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USAID/PERU FOOD ASSISTANCE STRATEGY

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Food Assistance Strategy

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I . EXECUTIVE SUMMARY

The food security situation in Peru is alarming. The nexus of increasing population, declining agricultural productivity, and reduced foreign exchange reserves has led to a dramatic reduction in per capita calorie availability in the country. Moreover, because of inequitable income distribution and high rates of unemployment, a large portion of the population is unable to purchase adequate food even when supplies are available. Accentuating the problem, the heterogeneous regional economies have not yet begun to complement one another because of poor transport infrastructure and security problems. On top of all this, Peru is prey to flood, frost, drought, and earthquake, frequently in the same year. For these reasons, it is estimated that substantial food assistance and commercial imports will be needed over the medium term to cover minimum needs.

The policy environment is improving, and this gives hope for the future. Sustained free market policies could provide an important part of the long-term solution to the Peruvian food security problem, creating a competitive framework that should stimulate the productive sector for both jobs and agricultural commodities. If the government can provide an equitable legal system and basic security, there is no reason that the negative trends cannot be reversed and a food security equilibrium achieved.

The food assistance program can help by providing an immediate social safety net to protect those who have least cushion against the effects of recession. It can target resources to the neediest, assuring that these families receive help in the one area that they cannot cut back, the family food basket. It can also serve directly to improve the productive base in the poorest areas. This will require a slight shift in program emphasis toward promoting sustainable increases in income and agricultural productivity. It will also move to mobilize community resources and organizations around locally identified problems. These will be the basic strategic foundations of the food assistance strategy. However, in an age of shrinking resources, food aid will have to be much more effectively integrated with NGO, community, other donor, GOP and USAID resources. It will have to be used to achieve more measurable impact on those most in need of help. The food aid program will accelerate this process via the PVO Support Project.

The elements identified in this strategy that USAID will try to implement include: priority to women and women's groups; a tighter focus on productive activity and income generation; geographical targeting in the rural highlands; cost effective and low-risk use of locally purchased commodities for direct feeding programs; priority to evaluating nutritional risk factors and assuring community participation in applying them to at-risk groups; and continued use of NGOs to develop community initiatives. These strategy elements will be supported by a system to measure the program impact at the community level.

II . INTRODUCTION

Since taking office in July 1990, the Fujimori administration has undertaken a determined effort to deal with the overwhelming set of problems inherited from the out-going Garcia government. The economic and political reform programs appear to be making headway but much remains to be done. International organizations and donor nations have responded positively to the Peruvian efforts. A.I.D. has played a leading role in providing advice and resources to support the Government's reform program. USAID/Peru's food assistance programs, in particular, have increased from an average level of \$ 45.3 million per year for the ten years between 1980 and 1989 to \$68.0 million for FY 1990, \$118.8 million for FY 1991, and a projected level of \$120.2 million for FY 1992. A food aid program level of \$ 125 million has been requested for FY 1993.

In view of this high level of U.S. food aid for Peru, the Mission has developed this comprehensive Food Assistance Strategy to more effectively integrate these resources into a coordinated program to meet the strategic objectives defined in the Country Development Strategy Statement (CDSS) for 1992-1996. The strategy that follows is concerned not only with the role of U.S. food assistance in addressing immediate food security concerns but also with how food aid can be integrated with other A.I.D. resources in a coordinated program to achieve broad-based, sustainable economic growth which is essential to assure food security in Peru over the long term. As such, it is an important element of the broader food security strategy for Peru.

III . BACKGROUND

A. GENERAL

The Peruvian economy in the early sixties was considered to be one of the most promising in Latin America. Development expectations, however, were frustrated by 25 to 30 years of increasing Government intervention, extreme import substitution policies and spiraling macroeconomic instability. Government interventions in pricing, interest rates, credit allocation and labor markets resulted in major distortions of relative prices and the emergence of a large informal economy. Inefficient import substitution was encouraged by means of quantitative import restrictions and high tariffs, and these measures, together with a generally overvalued exchange rate, favored urban consumers, discouraged exports and agricultural production, and helped induce large-scale migration from rural to urban areas. In the last few years, this migration was given additional impetus by terrorist activities, which have also affected production in mining, energy and agriculture. Narcotics trafficking has also become a serious problem.

By 1990 these chronic market distortions and macroeconomic imbalances -- aggravated by the particularly expansionary and interventionist economic policies implemented from 1985 to 1990 -- had led to hyperinflation, deep recession, and a sharp decline in most social indicators. By the end of the 1980s, in fact, the economy had retrogressed to such an extent that income and exports per capita were comparable to those in the fifties.

B. THE FUJIMORI REFORMS

1. Macro Reforms

The macro-economic situation in Peru has improved dramatically since the economic reforms of the Fujimori Government were initiated in August 1990. The gains of the GOP's economic stabilization program in the last 18 months include the reduction of inflation from over 7,600 percent per year in 1990 to 140 percent for the year 1991. Inflation in January 1992 was reported at 3.5 percent per month, the lowest rate in 17 years. The GOP has also achieved a substantial reduction of the fiscal deficit and a significant curtailment of policy induced price distortions. Statistics for 1991 show that net international reserves have grown, export revenues are recovering (although hurt by the cholera epidemic and attendant negative international publicity), and gross domestic product is again showing positive trends. On the other hand, rates of unemployment and underemployment are still extremely high. And terrorism and narco-trafficking continue as headline stories.

Some distortions still remain in key relative prices, mainly wages and the exchange rate which remains overvalued. These are continuing, important issues on the short-term agenda. Still the reform program in its current stage has won the support of the International Monetary Fund (IMF), the World Bank (WB) and the Inter American Development Bank (IDB).

Some results, like stopping hyperinflation, confirming clear rules on spending restraints in line with treasury receipts, and withdrawal of public sector interventions in many areas which interfered with private sector operations, are indications of an improved environment for economic growth. However, there has been little reaction, in terms of increased volume of investment from private productive sectors. The policy framework related to control of inflation, interest rates, the exchange rate, foreign trade, product pricing and equal treatment for foreign investment is already clear. On the other hand, other positive elements that would encourage investments are still pending, such as tax reform and the rationalization of fiscal expenditures, creation of a responsive and responsible public administration (including justice), the implementation of privatization plans. Peru still has far to go in assuring access by all people to equal opportunities (including employment and food security). Better targeting of health and nutrition interventions for high risk populations is needed.

The Government of Peru needs to define clearly what are essential public functions, to determine their annual budget requirements, and to assure fund availability, to the extent possible. A clear definition of these essential public functions has never been made. Estimates of basic budgetary needs for providing quality services within these functions have not been forthcoming. Taxes have yet to provide the anticipated contribution in meeting budget needs and have been subject to frequent and confusing changes. This instability of the tax system is in turn having an adverse effect on private sector investment decision-making. A clear vision is needed for the difficult transition period between the present situation and the point at which the economic reform program is considered to have reached its objectives.

The fiscal situation presents a great danger to the stability of the Fujimori reform program. Tax reform is still pending, while measures such as improving the quality of expenditures in health, education, administration of justice and security have not been attended to, despite the GOP position that these are "essential functions." Constant changes in tax regulations are generating confusion and preventing more effective tax collection efforts. They also discourage private sector investment. The fact that the exchange rate remains overvalued is making the reactivation of exports more difficult and is one of the reasons behind the growing pressures on the Government to provide some

protection to the agricultural sector. Peru's debt arrears problem also remains very serious.

2. Agricultural Sector Reforms

Peru's agricultural sector has labored for decades under a set of adverse economic policies. These included poorly implemented land reform programs in the seventies which led to the abandonment of previously viable commercial agriculture in some areas, import substitution policies that turned the terms of trade against agriculture, and excessive Government interventions and regulations.

The Fujimori Government is committed to making major changes in the policies affecting agriculture, including reducing the role of the state in the sector and opening the sector up to more competition. Major reforms have already been implemented. These include: promoting private land ownership, providing incentives for collective farms to become private estates, and abolishing restrictions to the marketability of land and its use as collateral; eliminating price controls and subsidies to foods, fertilizers and other agricultural inputs; linking domestic prices closer to international prices through a reduction in tariffs and an elimination of many non-tariff barriers; abolishing ENCI's (the Government import agency) monopoly on imports of food and agricultural inputs, liquidating ECASA (the Government rice marketing agency) and restructuring and downsizing ENCI; eliminating credit subsidies provided through the Government's Agricultural Bank and opening up the market for rural financial services to be provided by the private banking sector.

Some important reverses of policy with respect to the agricultural sector have also occurred. After months of argument in early 1992, the Legislature, meeting in special session, approved an emergency agrarian law (Ley de Emergencia Agraria) which would undermine much of the agricultural reform program that the Government has begun implementing. The Executive Branch is attempting to avoid implementing this Law, but its passage does demonstrate the continuing power of the many special interest groups that benefitted from past Government interventions. Progress in the privatization of ECASA and ENCI has been slow. Plus, the Fujimori administration, which has closer ties to the agricultural sector than previous administrations, has broken with its commitment to trade policy liberalization by imposing special surcharges (over and above the reduced tariff rates that were a part of the package of liberalized trade reforms) on the importation of important foodstuffs, including wheat, corn, rice, sorghum, milk and sugar. This latter development is particularly important from a food security perspective because it would appear to increase the prices at which these commodities enter into the national food

supply and ultimately put upward pressure on the retail prices of foodstuffs that are important in the diets of poor people.

C. FOOD INSECURITY, POVERTY AND MALNUTRITION

1. The Chronically Poor and Malnourished

Inadequate levels of food supplies have been a constant problem in Peru. Over the last three decades, for example, per capita calorie availabilities have risen above the 2,300 calories per person level (one of the cut-off points for qualifying for the Title III grant program under the new food aid legislation) only three times, in 1965, in 1971 and again in 1986 at the beginning of the Garcia administration (see Graph 1). This is the first indication that a country is having serious food security problems, when the total food supply in a country is not sufficient to provide everyone with enough food for a healthy life even in the unlikely event that the food were to be divided equally among all members of the population. From a national level food security perspective, the problem of food insecurity was particularly serious during those years between the mid-seventies and the mid-1980s when per capita calorie levels declined below 2,200 calories per person per day (1977-1980 and 1983-1985). Interestingly, the trends in per capita calorie availabilities in two of Peru's closest neighbors -- Bolivia and Ecuador -- have shown steady improvement over the last three decades, although starting from a much lower base. Explanations for Peru's poor performance with respect to calorie availabilities include low levels of agricultural productivity, periods of scarce foreign exchange, and, perhaps most importantly, low levels of effective demand for food on the part of Peru's poor.

The diversity of the Peruvian diet has also deteriorated over the years; the composition of the diet, for example, has shifted away from protein obtained from animal sources toward carbohydrates, with grains becoming the most important source of calories in the country. This is a clear indication of declining incomes and inefficient (therefore expensive) domestic production. Having to rely on a more limited number of commodities to make up the major source of nutrients is not desirable from a nutritional point of view and makes the country as well as poor households more vulnerable to food insecurity.

Large inequalities of income distribution are another indicator that large numbers of people in a country are likely to be food insecure. This is particularly applicable in the case of Peru where total food supplies are inadequate and where the income distribution is seriously skewed (the top 20 percent of the households controlled 61 percent of the country's income in the early seventies, the middle 40 percent, 7 percent of the income, and the bottom 20 percent, 1.9 percent). In other words, although food consumption is seldom as skewed as income distribution, the income distribution in Peru has been sufficiently skewed that it is safe to say that in most years in the past three decades more than half of the population was significantly below recommended energy intake levels.

This conclusion is substantiated by data from the last nation-wide income and expenditure survey which indicated that in 1972, 52 percent of the population consumed below calorie recommendations and a third of the population was deficient in protein and most other nutrients. Data from this survey also indicated that rural households in the Sierra were highly dependent on the market place for about one third of their food supplies and most of their income, and that the majority of rural households were unable to produce enough food or earn enough income through market activities to meet their nutritional needs.

Although there is no recent information available for the country as a whole to indicate whether poor households are consuming better diets, analysis of data on household incomes and food costs suggests that at least 40 percent of the country's households were still not able to afford adequate diets in 1985-86. This information also confirms earlier conclusions that poverty and the inability of households to afford adequate diets is concentrated in the rural areas, and in particular in the rural Sierra. For example, according to the data presented in Graph 2, the poorest fifth of the country's households were on average only able to cover about 40 percent of the costs of a basic basket of goods, including food, shelter, etc. Rural households, in general, accounted for over three quarters of this group, and rural households in the Sierra for over half of it. Those households that fell into the second poorest fifth were able to cover the costs of a larger percentage of their basic needs, but still not 100 percent. As with the poorest fifth, rural households in general and Sierra households in particular accounted for major shares of these households (55 percent and 39 percent).

Other indicators of well-being confirm the severity of the poverty and food insecurity problems in the country. For example, almost 38 percent of children in Peru are chronically malnourished (Chronic malnutrition is measured by determining the degree to which children under six years of age are stunted, i.e. their height-for-age is more than two standard deviations from the U.S. National Center for Health Statistics (NCHS) mean). This is one of the highest rates of chronic malnutrition in the LAC region (see Graph 3). Like poverty, chronic malnutrition is also concentrated in the rural areas of the country and in the Sierra, in particular. For example, in 1984 (the most recent year for which nationwide data are available) the proportion of malnourished pre-schoolers living in the Sierra represented more than half of the malnourished children in the country as a whole, despite the fact that only about one third of the pre-school population of the country were living in the Sierra. The population of Lima, on the other hand, was under-represented among the malnourished -- only 10.5 percent of malnourished children lived in Lima which as a metropolitan area represented more than 25 percent of the nation's pre-schoolers in 1984 (see Graph 5). Children living in rural areas were approximately twice as likely to be chronically malnourished as the children under six years of age who

lived in urban areas. The relative risk of malnutrition was even greater between the Sierra pre-schoolers and the pre-schoolers residing in Lima -- the Sierra child was almost four times more likely to be malnourished than the Lima child.

The highest prevalence of malnutrition was found in households dependent on the agricultural sector for employment. Almost 60 percent of all malnourished children in 1985-86 and over 70 percent of those in a crisis situation (height-for-age more than three standard deviations and weight-for-age more than two standard deviations from the NCHS means) lived in households dependent on the agricultural sector for employment. Rural households most likely to have malnourished children included those headed by day laborers and subsistence and small commercial farmers. In urban areas, households most likely to have malnourished children included those headed by construction workers, skilled and unskilled workers and petty vendors. However, even the worst groups in the urban area were better off than the best groups in the rural areas.

Malnutrition was also associated with very low income, larger family size, low levels of parental schooling, high rates of diarrhea, and inadequate water and sanitation. For households living in rural areas, the central cause of malnutrition was very low income which prevented the households from purchasing foods necessary for an adequate diet as well as other basic services.

On a more positive note -- Peru has achieved considerable reductions in morbidity and mortality rates over the last several decades. On the other hand, while the incidence rates for many maladies have fallen, the absolute numbers of people affected have grown due to population growth and shifts in age structure. Despite some gains therefore, Peru's health status indicators also remain below those of all its neighbors, with the exception of Bolivia. The infant mortality rate of 81 per 1,000 births is one of the highest in Latin America, as is the child mortality rate of 123 per 1,000 children under five years of age (see Graph 4). The patterns of neonatal, infant and child mortality follow the patterns of child malnutrition, i.e. they are also highest in the Sierra highlands.

Government economic policies, it appears, have not helped improve the situation of the poor, despite the fact that at times this was one of their stated objectives. Analyses of the consumption effects of economic policies undertaken during the mid-1980s, for example, indicate that the economic and agricultural pricing and trade policies of the seventies (see section below for a more detailed discussion of these policies) were biased against the urban poor and the rural poor of the coast and had no measurable effect on improving the nutritional situation of the poor in the highlands. These analyses also suggest that the benefits of the food subsidies in the seventies and 1980s were concentrated in the urban population, primarily the upper income groups in Lima, and

that the deleterious effects of the droughts and floods had the **biggest** impact on the diets and incomes of the rural population. Social sector policies have also been less effective than they could have been, with the Government under-investing in primary education and health care in the rural areas, and in the Sierra and Selva in particular. The recent cholera epidemic has further weakened the health status and highlighted the tremendous deficiencies in safe water supply and sanitary waste disposal.

2. The Transitory Poor: The Effects of the Garcia Years and the Fujimori Reforms

The economic problems of the late 1980s added more people to the ranks of the poor as well as made life more difficult for those who were already poor. These problems have also influenced the distribution of the poor, with both the numbers and percentage of the poor located in urban areas increasing as more and more of the rural poor have migrated to squatter slums surrounding the major cities on the coast. According to one estimate from the National Cost of Living Survey of 1990 (ENNIV), over eight million people were added to the ranks of the poor in the years between 1985-86 and 1990. The biggest increase in poverty during these years took place in the urban areas. The number of poor in Lima, for example, increased by almost one million. This doubled the number of poor there in five years, putting tremendous pressure on the social services and community organizations that tried to respond effectively to the dramatically increased demand for their services. The number of poor in the other coastal cities also doubled during these years. In terms of actual numbers, however, the largest increase in the numbers of poor took place in the rural areas, with the number of poor in all rural areas increasing by almost 4.5 million between 1985-86 and 1990. Furthermore, almost 65% of this increase took place in the rural Sierra.

Information on the incomes and expenditures of Lima households collected during the period December 1985 and November 1990 provides more clear evidence of the growing difficulties that households, the poor in particular, have had in meeting their basic needs. For example, in 1985 households in the top 60 percent of the income distribution in Lima were able to cover 100 percent or more of their basic needs (see Graph 6). By 1990, however, only households in the top 20 percent of the income distribution fell into this category, meaning that 80 percent of Lima's households were not receiving sufficient income to cover their basic needs. For households in the bottom 20 percent, this cost/price squeeze has become critical with incomes no longer sufficient to cover even the costs of a basic diet.

