived of basic services and already live in conditions of poverty, to destroy their only reliable source of income unless they are offered a licit and concrete alternative.

3. The Empirical Basis for the Project

(a) USAID-Sponsored Program Experience

USAID has been involved intermittently in Perú's coca-growing areas, mostly in the Upper Huallaga Valley (UHV) since 1981. Since then, USAID has been compiling substantial information concerning alternative income earning programs that could be economically and socially feasible in the area, and has gained valuable experience to facilitate implementation of such programs. The USAID Mission supported one of the few government organizations in the Valley implementing alternative development concepts-- the Proyecto Especial del Alto Huallaga (PEAH) -- through the

recently terminated UHAD Project. Currently, communities which until recently had been considered high risk and off-limits for personnel working on development programs, are embracing development agencies which offer the hope of alternative development. Indeed, PEAH personnel have been working closely with municipalities in planning and actually implementing pilot projects with minimum risk in many areas previously controlled by political terrorists.

In addition, in 1992 USAID/Perú initiated under the UHAD Project a local government strengthening activity called Democratic Community Development (DCD) in two provinces in the Region of San Martin. The DCD activity sought to re-establish local governments in those areas where they had been driven out by terrorism, and to promote popular participation in the development process. Because of its success, in 1993 the activity was expanded to all of the 10 San Martin Provinces, to Leoncio Prado Province in the Department of Huánuco and to Padre Abad Province in the Department of Ucayali, areas all affected by narcotrafficking.

Within two years, the DCD activity helped to re-establish local governments in every municipal district of San Martín and completed 185 socio-economic community development projects. The local government-community participatory process used to plan and implement these projects encompassed built-in sustainability factors: as communities contributed materials and labor to complete such projects, they have developed a sense of ownership, have protected them from terrorism (none of the completed DCD-sponsored community development projects has been destroyed) and are maintaining them. The experience under the DCD activity provided the basis for the Local Government Development Project which is being implemented in Departments affected by narcoterrorism. This recently approved companion project will reinforce the implementation of the AD Project.

Independent evaluations of USAID-sponsored programs in coca-growing areas attest to the positive experience with properly conceived and implemented alternative development programs. In 1992, USAID contracted a consulting firm to carry out a Lessons Learned Evaluation of the UHAD Project. The key findings of the evaluation strongly support the notion that farmers in coca growing areas will voluntarily reduce illegal coca farming if given appropriate alternative development options that provide licit sources of employment and services to improve the well-being of their families.

A pilot activity was carried out in the Ponaza Valley, a coca- growing area in the Central Huallaga to test this concept. Participating communities were offered alternative development assistance packages in return for voluntary coca eradication. The reaction of the Valley's population has been decisive. They have strongly opposed the international drug cartels; they have prevented the construction of a landing strip on the feeder road connecting the Ponaza Valley to the Marginal Highway, and three communities have refused to cooperate with terrorist groups which have been trying to re-establish bases in their areas. In addition, coca production in the Valley was reduced by approximately 50 percent -- from 1,500 hectares of land planted with coca in June 1992 to around 700 hectares by December 1993, as verified by the Special Project for Coca Reduction in the Upper Huallaga (CORAH) with assistance from the Narcotics Affairs Section/US Embassy. The alternative development concept was expanded to other areas, namely: Sisa, Biabo, and Tocache Valleys. Although UHAD Project staff were confident that similar results could have been achieved in these three valleys, because of the early closeout of the UHAD Project, project activities in these areas had not progressed sufficiently to achieve the same level of success. The Sisa, Biabo and Tocache sites are all included in the implementation plan for the first stage of the AD Project.

The Evaluation also found that community-based programs led by local governments insure the active participation of the population in activities that alleviate economic hardships and the security problems brought about by terrorists and narcotraffickers. This approach was tried in the Tocache province where over 60 community level development activities were planned and implemented successfully. Many of these activities were located in areas controlled by the SL. Participating communities have refused to cooperate with terrorists and have been able to carry out their community development projects as planned.

(b) Other Donors'-Sponsored Program Experience

The UNDCP is implementing a project to reduce coca leaf production in the Huallaga region (in the provinces of San Martín, Huánuco and Ucayali) as well as in Cuzco (the provinces of La Convención and Lares). Under their project, the UNDCP has signed agreements with over 150 peasant organizations whereby members agree to abandon coca cultivation in exchange for assistance to plant legal crops. This project has already succeeded in helping Huallaga Valley farmers to plant some 6,500 hectares of land with alternative crops, including cacao, coffee, *achiote*, palm heart trees, corn, palm oil, tea, plantain, yucca, rice and fruit trees. In the Cuzco region, participating farmers have planted some 4,500 hectares of land with licit crops, including coffee, cacao, *achiote*, *cochinilla* and citrus fruits.

In sum, the UNDCP as well as the USAID experience in carrying out development activities in the HV show that an increasing number of farmers are searching for ways to switch from illegal coca production to alternative crops. Such experience also highlights the critical lessons learned that: law enforcement and enforced eradication alone does not work; the implementation of selective, isolated development activities have minimal impact; and a top-down approach to deal with the socio-economic problems in coca-growing areas (as well as in other areas) does not work.

Further, the experience and recent studies show that coca-growing farmers, faced with mounting GOP law enforcement and coca-control efforts, social pressures, and the inherent dangers of illicit activities, are joining local organizations which help them find licit alternative sources of income. For these reasons, the AD Project is opportune, feasible and a necessary element as part of broader GOP, USG, and other donors' efforts to reduce illegal coca production in Perú.

Other projects financed by other donors which have a direct alternative development component or an impact on coca growing areas include:

- World Bank projects:
  - A project to rehabilitate Peru's road network during a five-year period at a cost of $150 million.
  - A $150 million project to improve and privatize Peru's power generation system.
  - A planned $150 million project to improve feeder roads during the period 1996-1999.

- Inter-American Development Bank projects:

  - The financing the Lima-Huánuco portion of the Central Highway.

  - A $50 million project for major irrigation activities.

  - A $150 million transport sector project which will cover institutional strengthening, road rehabilitation and maintenance and railway privatization and maintenance.

- UNDCP and Other Bi-lateral Donors:

  - The UNDCP is now initiating a new German-funded $2.2 million AD project in the Apurimac.

  - A three-year German Government 60 million Mark alternative development project centering on rural irrigation in the Lower Huallaga-Alto Mayo Region.

  - European Union (EU) sponsored agricultural development and drug demand reduction projects in Peru.

  - A Chinese Government financed cement plant near Tarapoto which will provide employment and construction materials for some of the activities under the AD Project.

  - Small reforestation projects financed by three NGO's -- Intermediate Technology Group, Centro de Investigación y Desarrollo de la Selva Alta I (CEDISA), Promoción y Desarrollo de la Mujer (PRODEMO) -- in Yurimaguas, Alto Mayo, and Shapaja areas.

D. The Project

The AD Project will finance: community-based private sector investment activities; small, local level social infrastructure; infrastructure improvements (farm to market roads) necessary for sustained reactivation of licit economic activities; agricultural production, including research and extension activities; credit; marketing assistance; commodities, including improved seed varieties; studies; technical assistance; and local Project implementation costs. Financing for these activities is necessary to continue advancing the process of developing alternative sources of employment and to increase the availability of basic services of the population in coca-growing areas and areas which provide migrant labor for illegal coca production and processing. This will create positive incentives for abandonment and elimination of coca cultivation.

The Project will be carried out in selected watersheds along river valleys where coca is grown and represents the main source of income for people living in such watersheds and in surrounding communities. The initial watersheds are located in five major coca-producing areas, per the map found on page 27 (other areas will be considered based on implementation experience):

-- Alto Huallaga: Tocache, Uchiza;
-- Aguaytía;
-- Huallaga Central: Ponaza, Biabo, and Sisa;
-- Pichis Palcazu: Pichi and Pachitea; and
-- Apurimac River Valley.

During implementation year 1995, Alto Huallaga (Tocache/Uchiza), and Huallaga Central (Ponaza, Biabo and Sisa) will be the areas in which the Alternative Development Project will consolidate previous experiences implemented during the UHAD Project. In the Apurimac Valley, the Project will implement all Project components in coordination with the actions being implemented by UNDCP. In Pichis/Pachitea and Aguaytía, since they are new areas for narcotrafficking and exhibit problems that require a more detailed study, the Alternative Development Project will be limited to implementing community development activities with the purpose of achieving the people's confidence. During the following years all the components will be implemented in all the target areas and the Project may incorporate new areas in accordance with the following criterion:

- Level of coca leaf production;
- Level of narcotrafficking;
- Security;
- Potential of implementing alternative development activities;
- Willingness of communities to participate in alternative development activities in return for reduction of coca production;
- Other donor participation

The Social Analysis, Annex 5, provides a profile of these areas.

Socio-economic development activities in areas which provide migrant labor for coca production are being and will continue to be carried out through the range of programs previously mentioned as well as by other donors as discussed subsequently in the strategy section.

To increase the prospect of developing viable legal sources of employment and income, the watersheds have been selected on the basis of their potential for sustained development, particularly their agricultural and agroindustrial potential, as well as on the basis of their potential for reducing the production of coca leaf. Generally, these watersheds have good soils appropriate for marketable cash crops, have adequate grassroots organizations which can play a role in negotiating and complying with coca reduction agreements, and have the potential for establishing agroindustries, either as direct processors of agricultural products or as suppliers of raw materials.

The type of assistance to be provided will vary by target area, depending on the potential, soils resources and specific characteristics and needs of each area. In some valleys farmers need assistance to restore the level of production of marketable traditional crops, such as coffee, cacao, rice, and corn. Deteriorated infrastructure, erratic economic policies, and terrorism forced many farmers to drop their efforts to produce these crops. Assistance will also help to increase the productivity of livestock and dairy products, which have an assured internal market as Perú currently has a production deficit of these commodities.

In addition, there are a number of crop packages and locally-available technologies which can produce marketable cash crops using production inputs which could otherwise be used for coca production. For example, these packages could include:

(i) San Francisco: the Pijuayo Palm (for palmito hearts), coffee, vanilla, pepper, cocoa, and macademia nuts.
(ii) Aguaytia: Pijuayo, *camu-camu*, vanilla, and *bijao*.
(iii) Alto Huallaga: Pijuayo, *camu-camu*, and *arazá* (an exotic fruit which can be industrialized to produce pulp for juices), citrus, banana, yuca.
(iv) Central Huallaga: Pijuayo, *camu-camu*, *arazá* and pepper, rice, corn, cotton.

The Detailed Project Description section and the technical analyses provide more details about other opportunities.

1. Project Goal and Purpose

The Project goal is to reduce coca cultivation in the target areas pursuant to the Government of Peru's National Drug Prevention and Control Plan. It will contribute to the USAID's **Strategic Objective** of increasing incomes and employment of the poor and the related program outcome of increased incentives for licit economic activities in targeted coca areas. The Project will contribute to this objective and to the broader USG goal of reducing production of narcotics in the Andean countries by helping the GOP to implement its integrated alternative development strategy. This strategy seeks to reduce coca production by providing alternative sources of licit income to people now engaged in coca cultivation and processing. The Project is also consistent with the recently USG approved counternarcotics strategy which includes a policy decision to support alternative development programs in coca-producing countries.

The **purpose** of the Project is to increase employment and income from alternative licit economic activities in the project areas, in order to achieve the project goal.

Key indicators have been developed to measure the attainment of the purpose, as listed in Part IV (Project Description), the Evaluation Plan and the Logical Framework of this Project Paper. These include: the percentage of income earned by farmers in the target areas from licit sources; the percentage increase of land under cultivation with licit crops; and the number of poor people in target areas with expanded access to basic services. In addition, the attainment of the project goal will be measured through the percentage of reduction in the area of coca under cultivation in participating communities (50 percent reduction) at the end of the project.

The main assumptions to reach the Project purpose include:

- Continued GOP efforts to carry out its macro-economic program that provides the foundation for sustained economic reactivation and growth;

- Continued and sustained GOP commitment to reduce terrorist violence;

- Continued and sustained GOP commitment to carry out its present counternarcotics and alternative development strategy;

- A parallel USG commitment to help the GOP carry out that strategy and promote broad-based economic growth;

- Corresponding support by other donors to attain net reduction in coca cultivation on a national basis; and

- The timely availability of USG and GOP funds to implement the activities discussed in the Project Description.

2. Project Components

The Project will support income-producing and small scale social infrastructure activities at the local level, private sector economic reactivation activities, essential complementary infrastructure, and technical assistance and training to strengthen the key GOP institutions which will participate in the Project and assist in the overall implementation plan.

To do this and attain the purpose, the Project design includes three inter-linked and mutually supportive components:

(a) **Employment and Income Generation Component (EIG).** This component will help: (i) reduce the production of coca in target areas where it is being cultivated illegally, and (ii) the GOP and communities in target areas to develop and carry out licit activities that generate income. The Project will do this by supporting selected agricultural production and agribusiness ventures that have the potential of providing alternative sources of gainful, licit sources of employment on a sustained basis.

This component will provide direct assistance to individual farmers and non-farm businesses to increase production, income and employment. Assistance will emphasize production and agribusiness enterprises (including marketing) which can produce relatively short-term returns within a six-month to three-year time frame. Some long-term activities, such as research on alternative crops or promotion of large scale enterprises with long-term pay offs may be included based on detailed analyses to be done on a case-by-case basis during Project implementation.

Initially, the Project will target agricultural-cropping systems that require minimal assistance to create a viable alternative to coca production. For instance, in some areas, existing primary cropping systems which include the cultivation of paddy rice, corn, cacao, cotton, coffee and livestock/dairy production are technically and economically feasible alternatives, given technological assistance to boost quality and productivity, during the early stages of the Project (the first three years) while other alternatives are being developed.

Project support for the production of agricultural products will include:

- **Applied research and extension** efforts in corn, cotton, cacao, livestock and dairy, legumes for livestock production, paddy rice, forestry and soil, water and pasture management, and other traditional products whose production levels can be restored with modest inputs. This research will be market-driven to assure that whatever is produced can be competitively sold.

- **Bold efforts to develop high-value cash crops** (non-traditional crops, and high yielding traditional crops such as those indicated previously) which can be sold commercially, both domestically and in international markets.

- **Commodity assistance to equip research laboratories** and provide appropriate, improved seed varieties to participating farmers which meet the conditionality for assistance.

- **Technical assistance to study agroindustrial possibilities** and actually help farmer groups develop viable agroindustries, identify markets and establish distribution channels.

- **Marketing assistance** to help farmers engaged in the production of alternative crops or agroindustries to market their production.

- **Credit, loan guaranty, and financial planning assistance for agricultural production and agribusiness ventures.** This activity will encourage the private banking sector to become involved in agriculture by providing mechanisms such as supervised ag credit, including basic financial management training courses to farmers. It is anticipated that this will lower the perceived risk factor on the part of the ICIs.

(b) **Essential Services/Community Development Component.** The purpose of this component is to foster an environment where increased opportunities for legitimate income-producing activities, self-directed participation in development activities and access to basic services will provide the rural household with the necessary incentives to abandon coca production and eliminate existing coca crops. To do this, the Project will finance socio-economic community development activities which meet certain criteria, as detailed in subsequent section IV, B, 2.b.(2).

The type of assistance to be provided will consist of relatively small, quick impact activities which local organizations can implement and maintain effectively. Such activities are expected to focus on the areas of health, education, water and sanitation, small irrigation systems, community organization and training and environmental conservation and protection. The Project will also finance small projects resulting from community emergencies, such as bridge repair from flooding, and technical assistance for community development.

(c) **Environmental Protection and Awareness Component.** The Project will provide technical assistance and training on sound cultivation practices, soil and water management, agricultural sustainability, reforestation, and other environmental conservation practices. In addition, the Project will help finance reforestation activities in areas which have been damaged by coca cultivation and processing practices. This assistance is vital because unless the current pace of environmental degradation caused by coca processing activities and unsound farming practices is halted, the long-term sustainability of legal alternatives of employment and income in coca-growing areas will be seriously jeopardized.

The above activities under the AD Project will be directly reinforced by the other USAID-sponsored programs listed previously. Particularly, the complementary Local Government Development Project (527-0371) will strengthen the capability of municipalities and local level organizations to carry out development activities in many of the areas where the AD Project will be implemented.

The GOP, with its own resources, has a headstart in carrying out socio-economic development activities in coca producing areas through its National Development Institute (INADE) and its Special Project Offices. These offices are working closely with municipalities and communities in improving infrastructure and assisting groups of farmers in planting licit crops.

In addition, the GOP is expected to continue its program (mostly with World Bank and IDB financing) to restore and upgrade the larger scale infrastructure needed to support economic reactivation, both within the Huallaga Valley and other principal coca growing areas and between these coca regions and other areas which offer markets for goods produced in coca regions and sources of inputs for production. This GOP contribution is crucial because without adequate supporting infrastructure, efforts to develop agroindustries and related income generating and marketing activities would be hampered. This entails, in the case of the Huallaga Valley which remains the largest single coca producing region, upgrading parts of the road known as the *Marginal Highway*, feeder and rural access roads, improving existing power grids and the installation of irrigation systems.

On a broader scale, the GOP is advancing its alternative development strategy as contained in the recently approved National Plan for Drug Prevention and Control by carrying out rational economic stabilization and growth policies and socio-economic development programs on a nationwide scale,

3. Conditionality

The coca reduction conditionality for the provision of Project assistance to farmers, group of farmers and participating communities is discussed in Part IV- Project Description. Briefly, the conditionality is planned as follows:

- Farmers who are engaged in coca production must sign an agreement to refrain from planting additional coca and to reduce existing plantings by a negotiated percentage.

- Farmers who are not engaged in coca production qualify for credit for productive purposes based on the merits of the credit application and an agreement not to engage in coca production in the future.

- Access to alternative crop technology, planting materials on a commercial basis, training and technical assistance will be available to all farmers with no conditionality. The unconditional availability of this assistance is necessary to help farmers develop rational and economically feasible individual plans for phased production of licit cash crops.

- Priority consideration will be given to farmers who have already begun to reduce their coca production and begun to switch to licit economic activities as well as to farmers who, although are not engaged in coca production, pledge not to plant coca and have agricultural production plans which include good job creation prospects.

- Regarding conditionality to benefit from basic services and community development activities, priority will be given to those communities which have been organized for the purpose of controlling and reducing coca production in the area. Communities will be asked to sign an agreement with the concerned local government and INADE stating their commitment to coca reduction in exchange for benefitting from social infrastructure investment projects and other assistance offered under the Project. Overall, the coordinator for this AD Project and for the GOP's National Drug Prevention and Control Plan will be the Ministry of the Presidency.

4. Implementation Arrangements

The Project funds will be obligated through a Project Agreement with the Ministry of Foreign Affairs and the Ministry of the Presidency (MIPRE) of the Government of Perú (GOP). The MIPRE/Executive Secretariat for International Technical Cooperation (SECTI) will assign coordinating and monitoring responsibility to INADE, which will be the main GOP liaison office with USAID/Perú. INADE will establish a Special Programs Office to coordinate all implementation matters. The overall coordinator for this AD Project and for the GOP's National Drug Prevention and Control Plan will be the Ministry of the Presidency. They, in turn, have asked INADE to coordinate the AD Project implementation with USAID/Peru. INADE will consolidate the various project implementation proposals into an annual workplan to be approved by USAID. This process was used during the last two years of the UHAD Project where INADE demonstrated its ability to effectively plan and implement AD-type activities. The charts at the end of this Chapter illustrate the overall institutional relationships for Project implementation as well as the planned flow of credit and related assistance to small farmers, groups of farmers and agribusinesses.

Using contracting procedures approved by USAID/Perú, INADE will contract local organizations which have the capability to carry out aspects of the Project, such as agricultural research, training, environmental studies, marketing functions, and technical assistance to communities. INADE will also sign Letters of Understanding (LOUs) with participating municipalities which will be involved in implementing aspects of the Project at the local level. These activities will be financed with HCOLC.

Some of the key implementing entities in target areas will be INADE Special Projects known as Proyectos Especiales, such as PEAH (Proyecto Especial del Alto Huallaga). USAID has worked with several of the Special Projects who will help in the implementation of the Project in the field. These include the Upper Huallaga Special Project (PEAH-12 years of collaboration), Central Huallaga (PECLH-8 years) and Pichis Palcazu Special Project (PEPP - 5 years). The Special Projects will act as implementors for several of the activities (road rehabilitation, community development projects, basic services and other infrastructure projects) in partnership with the local governments and communities. They will also help in the planning, coordination and monitoring of all other Project components. Currently, per the previously mentioned flow chart, there are four of these Special Projects created by INADE to deal specifically with the socio-economic problems of the population in coca-growing areas. Other implementing mechanisms will include agricultural research stations, non-governmental organizations, private sector entities and local governments.

Disbursements of the GOP counterpart contribution ($14 million) will be based on annual workplans which INADE will prepare, with USAID/Perú concurrence, detailing the activities to be carried out during the year. The disbursement procedures for all sources of funds are fully discussed in Chapter VI (Financial Plan). To coordinate Project implementation, INADE will use its field offices in targeted Project areas.

Technical assistance and training under the Project will be provided by a technical assistance provider (TAP) through a Cooperative Agreement with a qualified entity competitively selected. The nationality of the selected entity will be either Peruvian or US or it could be a joint arrangement between Peruvian and US entities. Chapter V Implementation Arrangements provide details about the criteria that will be used to select this firm. The TAP will provide annual workplans for the provision of technical assistance and training, or more often if deemed necessary, which both INADE and USAID/Perú will review and approve. The workplans will provide the basis for USAID payments under the terms of the CA.

In addition to coordination at the Project level, the GOP will define institutional arrangements necessary to coordinate the implementation of the provisions of its recently enacted Plan on Drug Prevention and Control. This Plan assigns priority attention to alternative development. Concerned GOP agencies and key donors are expected to participate in its implementation. USAID participants will seek to optimize the use of the various sources of funding to attain the purpose of the Project.

The Project Agreement will include a clause allowing USAID/Perú to: (a) choose and sign a Cooperative Agreement with a selected technical assistance firm, and (b) execute Personal Services Contracts (PSCs) arrangements with a Peruvian Project Coordinator, two Field Monitoring Specialists, a Program Specialist and a secretary to assist the USAID Project Manager in monitoring all aspects of the Project.

To the maximum extent feasible, employment and income generation activities are expected to be carried out by the private sector. Any Project involvement in any business or agribusiness will depend on the private sector's interest in investing in that activity. Private sector entities include local "Comites de Productores" (Producers' Committees), Producers' Enterprises, agribusiness entrepreneurs and intermediate credit institutions. Private voluntary or non-governmental organizations (NGOs) will be used to assist in project implementation and private engineering/construction firms will be used wherever possible for access road rehabilitation. Before funding any employment and income generation technical assistance applied research or credit

activities the availability of and access to markets will be carefully examined. From the UHAD Lesson's Learned Evaluation, the Project designers recognize that marketing is one of the key elements in promoting any crop. Therefore, the criteria for Alternative Development assistance will be marketability, profitability, practicability, and feasibility.

However, there will be a need also to involve selected GOP institutions in the implementation of certain Project activities, as contained in the INADE agreements with municipalities and communities. A prime INADE function will be to determine when, how and which other GOP agencies can be involved effectively in the implementation of such activities. For example, on a case-by-case basis, INADE, working in concert with the concerned municipality and Regional government in each Project area, will make arrangements with the local level offices of the Ministries of Education and Health to assure the staffing of primary schools and health posts built with municipal and community participation. Likewise, INADE and the concerned local government entity will arrange for the participation of the Ministry of Transportation and the GOP Army in certain road rehabilitation and maintenance activities which, for security reasons, the private sector or the concerned community may not be able to perform. Similar arrangements will be made with local level offices of the Ministry of Agriculture for irrigation activities and or land titling.

A number of such arrangements were made under the final stages of the predecessor UHAD Project, which proved that through a proper coordinating mechanism, several technical national agencies can work together effectively. The scope of such arrangements will be continually assessed and refined, if necessary, under the AD Project. In this respect, Project personnel will be trained to convey the theme that the USAID resources provided through the Project will not replace GOP national and local level (from the municipalities) resources but complement them. This will reinforce the role of regional and local governments as implementors.

In Project implementation areas, the GOP Interior Ministry coca reduction agency, CORAH, will be responsible for conducting surveys to establish initial estimates of coca cultivation in selected beneficiary communities, providing technical advice on realistic and attainable reduction targets and methods and verifying voluntary reduction of mature coca in implementation areas. CORAH will be supported in these activities by INC funds provided by US Embassy/Narcotics Affairs Section (NAS).

USAID/Perú will assign a Foreign National Project Manager to monitor all Project activities, who will work under the supervision of the Chief of the Local Government and Sustainable Development Office. This person will assure that other USAID-sponsored activities in Perú, such as Narcotics Education and Community Initiatives (NECI), Justice Sector Support (JUST), Participatory Democracy (PARDEM), Local Government Development, Microenterprise and Small Producers Support (MSP), Child Survival Action, and Project 2000, as well as other donor activities, complement and reinforce the AD Project's attainment of its goal and purpose.

The Project includes funding for long and short-term assistance to advise on certain aspects of Project implementation and help in upgrading INADE's coordinating and monitoring capability and local level organizations through advisory assistance and training. Most of the personnel who will implement the Project will be provided by GOP counterpart entities, participating NGOs or contracted locally using Project funds. All long-term external or local technical assistance will be provided by the CA/TAP. In turn, the TAP will sub-contract with specialized individuals on a short-term basis to carry out the tasks described in the Project Description part of this PP. The TAP will work with

INADE in identifying and scheduling all short-term external experts in specialized areas (agronomists, agribusiness specialists,credit, marketing, small business planning, etc.) who may not be available locally.

A detailed discussion of each component and the related implementation arrangements is contained in Parts IV and V of this Paper.

5. Financing

The estimated Life-of Project (LOP) cost is $44 million during a five-year period. This total includes an estimated USAID LOP funding of $30.0 million (68%) in Economic Support Funds (ESF) to finance the implementation of the most urgent socio-economic development activities in Project areas. This amount will by complemented by a GOP counterpart contribution of $14 million (32%). The GOP contributions will be used mostly for vital infrastructure activities, particularly road rehabilitation and credit. The GOP will also cover the operating expenses (counterpart personnel, office space and other logistic support directly related to the Project) of the GOP agency -- INADE -- which will coordinate and monitor the Project. Activities of CORAH in support of the Project will be financed by INC funds allotted to NAS.

Participating communities, municipalities and GOP technical ministries will also provide significant contributions, including labor, maintenance and local materials by the beneficiary community, as well as staff resources and cash. However, these contributions cannot be quantified now, as they will be negotiated on a case-by-case basis for each activity. The Information and Monitoring Plan will provide for the compilation of the required information and will be a part of the Management Information System (MIS) and used to measure such inputs. Although not directly related to the AD Project, the GOP will invest in development activities such as roads, education, health activities, electrification and other basic services through loans from the World Bank and InterAmerican Development Bank as well as funds from the GOP Public Treasury. These activities will be taken into account during the preparation of annual work plans and will complement activities which the AD Project will implement. These non-AD Project activities will also be noted in the MIS reports as a demonstration of the GOP commitment to develop coca growing areas.

For illustrative purposes, the USAID and GOP contributions of $30 and $14 million respectively are planned to be used as follows (figures in $000):

ELEMENT	USAID	GOP ECOLC & PUBLIC TREASURY	TOTAL	PERCENTAGE
1. Technical Assistance all components	2,201		2,201	5%
2. Training (local workshops)	2,000		2,000	4%
3. Commodities	4,701		4,701	11%
4. Basic Services and Energy	6,432	4,761	11,193	25%
5. Road Rehabilitation and Maintenance	3,807	4,839	8,646	20%
6. Seed Production and Extension	500		500	1%
7. Loan Guaranty Fund & Credit	7,600		7,600	17%
8. Land Titling	750	400	1,150	3%
9. Project Implementation Costs:				
A. INADE Pers. & Op. Exp. (in-kind)		4,000	4,000	9%
B. USAID Project Coordination (Project Specialists & Logistic Support)	1,459		1,459	3%
10. Evaluations	300		300	1%
11. Audits	250		250	1%
Total	30,000	14,000	44,000	100%

This illustrative budget can be modified to accomodate any future training and technical assistance requirements. As Project implementation advances and evaluations are carried out, refinements in the budget will be made. The planned annual workplan process will be used to refine the budget within the overall framework which this Project Paper presents.

The total resource level of $44 million is based on detailed analyses of the requirements to produce the outputs described in the Project Description section, an assessment of the development needs in target communities, the budgetary situation of the local entities concerned with socio-economic development in the target areas and an estimate of the possible resources which the USG will make available to help achieve the vital counternarcotics foreign policy objectives. The financial analysis shows that the internal rate of return is 13.9%. This includes Project administrative and monitoring cost. Given the extent of the problem, if available, a far greater level of resources could be used effectively for development purposes in the Project areas, particularly for credit, and the development of infrastructure such as roads, power systems, and irrigation.

It must be emphasized again that as part of an element of the GOP alternative development strategy, the AD Project by itself will not deal with all the problems brought about by illegal coca production and narcotrafficking in Peru. The expected availability of resources requires that efforts be focused on a specific geographic area (watersheds such as Ponaza, Biabo or Tocache) within larger coca leaf producing areas such as the Upper Huallaga Valley, Central Huallaga Valley, Aguaytia, Apurimac or Pichis Palcazu). However,

GOP and international donors are continuing their efforts to deal with the problems in a comprehensive way, within the context defined by the GOP National Plan for Drug Prevention and Control.

E. Project Paper Approval Factors

1. Lessons Learned. USAID/Peru contracted three independent evaluations of the UHAD Project. The first evaluation was completed in October 1986 by the firm ECONSULT S.A. The second evaluation was conducted in late 1992 by the firm Tropical Research and Development, Inc. The third and final evaluation was completed in November 1994 by the Peruvian firm *Instituto de Análisis de la Política Agraria*. The extent of reduction of the area of coca under cultivation in the Ponaza Valley pilot area was evaluated and verified by a special technical survey conducted by CORAH for NAS in February-March 1994. In addition, during the preparation of the UHAD Project Assistance Completion Report (PACR) USAID/Peru conducted in mid-1994 a comprehensive review of Project implementation experiences, including a review of the findings of the first two evaluations and the day-to-day experience of the GOP and USAID personnel who participated in the monitoring and implementation of the UHAD Project. A key purpose of the PACR was to document the lessons learned for possible use in subsequent related activities. The key lessons learned, which are confirmed by the aforementioned final evaluation, include:

- Mass forced eradication of coca does not work in most areas of Peru. Mass forced eradication of mature coca through 1989 complicated efforts to reduce coca leaf production in the Upper Huallaga Valley by alienating farmers and promoting the growth of terrorism. In some cases, forced eradication had a negative environmental impact as coca leaf growers moved into protected zones not suitable for licit agriculture. Some of these areas now need extensive reforestation. To be successful, sustainable alternative development programs must convince farmers to eradicate coca voluntarily. Sustained eradication of coca under cultivation is not accomplished simply by forced destruction of plants, but by changing the economic behavior of farmers who grow them.

- Communities must participate concretely and effectively with local governments in promoting their own development. Effective, broad community participation provided a sense of ownership of development activities in which people played an active role, reduced the incidence of terrorism, facilitated the creation of organized resistance against narcotraffickers, and formed the basis for agreements to reduce coca production.

- Strong local governments which use effective participatory mechanisms are vital to long-term, sustained socio-economic development based on licit activities.

- Strong and sustained law enforcement efforts are necessary to hinder the actions of hardcore narcotraffickers, disrupt the farmers' expectation of reliably preferential earnings from coca cultivation, create a safe environment for licit activities to flourish, and further increase the risk and cost of participating in illegal ventures.

- Within the Peruvian context, alternative development programs must be flexible because there are economic, social, political, ecological and cultural differences between various regions and even within the same region, that must be considered if such programs are to succeed.

- Isolated development activities do not work. The needs of most people involved in the production of refined coca products are both economic and social. Thus, development

programs must consider all aspects of life in an area and integrally address its social and economic problems.

The AD design reflects the lessons learned. Particularly, there is a need to maintain as much flexibility as possible in carrying out the Project. This will allow USAID/Perú to revise the Project Implementation Plan based on the prevailing situation in the target areas and the availability of funds, both from USAID and from the GOP.

The experience also shows that it is possible to enter into agreements with communities where coca is grown, whereby communities agree to reduce coca production in exchange for assistance based on their needs. In the Ponaza valley, for example, coca production was reduced by approximately 50 percent.

Further, in contrast to coca-growing areas in other countries such as Bolivia, the previously mentioned studies in Peru show that people in Peru do not consider their involvement in coca production to be a permanent solution to their economic problems, and do consider it inextricably associated with an undesirable environment of lawlessness, violence and alienation from legitimate government institutions. Indeed, the experience shows that most Peruvian farmers would be willing to switch to viable licit agricultural endeavors if given the opportunity.

2. **Other Design Issues.** In addition to the above lessons learned, key issues which project design considered include:

(a) *Project Monitoring and Field Supervision.* Given past security risks posed by terrorism and narcotrafficking in coca-growing areas, what system will be used to identify security and investment risks to Project implementation and monitoring personnel?

