



**USAID/PERU**

**FY 94-95 ACTION PLAN**

**May 1993**

**USAID/PERU  
FY 1994-1995 ACTION PLAN**

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# USAID/PERU FY 1994-1995 ACTION PLAN

## Introduction

The USAID/Peru Fiscal Year 1994-1995 Action Plan (AP) reflects both Mission efforts to enhance focus in our program and clarify strategic objectives, and changes in the situation in Peru within the past year which have affected our ability to implement the program as designed. The most obvious change in terms of the AP is that our strategic objectives no longer include one aimed at replacing coca-based employment and foreign exchange with legal alternatives. The planned next generation alternative development project, Selva Economic Revitalization, has been temporarily placed on hold while policy, staffing and resource level decisions for Peru are under consideration in Washington. If positive decisions are made - to promote alternative development as a part of an integrated counternarcotics strategy, to restore our staffing levels to those approved by A.I.D., and to maintain ESF levels for our program - then we are fully prepared to restore alternative development to our strategy and program.

Why the changes? There are two forces at work. On the one hand, as a part of our effort to focus and concentrate resources, we as a Mission have worked over the last several months to review, refine and, where necessary, reorganize our approach towards Peru's development. This meant a review of our statement of goals, analysis of the activities proposed to promote these objectives, and mobilization of the necessary human and financial resources to support approved interventions. As a result, we decided not to pursue plans for four of the future projects listed in last year's AP. In some cases, key activities will be incorporated into existing projects. In others, the planned activities will not be part of USAID interventions in Peru. In a related effort, we have streamlined our set of strategic objectives, outputs and indicators to make them more manageable, and to reduce duplication.

The decision to forego future alternative development activities responds to a set of circumstances which constrain our ability to fulfill the ambitious objectives established in the 1992-1996 Country Development Strategy Statement (CDSS) for Peru. In the fifteen months since the FY 1993-1994 Action Plan was submitted, the USAID program has been affected by a series of events outside of our control. Among the most important are the following acts, described chronologically.

## *Political Crisis Points*

*Auto-golpe invokes suspension of major elements of the program.*

On April 5, 1992 President Fujimori suspended the Constitution, closing the legislature and the courts. This act led to USG freezing of most new assistance, including the planned 1992 balance of payments (BOP) program, reduction of the important P.L. 480 Title III program from a multi-year to single year grant, and slowdown or suspension of activities for many of our projects. Over the course of the next eight months, as actions were taken to return to constitutional order, the holds were lifted on most activities. Following a Paris Club agreement, 620(q) sanctions were lifted on September 30, allowing obligation of new government-to-government grants. As of this date, however, a total of \$30 million in balance of payments support obligated in FY 1991, for which the negotiated conditions precedent have been met by the Government of Peru (GOP), has not been released because of concerns over democracy and human rights.

*Terrorist violence leads to USG security measures restricting travel and assignment of American personnel to Peru.*

1992 marked an upsurge in urban terrorist acts, including the bombing of the American Ambassador's residence in February and of the Institute for Liberty and Democracy (an A.I.D. grantee) in July. In early August, the Department of State declared Authorized Departure status for Peru. This allowed only essential travel to Peru, and prevented families from accompanying personnel who arrived at post after August 8. Effectively, most new staff assignments were placed on hold. Imposed with this measure were very tight restrictions on TDY travel to Peru, which sharply curtailed USAID's ability to call on outside technical experts to participate in design, implementation and evaluation of the program. Authorized Departure remained in force for more than seven months, and there are still significant restrictions on numbers of TDY visitors for all USG agencies in Peru, and on assignment to post of long-term advisors for projects.

*Effective reduction of USDH staffing leads to decision to phase out alternative development activities.*

After the imposition of Authorized Departure, the Department of State announced new National Security Decision Directive-38 (NSDD-38) restrictions on USDH staffing in Peru; they prevent us from filling three of our eighteen USDH positions. USAID and A.I.D./W appealed this decision, without success. Ironically, LAC Bureau analysis of staffing levels issued in 1992 resulted in a theoretical level of twenty-nine USDH for Peru. Reduction of three

positions in a mission with such a large and complex portfolio places USAID in an extremely vulnerable position from a management and accountability perspective.