Several recent analyses of trends in the prices of basic necessities suggest that the income/cost squeeze on poor households began way before the Garcia administration and

has continued into the Fujimori administration (see Graph 8). According to this analysis, Peruvians were less well off in terms of being able to cover the costs of basic necessities (including the costs of staple foods, shelter, clothing, transportation, education and health) at the end of the Garcia administration than at any time since 1973. This analysis also indicates that although the situation has improved from time to time the overall trend has been downward. A more recent analysis of price trends during 1991 suggests that this trend has continued during the Fujimori administration as increases in the costs of basic necessities have out-paced increases in the minimum and average wage (see Graph 9).

The fact that these trends have not yet shown up in increasing rates of malnutrition among children may have several explanations, including expenditure switching and the large amounts of food that have been made available to low income households primarily in urban areas through the comedores populares and other feeding programs. Poor households, for example, usually have some flexibility to protect levels of basic needs by switching expenditures to lower cost items and/or postponing expenditures on lower priority items. In the case of Peru, however, it is questionable whether the poorest households, have much flexibility left, given the fact that the decline in their real incomes has been going on for so long and that the percentage of costs covered by their current incomes is so low. Furthermore, although decisions to postpone expenditures on some items like health care may not put most families into immediate danger, as for example postponement of expenditures on food would, these too can be very damaging to family well-being over the medium to longer-term.

In summary, poverty continues to be pervasive in Peru. This means that most Peruvians lack adequate housing, education and health services as well as food. This is not a new phenomenon, but has continued to exist under a number of different government regimes and in spite of what at times has been substantial international technical and financial assistance. The data that are currently available also appear to indicate that, although the rate of growth of poverty has been faster in urban areas, poverty and malnutrition is still concentrated in rural areas where economic opportunities are still lacking and the Government is still under-investing in basic services including health, education and water.

D. FOOD PRODUCTION AND IMPORTS

Per capita food production (measured in value terms) stagnated during the sixties and has steadily declined since the beginning of the seventies (see Graph 9). Production of grains has also failed to keep pace with population growth (see Graph 10), which has resulted in the country having to increase its reliance on grain imports to meet domestic needs. Per capita production of food grains (defined to include production of wheat, rice, soft corn and the grain equivalent of potatoes) has declined even faster according to the estimates in Table 1 (i.e. from a high of 92.7 kilograms per person per year in 1970 to 55.8 kilograms per person in 1990).

As a result, food grain imports have also increased, from approximately 30 percent of the total food grain supply in 1970 to over 50 percent in 1980 and 1986. Since commercial imports require foreign exchange, a commodity that has been in increasingly scarce supply in Peru in recent years, Peru has also had to increase its reliance on donated food. Concessional imports of food grains, therefore, increased from less than 10 percent of total food grain imports in 1979 to over 30 percent in 1990.

What is important to remember, however, is that Peru does not have to produce all its own food in order to insure food security for its population. Peru is not self-sufficient in food; nor is this a reasonable objective for it to aspire to. There should be no reason, however, why Peru should not be able to pay for the food imports that it will need, particularly grain imports, assuming the policy reforms that have been introduced by the Fujimori Government are maintained and deepened and the economy begins to respond.

Food grain imports, in other words, will continue to be an important addition to the country's food supply. The important question, therefore, is not when they will begin to be replaced by domestic production, but when the economy will recover sufficiently so that concessional imports can be replaced by commercial imports. Domestic production of grains may also increase under the new policy environment, depending on what happens to relative prices under liberalized markets and whether Peru has a comparative advantage in producing these grains vis a vis other agricultural products.

One set of projections of food grain production, commercial and concessional imports, developed during the preparation of this food strategy, is presented in Table 1. These estimates are based on the following assumptions:

- * Domestic production of food grains grows at 2.8 percent per year in 1993 and 1994, returning to the average level of production for the 1980-1989

period (1.35 million metric tons) by the end of 1994, and continues to increase at a rate of 4 percent per year thereafter;

- * Commercial imports of food grains increase at a rate of 5 percent per year in 1993 and 1994 and continue to grow at a rate of 6 percent per year thereafter;
- * Donations of food grains reach a level of 380,000 metric tons in 1992 and 1993, are reduced by 5 percent per year in 1994 and 1995, and decrease by 10 percent per year thereafter, as domestic production and commercial imports increase.

Under this optimistic scenario, per capita consumption levels of food grains would reach the status quo level (defined as the average level of per capita food grains consumption for the previous five years) by 1994, although they would not reach pre 1990 levels until 2000. Nor would they meet the nutritional requirement level (local researchers have suggested that 118 kilograms of food grains per year would be needed to meet the minimum daily caloric intake requirements recommended by the FAO, for example) until 1998 or 1999. It is likely, in other words, that Peru will continue to need significant amounts of food aid over the next few years, although reductions in the quantities may be possible beginning in 1994.

E. PERFORMANCE OF THE AGRICULTURAL SECTOR AND CONSTRAINTS TO DEVELOPMENT

The health of Peru's agricultural sector is still important to the economic growth of the country even though its contribution to GDP has declined to 13 percent. Equally important for the purposes of this strategy is the role that the agricultural sector can play in helping to reduce the amount of food insecurity in the country. There is still considerable potential for increasing the production of food crops under an appropriate pricing incentive structure as well as for producing high value, legal crops which can be exported and the foreign exchange used to pay for commercial food imports, for example. Furthermore, since the agricultural sector still employs 35 percent of the economically active population and 47 percent of the total population still lives in rural areas, it also has an important role to play in generating additional income in rural areas and creating additional employment, both of which are important if poor rural households are to be able to increase their access to food. As was discussed earlier, these households contain some of the poorest and therefore most at nutritional risk among the Peruvian population, and increasing productivity in the agricultural sector, particularly in the Sierra, is vital to improving their well-being.

Peruvian agriculture has been in crisis for a number of decades. Agricultural output in the last two decades has grown at a slower rate (1.2 percent per year) than population (2.6 percent per year). The result has been a declining level of per capita production (see Graph 9). Overall agricultural growth (value added in the agricultural sector) was stagnant during the seventies when the land reform and the development of the agricultural production cooperatives had an adverse effect on production levels and investment in agriculture (see Graph 11). Growth during the eighties was positive, due to a somewhat improved policy environment, but sluggish. Output increased during the eighties, primarily in poultry, rice and yellow corn -- crops which accounted for 35 percent of gross agricultural output in 1989. In the last few decades, little new land has been brought into cultivation, and yields for most crops are low and have increased slowly.

An unstable macro environment and a policy bias against agriculture has been one of the major constraints to the development of the agricultural sector. The macro policies followed by most of these Governments resulted in an overvalued exchange rate during the sixties, most of the seventies and the latter half of the eighties (see Graph 15). These policies together with an import-substitution trade policy helped turn the terms of trade against the production of food and other agricultural products. This reduced profitability in the sector and discouraged investments to increase productivity. The overall effect was quite favorable for urban dwellers but detrimental to agriculture and agricultural producers; some indication of the impact of these policies on profitability in the agricultural sector can be seen in Graph 14 which shows trends in the real value added per capita in the agricultural sector over the twenty years between 1969 and 1989 and real per capita rural purchasing power. The decline in rural purchasing power has been particularly severe, i.e., it was in fairly consistent decline between 1977 and 1985, increased somewhat in 1986 and 1987 and went into a drastic decline thereafter. These policies increased rural poverty and resulted in an enormous migration to the cities.

The macro economic environment during the eighties was particularly unstable and unfavorable to agriculture. The attempt to liberalize the economy during the early eighties was reversed in July 1985 when the Garcia administration established multiple but fixed exchange rates and implemented an extensive price freeze to control inflationary pressures. These policies, followed by heavy government spending to stimulate demand, resulted in the depletion of reserves, an increased fiscal deficit and inflationary pressures. By 1988, the massive, untargeted food subsidies reached \$500 million. The schemes devised to compensate producers for low prices, such as the Agricultural Reactivation and Food Security Fund and input subsidies, collapsed in 1988 when annual inflation reached 1722 percent. And agricultural production took a sharp downward turn in 1989-91.

The Fujimori administration has taken a number of important steps designed to improve the macro economic environment and reduce the distortions in the agricultural sector and encourage private sector investment. Unfortunately, the accumulated damage of the past twenty-five years and the shocks sustained over the past five years have left a crippled private sector and a rapidly changing public sector, as the present administration moves to privatize parts of the research and extension system, agricultural credit and the food and agricultural marketing parastatals. It will take time for the private sector to recover and adjust to the changed policy environment and for the modifications in public/private sector relationships to work themselves out.

In the short run, however, low levels of profitability, in coastal agriculture in particular, are pushing the Government to modify its initial policy framework and to provide more protection to agriculture. The overvalued exchange rate is a major part of the problem, making potential export crops less attractive to international markets and imported foods cheaper relative to domestic production. Imposing surcharges on imports of key foodstuffs has been one attempt to increase profitability. The surcharge is particularly attractive, because it is seen as a way to increase the amount of resources available for the Government to spend in the agricultural sector, including to increase the amount of agricultural credit available to the sector. Private investment in agriculture will not increase until profitability increases. And in the longer-run, profitability, particularly in export agriculture, is not likely to increase until the exchange rate problem is dealt with.

Peru's geography complicates efforts to develop the agricultural sector. The ecology is different in the major agricultural areas -- the Coast, the Sierra and the Selva -- as are the cultural approaches to the use of resources, social organizations, and technologies in use. These three areas are also poorly linked by roads and other communication facilities. The result is that the same policy will have different effects in different regions of the country. A different combination of policies and programs will be required to promote growth in the Sierra, for example, than in the coast.

The most productive areas in the country are the irrigated coastal valleys, which is where many of the Government's programs and investments in agriculture have been concentrated over the years. In fact, during the past two decades, public investment in agriculture has been concentrated on large and costly irrigation projects, leaving few resources for other investments with greater social returns. The overall portfolio of these irrigation projects totals \$7.4 billion, which represents approximately 40 percent of GDP and over twice the value of exports. The coast holds 53 percent of the population and contains 21 percent of the total land area of the country suitable for farming (one half of which is irrigated). The most important agricultural crops have been poultry, cotton, rice, sugar cane, and yellow corn. Agriculture here is suitable for the production of high

value, cash crops. The coastal areas also have the advantage of having the best transportation and communication links with the major domestic and international markets. However, over the years, the mix of crops produced has been more a reflection of Government product and pricing policies than of comparative advantage.

The Sierra holds 36 percent of the population and 18 percent of the total land suitable for farming. This region has a limited productive land base; nearly 80 percent of its cultivable land is rainfed, is distributed over abrupt topography and suffers from severe weather conditions. Investment in physical and institutional infrastructure is limited and has been associated primarily with mining. Agricultural productivity, consequently, is very low. The Sierra is also poorly linked with the large domestic markets on the coast as well as with international markets. The most important crops are potatoes, white corn, wheat, barley and some native crops. Livestock (with the exception of poultry) is also important. Government pricing policies have had few positive and many negative effects on agricultural production in this area. Producers in the Sierra, for example, benefitted little from the price increases that occurred early in the Garcia administration, for example (prices for the commodities they produce did not increase as much as the prices for coastal products); nor was much of the subsidized credit made available to them. However, having gained less, they also had less to lose when the Garcia administration programs collapsed.

The Selva accounts for 61 percent of land suitable for farming and 11 percent of the population but only produces 15 percent of total agricultural output. This region is characterized by torrential rainfall, fragile ecosystems, acid soils, pest problems. Highly productive areas such as the central Huallaga valley also have to contend with the difficulties and high expenses of getting their products to coastal markets. In the upper Huallaga valley, production and transport problems associated with legal crops have contributed to the large number of farmers becoming involved in the production of coca.

Political violence and coca production also significantly impinge on the development of the agricultural sector. The State has ceased to be represented in many sections of the country. And political violence has caused 15,000 deaths in the last decade, of which three fourths were civilians.

Natural disasters, exceptionally frequent in a disaster-prone country like Peru, have often had severe detrimental effects in the agricultural sector. During the most recent 10-year period alone, widespread destruction of irrigation system infrastructure, major erosion of topsoil, inundation of farmland, and damage to or disappearance of critical sections of market roads caused by flooding, landslides and earthquakes, have had calamitous consequences for agriculture, as have the effects of major droughts, mentioned earlier.

The health of Peru's agricultural sector is still important to the economic growth of the country, however, even though its contribution to GDP has declined to 13 percent. Equally important for the purposes of this strategy is the role that the agricultural sector can play in helping to reduce the amount of food insecurity in the country. There is still considerable potential for increasing the production of food crops under an appropriate pricing incentive structure as well as for producing high value, legal crops which can be exported and the foreign exchange used to pay for commercial food imports. Since the sector still employs 35 percent of the economically active population, it also has an important role to play in generating additional income in rural areas and creating additional employment, both of which are important if poor rural households are to be able to increase their access to food. These households contain some of the poorest and therefore most at nutritional risk among the Peruvian population, and increasing productivity in the agricultural sector, particularly in the Sierra, is vital to improving their well-being.

Increased productivity, however, will not offset the food needs of a growing population, particularly when emergency levels of donated commodities begin to decrease in 1994. As a result, import requirements will increase steadily through the 1990s.

Under the optimistic scenario presented in Table I, consumption per capita levels creep upward but do not reach status quo levels (defined as the average level for the previous five years) until 1998 and do not reach the nutritional requirement level (defined as the number of kgs of food standards) until 1999. This implies gradually decreasing food grain deficits terminating in 1998 or 1999.

Under any scenario, it appears likely that Peru will continue to need significant amounts of food aid over the next few years, although reductions in the level of food aid should be possible beginning in 1994.

IV . USAID/PERU'S FOOD ASSISTANCE PROGRAMS

A. GENERAL

Food assistance has been an important part of the U.S. economic assistance program to Peru, at least in value terms, since the fifties. In fact, over \$640 million worth of economic assistance has been made available to Peru between 1955 and 1990 through the Titles I and II programs, with over two thirds of the total food aid being provided between 1978 and 1990. Food aid accounted for over 40 percent of total aid over the entire period and for over 50 percent of total economic assistance between 1978 and 1990. In 1990, the year before the big ESF program, Title I and II actually accounted for over 70 percent of the U.S. economic assistance to Peru, and in 1991, even with the ESF program, it still accounted for over 50 percent (see Graphs 16 and 17). Another \$30 million plus can be added to this total, if one also takes into account the value of the Section 416 commodities that have come into the country since 1984. Food aid, as discussed earlier, has also come to constitute an important component of the country's food supply; shipments under the FY 93 Title III program are estimated to supply almost 30 percent of the country's wheat supply, for example.

B. TITLE II PROGRAMS

1. General

The first Title II program was developed for Peru in 1954, and Peru has received Title II resources every year since then, unlike the Title I program which was discontinued between 1965 and 1977. In terms of total resources, Title II has also played a more dominant role than in many countries, accounting for a little more than half of the total value of U.S. food aid resources made available to the country between 1955 and 1990. The Peruvian Title II program also looms large when viewed from a global perspective; it has been the fourth largest program in the world in the last three years, for example.

Not surprisingly, the impact of the program within Peru has been widespread and significant. Between 1982 and 1987, an annual average of approximately 1.8 million of the most malnourished and impoverished Peruvians from depressed rural and marginal urban areas directly benefitted from the regular Title II program activities. Of the major Title II program categories, Food for Work community development projects reached approximately 419,000 beneficiaries per year, Maternal Child Health (MCH) activities 126,000 beneficiaries, and Other Child Feeding Programs (including school lunch programs) 93,000, for a total average of 638,000 beneficiaries reached every year through the combined Title II feeding programs (see Table 2 and 3). In addition, the

Section 416 supplementary feeding program reached an average of 1.2 million persons annually during the same period.

Several major changes in program emphasis were begun in the latter part of the eighties as AID and the PVO community began to better define the real nature of the problems they were trying to address. The first major change in thrust was for the PVOs to re-target their programs progressively toward the rural poor and to activities designed to help deal with the economic bases of their poverty. This was in response to studies that indicated that the best off of the rural poor were living in conditions worse than the most needy of the urban poor. Similarly, resources previously directed to school feeding programs were redirected to pregnant and lactating mothers and children under six years of age. This was in response to research and experience which identified these population groups as the most vulnerable nutritionally.

Progress in these directions was halted, however, beginning in 1989 as AID and the PVOs tried to respond to the effects of the growing economic crisis. In 1989, for example, the regular Title II program was increased from 35,000 metric tons to 50,000 metric tons; in 1990, the program was expanded again to 86,000 metric tons, 30,000 of which was emergency support to provide a safety net for those immediately affected by the economic crises; and by 1991, the program had increased to 98,000 metric tons, 48,000 metric tons of which was used to support the safety net program. This means that proportionately, more resources are now going to deal with the transitory food security problems caused by the economic crises during the latter years of the Garcia administration and the shock of the adjustment to the Fujimori reforms introduced in 1991. It also means that proportionately more of the resources are now going back into the marginal urban areas of the country as opposed to the poorer rural areas. In total, slightly less than half of the current food assistance program is focussed on activities that directly target the most nutritionally vulnerable or that will result in income or productivity increases through microenterprises, agricultural production, employment generation or food for work activities. The other half is concentrated on relief or supplementary feeding programs primarily in poor urban areas of the country.

2. Specific Programs - Background

In 1987 the Mission food-aid program consisted of three on-going Title II direct distribution programs implemented by CRS/CARITAS, ADRA/OFASA and CARE, one food-assisted reforestation program implemented by the PVO SEPAS, and one bilateral Section 416 program implemented by the Ministry of Health.