As indicated in the background section, the security risk in the target areas has been reduced sharply during the last two years. The threat posed by the two terrorist movements has been significantly reduced or has nearly disappeared in many target areas. The GOP has been able to increase its control over steadily expanding areas in the Huallaga Valley and the Project implementation area has been broadened to include other existent and potential coca expansion areas. During the final stages of the UHAD Project, personnel were able to travel safely in most areas as communities, attracted by the prospects of development assistance, played an increasingly active role in rejecting terrorism and protecting Project personnel.

Yet, since it is not possible to predict the prevailing conditions in each target area for each activity at the precise implementation period, a Project Implementation Committee will be established to review on a continuing basis the timing, investment risk and security aspects relevant to its implementation. The composition of this committee will vary depending on the activity, but in general it will include the US Regional Security Officer, Embassy NAS, INADE, Project technicians, the regional government, the Area Politico-Military Commander and USAID personnel.

The review of each major activity will include an analysis of its socio-economic feasibility, the implementation plan, and all relevant security considerations. The review is expected to result in a decision to proceed, drop, delay or phase the implementation of the activity in accordance with the prevailing security situation. A decision to proceed is expected to be made only when there is reasonable assurance that the necessary conditions exist for the successful implementation of the activity. The basis of this system is flexibility and close monitoring of the conditions in the target area.

As a complementary step, the Project will establish a Management Information System (MIS) in INADE that will include a database for groups of activities with indicators, security factors in the target area, and a tracking system that the Project Implementation Committee will use to reach critical decisions on each activity.

(b) *Income Generation.* What are the types of income-generating activities which will be implemented under the Employment and Income Generation Component, and what are the expected benefits these activities would provide to local communities?

Chapter V. of this PP discusses in detail the types of income generating activities planned. These activities are described in Chapter IV. In addition, Annex 5 provides project profiles of some agribusiness activities expected to be carried out under the Component. The planned benefits under the Component are summarized in Chapter IV-Project Description - and in the Logical Framework (Annex 1).

The Project Component titled "Essential Services/Community Development discusses in detail a range of activities which will be carried out at the community level to support the development of alternative sources of income. These activities are listed and fully described in Part IV -- Project Description of this PP.

(c) *Relevance and Consistency with Past Experience.*

USAID/Perú and other concerned elements of the U.S. Mission conducted a comprehensive study of the lessons learned of previous projects and related experiences in other countries. The PP's design reflects the lessons learned from those projects. One key lesson learned from the implementation experience of previous efforts is the need to maintain as much flexibility as possible in carrying out the Project. This will allow USAID/Perú to revise the Project Implementation Plan based on the prevailing situation in the target area and the availability of funds, both from USAID and from the GOP.

(d) *Environmental Impact.* The key environmental issues relate to deforestation, soil and water management, agricultural sustainability, and watershed degradation.

There are a number of Project activities which might have potential significant impact on the environment. These activities include elimination of mature coca, road rehabilitation, improvement and extension of irrigation systems, watershed management, management of tropical forests, any assistance with the purchase or use of pesticides, and potable water supply and sanitation subprojects. Activities, such as technical assistance, training and awareness campaigns are not expected to adversely affect the environment and qualify for a Categorical Exclusion or Negative Determination and can be implemented without further environmental reviews.

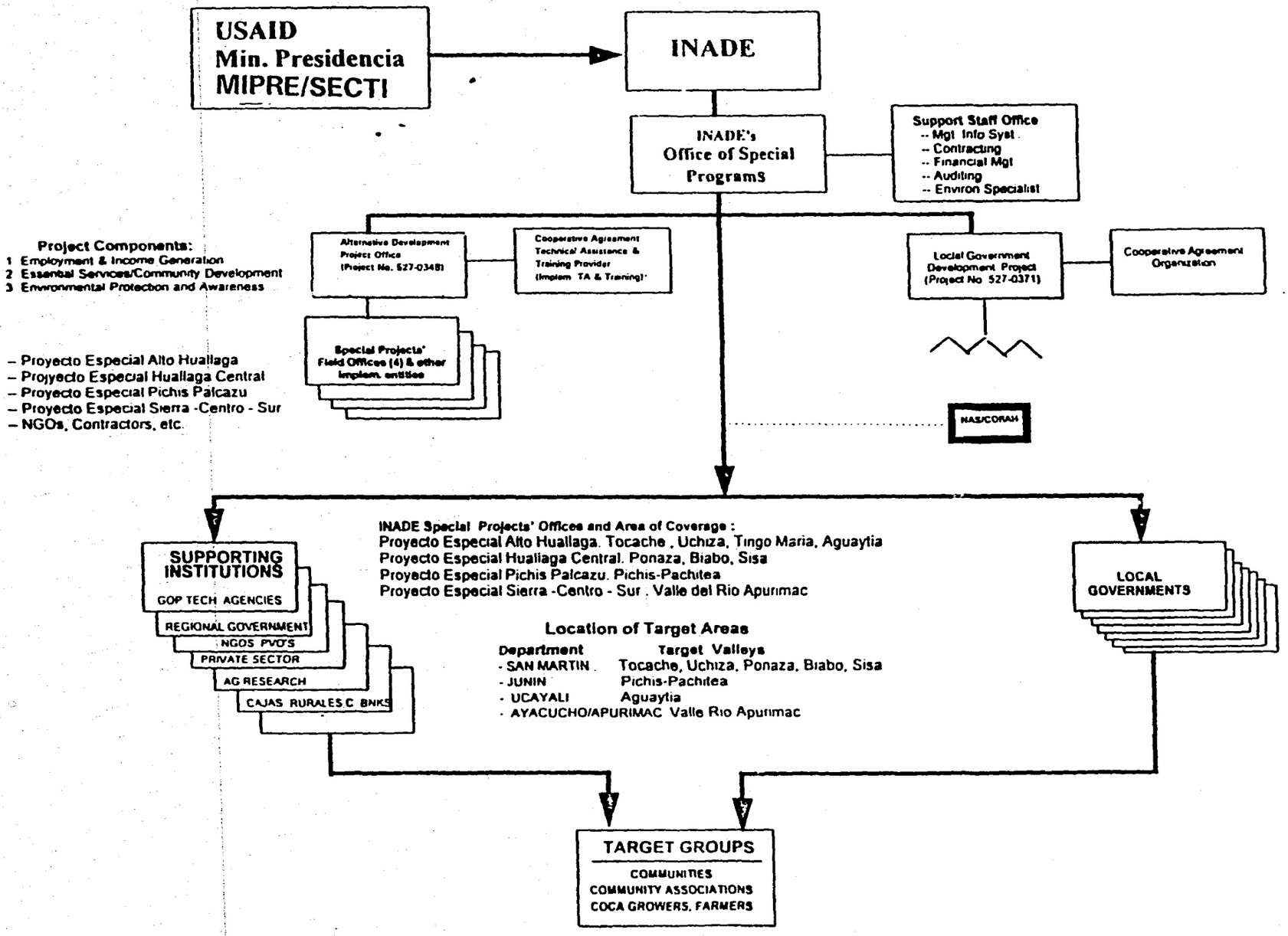
Regarding the activities which may have a negative impact on the environment, generic environmental impact assessments have been prepared and guidelines on mitigating measures for the various types of activities will be prepared and followed during the course of Project implementation. Supporting environmental documentation is presented in Annex 4 of this Project Paper.

It should also be noted that one of the Project components is precisely designed to deal with the adverse environmental effects resulting from coca leaf production and processing.

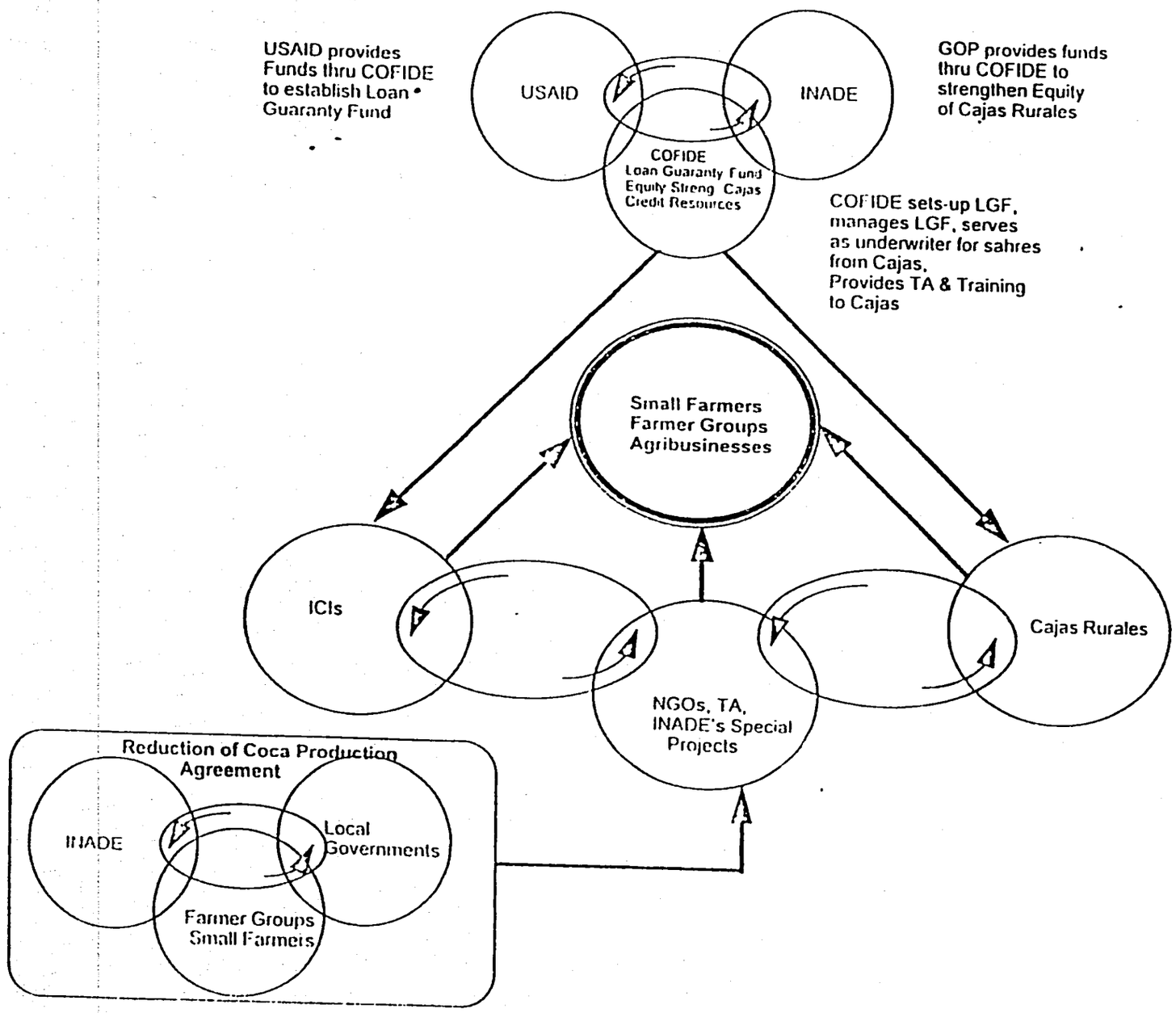
3. **Project Analyses.** The team which prepared the Project Paper has concluded that the Project has sufficiently strong financial, economic, institutional, technical and social merit to be successful. This conclusion is based on the Project analyses carried out by both outside consultants and USAID/Perú officers who participated in the implementation of the UHAD Project and in the design. The design assumes that if the GOP, with external assistance, continues to address the security and law enforcement concerns in the target areas, the Project will succeed in reaching its purpose of developing feasible, sustainable legal alternative sources of income for people now engaged in coca production and related illicit activities in the target areas, and thus succeed in reducing the area of coca under cultivation in these areas.

Further, a basic tenet of the design is that the Project is only an element of a far larger and broader package of programs and policies to address the underlying causes of poverty and underdevelopment in Peru. As such, by itself the Project does not guarantee success in eliminating nor substantially reducing net national coca and narcotics production in Perú. The alternative of not carrying out the Project, however, would guarantee the failure of efforts to reduce coca production and narcotrafficking

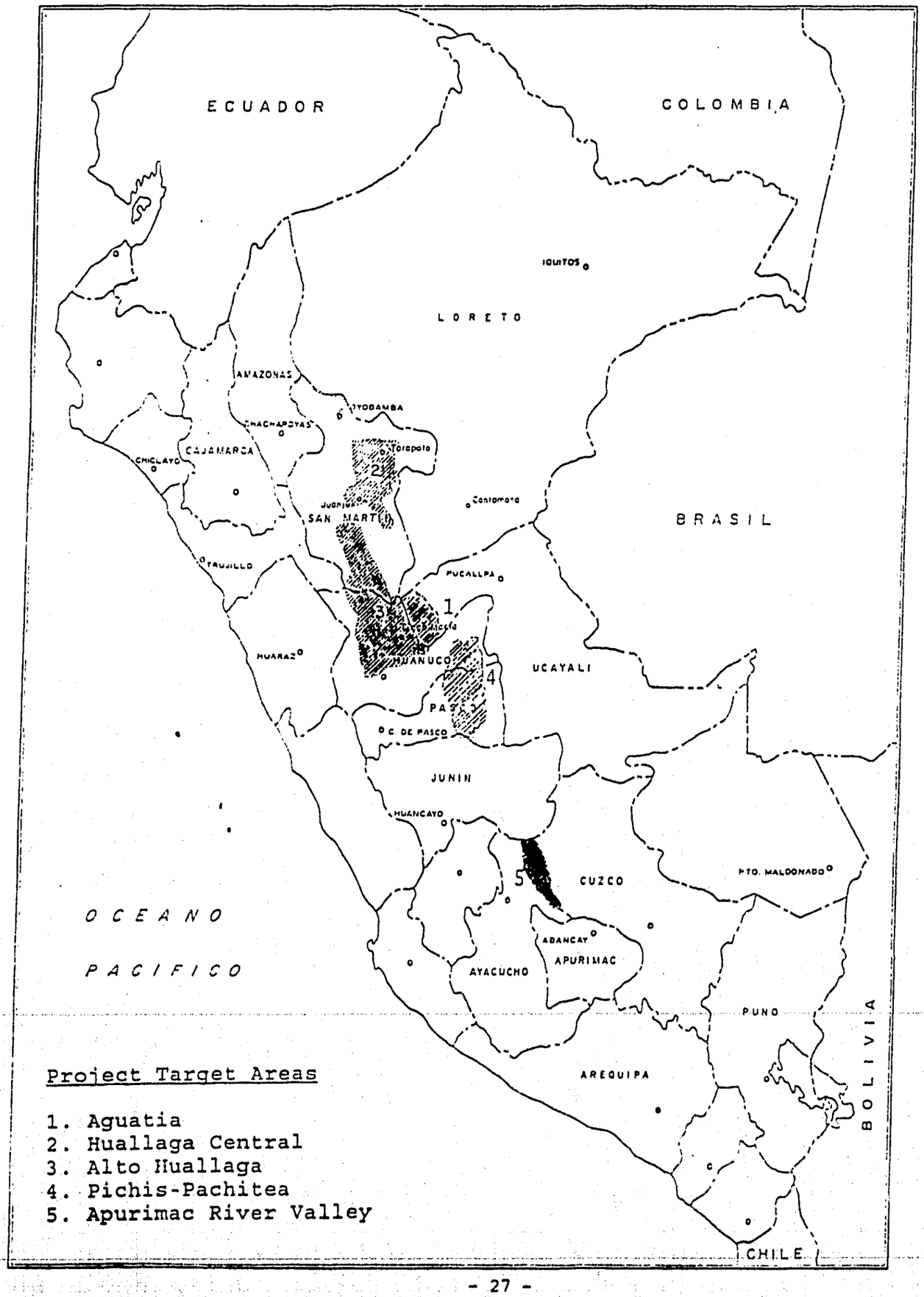
ALTERNATIVE DEVELOPMENT PROJECT
INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS



ALTERNATIVE DEVELOPMENT PROJECT
FLOW OF CREDIT



ALTERNATIVE DEVELOPMENT PROJECT
TARGET AREAS



Project Target Areas

1. Aguatia
2. Huallaga Central
3. Alto Huallaga
4. Pichis-Pachitea
5. Apurimac River Valley

II. Background

A. The Setting

With periodic exceptions, coca cultivation in Peru has been practiced for centuries to provide unprocessed leaf for traditional or licit uses. As cocaine consumption expanded abroad in the 1970's, narcotraffickers found Peru's soils and the prevailing poverty situation in the Upper Huallaga Valley to have the ideal conditions for the production of high-quality coca.

The coca bush has been cultivated on the lower slopes of the Andes and chewed by the elite classes among indigenous groups living in the area for thousands of years. During the early colonial period, the Spanish rulers promoted the use of coca by Indian mine workers because it increased stamina. The coca leaf is still chewed in the traditional manner by many indigenous peoples in the highlands of Peru. In addition, Empresa Nacional de la Coca (ENACO), the GOP organization which is allowed to process coca leaf into legal products such as coca tea and to sell it for such applications as flavoring agents, purchases additional supplies of coca leaf. It is estimated that some 10,000 metric tons of coca leaf is consumed for such legal uses.

Peruvian law provides that coca may be legally cultivated only on land "registered" for this purpose by the GOP. There is approximately 18,000 hectares of such "registered" land in Peru, of which about 12,000 hectares is in the La Convención area (Urubamba River watershed) of Cuzco Department (the USG annual coca survey for 1993 showed an estimated extent of 9,000 hectares actually under cultivation in coca in this area). All registrations of land for legal coca cultivation in the Huallaga Valley were canceled by special law in the early 1980's. Remaining registered land is spread widely throughout Peru.

Coca grows best on the moist slopes of the Andes -- the so called *Ceja de Selva*. The optimal altitude for coca cultivation is between 500 and 2000 meters. The Huallaga Valley (HV), a part of the Ceja de Selva, is Peru's major illegal coca-growing area. Just under one-half of Peru's coca is grown there. The HV is the region where most highland migrants went during the 1960s and 1970s, attracted by the employment opportunities created by construction of the road along the eastern slope of the Andes (the Carretera Marginal) during the first Belaunde administration and the region's potential for producing food crops such as rice, yellow corn and palm oil and export crops like coffee and cacao.

Migration to the HV and other upper jungle areas was also aided by the 1969 agrarian reform. Although the reform largely by-passed Andean peasants, it had a strong negative impact on coastal agriculture, effectively reducing the coast's demand for seasonal farm labor. Other factors, such as the decline of the domestic market for Andean foodstuffs, the GOP neglect of the agricultural sector in the Andes, the increase in terrorism during the 1980s, a weak legal economy and weak government institutions also helped spur Andean migration to the jungle.

Aided by narcotraffickers, these migrants to the upper jungle quickly discovered that legal crops could not compete with coca's profitability. The high costs of transporting legal crops in bulk to coastal markets, the Central Government's waning ability to direct investment and support services to the region, the decades of steadily declining standard of living of the population resulting from ill-conceived public policies, the deterioration of government's authority in coca-growing areas, and the real or perceived financial rewards of coca-related activities combined to lure an increasing number of people to coca production and processing.

From the 1970's to late-1980's, coca production was mainly centered in the Upper Huallaga Valley -- from south of Tingo Maria to Campanilla. Most of the coca was grown on the steep acidic slopes of the Upper Huallaga Valley in conditions which produced a high quality product. In the early 1980's, terrorist groups entered the Huallaga Valley and formed alliances with the narcotraffickers, providing protection and driving out government forces. By establishing the Santa Lucia Police Base in the late 1980s, the GOP, with USG assistance, was able to improve its law enforcement efforts. Attention was focused on coca seedbed eradication, processing laboratories and traffickers, sufficiently disrupting the market. As a result, many coca producers within the reach of the base left the area moving into the Aguaytia Valley, northeastward into the Ceja de Selva and northwest into Central Huallaga and Alto Mayo areas. Farmers migrated because they needed a means of livelihood and coca production was the only means available. The Province of Tocache is a prime example of this situation. The once booming "narcotown" of Tocache is currently in a major economic recession.

Many producers moved from the Upper Huallaga Valley to new areas, abandoning their old coca fields and developing new ones. The eastern side of the Huallaga Valley along the Ceja de Selva from north of Juanjui to Chazuta, in San Martin Province, is one of the newly developed areas and is estimated to contain about 8,000 hectares of coca. Aguaytia is rapidly becoming a major producer of coca, with over 16,000 hectares in 1992. In the corridor from Aguaytia to the Apurimac Valley, coca leaf production is spreading rapidly due to poor economic conditions and lack of access to licit markets. Unless alternative development options are promoted in these areas, and in other areas where active law enforcement efforts are underway or scheduled, coca leaf production will continue to grow and migrants, who generally are extremely poor, will seek employment in the coca industry.

B. The Coca Economy

Estimates for 1993 show that Peru produces approximately 70 percent of the coca leaves required to satisfy the world-wide demand of cocaine. By USG estimates, about 80 percent of the cocaine illegally consumed in the U.S. is produced from raw materials originating in Peru. Peru has also developed an increased capability to process coca. Even through production data is not fully reliable and estimates vary widely, most estimates indicate that the value of cocaine base and cocaine hydrochloride exports is at least $500 million annually. A study carried out by USAID/Peru estimated that the value of such exports exceeded $800 million in 1992.

The United States Government satellite-based annual narcotics crop survey for 1994 estimated that there are 108,600 hectares of coca under cultivation in Peru. This was a decline from an estimated 129,100 hectares in 1992 and 108,800 hectares in 1993. Some Peruvian Government agencies and experts use higher estimates; no responsible estimate is lower. There is consensus that the recent decline cannot be attributed solely to counternarcotics measures, and that further affirmative steps must be taken to implement the Peruvian National Drug Control Plan goal of eliminating all coca cultivation destined for illicit uses.

An estimated 120,000 farmers are engaged in coca cultivation. In addition, some estimates show as many as 110,000 more persons involved in related processing, trafficking and financial operations. (The GOP, in its National Plan for Drug Prevention and Control, page 119413, estimates that 200,000 rural families benefit directly from the coca economy). In the Huallaga Valley alone, illicit coca farming employs about 71,000 farmers; the remaining growers live in other areas of Peru.

The total land area in which 108,800 hectares of coca were estimated in 1993 is approximately 7.5 million hectares. The area under coca cultivation has been estimated to be less than one third the total land

area in the valleys that could be used for coca cultivation. This fact underscores the importance of finding ways to provide current and potential coca growers with alternative licit sources of income so that the agricultural potential of the area can be tapped for licit productive purposes. It is interesting to note that the Central Huallaga Valley, a coca expansion area, contains some of the best agricultural land in the country. This area needs to be tapped for licit productive purposes to prevent the spread of coca, open up new employment opportunities and provide Peru with the food supplies it badly needs.

C. Population in Coca-Growing Areas

The problem of illegal drug production now affects 11 Departments in Peru with a total population of approximately 5.7 million inhabitants. These Departments include: Amazonas, Loreto, Ucayali, San Martin, Huánuco, Pasco, Junin, Ayacucho, Cuzco, Puno, and Apurimac. Several other Departments, such as Huancavelica, Ancash and La Libertad are also effected because they either supply labor or are expansion areas for drug production. An example of the effects of unchecked coca leaf production in an area can be seen in the Huallaga Valley.

Currently, the population of the Huallaga Valley is approximately 658,5000 people, which represents major growth from the 1980 level of under 411,500 people. According to a 1991 USAID- sponsored study, the annual Huallaga Valley population growth rate over the past decade was 4.8%. This equals the estimated growth rate for the greater Lima Metropolitan area during the same period. In contrast, the average rural growth rate for the country as a whole was 0.8% during the same period. A key reason for the rapid growth in the Huallaga Valley has been increased migration of people seeking the real or perceived economic opportunities of the area. The coca industry represents one of the key sources for such opportunities. Migration was stimulated by a relatively high national population growth rate and poor economic conditions throughout the rest of the country. It is important to note that migratory labor with a retained habitual basis of residence outside the Huallaga is seldom or never observed. Most migrants have completely abandoned their areas of origin, making it essential to address the coca growing population in situ, with return to other areas generally a much less feasible proposition.

Many of the immigrants are involved exclusively in coca production. Still the majority of the coca producers in many areas are long-term residents who moved away on a part-time basis for economic and security reasons from their valley floor farms to plant new hillside areas, or migrants who plant other crops besides coca. The problem was complicated by the fact that government presence decreased in the area as terrorism increased. Due to the lack of maintenance, infrastructure deteriorated, closing off potential markets for legitimate crops. Faulty national government economic policies also contributed to the decline in licit production and profitability of crops.

Today, the environment in the Huallaga Valley is changing. Studies show that many long-term residents still have access to land which could be put to legitimate use if economic and security conditions were suitable and they have indicated that they are willing to return to their land once they perceive an improved economic and security environment. The availability of arable land has generally not been observed to be a significant constraint on the region's ability to support its current population levels in licit economic activities.

D. The Effects of Coca Production Growth

The expansion of illicit coca production and trafficking has done serious social, economic, political and environmental harm to Peru. Narco-dollar liquidity has contributed to distorted exchange rates to the

detriment of legitimate exports and has made many crops uncompetitive in the local market. This, coupled with the lack of government support, marketing problems and deteriorating infrastructure due to neglect and terrorism, has reduced production in many important agricultural producing areas in coca-growing areas, particularly in the Huallaga Valley. For example, rice production dropped from 38,062 hectares in 1987-88 to 22,723 hectares in 1990-91. The production of corn dropped even more dramatically, from 69,400 hectares in 1987-88 to 19,890 hectares in 1990-91. High production levels of these legal crops can be restored or surpassed, given an appropriate atmosphere, the rehabilitation of infrastructure and assistance to apply improved technologies and develop markets. An example is in the Province of Picota, located in the Region of San Martin. Ten years ago cotton production was around 8,000 hectares. Because of terrorism it dropped to under 100 hectares four years ago. Due to the improvement in security and assistance provided by the UHAD Project it has returned to 4,000 hectares in 1994.

Up until 1993, links between narcotraffickers and terrorists seriously damaged civil governmental authority in coca-growing areas. The GOP, however, has made remarkable progress in reducing the incidence of terrorism and establishing a government presence in areas formerly controlled by the SL and the MRTA. Security in most coca growing areas has improved and local governments have been re-establishing their links with rural communities to promote socio-economic development based on licit activities.

Deforestation, erosion and disposal of toxic chemicals associated with narcotics are causing incalculable ecological damage and health problems in these areas. Although the coca plant is a perennial, coca bushes are often planted on steep slopes, usually in downhill rows. The leaves are harvested four times a year, at which time weeding occurs and the soil between plants is turned. Together, these cultivation techniques cause serious soil erosion.

Further, expansion of the coca frontier through slash-and-burn cultivation practices has deforested large portions of the Peruvian jungle. Coca processors dump their toxic wastes into rivers and waterways, also causing critical damages to Peru's fauna, flora and ecological balance.

Drug abuse is expanding at high rates with serious consequences to an already weakened social fibre. The GOP estimates that at least 1.5 million of its 22 million population is directly affected by the drug problem (1994 National Plan for Drug Prevention and Control, page 119425). The illegal drug industry maligns the moral structure of Peru and promotes corruption.

Yet, despite the above expansion in coca production, there is strong, recent evidence that an increasing number of farmers want to switch from coca production to legal activities, as indicated in the social analysis section of Annex 5 and summarized in next section.

E. GOP and Other Donor Counternarcotics Programs

1. GOP

The Fujimori Administration has undertaken a coherent macro-economic stabilization program that is providing the appropriate economic environment for a private sector led reactivation of the economy. In roughly three years, Peru's economic prospects have improved sharply. For instance, the inflation rate has been reduced to approximately one percent per month, the economic decline has been reversed and in 1993 the economy grew at a robust 7 percent (the highest in Latin America), foreign trade regulations have liberalized, and the government is following a rational fiscal and monetary policy that should assure continuing bright economic prospects.

In addition to macro-economic reforms, the GOP macro-economic program provides for actions to strengthen the operation of the public sector through regional reform and decentralization of public sector functions. Thus, the program addresses one of the key assumptions for the success of the counternarcotics economic assistance program. With this policy framework in place, resources can now be directed to help farmers in coca-growing areas adopt alternative economic activities and move out of coca production.

In NSD-18 of August, 1989, the Bush Administration initiated a large-scale, resource-intensive bilateral effort (the Andean Counternarcotics Initiative) to significantly reduce flows of illicit cocaine to the U.S. through major military, law enforcement and economic assistance. At the Cartagena Summit in 1990, Peru joined the U.S. and other Andean countries in agreeing that the narcotics problem was a shared concern of both the consuming and producing nations, and that an effective national effort against illicit drug production and trafficking must include mutually indispensable elements of law enforcement, alternative development, illicit crop eradication, demand reduction and public awareness. When the Fujimori Administration took office in July, 1990, it began to articulate an approach to the narcotics problem that emphasized alternative development (which it denominated the "Fujimori Doctrine). This approach did not address individual farmers ("cocaleros") as criminals or narcotraffickers, but as ordinary poor farmers in search of a means of livelihood. The essential assumption of this "Fujimori Doctrine" was that providing development in the area along with markets for alternative crops would be a strong enough incentive for cocaleros to give up the production of illicit coca to significantly reduce illicit coca cultivation.

On May 14, 1991, the United States and Peru concluded an umbrella narcotics control agreement which sought to define a comprehensive approach to Peru's drug production and trafficking problems. Economic, military and law enforcement assistance resources were directed into programs whose desired effect was to drive down potential earnings for growers of coca, and thus to stimulate the transition of coca growers into the legitimate economy. The Agreement stated that the "coca-growing farmers constitute an economic and social class quite distinct from those individuals devoted to narcotics trafficking" and that "their dependence on the coca crop can be overcome, provided structural adjustments and alternative development measures are implemented." For reasons beyond the scope of the narcotics program, the bulk of U.S. bilateral assistance projected in this agreement was never delivered. In August 1994, the GOP proposed, and the USG agreed, to review this agreement with a view to its revision to correspond more closely to current policies and realities.

Since 1991, the GOP has taken increasingly effective actions by expanding the number of agencies which are implementing counternarcotics programs throughout in Peru. Air Force Tucano aircraft forced over 200 civil aircraft to land for inspection; several were found carrying cash or other contraband. FAP aircraft have forced numerous aircraft carrying drugs to land or destroyed them in the air or on the ground, if they refused. FAP and the national police are exercising air traffic control and related enforcement functions at airports located at Yurimaguas, Tarapoto, Tingo María and a variety of other locations. As their resources allow, they have plans to extend GOP control over secondary airports, such as Bellavista and Picota.

In addition, the GOP has made excellent progress in controlling and disrupting the alliances between narcotraffickers and terrorist groups in coca-growing areas. The incidence of terrorism has dwindled to a minimum and if the current pace of GOP progress in reducing the number of people involved in terrorism continues, GOP may be able to keep its promise of eliminating it by the end of 1995. In this respect, recent indications are that the MRTA is nearly dispersed and that the Sendero Luminoso threat has been reduced sharply.

Further, despite its limited financial resources and its major austerity program undertaken to stabilize the economy, the GOP has provided from its own resources for the first time significant contributions in cash and in-kind to launch its alternative development initiative in coca-growing areas. Recent cash inputs include $5.46 million through the GOP's Social Emergency Fund. Also, for the first time, the Army began civic action programs. Significantly, it has been rehabilitating roads in areas where security considerations impeded civilian construction activity. As a result, security in coca-growing areas and areas previously controlled by terrorists has improved steadily, thus allowing without interruption, since 1993, the implementation of agribusiness and social development activities.

On October 3, 1994, the GOP officially enacted Supreme Decree No. 82-94-PCM titled "*Normas Legales -- Plan Nacional de Prevención y Control de Drogas*" which provides in one comprehensive document the legal framework of the GOP's plan to deal with Peru's drug production, consumption and trafficking problems. This plan defines a comprehensive program to address all aspects of the problem of illicit drug production, trafficking and abuse throughout Peru. It includes provisions for the improvement of legal and judicial institutions, programs to address the poverty and social development problems of populations in migration-source areas, protection and restoration of the environment and development of national economic infrastructure required for and compatible with drug control goals.

In its key operative sections, the Plan declares the GOP's goal to totally eliminate all cultivation of coca destined for illicit drug production and its intent to accomplish this through programs of alternative development which lead farmers to abandon cultivation of coca and to cooperate in its elimination. While this plan contains some specific elements (particularly relating to licit uses of unprocessed coca leaf) to which the USG and other donors cannot subscribe, the UNDCP has found the Plan to be one of the best in the Region. The USG has informed the GOP that we accept it as a framework within which we can work to cooperatively attain common drug control goals.