The Embassy has also placed a cap on U.S. PSC hiring for USAID. In addition, in the last several months USAID has not received State permission for new employees of institutional contractors and grantees (as well as a CDC PASA) to move to Peru. This situation is endangering the implementation of key projects which, for reasons of political sensitivity and/or technical qualifications, require non-Peruvian leadership. In two cases, the individuals have been on salary for several months, but only allowed to come for short (TDY) visits. Since USAID does not know when or if this hold will be lifted, we are unable to proceed with final selection of the institutional contractor for our major Export, Trade and Development (formerly Investment and Export Promotion) Project. The hold calls into question the technical feasibility of the new projects, such as Sustaining Child Survival Programs, Judicial Strengthening and Selva Economic Revitalization, which will require long-term technical assistance if they are to succeed.

*Uncertainty over levels of ESF NSD-18 (Andean Counternarcotics) funds in FY93 and future years make program planning difficult.*

Under the approved 1992-1996 Mission Strategy (CDSS), NSD-18 funds have been used and, in some cases, could continue to be used to finance counternarcotics education, balance of payments support, technical assistance for macro-economic policy reform, administration of justice, democratic initiatives and export trade development activities, as well as alternative development. At the time of the writing of the Action Plan, no decision has been announced as to the USG counternarcotics policy for future years, nor the status of NSD-18 funding. Indeed, Washington review of our proposal for a new balance of payments program (Stabilization, Trade and Marketing Program - STMP) has informally been put on hold until there is more clarity on the USG policy for counternarcotics and Peru. If this hold is not lifted soon, or USG policy enunciated soon, we risk not being able to complete the difficult policy negotiations in time for a release of the \$75 million pledged for the 1993 Support Group from this grant. The ESF planning figures being discussed in Washington for FY 1994 and out-years - \$22.5 million - would not allow the Mission to continue alternative development and balance of payments support, and would limit our ability to play an effective role in the difficult and important area of democracy/human rights.

For these reasons (the NSDD-38 staff reductions being the central cause), we have reluctantly determined that, unless staffing and funding constraints are addressed, we can no longer undertake alternative development in Peru. The Acting Administrator for A.I.D. stated in a memorandum to the Secretary of State on January

15, 1993 that, without adequate levels of both financial and human resources, the Alternative Development Program will be terminated after the 18-month extension of the Upper Huallaga Area Development Project (June 1994). In June 1993 the Office of Economic Recovery will be merged with the Office of Food and Agriculture. All four USDH positions in OER are being eliminated. One has been converted to a Population Officer, to oversee our expanding population portfolio.

### *Positive Trends*

These disruptive events during the past year have unfortunately distracted attention from the range of very positive trends in Peru relating to realization of our program goals and USAID program achievements. Among the noteworthy progress indicators are the following:

- \* In March 1993, Peru was formally reaccepted as a **credit-worthy** country by the IMF and World Bank; it has since agreed in principle at the Paris Club to rescheduling agreements with bilateral donors and private lenders.
- \* Annual **inflation**, nearly 7000 percent when Fujimori was elected, was reduced to 57 percent in 1992; the GOP has promised and is currently taking actions to reduce it still further this year.
- \* The pace of **privatization** of state-owned enterprises has accelerated, and has received praise of foreign observers. Studies and technical assistance under the Policy Analysis, Planning and Implementation (PAPI) project have led directly to reforms. The arrests of numerous leaders of both Sendero Luminoso and MRTA terrorist groups in the past few months are helping to renew citizen confidence and investor interest. Foreign investors are demonstrating confidence with acquisition of such high ticket items as the national copper company and state-owned airline. The USAID-supported Peruvian council of exporters, **ADEX**, is actively seeking new markets and improvement in Peruvian product quality. Peruvians have organized a joint public-private council on trade to improve coordination and reduce administrative and tax policy barriers to export.
- \* The USG is co-leader with Japan of the 1993 **Support Group**, and has pledged \$105 million to help meet the funding gap identified by the IMF (of which \$30 million is from the USAID 1991 balance of payments program, and the remainder from the proposed 1993 BOP program).
- \* Following the unfortunate April 5th closing of the judiciary because of rampant corruption and inefficiencies in the

judicial process, the President has taken significant first steps to **reform the judicial system**; the GOP has welcomed current and planned USAID assistance.