USAID's policy was to maintain the number of commodities per cooperating sponsor to a minimum. In most cases, these were non-fat dry milk (NFDM), vegetable oil and a cereal or cereal product: wheat flour for CARITAS, ADRA/OFASA and SEPAS, rice for CARE and bulgur (additionally) for ADRA/OFASA. The highly subsidized NFDM helped provide a cost-effective and nutritionally sound ration mix (adding protein to the rations), but the Mission/PVOs were not able to address satisfactorily problems related to lactose intolerance and the actual preparation of the milk in liquid form in many parts of the country. Also questionable was the appropriateness of NFDM as a food-for-work commodity, i.e., a product representing a real increase in family income in keeping with the traditional, basic family food basket.

The real objective of the direct distribution programs was to reach as many needy Peruvians as possible with a supplementary ration of donated commodities. Coverage was generally determined by the specific relationship between the targeted population and the cooperating sponsor, with minimal input from the Mission or AID/W. In the case of the MOH Section 416 Program, the Mission gradually nudged the program away from a focus on primary school feeding to targeting families in high risk of malnutrition. CARITAS' and ADRA/OFASA's food distribution was linked in theory to the participation of beneficiaries in some program activity, e.g., food-for-work or maternal child health, while in practice distribution was often made on the basis of need alone. With institutionalization of the multi-year planning process, increased emphasis was placed on linking food distribution with development oriented and technically sound program activities. However, in many cases (particularly CARITAS and ADRA/OFASA) this was a top-down process never fully assimilated or institutionalized by the implementing agencies. In the case of the CARE Basic Infrastructure Program PIBA and the SEPAS Reforestation Project PRAA, this development and technical orientation of food assistance was incorporated in the original program design. The design of the ARCA and PRISMA/MOH projects also reflected concrete quantifiable goals and objectives.

A number of events and studies served to influence the course of the USAID/Peru food-aid program from 1987 to the present.

In 1987, the Mission and the PVOs institutionalized the multi-year operational plan process and documentation.

In 1986/87, RIG conducted an audit of the PVO Title II Programs and identified various areas requiring improvement.

A 1987 evaluation of the food-assisted reforestation project (SEPAS/PRAA) recommended its continuation and redesign.

In 1988, NFDI and butteroil were no longer available under the Section 416 Program. This commodity limitation and the pressing need to improve the overall administration and management of the program led to a comprehensive evaluation of the MOH program and its subsequent reformulation.

The Mission contracted a specialist to assist in the installation of a commodity tracking system based on his design of a similar system developed for the USAID/Bolivia food assistance program.

Planning Assistance, contracted in 1986 to assist and train Title II PVO personnel in the development of multi-year operational plans, was again contracted by the Mission in 1988 to assess the PVOs' management capabilities.

The FFD Division conducted a major six-year food-aid program review and published the data collected and conclusions in a program review document (January, 1988).

Based on these studies, assessments and evaluations, a number of decisions were made and actions taken between 1987 and 1989 to continue moving the USAID/Peru Title II Program toward development oriented projects within the "food-for-work" category and toward a more technically oriented integration of food assistance with other child survival and maternal health interventions. The principal results were as follows:

After a review of twelve institutions, in March, 1988, the Mission signed an OPG with CARE/Peru to reformulate the PRAA reforestation project and implement a food-assisted agroforestry, soil conservation program (ARCA).

Building on an AID/W review of the Section 416 direct distribution food program in Peru and a USAID funded evaluation of the bilateral Supplementary Feeding Program through the GOP MOH, the Mission signed an OPG with a Peruvian PVO, "Asociación Benéfica PRISMA", to design and implement (in close coordination with the MOH) a Title II program (PANFAR) which would 1) successfully identify high-risk families, 2) integrate food assistance to identified beneficiaries with other child survival and maternal health interventions, and 3) establish jointly with the MOH and place in operation a permanent national-level nutritional surveillance system.

The Mission contracted Planning Assistance to assist in the institutional strengthening of ADRA/OFASA.

In early 1990 new directors were appointed to manage the CARITAS and ADRA/OFASA programs. In both cases the new leadership accelerated the turn to more technical and development oriented food aid program activities.

The FFD Division designed and installed a financial management system to monitor OPG and Monetization support of the Title II programs.

The Mission contracted a consultant to design, develop and test a system to track project performance through the monitoring and reporting of major outputs and beneficiary targets of the Food for Development Programs.

The Mission developed and obtained approval for a multi-year Title II Monetization Program to provide the principal funding support for the Mission's food assistance programs.

The Mission obtained AID/W approval for a major expansion in food assistance to Peru to mitigate the impact of economic adjustment measures undertaken with the change of government in 1990.

An emergency Section 416 Program was mounted to provide rapid, accessible employment and income generating opportunities among the sectors of the population most hard hit by an economic recession of unprecedented proportions.

Section 202(c) Farm Bill funding became available in 1991 to support both the U.S. and local PVO cooperating sponsor food aid programs.

A one-time major allotment of excess food supplies from the Department of Defense (DOD) enabled the Mission to respond to numerous requests for assistance to institutions such as hospitals, orphanages and homes for the indigent elderly, experiencing severe budgetary constraints and with commitments to feed high-risk population groups.

Four PVOs currently implement Mission supported food assistance programs which are designed to promote health, nutrition, family planning services delivery, support agricultural production and income generating activities, and develop rural and urban social infrastructure to benefit the poorest segments of the Peruvian population.

In the nutrition area, through different project activities and in varying degrees of effectiveness all the current USAID/Peru food supported programs attempt to address nutrition problems related to morbidity and mortality among the poor in depressed rural and urban areas of Peru. The PRISMA/MOH Integrated Food, Nutrition, and Child Survival Project is the single most comprehensive effort to identify and assist families at high nutritional risk by providing supplementary feeding in coordination with other child survival interventions. The CRS/CARITAS and ADRA/OFASA programs are improving their beneficiary targeting through the development of a growth monitoring system with the technical assistance and training provided by the Nutrition Research Institute (IIN). In the context of the CARITAS and ADRA MCH programs, the implementation of this system and the geographical coverage achieved to date are partial. Training of nutritionists and health promoters continues, and locally generated data are beginning to be consolidated at the regional and national levels, though computer equipment to process the data is not in all cases available at the regional and diocesan levels.

CARE is expanding its food distribution through community feeding centers in coordination with the local Departmental Health Units and several Regional Governments. The thrust of this CARE project is the establishment of viable, self-sustaining "comedores", and the nutrition component is not completely systematized. In all cases the voluntary agencies are working in the absence of or with limited and locally focused information on the nutritional status of the target population. There are no available longitudinal nutritional studies at the national level in Peru. An objective of the PRISMA/MOH food aid program is the establishment of a national nutritional surveillance system which should be operational in three of the recently created political regions of Peru by the end of FY 1992.

The other priority food assistance area has to do with production oriented activities. Among the food aid program voluntary agencies some projects are conceived and planned as interventions to increase income or productivity in a sustainable fashion, with food aid as a complementary input. Others are basically allotments of food used to support a variety of community initiatives which have varying degrees of developmental impact over time.

In the first instance, the CARE Agroforestry Project "ARCA" is currently the most notable example of a project that is conceived and planned as a development activity with food distributed as a complementary and secondary input, and intended as partial compensation for beneficiary participation.

With reference to the second category of project activities which involve approximately two-thirds of the food distributed through the CARITAS and ADRA regular programs,

the overall purpose is to complete productive infrastructure at the local level which in time achieves the developmental impact desired by contributing to improved agricultural production (e.g. canals, mini-reservoirs), marketing (roads, bridges), or the production of goods (community centers, workshops). Priorities are generally established by the local communities and the projects often implemented in collaboration with other entities from both the public and private sector. Technical assistance, equipment and materials are usually provided by these counterpart institutions, though the voluntary agencies also program these inputs on a limited basis. Given the vast number of projects that are supported by this food-for-work methodology, on-site supervision is sporadic and incomplete and often complicated by limited resources and security concerns. Accurate information as to what is completed and what actually functions in many instances does not reach the central offices.

In-kind credit has also been used for some food supported activities. Two main examples are the seed potato credit program to improve and increase potato production in the high sierra, and a credit program designed to support micro-enterprise activities of women involved in the management of community feeding centers. These food-assisted credit activities aim among other goals to increase income, improve production and promote stable self-sustaining employment.

3. Current Programs

a. CARE

CARE in Peru is a strong, developmentally-oriented PVO working closely through community and GOP organizations (ONAA, Regional Governments and the Ministries of Agriculture and Health) and does not have its own food distribution capacity. CARE is staffed with development professionals, and receives appropriate technical support from CARE/NY. The CARE PRODIA project aims to strengthen community organizations and improve family incomes and nutrition levels of the poor residents of depressed urban and peri-urban areas of some of the major cities in Peru. The main project component assists groups of women in their efforts to provide essential family food requirements through community soup kitchens (comedores), while other components provide credit for the development of small-scale enterprises and other income-producing activities, food assistance to special institutional groups (homes for abandoned or mentally retarded children, and for the indigent elderly), and food-for-work support to communities which have taken the initiative to undertake basic infrastructure improvements.

CARE also implements an agroforestry food-for-work program in selected sierra communities, promoting improved soil conservation practices and the installation and

maintenance of communal nurseries to protect natural resources and recuperate scarce arable land.

b. CARITAS

CARITAS has institutionally been one of the strongest of the food aid PVO's, with an established country-wide food and social assistance network through the Catholic Church structure. While still in need of reinforcing its management capacity, CARITAS has made significant progress in implementing a more technical and development oriented food aid program. Utilizing its extensive diocesan network, CARITAS has developed a highly technical and well coordinated child survival program, and continues to support a wide range of activities related to improved food production and productivity, and to the promotion of income generating initiatives.

c. ADRA/OFASA

ADRA is the Relief and Development Agency of the Adventist Church in the U.S., and has virtually no identity in Peru apart from the USAID-supported Title II program. ADRA has an established food distribution network, through its regional and zonal offices, providing support to a large number of small projects. Some notable problem areas of the ADRA/Peru program are its multiplicity and dispersion of project activities, its limited technical staff and its lack of non-USG resources. In an attempt to consolidate and provide a more technical focus to this wide range of project activities, ADRA/OFASA is orienting its food aid to selected health and nutrition interventions among pregnant and lactating women and children under 6 years of age, to the promotion of greater food productivity through agricultural credit, technical assistance and tools to farmers with below average yields, to the establishment of group-operated micro-enterprises, and to the support of agricultural-related and other productive community infrastructure activities.

d. Asociación Benéfica PRISMA

PRISMA is a Peruvian PVO, created in 1986, specializing in information systems, nutrition and health. The organization is technically very strong in all of the above disciplines, and well suited to providing technical assistance to food aid programs implemented by other organizations. It does not have an established food distribution capacity, and currently works as technical counterpart to the GOP Ministry of Health. Through a tested and effective targeting methodology, the PRISMA PANFAR program attempts to identify and improve the nutritional status of mothers and children (0-59 months) of families identified as being at high risk of child malnutrition or death, and to

integrate the supplementary feeding program of the Ministry of Health with maternal and child care interventions at local health establishment levels.

C. SECTION 416 PROGRAM

Expanded levels of direct food assistance in light of the severe economic adjustment measures undertaken by the present Government proved to be an effective element to help the poor feed their families and mitigate the effects of unemployment and the prolonged and deepening recession. However, to be most effective after the short term, the Mission proposed that these food assistance programs be complemented by rapid employment generating activities. A US dollars 19.1 million Section 416 Program donation of maize and sorghum was approved in 1991 to provide a timely response to the immediate needs of the poor unemployed and underemployed. Funds generated from the sale of the maize and sorghum were programmed to finance labor-intensive project activities of the private PVO/NGO and public sectors, which, in turn, are designed to provide rapid, accessible employment and income generating opportunities among the most affected sectors of the population.

D. TITLE III

The Agricultural Trade and Development Act of 1990 created a new Title III program. This program is similar to the old Title I program but a donation program rather than a sales program, can be multi-year, and is managed completely by AID (The legislation also created a new Title I program which is a sales for dollars or local currencies program and is managed by USDA). According to the new legislation, "The overall goal of the Title III program is the enhancement of food security in the developing world." The Act defines food security as "access by all people at all times to sufficient food and nutrition for a healthy and productive life." It requires AID to make improved security an important factor in making decisions whether or not to enter into Title III agreements with countries.

Food security is used as a key factor in determining whether individual countries are eligible for the program. Peru, for example, was designated a food deficit country and thereby eligible for a Title III program because it met three indicators of national food deficit and malnutrition:

- * Calorie Consumption -- Peru's per capita calorie consumption was below 2,300 calories per day;

- * **Child Mortality Rate** -- The mortality of children under five was greater than 100 per 1000 births;
- * **Food Security Requirements** -- Peru cannot meet its food security requirements through domestic production or imports due to a shortage of foreign exchange.

Food security concerns are also to be used in determining which countries are to be given priority. In fact, the Act specifically directs the Administrator of AID to give priority to countries that:

- * Demonstrate the greatest need for food;
- * Demonstrate the capacity to use food aid effectively;
- * Have demonstrated a commitment to policies to promote food security; and
- * Have a long-term plan for broad-based, equitable and sustainable development.

The Mission entered into its first Title III program with the GOP in FY 1991 after 13 years of experience with Title I programs (Title I programs were actually in effect in Peru in 1955-1958, 1960-1962, 1964 and 1978-1990). The initial Title III program was for the importation of 176,000 metric tons of wheat with a value (including freight) of \$30 million. The local currencies generated by the sale of the wheat were handled in the same manner as the earlier Title I programs, incorporating them into the GOP budget where they were used primarily as counterpart contributions to AID projects.

A second Title III program was designed to cover a two-year period (FY 1992-FY 1993), with an annual value of \$50 million. Wheat was also requested for this program, since large quantities can be imported without risking any disincentive effects on local production. This program introduced a number of changes in the way in which the Title III commodities and funds will be managed (see following discussion in the Strategy section on "Uses of Local Currencies"). Consistent with AID/W guidance, it also included several significant policy changes which are to be negotiated with the Government for implementation over a two-year period as part of this Agreement (see following discussion in the Strategy section on the "Title III Supported Policy Reform").

V . PROGRAMS OF THE GOVERNMENT AND OTHER DONORS

A. GOVERNMENT PROGRAMS

The GOP is reducing its profile in direct food security interventions. It maintains an overall interest in the policy framework that will encourage food security, but has for the most part left project implementation in the hands of non-governmental institutions. The GOP social compensation and agricultural emergency programs have not received much more than the minimum of guidance and resources. The message in agriculture is clearly for producers to stop waiting for government help and to listen to the message of the marketplace. There will be no subsidies and very little direct assistance; agriculture will have to be competitive. The social program has not received a budget to match its mandate either.

Present interventions in social welfare include INADE and FONCODES which are managing public works projects in order provide temporary employment to unemployed people in both rural and peri-urban areas. INADE handles about \$18 million through local governments, voluntary agencies or community groups, and FONCODES is starting activities with \$25 million social component of the IDB structural adjustment credit. The GOP program does not go much beyond this.

The situation in agriculture is similar, with little in the way of government programs to support the sector. The subsidized credit provided by Banco Agrario led to its liquidation. While this will reduce needless burden on the GOP budget, there is little in place to provide credit on commercial terms to small producers. The Ministry of Agriculture is examining the possibility of encouraging cajas rurales de credito, but lacks funds to do so. The situation is similar in agricultural research and dissemination, with a hasty privatization leaving very few services for small farmers.

B. OTHER DONOR PROGRAMS

Peru has a variety of other donors, including the members of the United Nations system, the multilateral development banks and funds, and individual bilateral donors. On the macro economic level, the banks are the leading donors, with conditional lending linked to structural and sectoral adjustment. The conditional provisions of ESF and Title III assistance are closely coordinated with these agencies. Getting the policy environment right is extremely important in setting the framework for food security, and for that reason it has been stressed in the Title III proposal.

After the United States, the World Food Program (WFP) is the most important food aid donor. In 1992, it will bring in about 27,000 tons in regular program resources and manage an additional 13,000 in bilateral donations. The WFP is also seeking approval of a new emergency program to support comedores in peri-urban areas via FONCODES and Caritas. The EEC and Canada are large donors, with Spain, Italy, Germany, and France also providing assistance, primarily in monetization programs that generate local currency funds used for development projects. Although there is a coordination committee chaired by the WFP, many bilateral activities are presented as fait accompli.

VI . USAID/PERU'S FOOD ASSISTANCE STRATEGY PURPOSE AND OBJECTIVES

The purpose of the Food Assistance Strategy is to make sure that the food assistance resources made available to the Mission are used in a coordinated and integrated manner to support the Mission's Strategic Objectives as well as the broader goal of "broad-based, sustainable economic growth" of which improved food security for Peru is a part.

A. CONTRIBUTION TO MISSION OBJECTIVES

The Mission's Food Assistance Programs (primarily Title II and III) will be integrated with Development Assistance and ESF resources in a coordinated manner to achieve the five Strategic Objectives that are defined in the Country Development Strategy Statement (CDSS) (1992-1996) that was approved in mid-1991. These objectives, listed in descending order of priority, are to: (1) support the development in Peru of an overall policy framework and structural reform program that promotes economic stability and broad-based, sustainable growth; (2) assist in reactivating the private productive sector to generate employment, foreign exchange, and increased productivity; (3) replace coca-based employment and foreign exchange earnings with legal alternatives; (4) support the development of democratic institutions that reinforce economic freedom; and (5) improve health status through increasing access to quality primary health care.

The food aid resources will be directed primarily toward supporting the objectives of policy and structural reform, reactivating the private productive sectors, and improving health care. ESF resources will be used to directly support the Mission's counternarcotics efforts as well as the objectives of supporting economic stabilization and structural reform and strengthening democratic institutions.