2. Other Donors

The GOP decisive initiatives to deal with Peru's economic, social, security and narcotrafficking problems have facilitated other donors' decision to provide assistance in support of its efforts to deal with such problems. Major infrastructure restoration and improvement projects, necessary to facilitate the production and marketing of legal crops, are underway or in the planning stages, with other donor financing. Although not specifically identified with or tied to alternative development, these projects will have a major impact on the AD Project by helping to create the necessary infrastructure needed to develop the areas. Because most of the primary coca growing areas have significant economic value, or the potential for significant economic value, their development will achieve a dual purpose - reduce the production of coca in Peru and promote employment and investment in areas of potential high return. The major projects include:

- World Bank projects:
  - A project to rehabilitate Peru's road network during a five-year period at a cost of $150 million. The project finances the rehabilitation of portions of Peru's major roads including: the Tarma-Satipo, Huánuco-Tingo María-Pucallpa and the Tarapoto-Corral Quemado portions.
  - A $150 million project to improve and privatize Peru's power generation system.

- -- A planned $150 million project to improve feeder roads during the period 1996-1999. This project is still in the planning stage and USAID will encourage the GOP to include important feeder roads located within the watershed where the AD Project will be carried out.

o InterAmerican Development Bank projects.

- -- Under an on-going project scheduled to be completed in 1996, the IDB is financing the Lima-Huánuco portion of the Central Highway. As in the case of the WB road project, the IDB financing will not specifically reach the watersheds where the USAID-sponsored AD Project will be carried out but will provide access to markets by upgrading major roads.

- -- The IDB also is planning a $50 million project for major irrigation activities.
- -- A $150 million transport sector project which will cover institutional strengthening, road rehabilitation and maintenance and railway privatization and maintenance. It is still uncertain whether this project rehabilitate access roads in the watersheds where the AD Project will be implemented.

In addition, other donors are proving assistance which, directly or indirectly, are related to the GOP counternarcotics strategy and the proposed USAID-sponsored AD Project, namely:

o The UNDCP has implemented alternative development projects in the Upper Huallaga (broadened to include portions of the Central Huallaga, Aguaytia and Pachitea watersheds) and in the La Convención area of Cuzco Department since the mid-1980's. It is now initiating a new German-funded project in the Apurimac.

o The German Government has implemented bilateral activities through NGOs in the Central Huallaga and is designing a three-year 60 million Mark alternative development project centering on rural irrigation in the Lower Huallaga-Alto Mayo Region.

o Several other European Union (EU) members, and the EU itself, has implemented agricultural development and drug demand reduction projects in Peru.

o Financing from the Chinese Government to build a cement plant near Tarapoto which will provide employment and construction materials for some of the activities under the AD Project.

o A series of small reforestation projects financed by three NGO's -- Intermediate Technology Group, Centro de Investigación y Desarrollo de la Selva Alta I (CEDISA), Promoción y Desarrollo de la Mujer (PRODEMO) -- in Yurimaguas, Alto Mayo, and Shapaja areas.

III. PROJECT RATIONALE AND STRATEGY

A. Rationale

GOP and USG foreign policy objectives and commitments as well as the expected Project benefits provide a powerful rationale for the proposed Project assistance.

1. U.S. Foreign Policy and Interests

Reducing and ultimately eliminating Peru's production of cocaine available for export to the U.S. is an essential element of the U.S. national counternarcotics strategy and a key U.S. foreign policy objective. NSD-18 of 1989 established an Andean Counternarcotics Strategy that sought to reduce the flow of illegal drugs from the Andean region to the United States. That initiative was approved by the Congress with enactment of the International Narcotics Control Act of 1990. At the Cartagena (1990) and San Antonio (1992) Summits, and in the bilateral counternarcotics agreement of May 1991, the U.S. and Peru committed themselves to an effort to reduce, and ultimately eliminate, coca production in Peru through an integrated set of law enforcement, economic development, coca eradication, demand reduction and associated programs. In November 1993, by Presidential Decision Directive 14 (PDD-14), the President approved a refined and modified approach to USG efforts against cocaine production and trafficking in Latin America. PDD-14 places increased emphasis on efforts to control drug production in source countries, while recognizing that in a period of limited resources, U.S. counternarcotics efforts will be an element of more comprehensive multidonor support. It emphasizes developing host government institutional capabilities to act against cocaine production and trafficking and places increased importance on coordination of USG activities with those of other bilateral and multilateral donors to support comprehensive host government national counternarcotics plans. More recently, in mid 1994, the USG restated its counternarcotics strategy, re-affirmed the conviction that alternative development is a necessary element of a comprehensive approach to deal with the problems of coca production and narcotrafficking and agreed to the GOP proposal to review the 1991 agreement to conform with current policy and reality.

The USG objective of reducing the flow of coca products from Peru cannot be attained unless those involved in coca production can find licit alternative sources of income which become attractive in the face of strong coca interdiction measures and heavy penalties for drug trafficking.

2. GOP Policy and Commitment

Peru is party to the 1988 UN Convention on Illicit Trafficking in Drugs (Vienna Convention), the central element of U.S. international narcotics policy. It cooperated closely with the United States, and made significant commitments from its own resources, to implement an active counternarcotics program including enforcement and interdiction, alternative development, coca eradication, drug awareness and demand reduction. It has concluded bilateral agreements with the U.S. related to control of narcotics trafficking, including the bilateral agreement on chemical control signed at the Cartagena Summit and brought into force in February 1992, and the Tax Information Exchange Agreement (which can also apply to narcotics crimes) brought into force in March 1993. Peruvian Police and armed forces have collaborated in an increasing number and variety of counternarcotics activities during the past year. In particular, the Peruvian Air Force and Police have established permanent detachments to control use of numerous legal airports in coca growing areas for drug trafficking purposes. The Air Force, Navy and Police seized or destroyed 17 aircraft engaged in drug trafficking in 1993.

The GOP continues to take actions which clearly show its commitment to provide the conditions conducive to the implementation of viable alternative development programs. Particularly, the GOP has been integrating narcotics control planning at the national strategic level and has been successfully seeking other donor cooperation to finance the physical infrastructure that is necessary to sustain alternative development initiatives in coca producing areas and broad economic development goals. In this respect, the GOP has successfully negotiated financing agreements with the World Bank and the Inter-American Development Bank to rehabilitate the road network linking agricultural producing areas to markets and other essential infrastructure, such as power generation, so essential for sustained development.

The previously mentioned Supreme Decree No. 82-94-PCM titled "*Normas Legales -- Plan Nacional de Prevención y Control de Drogas*" represents the most recent GOP re-affirmation of its commitment to deal with Peru's drug production, consumption and trafficking problems and to alternative development as a key element of its strategy.

3. Project Benefits

The Project can be justified both in terms of the immense damage that the coca industry imposes on the people of producing and consuming countries as well as in terms of the specific economic and social benefits that will accrue to Peru. These costs defy economic analysis and dollar quantification. The U.S. now has a larger percentage of its national population imprisoned than any other on earth at a cost of billions annually. Over two-thirds are drug related offenses, the large majority cocaine, 80 percent of which originates in Peru. The Project will benefit Peru and consuming societies as the social scourge of drugs and narcotrafficking is reduced. To the extent that deforestation and the environmental contamination resulting from the disposal of toxic wastes in the Amazon Basin is reduced, the Project will also have a broad positive impact on the global environment.

In addition, through the savings in foreign exchange resulting from reduced imports of products which will be produced under the Project, Peru will save significant amounts in foreign exchange yearly, expectedly starting o/a year 3 after initiation of Project activities. This will improve Peru's fiscal situation and help the government in undertaking additional social development programs which can benefit the whole country. As illicit US dollar inflows created by cocaine exports are reduced, the distorting adverse effect on exchange rates, detrimental to all licit exports will diminish corresponding to the advantage of all licit export related activities.

Further, as a result of the additional jobs which the Project will help create through the private sector productive activities envisioned under the Project, the farmers and their families or over 100,000 people in the target areas are expected to enjoy a higher standard of living.

The social development activities, such as the rehabilitation of access roads, construction of health posts, primary school facilities, community nurseries, etc. will benefit most of the population of coca producing areas that are targets of this Project -- over 500,000 people.

At the micro-level, if carried out as envisioned, the Project will have a wide range of quantitative and qualitative benefits, which justify the proposed allocation of funds and personnel to carry it out. However, because the Project contains a mix of activities, some of which do not lend themselves to quantifiable cost-benefit analyses, an overall cost-benefit analysis for the whole Project is not possible. The design team selected a number of income producing activities which, with reasonable assumptions, can stand rigorous cost-benefit analyses. On this basis, the following list illustrates the quantitative and qualitative

benefits. The specific indicators for the quantitative benefits will be established and/or refined during the early stages of Project implementation after the specialists who will work in implementing the Project have an opportunity to review and analyze the existing baseline information.

- Reduction of area under coca cultivation in participating communities by an average of 50 percent by the PACD.

- An increase in agricultural income as a result of increases of legal crops farm prices and a decrease of agricultural input costs.

- Increased confidence among residents of coca-growing areas in their capacity and the capability of central and local governmental entities to mobilize resources for promotion of a private sector-led development process based on active participation of constituents.

- Refinement of an integrated model for controlling and eventually reducing coca cultivation destined for illicit drug production for possible replication in other coca growing areas of Peru.

- Increase in employment opportunities to replace jobs lost from reduction of coca cultivation.

- Additional hectares of land devoted to the production of rice, corn and other legal crops to be identified by the second year of Project implementation;

- A reduction in the annual foreign exchange requirements as a result of the increase domestic production of beef and dairy products.

- Improved health standards as a result of a reduction of contaminants from cocaine processing.

- Increased awareness about the serious damages which coca production inflicts on the environment. Specific environmental protection activities, such as reforestation and improved soil conservation practices, will contribute to reduce the pace of environmental degradation in the region.

To the extent that the Project succeeds in attaining the above benefits, it will also contribute to promote political stability and reduce the incidence of political terrorism.

B. Project Strategy

1. Basis for the Project Strategy

The strategy is built upon two premises. First, poverty and underdevelopment is an underlying cause of farmers' decision to continue to be involved in illicit coca production. Second, a significant reduction of coca production and processing will require effective law enforcement against narcotraffickers to be sustained for a long enough period to overcome farmers' expectations that coca cultivation and processing will provide reliably preferential earnings relative to licit activities. This implies that collective GOP and international efforts and resources to finance both alternative development and law enforcement programs must be provided consistently over many years. Undoing decades of dependence on coca cultivation cannot be reversed quickly

unless those engaged in illegal activities have some level of confidence in their prospects of making a living through legal means.

The above premises which underlie the strategy of the Project is based on the following postulates evident from USAID experience with related projects both in Peru and in other countries and the reality of the economic situation of the farmers involved in coca production:

- Farmers will not refrain from coca production nor destroy ***voluntarily*** a significant portion of their principal source of income solely in exchange for a promise of future assistance. Nor will members of a farming community work together to eradicate a significant portion of a profitable cash crop simply in exchange for promises of future community projects. The alternative of postponing implementation until all the factors that affect the success of the Project (security in the target areas, a sharp drop in the prices of coca, economic reactivation, reduction of global demand for coca, etc.) are addressed is not attractive because the solution of such factors entail long-term processes which are unlikely to converge in a significant way at any given time in the short run.

  A wait until all the ideal conditions are in place may mean postponing indefinitely building the foundation for a sound, sustained alleviation of the problem. On the other hand, concrete cases of successful alternative development activities that provide a decent legal livelihood to groups of farmers may provide the best concrete reasoning for other farmers to move from coca to legal activities. That is, successful creation of the complete set of end-point conditions is not a precondition for project assistance to attain the project purpose.

Despite this, the Project design team recognized other key assumptions which entail strong and sustained law enforcement efforts:

- In the absence of an effective narcotics control program, no development activity will convince farmers to stop growing a relative lucrative coca crop or to cease involvement in other aspects of the narcotics market. However, development activities are essential catalysts to the economic, social and political facilitation of anti-coca behavior.

- As long as profits from coca are high relative to the cost of production, and relative to potential income derived from other crops or other employment opportunities, farmers have no economic incentive to participate ***voluntarily*** in a reduction program. The combination of social benefits and legal economic options as well as the collective impact of law enforcement on the illegal cocaine industry's raw material purchase and export sectors must be sufficiently attractive to induce farmers to abandon illicit production.

- Profits from coca will remain high as long as law enforcement efforts are weak and sporadic and demand for coca and its by-products is not reduced sharply.

In sum, *the strategy is premised on the combination of an effective and sustained law enforcement program and the effective and timely provision of alternative, legal sources of income to farmers now engaged in coca leaf production.*

In addition, six factors influenced the design of the Project. These did not exist during the design of the predecessor UHAD Project, nor during its early implementation stages. The factors are:

1. *The Extent of the GOP Commitment to Eliminate Cocaine Production.* President Fujimori's policy is to eliminate illicit coca leaf production in Perú. In 1988, Perú signed the UN Convention on drug control, thus ratifying its policy on cocaine production and narco-trafficking. Consistently, in 1992 the GOP amended the criminal code to make money laundering a crime, expanded regulatory controls on import, sale and use of essential chemicals, and issued new legislation on control of civil aviation and the use of municipal airports. In addition, despite its difficult budgetary situation, the GOP has devoted significant resources to back its commitment, as described previously. More recently, On October 3, 1994, the GOP issued Supreme decree No. 82-94-PCM "Legal Framework -National Plan for Drug Prevention and Control." Alternative Development is a priority matter of this decree.

2. *Security and Terrorism.* When the UHAD Project was developed in 1981, security was not a problem and did not become a problem until 1986. Since that time and until approximately two years ago, terrorism forced some UHAD activities to be curtailed. It limited the ability of USAID/Peru to monitor and implement activities in some areas. Presently, the terrorism problem is greatly diminished. The MRTA terrorists are nearly dispersed and the incidence of terrorist acts by Sendero Luminoso has dwindled. The GOP has intensified its efforts to meet its target date of completely eliminating terrorism by Sendero Luminoso by 1995. Thus, it seems that a continuing decline in the security threat due to terrorism is a reasonable assumption for Project implementation.

3. *The GOP Economic Reform Measures.* The GOP has dropped subsidies which had been promoting production inefficiencies and currently the free market system is functioning fairly well. As mentioned earlier, the GOP's economic reform and stabilization program can be considered a resounding success. This will provide the basis, assuming no major economic dislocation after the 1995 elections, for continuing economic growth and an increasing and sustained private sector role in Peru's development.

4. *The Growing International Awareness About the Need to Cooperate in Narcotics Control Efforts.* Two summits between producer and consumer nations have laid the groundwork for increased international cooperation. Likewise, the members of the European Union are also recognizing that they too have a serious narcotics problem. President Fujimori, during his travels to Europe, promoted greater awareness in the European capitals of Peru's problems with narco-terrorism and development. The U.S. Government is pursuing greater cooperation through the Dublin Group, the United Nations Drug Control Program, and other multilateral consultative fora involving major donor countries.

5. *Popular Awareness about the Ills of Narcotics and Narcotrafficking.* Peru is perhaps the only narcotics producing country in the world where the majority of the citizens, approximately 70 percent of people surveyed using generally accepted sampling techniques, recognize that narcotics production and trafficking is an extremely serious problem for the country. Recent polls show that a majority of the population wants the government to act decisively against narcotraffickers. This factor has strengthened President Fujimori's hand in implementing programs which combat narco-terrorism and facilitate alternative development strategies.

6. *The Positive Attitude of the Population of the Coca- Growing Areas to Change from a Coca/Narcotics-Based Economy to Licit Economic Activities.* In general, inhabitants of the valleys where coca is grown are concerned about the negative effects of the narco-trade, the growth of terrorist activities, and the related reduction of public services. It is hard to quantify these attitudes but even in large meetings, members of the Coca Grower Association have voiced their willingness to

change their production from illicit to legal crops because of the negative impact coca production is having in their lives. As a concrete example, the
pilot alternative development activities in the Ponaza Valley led to a 50 percent reduction in coca production in participating communities.

2. The Strategy

The strategy, selected on the basis of security requirements, funding levels and the critical social infrastructure and economic needs of the target population, entails simultaneous attempts to deal with the most pressing socio-economic problems in existing, new and potential coca-producing areas, while establishing a firm basis for long-term economic growth through feasible, alternative licit income-producing activities.

The strategy has evolved from a process of assessing the experience of the UHAD Project, the review of related projects elsewhere, and intense dialogues with the GOP, local governments and the target communities. The process led to a phased approach consisting of high impact development activities necessary for the promotion of licit economic activities in coca-growing areas and community-based social development activities in new and/or potential coca-growing areas. Although some of the activities would be similar under each approach, the way in which they will be implemented will be tailored to the unique needs and requirements of the participating communities, as further explained below.

The strategy also recognizes that, given the different sociological, economic and geological conditions in the various coca-growing areas, it is impossible to set during the Project design stage reliable, absolute price levels for all areas whereby farmers will find it more profitable to produce alternative crops instead of coca. However, it is expected that by providing coca growers with realistic alternatives to coca which take into account all costs associated with coca production and processing (including violence, health, etc.), many farmers will abandon coca cultivation, cooperate in or consent to its elimination and switch efforts to licit activities, thereby reducing coca leaf production. As indicated previously, actual experience in several valleys shows that this is feasible.

Briefly, Project activities will include: basic services in health, education, training, sanitation, and environmental protection; and income and job creation activities such as assistance to foster agricultural production and productivity (technical assistance, extension services and the provision of improved certified seed varieties, financing for agricultural inputs and agroindustries; marketing activities; off-farm enterprise development; temporary employment in secondary road maintenance; and land titling. Although the private sector is expected to be the prime mechanism behind these activities, the Project also will enlist the participation of local level entities, primarily municipalities, and regional offices of the central government.

Project activities will include access road rehabilitation and improvement, expanded irrigation systems, and sustained road maintenance in Project implementation areas. Most of these areas are important agricultural areas and are (or will be) impacted by projects which the World Bank, IDB and other donors will finance. The AD Project will complement these projects by activities which are fully described in Part IV -- Project Description -- of this Project Paper. Detailed funding projections are contained in the Financial Plan section.

The above activities are expected to establish at least the minimum requirements for economic reactivation and for improving the economy in the selected coca-growing areas in the short-term while improving the overall quality of life of residents of the areas. This is expected to lead to a significant reduction of coca production.

Assistance will be provided, particularly for community-based basic services activities, under negotiated agreements mostly with community organizations, coca grower associations and municipalities. In this respect, the process of community and municipal participation in the selection of activities will be just as important as the actual selection of the specific activities. The process will assure local commitment, relevance and sustainability of the activities. In addition, current experience shows that once communities participate in the selection and implementation of their projects, they become a formidable force to defend and protect their projects and, thus, a deterrent to terrorism. UHAD Project experience shows that no Project-financed activity carried out by the community has been attacked.

Note that this is not a future Project plan. The community-municipality partnership is already being carried out but needs to be reinforced and broadened. The Project will do it by providing technical assistance and resources for activities based on priority community needs.

Regarding GOP participation in the implementation process at the local level, priorities will be established within municipalities. Primary attention will be given to municipalities which are progressive in terms of commitment of staff and financial resources for alternative development programs, have or are willing to establish strong links with the communities, and are located in areas with sound socio-economic development potential in order to maximize their contribution to the attainment of the Project purpose.

Participating communities will be selected based on the conditions related to eradication targets, location, potential for the development of alternative sources of income, their commitment to the Project as measured by their in-kind contributions and willingness to devote time and resources to maintain them, etc. The details of the criteria to be followed in the selection and approval of projects is contained in Chapter IV -- Project Description.

IV. PROJECT DESCRIPTION

A. Goal and Purpose

The Project goal is to reduce coca cultivation in the target areas pursuant to the GOP National Drug Prevention and Control Plan. It will contribute to the USAID's Strategic Objective of increasing incomes and employment of the poor and the related program outcome of increased incentives for licit economic activity in targeted coca areas. The Project will contribute to this objective and to the broader USG goal of reducing production of narcotics in the Andean countries by helping the GOP to implement its integrated alternative development strategy. This strategy seeks to reduce coca production by providing alternative sources of licit income to people now engaged in coca cultivation and processing. The Project is also consistent with the recently USG approved counternarcotics strategy which includes a policy decision to support alternative development programs in coca-producing countries.

The purpose of the Project is to increase employment and income from alternative licit economic activities in the project areas, in order to achieve the project goal.

The Project will attain this purpose through:

- Negotiated specific commitments for limitation and voluntary reduction of coca cultivation on a progressive basis as project activities are implemented:

- A mix of community-based private sector investment activities tied to the agricultural and agroindustrial potential of participating communities;
- Small, local level social infrastructure;
- Infrastructure improvements , such as the rehabilitation of farm-to-market roads, necessary for sustained reactivation of licit economic activities;
- Agricultural production, including research and extension activities related to products which are marketable;
- Credit (including loan guarantees) for agricultural production and agribusiness ventures;
- Commodity assistance, including genetic materials for production and reforestation;
- Studies on agroindustrial and market opportunities;
- Environmental conservation initiatives to assure the sustainability of productive resources in the target areas; and
- Verification of coca reduction targets by the competent agency of the GOP.

Financing for these activities is necessary to produce the major outputs listed in the Project Evaluation Plan, Part V.F. and summarized in this section following the description of each Project component.

When the Project ends in FY 2000, the combined mix of Project activities will have developed viable alternative licit sources of income for many farmers that otherwise would be involved in the cultivation of coca or in the processing of coca-based products, in order to achieve the project goal of reduced coca under cultivation in target areas by 50 percent. Tentatively, subject to refinement during Project implementation after a Baseline Project Information System is established in INADE and the existing database is analyzed by Project experts, the key quantitative and qualitative indicators that will be used to measure the End of Project Status (EOPS) and the attainment of the purpose include:

- The percentage of farmers' income in target areas generated from licit non-coca related activities;
- An increase in the number of hectares of land planted with agricultural crops other than coca;
- The number of rural communities organized to support national and local level efforts to reduce coca production and narcotrafficking in the target areas;
- An increase in the number and type of agricultural, agroprocessing and non-agricultural private sector business activities which can be shown to be profitable in the Project area;

- A measurable improvement in access to key social services (education, health) and other quality of life indicators among targeted communities;

- An increase in the use of natural resources conservation practices in the target areas, as measured by the number of hectares of land reforested and a reduction in environmental contamination from coca-processing activities;

- Increased confidence (as measured through interviews) among residents of coca-growing areas in the capability of central and local governmental entities to mobilize resources to promote private sector-led development initiatives based on active participation of constituents; and

- Transfer of agricultural laborers from coca-growing activities to other agricultural and non-agricultural economic activities.

In addition, it is estimated that the extension activities to be provided under the Project to promote agroindustrial ventures as well as the extension activities for the production of rice, corn, and livestock, will result in the following benefits, which will be quantified once the baseline information is collected and analyzed. The Information and Evaluation Plan provides for the compilation of such information. As data are compiled during the Project implementation and evaluation process, indicators will be refined. They include:

- The additional number of hectares of land devoted to the production of licit crops to supply agroindustries;

- The additional number of licit jobs created;

- The additional hectares of land devoted to the production of rice, corn, and other legal crops to be identified by the third year of Project implementation

- The percentage increase in the yields of rice and corn planted (a doubling of the yields is expected);

- The percentage increase in cattle production (a 150% increase is expected in areas receiving assistance under the Project);

- The annual reduction in foreign exchange requirements as a result of the increased domestic production of rice; and

- The annual reduction in foreign exchange requirements as a result of the increased domestic production of beef and dairy products, corn and other agricultural products.

B. Assumptions

Attainment of the Project purpose assumes:

- Continued and sustained GOP commitment to implement its counternarcotics and alternative development policy;

- A continued and sustained USG commitment, backed by the timely provision of resources, to the current counternarcotics strategy;
- That the U.S. Congress makes available funds for the Project when required;
- That other USAID-sponsored programs in Perú that generate local currency are approved and the related funds are provided in a timely fashion;
- That the GOP maintains sound macro-economic adjustments and continues moving its policies and institutions toward a market-oriented system that fosters economic reactivation and growth;
- That GOP efforts to control illicit traffic in cocaine cause a sustained disruption of the coca-cocaine marketing system sufficient to depress farmer expectations of future earning from coca; and
- Continued improvement in the remarkable progress already made in re-establishing government authority and reducing terrorism in coca-growing regions.

C. Project Components

1. Overall Project Approach

The Project will help the GOP and complement other donor efforts to deal with the narcotics economic and social development problems discussed in Part II of this paper. It should be emphasized that despite the significance of the Project, by itself it will not solve the coca production problem on a national basis; it will contribute to such a solution by reducing coca cultivation in selected areas and serving as a focus and model for comparable efforts by other donors.

The Project will seek to implement both rapid and medium-term impact activities in watersheds with agricultural and agroindustrial potential in and near major coca-growing areas. It will promote active community participation in the selection and implementation of specific activities, and will seek to engage carefully selected private and public sector organizations to provide complementary resources and help implement the Project.

Special efforts will be taken to engage municipal/district level decentralized public institutions and local "community committees" in the planning and implementation of activities. This approach will draw on the experience and lessons learned from the pilot activities carried out under the final stages of the UHAD Project and related successful programs being carried out in other Latin America countries. One objective of this approach is to: (a) assure the identification of the socio-economic problems of the target communities by members of the communities in close cooperation with the agencies closest to the beneficiaries; (b) facilitate the implementation of relevant actions by tapping available human and financial resources at the local level; (c) strengthen democratic and participatory processes at the local level; and (d) develop a local capacity for Project sustainability after termination of USAID support.

Given the range of unforeseen factors that can influence the progress of the Project, the design envisions the need for maximum flexibility in responding to changes in opportunities for impact of different activities, as well as changes in the security or narcotics trafficking situation in coca-dependent areas.

This section discusses in detail the scope and planned range of the proposed activities under the three Project components. They must be carried out in an integrated manner as they are mutually supporting to optimize the prospects of attaining the desired impact and to convince farmers to accept the licit alternative sources of income to be developed throughout the life of the Project. The three components are:

a. Employment and Income Generation
b. Essential Services/Community Development
c. Environmental Protection and Awareness

The implementation approach for each will be specifically tailored in order to tap the most appropriate mix of private sector, community, local, regional and national level human and institutional resources available for each activity. This entails a flexible approach to assure the best implementation option based on assessments of all prevailing factors.

The design of these components considered the lessons learned and findings of the implementation experience under the final stages of the UHAD Project; the experience of related USAID-sponsored projects in other countries, the numerous socio-economic studies carried out in the HV region, and complementary studies carried out by a Peruvian firm in late 1992 and during the period September 22-November 15, 1994. The key lessons which influenced the design include:

- Farmers will not **voluntarily** abandon a steady source of income unless they have a clear perception of the risks involved and they have an alternative source of income. In the absence of an alternative, voluntary eradication will not occur and forced eradication programs will propel farmers to plant coca in new areas;

- Farmers in coca regions recognize that illicit coca production entails serious risks to them and their families. An increasing number of those engaged in illicit production would like to change the way they make a living, but they continue to be engaged in coca production for economic reasons since they have not been able to develop sound, legal alternative sources of income;

- It is possible for the GOP to implement a set of measures to control illicit trafficking in drugs effective enough, in total, to disrupt the illegal industry sufficiently to create the economic conditions (depressed farmer earnings expectations of coca) in which alternative development can reduce coca cultivation;

- If the serious environmental degradation taking place in coca-growing areas is not arrested, the long-term sustainability of alternative development programs will be jeopardized; and

- The GOP (particularly at the local level) lacks sound organizational sub-systems, trained personnel, and financial resources to carry out effective, sustainable alternative development activities. Thus, assistance projects must provide resources both to develop the local implementation capability and to actually finance development projects.

Consistent with these lessons, the key objective of the first two Project components is to provide direct assistance to farmers, communities and the population in a limited number of existing, new and potential coca-growing areas to find licit alternative sources of employment and income, and to create positive incentives for farmers to abandon coca cultivation and cooperate in or consent to its elimination. Experience shows that this cannot be accomplished through isolated, sporadic efforts (this was tried under the UHAD Project) and thus, the component includes a mix of activities, mainly to:

- Increase the production of licit cash crops which have proven markets based on demand studies;
- Develop agroindustries to process resulting increases in production;
- Develop and disseminate viable agricultural packages through effective agricultural applied research and extension services;
- Develop and expand marketing channels for the agricultural and agroindustrial production resulting from Project efforts; and
- Restore the complementary vital local physical and social infrastructure required for economic reactivation and improvements in the quality of life in the target areas. Note that the larger physical infrastructure requirements needed to link agricultural production areas to the main markets are being financed by the World Bank and the IDB or are being addressed by the GOP with its own resources, and while compatible with and indispensable to alternative development drug control goals they are also viable for national economic development purposes in their own right.

Project assistance to attain these objectives will be provided to target areas which have confirmed agricultural development potential. An analysis of the potential of such areas is contained in Annex 5. The conditionality is discussed in detail in a subsequent section. The actual conditionality, however, may be modified on a case-by-case basis based on the specific situation of each participating community and on implementation experience. Tentatively, it is planned to enter into agreements with individual communities in the target areas (for instance between the municipality of Tocache and a community) whereby the community agrees to replace, over a fixed time period, a specified number of hectares currently under coca production with licit crops or to reforest the area with an income producing tree, such as Pijuayo to produce *palmito*. The community would also pledge not to plant any new areas of coca.

The extent of coca production will be verified by CORAH, with NAS assistance and in coordination with INADE and the concerned municipality. Before the projects begin, baseline coca levels will be defined and verified targets will be set to permit monitoring of compliance. The municipality, in concert with INADE's Field Special Projects offices will, in turn, agree to work closely with the community in planning, selecting and carrying out a package of development projects and services which will be determined before the signing of the agreement. This process involves negotiations between the two parties and the actual selection of projects will be heavily influenced by the self-analysis efforts of participating communities.

Generally, because of the broad nature of the environmental deterioration problem, in most cases assistance on environmental protection and awareness will be provided to the general population without conditionality. (Note that all Project activities which may have an adverse environmental impact will be

reviewed and implemented following the environmental guidelines and the mitigating measures discussed in Annex 4).

Since the projects will be largely selected by the participating communities, it is expected that such projects will have built-in community maintenance and sustainability considerations as part of the approval factors. Thus, in addition to agreeing to reduce the area planted to coca, communities will be expected to provide communal labor and local materials for the projects and to operate and maintain them. Local governments and communities will develop the corresponding maintenance arrangements and will spell-out the specific responsibilities of each.

To the extent that a specific income generating activity requires financing, Project personnel from the overall GOP coordinating agency -- INADE -- and the concerned local government agency will refer the interested party to an NGO which will assist in preparing a bankable project application and to the local intermediate credit institution which will participate in the provision of credit, as discussed subsequently in this section. Activities which will qualify for financing assistance include agricultural production ventures which use improved seed varieties and technologies and feasible private sector agribusiness proposals which have good job creation and sustainability prospects. Preferential consideration will be given to those activities which will directly contribute to the elimination of coca production in an area and contribute to alternative licit income generating activities. Assistance will involve a commitment to voluntary reduction of the area planted in coca and a pledge not to plant new areas in coca.

These types of efforts will be complemented with small physical and social infrastructure activities, such as: the rehabilitation of access roads to link areas producing licit crops with the main highways which provide access to markets and the renovation and/or construction of health posts, schools, potable water systems, irrigation, etc. These are essential to promote community actions that foster respect for law, supports the eventual disruption of illicit activities, and facilitates local support against terrorism. Similarly, essential small physical and social infrastructure activities will be planned with reduced or no coca reduction conditionality since their economic impact is inherently general in nature and normally is a necessary antecedent to voluntary abandonment of coca.

2. Detailed Component Description

a. Employment and Income Generation Component

(1) Overview

This component will provide direct assistance to individual farmers and non-farm businesses to increase production, income and employment, and will be directed at those who pledge not to plant any new areas and/or reduce area under coca cultivation. Assistance will emphasize production and agribusiness ventures (including marketing and credit) which can produce relatively short-term returns within a six-month to three-year time frame. Some long-term activities, such as applied research and extension on alternative crops or promotion of large scale enterprises with long-term pay offs may be included based on detailed market and technical analyses to be done on a case-by-case basis during Project implementation.

Activities that promote increased agricultural production, marketing and processing of licit cash crops will be emphasized. This focus is justified by the social analysis, which shows that a large percentage of the population in the target areas, in most cases over 65 percent, depends on the agricultural sector for their livelihood. Focusing on their cultural and traditional working environment is expected to facilitate a

transition from coca to licit crops. Specific and illustrative activities planned are discussed below. Illustrative agribusiness project profiles developed as a result of a study on the agribusiness potential in the target watersheds are included in Annex 5.

Initially, the Project will target agricultural-cropping systems that require minimal assistance to create a viable alternative to coca production. An analysis of the primary cropping systems in the Project areas indicates that assistance must be tailored to the specific soils situation in each participating community. In some parts of the Huallaga Valley, for example, studies show that the cultivation of paddy rice and corn, forestry and livestock production are technically and economically feasible alternatives during the early stages of the Project (the first three years) while other alternatives are developed. For instance, a USAID/Peru financed economic analysis conducted in 1993 shows rates of return of 18 and 28.4 over a seven-year period for irrigated rice and cattle production respectively. Another USAID/Peru financed study conducted in late 1992 (the USAID financed Novoa study) contains a full analysis of the production potential of various crops under different technological scenarios in the Huallaga Valley, which is the largest coca-growing area.