- \* The **free and fair elections** of the constituent assembly (CCD) in November and municipal governments in January (which USAID supported through technical assistance and OAS observers financed with USAID ESF) are a positive step towards democracy. The CCD is paying special attention to judicial issues in drafting a **new Constitution**, due to be promulgated by late July. Organizations financed under various USAID projects are quietly advising the CCD on sections of the Constitution with direct relevance to our objectives in Peru, and supporting mechanisms for open discussion of the Constitution between the CCD and the public at large.
- \* Human rights issues continue to be a concern, though some progress is visible. The installation of the USAID-financed **National Registry of Detainees** throughout the country is allowing the timely tracking of detainees, in order to monitor detentions and thereby reduce/prevent disappearances.
- \* The Government is beginning to mobilize its own resources (proceeds from privatization) to provide a **social safety net**, using many of the ideas put in practice under USAID P.L. 480 programs. USAID is consolidating its own social safety net activities, using the new PVO Support project as the focal point. Through Private Voluntary Organizations (PVOs) our food reaches **one in seven Peruvians**, with self-help and employment generation stressed in programs. We have recently signed a three-year Title III program, which includes important policy conditionality directly aimed at enhancing **food security** in Peru through liberalization of pricing and marketing policies.
- \* The 1991 Demographic and Health Survey (DHS) has confirmed improvements made in **infant mortality rates**. Five years ago Peru had the third highest infant mortality rate in Latin America and the Caribbean. The rate has dropped from 88/1000 live births five years ago, to about 55/1000 (which is still high), due in large part to gains in immunization (a major USAID dollar and local currency-funded activity during the last several years). **Immunization rates** for small children and infants have increased from 35 percent in 1987, to about 80 percent in 1992 - a considerable achievement. A clear demonstration of progress in the health sector is that, although **cholera** continues to return in summer, the mortality rate has been very low, thanks to quick detection and appropriate treatment by personnel trained under A.I.D. projects.

- \* Impressive gains are being made in **family planning**, with vocal support from the President. The DHS showed overall contraceptive prevalence to have risen from 46 to 59 percent in five years, with rates for modern contraceptive prevalence doubling. There is still much to do. Rural areas in particular continue to show very high fertility rates (6.2 vs. 2.8 in urban areas). A.I.D. is by far the largest donor in family planning in Peru. As an emphasis country for child survival and population, our programs are rapidly expanding, with both bilateral and centrally-funded resources.

### *The Alternative Development Conundrum*

Ironically, alternative development activities had received more Peruvian government support in the last several months than ever before, and increasing security in the zones targeted has facilitated assistance. Residents of coca growing areas are starting to take positive steps against the drug trade. We have been building a network of cooperating agents, which may disappear if visible support to their efforts cannot be maintained. Specific achievements in the past twelve months include:

- \* **GOP ratification of the 1988 UN Convention on Illicit Trafficking in Drugs (Vienna Convention).**
- \* **GOP conclusion of bilateral agreements with the U.S. that are pertinent to control of narcotics trafficking, including agreement on chemical control, and Tax Information Exchange Agreement.**
- \* **Undertaking of a series of pilot activities in alternative development** (community development, agricultural development, river basin programs tied to future coca eradication, and road rehabilitation). Democratic community development programs (similar to the Municipalities in Action system in El Salvador) have been especially well-received in the ten provinces of the Huallaga Valley where they are being carried out. Some sixty pilot activities are underway. USAID plans to use the Valley experience to replicate the community development program in other economically disadvantaged areas of Peru.
- \* **Contribution of GOP budget resources to alternative development for the first time, including \$13.5 million through the GOP emergency fund (FONCODES), despite strict budgetary austerity measures in force.**
- \* **Financing of the construction of the Picota Bridge, using host country owned local currency (HCOLC). This is the largest bridge across the Huallaga River and the last bridge in northern Peru to cross a major river before it reaches the**

Amazon. The bridge will open up nearly a million hectares for legitimate agriculture, with access to transportation.