1. Policy Reform

The food assistance programs impact on the Mission's first Strategic Objective in a number of ways:

The balance of payments aspect of the Title III program contributes to this objective, i.e. the resources made available through this program will, along with ESF funds, make it easier for the Government to maintain its commitment to macro-economic reforms. Title III also has food security policy conditions attached as an integral part of the program;

The targeting of Title II food (through the comedores populares, in the marginal urban areas in particular, for example) provides a safety net for low-income households and helps to contain social unrest that could jeopardize the Government's maintenance of its economic stabilization program;

The food imported under both Title II and III adds to the country's food supply, which enables the Government to maintain per capita calories at current levels without having to add to its bilateral debt burden to do so. This aspect of the program, although more general in impact, also helps contain social pressures and thereby contributes to the policy reform objective;

The local currencies generated under Title III, which are jointly programmed, will be used to provide additional support to activities that complement and strengthen implementation of this objective.

2. Reactivation of the Private Sector

The food assistance programs will also be designed to contribute to the Mission's second Strategic Objective:

The policy dialogue component of the Title III program will support policy reforms designed to privatize the food import system and to help the agricultural sector respond more effectively to the new macro-economic environment;

The local currencies generated under Title III will also be used to provide additional support to activities that complement and strengthen implementation of this objective;

The use of Title II food (supported with local currencies generated from Title II and perhaps Title III) to increase employment opportunities and improve agricultural productivity and incomes among the most needy in the rural and urban population also contributes to the Mission's second Strategic Objective. The nature of this contribution is special, however, because it draws families that historically in Peru have been economically disadvantaged into the market economy and thereby contributes to the broad-based aspect of the Mission's goal of "broad-based, sustainable economic growth;"

3. Health Improvement

The food assistance programs will also contribute to the Strategic Objective of "Improved health through access to quality health care."

The local currencies generated under Title III will be used to support activities that complement and strengthen implementation of this objective;

The use of Title II food (also supported with local currencies) to draw poor families with children at risk of malnutrition into the health system for vaccinations and other health services and health and nutrition education as well as supplemental food also contributes to this objective.

B. CONTRIBUTION TO IMPROVED FOOD SECURITY

Priority attention will also be given to the promotion of food security in Peru, which is defined as "access by all people at all times to enough food for an active and healthy life." This is the definition popularized by the World Bank and it is the definition that is used in the new U.S. food aid legislation. Food insecurity, under this definition, occurs when people lack access to sufficient food -- a problem which clearly faces a large number of people in Peru, as was discussed earlier, particularly in rural areas.

Three basic elements of food security are the availability of food, the ability to acquire it, and its proper utilization. Countries cannot achieve food security unless the food supplies available in the country are sufficient to supply every person in the country with an adequate diet -- the supply side. The necessary food supplies can be produced domestically; they can be imported commercially or through concessional aid programs; and, in the short-run, they can be drawn from stocks. Achieving food security also means that households whose members suffer from undernutrition will have to have the ability to acquire sufficient food -- the demand side. Some households will be able to produce sufficient food to feed themselves. Others will have to rely on being able to earn enough money from farm and non-farm activities or through income transfer, food subsidies, etc. to be able to purchase a nutritionally adequate diet. To achieve improved food security, people also have to know what constitutes a nutritionally adequate diet. Access of household members to adequate health services and water and sanitation facilities is also an important component of improved food security if one wants to insure that increased access to food is actually translated into improved health and nutrition.

The Mission's food assistance programs will contribute to **all** three of these elements. Title II deals on a more micro level, channeling food and/or monetary resources from

monetization to needy populations through PVO programs. Title III works on a more macro level, using food policy conditionality and local currency programming to support broad food security objectives.

1. Increased Food Availability

The food imported under Titles II and III, as discussed previously, increases the aggregate amount of food available in the country. This is a short-run effect, but one that is extremely important right now during the crucial adjustment period (with the scarcities of foreign exchange and the serious debt burden) because it enables the Government of Peru to assure a minimum level of food availability for the population as a whole. Some consider these and other concessional food imports to be key to containing social unrest in the country. Information from the WFP provides an idea of the current magnitude of these contributions to the country's food supply. In 1989, food assistance to Peru amounted to 183,000 metric tons (including other food grains and products in addition to wheat), in 1990 these contributions rose to over 330,000 tons, and in 1991 to over 500,000 tons. The food itself, however, does not assure the achievement of longer-term food security goals.

Food security in Peru also requires improvements in the functioning of food markets, grain markets in particular, including making them more responsive to consumer demand. The Title III program will support the Government and its commitment to promote competition in food markets by reducing the role of State owned enterprises in both domestic and international markets. Since it is unlikely that Peru will ever be self-sufficient in food, the food import system, in particular must be made more transparent and efficient. The Title III program will address this problem in two ways -- through policy analysis and dialogue and through the design of a new sales system for Title III imports.

Since import substitution is not a viable policy for Peru, improved food security in Peru ultimately depends on the economy growing again so that the country can afford to import commercially the foodstuffs that it is not economic for Peru to produce in large quantities. A more productive agricultural sector has an important contribution to make to increased food availability by producing those foods that it has a comparative advantage in producing and to produce high value agricultural exports (legal) to earn part of the foreign exchange needed to pay for commercial food imports. The Title III program will support the reactivation of the agricultural sector through policy analysis and dialogue directed in the first two years at developing more effective agricultural research and extension institutions and rural financial markets and through local currency support to DA supported projects.

2. Improved Access by the Poor

Targeted food subsidies are often needed to protect the **poor** during the structural adjustment process during the period after the general food **subsidies** have been removed and before the effects of the economic policy reforms **show up** in increases in employment and wages. This is particularly important in **Peru** where the problems of adjustment are affecting large numbers of households that were already adversely affected by the ill conceived policies of the Garcia administration as well as other previous administrations. The Title II direct feeding programs (such as the comedores populares that CARE supports in Lima and the direct feeding programs that CARITAS supports in urban areas in the rest of the country) together with similar programs supported by other donors such as the World Food Program are the most important activities under way designed to improve the access by the poor to food during **this** difficult period of time. These are temporary, but important programs.

In the long-term, the only solution to food insecurity in **Peru** is to increase the productivity, employment and incomes of the poor so that **they** can afford better diets. The well-being of the poor cannot improve in an economic environment like the one that existed in Peru during the late eighties. Nor is it likely to improve in an environment in which economic growth is stagnant. To improve household food security in Peru, one of the first things that the Fujimori Government had to **do** in 1990 was to get the economy moving again, and this was one of the major purposes of the reforms that were begun in 1991 and are being continued today. These reforms, because they were designed to eliminate price distortions in the economy and to encourage increased private sector investment, should increase the demand for labor **in** the country and thereby contribute to the reduction of poverty.

The Title II programs also contribute to long-term food security in a more targeted manner by using food and local currencies to support a **variety** of activities designed to increase the productivity and incomes of the most needy among the urban and rural poor. In the rural areas the emphasis is on increasing employment and incomes through increases in agricultural productivity and in the urban areas through increases in employment opportunities through micro-enterprises.

Programs designed to improve levels of health and education among the poor (expenditure of Title III local currencies and Title II health oriented programs) are important means for increasing the productivity of the poor over the longer-term and will provide them with a basis for participating more effectively and productively in an expanding economy.

3. Improved Food Utilization

The use of Title III currencies to support Mission programs designed to strengthen primary health care services and to extend these services along with improved water and sanitation facilities to rural and marginal urban areas will contribute significantly to the ability of poor households to make better use of the food that they are able to acquire.

Insofar as possible, food aid should promote the overall health strategy for Peru both directly and indirectly. The use of Title II foods (also supported with local currencies) to draw poor families with children at risk of malnutrition into the health system for the delivery of health services and nutrition education will make a direct improvement in the health status of these participants as well as giving them the knowledge to make sounder choices about the content of their diets. Good nutrition improves food utilization and prevents repeated episodes of infections. Consequently, providing nutritious foods and training beneficiaries about proper nutrition can have benefits far beyond simple food distribution. In addition, knowledge about the importance of breastfeeding and the introduction of sufficient supplemental foods at the appropriate time is very important given the high rates of stunted children in Peru, particularly in the rural areas.

VII . FOOD ASSISTANCE STRATEGY

A. GENERAL

This Strategy is based on four major premises:

Food aid resources are a critical input to the achievement of the Mission's Strategic Objectives as well as to the longer-term goal of improved food security.

Peru cannot achieve long-term food security unless it is able to design and maintain an economic policy framework that is conducive to broad-based, sustainable economic growth. Peru has made considerable progress in this direction since 1991, but many problems still remain, with the fiscal problem and the inability of the Government to prioritize and reduce expenditures being among the most important of the macro economic problems. Continued Mission support to the development and maintenance of a proper policy framework, using primarily ESF funds for leverage but also Title III policy dialogue combined with DA and local currency supported analytical activities therefore, plays an important role in this Strategy as it does in the Mission's overall program.

The food assistance resources that will be available to Peru will decline over the next five years. This will not be a problem as long as the decline in resources is in synch with the improvements in the Peruvian economy. As resources decline, more attention will have to be paid to better targeting the remaining resources and to using them more effectively to deal with long-term development problems (This is particularly true for Title II resources.).

Peru's main, long-term poverty problem is still concentrated in the rural areas, particularly in the highlands. Many of the reforms that have already been put into effect will be felt more immediately in the rural areas on the coast and will have little or no impact in the highlands because these rural communities are poorly integrated into the overall economy. Reducing poverty in these areas will be particularly difficult. However, over time more of the Title II food assistance resources should be directed toward this effort.

The need to use Title II resources to support safety net programs, particularly for the poor in marginal urban areas in Lima and some of the other major cities, will continue for several more years. With improvements in economic conditions and increased employment and income enhancing opportunities for the economically disadvantaged, the need for direct feeding programs could be substantially reduced

in two to three years. Concurrently, what programs do remain will be targeted increasingly away from maintenance of the social safety net program for the urban poor and toward programs that emphasize employment generation and income increases for the same beneficiaries.

B. STRATEGY ELEMENTS

The food assistance program has three principal vehicles to implement the strategy -- the policy reform component of the Title III program, the local currency uses component of the Title III program and the project assistance under Title II (and previously under Section 416). Development of a carefully designed and effective monitoring and evaluation program is also an important part of the Strategy implementation.

1. Title III Supported Policy Reform

AID/W, and the LAC Bureau in particular, in their development of guidance for the new Title III program, have put heavy emphasis on its use to encourage policy dialogue and policy changes related to improvement in food security, nutrition, and the privatization of food and agricultural distribution systems. According to this guidance, the policy initiatives should be targeted to specific reforms, and the country's progress in implementing these reforms, and their impacts, should be measurable.

In addition to Title III policy reform measures, the food assistance program will provide a social safety net in both the short and long-term, in situations where survival is at stake. This will provide a basic cushion of food availability to the groups of poor people affected by economic stabilization and structural adjustment and buy time for the policies to extend their benefits to the lowest economic strata. During the period addressed by this food strategy, the severe, albeit temporary, effects of a prolonged recession will continue to reduce family incomes of the poor to critically low levels and greatly limit their access to the minimum family food basket. The Title II cooperating sponsors will orient their MCH and Child Survival activities to nutritionally high-risk families, and will continue to provide support to the "comedores populares" where neighborhood community groups complement the donated food to ensure basic daily nutritional requirements for the neediest.

a. Focus of the Current Program (FY92-FY93)

The policy reform agenda component of the recently approved (but not as yet authorized) Title III program, consistent with the guidance, was designed to deal with four of the most important constraints in the agricultural sector to improved food security. The first

two items on the agenda, which are designed to encourage the Government to improve the functioning of the country's markets for basic food grains, are expected to have an immediate, positive effect on food security. The second two items, by focusing on reforms that are important to increasing productivity in the agricultural sector over the longer term are also expected to have a positive effect on food security. Specific benchmarks and dates for their completion have been developed for each of the agenda items.

The four specific objectives of the program are:

- * To promote the privatization of the food and agricultural import system in Peru, in order to create a transparent, competitive system which is responsive to consumer demand;
- * To support the development of an improved, more open trade policy regime for the agricultural sector;
- * To support the development of a legal, regulatory, and judicial institutional structure that will promote the development of more efficient rural financial markets; and
- * To support the efforts to rationalize and make more efficient the development and transfer of agricultural technology.

Food security in Peru, as was discussed previously, requires improvements in the functioning of the country's food markets. Since it is unlikely that Peru will ever be self-sufficient in food, the food import system, and the grain import system in particular, must be made more transparent and efficient. The Government has already taken steps to increase the efficiency and reduce the costs of agricultural markets by reducing the role of state-owned enterprises. Progress in implementation has been slow, however. For example, although the decision was taken months ago to disband ECASA, the rice marketing board, and sell its infrastructure, the organization still exists. And ENCI, the government parastatal that for years had a monopoly on all major food imports, has been allowed to retain its role as the sole importer of donated food commodities, although its monopoly on commercial imports has been abolished. Use of a parastatal to import PL 480 commodities, while not contrary to USG regulations, violates the spirit of the new Farm Bill which emphasizes the use of the Titles I, II and III programs to promote more reliance on the private sector and market-based arrangements. It is also contrary to the overall thrust of the Fujimori push toward privatization and market liberalization. Therefore, the design and implementation of a new system for importing and selling Title III commodities through private sector arrangements was one of the policy reform

changes required by the agreement. A number of other analytical and policy dialogue activities are also included as benchmarks with the objective of identifying other measures that can be taken to promote additional competition in the country's food markets and improvements in their efficiency. For example, the Mission will explore with the GOP and private sector institutions the desirability and feasibility of establishing a private sector commodity exchange similar to the ones in operation in Ecuador, Colombia, Argentina and Brazil.

Another key issue dealt with in the Title III policy reform program relates to the surcharges that were introduced last year on imports of key food products and their effects on food prices and food security of the poor through the prices of foodstuffs. These surcharges pose a problem in addition to the effects (adding further distortions) that they will have on the allocation of resources within the agricultural sector. The problem is that these surcharges appear to have the potential to significantly increase the retail prices for the foods affected, wheat in particular. The current surcharge for wheat, for example, is around \$70 per metric ton, which represents 60 percent or more of the landed cost of wheat from Peru's lowest cost wheat supplier -- Argentina. The stated rationale for these surcharges is that it represents an attempt by the Government to provide additional protection to domestic producers from commodities that are made available in international markets at artificially low prices as a result of other countries' subsidies to their farmers. It also provides monopoly rents to millers by placing very high surcharges on flour. However, it is equally plausible that the Government's major objective is to increase the amount of revenues that it can spend on the agricultural sector, and in particular to increase the availability of credit to the agricultural sector. Apparently a large portion of these funds are to be funneled directly into an agrarian credit fund or bank and not be subjected to the normal Government budgetary allocation process.

Some Peruvians argue that the impact of these surcharges on consumers is much less than it would appear because of other policy changes that have taken place around the same time. They also argue that the protection that the surcharges are providing to the producers of these crops is minimal and, in any event, is almost completely wiped out by the effects of the overvalued exchange rate. The problem is that no one has done the analysis that is needed to more fully understand the actual effects of the program. Most are in agreement that the system lacks transparency and needs to be redesigned. Some view it as a temporary measure, which is why the overall tariff rate applied to agriculture was not raised. Others are recommending that the system be converted to one that stabilizes prices, a la the Chilean price band system, rather than one that supports prices. Meanwhile, efforts to work with the Peruvian Government on this problem will be complicated by the fact that the other Andean Pact countries also have variable tariff

schemes and that the harmonization of these schemes is being discussed as part of the members' decision to coordinate agricultural policies.

The Mission's objective in this area is to work with the Government to eliminate the surcharge system, or if that proves impossible to help it develop a system that minimizes overall distortions in the agricultural sector and reduces the negative effects of the program on poor consumers. The IDB and the World Bank also have conditions in their Trade Policy Sector Loans (jointly financed) that require the Government to carry out an analysis of how the surcharge system is operating with the objective of replacing it with a system that is more transparent and efficient in its resource allocation effects. There is need for an analysis that can explain how it works, who benefits, who suffers and what are better alternatives.

The problem of agricultural credit was also included in the policy agenda for several important reasons. A lack of credit is cited by many as the major current constraint to increasing levels of production as well as private investment in the sector. One of the early effects of the economic stabilization program was, in fact, to restrict the availability of credit throughout the economy. The agricultural credit problem is also important because, in its attempts to deal with this problem, the Government is backsliding on some of its other policy reform commitments. As noted above, the perceived need to obtain additional resources to increase the availability of credit to the agricultural sector is viewed as one of the driving forces behind the recent imposition of the surcharges. The need for agricultural credit is also keeping alive the idea of the Government as banker in the agricultural sector -- a role that if continued would make the development of an effective private sector system all the more difficult.

The focus selected by the Mission is to treat the problem of agricultural credit in the context of trying to improve the functioning of rural financial markets more generally. The purpose of the Mission supported reforms in this area is to support the development of a legal, regulatory, or judicial structure that will promote the development of more efficient markets for allocation of credit, with emphasis on the role of the Government as setting conditions that will make markets work but not as banker. Special attention will be devoted to reforms needed to enable commercial banks to become more active in the provision of credit to the agricultural sector, particularly in the coastal areas, as well as to actions needed to improve the functioning of rural financial markets in the highlands.

The final policy agenda item relates to the need for improvements in the country's system for developing and disseminating agricultural technology. Low agricultural productivity remains a serious problem and one that is compounded by a system for generating new

technology and production packages that is weak, not demand driven, and lacks public/private sector cooperation. The inefficiencies in the current research/extension system impede growth in the sector and have limited the effectiveness of AID financed interventions. To avoid further deterioration in the system, the Government needs to act quickly but wisely to decide which research functions must remain under public management, which can be divested to the private sector, and how best to make the transition; the Government knows, for example, that it cannot turn the entire responsibility for the country's research and extension system over to the private sector, that there are some types of research and other functions that are in the nature of public goods and will have to continue to be the responsibility of the Government to provide financing for or carry out itself.