Where economically and technically feasible, initial attention will be given to traditional crops and productive activities such as rice, corn, coffee, cacao, cotton, forestry and livestock products because:

- Farmer-level technology already exists in the project areas as farmers have been producing or are currently producing and marketing such crops and products with varying degrees of success. Since coca production competes with these crops/products for labor and inputs, a switch of productive inputs to these products will reduce coca production;

- A market exists for the products. For instance, Peru imports rice, beef, milk and other dairy products. These products are primarily consumed in Lima and coastal areas, with a population of 12 to 14 million people, in addition to other regional markets such as Huancayo, Tarapoto, Pucallpa, etc. Rice, corn and livestock from the project area can compete with imports; and rice can compete with coastal competition;

- The risk of investments for the production of rice, corn, coffee, cacao, cotton and livestock is relatively low and such investments are expected to pay off in the short-term -- within two to three years. Further, since rice, corn, coffee, cacao, cotton, livestock and forestry production are known in the Project area, the spread effect of Project assistance will be wider and quicker than for non-traditional agricultural products (NTA) which require a longer period to develop. As earnings from livestock, rice, corn, coffee, cacao, cotton, and other crops are realized, it is expected that more farmers will be inclined to abandon coca production;

- The basic local research and extension capacity exists to support improved production. Research and extension efforts to support agriculture and livestock production in many coca producing areas were functioning until 1988. When GOP services were interrupted due to terrorist activities, some of these facilities ceased to function. With some Project assistance, this capacity for applied research and extension can be re-established;

- Inputs are present in the country in sufficient quantities to support a viable production system. The technical analyses show that each of these crops, forestry and livestock can be profitably produced in the target areas, particularly in the Huallaga Valley; and

- Once the major highways are fully restored (currently underway with World Bank and IDB assistance) and a more efficient transportation link is established with Lima, transportation costs for rice, corn, coffee, cacao, cotton, forestry and livestock products will be reduced by up to 50 percent, as indicated in the recent studies. Once highways are passable, transport time will be reduced, for example in the case of the Huallaga Valley, from three to five days to one-to-two days restoring the transport time which reportedly prevailed a decade and a half ago.

Similar considerations will be analyzed in deciding about the specific cropping packages to be promoted in the target valleys. The studies conducted by the Peruvian firm "Instituto de Análisis de Política Agraria (IAPA)", shows in detail the various cropping packages that could be supported in each target area. For example, the analyses show that, in addition to the above crops, these packages could include:

- San Francisco: the Pijuayo Palm (for *palmito* hearts), coffee, vanilla, pepper, cocoa, and macadamia nuts.
- Aguaytia: Pijuayo, *camu-camu*, vanilla, and *bijao*.
- Alto Huallaga: Pijuayo, *camu-camu*, and *arazá* (an exotic fruit which can be industrialized to produce pulp for juices).
- Central Huallaga: Pijuayo, *camu-camu*, *arazá* and pepper.
- Yurimaguas: Pijuayo, coffee and *arazá*.

The technical aspects related to the cultivation of these illustrative products is contained in Part VII (Technical Analyses Summaries) and in the Technical Analysis, Annex 5.

(2) Planned Assistance

Project support for the production of agricultural products and related agribusiness activities will include:

- **Adaptive research and extension** efforts by local research institutions in corn, livestock and dairy, legumes for livestock production, paddy rice, forestry and soil, coffee, water and pasture management. This research and the extension effort will be market-driven to assure that whatever is produced can be sold competitively.

- **Parallel efforts to develop high-value cash crops** (non-traditional crops and improved varieties of traditional crops) which can be commercially sold both domestically and in international markets. Although the types of non-traditional products will be developed and tested during Project implementation, tentatively they would include fruits for concentrates and juices, Pijuayo for hearts of palm (which shows an internal rate of return of about 76 percent), pineapple, a variety of medicinal plants which are abundant in the target areas, silk-worm cultivation, lemon grass, macadamia nuts, *camu-camu*, *arazá* vanilla, *bijao*, pepper, and condiments such as pepper produced with imported genetic materials. These are some possibilities, currently under various stages of research and development by local public and private sector institutions, which will be assessed further.

INADE, with Project-funded technical assistance, will coordinate and monitor these activities with the various regional research institutions, cooperating farmers and the local governments. Agricultural research stations in the valley have conducted much research on crop varieties, processing and soil conservation. Thus, the Project will focus on applying this research in qualifying farming areas.

Using the services of existing agricultural and experimental stations in the area, the Project will provide funds through INADE to establish plots in carefully selected locations (including the valleys of Ponaza, Biabo and Sisa) throughout the Huallaga Valley and other watersheds nearby coca-growing areas to determine production potential and profitability of non-traditional crops. These plots will also include reforestation, particularly of abandoned coca plots, sound farming practices to control soil erosion, and production of improved seeds.

The key local research and extension institutions which have shown capability and potential will be used, via arrangements by INADE. They include for example, the Instituto de Investigación de la Amazonía Peruana (IIAP), the agricultural branches of the Universities of Tarapoto (UNAS) and Tingo Maria, the agricultural experimental research and extension stations in Tarapoto, Tingo Maria and in Yurimaguas, and private sector organizations such as CEPTENA (Centro de Estudios y Promoción de Tecnologías de la Amazonía). Other possible institutions whose participation will be determined during Project implementation include the INIAA Research Station at Tulumayo and the Colegio Agropecuario de Naranjillo.

The Project will provide some assistance (a small yearly grant per the Financial Plan) to obtain available production technologies and tap the extension capability of research and extension entities with proven capability in the Project areas. Their use will minimize the presence of foreign personnel and reduce the cost of these activities to the Project.

- **Commodity assistance to equip research laboratories** and provide appropriate, tested, improved seed varieties to participating farmers which meet the conditionality for assistance.

- **Technical assistance to study agroindustrial possibilities** and help individual farmers and producer groups develop viable agroindustries, identify markets and establish distribution channels. Profiles of initial specific agroindustry possibilities are included in Annex 5. These include a plant to process palm heart in Uchiza, a fruit processing plant in Tingo Maria, a coconut processing plant in Picota, a plant to process spices and colorants in Tingo Maria, a nicotine extract plant in Picota, a yuca industrialization business in Tocache and a plant in Tingo Maria to extract essences from tropical herbs. Other possibilities will be studied during Project implementation.

- **Marketing assistance.** Farmers who engage in the production of traditional and non-traditional crops or agroindustries will face serious uncertainties regarding the processing or marketing of their production, particularly in the case of new, non-traditional crops. The Project will provide technical assistance to carry out research on the market feasibility of alternative crops and the availability of markets, both internal and external. Market studies will provide the basis for the cropping packages to be recommended to farmers. Initially, the assistance will focus on determining the domestic market for such products. Subsequent efforts will focus on external markets. However, once increased agricultural production gets underway, the Project will provide technical assistance to carry out on a continuing basis

during the LOP assessments of the marketing potential and identification of marketing barriers and bottlenecks.

Marketing assistance will be coordinated with the Chambers of Commerce in the Project area and with ADEX, as well as with activities being carried out under the USAID-sponsored Microenterprise and Small Producers Support Project. The Chief of Party of the TAP and INADE will work closely with these organizations in developing an appropriate arrangement to use their existing capability to implement a Marketing and Export Information System for target beneficiaries. It is expected that this system will consist of a computerized data base and a program to diffuse commercial information via the radio and the printed media. To assist in establishing the System, the Project will provide funds to purchase the complementary data processing equipment, which the selected local organizations will need to provide the market information service tailored to farmers in the target areas.

o **Credit and financial planning assistance for agricultural production and agribusiness ventures.**

Dealing with the difficulties that farmers and local groups face in obtaining adequate financing for agricultural and agribusiness ventures may be one of the most trying challenges during the course of Project implementation. Today, credit and assistance for licit agricultural production and related income producing, job creation activities is largely non-existent, especially for the small farmers in the target areas. The reason is that such farmers are perceived as high-risk credit prospects, particularly if they are involved in coca production.

An adequate source of financing is a vital element for income producing and job creation activities. Both farmers and potential agroindustrial entrepreneurs in the target areas need a reliable source of credit to finance the use of technologies recommended by Project experts and research stations and to establish viable and sustainable job-creation ventures. Without financing for such activities, the implementation of a sustained alternative development strategy will falter.

For years Peru's rural financial market has been deteriorating and its capacity to meet the credit needs has become largely negligible. Indeed, with the demise of the Agricultural Bank of Peru, both the institutional mechanisms and the financial resources flowing to the agricultural sector nearly disappeared. During the last two years, the GOP, with financial and technical assistance from international donors, including USAID, the World Bank, the IDB, and the Andean Development Corporation (CAF), has been attempting to reestablish a viable financial system that can respond to the needs in rural and urban areas.

In this respect, several in-depth studies have been carried out to document the requirements to reactivate Peru's financial system and renew the flow of resources to the rural sector. One such study completed in November 1992 for USAID/Perú by the consulting firm Farm Management Services shows that "the participation of farm credit in the overall domestic credit system has dropped considerably, from 24 percent in 1970 to 7 percent in 1991. Likewise, the number of hectares covered by farm credit also decreased to 8 percent of the average recorded for the 1985-1989 period. Furthermore, real loans per hectare have been consistently reduced from year to year and in 1991 were one-fifth of the average recorded for the 1985-1989 period."

Regarding credit demand, the study concludes that: "... the agricultural sector requires a minimum of 300 million dollars a year, to be turned over twice a year and to sustain annual crops and to maintain perennial crops." Currently, this level of credit is far from being reached. A more recent study, carried out by CEPES in September 1994, estimates that approximately US$500 million is needed to meet the credit demand of small farmers owning up to five hectares of agricultural land.
The availability of funds for credit to the agricultural and agribusiness sector has been increasing steadily. COFIDE has been capturing resources from the CAF, the IDB, and the World bank for this purpose. However, most of the available credit is still beyond the reach of small farmers in the target areas.

Studies indicate that the financial intermediaries have the following categories of major problems which impede efforts to deliver credit and financial assistance to small farmers:

- **The Risk Factor.** Faced with limited resources, intermediate credit institutions (ICIs) prefer to deal with the larger farmers who have established relationships with the formal financial market, can provide sufficient collateral, and are perceived to be less risky than small farmers. As presently envisioned, the prospect that ICIs in target areas will be able to capture enough resources to meet and exceed the demand of their preferred customers so they can then begin to look for prospective higher risk clients (perceived or real) is highly unlikely. Compounding the ICIs adversity to deal with them, in many cases, such borrowers lack appropriate collateral to satisfy the requirements of financial institutions. Under this real scenario, the absence of a guarantee mechanism that would reduce the risk involved in lending to smaller farmers and poor people feeds the ICIs' predisposition to ignore this segment of the population.

- **The Capital/Financial Resources Factor.** The recently created mechanism, the Cajas Rurales discussed subsequently in this section, are in the process of being established (seven are already functioning) but lack equity capital to leverage the resources allowed by the law (up to 10 times per unit of equity) for credit to the rural sector. Such Cajas have been formed with the minimum equity required by the law, which is approximately $250,000 at the current exchange rate. Thus, even if large lines of credit were available, the maximum that such Cajas currently would be able to lend would be $2.5 million. However, any amount added to its equity by the Project would increase its lending potential by ten times.

- **The Technical Capability Factor.** ICIs, including the Cajas Rurales, do not have the capability to help farmers prepare bankable proposals nor to provide follow-up assistance to farmers granted credit. Even when such proposals are submitted, most of the ICIs in the target areas do not have the staff time nor the capability to adequately evaluate their technical and financial merits. Likewise, smaller farmers and prospective agribusiness groups do not know how to deal with ICIs nor to meet their credit requirements. They face technical difficulties in preparing well conceived, financially feasible proposals which can be used for obtaining financing.

Available information, studies and numerous interviews with people in Peru's financial sector show that there is a consensus about the need to deal with all of the above groups of problems to improve the prospect of success of any effort to alleviate the credit problem which the population in target areas face.

Funds for lending provided through ICIs in isolation will not reach the target population, nor improve the sustainability prospects of financed ventures.

Therefore, the Project will complement GOP and other donor efforts to deal with the above problems through three vital and mutually reinforcing activities, which are keyed to the previously described factors:

(i) **The Establishment of a Loan Guaranty Fund (LGF) and a Leveraged Matching Fund for Credit.** This activity will address simultaneously two of the above major problems : First, the LGF will enable ICIs to direct credit to prospective borrowers in the target areas . Second, it will allow the local institution which will manage the guaranty mechanism -- COFIDE -- to channel resources for credit directed to meet the demand of farmers in the target areas. COFIDE has indicated that it will provide lending capital to ICIs for directed credit to farmers in the Project target areas on the basis of at least 3 units per unit of the amount set aside for the LGF. Thus, if the total set aside for the LGF is $5 million, as planned, COFIDE would make available for credit to small farmers, agribusinesses, etc., at least $15 million. Once operational and based on ICIs' needs and experience, COFIDE would be willing to increase the ratio of lending resources per unit of the LGF from 1:3 to 1:5. This arrangement would represent a quantum jump in the efforts to meet the credit needs of the target areas.

Under a possible arrangement to be negotiated once Project funds become available, USAID (from its contribution) would enter into an agreement with COFIDE to establish the LGF. COFIDE would receive the funds through a trust arrangement. As explained below, it is expected that the LGF, through charges to participating ICIs, will be able to cover its costs and contingent liabilities. At the end of the Project, the LGF would continue operating. INADE would continue to monitor its performance.

A key feature of the proposed LGF is that it guarantees only the collateral and not the payment of the credit itself. Since a large number of farmers do not individually have sufficient collateral to obtain loans, the LGF may help farm associations of farmers which have a legal basis and collateral which can be used to guarantee a loan to the association. Thus, if a client defaults, the concerned ICI would go after the collateral obtained at the time of credit approval. Only if the collateral is not enough to cover the outstanding loan balance, would the ICI claim LGF coverage. In any event, the liability of the LGF would not exceed a certain percentage, yet to be determined or through negotiations with COFIDE, of the loan in default. In approving loan applications, the ICI would apply its normal banking practices and prevailing market interest rates. This arrangement would reduce to a minimum the LGF's contingent liabilities and pace of decapitalization, if any.

To have access to the guaranty under the LGF, the ICI would include a charge of say 6 percent to the client seeking credit. This percentage would cover the expenses of operating the LGF plus capitalization of the Fund.

Concurrently with the establishment of the LGF with an initial Project contribution, COFIDE would seek to expand its coverage through additional contributions from other donors, the GOP or from its own resources.

The details of the establishment of the LGF and its operation will be developed during Project implementation. Project specialists will work closely with COFIDE in developing its structure and operational details. This will provide the basis for the agreement with COFIDE.

(ii) Capitalization of Cajas Rurales (Equity Strengthening)

The purpose of this activity is to help selected Cajas serving the population in target areas to expand their lending activities to the maximum allowed by the law. Under said law, each unit added to the Cajas' equity would expand their lending potential by a multiple of 10. Under a possible arrangement, following the model already in place under another USAID-sponsored project, funds (approximately $1.6 million) would be channelled through COFIDE under Handbook 13 Type Instruments. COFIDE would used such funds to increase the equity of target Cajas which would capture lending resources from COFIDE, the general public from savings, or the financial markets. Any equity strengthening assistance given to cooperating cajas rurales will include a condition that the lending capacity generated from Project assistance will be directed exclusively to the agricultural sector (producers and small rural agribusinesses).

Tentatively, it is planned to increase the equity of four Cajas serving the Project areas by approximately $400,000. This would allow such Cajas to lend up to $16 million to the target population at the 10 to 1 ratio. Initially, however, COFIDE would channel for credit at least $3 per each $1 increase in the equity of the Cajas. Once the Cajas have shown the capability to manage funds COFIDE will increase the credit available to the Cajas. Currently, four Cajas are being considered because they have been established precisely in the Project target areas to serve the rural sector. These Cajas are: San Martin, Tumbay, Valle del Rio Apurimac y Ene and Selva Central.

The actual Cajas which will participate in the equity strengthening activity will be selected after specialists from the TAP start their services. COFIDE, assisted by such specialists, will carry out a financial analysis of the selected Cajas or ICIs to determine their financial sustainability and work out the specific implementation details of the activity.

Under the possible equity strengthening arrangement, COFIDE would act as underwriter for the shares which the Cajas would issue in amount equal to the amount of the equity investment. COFIDE would sell such shares to private investors which expand the ownership base of the Caja and expand the Cajas' capability, together with the LGF, to increase the flow of credit to agribusinesses and farmers in the target areas. Once the shares are sold, the proceeds can be used to continue strengthening the equity of other Cajas and/or to increase the coverage of the LGF.

(iii) The Establishment of a Technical Mechanism Linking Participating Financial Intermediaries with Farmers and Agribusinesses in Target Areas

This activity will deal with the problem of the lack of capability both on the part of ICIs and prospective clients in the target areas. Concurrently, with the establishment of the above arrangements, INADE will seek to enlist the services of a local NGO, such as the CEPES (Centro Peruano de Estudios Sociales), which currently is carrying out a successful pilot project of supervised credit to small farmers. Under a possible arrangement, the NGO will deal with the problem of lack of technical capability both within the financial institution which provides the credit and at the farmer/agribusiness level. The NGO will assist farmers in developing and preparing bankable credit proposals which will be presented to the bank or Caja for financing. Once approved, the NGO will follow-up and assist the borrower on technical matters, thus providing an essential credit supervision function which banks lack. The NGOs' costs will be covered by an agreed percentage of the interest rate which the bank charges to the client. The Project would provide some initial financing to help the selected NGO with the costs of establishing the assistance mechanism in the target areas.

When the above mentioned COFIDE supported mechanisms Project credit activities are implemented, the actual amount of funds which the participating ICIs, including the Cajas, in target areas would have available initially for credit will be increased by at least $19.8 million. In other words, the $6.6 million provided through the Project credit component will leverage initially at least $19.8 million (if COFIDE matches the USAID provided funds at a ratio of 3:1) for directed credit to the target areas, and possibly up to $33 million (ratio of 5:1), if the initial experiences justify it. This contrasts sharply with a maximum of $6.6 million which could be channelled to the target areas if the Project funds were to be provided directly for credit to the end user.

During the past year COFIDE has been establishing credit lines through the recently established system of Cajas Rurales and other intermediate credit institutions to serve the rural sector throughout the country. The institutional analysis shows that presently COFIDE is the appropriate institution the LGF and the equity strengthening mechanism.

The arrangement for the provision of credit is illustrated in the subsequent flow chart shown in this section. Participating ICIs (the Cajas, Interbanc, Banco de Crédito) will provide credit to the final user at market rates and no rate of interest limit will be imposed to the financial institution as a condition for participation in the above arrangements.

The perceived higher risk which entails lending to small farmers is expected to be reduced significantly through loans to Producers' Group, associations and Producers Enterprises, such as Arroceros Sanmartinenses S.A. (ARROSAMASA), Ganaderos Sanmartinenses S.A. (GASAMSA) and Maíz Selva S.A. (MASELVA) and the technical services that an NGO, such as the one discussed above will provide.

The **process for reviewing and approving credit applications** will be based on the normal operating practices of the selected credit institutions and the criteria to be provided to such institutions by USAID/Perú and INADE through COFIDE. (There will be coca-related conditionality for all persons or groups of persons applying for credit --They will pledge not to grow coca). The process will be adapted to deal with the two major types of credit applicants, as follows:

(1) Farmers Who are Engaged in Coca Production.

Tentatively, and subject to revision based on implementation experience, the credit process for these applicants would be as follows:

- A farmer agrees not to plant coca in the future and to start reducing the area planted with coca. According to some agricultural research organizations in the area, a farmer can reduce the area planted in coca by interplanting other income producing crops, such as *pijuayo*, which over a period of time (approx. three years) will produce a cash crop and reduce coca leaf production. He then obtains a certificate to this effect (from CORAH and/or through INADE and the relevant municipality).

- The concerned local level government organization assists or arranges the provision of assistance to help the farmer prepare an investment plan for his farm based on a production system suitable for the area. The required technical assistance will be available through INADE, local agricultural research facilities or the Project-funded technical assistance firm.

- The concerned local level organization, in concert with INADE, provides the farmer with a priority classification according to the application date and percentage of reduction of his coca plantings.

- With the above documents, the farmer contacts the selected credit institution in his community or the nearest regional office to file his loan application. A credit officer or an officer from the previously mentioned NGO visits the farm and assesses the investment plan before approving the loan.

- Loan applications will be reviewed and approved or rejected within a two week time period from the moment the loan request documentation is received.

(2) Farmers Who are not Engaged in Coca Production.

Farmers who are not engaged in coca production qualify for credit assistance available under the above arrangement based on the merits of their credit application. Factors to be considered in the analysis of the applications include the technical and financial feasibility, marketing aspects, and the job creation potential of the agricultural production plan. In addition, they must submit a written statement certifying that they are not engaged in coca cultivation and processing and agreeing not to plant coca. Assistance to these farmers is necessary to avoid conveying the implication that to be helped you must be engaged in illicit coca cultivation.

INADE, in concert with the Project implementation Committee, will assure that certain conditionality related to the gradual reduction of coca production is known by prospective Project participants and that this conditionality is applied. Subject to refinements during the course of Project implementation, the **basic conditionality for farmers' and communities' participation in the EIGS** component include:

- **Farmer Level Narcotics Performance Conditionality**:

  ** **Access to Credit.** As indicated above, farmers who are not engaged in coca production qualify for credit for productive purposes based on the merits of the credit application and an agreement not to engage in coca production in the future. Farmers who are engaged in coca production must: sign an agreement to refrain from planting additional coca and to reduce existing plantings by a negotiated percentage. CORAH, in coordination with the concerned GOP regional or local organization, will provide a certificate to satisfy this condition. The certification will include copies of the agreements signed with the farmers or *Comites de Productores*.

  In addition, INADE, with Project-funded technical assistance and in concert with the relevant research and extension agency in the area, will develop individual investment plans, relating them to the credit requirements for alternative crops and to reduction targets. The planting of alternative crops will be financed through credit in a manner whereby an acceptable income flow for the farmer is produced. This plan, and the certificate referred to above, will be required by the institution managing the credit program as a condition for credit approval.

** **Access to Other Assistance.** Access to alternative crop technology, planting materials on a commercial basis, training and technical assistance will be available to all farmers with no conditionality. The unconditional availability of this assistance is necessary to help farmers develop rational and economically feasible individual plans for phased production of licit cash crops.

Priority consideration will be given to farmers who have already begun to reduce their coca production and begun to switch to licit economic activities, and to farmers who are not engaged in coca production whose agricultural production plans have good job creation prospects. Up to date production data from INADE and concerned GOP organizations will serve as the basis for establishing priorities for individuals and communities.

o **Access to Agroprocessing Investments:**

** Resources for these investments will be made available under the Project with no conditionality. These investments will be financed when the investment is financially and economically feasible, based on the availability of new, legal agricultural production and use raw materials produced by target area farmers.

Technical assistance and/or training will include the areas of credit management and agricultural credit analysis and evaluation. In order to establish credit eligibility criteria and priority access to loans, INADE and the municipality will coordinate with concerned GOP agencies the certification of farmers who have reduced the agreed percentage of their existing coca fields and have signed an agreement for the time-phased eradication of the remainder of their coca plantations. Penalties for non-compliance with the coca related clauses in the agreement would be negotiated with the farmer or group of farmers and could include the cancellation of the loan or other assistance. INADE will coordinate further with all concerned institutions the issuance of the documentation required to meet loan conditions, such as individual land titles.

(3) EIG Component Outputs

By the end of the Project, the agricultural areas where the Project will provide assistance will have attained an enhanced agricultural and agroindustrial capacity to provide sustainable employment opportunities to people engaged in coca production and processing activities. To attain this major EOPS, the planned assistance is expected to produce the following outputs under the EIG Component:

o Technical crop packages designed and provided to participating farmers (at least one such package is planned for each major Project area depending on the soil characteristics seeds and potential of each.

o Production of seeds and seedlings of traditional and non-traditional crops (up to 1,250 MTs planned);

o Number of land titles registered (approximately 5,000 planned);

o Applied research demonstration plots established (approx. 100 plots are planned);

- Number of farmers receiving agricultural extension, training and related technical assistance (up to 12,000);
- Number of agroindustries established and/or strengthened (5);
- A market information system established.
- Training workshops and seminars carried out on credit application preparation, agroindustry opportunities, cash cropping systems, and marketing of agricultural and agroindustrial products (approximately 400);
- A credit mechanism (Loan Guaranty Fund) established to facilitate the financing of income-producing ventures in agroindustries and agriculture.
- Percentage attainment of compliance with negotiated commitments.

(4) Project Inputs for the EIG Component

To implement the EIG component and attain the aforesaid outputs, the Project will provide:

o **Technical Assistance**

The TAP will procure the services of short term external and local specialists to work in the target areas for periods no longer than four months each. Each short-term specialist will be subject to approval by USAID and INADE. As a group, they will participate in the appraisal of each project proposal, particularly in determining its economic, financial and administrative feasibility in the context of the prevailing situation in each target area.

** **Agricultural Production-external.** The Project will provide agronomists who will work with implementing institutions at the local level in the coordination of applied research and extension activities, and in helping to develop alternative cropping packages which the implementing institutions will provide to farmers who agree to reduce their coca cultivation in exchange for assistance to produce licit crops and to farmers who are not engaged in coca production and agree to not plant coca.

** **Agribusiness Specialists-external.** Specialists will work during the life of the Project with local groups (particularly local *Comites de Productores*) or individuals in developing and carrying out plans to develop feasible agribusiness ventures. This entails providing technical assistance to such groups or individuals, helping to draft project proposals and advising farmers' associations and other local groups on alternative business opportunities based on the agro-economy in the target areas.

** **Marketing Specialists-external.** Marketing specialists will work with local level entities and community groups in developing marketing plans and marketing channels for agricultural and agroindustrial projects.

** **Up to 27 person/months per year of local short-term specialists.** These specialists required will help conduct economic and financial feasibility studies of proposed agribusiness activities, marketing services and information as well as establishing and evaluating the aforesaid credit financing mechanisms.

o **Training**

Most of the training activities under this component will be carried out through seminars and workshops by locally-hired specialists. Tentatively, it is planned to train personnel from selected local level entities such as *Cámaras de Productores and Comités de Productores.* In turn, these entities will help Project technicians in working with groups of farmers, local associations, agroindustries, etc. in aspects relevant to the objective of developing alternative sources of income. A limited number of external short-term training programs and observation visits will be funded to help community leaders, locally-hired Project personnel and selected municipal level employees broaden their knowledge about relevant successful programs in other countries in the region.

Post training activities will be monitored to ensure that the activities are relevant and developed to meet required needs. Technical assistance will be provided during the implementation stage and follow-on training will be developed if needed.

o **Commodities**

Project-financed commodities under this component will include computers and related software and equipment for the expanded Market Information System to be established through a local NGO, such as Chambers of Commerce, ADEX or other qualified organization; genetic materials to be provided to agricultural experimental stations and farmers willing to reduce their coca cultivation activities; etc.

o **Credit**

The Project will set aside up to $6.6 million to establish from the USAID contribution the Loan Guarantee Mechanism and to build-up the equity position of selected Cajas Rurales so they can increase the flow of credit funds to people in their area.

o **Land Titling**

The Project, through INADE and local implementing organizations (the concerned municipality), will help farmers obtain legal title to the land they agree to plant to legal crops. The budget includes $400,000 to help pay for surveys and legal services related to the titling of land. The titling method which provides instruments usable with financial institutions and transferable at the lowest possible costs will be used. In some cases it may be necessary to do cadastral surveys to establish boundaries. INADE will coordinate this activity with the appropriate GOP agencies, in most cases the regional office of the Ministry of Agriculture (MOA). From past experience with MOA in land titling in rural areas, it was determined that they can prepare and process land titles at a lower cost, and faster than any other organization. The primary reason is that they have existing personnel and procedures in place throughout Peru. This assistance is necessary to

motivate farmers to make permanent investments to improve the productivity of their land and to provide collateral for credit.

(b) Essential Services and Community Development (ESCD) Component

(1) Overview

The purpose of this component is to foster an environment where increased opportunities for legitimate income-producing activities, self-directed participation in development activities and access to basic services will provide rural Project areas with the necessary incentives to abandon coca production.

To do this, the Project will finance socio-economic community development activities which meet certain criteria, as detailed in a subsequent section. The type of assistance to be provided will consist of relatively small, quick impact activities which participating communities/community organizations conceive using a self-assessment process and can implement and maintain effectively.

Briefly, such activities are expected to focus on the areas of access roads rehabilitation, small community-based income producing initiatives, health, education, water and sanitation, community organization and training and environmental conservation and protection. The Project will also finance small projects resulting from community emergencies, such as bridge repair from flooding, and technical assistance for community development.

Community requests for financing of small projects will be appraised based on community needs and the specific criteria discussed in a subsequent section of this Project Paper.

The key implementing mechanisms of the activities under this component will generally be community organizations and municipal governments with the closest access to the beneficiary community. The local government role will be established through a sub-agreement or a Memorandum of Understanding between INADE and the concerned municipality.

In San Martin, under the UHAD Project (Municipalities in Action component), local level government entities have gained substantial experience in working with communities in the planning and implementation of the types of activities envisioned under the AD Project. Implementation of the related component under the AD Project will build on the experience gained to-date. Through the funding and actual implementation of CD activities, the Project will further strengthen municipalities' capability for sustained socio-economic development programs in the target areas and help re-establish authority and cooperation among people and government at the local level. Note also that many of the municipalities that will participate in the AD Project are also participating in the Local Government Development Project that seeks to strengthen their capability to carry out their socio-economic development role.

Consistent with positive experience gained to date, the AD Project will continue to promote grassroots participation in the development of communities through open town meetings to promote community decision-making and participation in the construction of small scale community development projects. This will foster the democratic process, instill community responsibility in running governmental affairs and provide check points to ensure accountability of public funds.

Still, it is envisioned that, at various Project implementation stages, there will be a need for further refinements to assure the best project selection process and inter-relationships between the community, the concerned municipality and INADE.

INADE will also seek the participation of non-governmental organizations (NGOs), especially those already working in the Project areas or in other donor alternative development projects, in activities to improve the socio-economic situation of target communities.

As the overall Project coordinating agency, INADE will organize a Committee composed of a leader selected by the target communities, a representative from the concerned GOP municipality and a specialist on the subject matter to participate in the project selection and evaluation process the community level. The TAP and USAID/Peru Project Specialists will participate in these meetings on a case-by-case basis but will not be expected to vote on the project approval decision. The committee will follow the project review and approval process discussed below.

Each community project proposal (which may contain one or more activities) will have an applicant, an executing agency or agencies and a supervisor. This arrangement will provide checks and balances to ensure that projects are executed as planned. The applicant in most of the cases will be a community group. The executing agency and supervisor may be the sponsoring municipality, a community group, or an NGO. For projects in health, education and productive activities, the supervising agency will be the concerned GOP technical agency and the municipality.

In order to improve local project planning and implementation skills, promote local "ownership" of project outputs and forge a link within communities and between communities and the GOP, small-scale projects will be planned, designed and implemented with the maximum possible beneficiary participation. In other words, based on self-assessments, community members will establish their priorities before presenting them to respective municipal governments and to the concerned INADE Special Project Office. INADE and Project-funded Community Development promoters will assist communities in the process, if required.

Once the community projects are selected following the above community participatory process, INADE will disburse funds based on INADE's periodic operational plans) to the concerned municipality, which in turn will control the use of the funds for the selected projects based on the community implementation pace and compliance with the terms of the signed agreement. Project-funded specialists will provide training and help municipalities in establishing adequate financial controls and monitoring processes to assure proper accountability of any funds disbursed for community development projects. Note that this type of training and TA to municipalities would have been provided to some of the municipalities under the Local Government Development Project.

The use of funds for specific projects will be targeted to communities and organizations within the Project target areas, as follows:

- Communities where small farmers are presently involved in coca production and/or processing and are disposed to reduce production/processing activities;

- Communities where small farmers were involved in coca production and/or processing and have stopped producing coca;

- Organizations of former coca producers. The members of these organizations have already identified a common interest by abandoning the coca economy, and they have organized themselves to articulate this need. Such groups will serve as catalysts in convincing target communities to follow suit;

- Progressive communities which can be used as examples to diffuse the concept of democratic participatory processes to enhance their quality of life through licit activities.

- Youth organizations with members who are involved or are at risk of becoming involved in coca production, processing and/or narcotrafficking activities.

Further, in reviewing project proposals for financing under the ES/CD component, the Review Committee will consider the following factors:

- For Community and community group projects:

  ** Community inhabitants reside, or demonstrate the intent to reside, permanently in the area where the Project will be carried out (it would be very difficult to carry out sustainable CD activities in areas with high levels of transient population).

  ** An adequate level of community organization exists to permit Project implementation.

  ** The community is committed to a gradual reduction of coca cultivation, and is willing to sign an agreement with INADE and the concerned municipality expressing its commitment.

  ** The community is located in an accessible area where the risks to personnel involved in Project implementation are acceptable.

  ** Land is available for agricultural development.

  ** Social impact. The social impact of the Project as measured by the number of persons gaining access to basic services and benefitting from improved productive capacity.