Development of a plan for transferring the assets as well as the responsibility for financing and managing state-owned agricultural research stations to the private sector is one of the benchmarks in the current program. A second is feasibility analysis of a competitive research grants program using public sector resources. This would serve as a mechanism for giving some direction and support to private sector managed agricultural research, particularly in areas such as integrated pest management, soil and water conservation and other types of research where it may be difficult for private sector research entities to capture the benefits of the research.

b. Potential Items for the FY94-FY95 Program

This Title III program has been approved (but not authorized) for two years (FY92-FY93). By the end of this time, the reforms related to the privatization of Title III commodity imports and the surcharge will be implemented. It is expected, however, that additional problem areas will be identified in the process of implementing other benchmarks in agricultural marketing, rural financial markets and agricultural technology development and transfer areas and that these problems will be dealt with as part of the policy reform agenda that the Mission will develop for the two year program planned for FY94-FY95. Experience implementing the recently passed land legislation may also identify policy changes needed to strengthen the implementation of the program and/or broaden its impact. Policy changes are also needed in the way in which water resources are managed, including turning more of the management of these resources over to the private sector and charging users their full cost. These changes are crucial to achieving improvements in productivity in coastal agriculture, but may be dealt with as part of a future World Bank loan. The IDB currently has no plans to develop an agricultural sector loan, believing that the conditions relating to agriculture in its trade and financial sector loans are sufficient until the institutional capacity in the sector is strengthened.

Another policy area that needs to be examined is the fiscal environment. The Government should improve the quality of its expenditures by reducing overall costs and reallocating more of its resources to essential public functions. Improving revenue collection is also an urgent necessity. As an immediate need, it cannot be delayed until the next Title III program. While many of these issues are being examined in the structural adjustment process through the multilateral development banks, there are interesting possibilities for collaboration as part of an ESF policy agenda program. The importance of the fiscal environment to food security lies in the relationship between the budget deficit and the overvalued exchange rate, and the overvalued exchange rate and lack of profitability in the agricultural sector and other potential export sectors. In other words, until the exchange rate problem is dealt with, competition from cheap food imports will discourage domestic food production and production of exports will also lag, reducing the amount of foreign exchange available to pay for commercial food imports. Meanwhile pressures for the Government to take further steps to protect the agricultural sector are likely to grow.

2. Uses of Title III Local Currencies

Mission plans call for the level of Title III resources to remain at \$50 million per year (including freight costs) through FY 1994. These levels are justified on the basis of Peru's continuing strong economic performance and the need to support this performance by helping the Government to secure the necessary food imports without having to add to its foreign exchange burden. The Mission expects the Peruvian economy to have improved sufficiently by FY 1995 so that it will be able to return to more moderate levels of Title III assistance by that time (\$30 million per year).

Under the new legislation, if Title III commodities are sold, the local currency sales proceeds must be used for project or sector support related to food security, nutrition and privatization initiatives. The Act cites a wide range of types of economic development purposes for which these proceeds can be used, the following of which are relevant to Mission objectives:

- * The promotion of specific policy reforms to improve food security and agricultural development within the country and to promote broad-based, equitable and sustainable development;
- * The establishment of development programs, projects and activities that promote food security, alleviate hunger, improve nutrition, and promote family planning, maternal and child health, oral rehydration therapy, and other child survival objectives;

- * The promotion of increased access to food supplies through the encouragement of specific policies and programs designed to increase employment and income within the country;
- * The promotion of free and open markets through specific policies and programs;
- * Support for U.S. private voluntary organizations and cooperatives and encouragement of the development and utilization of indigenous nongovernmental organizations;
- * The development of rural infrastructure such as roads, irrigation systems, and electrification to enhance agricultural production;
- * Research on malnutrition and its causes, as well as research relating to the identification and application of policies and strategies for targeting resources made available to address the problems of malnutrition;
- * Support for research (including collaborative research which is mutually beneficial to the United States and the recipient country), education and extension activities in agricultural sciences.

These currencies will also be directed to activities directly in support of Mission objectives related to (1) the creation of an economic policy environment conducive to economic growth, (2) reactivation of the private sector, including activities related to improving agricultural productivity, employment generation through micro enterprises, small business and exports, and (3) improved access to quality health care services.

A significant percentage of these local currencies will continue to be programmed through the GOP budget as counterpart to AID projects. The mission will negotiate with the Ministry of Economy and Finance (MEF) to try to secure a portion of these currencies for PVO support and other private sector activities, with the remainder used for budgetary and the sector level support (see Table 7). A special unit will be created in the MEF that will be responsible for managing these currencies.

3. Project Food Aid

The Mission's food assistance programs will focus on a series of identified problem areas to address both the causes and effects of chronic and emergency food deficits in the country. These deficits have resulted in more than 12 million Peruvians currently living

at levels of extreme poverty, requiring some degree of food assistance. The targeting and coverage of beneficiaries through direct feeding programs will move from the desire to reach as many needy Peruvians as possible to a more concentrated focus on nutritionally high-risk families. The maintenance of beneficiaries on food assistance will be monitored more carefully, with individuals and families graduated out of the program as soon as circumstances permit. To accomplish this the Food Strategy will direct programs to be more technical and development-oriented, achieving greater food production and productivity in rural areas, promoting employment and income growth, and satisfying minimal nutritional requirements of food consumption among the targeted population groups. The timetable for this change will be over the next three years, coinciding with the start-up of the PVO Support Project which will provide the analytical tools to monitor the process.

The Mission's focus during the time covered by this strategy will be to strengthen the management capacity of the major PVOs involved in project food assistance and to reorient the efforts of these PVOs toward having a measurable longer-term impact. It will focus on problems related to maternal child health, to unemployment and underemployment in rural as well as marginal urban areas, and to increasing the productivity of the poor, particularly through agricultural as well as income producing, non-farm related activities in rural areas in the Sierra, and through the promotion and organization of self-sustaining micro-enterprises in marginal urban areas.

a. Safety Net for the Poor

The Title II activities will target commodities in an increasingly focused program toward poor communities in rural and urban areas. Initially, comedores and MCH components will seek fairly broad coverage to improve food availability, but then they will gradually tighten eligibility criteria to concentrate on the well defined at-risk categories. PVO Support Project and Title III resources will also be made available to support activities designed to generate rapid and massive employment opportunities, so that resources will be available to purchase basic needs.

At the same time the social safety net program will also deal with survival situations which are more long-term in nature, and which are especially serious in the rural highlands of Peru. As pointed out earlier, Peru suffers one of the highest rates of chronic malnutrition in the LAC region (see Graph 3), and children under six years of age living in rural areas are approximately twice as likely to be malnourished as those children who live in urban areas. Further, the highest prevalence of malnutrition is found in households dependent on the agricultural sector for employment, where numerous factors have contributed to complicate people's access to subsistence levels of food and work.

In this context, well-targeted direct feeding programs which are carefully integrated with other basic health and nutrition interventions need to be expanded to cushion the effects of subsistence food production and extreme poverty. The major implications of these longer term aspects of the social safety net program are threefold: 1) that the concentration of direct feeding resources be increasingly focused on rural areas of Peru; 2) that direct feeding be accompanied wherever possible by activities designed to foster an increase in local food availability, such as agricultural production and productivity, employment or other income generating programs; and 3) that the highest priority allocation of food resources in these zones be directed to children under five years of age at risk of malnutrition.

To this end PRISMA's carefully targeted food distribution program will be expanded to provide more comprehensive coverage throughout the country of the most vulnerable at-risk population groups, children under five years of age and child-bearing and lactating mothers. The PRISMA targeting methodology, which is being applied to the ADRA/OFASA health and nutrition and food distribution programs, will be extended to other PVO and public sector feeding programs to assure that the limited level of food resources reach the most needy and vulnerable populations. In addition the Mission-supported cooperating sponsors will be asked to promote better planned, coordinated and problem-focused food distribution in rural areas where the chronic food scarcity problem is more seasonal, when food and income reserves are exhausted and campesino farmers have nothing to bridge the gap until the following harvest. The PVOs will be asked to design programs which provide the food assistance help needed for the time required in ways which might stem migration by multiplying the opportunities for productive work in the countryside, and by promoting greater food production and productivity. Some of these activities clearly tie in with the following strategic use of food aid resources to generate employment and increase family incomes.

b. Productivity Enhancing and Employment Generation Programs

Unemployment and underemployment are at all time highs in both the urban and rural areas of Peru. Agricultural production and incomes are depressed because of severe drought conditions compounded by the lack of productivity increasing technology, timely credit and effective input supply and output marketing systems. These problems, complicated by terrorism, have led to increased migration from rural areas to urban centers, further exacerbating the lack of productive employment.

To address this crisis situation in rural areas, USAID/Peru will provide the resources to expand and strengthen food assisted PVO programs to assist rural families to gain access

to productivity increasing technology and timely supplies of credit. It will also support PVO efforts to promote non-farm, income generating initiatives among the rural poor in an attempt to achieve some degree of integration in the national economy for this traditionally isolated sector of the country's population. It will also request that PVOs improve the design and selection of food for work activities, prioritizing the construction of productive and social infrastructure. The investment of project resources in these activities should serve to meet the basic needs of the targeted population, particularly in areas such as potable water, sanitation and food production. An important aspect of these efforts is to stem the rural to urban migration. This can only be done by multiplying the opportunities for productive work there and making the quality of life in rural areas competitive with advantages to be found in cities.

In urban areas the Mission will provide the resources to improve and strengthen PVO programs in micro and small enterprise development and other employment generating activities. The support will focus on promoting stable employment opportunities and self-sustaining enterprises in marginal urban areas. During the strategy period the food assisted community feeding centers or "comedores" will also be included among these self-sustaining enterprises. As economic and social conditions improve and employment opportunities increase, the Mission will continue to selectively support "comedores" capable of sustaining themselves over time in response to the demand, need and participation of community members. Long-term subsidies to keep "comedores" afloat will be avoided and resources used to increase the buying power of community members through other income growth initiatives

It has been proposed that the local purchase of food for direct feeding programs would both benefit those programs and stimulate greater local food production by providing market outlets for small farmers. Pilot efforts in this direction have been supported by other donors through CARITAS del Peru, and the Mission is providing resources for the CARE Wawawasi program which has a local food purchase component. The Mission is seeking AID/W approval for such an activity in FY93 for a direct feeding program operated by CARITAS in the selva area. Based on these pilot efforts, USAID will support an in-depth study of this alternative to determine its potential for broader promotion.

4. Targeting, Monitoring and Evaluation

Title II commodity levels for the USAID/Peru direct distribution and monetization programs rose sharply in FY 1990 and increased to unprecedented levels through FY 1992. The Mission proposes that current levels be sustained through FY 1994 to meet both critical food consumption needs of the very poor and, via local currency to support

labor-intensive projects that provide productive job opportunities for the unemployed. A progressive phase-down to previous regular food aid program levels will begin in FY 1995. The future phase-down highlights the need to put in place improved targeting and monitoring systems which ensure the delivery of Title II resources to priority beneficiaries properly selected.

The targeting and support of women within the context of food assistance programs is a case in point. Women's role in these programs, while dealt with creatively and significantly in isolated projects, has yet to be adequately addressed across the board. Most food aid programs continue to limit their concern to women in their role as child-bearers and mothers, and do not address women's needs as breadwinners, farmers and micro-entrepreneurs. In reality, both in rural and urban areas women are often the sole breadwinners for their families. Yet their access to resources, such as credit, training and materials that would enable them to increase their production and income as small farmers or micro-entrepreneurs, is still limited.

Through the food aid cooperating sponsors, the Mission will allocate resources to strengthen local organizations of women, as well as to support programs which provide credit, training and child care for women in urban areas, and credit and technical assistance to women in the agricultural sector.

The Mission's food aid program will continue to support the establishment of the national nutritional monitoring and survey system developed by PRISMA and the MOH until it is fully operational. While the system is expected to be established in three Regions of Peru by late FY 1992, it will not be fully operational in all Regions until FY 1994 or 1995.

The Mission will also pursue the institutionalization of a food needs assessment capacity to permit the detection of food deficits with minimal delays, as well as the identification of affected population groups. This will prove particularly important for food-assisted cooperating sponsors to be effectively responsive during emergency situations. Dependable information systems are not in place. Those that do exist do not provide timely and reliable data on the effects of emergencies. As a result, timely decisions are not made nor appropriate actions taken to address food deficit problems, either leaving affected communities unattended or dealing with food stocks long after an emergency has passed. The Policy Analysis for Private Agriculture Development Project (PAPAD) will start some time in 1993, and one of its components is an innovative system for data collection and analysis. This component will complement efforts to develop a food needs assessment system in Peru.

Because of worldwide needs and priorities the allocation of food aid resources will be highly competitive. In this environment, great efforts will have to be made to rationalize what will be available to support food assistance programs in Peru and coordinate that assistance with other donors. In the past, the GOP has generally shown itself to be inept or highly politicized in its attempts to coordinate external food assistance. Cases such as the establishment of the special ad hoc Temporary Coordination Commission in August of 1990 have been the exception. At the same time international donors continue to do pretty much their own thing, independently negotiating with different implementing agencies. What coordination exists is probably best carried out at the level of local and international implementing agencies when working within the same geographical area. Given the host of institutions involved, the need for coordination is great. GOP institutions range from the Ministries of Health and Education to ONAA (now PRONAA), DGFF, Defensa Civil and Regional Governments; interested donor countries brought together periodically by the WFP include the USG, Canada, England, Italy, Spain, France, Holland, Switzerland, Germany and Japan. While the USG Title II cooperating sponsors implement the largest food-assisted programs, there are still other PVOs active in smaller food-aid programs in Peru. None are currently represented in the WFP coordination meetings.

The Mission will pursue a multi-institutional (GOP, donors, implementing agencies) effort to plan, coordinate, monitor and evaluate food assistance to Peru in order to rationalize the allocation of these resources and improve the efficiency of their use.

Security presents a special problem. Development efforts in general and USAID food-supported activities specifically have either been suspended or drastically scaled down in areas seriously affected by terrorism. In most cases these are areas of the greatest poverty and infant mortality in Peru. The inability to directly monitor and supervise activities in these zones has prompted donor-supported agencies to withdraw their program resources and personnel. The Mission will explore and identify alternatives to support social and economic growth in these emergency security zones. An acceptable mechanism may be partnership agreements between the food-aid cooperating sponsors and local NGOs that are based in these areas and that are committed to the socio-economic development of their communities.

The Mission will also maintain an on-going dialogue with its cooperating sponsors and with other donors to make appropriate decisions when there is evidence that USG-related support is endangering the safety and lives of persons associated with the food-aid supported programs.

C. IMPLEMENTATION OF THE STRATEGY

a. Establish a Coordinated Management System for Monetized Title II, Extra-Budgetary Title III Local Currency and the PVO Support Project

To better integrate and coordinate the food assistance program, a coordinated management system will be established to increase complementarity of the monetized Title II and Title III extra-budgetary local currency as well as the PVO Support Project.

Agreement has been reached with the Government of Peru that a special unit in the Ministry of Economy and Finance (MEF) will be responsible for arranging for the sale of Title III commodities and establishing a system for management and maintenance of value of the local currency generations. A portion of the Title III local currency will go directly into the Government of Peru budget as counterpart contributions to AID projects. The Mission will negotiate a portion of the local currency for support of PVO and other private sector programs, as well as the modalities for speedy proposal approval and disbursement. Some of these funds might be earmarked as a block grant for food security or for grassroots poverty alleviation projects and be managed in a special extra-budgetary account under the same system which will also be responsible for administration of monetized Title II local currency and the PVO Support Project.

b. Handbook 13 grant to a management entity for administration of the PL 480 Local Currency and PVO Support Project

The mission will make a Handbook 13 grant to a management entity which will be responsible for carrying out the following functions:

- Handle monetization of Title II commodities.
- Establish and maintain system for management of monetized Title II and extra-budgetary Title III local currency allocated for purposes consistent with the PVO Support Project.
- Invest local currency in ways that maintain and enhance its value.
- Disburse funds as approved by appropriate USAID/Peru and GOP authorities.
- Disburse funds to PVOs participating in the PVO Support Project.

- Establish monitoring, reporting and audit procedures for food aid, local currency and PVO programs.
- Coordinate with Ministries of Agriculture and Health to maintain reporting system on food production, imports, consumption, stocks, and emergency needs and also to identify and monitor at-risk nutritional groups.

In developing this strategy, the mission considered different options for management of the PL 480 local currency and the PVO Support Project. One alternative that was considered was to support the establishment of a Peruvian-American Foundation which would be responsible for both functions. Under such a scenario, the Foundation would be staffed initially by a mixed local and expatriate staff with the external staff gradually phasing out. As suggested in the Title III guidelines, part of the local currency proceeds could be used for an endowment for the Foundation. In addition, the Foundation could be given the authority to loan as well as grant funds. With an endowment and the income from lending operations, the Foundation could continue to carry out activities targeted at low-income groups after food aid and other funding sources were phased out. The mission decided that such an approach would require a substantial investment and institutional development effort that was not justified at this time. The feasibility of such an option will be evaluated at a later date as we gain more experience using a grant management entity to administer the integrated program.

c. Establish Modified Procedures for Management of the Integrated Program

In order to better integrate and coordinate the use of mission resources, the following modified procedures will be adopted:

- 1) Establish internal USAID/Peru working groups for program coordination.

The mission will establish three working groups corresponding with Mission Strategic Objectives which will be responsible for coordinating program activities in policy reform related to food security, productive activities linked to agriculture and natural resources and micro-enterprise development, and nutrition, family planning, and health. The working groups will be charged with taking a close look at what the various mission funded programs in their area are doing and searching for complementarities and backward and forward linkages that might be established to increase the overall effectiveness and impact of these program resources. As part of their functions, the working groups will establish common program objectives, define responsibilities and relationships, coordinate program activities and make recommendations on what the

mission position should be on use of monetized Title II and extra-budgetary Title III local currency within their respective program areas.

The working groups will consist of representatives from the following mission offices and divisions, with the first named unit providing the chairperson for the group:

- Food Security Policy (PDP, ECON, OER, OHR, OFA).
 - Agriculture and Natural Resources and Micro-Enterprise Development (OFA, OER, PDP).
 - Nutrition, Family Planning and Health (OHR, OFA, PDP).
- 2) Establish mechanisms for feedback among U.S. Mission, PVOs/NGOs, Peruvian public and private sectors.