The process for the review, approval and implementation of CD projects is planned as follows:

- The applicant presents the proposal to the CD Review Committee. In most cases, the applicant would be the community group and the concerned municipality, but it could be an NGO or similar organization.

- The Committee appraises the proposal (which may include a package of activities responding to the needs of the community) according to established technical, institutional and financial criteria. The appraisal may include visits to projects' site, as appropriate.

- The Project Review Committee approves or disapproves the project (s). In case of disapproval, the Committee requests that the applicant provide further information and re-submit proposal(s), or the committee rejects the proposal(s) outright.

- The Applicant is informed of proposal(s) approval.

- An agreement between INADE, the Municipality and the Community is signed. The agreement should include an attachment which provides information supplied by CORAH. The information should include: (a) extent of coca under cultivation; (b) levels of commitment for voluntary reduction of coca; and (c) where applicable, compliance to date with previous reduction commitments.

- INADE disburses the funds to the municipality which deposits it in a special account. The municipality manages the funds on behalf of the community and keeps adequate records for inspection by the concerned community, INADE personnel, USAID/Peru and auditors.

- The project(s), together with information on the community profile is incorporated in INADE's MIS tracking system.

- Project(s) is completed.

- A completion report is prepared and the tracking system is updated reflecting the accomplishments and the appropriate indicators.

Each appraisal of a package of CD activities or individual projects submitted for funding would include a site visit during which the project appraiser would verify the following:

- the level of security in the area;

- total population of the area and the number of direct beneficiaries;

- target population at which project is directed, including principal economic activity of heads of household and family income level;

- system of beneficiary selection; geographic coverage of project;

- location of land or physical site where the project(s) will function and its legal ownership;

- determination of existing services, such as health, nutrition, sanitation and education;

- principal problems, such as health or agriculture;

- proposing organization's institutional capacity;

- need for technical assistance;

- rationale for project size;

- willingness of beneficiaries to participate in project;

- The need for an environmental impact assessment. If required, this assessment will be carried out prior to the initiation of the activity.

Regarding conditionality to benefit from the activities under the **ES/CD** component, priority consideration will be given to those communities which have been organized for the purpose of controlling and reducing coca production in the area. As indicated earlier, communities would sign an agreement with the concerned local government and INADE stating their commitment to coca reduction in exchange for the types of social infrastructure projects and the other assistance under the Project discussed in the next section. INADE will work with the concerned municipality, the participating local organization and CORAH to verify and certify compliance with the terms of the agreement.

(2) Planned Assistance

The following list provides illustrative examples of specific activities that the Project may finance. Each activity, however, will be carefully assessed by the concerned municipality, NGO, or Project specialists as appropriate following the previously described process. The list is based on visits by the by specialists from the research firm, IAPA, to each of the Project target areas. The complete list and description of each proposed activity is contained in Annex 5.

(a) Rehabilitation of Feeder and Access Roads

The coca economy thrives in the Project areas not only because of agro-ecological factors but also because since its product can be processed to a sufficient bulk/value ratio to depend solely on air transport, it is insensitive to infrastructure bottlenecks that affect legitimate economic activities and, in fact, obtains a relative competitive advantage when other transportation infrastructure is debilitated or absent. The coca cropping and marketing system can function effectively without the support of a well-maintained surface transportation system or any other modern infrastructure support. Conversion from dry leaf to cocaine base can be performed in physically dispersed areas at or close to points of raw material production by few persons and the demand for cocaine base is such that it can be transported out of the project area by light airplane.

One of the reasons why legal activities are not currently competitive with coca production is because areas with good agricultural potential are not well linked to main markets, particularly to Lima. For instance, in the Apurimac Valley, due to the deterioration of the main road connecting the valley to main markets, transportation time has increased more than five times and the cost of productive inputs have increased by at least 400 percent. Conversely, the prices of agricultural commodities, particularly perishable commodities that cannot be easily transported, have declined by at least 50 percent. Given effective and sustained law enforcement efforts, if the road system is re-established, irrigation systems are completed, and electrical generation improved, the returns to investment in legal economic activities, relative to illicit coca production processing and sale, will improve and the conditions will exist to encourage more coca producers to move out of coca production.

Currently, the GOP has obtained financing for the rehabilitation of Peru's major highways and access roads as well as for power generation and major irrigation systems. Although, the IDB and the WB projects will transverse many of the coca growing areas, they will not reach into important coca-growing areas. Some of these areas need some assistance to complement local efforts to rehabilitate access roads necessary to move productive inputs and market their agricultural production. These include the target areas mentioned previously and discussed in the Social and Technical Analyses, Annex 5.

Thus, the Project will rehabilitate some farm-to-market roads in some areas as a requirement to develop alternative legitimate economic activities. Such assistance will support economic reactivation both within the target watersheds and between the watersheds and other areas which offer markets for goods produced and sources of inputs for production. For reasons noted above, such infrastructure projects would not be subject to coca limitations or reduction conditions.

The basis for the design of road rehabilitation activities is the study carried out by the consulting firm IAPA in October 1994. Specialists visited the planned target areas and held numerous discussions with GOP regional offices, local governments and communities. Generally, the rehabilitation work will consist of the restoration of the road to a usable condition and gravel surfaced in other sections) and providing adequate drainage solutions, following Ministry of Transportation and Communication (MTC) design and construction standards.

Engineering plans for road improvements will include specifications designed to make structures such as bridges quick to repair. A capacity for quickly installing temporary alternatives to bridges such as floating pontoon bridges or bridging road trenches may also be developed to ensure, to the extent possible, that farmers and other private sector producers have as high a certainty as possible that transport-dependent commercial activities will not be interrupted.

To reduce the possibility that Project roads are used as landing sites for narcotrafficker planes (and risk of subsequent closure by enforcement officials), road designs will install barriers (such as wing clipping columns) where necessary or build curves sufficient to prevent their use by aircraft.

Once Project funds become available, roads approved for restoration will, wherever possible, connect to the principal highways which provide the main link to markets. This implies that the selection of roads will be based on a those which offer the greatest potential for development, particularly in terms of agricultural potential and population density. Per Annex 5, the IAPA study has made recommendations about the roads that should be rehabilitated or bridges to be constructed or repaired using such criteria.

Since the Project will not finance new road construction, and will provide only the inputs necessary to complement local government and community resources to rehabilitate existing roads, the design envisions financial assistance to contract with private firms for the rehabilitation of selected rural roads in key locations near coca-producing areas with potential for sustained agricultural development. In some cases, concerned municipal governments already have the necessary equipment for road rehabilitation, but lack the resources to cover material, fuel for the equipment and labor costs. The portions of roads that could be rehabilitated by such municipalities with only minor financial assistance are also included in the road rehabilitation section of Annex 5. Road building equipment will be purchased to augment the INADE/Special Projects' maintenance capacity where there is a scarcity of private contractors.

Briefly, the IAPA study recommends the rehabilitation of approximately 1,369 kms. of rural roads and the construction or rehabilitation of seven bridges. The cost per km. of road repaired varies from place to place and depends on whether the work is contracted out (in most cases) or whether the municipality will do it using its available resources. Generally, the cost will range from $2,000 per km. for minor repair work carried out by local governments to approximately $55,000 per km. for major road rehabilitation portions contracted out to the private sector. The aforesaid Annex 5 provides the relevant details. In special cases where a critical public road passes through areas affected by terrorism, the Peruvian Army may be utilized to rehabilitate the road.

Once the roads are rehabilitated, the Ministry of Transportation and Communications in close cooperation with municipalities, is expected to implement a toll system on traffic to finance the sustained maintenance of the roads. The MTC, as part of the agreement with INADE, will provide any additional resources to maintain the roads once repaired and improved. No roads will be rehabilitated until an adequate arrangement is reached with the GOP and the regional governments to assure the proper maintenance of the roads to be rehabilitated.

Environmental impact assessments will be carried out on the roads to be rehabilitated. Qualified firms will be contracted to carry out such assessments. These assessments will be part of the Project implementation process and are not a requirement for Project authorization.

(b) Other Basic Services and Community Development Activities

A listing of the proposed basic services/CD activities that may be carried out in each target area is contained in Annex 5. These are summarized below.

o **Water and Sanitation**

** installation of water and sewage systems in population centers of 1,000 inhabitants or less, including water-committee training in administration, system operation and maintenance;

** rehabilitation and upgrading of rural water systems;

** installation of public taps in areas with dispersed populations;

** installation of sanitary latrines in schools, health posts, community centers and sports fields.

** Training seminars and workshops for municipal employees and community persons who will maintain the facilities.

o **Health Activities**

Financing of the following activities will be pursued by Project personnel from other donor or USAID-sponsored programs. The AD Project will assist in carrying out health activities only if assistance cannot be provided under such programs:

** construction, repair and rehabilitation of health posts, including donation of basic medicines, equipment and supplies;

** training of community health workers, including traditional birth attendants (midwives and health promoters). It is expected that this training will be provided by the concerned GOP institution. The Project would finance the costs of travel, and training materials for trainers and trainees.

** community pharmacies, including donation of basic medicines for community pharmacies and training;

** maternal and child health care, vaccination campaigns, family planning, etc. using resources provided under other USAID-sponsored child survival and health programs in Peru.

o **Education Activities**

** construction, repair, and rehabilitation of pre-primary and primary classrooms;

** pre-primary and primary teacher training and accreditation;

** drug-abuse prevention and awareness education using resources under a related USAID-sponsored program (CEDRO), other USG (NAS) programs or other donor programs; and

** pre-primary and primary educational materials, such as textbooks, pedagogical materials, parents' association rotating fund for school supplies;

The above CD activities will follow the norms, planning and planning priorities of the regional office of the concerned GOP technical ministry. Thus, water and sanitation subprojects will follow MOH norms, policies and planning priorities; health subprojects will follow MOH norms; and so forth. In the case of new construction of health posts or primary schools, prior to project execution and at the conclusion of project financing, the MOH and MOE would provide a written commitment through the agreement signed with the concerned municipality and community for the staffing. The municipality will also arrange for the required maintenance, which in most cases will be done by the beneficiary community. It is important to note that the GOP increased the 1995 budgets for education and health by 7% and 9% respectively, partly to cover the cost of additional personnel and supplies needed to operate the facilities.

o **Productive Activities**

** household and small-farm agro-industries;

** micro agro-industries;

** communal fish ponds;

** small irrigation systems;

** small-animal husbandry and horticulture.

Productive activities projects will have a cost-recovery mechanism to be defined by the community and the executing agencies. Specialists to be provided through the Project will help communities and

municipalities in carrying out quick feasibility studies on community level income producing (particularly agro-industry) projects.

Priority will be given to projects that focus on improving women's economic and productive skills and to projects that do not exceed 12 months of execution from initiation to completion. The maximum project duration will be 36 months.

o **Community Emergencies.** The Project will help qualifying communities finance unforeseen community emergencies such as the repair of a bridge destroyed by subversive actions or the repair of a road destroyed by floods. A condition in these cases is that the community provide all the unskilled labor requirements.

Regarding the environmental considerations for the implementation of the above activities, implementing entities will be provided with generic environmental review and mitigation guidelines for potential environmental impacts. The guidelines will comply with sound environmental planning, design and construction principles and practices and will be used during all phases to implement subprojects.

(3) ES/CD Component Outputs

By the end of the Project, the agricultural areas where the Project will provide assistance will have improved the availability and access to basic services to the population in target areas. To attain this major EOPS, the planned assistance is expected to produce the following **outputs** under the ES/CD Component:

- o Agreements between communities in target areas and municipal/district governments to reduce coca production and promote alternative development (approximately 100 communities of a total of approx. 240 communities in target areas are expected to sign agreements);
- o Improved communication (villages linked to national system), as measured by:
  - ** the number of kilometers of access and feeder roads improved/maintained (up to 1,369 Kms.);
  - ** bridges built and/or repaired (up to 7);
- o Approximately 48 rural potable water systems installed;
- o Approximately 350 latrines installed;
- o Approximately 60 health posts renovated or built;
- o Approximately 90 health posts equipped;
- o Approximately 6,000 desks for primary school students;
- o Approximately 120 community water wells installed;
- o Approximately 125 communal fish ponds established;

o Approximately 300 training seminars and workshops designed and carried out for primary school teachers, midwives, health promoters, staff of municipalities and community groups, and for the general target population on drug awareness and environmental protection.

(4) Project Inputs for the ES/CD Component

To implement the ES/CD component the Project will provide:

o **Technical Assistance**

The project will finance the services of the following local specialists to work with INADE and concerned GOP institutions in the target area for a period of up to five years each. These individuals will be included as part of the aforesaid contract with the competitively selected TAP.

** **Community Development (CD) Specialist**. A CD specialist will work with local level GOP entities and target communities in promoting a democratic participatory process for development, determining community development needs, assessing the social-infrastructure needs of target communities, establishing priorities for project support, and negotiating agreements with community groups which work in target areas promoting reduction of coca-related activities in exchange for assistance. The specialist will also assist with the definition of the priority areas, regions and sectors and with the programming of funds to ensure appropriate allocation of resources according to priority designations, staff training and the possible preparation of a promotion manual. Promotion activities will aim to stimulate community and private-sector, non-governmental organization (NGO)s and local government participation in community development activities. The specialist will also work with women groups to help them identify socio-economic development activities for which they will be the main beneficiaries.

** **Training Specialist**. One training specialist will work with the above CD specialists in identifying, planning, coordinating and carrying out training programs at the municipal and community levels on socio-economic aspects relevant to the purpose of the Project, including training on narcotics awareness and democratic participation. The costs of carrying out actual training programs will be covered by the Project and/or other related USAID-sponsored projects in Peru, such as the Narcotics Education and Community Initiatives, Administration of Justice and Child Survival projects.

** **Civil Engineer**. The Civil Engineer will review the technical specifications of road rehabilitation and project construction and will insure that they meet environmental standards.

** **Other Short-Term Specialists**. The budget provides funding for up to 12 pms per year, during the first three years, of specialized services also under the CA. These specialists will handle implementation matters at the community level which may arise during the course of Project implementation, particularly training programs for which the long-term specialists may not have the required capability.

Administration of the infrastructure activities under the ES/CD Component will require that INADE Special Project Offices collaborate with concerned Government agencies. e.g., the regional Highway Departments, MTC, MAG, MOE, and MOH. If there are deficiencies in the local capability of these agencies, the Project will provide funds to contract locally short-term specialized engineering services which may be needed to complement INADE's supervisory capability. These individuals will be contracted locally by the previously mentioned TAP.

o **Training**

The Project will provide funds to cover the costs of training seminars and workshops at the community level on areas such as democratic participation, basics of nutrition, maintenance of social infrastructure projects, narcotics awareness, etc.. To the extent feasible, the resources of related USAID-sponsored projects mentioned previously will be tapped.

It is envisioned that one such training seminar/workshop will be carried out in each target municipality per year on topics such as: community health, narcotics awareness, soil conservation, environmental protection, democratic participation, and maintenance of small social infrastructure projects.

o **Other Costs**

Other costs include fuel for the vehicles and related transportation costs of the specialists.

o **Funding for Essential Services/Community Development Activities**

The Project will provide financial and technical assistance, per the budget tables included in Part VI (Costs Estimates and Financial Plan) to help communities and municipalities carry out community development activities, including the rehabilitation of access roads. INADE will coordinate and manage the disbursement of funds for such activities following strict accounting and disbursement practices as approved by the USAID Controller. INADE's role in the administration of funds will be mostly as a disbursement mechanism for socio-economic community development activities which meet the criteria previously discussed.

– **Commodities**. Project-financed commodities under this component will include the items listed above.

– **Other costs**. The Project will provide financial assistance to cover the labor and local materials necessary to complete the above infrastructure activities, mostly road rehabilitation.

– **Actual Construction Costs.** The Project will finance, using both GOP-owned local currency and USAID contributions, per the Financial Plan, the costs of completing the above infrastructure activities.

c. Environmental Protection and Awareness Component

(1) Overview

Experience throughout the world shows that environmental degradation is a major factor affecting sustainable development. One of the major consequences of the rapid growth in coca leaf production and coca processing in Perú is the immense damage to the country's environment. Deforestation, erosion and disposal of toxic chemicals are causing incalculable ecological damage and health problems in these areas. The farming methods which growers use cause serious soil erosion and expansion of the coca frontier through slash-and-burn cultivation practices has deforested large portions of the Peruvian jungle. Cocaine base processors dump their toxic wastes into rivers and waterways, also causing critical damages to Peru's fauna, flora and ecological balance.

If the current pace of environmental degradation caused by coca-production and processing and unsound farming practices continues unchecked, the damage that such activities have begun to inflict on waterways and the Amazon Basin will affect the global environment. This is of major concern not only to Perú, but to the world.

Thus, the purpose of this component is to help Perú deal with the causes leading to environmental damage in coca-growing areas, develop sustainable income alternatives to employ those causing the damage and begin efforts to restore or repair the environmental damage already caused. The component is a vital complement to the previously described Project activities.

(2) Planned Assistance

The Project will provide technical assistance, training, and some financing for reforestation and watershed protection activities. In addition, the Project will fund environmental education and awareness programs through the school system as well as specialized training for community leaders and local government officials involved in development activities at the local level. Specific activities will include:

- Reforestation for hillside protection.
- establishment of nurseries for income-producing trees, such as Pijuayo for the production of palm hearts, citrus fruits, achiote, etc.
- creation of forest tree nurseries.
- establishment of agroforestry units, fertilized with earthworm humus which can be replicated throughout the target areas.
- demonstration plots for training purposes, such as plantings of lemongrass in contour rows on hillsides formerly under coca.
- seeding of deforested areas with a type of pasture that can contain soil erosion and serve as animal feed in target areas suitable for livestock production, such as those found in Pichi, Palcazu and Pachitea.

The Project will not finance pesticides, commercial timber extraction activities, and road improvements or building without a prior environmental impact assessment.

INADE, through its Field Special Projects' offices, and with technical assistance, will determine on a case-by-case basis which of the above activities will be supported in each area.

By the end of the Project, it is expected that the actions undertaken will have help farmers in target areas in adopting environmentally-sound farming practices. Also, as a minimum the Projects-sponsored activities will have succeeded in slowing the pace of environmental degradation as measured by the number of hectares of land reforested and a reduction of the number of hectares of land planted with coca.

(3) Outputs

The planned assistance is expected to result in the following outputs:

- Restoration of land previously planted to coca and constraint on expansion of coca cultivation in Project areas.
- Up to 2,000 farmers trained on soil conservation and environmentally-sound cultivation practices.
- An environmental education and awareness campaign designed and carried out.
- 7 tree nurseries and training plots established.
- Approximately 1,000 hectares of land reforested or planted with pastures specifically developed both for feeding of livestock and soil protection.
- Approximately 500 hectares of land reforested with fast growing trees which can be used for firewood and as a source of income for farmers.
- approximately 200 community leaders trained in environmental protection by Project specialists.

(4) Project Inputs for the Environmental Protection Component

To implement this component the Project will provide:

- **Technical Assistance. Forestry Management/Environmental Specialists (2).** These persons will work with other CD specialists, INADE's Special Projects' Field units, municipalities and communities in developing feasible reforestation and environmental protection plans that can be carried out by community groups of farmers to help arrest the damaging effects of coca cultivation. They will also be available to advise on environmental aspects of activities planned under the other Project components.
- **Training.** Training activities will be carried out by the above specialists, mostly through local seminars and workshops.
- **Funding for reforestation activities.** The budget provides some funding to cover the costs of seedlings for reforestation, such as capirona, which can be obtained at a minimal cost through the regional offices of the MAG.
- **Environmental Education Campaigns.** The Project will finance an environmental education and awareness campaign, which the above specialists will design. This campaign will be carried out through public schools in target areas, through radio and by the printed media.

In addition to the outputs produced under the above three components, the Project will attain important institutional strengthening benefits as a result of the technical assistance and training to be provided

during the course of Project implementation. It will strengthen the local and regional institutions which will be involved in planning and carrying out alternative development programs. The strengthening of such institutions is necessary to assure the sustainability of the Project after termination of USAID support. These outputs include:

- The number of people trained from local and regional organizations, particularly from the municipalities on public administration, community development planning, budgeting, etc. (at least 7 seminars are planned to train these people);
- A management information system established.
- Financial, administrative and management systems established to upgrade the capability of municipalities.

Implementation Institutional Strengthening

The institutions that will be strengthened through the Project's planned technical assistance and training activities include:

(1) INADE

INADE, primarily through four Special Projects (Proyecto Especial Huallaga Central and Bajo Mayo, Proyecto Especial Alto Huallaga, Proyecto Especial Pichis Palcazu and Proyecto Especial Sierra Centro Sur, will provide technical assistance and training to recipients of Project Activities. These Special Projects (SP) are already in place and the Project will utilize existing SP personnel to implement the Project, wherever possible. From institutional analyses conducted during the project development stage of this PP, it was determined that some of its staff needs to be trained and its capability in some technical areas (marketing, environmental protection, procurement, etc.) needs to be upgraded through technical assistance and training before Project implementation begins. This will be done by either USAID or TAP personnel. The Project's TAP will complement INADE's resources with advisory assistance, both long-term and short-term, and training to assure that the required human resources are in place to attain the Project purpose.

In addition, as previously indicated, the Project will finance the services of a number of experts to work with INADE's field personnel and local government's personnel. Through the implementation process, the capability of such personnel will be strengthened so they can perform an effective role as they deal with target communities in assessing, planning and carrying out socio-economic development activities.

INADE's field personnel work through Zonal offices called Special Projects. As previously indicated, these Special Projects Offices are located in several regions and have the capability and personnel to actually implement development activities. These offices are presently functioning using GOP resources. During the implementation of the AD Project, these Special projects Offices will continue to implement their regular activities in the Project areas using their own resources, but, as INADE's field Offices, they will also play a major role in the coordination, monitoring and implementation of AD Project activities. This involvement will be precisely defined the preparation of the yearly workplan.

In addition, the Project will provide commodities, including office equipment, vehicles and supplies, and operating expenses to help INADE in carrying out its Project coordinating functions effectively. The Project will also provide the necessary equipment and support to establish within INADE a Management

Information System that will contain the necessary information to track Project activities and evaluate the Project. The budget reflects these inputs to INADE.

INADE's main role at the central level will be to coordinate rather than implement Project activities. This role, however, is crucial because of the many institutions that will be involved in the implementation. INADE, assisted by the TAP, will be expected to assess the capability of each organization, determine the appropriateness of each organization to actually implement specified activities and make arrangements whereby such organizations commit qualified personnel and resources to implement the selected activities. To the extent necessary, INADE, with Project financed technical assistance, will develop and carry out a plan to train such personnel.

(2) Local Level Organizations

The Project Implementation Plan anticipates the use of local level organizations to the maximum extent possible to help in carrying Project activities. There are existing organizations which can play a crucial role, not only in carrying out activities, but in assuring the sustainability of the Project. INADE, as the overall coordinating organization, and in concert with specialist from the TAP will arrange their participation for each specific activity, as appropriate. It will tap their resources, particularly to help in the planning and implementation of socio-economic activities with campesino groups and community organizations. INADE will also tap their resources to the maximum extent possible and arrange for training programs to upgrade their capability in areas where they are deficient. Note that agreements with NGOs will signed by INADE if GOP funds are used, and if USAID funds are used, such funds will be included in the CA.

To assure the participation of all relevant organizations at the levels closest to the Project beneficiaries and, therefore, the relevancy of activities at the community level, INADE will work closely with the following illustrative organizations:

- Local (Municipal) Governments. Local governments in the departments of San Martin, Junin, Ucayali, Ayacucho and Apurimac are expected to play an important role in the negotiation of coca reduction agreements and in helping communities in target areas in the planning, implementation and maintenance of community development projects developed in a participatory manner. They will also be expected to contribute their own resources for community development activities, such as the maintenance of rehabilitated roads and in the actual construction and or improvement of community services -- health posts, potable water, primary schools, etc. The agreement to be signed between the community and the concerned municipality will spell out the specific role and responsibilities of each party. CORAH, in coordination with the municipality and INADE will monitor compliance of the coca conditionality portion of the agreement.

- The local offices of the Ministries of Health, Agriculture, Education, Transportation and Energy. These offices will insure the feasibility and sustainability of the activities constituted by this Project.

The technical assistance, training, commodities and other costs to be provided under this component for overall Project implementation are described in Part V. Project Implementation.

D. Role of Women

Although the role of women in the Project Implementation area is impacted by traditional Peruvian rural culture and mores, the social analysis conducted during project development characterizes the relatively young women population in the target area as very active in organized efforts to attract the attention of national institutions to deal with the socio-economic problems of their communities. The analysis cites their important role in GOP decisions to decontrol prices for agricultural products and the decentralization of the government decision process, as exemplified by the additional authority granted to the San Martin Region. The current GOP administration is doing much to improve the role of women in Government. There are numerous women in high positions within the GOP, including cabinet members, legislators, prosecutors and judges as well as executive directors of INADE's Special Projects. There are also women mayors and councilpersons.

In addition, in the smaller communities women predominate in activities to improve the quality of life through their participation in general health improvement and child nutrition activities. As family workers, women participate in all stages of agricultural production, including coca. As is in the rest of the rural areas of Peru, this participation is not valued in monetary terms, and it is considered as an extension of domestic duties. When the husband moves out temporally, as is the case for coca harvesting, women become fully responsible for both the housekeeping and the legal agricultural activities.

Although they participate in productive activities, women are not represented in major specialized organizations, such as Comites de Productores and Cámaras de Comercio. They, however, lead traditionally-led women organizations, such as such as "Vaso de Leche" and Mothers' Clubs.

To enhance their potential in their communities, the AD Project will fund the services of one full-time specialist who will work in concert with the other Project specialists, particularly with the other community development specialists, to find ways to enhance the role of women in the socio-economic development of their communities. A primary task of these specialists will be to work with women's groups and potential leaders in identifying for women: (a) opportunities for participation (both at the local government and community levels) as leaders, and (b) special income-producing activities based on local level resources.

Special efforts will be made to identify women to participate both as trainers and as trainees in the many seminars and workshops planned under the Project USAID will conduct a WID course for both Mission and counterpart personnel in January, 1995 and it is envisioned that USAID/Washington WID experts will continue to assist USAID/Peru in identifying areas where the role of women can be strengthened. Once a number of women are identified and trained under the Project, it is envisioned that they will play an important role in efforts to reduce coca production.

Further, it is expected that women in the target areas will be key beneficiaries of other Project-sponsored activities such as: the special health and family-planning activities carried and managed by women for women, productive enterprises; access to technical assistance in existing activities carried out by women (e.g., agriculture and animal husbandry); and training to prepare them to become community leaders and promoters.

V. PROJECT IMPLEMENTATION PLAN

A. Arrangements with the GOP

USAID/Peru will sign a Grant Project Agreement with the GOP Ministry of the Presidency of Peru (MIPRE) and the Ministry of Foreign Affairs. The Agreement will fully fund the Project by obligating the LOP USAID contribution of $30 million in FY95. The Agreement will also establish the specific GOP policy and counterpart commitments under the Project, as specified in the Conditions Precedent and Covenant Section of the Financial Plan. The GOP financial commitment will include a $14 million counterpart contribution from its own treasury resources and from local currency generated under USAID-sponsored programs.

The MIPRE/Executive Secretariat for International Technical Cooperation (SECTI) will assign coordinating and monitoring responsibility to INADE, which will be the main GOP liaison office with USAID/Peru. In turn, INADE will sign LOUs with participating municipalities. The municipalities, assisted by the concerned INADE Special Projects Offices, other GOP technical offices, and Project-funded assistance, will be key implementing entities at the local level.

B. Institutional Implementation Arrangements

1. INADE

INADE has been selected to carry out the overall Project coordination, monitoring and budget control function for the GOP on the basis of the valuable experience it has gained during the final stages of implementation of the UHAD Project and the implementation of a wide range of development activities in coca-growing areas. INADE has already established effective working relationships with all local governments and local offices of the central government and is doing an effective job in coordinating, through its various field offices, the implementation of development activities in coca growing areas similar to those planned under the AD Project. Four of INADE's Special Projects Offices are already established and currently implementing projects in areas where the AD Project will be implemented. See page 24 for details.

INADE and its implementing units (Special Projects, such as PEAH) have been involved in alternative development activities in coca-growing areas since 1981. Since then, INADE has signed numerous agreements with public institutions, local governments and community-based organizations. Also, for at least ten years, INADE has been administering and managing funds for development activities provided by the GOP public treasury (PT) and by USAID under the UHAD Project and from local currency generated under USAID-sponsored PL 480 Title III programs. To further strengthen these experiences, TAP technicians will work closely with INADE personnel during the course of Project implementation and will provide the necessary training to its personnel to assure management and administrative responsiveness consistent with the requirements of the Alternative Development Project.

Currently, INADE is in the process of establishing an Office of Special programs (OSP) to monitor and coordinate the implementation of two major and closely related USAID-sponsored Project. This Office will have two units - one to manage the Local Government Development Project and the other to manage the Alternative Development Project. A support staff office within the OSP will provide specialized support to the two project units in the areas of contracting, monitoring, financial management, evaluations, and environmental reviews. The concept is that the OSP will monitor and coordinate the implementation of activities implemented by the four participating Special Project Offices.

The Office of the USAID Controller is currently working with INADE in reviewing its contracting and financial controls. Prior to the disbursement of funds for community development or other activities

through INADE, USAID/Peru will provide technical assistance and training to equip its staff with the processes and skills necessary for satisfactory internal controls and to assure the proper use and accountability of such funds according to USAID rules and regulations.

In addition, during the Project implementation process, the technical assistance and training to be provided by the TAP, will continue to strengthen INADE's capability. In this respect, the specialists to be provided through the TAP will be expected to help INADE in performing its coordinating, financial control and monitoring responsibilities, in addition to providing technical assistance and helping local level organizations-through INADE's Field Offices - community groups, agribusinesses, producers associations, municipalities, etc. in implementing Project-financed activities.

Shortly after the signing of the Project Agreement, INADE, in concert with USAID/Peru, will organize and carry out a workshop to discuss the Project to assure that all those who will participate in its implementation have a common understanding of its goal, objectives and implementation aspects. Participants will include representatives of the concerned municipalities, technical GOP agencies, representatives of the target communities and selected NGOs, representatives of COFIDE and/or the ICIs which will handle the credit activity, and the TAP.

A key result of the workshop will be a detailed workplan that includes actions, target dates for their completion and the assignment of responsibilities to specific offices and/or individuals. The workplan will be refined at least annually based on the implementation experience of the preceding period and the results of the periodic evaluations to be carried throughout the LOP. The cost of these workshops has been included as part of the Project budget.

This process is expected to assure the continued relevance of the Project activities based on a realistic implementation plan that reflects the best, up-to-date implementation experience in the field that considers the latest, prevailing conditions in the Project areas.

INADE will sign, on a case-by-case basis after obtaining USAID/Peru concurrence, Memoranda of Understanding (MOUs) or other appropriate documents with selected implementing institutions, both public and private, which have capability to carry out effectively Project activities in the target areas. Specifically, INADE may sign one of such documents with the following organizations:

a. Local governments (municipalities) of San Martin, Junin, Ucayali and Ayacucho/Apurimac. These are the municipalities directly responsible for the socio-economic development of people in the target areas and their Mayors are democratically elected by people from the Project target areas every three years. They have been authorized to assess and collect taxes and they are expected to contribute both staff and financial resources, thus complementing the planned USAID and central GOP contributions.

b. The Ministries of Health, Education, Agriculture, Transportation and Energy. The heads of these organizations will assign specific implementation responsibilities to their local offices in the target areas. For example:

** The Ministry of Health will work closely with the concerned municipality and community in the rehabilitation or construction of sanitary latrines and health posts, will provide the required staff for health posts, and will participate in the training of people in the community to provide health services and to maintain the facilities.

** The Ministry of Education will provide specifications for community primary schools and agree to provide the teaching staff.

The regional Offices of the Ministry of Agriculture also are expected to play an important role in the implementation of agricultural aspects of the Project, particularly regarding:

** Land titling (the land titling process would also involve concerned municipalities) which will help farmers in obtaining credits for investments in their properties;

** The provision of seedlings for reforestation, such as capirona, a fast-growing tree which provides wood for cooking fuel; and

** improved varieties of cash crops which, over time, could provide farmers with alternative sustainable, income producing farming packages. These include: camu-camu, uña de gato, cotton, a medicinal plant know as sangre de grado, rice, and others.

In addition, INADE is expected to closely coordinate Project activities with selected NGOs which have the capacity to carry out specific socio-economic development activities in target areas. Presently, it is planned that the arrangements for the participation of such NGOs will be made through the TAP, and might include:

- An NGO to work with municipalities and communities in planning and carrying out soils conservation, reforestation and environmental protection programs;
- An NGO to work on agribusiness ventures with community groups and women's organizations in promoting income producing activities;
- An NGO to work with target communities, producer groups, farmers, etc. in developing financing schemes for income producing and job creation ventures as well as in establishing links with those groups and credit institutions;
- Agricultural producers' organizations, such as ARROSAMSA and MAIZSELVA.

The selected TAP would negotiate the scope of work with each participating NGO, and sign subagreements, after obtaining USAID/Peru concurrence.