The mission will organize semi-annual reviews with the PVO/NGO community and private sector to receive feedback on how the strategy is working. It will meet formally with the unit established in the MEF at least semi-annually to evaluate progress, resolve problems and plan future actions. This review will include policies, procedures, and proposals for the use of PL 480 local currency, as well as evaluation of policy measures and benchmarks relating to food security. The appropriate GOP representatives from outside the MEF will be invited to such reviews, as will the management entity responsible for administration of the PVO Support Project.

d. Action Agenda

1. Establish Strategic Objective Groups within the Mission to discuss intervention areas, beneficiary targeting, and impact indicators for Food Security in general and the PVO Support Project in particular. Group sessions will have a well defined agenda and will cover several projects (by September 1992).
2. Conduct a management study of the Food for Development Division to examine how it can more fully integrate its functions within the mission. Within the same time frame, develop indicators that will measure impact at the community level (by December 1992).
3. Accelerate the development of the PVO Support Project to integrate various resources, target interventions toward reducing poverty and the effects of poverty, and report on the impact of the combined program. The most important element is to refine techniques for identifying individuals, households, and population groups and to target resources to

them. The focus should be on productive activities, such as income generation, employment creation, increased agricultural productivity, or public works when needed. It will continue support for growth monitoring of at-risk children, nutrition education, and nutrition surveillance to follow food availability and the effects of structural adjustment programs. This project must also refine impact monitoring and reporting so that results can be evaluated, and for this an emphasis will be placed on rapid appraisals and baseline data surveys (by March 31, 1993).

4. With the Strategic Objective Groups and Donor Coordination Committee, develop the research agenda for measuring impact of food assistance programs, for monitoring the food security situation, and for examining the legal and regulatory framework of food security in Peru (by June 30, 1993).

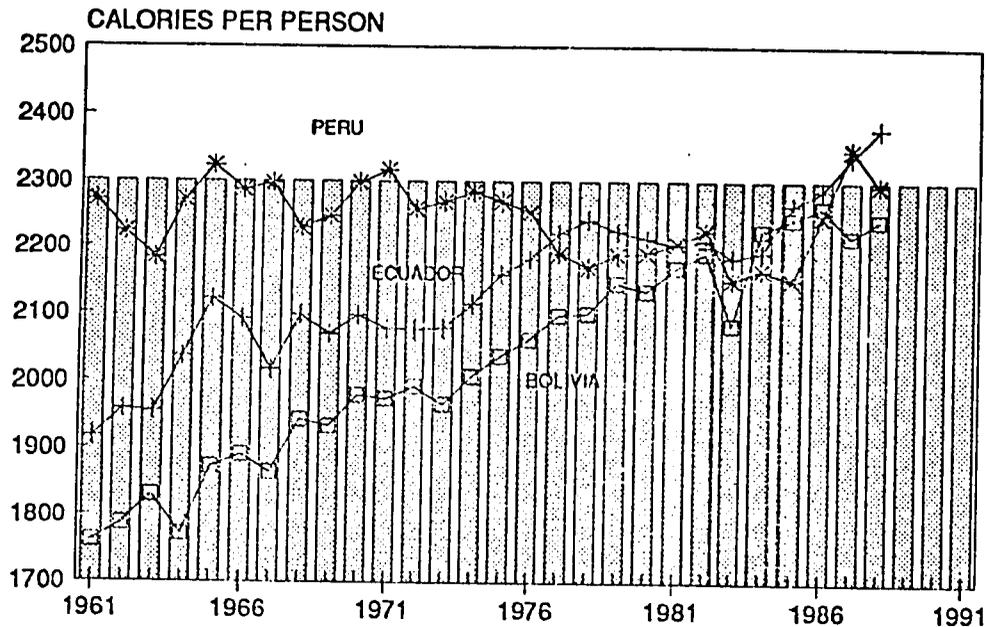
5. With the Strategic Objective Groups and Donor Coordination Committee, develop a reform agenda to improve food security. This might include specific measures to improve the credit environment, the functioning of NGOs, the effectiveness of land titling, tax policy, or local financing of health/ag/enterprise assistance. It may also focus on appropriate regional trade issues and regulations on grading, handling, processing, sanitation and/or food hygiene (by September 30, 1993).

6. Use Title III policy conditionality to move toward a more competitive and transparent market for foodstuffs, with easy entry for anyone seeking access. One possibility to be examined is a phased in commodity exchange to allow time to develop a constituency, conduct needed studies, test various mechanisms, and draw up necessary laws and regulations (start examining alternatives with FY93 Title III proposal).

7. The mission should work to develop more effective emergency relief. As a first step, it will assist in the development of some type of early warning system for food shortage in Peru. This would include a strengthening of the current system for evaluating and reporting production of basic foodstuffs. It should also develop a system for monitoring overall food availability, socio-economic indicators, shifts in consumption or dietary habits, and internal population migration. (Some elements to be included in the development of the PAPAD Project in FY93; others provided in periodic studies). Secondly, an improved system is needed for identifying emergency victims and coordinating this information for program planning. Finally, the mission may want to include in its reform agenda policies to encourage more effective water usage to balance needs for human consumption, industry, and dryland and irrigated agriculture, as well as to stimulate wider efforts in land reclamation and soil conservation as ways to mitigate the effects of disasters.

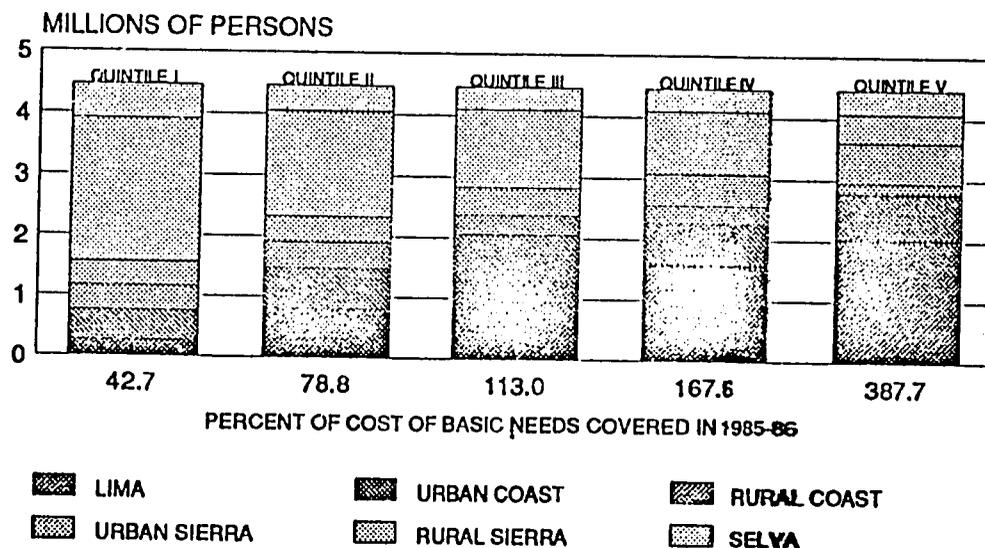
8. Reinforce the coordination mechanism with the GOP and other donors, by strongly supporting frequent gatherings under the aegis of the World Food Program, by associating this group with the research and reform agendas proposed above, and by enlarging the group to include some members of the PVO community (by September 30, 1993).

GRAPH 1: TRENDS IN PER CAPITA FOOD AVAILABILITY IN BOLIVIA, ECUADOR, PERU



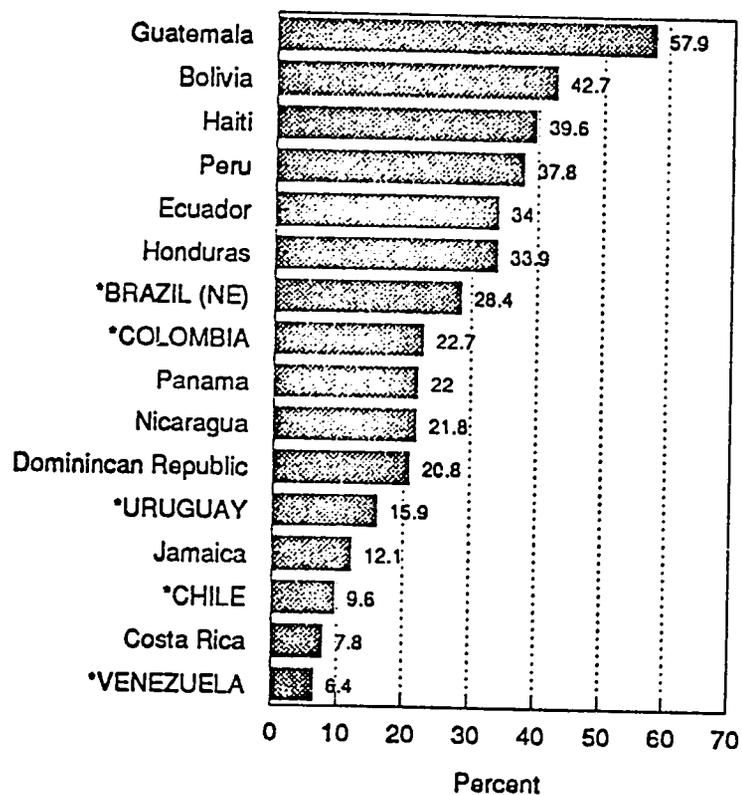
SOURCE: USDA, World Agricultural Trends and Indicators, 1991.

GRAPH 2: ABILITY OF PERUVIAN HOUSEHOLDS IN DIFFERENT GEOGRAPHICAL AREAS TO COVER THE COSTS OF THEIR BASIC NEEDS



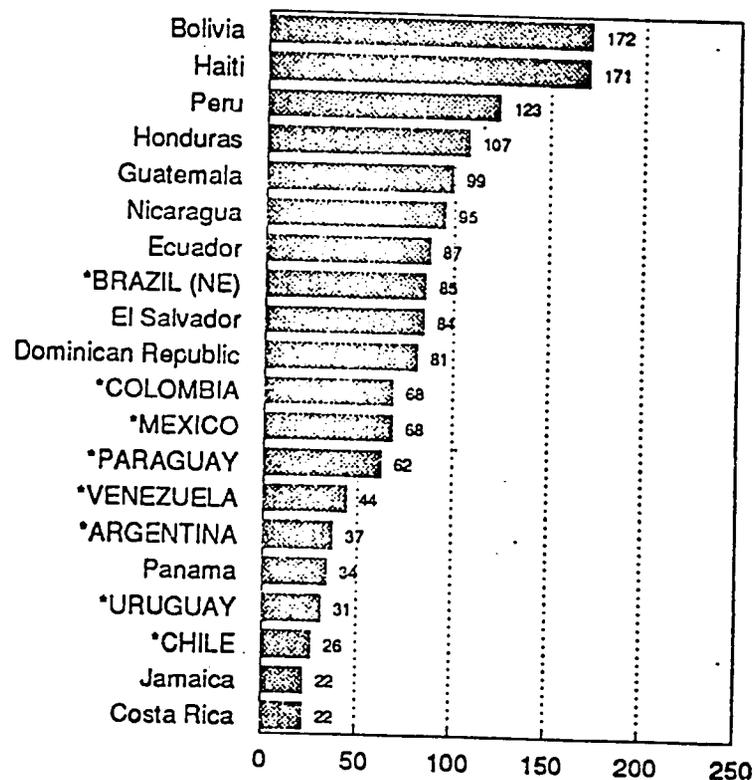
SOURCE: ENNIV (1985-86); Glewwe, Paul 1988; Abugattas, Javier, 1990.

GRAPH 3: PREVALENCE OF STUNTED CHILDREN IN THE LAC REGION
(Height-for-Age)



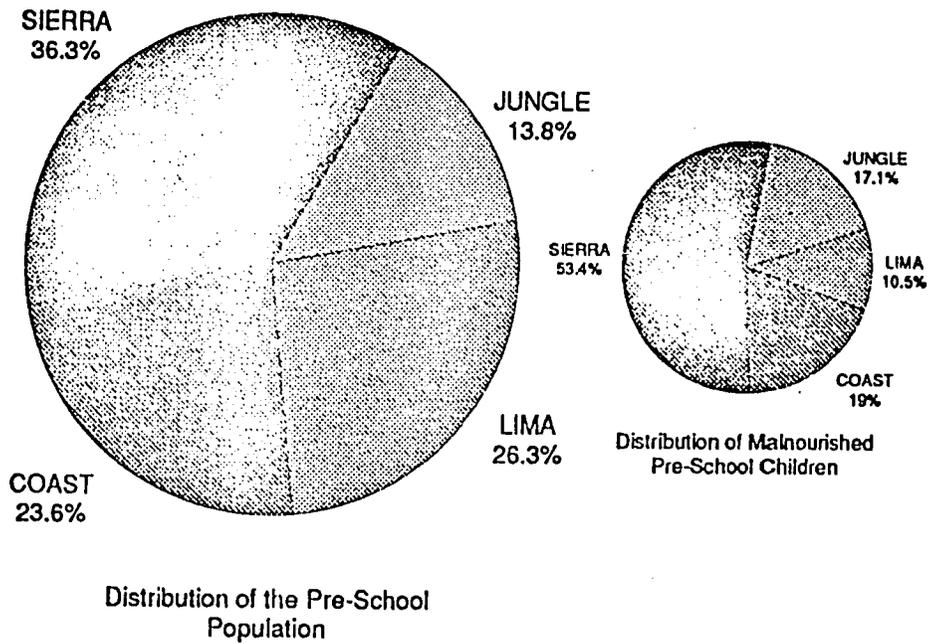
*ADCs SOURCE: UNICEF Tables
Years during which data collected differ
ranging from 1978-87. (RVH: 6/90)

GRAPH 4: CHILD MORTALITY RATES
IN THE LAC REGION IN 1988
(under 5 deaths per 1000 births)

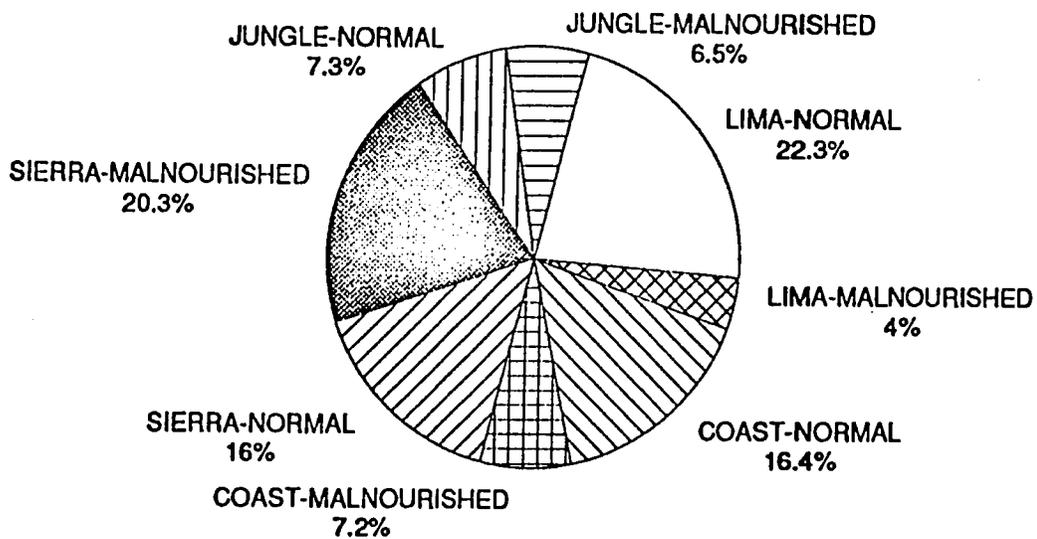


* Advanced Developing Countries (ADC)
SOURCE: UNICEF Tables
(RVH: 2/91)

GRAPH 5: MALNUTRITION IN CHILDREN UNDER SIX YEARS OF AGE, PERU; 1984



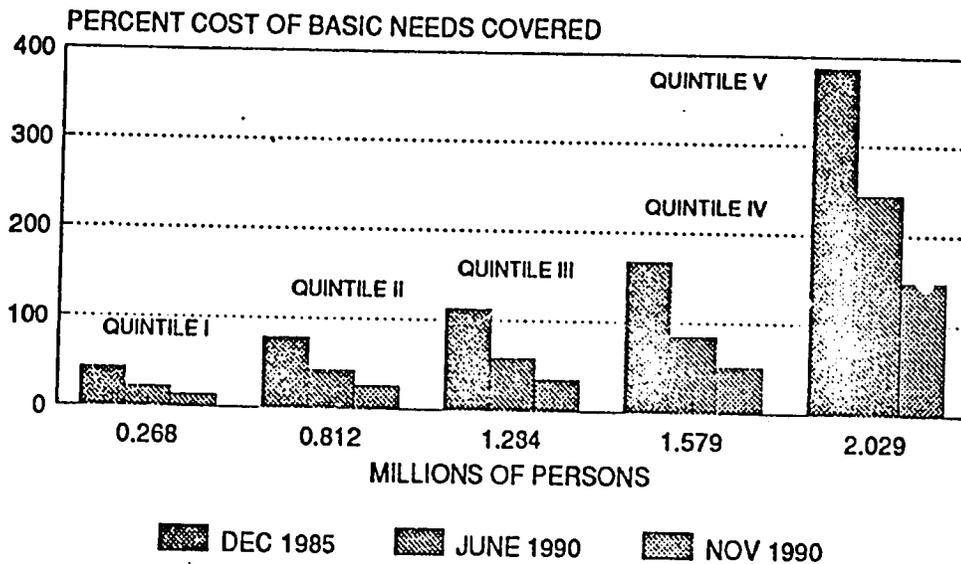
Pre-School Population and Malnutrition in the Pre-School Population



SOURCE: Harrell, 1989.

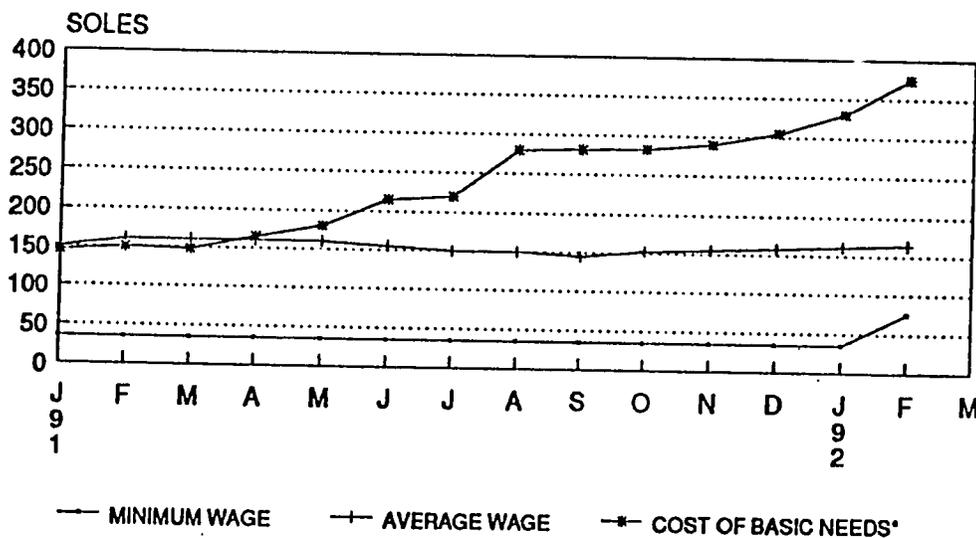
56

GRAPH 6: CHANGES IN THE ABILITY OF LIMA HOUSEHOLDS TO COVER COSTS OF THEIR BASIC NEEDS BETWEEN 1985 AND 1990



SOURCE: ENNIV (1985-86); Instituto Quanto, 1990; Javier Abugaitas, 1991.

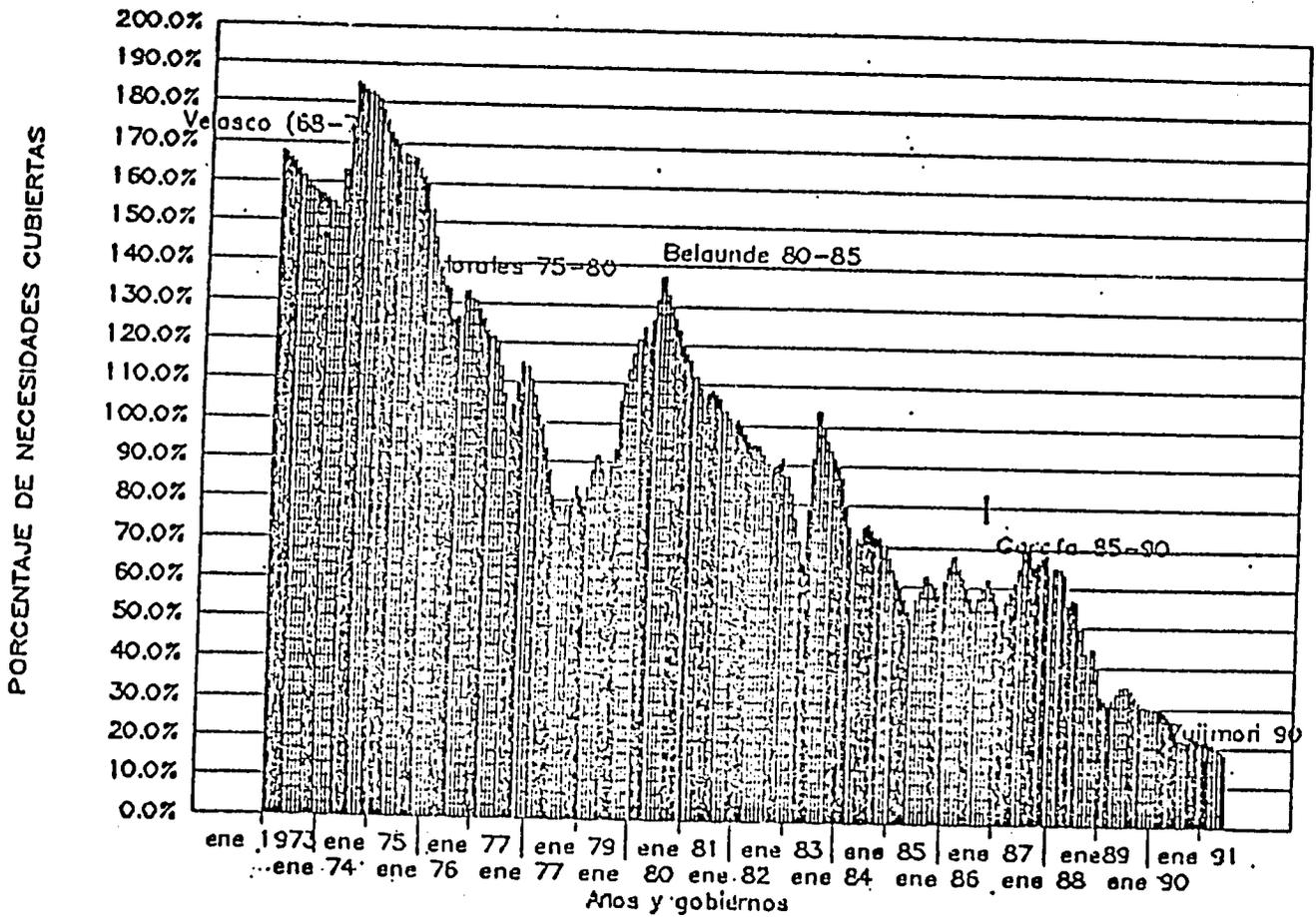
GRAPH 7: RECENT TRENDS IN WAGES AND IN THE COSTS OF BASIC NEEDS IN LIMA 1991-1992



* Estimated based on a household of 3.3 persons.
SOURCE: J. Abugaitas, 1992.

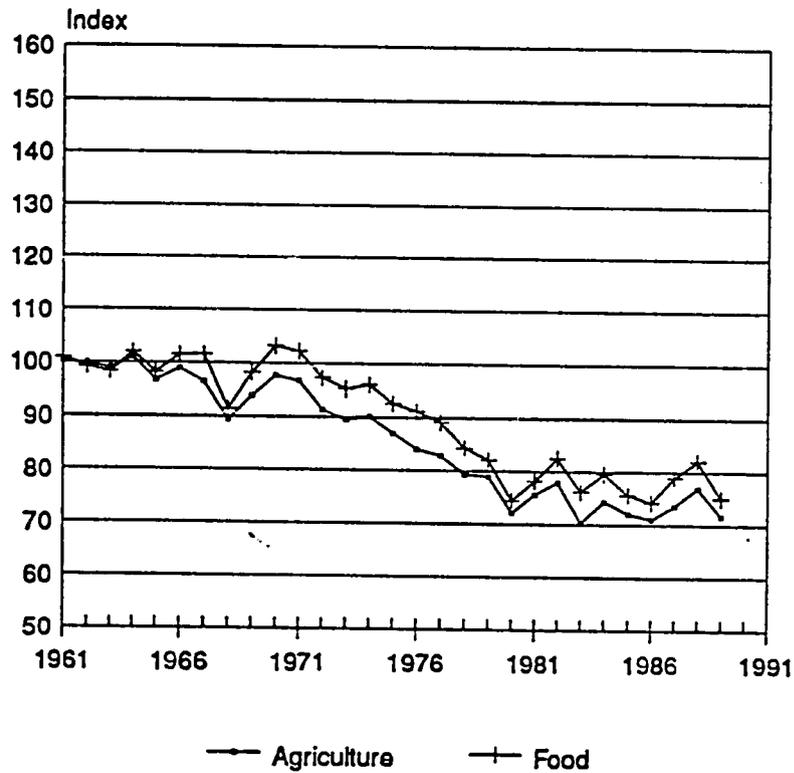
51

GRAPH 8: ABILITY OF PERUVIAN HOUSEHOLDS TO COVER THE COSTS OF THEIR BASIC NEEDS: 1973-1991



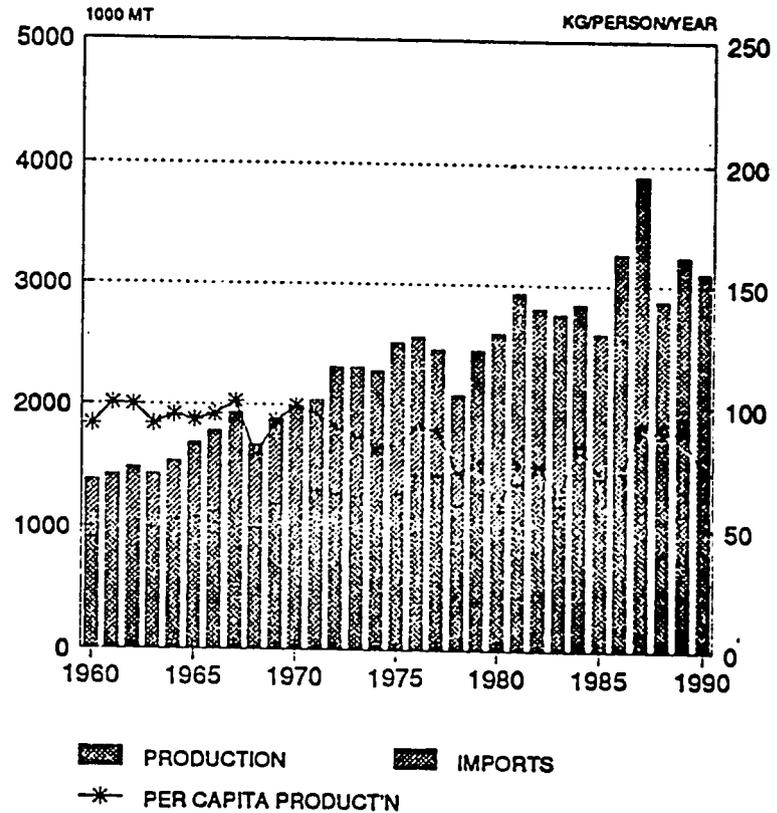
 Fuente: Escobar, J.
 Elaboracion: Abugattis, J.
 28 agosto 1991

**GRAPH 9: PERU
TRENDS IN PER CAPITA FOOD
AND AGRICULTURAL PRODUCTION**



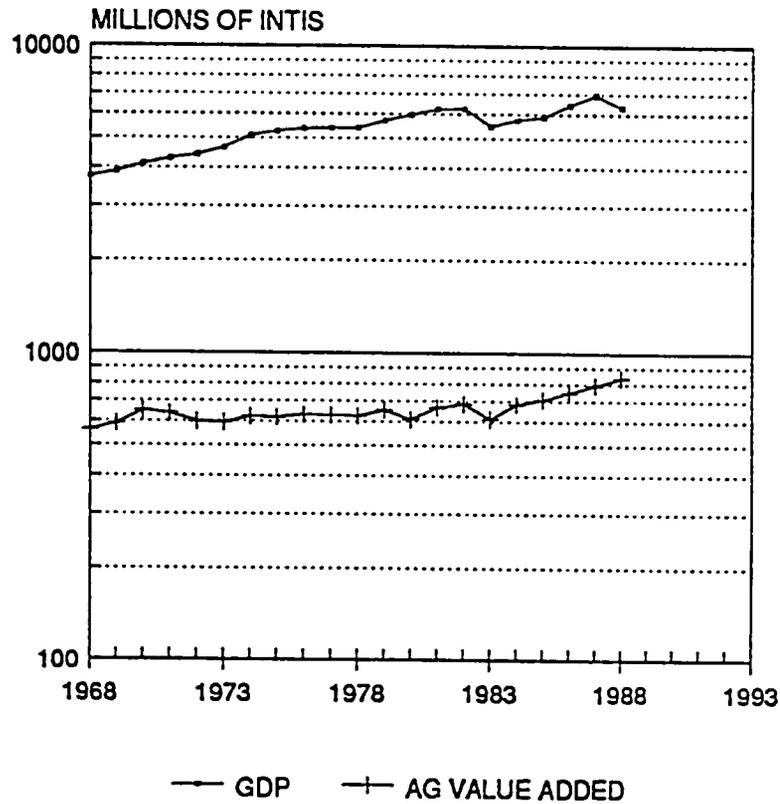
Source: USDA, World Agricultural Trends and Indicators, 1990. (RVH: 1/91)

**GRAPH 10: PRODUCTION AND IMPORTS
OF GRAINS* IN PERU**



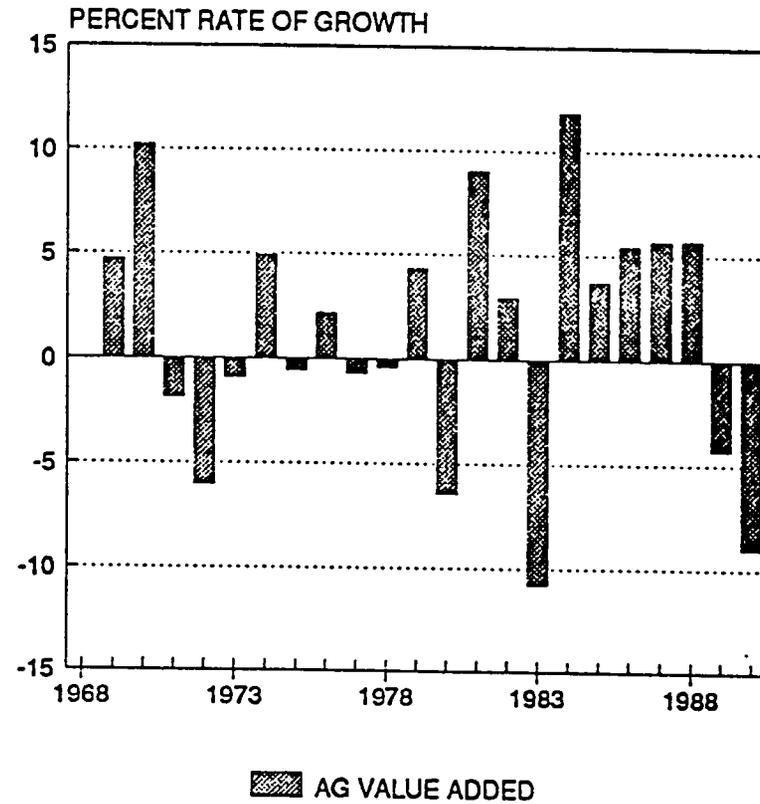
SOURCE: USDA/FAS
* Includes wheat, rice, corn, sorghum