INADE will also coordinate relevant Project activities with selected specialized organizations which are already working with communities in the target areas. These include among others the agricultural research and extension stations in Tingo Maria and Tarapoto and the local Chambers of Commerce and/or ADEX which are expected to help with the implementation of the Market Information Service.

Regarding overall coordination of infrastructure activities and the rehabilitation of selected access roads, the regional and local governments, in coordination with the GOP technical agency (i.e. Ministry of Transportation, Ministry of Agriculture, etc.) and INADE, will develop a mechanism for the systematic maintenance of the completed infrastructure (note that the actual rehabilitation work will either be contracted out by INADE using competitive bidding procedures or by the Special Projects through force account). This entails the assignment of personnel, equipment and resources to assure proper maintenance. The MOUs that

INADE will sign with the concerned local government institutions will contain the necessary provisions for maintaining the infrastructure. Short-term technical assistance will be provided under the Project to upgrade the capability, mostly through training and workshops, of these institutions as required.

The timing for the actual implementation of infrastructure activities will be determined on a case-by-case basis and will be subject to close review of the prevailing security situation in the target area and to the availability of the required contributions by both USAID and the GOP.

2. COOPERATIVE AGREEMENT/TECHNICAL ASSISTANCE

Technical and management assistance to INADE's OSP, four Special Projects Offices and other participating implementors will be provided through a Cooperative Agreement (TAP). USAID will execute the agreement directly with a U.S. or Peruvian entity presenting the best technical proposal and selected through a competitive process. The TAP will work directly with the OSP in execution of the approved annual project implementation plan.

A major recipient of the TAP's technical assistance will be INADE's OSP. It is anticipated that technical assistance will include the following: a diagnostic of institutional needs; the identification of the types of technical assistance needed to carry out development of alternative development activities to be implemented by the four Special Projects Offices; the formation of linkages between local governments, beneficiaries, Special Projects Offices and the OSP; the development of a management information system which captures and analyzes data supporting progress and goal achievement; the refinement of management systems that report on financial progress; the identification of NGO's who can provide project inputs; and, workshops and seminars on the development of income generating activities, strategic planning.

The TAP will have a core staff that includes expertise in rural, agricultural and agribusiness development. Long and short-term technical experts will be provided for forestry and environmental concerns, administrative and financial management. Seminars and workshop will be given for: cropping systems, community leaders, women in development opportunities, credit, road maintenance, various health and population concerns, drug awareness and intervention, primary school teachers, among others.

The TAP will also provide continuous follow-up and periodic reporting to USAID on the progress and problems of project implementation.

3. COFIDE

USAID Project funds to establish the Loan Guaranty Fund will be provide through a direct USAID/Peru Handbook 13 Type Instruments. The process for extending credit to the target population is discussed in the Project Description section. Within the context of its role and its relationships with financial intermediaries established in the Project areas, COFIDE is equipped to establish and supervise an effective mechanism for the provision of credit because:

(i) it has the financial capacity to complement Project resources on the basis of at least 1 Project Unit to 3 COFIDE Units;

(ii) it has the institutional capability to supervise the ICIs and provide them with TA and training.

Annex 5 provides a summary of COFIDE as an institution.

4. USAID/Peru

Management responsibility for the project is placed with the Office of Local Government and Alternative Development. The Project Manager will be a Foreign Service National and will report directly to the Office Chief. The Project Manager will be the principal contact with OSP on day-to-day implementation matters and will liaison with other USAID sponsored activities in Peru such as the Local Government Project, Narcotics Education and Community Initiatives, Child Survival, Micro Enterprise Support Project and other donor activities that are complementary and reinforcing to the AD Project.

To facilitate effective Project monitoring and implementation, the Project includes funding for two locally-hired Project Field Specialists, with specialized experience in key areas related to the effective monitoring and implementation of the Project. Each will carry out similar responsibilities in different Project geographic areas - North and south. Each will:

- Monitor of project activities in the watersheds where the Project will be implemented.
- Monitor individual agreements signed between communities and LGs as to areas of coca production, requirements and availability of project funds.
- Coordinate with CORAH in verifying compliance with agreement.
- Assist implementing institutions in the development of the annual workplan and budget requirements for each Project area and certify its acceptability when sent to the project manager for review.
- Verify project completion and information submitted by implementing agency/institution in its reports.
- Act as USAID liaison between community leaders, LG officials and USAID.
- Visit Project sites at least 75% of the time to insure compliance with USAID requirements.

In addition, the Project includes funds for a Program Specialist who will provide overall administrative support to the Project, including the preparation of documentation (PIOs, PILs, reports, etc.), compilation of baseline information, assisting INADE with the MIS, backstopping the TAP, etc.

The combination of the USAID LG/AD Office Chief, the FSN Project Manager, the USAID locally-hired Project Specialist, the personnel of the TAP, and the strengthened capability of INADE will represent an excellent team to insure Project coordination, monitoring, reporting and overall management of the Project.

C. Implementation Actions

The key inputs to carry out the Project discussed under Project Description section include technical assistance, training, commodities, local operational costs, and specialized services for credit, agricultural research and extension, market information, audits and evaluations. Table IX, Methods of Implementation and Financing, presents in summary the preferred methods of implementation for the various Project inputs.

The major initial action will be the issuance of a CA with the technical assistance provider (TAP), which will be selected competitively. The steps to select the TAP are shown in the attached Gantt Chart. The CA will include funds for local and external technical assistance, local and external training activities, selected local commodities, and for possible subagreements or subcontracts with specialized NGOs which have unique capabilities to carry out aspects of the Project, i.e., market information system, reforestation, credit, etc. as discussed in Part IV of this paper. This arrangement will facilitate Project implementation and reduce the workload of the limited USAID/Peru staff.

1. Technical Assistance

o Overall Project Implementation Functions-Long-term Advisors. The selected TAP will provide two long-term experts for up to five years each. These could be either local or external experts. One of these experts (the Chief of Party) will be highly qualified in the area of Public Administration/and or Rural Development, will be a technical counterpart to the Director of INADE, and will play a primary role in determining the need for external experts to complement the resources available in Peru. Once the timing and specific needs are identified, particularly in the areas of agribusiness, domestic and international markets, financial intermediation, and evaluation, this individual will work closely with INADE and other implementing units in drafting the required scopes of work and arranging for the provision of the actual services of the short-term specialists.

The other long-term advisor will be a specialist in agroindustry/agribusiness development/agricultural credit. In addition to his/her work in the above mentioned specialized fields, the specialist will work with the Chief of Party in managing the provision of other Project technicians, writing scopes of work, scheduling assistance and helping INADE personnel in establishing and carrying out effective Project monitoring and coordinating processes. In addition, the USAID/Peru CA with the TAP will include funds for up to 60 person months of external short-term technical assistance during the life of the Project.

The above arrangement will satisfy the Project requirement for external assistance while maintaining flexibility in the provision of technical assistance, keeping costs down and reducing to the absolute minimum the presence of external advisors in the target areas. It will also facilitate implementation and lighten the load of the USAID direct hired staff once the TAP is selected. The long-term advisors will handle the writing of scopes of work and with USAID and INADE's concurrence will select the most competent individual for each specific short-term assignment.

o Specialized Local Assistance. The Project will also provide funds to hire, through the CA with the TAP, the services of the LT specialists listed under each Component of the Project Description (a community development specialist, a training specialist, a Forestry Management Specialist and a Environmental specialist, in addition to short-term experts. One of these persons will also work with municipalities and local government agencies in identifying specific income generating and social development activities that can be carried out by women or groups of women in the target communities. Such activities will be presented to the CDF Review Committee for funding. All experts will work closely with the long-term advisors and INADE personnel in the coordination, planning, monitoring and evaluation of Project activities. (The USAID/Peru Office of the Controller has been assisting INADE in establishing sound internal accounting processes and in training heir personnel on financial

management matters to assure proper control of their own funds and any USAID funds channelled through them).

One of the key tasks of the short-term experts will be to assist in the feasibility evaluation of specific income generating and agroindustrial activities. These persons will be contracted by the TAP on a case-by-case basis for specific projects. They will work with concerned community groups, municipalities to help deal with unforeseen technical problems.

2. Training

Most training activities will be carried out by the TAP specialists, INADE personnel, and NGOs, agricultural research and extension organizations and possibly, municipal level trainers through seminars and workshops. The Project will provide funds to cover the logistic costs of such workshops. The areas of training will include among others: cropping technologies for extension agents and INADE personnel, marketing and business development strategies, environmental conservation, reforestation, etc.

3. Commodities

The Project will provide funds to buy equipment for the OSP Special Projects and TAP including computers and office equipment, radios and related communication equipment, etc. and vehicles. In addition, the Project will finance road construction equipment, local commodities, including certified seeds and seedlings as discussed in the Project Description will be procured by the TAP, which will use normal USAID competitive bidding procedures.

The actual commodity procurement process will be staged and divided in two groups, based on the availability of funds and the timing for their use, as follows:

(a) First Stage Commodity Procurement. Currently, it is envisioned that USAID/Peru will purchase directly certain US-manufactured commodities (vehicles construction equipment, computers, etc. through a dealer (either based in Peru or in the U.S.) selected competitively based on specifications and the selection criteria contained in the Project Implementation Order for Commodities (PIO/C). These are standard commodities that must be ordered as early as possible after funds become available to assure their arrival by the time the technical assistance team is in place.

(b) Second Stage Commodity Procurement (to be included in the CA with the TAP). These commodities consist mostly of items whose specifications should be either prepared or reviewed by concerned experts, genetic materials under the EIG component, and training materials under all components. These commodities will be procured by the TAP based on specifications which the specialists will develop at various stages of Project implementation.

4. Committing PIL with COFIDE

Using USAID contributions, USAID/Peru will assist COFIDE through a mutually-signed committing PIL, which will set-up the Loan Guaranty Fund and will strengthen the equity position and lending capacity of the Cajas Rurales which will participate in the credit activity of the Project.

5. Other Costs

The Project will provide funds to cover certain operating costs during the initial stages of Project implementation. These costs include fuel, and related travel and Project monitoring costs.

In addition, the budget provides funds for two local hire Project Specialists, one Program Assistant and a secretary to help USAID/Peru in monitoring the Project. These will be contracted through Personal Services Contract (PSC) arrangements.

The Implementation Plan also envisions the need to enter into contract arrangements with local firms to carry out certain infrastructure activities. These include engineering firms for engineering studies and road rehabilitation. Specialized personnel from INADE and the TAP will prepare the specifications for obtaining competitive bids. Once those bids are evaluated by a committee composed of representatives of INADE, the Grantee, the concerned municipality, and USAID personnel, INADE will enter into a contract with the selected firm.

All costs for commodities, surveys, activities and supervision of coca monitoring and verification activities of CORAH will be borne by INC funds provided by NAS.

During the Project implementation process, INADE and the Grantee will assess the municipalities capabilities to enter into such contracts directly.

6. Host Country Contracting

There is no host country contracting (HCC) anticipated that will exceed the threshold of $250,000. However, the USAID has begun conversations with the Legal Advisor of INADE regarding the uniform GOP contracting policy. The Legal Advisor will provide the USAID with a report on this standard policy which will permit the comparison to USAID contracting standards. Any incompatibilities or deficiencies will be corrected prior to the issuance of the Mission Director's Certification required by the Final HCC Guidance Cable, State 399975.

D. Implementation Schedule

Gantt Chart V-1 shows the major actions that will be carried out to implement the Project. Precise timing and dates for the completion of these actions is not possible now because of uncertainties regarding key procurement activities, such as the signing of the contract with the technical assistance firm and the MOUs with local implementing institutions, and the availability of USAID and GOP funds for the Project. However, as previously indicated, the actions will be refined as a result of a Project workshop to be carried out during the early stages of Project implementation and periodically during the annual workplan preparation process.

In addition, Flow Chart V-2 depicts the expected inter-relationships of the various institutions and the flow of resources to the target population during the Project implementation process.

Chart V-1, Page 1
Alternative Development Project
Project Implemetantation Plan

Activity	Year 1 Q1	Year 1 Q2	Year 1 Q3	Year 1 Q4	Year 2 Q1	Year 2 Q2	Year 2 Q3	Year 2 Q4	Year 3 Q1	Year 3 Q2	Year 3 Q3	Year 3 Q4	Year 4 Q1	Year 4 Q2	Year 4 Q3	Year 4 Q4	Year 5 Q1	Year 5 Q2	Year 5 Q3	Year 5 Q4
A. Overall Project Management:																				
1. Sign Project Agreement				x																
2. GOP meets CPs				x																
3. USAID/Peru issues Basic PIL				x																
5. USAID issues PIO/T for RFP				x																
6. USAID issues PIO/C for Comm.				x																
7. USAID contracts Proj. Specialists				x																
8. Cooperative Agreement (CA)					xx															
9. TAP provides contract																				
& fin. mgt. assist. to INADE					xxx	xxx														
10. USAID Cont. certifies INADE's																				
contract & fin. control capability						x														
11. Workplan Workshops (annual)					x				x				x				x			
B. Employment & Income Generation Component:																				
1. TA to help communties, producer groups,																				
local Gvts., farmers identify agroindustrial/farming opportunities					xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx
2. Res. & extension Grantst to entities					xxxxxx	xxx														
in Tingo Maria & Tarapoto & others																				
3. Supp. to Ch. Com/ADEX on Mkt. Inf. Sys								xxxxxx												
4. TA to farmer groups on ag. productivity					xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx
5. TA to establish Fin./credit mechanisms					xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx								
6. First Credit Mech. established						x														
7. Res. & extension services to target																				
areas thru research & extension entities					xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx
8. Genetic materials ordered/or provided to farmers					xxxxxx	xxxxxx	xxxxxx	xxxxxx												
9. Seminars & workshops					x		x		x		x		x		x		x		x	
10. Implementation of all other activities					xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx
C. Essential Services/Community Development:																				
1. INADE signs Agrmts. with municipalities																				
GOP tech. agencies & Commun.					xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx										
2. INADE orients Special Field Offices on Project					xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx											
3. CD Fund established					xxxxxx															
4. Community level activities/roads selected						x	x		x		x		x		x		x		x	
5. Implement basic services activities					xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx
6. Seminars & workshops					x		x		x		x		x		x		x		x	
7. Grants to NGOs					xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx
8. All other implementation activities					xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx

Chart V-1, Page 2
Alternative Development Project
Project Implemetantation Plan

Activity	Year 1				Year 2				Year 3				Year 4				Year 5			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
D. Environmental Protection and Awareness:																				
1. TA to help communties, producer groups, local Gvts., farmers identify reforestation activities					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
2. TA to develop environmental awareness campaign					x	x	x	x												
3. Environmental Awareness Program carried out					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
4. Arrangements with MAG Regional Offices & NGOs to provide seedlings/seeds for reforestation					x	x	x	x	x	x	x	x								
5. Farmers & communities, with TA, carry out reforestation activities in selelcted areas.					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
6. Seminars & workshops					x		x		x		x		x		x		x		x	
7. Implementation of all other activities					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
E. Project Evaluations								x												
F. Project Audits							x				x					x				x
G. Project Completion Reports																				x
H. Project terminates																				x

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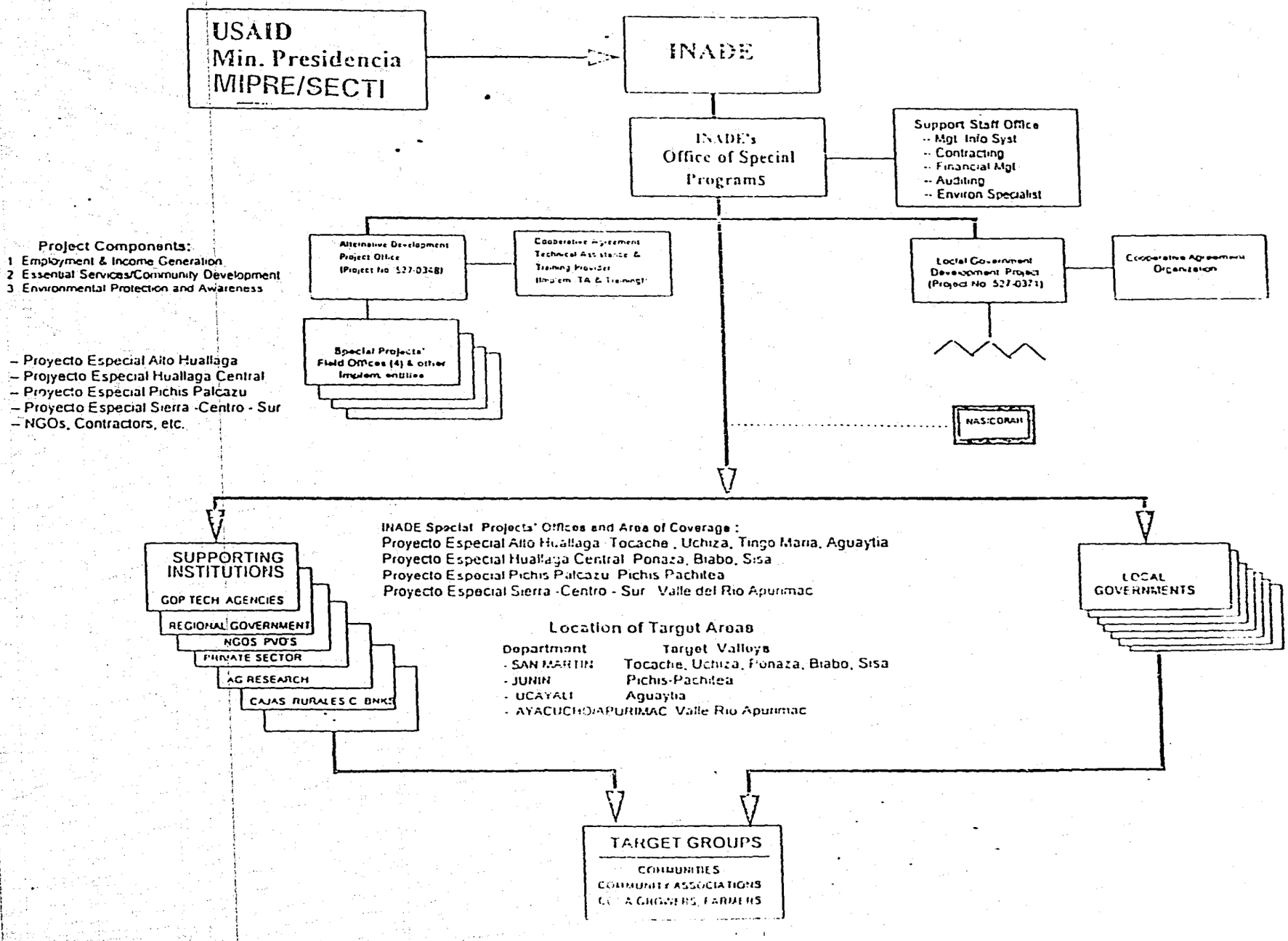
ALTERNATIVE DEVELOPMENT PROJECT
INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS



E. Environmental Considerations

The Project's Programmatic Environmental Examination is included as Annex 4 of this Project Paper. This establishes the procedures for environmental analysis and monitoring and presents guidelines and checklists to determine levels of impact and mitigative actions for the various kinds of activities envisioned under the AD Project.

Although individual community-level activities under the Alternative Development Project have not yet been specifically identified, the project is expected to include activities relating to irrigation and water management, agricultural land leveling, drainage, road improvement, potable water and sewerage. Section 216.2(d) of AID Regulation 16, Environmental Procedures (22CFR 216), states that such activities have been determined generally to have a significant effect on the environment and therefore to require an Environmental Assessment (EA). Accordingly, while the project does not require an Initial Environmental Examination (IEE) or threshold decision under the cited section, some form of EA is required.

The Mission has prepared a Programmatic Environmental Assessment (PEA) for the Alternative Development Project in accordance with Section 216.6(d), as appropriate to assess effects of a program involving numerous individual actions. The PEA is attached as Annex 4. The PEA was approved by the LAC Bureau Environmental Coordinator, by STATE 52414, dated March 3, 1995, also attached as Annex 4.A. The Mission will complete further site-specific EAs and preliminary environmental reviews of proposed activities, in accordance with guidance provided by the LAC Bureau Coordinator in the cited cable. In addition, the Mission will use conditions precedent, covenants and other agreement language, as appropriate, in committing instruments both to avoid irreversible commitment of funds before completion of additional reviews and to ensure USAID has the capacity to monitor environmental effects, as required by Sections 216.3(a)(7) and (8) of USAID's Environmental Procedures.

INADE will recruit two environmental specialists as part of its long term personnel. INADE's four Special Projects working with the AD Project will also establish Environmental Units which will be responsible for environmental assessment and monitoring in their areas of influence.

Two environmental Specialists will be contracted with Project funds under the CA: one on "green" issues (agriculture, natural resources, forestry, soil conservation, etc.) and one on infrastructure works, water supply and waste disposal. These two specialists who will provide services during the first three years of the Project will constitute the Project's Central Environmental Unit (CEU). They will initially be responsible for preparing environmental assessments, but their main task will be to develop in INADE's four Special Projects and other institutions participating in the Project, the capabilities for conducting environmental assessments and monitoring. This will be done by helping to prepare a manual of procedures along with the provision of technical assistance, training and oversight. Ideally, all project implementation units should have the capability to make environmental assessments after the second year of the Project. The two specialists will also be responsible for implementing the recommended training programs on environmental and natural resource management and environmental awareness.

The two INADE CEU specialists, with the assistance of the two TAP specialists during the first three years of the Project and subsequently by themselves, will:

- ensure that every activity is environmentally reviewed;

- coordinate with implementing agencies all project redesign work directed at incorporating appropriate mitigation measures to projects proposals and giving final approval to the changes;

- coordinate the implementation of prescribed environmental mitigation actions;

- track compliance with recommended actions;

- evaluate and refine the environmental review and monitoring process to insure compliance with USAID Reg. 216 and authorization and coordination with USAID/Peru.

F. The Data Collection, Monitoring and Evaluation Plan

Per USAID Evaluation Handbook, Sections 1 and 3.2, an Information, Evaluation and Monitoring Plan has been developed as part of this Project Paper. This Plan is tied to the Logical Framework (Annex 1) and is included as Annex 1.A. The process to implement the Information, Evaluation, and Monitoring Plan is summarized below.

1. Implementation Arrangements of the Monitoring and Evaluation Plan

A monitoring and evaluation team will be organized to insure that the implementation arrangements of the monitoring and evaluation plan are met. The team will consist of the USAID Project Manager, the USAID Evaluation Officer and key personnel from INADE and the TAP. Implementation arrangements will include:

- Establishment of a Monitoring Unit (MU) within the Counternarcotics Sustainable Project Unit of INADE's Office of Special Programs. This INADE Unit will contract an information specialist to manage the project monitoring information system and collect and analyze data submitted by the TAP team and INADE's Special Projects' Offices in the target areas.

- Establishment of baseline data sets and procedures for periodic data collection for the target areas. The MU will collect, tabulate, and evaluate indicator data against the appropriate baseline data set and the targets established in the implementation plan. The implementation plan will be updated every six months at which time targets will be refined.

- The inclusion of reporting requirements in the contract with the TAP. Project specialists will report on the identified indicators mentioned below, at least on a quarterly basis, and their progress toward the Project purpose.

- The establishment of an effective communication system between INADE's OSP and the four Special Project Offices which will serve the target areas. The system will produce monthly, quarterly, and semi-annual reports prepared by the MU, which will compile information gathered by the TAP, the Special Project Offices and GOP entities directly involved in the implementation of the Project. The MU will also prepare annual reports to summarize progress and analyze problem areas. USAID will use the information provided in these reports for internal reviews and reports to USAID/W on Project performance.

2. Evaluations

The Project design and the implementation plan will be refined as a result of the evaluation process. During the life of the Project, two formal, external evaluations are planned. The first evaluation will be carried out approximately 24 months from the date of the signing of the CA with the TAP. The second and final evaluation will be conducted just prior to the PACD.

The first evaluation will assess the progress made in meeting Project implementation targets and to assess the cumulative impact of the Project. Based on the findings of this evaluation, recommendations for changes in design and implementation procedures will be made, as appropriate, in order to increase the probability that Project investments will meet the stated purpose of the Project.

The evaluations will have five objectives, as follows:

a. To assess the extent to which the Project is meeting its purpose and contributing to the goal. Based on an analysis of the indicators and assumptions underlying the Project design, the evaluation will recommend changes or modifications in Project outputs, End of Project indicators, and implementation strategies;

b. To assess the extent to which the Project is consistent with AID/W and USAID/Peru objectives (i.e., broad-based growth, poverty alleviation, reduction in coca leaf production in target areas, environmental conservation, increased employment opportunities, provision of basic services, etc.);

c. To assess the effectiveness and to recommend strategies for improving Project implementation through an analysis of obstacles and bottlenecks as well as achievements in Project management and administration;

d. To determine the impact of the Project to the date of the evaluation on the various performance indicators listed in the Logical Framework; and

e. To determine the effectiveness of the technical assistance and training provided through the TAP, NGOs and other implementing agencies, and recommend modifications, as appropriate, on the delivery mechanisms for TA, credit and other Project inputs.

Funds are included in the budget to contract the services for the evaluations.

The final Project Assistance Completion Report (PACR) will be prepared approximately around the PACD. Its purpose will be to document the Project experience and the lessons learned during its implementation.

VI. ESTIMATED COSTS AND FINANCIAL PLAN

The overall cost of the Project is estimated at approximately $44 million during a five-year period. This amount includes USAID contribution of $30 million in Economic Support Funds and a GOP counterpart contribution of $14 million, composed of $10 million from local currency generated under USAID-sponsored programs and $4 million from its public treasury.

A. The USAID Contribution

The USAID contribution will be fully funded by obligating of $30 million of ESF in FY95. USAID funds will finance the technical assistance, training, commodities, and other costs included in the CA with the selected TAP; credit, road rehabilitation activities; and overall Project monitoring and coordination costs, evaluations, and audits as summarized in Table VI. This table shows a disbursement pace which is in harmony with and complements the Project Implementation Plan contained in Part V. of this PP.

The funds will be disbursed for the various Project elements as shown in Tables VI and IX (Methods of Implementation and Financing).

B. The GOP Contribution

The GOP direct contribution of $14 million, which represents about 32 percent of the estimated cost of the Project, includes:

-- $4 million (about $800,000 annually starting in CY 1995) to cover personnel costs and operating expenses of INADE's central office and the Special Project Offices which will coordinate, monitor and implement activities in the target areas. Since INADE is an agency specifically created by the GOP to carry out development projects throughout Peru and alternative development activities in coca growing-areas, its resources will be devoted to attain that purpose as described in this PP. Its operating budget represents a significant counterpart contribution. Note that the INADE budget includes funds for office space. It is assumed that INADE will provide office space to the Project-funded consultants.

-- $10 million in local currency PL 480, Title III from past and future program generations to cover certain Project costs, such as part of the costs of road rehabilitation. Of this amount, $7 million is expected to be disbursed in CY 1995 mostly for road improvement, community development activities and land titling, with the balance being disbursed in CY 1996.

Participating communities will also contribute local materials and labor for the construction and/or improvement of social infrastructure projects. However, these contributions could not estimated during the design stage. The Project Information, Monitoring and Evaluation Plan includes a Management Information System and the compilation of the required baseline information to estimate such contributions.

Ten million dollars of the $14 million GOP contribution will be provided from HCOLC and will be made available through the MEF/USAID Special Unit following procedures jointly developed with USAID/Peru. The remaining $4 million will be from the GOP treasury and will be primarily used to cover the costs of INADE personnel who will be involved directly in monitoring and coordinating the implementation of the Project , as well as related operating expenses. The use of HCOLC will be consistent with prevailing PL-480 Program guidelines.

In accordance with Ministry of Economy and Finance (MEF) budgeting and disbursement procedures, INADE's Office of Special Programs (OSP) will present its requirements to the MEF's Special Unit, for inclusion in the GOP monthly budget. The MEF Special Unit will disburse the GOP Project contributions in accordance with INADE/OSP's requests. The INADE/OSP will report monthly to the Special Unit on the

utilization of HCOLC funds, with a copy to USAID. The USAID Project Coordinator will keep track of such uses of HCOLC.

The INADE/OSP will maintain identifiable accounting records on the assignment of its personnel to Project activities and well as on other Project costs financed with GOP contributions. This information will be used to determine the GOP disbursements to the Project from its central treasury.

C. Financial Plan

Table VII shows in summary form the illustrative disbursements for all Project components by major disbursement category spread over a five-year period. In addition, the tables show the expected source of funding and the mix of foreign exchange and local currency requirements.

The details of the financing requirements for the Project are contained in Financial Table No. VII. This table relates directly to each of the components discussed in Section IV of this paper. They show, by Project component, the estimated financing requirements, category and year and the estimated mix of foreign exchange and local currency requirements for each budget item. This Table also shows the projected disbursements and expenditures during the life of the Project.

The distribution of the USAID and GOP resources for the various Project activities is consistent with the outputs that need to be produced to attain the Project purpose. Nevertheless, there may be a need for revisions of the financial requirements under each Project component during the life of the Project. These will be influenced by Project implementation experience, will be discussed and refined during the previously mentioned workplan revision process, and will be documented through Project Implementation Letters (PILs).

The reader should also note the illustrative and estimated nature of the costing of Project inputs and the corresponding disbursement estimates. It is envisioned that a number of adjustments will be necessary based on Project implementation experience. These adjustments will be made and documented through PILs. The basis for such adjustments will be the negotiated contracts with the TAP and local firms, pro-forma invoices requested from potential suppliers of goods and services, recommendations made by technical assistance experts once Project implementation is well underway, and the workplans to be prepared by the technical assistance experts and GOP counterparts.

D. Other Budget Considerations

(1) Methods of Implementation and Financing

Table IX shows the methods of implementation and financing by Component and Input and by Element and source of supply. The table indicates the preferred methods of financing the various Component inputs. The amounts represent the best estimates available at the time of Project design. Budget revisions will be made during the life of the Project, based on actual implementation experience.

(2) Disbursement Procedures

The disbursement procedures are linked to the methods of implementation and financing to be used as well as to the Procurement Plan described in Chapter V.C. of this paper. Briefly, USAID Peru will process advances and liquidations to the TAP based on the periodic workplan which the TAP will submit. USAID

will also make direct payments to the PSCs to be contracted to work on Project monitoring and coordination matters.

INADE/OSP will disburse funds for all costs to be covered by the GOP HCOLC and central budget contributions. To do this, INADE/OSP will request from the MEF Special Unit monthly transfers of funds based on the consolidated workplan and budget that the TAP will prepare at the beginning of each year. INADE's OSP AD Project Office will include an accountant and a budget specialist who will control the disbursement of funds to the credit institution, NGOs, other GOP technical offices, participating municipalities, etc. based on a yearly operational workplan which such credit institution and municipalities will prepare. Once the Project Agreement is signed USAID will provide INADE, through Project Implementation Letters (PILs), detailed guidance on the disbursement procedures.

To assure a common understanding among all the parties (including INADE, the MEF and USAID) about disbursement procedures, the use of funds and other Project implementation matters, a meeting will be held shortly after Project Authorization to discuss the Project's start-up actions and establish the mechanisms to assure the timely provision of funds for the Project. Such meetings will be held periodically, and particularly during the process of reviewing and approving the workplans which the INADE and the TAP will submit.

(3) Recurrent Costs

The Project is not expected to create a continuing cost impact on the institutions which will participate in its implementation. Most of the activities will be carried out through public sector institutions, the private sector, and non-governmental organizations which are already established and functioning. These include research and extension organizations already established in the Project areas, GOP regional offices which will complement Project-funded efforts, work through intermediate credit institutions which will channel credit to Project beneficiaries as part of their normal business efforts, and local municipalities, whose institutional capability is being strengthened under the companion Local Government Development Project.

The Project will have an incremental cost impact on the GOP overall monitoring and coordinating agency - INADE. The Project will provide TA and training to strengthen INADE's capability in certain areas such as financial controls and contracting to assure that Project resources are used effectively and as intended. As a result of this, INADE will be expected to be able to use its assigned resources more effectively. As the GOP created INADE as an institution to deal with the socio-economic development problems of poor people in rural areas, its existence is not dependent on the Project nor on external donor assistance.

Recurrent costs after the project is completed cannot be estimated at the design stage. It is anticipated that a successful project will attract funding to meet demands.

(4) Audit Coverage

It is USAID policy to require annual audits of funds provided through assistance agreements. The type of audit contemplated for the Alternative Development Project is at the level of the project for dollar source funding disbursed to INADE for implementation, as well as host country-owned local currency (PL 480 Title III generated) allocated to them by the Special Unit AID/MEF. The audits will be performed by an audit firm approved by USAID. The scope of work will be approved by the USAID and conform to the

Recipient Contracted Audit Guidelines of the Inspector General. USAID will provide funds in the Grant Agreement for the cost of audit; and, may also reserve the right to contract directly for the audit services.

The Cooperative Agreement will also be subject to annual audits. The annual audits will be in conformance with the Recipient Contracted Audit Guidelines. The audit will be at the institutional level as well as project specific in the review of costs, compliance and internal controls. Funds will be provided in the Cooperative Agreement to finance only the costs related to meeting USAID audit standards. To satisfy audit requirements the TAP will maintain accounting records adequate to meet Generally Accepted Accounting and Auditing Standards.