GRAPH 11: TRENDS IN REAL GDP AND VALUE ADDED IN THE AGRICULTURAL SECTOR



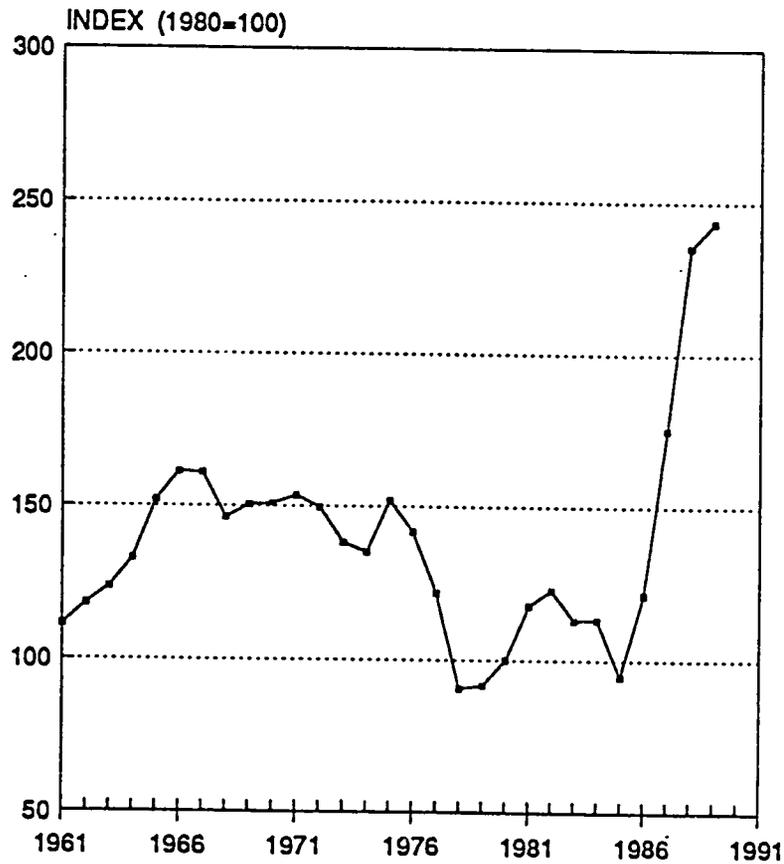
SOURCE: World Bank Tables

GRAPH 12: ANNUAL RATES OF GROWTH IN REAL VALUE ADDED IN THE AGRICULTURAL SECTOR IN PERU, 1968-1990



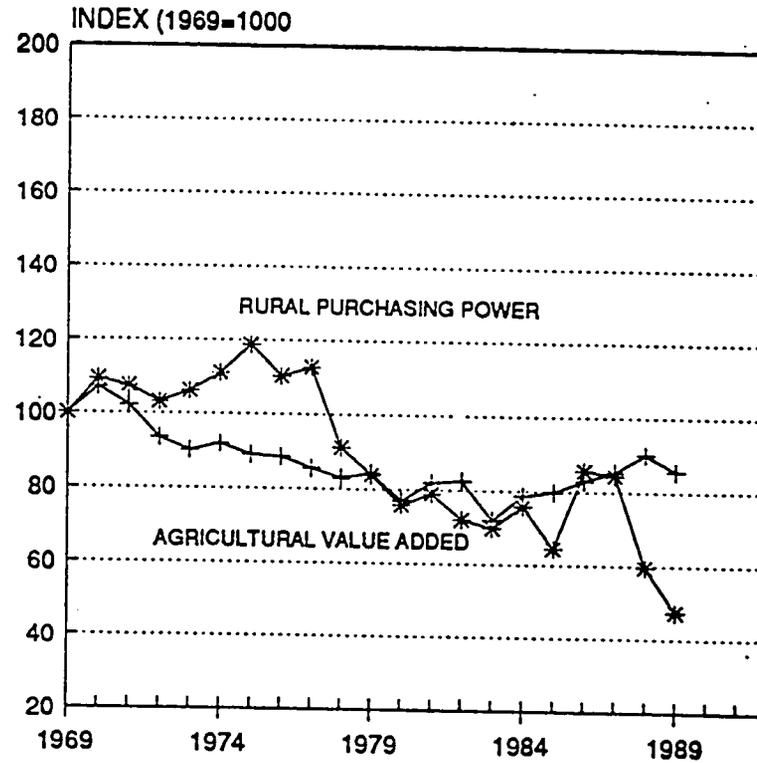
SOURCE: WORLD BANK TABLES

GRAPH 13: TRENDS IN THE REAL EXCHANGE RATE IN PERU, 1961-1989



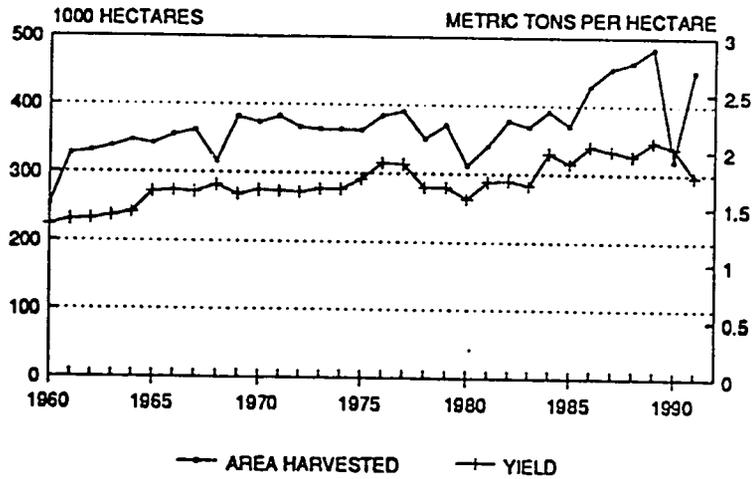
SOURCE: World Bank

GRAPH 14: TRENDS IN TWO MEASURES OF REAL PER CAPITA INCOME IN AGRICULTURE

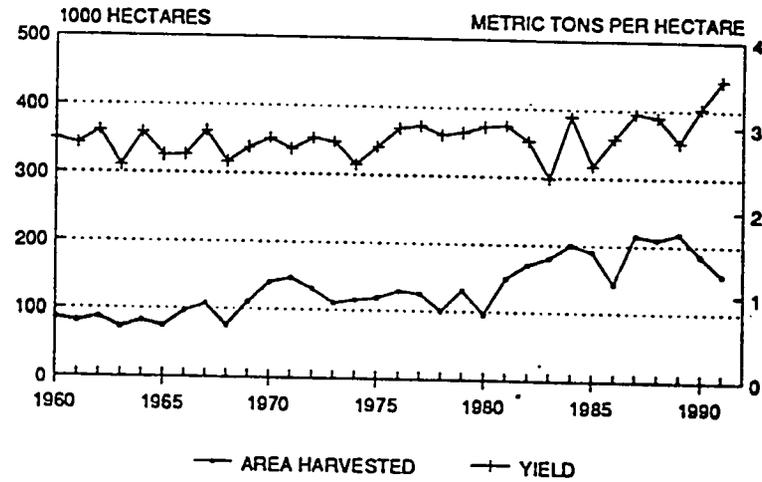


SOURCE: WORLD BANK TABLES, 1991

CORN

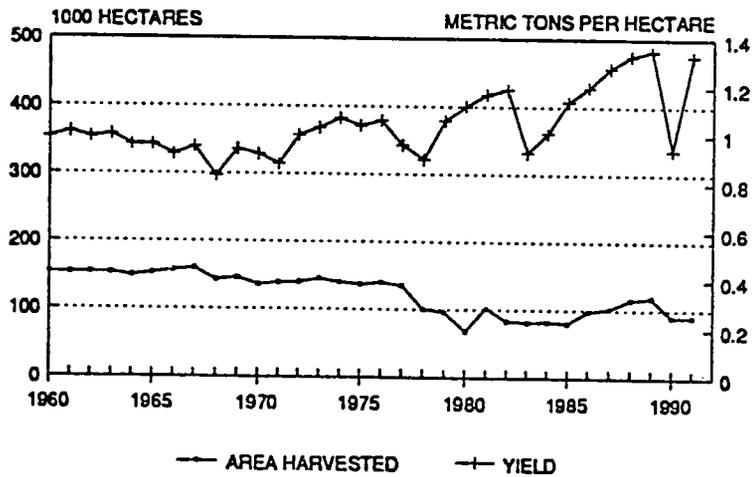


RICE

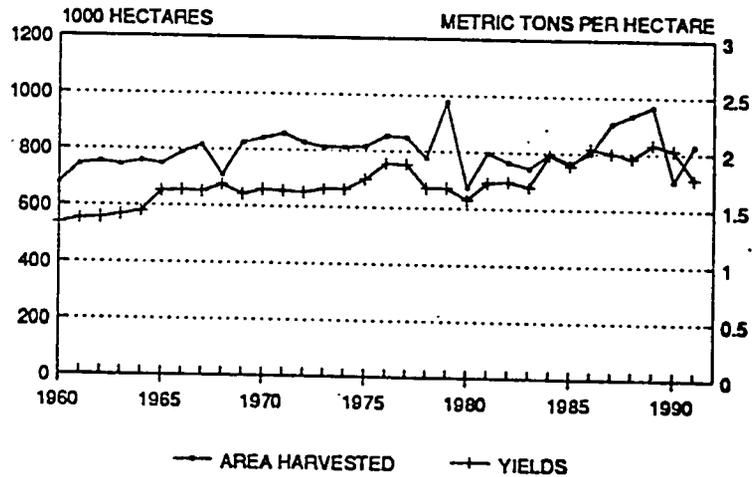


GRAPH 15: CHANGES IN THE AREA HARVESTED AND YIELDS OF SELECTED GRAINS IN PERU

WHEAT



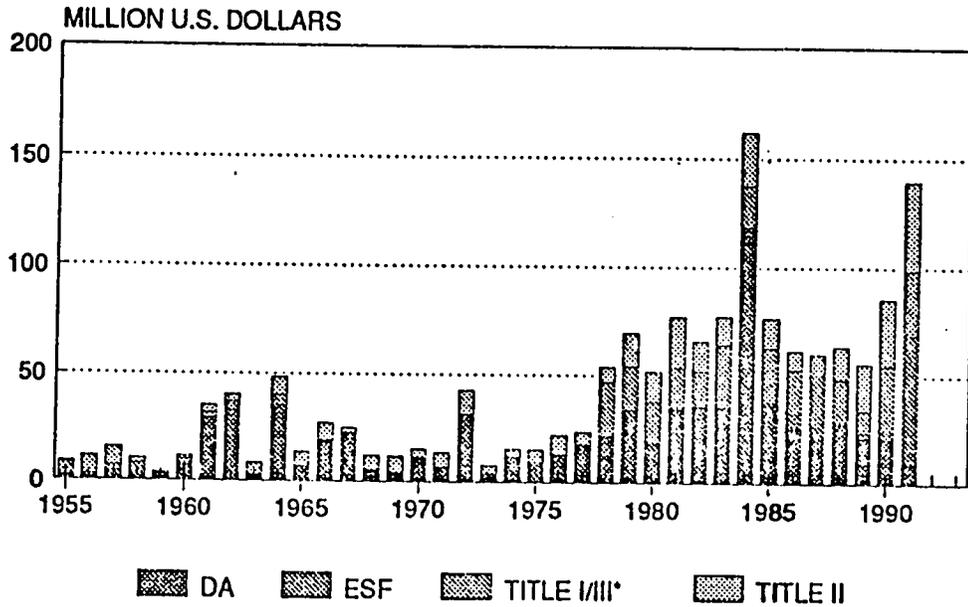
TOTAL GRAINS



SOURCE: USDA/PSD

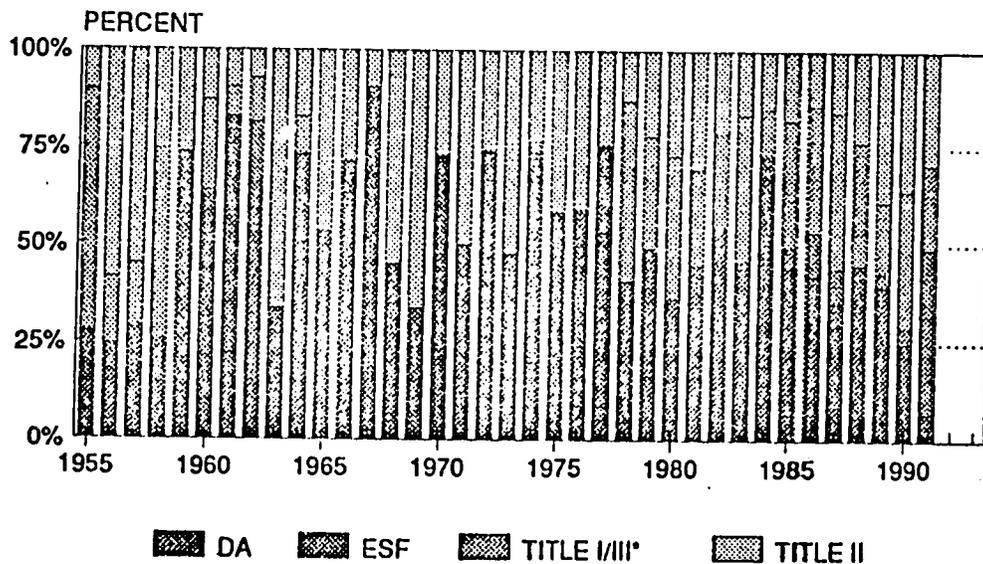
10

GRAPH 16: TRENDS IN U.S. FOREIGN ASSISTANCE TO PERU



SOURCE: AID/PPC/PB/RPA
 * Converted to Title III in 1991.

GRAPH 17: CHANGES IN THE DISTRIBUTION OF FOREIGN ASSISTANCE AMONG DA, ESF AND TITLES I/III AND II



SOURCE: AID/PPC/PB/RPA
 * Converted to Title III in 1991.

PERU: FOOD GAINS FOR HUMAN CONSUMPTION

TOTAL AND PER CAPITA

(1970, 75, 1980-2000)

	Production (000MTs)	1/ Commercial imports (000MTs)	2/ Food aid receipts (000MTs)	3/ Total Supply (000MTs)	Popula- tion (Million)	Production per capita (Kgs)	Commercial imports per capita (Kgs)	Food aid receipts per capita (Kgs)	Total Com- sumption Per capita (Kgs)	Status Quo Level per capita (Kgs)	4/ Surplus deficit (000MTs)	Nutrition 5/ Requirem. Per capita (Kgs)	Surplus/ deficit (000MTs)
1970	1223.6	537.2		1760.8	13.2	92.7	40.7	0.0	133.4				
1975	1115.3	898.5		2013.8	15.2	73.4	59.1	0.0	132.5				
1980	931.1	997.1	82.9	2011.1	17.3	53.8	57.6	4.8	116.2				
1981	1291.8	1034.5	86.5	2412.8	17.7	73.0	58.4	4.9	136.3				
1982	1323.5	945.4	110.7	2379.6	18.1	73.1	52.2	6.1	131.5				
1983	1147.3	952.1	173.3	2272.7	18.6	61.7	51.2	9.3	122.2				
1984	1437.6	911.6	186.5	2535.7	19.0	75.7	48.0	9.8	133.5				
1985	1290.7	709.4	156.1	2156.2	19.4	66.5	36.6	8.0	111.1				
1986	1261.1	1075.8	274.4	2611.3	19.8	63.7	54.3	13.9	131.9				
1987	1562.9	1084.0	150.3	2797.2	20.3	77.0	53.4	7.4	137.8				
1988	1710.6	736.3	325.1	2772.0	20.7	82.6	35.6	15.7	133.9				
1989	1549.0	866.6	143.4	2559.0	21.1	73.4	41.1	6.8	121.3				
1990	1205.7	592.8	275.8	2074.3	21.6	55.8	27.4	12.8	96.0				
1991	1277.9	820.9	298.5	2397.3	22.0	58.1	37.3	13.6	109.0	124.2	-76.06	118	-45.16
1992	1277.9	820.9	380.0	2478.8	22.4	57.0	36.6	17.0	110.7	119.6	-44.68	118	-36.70
1993	1313.7	861.9	380.0	2555.6	22.9	57.4	37.6	16.6	111.5	114.2	-12.85	118	-32.00
1994	1350.5	905.0	361.0	2616.5	23.4	57.7	38.7	15.4	111.8	109.7	10.54	118	-30.92
1995	1404.5	959.3	343.0	2706.8	23.9	58.8	40.1	14.3	113.3	107.8	27.20	118	-23.73
1996	1460.7	1016.9	308.7	2786.2	24.4	59.9	41.7	12.6	114.2	111.3	14.65	118	-19.05
1997	1519.1	1077.9	277.8	2874.8	24.8	61.3	43.5	11.2	115.9	112.3	18.08	118	-10.40
1998	1579.9	1142.6	250.0	2972.5	25.3	62.4	45.2	9.9	117.5	113.4	20.66	118	-2.56
1999	1643.0	1211.2	225.0	3079.2	25.8	63.7	46.9	8.7	119.3	114.5	24.08	118	6.75
2000	1708.8	1283.8	202.5	3195.1	26.3	65.0	48.8	7.7	121.5	116.0	27.23	118	17.43

- Notes:
- 1) Assumes no increase in 1992, 2.8% increase in 1993 and 1994 and 4% per year thereafter.
 - 2) Assumes no increase in 1992, 5% increase in 1993 and 1994 and 6% per year thereafter.
 - 3) Assumes a level of 380,000 MT in 1992 and 1993, a 5% decrease in 1994 and 1995 and a 10% decrease per year thereafter.
 - 4) The status quo level per capita is the average level for the previous five years.
 - 5) The nutritional requirement is the number of Kgs. per person required to meet the minimum daily caloric intake standards established by the U.N.

**TABLE 2: DISTRIBUTION OF TITLE II COMMODITIES
BY TYPE OF PROGRAM**

TYPE OF PROGRAM	FY 1987	FY 1989	FY 1990	FY 1991*
	(Percent of Program)			
MOTHER AND CHILD FEEDING	2	19	18	19
PRE SCHOOL FEEDING	--	4	5	5
OTHER CHILD FEEDING	15	15	27	27
OTHER CHILD	--	6	2	2
FOOD FOR WORK	63	52	35	34
COMMUNITY FEEDING CENTERS	--	3	13	13
EMERGENCY	--	1	--	--
TOTAL	100	100	100	100
TOTAL METRIC TONS	33,200	40,172	90,176	90,161

* Planned

**TABLE 3: DISTRIBUTION OF TITLE II BENEFICIARIES
BY TYPE OF PROGRAM**

TYPE OF PROGRAM	FY 1987	FY 1989	FY 1990	FY 1991*
	(Percent of Program)			
MOTHER AND CHILD FEEDING	22	12	12	13
PRE SCHOOL FEEDING	--	1	13	15
OTHER CHILD FEEDING	15	5	20	22
OTHER CHILD	--	2	2	2
FOOD FOR WORK	63	72	41	36
COMMUNITY FEEDNG CENTERS	--	6	12	12
EMERGENCY	--	1	--	--
TOTAL	100	100	100	100
TOTAL NUMBER BENEFICIARIES	655,600	1,390,933	1,955,352	1,903,205

* Planned

**TABLE 4: DISTRIBUTION OF BENEFICIARIES
BY URBAN/RURAL LOCATION**

LOCATION	FY 1989	FY 1990	FY 1991*
	(Percent of Program)		
URBAN	63	65	69
RURAL	37	35	31
TOTAL	100	100	100

* Planned

**TABLE 5: DISTRIBUTION OF BENEFICIARIES
BY GEOGRAPHICAL AREA**

GEOGRAPHICAL AREA	FY 1989	FY 1990	FY 1991*
	(Percent of Program)		
COAST	60	59	62
SIERRA	39	39	35
SELVA	1	2	3
TOTAL	100	100	100

* Planned

**TABLE 6: DISTRIBUTION OF TITLE II BENEFICIARIES
BY TYPE OF PROGRAM AND URBAN RURAL LOCATION**

TYPE OF PROGRAM	URBAN			RURAL		
	FY89	FY90	FY91*	FY89	FY90	FY91*
MOTHER CHILD FEEDING	74	68	67	26	32	33
PRE SCHOOL FEEDING	70	63	63	30	37	37
OTHER CHILD FEEDING	55	65	65	45	35	35
OTHER CHILD	70	70	70	30	30	30
FOOD FOR WORK	60	55	64	40	45	36
COMMUNITY FEEDING CENTERS	97	97	97	3	3	3
EMERGENCY	0	--	--	100	--	--

* Planned

TABLE 7: PROJECTED UTILIZATION OF TITLE III LOCAL CURRENCIES

CONTRIBUTIONS TO:	FY 1993	FY 1994	FY 1995
AID PROJECTS	24,000	20,000	
PVOS/PRIVATE SECTOR ACTIVITIES	3,000	3,000	
GOP BUDGET AT SECTOR LEVEL	--	4,000	
TOTAL			