Costs managed and disbursed directly by the USAID are reviewed through the Recipient Contracted Audit Programs to assure quality of goods and services procured as well as proper accountability by the Grantee. The USAID will provide the Grantee and the auditor with information and documentation adequate to meet audit requirements.

The Controller's Office Financial Analysts will provide follow-up assistance to the Grantees as required.

(5) Evaluations

Project evaluations will be carried out in accordance with the Information, Evaluation and Monitoring Plan summarized in Chapter V and detailed in Annex 1A. The costs of such evaluations will be covered by the GOP from its central budget contributions.

(6) Capability Assessment

INADE has gained extensive experience in the implementation of USAID financed projects. The proficiency demonstrate in managing the major Upper Huallaga Development Project was exceptionally positive. Technical assistance, construction, and procurement were all ably managed and audit findings revealed only minor weaknesses. The management was successful because all administrative and financial management was centered within a special project unit (PEAH). INADE is in the process of legalizing a new Office of Special Projects for the Alternative Development Project. This management unit will oversee and coordinate projected technical implementation through four other legally constituted special project units that are fully operative and have demonstrated responsible management of large GOP activities.

This new Office of Special Projects will receive assistance from the MEF Special Unit in the management requirements of host country-owned local currency generated from the sale of PL 480 Title III commodities. The USAID Controller's financial analysts will provide technical assistance in the development of a project specific accounting system, including operations manuals, to provide accountability over and reporting on the disbursement and utilization of project funds.

(7) Financial Reviews

The USAID/Peru Office of the Controller will carry out compliance reviews of the accounting, financial procedures and internal controls used by INADE, the MEF Special Unit and the TAP on the disbursement and expenditure of Project funds. Such reviews will be conducted at the outset of Project implementation process.

(8) Reporting Requirements

Annual work plans for all funding sources will be prepared jointly by the INADE Office of Special Projects (OSP) and USAID/Peru. The OSP will report quarterly on the implementation status of this annual plan, including actual disbursements compared to projected budget.

Annual work plans will also be prepared by the technical assistance provider under the Cooperative Agreement. The INADE Office of Special Projects and the USAID will approve these work plans. The work plans will be detailed to project monthly financial requirements by line item of the agreement. There will be quarterly reporting on the progress of the implementation, which includes actual costs compared to budgeted.

E. Conditions Precedent

The GOP has already shown its financial commitment to Alternative Development and taken the necessary policy decisions to establish the policy framework for the Project. Thus, only the customary conditions precedent are proposed. Thus, the Project Agreement will contain only the following CPs:

"Prior to the first disbursement under the Grant or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Grantee shall, except as USAID may otherwise agree in writing, furnish to USAID, in form and substance satisfactory to USAID:

(a) A legal opinion of the Legal Counsel of the Ministry of Foreign Relations of Peru, or other counsel acceptable to A.I.D., stating that this Agreement has been duly authorized, or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

(b) A statement of the name(s) of the person(s) holding or acting in the office of the Grantee specified in Section 8.2 of the Agreement and of any additional representatives, together with a specimen signature of each person specified in such statement."

Table VI
Alternative Development Project
Estimated Budget by Implementing Entity
Estimated Budget (in US$000s)

Category	CA (TAP)	ICIs	USAID	INADE	TOTAL
1. Employment and Income Generation (EIG) Component					
A.– Short–Term TA (External–cost/month):	311				311
B.– Short–Term TA (Local)	891				891
Sub–total Technical Assistance	1202				1202
C.– Training	984				984
D.– Production & Investment Credit Mechanisms		7600			7600
E.– Seed Production & Extension	500				500
F.– Land Titling (USAID + HCOLC)			750	400	1150
Total EIG Component	2686	7600	750	400	11436
2. Essential Services/Community Development (ES/CD) Component					
A.– Technical Assistance (local LT thru CA)	457				457
Local Short–Term (Thru same CA)	214				214
Sub–total TA– ES/CD component	670				670
B.– Training	868				868
C.– Community Development Fund (CDF)			6432	4761	11193
D.– Road Rehabilitation Costs Estimates (including Construction Commodities)			5723	4839	10562
E.– Vehicles/PC for INADE			328		328
Total ES/CD Componment (USAID + HCOLC)	1538	0	12483	9600	23621
3. Environmental Protection and Awareness (EPA) Component					
A.– Technical Assistance (local LT thru CA)	328				328
B.– Training	148				148
C.– Other Costs	110				110
Total EPA Component	586				586
Grand Total All Components	4811	7600	13233	10000	35644
4. Other Overall Project Implementation & Monitoring					
A.– Technical Assistance(CA)	636				636
B.– Supporting Costs of US Team	1711		125		1836
C.– USAID Project Coordination & Monitoring			1334		1334
D.– Audits	100	75	75		250
E.– Evaluations			300		300
Grand Total All Components & Implementation	7257	7675	15067	10000	40000
INADE Operating Budget & Field Offices				4000	4000
Grand Total for Components & INADE Operating	7257	7675	15067	14000	44000

(*) Represents Host Country Owned Local Currency (HCOLC)

^ 26–May–95 +

Table VII-3, Page 1 of 3
Alternative Development Project
Employment and Income Generation Component
Estimated Budget (in US$000s)

Category	Base Unit Cost	Year 1 No	Year 1 Total	Year 2 No	Year 2 Total	Year 3 No	Year 3 Total	Year 4 No	Year 4 Total	Year 5 No	Year 5 Total	Total All Years	Currency FX	Currency Local
1 Employment and Income Generation (EIG) Component														
A. - Short-Term TA (External - cost/month)														
Agricultural Production systems	$20	1	20	1	20	1	20	0	0	0	0	60	60	0
Agri-business Specialists	$20	1	20	1	20	1	20	0	0	0	0	60	60	0
Intern Markets Specialists	$20	1	20	1	20	1	20	0	0	0	0	60	60	0
Financial intermediation	$20	1	20	1	20	1	20	0	0	0	0	60	60	0
Other ST specialists	$20	1	20	1	20	0	0	0	0	0	0	40	40	0
Int travel ($2.2/5d)	$2.2	5	11	5	11	4	9	0	0	0	0	31	0	31
Sub-Total ST TA (external)			**111**		**111**		**89**		**0**		**0**	**311**	**280**	**31**
B. - Short-Term TA (Local)														
-- ST Specialists - 12pms/yr	$36		36		38		40					113	0	113
(12 pms of various ST experts/yr)												0		
Contracting	$20	2	40	1	20							60	60	0
Financial Management	$20	2	40	1	20							60	60	0
Marketing services	$98	2	51	2	196	1	98	0	0	0	0	345	0	345
Local market information	$8	2	16	1	8	1	8	0	0	0	0	32	0	32
Foreign market information	$16	2	32	1	16	1	16	0	0	0	0	64	0	64
Producer enterprise organization	$7	2	14	1	7	1	7	0	0	0	0	28	0	28
-- Travel TA($590/4d 60trips)	$0.6	54	32	54	32	54	32	0	0	0	0	96	0	96
Overhead (40% of salaries)	40%		46		31		16		0		0	93	0	93
Sub-total Local ST assistance			**307**		**368**		**216**		**0**		**0**	**891**	**120**	**771**
Sub-total TA--EIG Comp			**418**		**479**		**305**		**0**		**0**	**1,202**	**400**	**802**
C Training (thru CA)														
Local Seminars/workshops														
-- For Farmers on crop systems	$3.5	18	63	18	63	18	63	0	0	0	0	189	0	189
-- For municipal staff on agribus	$5	15	75	15	75	15	75	0	0	0	0	225	0	225
-- For Women on Agribusiness	$4	12	48	12	48	12	48	0	0	0	0	144	0	144
-- For community leaders	$3.5	20	70	20	70	20	70	0	0	0	0	210	0	210
-- Credit and mktg	$4	18	72	18	72	18	72	0	0	0	0	216	0	216
Sub-total local training			**328**		**328**		**328**		**0**		**0**	**984**	**0**	**984**
D Production & Investment Credit Mechanisms												0	0	0
For the LGF			1,600									1600		1,600
For the Equity Stregthening of ICIs			2,000		2,000		2,000					6000		6,000
Sub-Total LGF & Equity Stregthening			**3,600**		**2,000**		**2,000**					**7,600**	**0**	**7,600**
E Seed Production & Estension (in Tingo & Tarapoto)	$50	2	100	2	100	2	100	2	100	2	100	500		500
F Land Titling (USAID + INADE)			350		400		200		150		50	1150	750	400
Total EIG Component			**4,796**		**3,307**		**2,933**		**250**		**150**	**11,436**	**1,150**	**10,286**

* The Unit cost for commodities includes up to 20 % for freight, insurance and procurement fees

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Table VII-3, Page 2 of 3
Alternative Development Project
Essential Services/Community Development Component
Estimated Budget (in US$000s)

Category	Base Unit Cost	Year 1 No	Year 1 Total	Year 2 No	Year 2 Total	Year 3 No	Year 3 Total	Year 4 No	Year 4 Total	Year 5 No	Year 5 Total	Total All Years	Currency FX	Currency Local
2 Essential Services/Community Development (ES/CD) Component														
A Technical Assistance(local LT thru CA)														
-- Comm Dev spec (1)	$24	1	24	1	25	1	26	0	0	0	0	76	0	76
-- Training Specialists (1)	$24	1	24	1	25	1	26	0	0	0	0	76	0	76
-- Civil Eng (1)	$24	1	24	1	25	1	26					76	0	76
Fringe Benefits (30 % of salaries)	30%		22		23		24		0		0	68	0	68
Housing in Proj areas for above	$3	0	0	0	0	0	0	0	0	0	0	0	0	0
Travel TA ($590/4d,60tmps)	$0 6	40	24	40	24	40	24	0	0	0	0	71	0	71
Overhead (40% of salaries)	40%		29		30		32		0		0	91	0	91
Sub-total LT Local TA			146		152		159		0		0	457	0	457
Local Short-Term (thru same CA):												0		
-- ST Specs /angs - 12pms/yr	$30		30		32		33					95	0	95
(12 pms of various ST experts/yr)												0		
-- Travel TA ($590/4d, 60tmps)	$0 6	46	27	46	27	46	27	0	0	0	0	81	0	81
Overhead (40% of salaries)	40%		12		13		13					38	0	38
Sub-total ST assistance			69		71		73		0		0	214	0	214
Sub-total TA-ES/CD Component			215		223		232		0		0	670	0	670
B Training														
Local Seminars and Workshops														
-- On Road Maintenance	$3 5	10	35	10	35	10	35	0	0	0	0	105	0	105
-- For primary sch teach (2/yr/prov	$5	15	75	15	75	15	75	0	0	0	0	225	0	225
-- For midwives(2/yr/prov = 22/yr)	$2 5	15	38	15	38	15	38	0	0	0	0	113	0	113
-- For Comm Health Prom (2/yr/p	$3	13	39	12	36	12	36	0	0	0	0	111	0	111
-- Gen Pub on drug awareness (w	$3	15	45	15	45	15	45	0	0	0	0	135	0	135
-- Intervention proj. comm	$2 5	15	38	15	38	15	38	0	0	0	0	113	0	113
Seminar Supplies($500/seminar)	$0 5	45	23	45	23	43	22	0	0	0	0	67	0	67
Sub-total Training			292		289		288		0		0	868	0	868
C. Community Development Fund (CDF) - Illustrative Activities:														
-- Potable water systs (3/yr/prov =	$25	9	370	12	300	12	300	10	250	5	125	1 345		1 345
-- Latrines	$0 2	70	14	70	14	70	14	70	14	70	14	70		70
-- Health posts(5/yr/prov = 55/year	$7	10	70	15	105	15	105	15	105	8	56	441		441
-- Comm. primary schs (20/yr/prov	$5 5	15	83	30	165	30	165	15	83	15	83	578		578
-- Water wells(2/yr/twn in 84 distric	$0 6	20	12	30	18	30	18	30	18	30	18	84		84
-- Fish farms (2/yr/province = 22/yr	$1 25	20	25	35	44	35	44	20	25	20	25	163		163
-- School desk	$0 04	500	21	600	25	700	29	700	29	700	29	131		131
-- Health post equiped	$0 8	15	12	20	16	20	16	20	16	20	16	76		76
-- Agriculture	$0 7	50	35	70	49	70	49	70	49	70	49	231		231
-- Farming small animals	$0 6	100	60	150	90	200	120	200	120	150	90	480		480
-- Horticulture	$0 12	200	24	200	24	200	24	200	24	150	18	114		114
-- Micro projects	$10	100	1 000	100	1,000	50	500	50	450	53	532	3,482	3,482	
-- Craftsmanship	$15	3	45	5	75	5	75	5	75	2	30	300		300
-- Educational materials	$0 1	80	8	80	8	80	8	80	8	80	8	40		40
-- Family planning	$5	5	25	5	25	5	25	5	25	5	25	125		125
-- Community identy	$2	20	40	20	40	20	40	20	40	20	40	200		200
-- Primary health services	$16	5	80	5	80	5	80	5	80	4	64	384		384
-- Energy Projects	$50	10	500	20	1,000	20	1,000	6	300	3	150	2,950	2,950	
Sub-total CDF (USAID + INADE)			2,423		3,077		2,611		1,710		1,371	11,193	6,432	4,761
D. Road Rehabilitation Costs Estimates (local contracts)														
Road rehabilitation (USAID + INADE	200	20	4,159	10	2,000	5	988	4	887	4	800	8,834		8,834
Bridges-HCOLC (INADE)	40	$10	400	10	400	10	400	4	160	4	168	1,528		1,528
Environmental assess.-HCOLC (INADE)			100		100							200		200
E - Vehicles for INADE-$25,000 ea	$25	9	225									225		225
PC	$4	25	103									103		103
Sub-total rehabilitation/Vehicles costs			4,987		2,500		1,388		1,047		968	10,890	0	10,890
Total ES/CD Component			7,917		6,089		4,519		2,757		2,339	23,621	6,432	17,189

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Table VII-3, Page 3 of 3
Alternative Development Project
Environmental Protection and Awareness Component
Estimated Budget (In US$000)

Category	Base Unit Cost	Year 1 No	Year 1 Total	Year 2 No	Year 2 Total	Year 3 No	Year 3 Total	Year 4 No	Year 4 Total	Year 5 No	Year 5 Total	Total All Years	Currency FX	Currency Local
3 Environmental Protection and Awareness (EPA) Component														
A Technical Assistance (Local L	thru same CA)													
Environmental Officer (1)	$24	1	24	1	26	1	28	0	0	0	0	78	0	78
Forestry Specialist (1)	$24	1	24	1	26	1	6	0	0	0	0	78	0	78
Fringe Benefits (30 % of salaries)	30%		14		15		16		0		0	45	0	45
Housing in Proj areas for above	$3	2	6	2	6	2	6	0	0	0	0	18	0	18
Local Travel TA($580/4d 60trips)	$0 6	30	18	30	18	30	18	0	0	0	0	53	0	53
Overhead (40% of salaries)	40%		19		20		21		0		0	61	0	61
Sub - total TA - EPA Component			106		109		114		0		0	328	0	328
B Training														
Local Seminars and Workshops														
- - For Gen Public on EPA& Relor	$2	13	26	12	24	12	24	0	0	0	0	74	0	74
- - For Primary Sch Teachers on EP	$2	13	26	12	24	12	24	0	0	0	0	74	0	74
Sub - total Training			52		48		48		0		0	148	0	148
C Other costs														
Seedlings for nurseries	$5	4	20	4	20	4	20	0	0	0	0	60	0	60
Reforestation	$2	4	8	4	8	4	8	0	0	0	0	24	0	24
Agroforestry (maintenance)	$0 25	4	1	4	1	4	1	0	0	0	0	3	0	3
Reforestation for firewood	$0 25	4	1	4	1	4	1	0	0	0	0	3	0	3
Workshops	0 5	2	1	1	1	1	1	0	0	0	0	2	0	2
Demonstration plots	$3	2	6	2	6	2	6	0	0	0	0	18	0	18
Sub - total Other Costs			37		37		37		0		0	110	0	110
TOTAL EPA Component			194		194		198		0		0	586	0	586
Grand Total All Components			12,907		9,590		7,650		3,007		2,469	35,644	7,582	28,062
4 Other Overall Project Implementation & Monitoring Costs														
A Technical Assistance (CA)														
Long - Term														
Rural Development	$70	1	70	1	74	1	74	0	0	0	0	217	217	0
Fringe Benefits (20 % of salary)	20%		14		15		15		0		0	43	43	0
Overhead(sal + fringe)	40%		29		29		29		0		0	87	87	0
Post Diff (.20)	20%		14		15		15		0		0	43	43	0
Allowances for 1 LT	$36	1	36		37		38		0		0	110	110	0
First Year (ATP) Costs for 1 LT	$48	1	48									48	48	0
Other Travel & Transportation												0		
R&R and H L (4RTs @ $1,500 ea)	$1 5			8	12	12	18	0	0	0	0	30	30	0
Local Travel TA($580/4d 30trips)	$0 6	30	18	30	18	30	18	0	0	0	0	53	0	53
Miscellaneous					2		2		0		0	4	4	0
Sub - total LT assistance			227		201		209		0		0	636	583	53
B Supporting Costs of U S Team														
U S Coordinator (Home Office)	$60	1	60	1	60	1	60	1	0	0	0	180	180	
Fringe Benefits (20 % of salary)	20%		12		12		12		0		0	36	36	0
Overhead(sal + fringe)	40%		24		24		24		0		0	72	72	0
Allowances for 1 LT	$36	1	36		37		38		0		0	110	110	0
First Year (ATP) Costs for 1 LT	$48	1	48									48	48	0
Other Travel & Transportation												0		
R&R and H L (4RTs @ $1,500 ea)	$1 5	2	3	2	3	2	3		0	0	0	9	9	0
Local Travel TA($580/4d 60trips)	$0 6	10	6	10	6	10	6	0	0	0	0	18	0	18
Home Office Admin Assistant	$36	1	36	1	36	1	36	0	0	0	0	108	108	
Local Secretaries (2)	$8 0	2	16	2	16	2	16	0	0	0	0	48		48
Drivers (3)	$5	2	10	2	10	2	10	0	0	0	0	30		30
- Accountant (1)	$17	1	17	1	18	1	19	0	0	0	0	54	0	54
- Admin. (1)	$14	1	14	1	15	1	15	0	0	0	0	44	0	44
Fringe Benefits (30 % of salaries)	30%		84		71		72		0		0	227	0	227
Overhead (40% of salaries)	40%		112		94		96		0		0	303	0	303
Office space	$60	1	60	1	60	1	60	0	0	0	0	180	0	180
Utilities(water light,tel,etc)	$12	1	12	1	12	1	12	0	0	0	0	36	0	36
Office Materials/equipment												0		
Person computers	$3	10	25	0	0	0	0	0	0	0	0	25	25	0
Photocopier	$10	1	10	0	0	0	0	0	0	0	0	10	10	0
Vehicle(2)	$25	2	50	0	0	0	0	0	0	0	0	50	50	0
Fuel & Mainten vehicle	$6	3	18	5	30	5	30	0	0	0	0	78	78	0
Lap top PC	$3	2	5	0	0	0	0	0	0	0	0	5	5	0
Desk top computers/printers	$3 5	4	14									14	14	
Desks and deskseats	$0 5	10	5									5	5	
Misc (fax, phones)	$3	1	3									3	3	
Office supplies	$1	1	1	1	1	1	1	0	0	0	0	3		3
Project Implementation Workshops			5		5		5		0			15		15
Sub - total Operating Costs			686		810		815		0		0	1,711	753	967
C USAID Project Coordination & Monitoring														
Project Manager	$52 0	1	52	1	56	1	57	1	60	1	63	287	0	287
Field Monitors (2) - PSCs	$27	2	54	2	57	2	61	2	63	2	66	298	0	298
Program Assistant	$27	1	27	1	28	1	30	1	31	1	33	149	0	149
Secretary - PSC	$12	1	12	1	13	1	13	1	14	1	15	66	0	66
Vehicles for USAID (3)	$25	3	75									75	0	75
Vehicles maint & oper (3)	$5	3	15	3	15	3	15	3	15	3	15	75	0	75
Fringe Benefits (20% of salaries)	20%		29		30		32		34		35	160	0	160
Travel ($580/4d,40trips)	$0 6	50	30	48	28	48	28	48	28	48	28	143	0	143
Office space ($50, p/yr)	$41 0	1	41	1	41	1	41	1	41	1	41	206	0	206
Sub - total Project Coordination			336		267		278		286		296	1,458	0	1,458
Total Other Overall Implementation & Monit.			1,247		977		1,000		286		296	3,806	1,336	2,470
												0		
D Audits	$50	1	50	1	50	1	50	1	50	1	50	250	250	
												0		
E Evaluations	$150	0	0	1	150	0	0	1	150			300	300	
Total Other Implem. Costs, Audits & Evaluat			1,297		1,177		1,050		486		346	4,356	1,886	2,470
Grand Total All Components & Implementatio			14,204		10,767		8,701		3,493		2,815	40,000	9,468	30,531
IRADE Operating Budget & Field Offices (all			(Provided from GOP's central Treasury)											
IRADE staff & office			800		800		800		800		800	4,000		4,000
Grand Total For Components & IRADE Oper			15,004		11,567		9,501		4,293		3,615	44,000	9,468	34,531

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Table VIII
Alternative Development Project
Projected Obligations and Expenditures By Fiscal Year (US$000s)

U S Fiscal Year (Projected Year)	FY 1 1	FY 2 2	FY 3 3	FY 4 4	FY 5 5	Total
Obligations – USAID	30,000	--	--	--	--	30,000
Allocations – HCOLC	7,000	3,000	--	--	--	10,000
Allocations –GOP	800	800	800	800	800	4,000
Total Obligations	37,800	3,800	800	800	800	44,000
Obligations Carried Forward	--	22,796	15,029	6,328	3,635	--
Expenditures – USAID	11,791	8,159	6,659	2,052	1,338	30,000
Expenditures – HCOLC	2,413	2,608	2,041	1,441	1,498	10,000
Expenditures – GOP	800	800	800	800	800	4,000
Total Expenditures	15,004	11,567	9,501	4,293	3,636	44,000
Obligations Carried Forward	22,796	15,029	6,328	3,635	(0)	(0)

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Table IX
Alternative Development Project
Method of Implementation
Type of Assistance and Financing Method

Input	Method of Implementation	Method of financing	Estimated Amount ($ 000'S)
Program Costs			
1 – Technical Assistance	Cooperative Agreement(PIO/t)	Letter of Credit/Advance/Liquidation	7257
2.– Production and Investment Credit	Cooperative Agreement(PIO/t)	Advance/Liquidation & Reimbursement	7600
3 – Commodities Road maintenance/Vehicles/Computers	Contract (PIO/c)	Direct payment	4701
4.– Other Services	Contract (PIO/Ts, PIO/Cs)	Letter of Credit/Advance/Liquidation	8283
Total Program Cost			**27841**
Implementation Administrative Costs			
1 – Commodities	Contract (PIO/c)	Direct payment	150
2.– Project coordinaton	Contract (PSC's)	Direct payment	1459
3.– Audit	Contract (PIO/t)	Direct payment	250
3.– Evaluation	Contract (PIO/t)	Direct payment	300
Total Administrative Costs			**2159**
Total Grant			**30000**

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ANNEX 1

ALTERNATIVE DEVELOPMENT PROJECT (527-0348)
LOGICAL FRAMEWORK

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions
Goal To reduce coca cultivation in the target areas pursuant to the Government of Peru's National Drug Prevention and Control Plan.	– 50 percent or better reduction in mature coca under cultivation in Project target areas. – Decrease in coca leaf production in target areas.	– CORAH Reports – USG annual and special coca crop surveys – INADE's MIS Reports Mission Special Studies Consultants Reports Periodic Reviews	– Continued and sustained GOP commitment to implement its counternarcotics and alternative development policy. – Continued and sustained USG commitment to the current conternarcotics strategy, effective implementation by the responsible agencies of the counternarcotics strategy, and USG Congress and Executive make available adequate level of funds for USG funded counternarcotics programs in Peru on a timely basis. – Continued and sustained other donor investment in coca-growing areas. – The GOP maintains sound macro-economic adjustments and continues moving its policies and institutions toward a market-oriented system that fosters economic growth. – Effective law enforcement, interdiction and related counternarcotics efforts cause drop in coca prices. – Continued improvement in re-establishing security and government authority in coca-growing regions.

-101-

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions
Purpose To increase employment and income from alternative licit economic activities in the project areas, in order to achieve the project goal.	**End of Project Status (EOPS)** Indicators refer only to project target areas. – 75 percent or better compliance with voluntary collective or individual coca limitation or reduction commitments. – 6,980 full time equivalent jobs and 21,400 person/months of temporary employment (M/F) generated. – Increase farmer's income from non-coca related activities in 30% – Increase in 9,400 ha of non-traditional and 9,740 ha of traditional (rice, corn, coffee, cacao) legal cash crops. – Cattle production increased by 150% in assisted communities – Yield of rice and corn production doubled – Increase in the value of production of licit crops – Increase in the volume of production of licit crops – 12,400 families will have increased access to basic services (health, education, potable water, etc.) – Overall environmental awareness increased in target areas – 100 communities organized to support national efforts to reduce coca production.	**Means of Verification** – Management Information System Reports – Project Reports – Project Evaluations – Consultant Reports – Surveys – National and Regional Statistics – Ministry of Agriculture Statistics – CORAH verification surveys – USG annual and special coca crop surveys	**Assumptions** – Political stability, an atmosphere of receptivity in the target areas for outside assistance. – Other donor investment in physical infrastructure in coca-growing areas continued as planned. – The availability and timely provision of funds for the Project. – Continued GOP efforts to carry out its macro-economic program that provides the foundation for sustained economic reactivation and growth. – Security & govt. authority in coca-growing areas. – Sound agricultural policies – Countermarcotics efforts cause drop in farmer earnings expectations from coca.

102

Narrative Summary	Objectively Verifiable Indicators (Life of Project)	Means of Verification	Assumptions
Outputs: Employment and Income Generation Component: **1. Agricultural productive capacity improved** 1 1 Improved technology available and transferred	1 1 -- 128 cropping packages designed -- 100 Applied research demonstration plots established -- 1,250,000 kg/units of improved seeds and seedlings of alternative crops made available to farmers -- 12,000 farmers (by gender) receiving extension, TA and training	M&E Plan Management Information System Reports Project Reports Project Evaluations Consultants Reports	-- Political stability, an atmosphere of receptivity in the target areas for outside assistance. -- The availability and timely provision of USAID and local currency funds for the Project -- Security & govt authority in coca-growing areas.
1 2 Agriculture management improved	1 2 -- 400 training workshops and seminars on credit application, agroindustries opportunities, cash cropping systems, marketing 20 per year - for farmers on Cropping systems 15 per year - for local Gov. staff on agri-business 10 per year - for women in agri-business 20 per year - for community leaders in agri-business -- Number of participants by gender -- 40 local leaders (M/F) receiving ST training in agri-business promotion (per year)		
1 3 Agricultural services established and provided	1 3 -- 5,000 land titles registered (by gender) -- Number of hectares of land titled -- 1 Loan - Guarantee fund mechanism established -- No of farmers (M/F) receiving loans (Working and capital) -- Amount of credit provided -- 1 market information system established		
1 4 Agro-industries established or strengthened	1 4 -- 5 agroindustries established or strengthened -- Value of sales of strengthened agri-businesses		

Narrative Summary	Objectively Verifiable Indicators (Life of Project)	Means of Verification	Assumptions
Outputs: (cont.) Essential Services/Community Development Component. **2. Availability and access to basic services to population in target areas increased** 2.1 Support of communities to enter in the alternative development process achieved	2.1 -- 100 agreements signed with municipalities & communities to reduce coca production and promote alternative development.	Management information System Reports Project reports Project Evaluations Consultants Reports Periodic Reviews Field Trips	-- Political stability, an atmosphere of receptivity in the target areas for outside assistance -- The availability and timely provision of USAID resources -- Security & govt. authority in coca regions
2.2. Improved basic community infrastructure and services	2.2 Targets are illustrative, TBD by the communities -- 48 rural potable water systems established -- 350 latrines built -- 120 community wells built -- 60 health posts renovated or built -- 1000 primary schools renovated or built -- 125 community fish farms established -- 12 community small grain storage facilities installed		
2.3 Improved quality of services	2.3 - 300 Training Seminars & Workshops 2/yr/province--For primary school teachers 2/yr/province--For midwives 2/yr/province--For health promoters 2/yr/province--For skilled labor (maestro de obra) 2/yr/province--Drug Awareness (In concert with CEDRO) -- 7 for municipal and regional staff -- Number of participants by gender and procedence.		
2.4 Improved transportation infrastructure	2.4 -- 1,370 kms. of access roads rehabilitated -- 7 bridges built or repaired		

164

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions
Outputs (cont.) Environmental Protection and Awareness Component: **3. Improved Environmental Conservation Practices**	-- 2,000 farmers trained on environmental conservation practices -- 1 Environmental campaign designed and carried out for each target area -- 1,500 of hectares of land reforested -- 100 communities adopting environmental conservation practices -- 7 tree nurseries and training plots established. -- Survival rate of reforested areas at least 70%	Management Information System Reports Project reports Project Evaluations Consultants Reports Periodic Reviews Field Trips	-- Political stability, an atmosphere of receptivity in the target areas for outside assistance -- The availability and timely provision of USAID resources -- Security & govt. authority in coca regions
Other Project Outputs as a result of TA and training implementation activities: **4. Institutional Strengthening**	-- Management Information System established -- INADE's capability on financial controls and contracting procedures strengthened	USAID Controller's Reports	

Inputs	Objectively Verifiable Indicators			Means of Verification	Assumptions
	Life-of-Project (in US$000s)			USAID records INADE records Records of Municipalities Audits Management Information System	That the US Congress makes funds available to USAID and USAID in turn provides them on a timely fashion to USAID/Peru That other USAID programs that generate local currency are approved and provided in a timely fashion
	USAID	GOP	TOTAL		
1. Technical Assistance all components	11,176	0	11,176		
2. Training (local workshops)	2,982	0	2,982		
3. Commodities	4,101	0	4,101		
4. Basic services, community-based activities	0	4,761	4,761		
5. Road rehabilitation	631	4,839	5,470		
6. Applied Agricultural Research & Extension	1,000	0	1,000		
7. Loan Guaranty Fund & Credit	6,600		6,600		
A. NGO Support	1,500	0	1,500		
B. Land Titling	0	400	400		
8. Project Implementation Costs					
A. INADE Pers. & Op Exp. (in-kind)	0	4,000	4,000		
B. USAID Project Coordination (Project Specialists & Logistic Support)	1,460	0	1,460		
9. Evaluations	300	0	300		
10. Audits	250	0	250		
TOTAL	30,000	14,000	44,000		

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Annex 1A

ALTERNATIVE DEVELOPMENT PROJECT (527-0348)
INFORMATION, MONITORING AND EVALUATION PLAN

Per USAID Evaluation Handbook, Sections 1 and 3.2, an Information, Evaluation and Monitoring Plan is incorporated as an integral part of the Project Paper. This Plan is tied to the Logical Framework, Annex 1. The process to implement the Information, Evaluation, and Monitoring Plan is summarized below.

1. Implementation Arrangements for the Information Collection, Monitoring and Evaluation Plan

A monitoring and evaluation team will be established to ensure that the implementation arrangements of the information, monitoring and evaluation plan are met. The team will consist of the USAID Project Coordinator, the USAID Evaluation Officer and key personnel from INADE and the Technical Assistance Provider (TAP). Implementation arrangements will include:

- Establishment of a Monitoring Unit (MU) within the Alternative Development Project Unit of INADE's Office of Special Programs. This INADE Unit will contract an information specialist to manage the project monitoring information system and collect and analyze data submitted by the TAP team and INADE's Special Projects' Offices in the target areas.

- Establishment of baseline data sets and procedures for periodic data collection for the target areas. The MU will collect, tabulate, and evaluate indicator data against the appropriate baseline data sets and the targets established in the implementation plan. The implementation plan will be updated every six months at which time targets will be refined.

- The inclusion of reporting requirements in the contract with the TAP. Project specialists will report on the identified indicators mentioned below, at least on a quarterly basis, and their progress toward the Project purpose.

- The establishment of an effective communication system between INADE's central and the four Special Project Offices which will serve the target areas. The system will produce monthly, quarterly, and semi-annual reports prepared by the MU, which will compile information gathered by the TAP, the Special Project Offices and GOP entities directly involved in the implementation of the Project. The MU will also prepare annual reports to summarize progress and analyze problem areas. USAID will use the information provided in these reports for internal reviews and reports to USAID/W on Project performance.

106

2. Project Objectives, Indicators, and Targets To Be Monitored

A. USG Goal: To reduce the production of narcotics in the Andean countries by helping the GOP to implement its integrated alternative development strategy.

B. Project Goal: To reduce coca cultivation in the target areas pursuant to the Government of Peru's National Drug Prevention and Control Plan.

Indicators:
1. Area devoted to coca cultivation in Project target areas.
2. Coca leaf production in Project target areas.

Due to the nature of coca related information, CORAH and NAS will provide the data on a yearly basis. Periodic special studies will be contracted for specific target areas.

C. Project Purpose: To increase employment and income from alternative licit economic activities in the project areas, in order to achieve the project goal.

Indicators:
1. Gross Domestic Product per capita in project target areas.
2. A reduction in farmer's income from coca related income and an increase in farmer's income from licit agricultural commodities, by gender.
3. Number of paid and non paid sustainable jobs created and temporary jobs generated, by gender.
4. Number of new hectares planted in licit agricultural crops, including the number of new hectares devoted to the production of rice, and other licit agricultural commodities, and the number of hectares used to produce agricultural commodities for agro-businesses.
5. Increase in the yields of farmer production of agricultural commodities in the Project area.
6. Volume of production of legal crops.
7. Value of production of off-farm activities.
8. Percentage of loans repaid on schedule, by gender.
9. Percentage of population in target areas with access to basic services (health, education, potable water, etc).
10. Level of environmental awareness in target areas.

107

11. Number of communities committed to support coca alternative development efforts in target areas.

Data source for indicator number 1 will be national and regional statistics. A sample household survey establishing income will be undertaken to develop a baseline and realistic indicators to be attained as a result of the Project. The survey will be repeated every two years to determine changes in sources of income. Information to measure progress towards indicators related to agriculture production and off-farm activities will be collected through sample surveys on a yearly basis by INADE's Special Projects Offices, with TA assistance. Periodical sample surveys will also be planned to evaluate the attitudinal change of people towards the coca production and trafficking issue. The baseline information will be established early during the Project implementation process. INADE's field offices and specialists from the TAP will provide pertinent data through their periodic reports. The evaluations discussed subsequently in this Annex will further refine the information.

Output No. 1: **Agricultural productive capacity improved in the Project area.**

Sub-Output No. 1.1: Improved technology available and transferred.

Indicators:

1. Number of varieties/cropping packages appropriate for the Project area tested.
2. Number of community demonstration plots established.
3. Number of varieties/cropping packages appropriate for the Project area disseminated through the extension services.
4. Number of farmers receiving technical assistance by type through the extension mechanism, by gender.
5. Quantity of improved seeds and seedlings of alternative crops mobilized in the Project area.

Sub-Output No.1.2: Agriculture management improved

6. Number of training workshops and seminars on credit application, agroindustries opportunities, cash cropping, marketing, etc. by type.
7. Number of participants, by gender, procedence (farmer, businessman, public officer, local leader, etc..)

Sub-Output No.1.3: Agricultural services provided

8. Number of land titles registered, by gender.
9. Hectares of land titled.
10. Market information system delivering information in a timely manner.

108

11. A loan-guarantee fund operating efficiently.

12. Number of farmers receiving loans, by type of credit, by gender.

13. Amount of credit provided.

Sub-Output No.1.4: Agro-industries established or strengthened:

14. Number of new, licit agro-business activities that are profitable in the Project area.

15. Value of sales of strengthened agri-business in project area.

16. Value of sales of new fish farms established.

A Project data gathering mechanism will be established to collect data from the Project implementation point (agricultural station, land titling office, local credit office, agri-business) for each of the indicators identified. This data will be collected and forwarded on at least quarterly basis to INADE to be put in the MIS.

Output No. 2: **Availability and access to basic services to the target population in the Project area increased.**

Sub-output No.2.1: Support of communities to enter in the alternative development process achieved:

Indicators:

1. Number of communities that have been organized to support the national program to reduce coca production.

2. Number of coca reduction community agreements signed.

Sub-Output No.2.2: Basic community infrastructure improved:

3. Number of rural potable water systems established.

4. Number of latrines built.

5. Number of community wells built.

6. Number of health posts renovated or built.

7. Number of schools renovated or built.

8. Citizen participation in community enhancement projects (attendance at meetings by gender, direct involvement in the planning and implementation process of enhancement projects, etc.)

- 109

Sub-Output No. 2.3: Quality of basic services improved

9. Number of training seminars and workshops by type (for primary school teachers, mid-wives, health promoters, skilled labor, municipal staff, etc.)

10. Number of participants, by gender and type.

Sub-Output No. 2.4: Transportation infrastructure improved

11. Number of kilometers of access roads rehabilitated.

12. Number of bridges built or rehabilitated.

A Project data gathering mechanism will be established to collect data from communities for each of the indicators identified. Training activities will be reported by the implementing organization. This data will be collected and forwarded on at least quarterly basis to INADE to be put in the MIS.

Output No. 3: **Environmental Conservation Practices Improved**

Indicators:

1. Number of farmers, by gender, trained on environmental conservation practices.

2. Number of environmental campaigns carried out.

3. Number of hectares of land reforested.

4. Number of tree nurseries and training plots established.

5. Survival rates of reforested areas

A Project data gathering mechanism will be established to collect data from communities for each of the indicators identified. Training activities will be reported by the implementing organization. This data will be collected and forwarded on at least quarterly basis to INADE to be put in the MIS. Additionally, the bi-annual, formal evaluations will review the status of the institutional improvements suggested by the various indicators identified above for the three outputs.

3. Establishment of a Management Information System

The MIS established in INADE will be the repository of Project performance data that will be used to monitor and evaluate Project performance. INADE's MU will be responsible for developing, installing and administering the MIS. The MU will work with Project component implementing agencies such as contractors, NGOs, GOP entities, local governments and communities to develop relevant baseline data and data collection systems.

110

It is anticipated that the MIS will produce data on an on-going basis that will be regularly provided to Project direction components and to the USAID Project Manager.

As part of the process of creating the MIS, the following major tasks will be performed:

- Baseline data sets will be established for the past five years on production levels, production costs, farm-gate prices and profitability by technological levels of the production of the main traditional and non-traditional licit crops and coca. These baseline data sets have been developed by a consulting firm and will be available for further analysis by Project experts in order to establish specific benchmarks for the above indicators at the initiation of the Project.

- Establishment of a communications network to facilitate routine monitoring The network will produce monthly, quarterly, and semi-annual reports prepared by the technical assistance team, INADE, and GOP entities directly involved in the implementation of the Project. Annual reports will also be where appropriate to summarize progress and analyze existing problem areas. The USAID will use the information provided in these reports for internal reviews and report to A.I.D./W Project performance.

- Procedures for periodic data collection, including production levels, production costs, farm-gate prices and profitability by technological levels of the production of the main traditional and non-traditional licit crops and coca as well the indicator data identified for the Goal, Purpose, and Output levels in the Project area.

- Collect, tabulate, and evaluate indicator data against the appropriate baseline data set and the targets established in the implementation plan. The implementation plan will be updated every six months at which time targets will be refined as appropriate, as indicated above.

4. The Data Base for the Project Area

The following baseline data sets, already developed, will provide the core information for the MIS. The baseline data sets will describe the Project area in macro terms.

a. Coca: hectares planted, hectares harvested, yield per hectare, cost of production, quantity of labor involved, prices, other coca-related data.

b. Traditional/non-traditional crops/activities: hectares planted, hectares harvested, cost of production, quantity of labor involved, yield per acre, technological levels, marketing process, cost of transportation, profitability, farm-gate prices.

c. Economic activity: amount and value of production of each sector (GDP and employment by gender) -- agri-business, forestry, livestock, marketing, other manufacturing, other industry, other services.

d. Infrastructure: transportation facilities, energy, storage, marketing.

e. **Socio-economic**: population, migration trends, income levels, consumption levels, basic services, health, education, household facilities (energy, potable water, sewerage), community organization, size of labor force, farmer profile.

5. Community Profiles and Project Data Maintained and Analyzed by INADE

Basic information describing each community and the data required for the execution of Projects in the communities will be developed, analyzed, and maintained by INADE in the MIS. This community based data will be used in conjunction with the macro baseline data sets described in the above section to measure Project performance in the communities assisted.

As a part of the Project identification process, INADE will develop the following data for each community:

- Level of security in the area of the community.
- Population of community.
- Economic organization of the community.
- Determination of existing services, such as health nutrition,sanitation, and education.
- Community's political, social, and economic organization and institutional capacity.
- Principal problems of the community such as health and agriculture.
- Need of community of assistance (technical and physical resources.)

As a part of the Project approval process, INADE will develop the following data for each community:

- Rationale for community development activities.
- Target population at which the activities will be directed including principal economic activity of heads of household (by gender) and family income level.
- System of beneficiary selection.
- Geographic coverage of the activities.
- Location of land or physical site where the activities will function and their legal ownership.
- Proposing organization's institutional capacity.
- Willingness of beneficiaries to participate in the activities.
- Need for environmental impact assessments.

6. External Evaluations

The Project design and the implementation plan will be refined as a result of the evaluation process. During the life of the Project, two formal, external evaluations are planned. The first evaluation will be carried out approximately 24 months from the date of the signing of the contract with the TAP. The second and final evaluation will be conducted just prior to the PACD.

- 112

The first evaluation will assess the progress made in meeting Project implementation targets and to assess the cumulative impact of the Project. Based on the findings of this evaluation, recommendations for changes in design and implementation procedures will be made, as appropriate, in order to increase the probability that Project investments will meet the stated purpose of the Project.

The evaluations will have five objectives, as follows:

a. To assess the extent to which the Project is meeting its purpose and contributing to the goal. Based on an analysis of the indicators and assumptions underlying the Project design, the evaluation will recommend changes or modifications in Project outputs, End of Project indicators, and implementation strategies;

b. To assess the extent to which the Project is consistent with AID/W and USAID/Peru objectives (i.e., broad-based growth, poverty alleviation, reduction in coca leaf production in target areas, environmental conservation, increased employment opportunities, provision of basic services, etc.);

c. To assess the effectiveness and to recommend strategies for improving Project implementation through an analysis of obstacles and bottlenecks as well as achievements in Project management and administration;

d. To determine the impact of the Project to the date of the evaluation on the various performance indicators listed in the Logical Framework; and

e. To determine the effectiveness of the technical assistance and training provided through the TAP, NGOs and other implementing agencies, and recommend modifications, as appropriate, on the delivery mechanisms for TA, credit and other Project inputs.

Funds are included in the budget to contract the services for the evaluations.

The final Project Assistance Completion Report (PACR) will be prepared approximately around the PACD. Its purpose will be to document the Project experience and the lessons learned during its implementation.

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113

ACTION: AID-1
INFO: TOTAL-5 DCM-1 AMB-1 ECON-1 POL-1

DISTRIBUTION: AID 34028
CHARGE: AID

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AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: REVIEW OF PERU ALTERNATIVE DEVELOPMENT PROJECT (527-0348)

1. A DAEC MEETING WAS HELD TO REVIEW THE PROJECT PAPER FOR USAID/PERUIS ALTERNATIVE DEVELOPMENT PROJECT, NO. 527-0348, FEBRUARY 3, 1995. THE REVIEW WAS CHAIRED BY AA/LAC MARK SCHNEIDER. IN ATTENDANCE WERE REPRESENTATIVES OF ONDCP, STATE/ARA, STATE/EB, STATE/INM, US ARMY/ITAC, OMB, THE INM OFFICE OF THE US EMBASSY IN LIMA, AID/PPC, AID/M/B, AID/LPA, AND ALL APPROPRIATE LAC OFFICES. THE MISSION WAS REPRESENTED BY MISSION DIRECTOR GEORGE WACHTENHEIM AND PROJECT MANAGER MERRITT BROADY. FURTHER DISCUSSIONS WERE HELD FOLLOWING THE DAEC BETWEEN AID/LAC AND STATE/INM TO FINALIZE DECISIONS ON POLICY ISSUES. FOLLOWING IS A SUMMARY OF THE DECISIONS MADE IN THE DAEC MEETING AND SUBSEQUENT DISCUSSIONS.

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2. USAID/PERU MAY AUTHORIZE THE ALTERNATIVE DEVELOPMENT PROJECT IN THE FIELD. THE PROJECT WILL BE FULLY FUNDED IN FY 95 AT THE LEVEL OF DOLS. 30 MILLION, BY DEOBLIGATING AND REOBLIGATING FY 91 COUNTERNARCOTICS-RELATED ESF.

3. REFLECTING INTER-AGENCY AGREEMENT, THE MISSION IS TO AMEND THE PURPOSE OF THE PROJECT TO READ "INCREASED EMPLOYMENT AND INCOME FROM ALTERNATIVE LICIT ECONOMIC ACTIVITIES IN THE PROJECT AREAS, IN ORDER TO ACHIEVE THE PROJECT GOAL." THE PROJECT GOAL WILL BE MODIFIED TO READ "REDUCED COCA CULTIVATION IN THE TARGET AREAS PURSUANT TO THE GOP NATIONAL DRUG PREVENTION AND CONTROL PLAN."

4. THE MISSION IS TO PREPARE A CONGRESSIONAL NOTIFICATION FOR THE PROJECT PRIOR TO DEOBLIGATION AND REOBLIGATION OF

OFFICE OF LOCAL GOVERNMENT & ALTERNATIVE DEVELOPMENT USAID/Perú
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114

THE FUNDS. A SINGLE CN, PREPARED IN THE FORMAT OF NOTIFICATION FOR A NEW PROJECT, SHOULD BE PROVIDED TO COVER BOTH ACTIONS. THE MISSION IS ASKED TO PROCEED WITH PREPARING A CN AS SOON AS POSSIBLE. LAC/SPM CAN PROVIDE THE MISSION WITH FURTHER INSTRUCTIONS REGARDING PREPARATION OF THE CN.

5. CONCERN WAS EXPRESSED REGARDING THE SECURITY SITUATION IN THE PROPOSED PROJECT AREAS. MISSION REPRESENTATIVES REPORTED THAT THE SECURITY SITUATION HAS IMPROVED DRAMATICALLY IN THE LAST TWO YEARS, AND SHOULD NOT IMPOSE SIGNIFICANT CONSTRAINTS ON PROJECT IMPLEMENTATION. THE DAEC ADVISED THAT THE SECURITY SITUATION SHOULD BE REVIEWED CONTINUOUSLY THROUGHOUT THE IMPLEMENTATION OF THE PROJECT.

6. ISSUES CONCERNING CREDIT ACTIVITIES, COMMUNITY ECONOMIC DEVELOPMENT, A MANAGEMENT INFORMATION SYSTEM, AND PROMOTION OF ALTERNATIVE CROPS WERE DISCUSSED AND RESOLVED AT THE ISSUES MEETING. IN ADDITION, A NUMBER OF CONCERNS WERE IDENTIFIED WHICH THE MISSION SHOULD CONSIDER. THE MISSION SHOULD DETERMINE HOW THESE CONCERNS CAN BEST BE RESOLVED AND INCORPORATED INTO THE PP. THESE ISSUES ARE AS FOLLOWS:

A. ECONOMIC FEASIBILITY. A NUMBER OF QUESTIONS WERE RAISED REGARDING THE PROJECTIS ECONOMIC FEASIBILITY. IT WAS ARGUED THAT THE PP DOES NOT PROVIDE SUFFICIENT INFORMATION TO EVALUATE THE VALIDITY OF THE PROJECTIS UNDERLYING ECONOMIC ANALYSIS. AMONG OTHER ISSUES, IT WAS NOTED THAT DATA ARE LACKING TO DEMONSTRATE HOW THE PROJECT'S IMPRESSIVE PROJECTED IRR OF 35 PERCENT WAS DERIVED. SPECIFIC ISSUES WERE ALSO RAISED REGARDING THE VALIDITY OF THE PPIS ASSUMPTIONS REGARDING THE PROJECT'S IMPACT ON FOREIGN EXCHANGE EARNINGS AND REGARDING MOVEMENT IN COCA PRICES.

B. INSTITUTIONAL STRUCTURES. AN ISSUE WAS RAISED REGARDING WHETHER THE INSTITUTIONAL ARRANGEMENTS FOR THE PROJECT ARE TOO COMPLEX. THE MISSION SHOULD REVIEW THE PROJECT'S INSTITUTIONAL ARRANGEMENTS, AS WELL AS THE POTENTIAL FOR CREATION OF NEW BUREAUCRACIES WHICH MIGHT PROVE UNSUSTAINABLE. REVIEWERS ALSO NOTED THAT THE ROLE OF THE GOP IN THE IMPLEMENTATION OF PRIVATE SECTOR ACTIVITIES IS UNCLEAR IN THE PP.

C. FEASIBILITY OF AGRIBUSINESS VENTURES. AN ISSUE WAS RAISED REGARDING WHETHER USAID SHOULD SUPPORT TECHNICAL

115

ASSISTANCE AND PROMOTION ACTIVITIES TO DETERMINE THE FEASIBILITY OF SPECIFIC AGRIBUSINESS VENTURES. IT WAS ARGUED THAT FEASIBILITY STUDIES OF SUCH VENTURES ARE BEST FINANCED BY THE PRIVATE SECTOR.

D. MARKETING COSTS. CONCERN WAS EXPRESSED REGARDING WHETHER MARKETING COSTS WERE ADEQUATELY TAKEN INTO ACCOUNT IN PROJECT PLANNING. IT WAS ARGUED THAT, GIVEN THE HIGH TRANSPORTATION COSTS, THE PROJECT AREA WILL FIND IT DIFFICULT TO COMPETE WITH OTHER PRODUCTION AREAS OF HIGH-VALUED CROPS IN OTHER AREAS OF PERU AND IN NEIGHBORING COUNTRIES. THE MISSION WAS ADVISED TO CAREFULLY REVIEW MARKETING COST ISSUES IN PROJECT PLANNING.

E. CROP SELECTION. ISSUES WERE RAISED REGARDING THE CRITERIA USED TO IDENTIFY THE ALTERNATIVE CROPS TO BE CULTIVATED UNDER THE PROJECT. THE MISSION SHOULD GIVE CLOSE CONSIDERATION TO MARKET AND EXPORT POTENTIAL IN CROP SELECTION DECISIONS.

F. TRAINING COMPONENT. QUESTIONS WERE RAISED REGARDING THE STRENGTH OF THE PROJECTIS TRAINING COMPONENT. THE MISSION SHOULD REVIEW PLANS FOR FOLLOW-UP AFTER AN INITIAL WORKSHOP/SEMINAR ON A PARTICULAR TOPIC HAS BEEN COMPLETED.

G. SUSTAINABILITY OF ESSENTIAL SERVICES/COMMUNITY DEVELOPMENT ACTIVITIES. REVIEWERS POINTED OUT THAT THE ACTIVITIES UNDER THIS COMPONENT, AND EDUCATION AND HEALTH PROJECTS IN PARTICULAR, WILL REQUIRE SIGNIFICANT FINANCING OF RECURRENT COSTS. THE MISSION NOTED THAT THE GOP WILL PROVIDE THE SALARIES OF TEACHERS AND MEDICAL PERSONNEL, AS WELL AS SUPPLIES, ON A PERMANENT BASIS FOR NEW SCHOOLS AND HEALTH POSTS.

H. COCA REDUCTION TARGETS. THE MISSION SHOULD REVIEW AND VERIFY THE ASSUMPTIONS WHICH FORM THE BASIS FOR THE TABLE ON COCA REDUCTION TARGETS WHICH IS INCLUDED IN THE PPIS TECHNICAL ANNEX.

CHRISTOPHER
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ANNEX 3

Instituto Nacional de Desarrollo

Lima, 30 ENE. 1995

OFICIO Nº 253 -95-INADE-1101

Señor
GEORGE A. WACHTENHEIM
Director
USAID/PERU
Presente.-

Asunto : Proyecto de Desarrollo Alternativo

Es muy grato dirigirme a usted en relacion al Proyecto de Desarrollo Alternativo cuyo Documento de Proyecto fue revisado en reuniones realizadas entre tecnicos y funcionarios peruanos y norteamericanos, siguiendo los acuerdos derivados de las conversaciones que sostuvieron el Presidente Fujimori y el Embajador Watson.

Al respecto, al haberse considerado al Instituto Nacional de Desarrollo-INADE, como organismo ejecutor del Proyecto y aprobado el Documento de Proyecto por la parte peruana competente: solicitamos a usted se realicen las acciones necesarias a fin de que la propuesta de Documento de Proyecto de Desarrollo Alternativo, obtenga tambien la aprobacion del Gobierno de los Estados Unidos de Norteamerica. Se anexa una copia del citado Documento de Proyecto.

Agradeciéndole su atención, es propicio para reiterarle mis consideraciones.

Atentamente,

Ing. ALBERTO YAMAMOTO MIYAKAWA
Jefe

UNCLAS AIDAC SECSTATE 52414

ACTION: AID-1
INFO: ECON-1 POL-1 DCM-1 AMB-1 TOTAL-5

DISTRIBUTION: AID
CHARGE: AID

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RUEHQT/AMEMBASSY QUITO 3612
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UNCLAS SECTION 01 OF 03 STATE 052414

AIDAC LIMA FOR E. ALARCON, QUITO FOR B. KERNAN

E.O. 12356: N/A
TAGS:
SUBJECT: APPROVAL OF PROGRAMMATIC ENVIRONMENTAL ASSESSMENT FOR THE ALTERNATIVE DEVELOPMENT PROJECT (527-0348)

REF: LIMA EMAIL, ALARCON TO BROKAW/MENCZER, DECEMBER 21, 1994

1. LAC CHIEF ENVIRONMENTAL OFFICER (CEO), JEFFREY BROKAW, HAS REVIEWED, AND HEREBY APPROVES SUBJECT ENVIRONMENTAL ASSESSMENT (EA) WITH THE FOLLOWING CONDITIONS:

A) ROAD AND BRIDGE REHABILITATION AND MAINTENANCE

--FOR ANY ROAD CONSTRUCTION, REHABILITATION, OR MAINTENANCE WHICH WILL RESULT IN OPENING UP FORESTED AREAS, SENSITIVE HABITATS, OR NEW OR PRISTINE AREAS TO INCREASED HUMAN ACTIVITY A SITE-SPECIFIC EA SHALL BE CONDUCTED IN ACCORDANCE WITH 22 CFR 216, FOR APPROVAL BY LAC CEO.

--FOR ALL OTHER ROAD CONSTRUCTION, REHABILITATION, AND MAINTENANCE, A PRELIMINARY ENVIRONMENTAL REVIEW (PER) (APPENDIX 1) SHALL BE COMPLETED, AS DESCRIBED IN SECTION

10 OF PEA, AND MITIGATIVE MEASURES, AS RECOMMENDED IN SECTION 6.1.2, SHALL BE COMPLIED WITH.

B) SMALL SCALE, COMMUNITY LEVEL INFRASTRUCTURE REPAIR AND CONSTRUCTION

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--CONSTRUCTION OF POTABLE WATER AND SANITATION SYSTEMS SHALL USE BEST CONSTRUCTION PRACTICES TO ENSURE MINIMAL ENVIRONMENTAL IMPACT. FOR CONSTRUCTION ACTIVITIES LOCATED NEAR SURFACE WATER OR GROUNDWATER DRINKING SUPPLIES, OR NEAR WETLANDS, NEITHER CONSTRUCTION MATERIAL NOR SOIL SHALL BE PLACED, PERMANENTLY OR TEMPORARILY, SO THAT WATER FLOW IS OBSTRUCTED OR WATERWAYS CONTAMINATED. THIS SHOULD BE PART OF THE PER,--.-

--PRIOR TO BEGINNING AQUACULTURE ACTIVITIES, POTENTIAL IMPACT OF INTRODUCED SPECIES ON NATIVE SPECIES SHALL BE EVALUATED IN A PER. POTENTIAL CONCERNS INCLUDE DISEASE INTRODUCTION, COMPETITION FOR RESOURCES, INADVERTANT RELEASES, AND CONTAMINATION WITH EXCESS FOOD SUPPLIES.

--FOR ALL CONSTRUCTION AND IRRIGATION ACTIVITIES, PER SHALL BE COMPLETED, AS DESCIBED IN SECTION 10 OF PEA, AND MITIGATIVE MEASURES, AS RECOMMENDED IN SECTION 6.2.2 SHALL BE COMPLIED WITH.

C) RECOVERY OF AGRICULTURE: CROP PRODUCTION

--THE PER FOR TRADITIONAL AND NON-TRADITIONAL CROP PROMOTION SHOULD INCLUDE AN EVALUATION OF IMPACTS ON FOREST REMNANTS. FOREST REMNANTS MAY PROVIDE HABITAT, PROTECTIVE COVER, AND FOOD FOR MIGRATORY BIRDS AND OTHER WILDLIFE. THIS COMPONENT SHOULD STRIVE TO RETAIN IMPORTANT HABITAT ISLANDS IN THE AGRICULTURAL LANDSCAPE.

--FOR EVALUATION OF ROAD CONSTRUCTION, SEE 1A, ABOVE.

--ON A REGIONAL BASIS, A PER SHALL BE COMPLETED FOR ACTIVITIES INVOLVING THE PROMOTION OF TRADITIONAL AND NON-TRADITIONAL CROPS, AND MITIGATION MEASURES, AS RECOMMENDED IN SECTIONS 6.3.2.1 THROUGH 6.3.2.3 SHALL BE IMPLEMENTED.

D) RECOVERY OF AGRICULTURE: CROP PROTECTION

--MITIGATION MEASURES, AS RECOMMENDED IN SECTION 6.4.2.9, SHALL BE IMPLEMENTED, AND ADDITIONAL ENVIRONMENTAL REVIEW AND APPROVAL BY LAC CEO SHALL BE REQUESTED, AS DISCUSSED IN SECTION 6.4.2.1.

E) RECOVERY OF LIVESTOCK PRODUCTION

--AS DISCUSSED IN SECTION 1C ABOVE, FOREST REMNANTS MAY

PROVIDE IMPORTANT WILDLIFE HABITAT. IN THE PER, THE IMPACT OF CATTLE INTRODUCTION ON FORESTED AREAS, INCLUDING FOREST REMNANTS, AND ON WETLAND AREAS SHOULD BE EVALUATED.

--IN ADDITION, THE PER SHOULD ASSESS THE IMPACT OF

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LIVESTOCK WASTE PRODUCTS ON WATER SOURCES AND SOIL.

--THE PROTECTION OF RIPARIAN AREAS SHOULD BE A PARTICULAR CONCERN WHEN INCREASING CATTLE PRODUCTION. THIS SHOULD BE INCLUDED IN THE PER.

--MITIGATION MEASURES, AS RECOMMENDED IN SECTION 6.5.2 SHALL BE IMPLEMENTED, AND A PER SHALL BE COMPLETED FOR ALL ACTIVITIES INVOLVING LIVESTOCK PRODUCTION.

F) INTRODUCTION OF EXOTIC SPECIES

--MITIGATION MEASURES, AS RECOMMENDED IN SECTION 6.6.2 SHALL BE IMPLEMENTED, AND PER SHALL BE COMPLETED FOR ALL ACTIVITIES INVOLVING THE INTRODUCTION OF EXOTIC SPECIES. CULTURAL IMPACTS OF EXOTIC SPECIES INTRODUCTION SHALL BE EVALUATED, AS WELL AS ECOLOGICAL IMPACTS.

G) REFORESTATION ACTIVITIES

--ACCORDING TO SECTION 533 OF THE FOREIGN ASSISTANCE ACT, AS AMENDED FUNDS MAY NOT BE USED FOR ANY ACTIVITY WHICH MAY RESULT IN SIGNIFICANT LOSS OF TROPICAL FOREST OR TIMBER EXTRACTION IN PRIMARY TROPICAL FOREST UNLESS AN EA IS CONDUCTED AND APPROVED BY THE LAC CEO. THEREFORE, IF REFORESTATION ACTIVITIES WILL INVOLVE ANY CLEARING OF NATURAL FOREST, AN EA MUST BE CONDUCTED ACCORDING TO 22 CFR 216, AND MEETING THE TERMS OF SECTION 533, FOR APPROVAL BY LAC CEO PRIOR TO TREE EXTRACTION.

--PLANTATION PLANTINGS SHALL NOT OCCUR IN AREAS THAT MAY BE SENSITIVE ECOLOGICALLY (RIPARIAN AREAS, HABITAT OF ENDANGERED OR THREATENED SPECIES). THESE AREAS SHOULD BE CONSIDERED FOR ECOSYSTEM RESTORATION.

--FOR ANY REFORESTATION ACTIVITIES THAT INVOLVE ROAD REHABILITATION OR CONSTRUCTION, SEE SECTION 1A ABOVE. FOR ANY REFORESTATION ACTIVITIES THAT INVOLVE DAM CONSTRUCTION, MAINTENANCE OF THE AQUATIC HABITAT SHALL BE A PRIMARY CONCERN: AQUATIC SPECIES SHALL NOT BE AFFECTED BY WATERFLOW OBSTRUCTION; DAM CONSTRUCTION SHALL NOT RESULT IN SILTATION OF WATERWAYS; WETLANDS AND OTHER

RIPARIAN HABITAT SHALL NOT BE AFFECTED BY ALTERING DRAINAGE PATTERNS.

120

--MITIGATION MEASURES, AS RECOMMENDED IN SECTIONS 6.7.2.1 THROUGH 6.7.2.3 SHALL BE IMPLEMENTED, AND PER SHALL BE COMPLETED FOR ALL ACTIVITIES INVOLVING REFORESTATION.

H) MANAGEMENT OF TROPICAL FORESTS

--AS STATED ABOVE IN SECTION 1G, ANY ACTIVITY THAT MAY RESULT IN SIGNIFICANT IMPACT TO TROPICAL FORESTS WILL REQUIRE AN EA PRIOR TO IMPLEMENTATION. ALL TIMBER HARVESTING ACTIVITIES WILL REQUIRE A FOREST MANAGEMENT PLAN THAT HAS BEEN-EVALUATED IN-AN EA WHICH SATISFIES PROVISIONS OF SECTION 533 AND 22 CFR 216. THE SCOPE OF WORK FOR THE EA, AS WELL AS THE EA, SHALL BE APPROVED BY THE LAC CEO PRIOR TO CONDUCTING TIMBER HARVESTING OPERATIONS.

2. ACCORDING TO 22 CFR 216.2(D), THERE ARE SEVERAL CLASSES OF ACTIONS THAT GENERALLY REQUIRE AN EA. SOME OF THE PROPOSED ACTIVITIES IN THE AD PROJECT ARE INCLUDED IN THIS LIST: IRRIGATION OR WATER MANAGEMENT PROJECTS, INCLUDING DAMS AND IMPOUNDMENTS; AGRICULTURAL LAND LEVELING; DRAINAGE PROJECTS; NEW LANDS DEVELOPMENT; PENETRATION ROAD BUILDING OR ROAD IMPROVEMENT PROJECTS; AND POTABLE WATER AND SEWERAGE PROJECTS OTHER THAN THOSE THAT ARE SMALL-SCALE. FOR THESE TYPES OF ACTIVITIES, AS WELL AS ALL OTHERS BEING CONSIDERED FOR THE AD PROJECT, IT IS THE RESPONSIBILITY OF THE REVIEWING AUTHORITIES, AND ULTIMATELY THE MISSION ENVIRONMENTAL OFFICER (MEO), TO SHOW, THROUGH THE CHECKLISTS AND THE PERS PROVIDED IN THE EA, THAT THE ACTIVITY WILL NOT HAVE A SIGNIFICANT ADVERSE ENVIRONMENTAL IMPACT. IF THERE IS POTENTIAL FOR A SIGNIFICANT ADVERSE ENVIRONMENTAL IMPACT, MEO SHALL FORWARD ENVIRONMENTAL REVIEW DOCUMENTS TO LAC CEO FOR AN ENVIRONMENTAL THRESHOLD DECISION TO DETERMINE THE NEED FOR AN EA.

3. IN PERS, POTENTIAL IMPACT ON THREATENED OR ENDANGERED SPECIES AND THEIR HABITAT SHOULD BE EVALUATED. FOR ALL ACTIVITIES, PERS SHOULD ENSURE THAT FOREST IS NOT CLEARED NOR WETLANDS AFFECTED WITHOUT CONDUCTING AN EA IN ACCORDANCE WITH 22 CFR 216, FOR LAC CEO APPROVAL. PERS SHOULD TAKE INTO CONSIDERATION INDIRECT IMPACTS OF ALL ACTIONS, AND CUMULATIVE AFFECT& OF THE AD ACTIVITIES.

4. IMPLEMENTATION AND EFFECTIVENESS OF MITIGATION

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MEASURES AND THE EA PROCESS SHOULD BE REVIEWED IN PROJECT EVALUATIONS.

121

5. REGIONAL ENVIRONMENTAL ADVISOR, BRUCE KERNAN, LOCATED AT USAID/QUITO, IS AVAILABLE TO ASSIST MISSION WITH ENVIRONMENTAL REVIEW OF ACTIVITIES.

5. LAC CEO CONGRATULATES USAID/PERU ON A TIMELY AND THOROUGH EA WHICH INCORPORATES ENVIRONMENTAL REVIEW MECHANISMS INTO THE PROJECT, AND PROVIDES FOR ENVIRONMENTAL TRAINING OF LOCAL PEOPLE. LAC CEO UNDERSTANDS THAT THE ASSESSMENT OF SUCH A PROJECT, WHERE ACTIVITIES HAVE YET TO BE DESIGNED, IS EXTREMELY DIFFICULT, AND THIS EA WILL SERVE AS A MODEL FOR SIMILAR PROJECTS.
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122