- \* **Support to private sector efforts** to revitalize licit production and trade in the Valley. The GOP has loaned funds to finance construction and/or repair of rice mills, food processing plants and a feed mill within the past year.
- \* Arrangements for **complementary development activities** by other donors and IBRD and IDB (road rehabilitation).
- \* Supplementing road repair and maintenance activities under donor projects with **mobilization of Peruvian Army corps of engineers** to repair roads in the least secure parts of the coca-producing zone.

The GOP exceeded measures required in the 1991 ESRP (and Department of Defense Foreign Military Fund - FMF) for counternarcotics action. Unfortunately, the second and third tranches of ESRP have not been released, and funding for most of the second and all of the third tranche of the FY91 FMF has been rescinded. Indeed, during 1991 and from 1992 to April 1993, only \$3.1 million were obligated for alternative development activities. During the past year and a half, therefore, the GOP has taken an extensive range of actions which respond to U.S. desires on the full spectrum of counternarcotics policy, which in effect were self-motivated since the earlier U.S. assistance was frozen (in the case of ESRP) or rescinded (in the case of FMF).

Alternative Development is important to our program for Peru. Unfortunately, it is both management intensive and politically sensitive, requiring significant levels of USDH personnel for oversight, and depending for all its funding on rapidly diminishing NSD-18 resources. Without both restitution of the disputed direct hire positions and adequate NSD-18 funding in the future, USAID cannot continue this program.

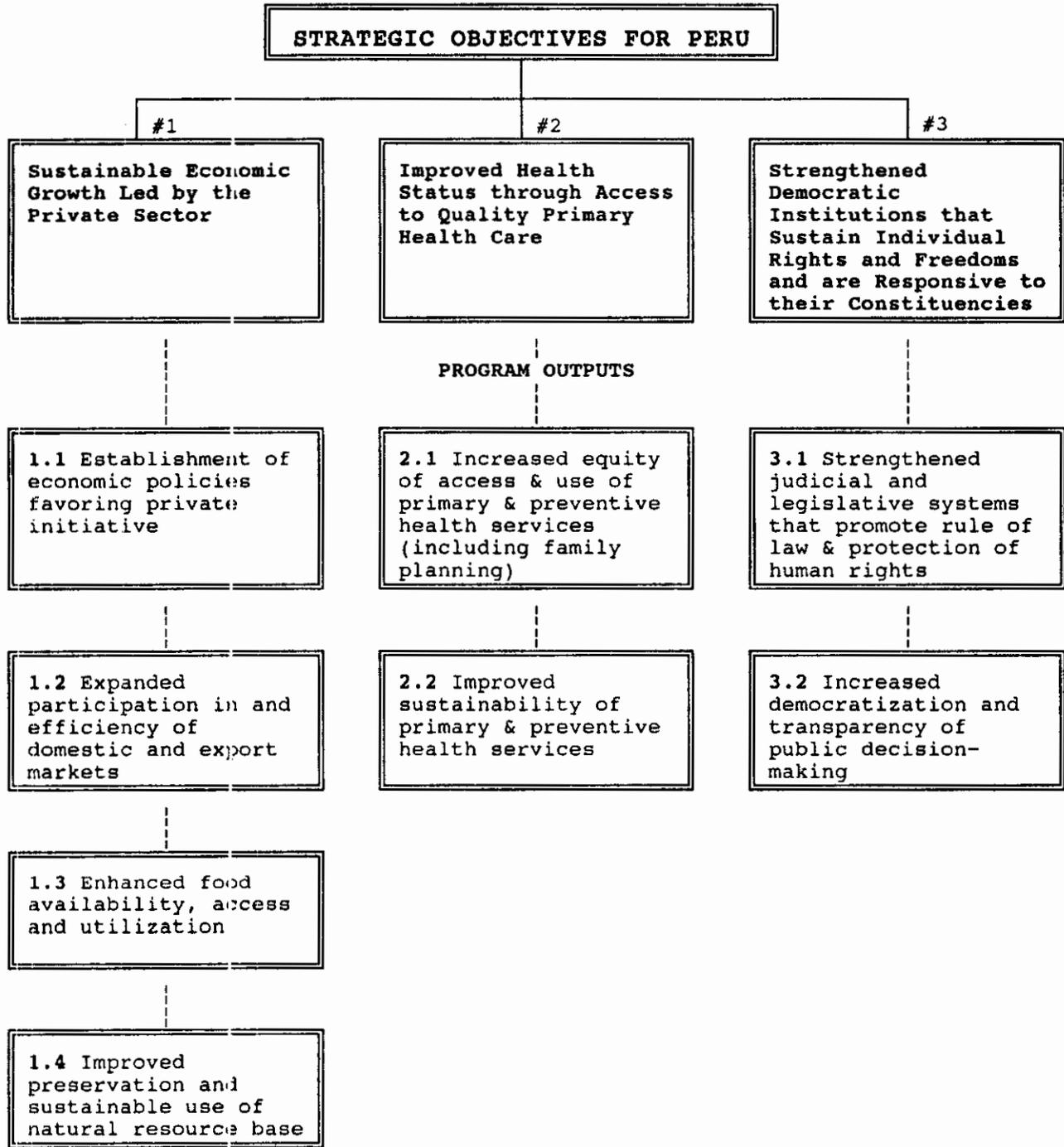
USAID/Peru needs A.I.D./Washington support in resolving issues which are seriously and adversely affecting the program:

- Acceptable staffing levels - USDH, USPSC, contractor and grantee employees, must be released from formal and informal restrictions by the Department of State.
- Adequate NSD-18 funding, or other dollar resources to support our existing portfolio and to maintain assistance in balance of payments. If ESF levels drop precipitously, we will not only not be able to work in alternative development, we will have to reduce drastically (if not eliminate) our balance of payments support efforts. Further, sharp reductions in ESF, such as those now being discussed in Washington, will also call into question how USAID would be able to finance its important democracy initiatives.

These and other issues are discussed in the last section of this Action Plan.

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Table A



\* Note: We are prepared to add a fourth strategic objective, Coca-based Employment Replaced with Legal Alternatives (which was one of Mission's strategic objectives in previous years) if policy support, adequate Mission staffing and funding are provided.

## SECTION I. STATUS OF STRATEGIC OBJECTIVES

### LAC Bureau Objective:

**Support the Achievement of Broadly-based, Sustainable Economic Growth**

### USAID Strategic Objective 1:

**Sustainable economic growth led by the private sector**

#### Program Outputs

1. Establishment of economic policies favoring private initiative.
2. Expanded participation and efficiency of domestic and export markets.
3. Enhanced food availability, access and utilization.
4. Improved preservation and sustainable use of the natural resource base.

#### A. Refinements/Changes in Strategic Objective and Program Outputs

This Strategic Objective (SO) is a compilation of former SO 1 (Establishment and maintenance of sound economic policy and structural reforms that promote economic stabilization and sustainable economic growth) and former SO 2 (Reactivated labor-intensive private sector generating employment and foreign exchange for small business, non-traditional exports and agriculture sectors). The intention is to remove artificial divisions in viewing Mission activities and goals, and to simplify the statement of objective. The two Strategic Objectives were, from the beginning, tightly linked. We found last year that there was a tendency toward duplication in articulating program outputs and indicators for the two objectives. In redefining the objective, we also closely examined the outputs and indicators used last year, and reduced their number to increase clarity and focus.

The first two program outputs selected (policy and markets) are basically those used in last year's Action Plan, with some wording changes (last year we had three, rather redundant outputs relating to policy). We have added two outputs to highlight aspects of our program, food security and the environment, which were not clearly articulated last year.

**Food security** was and is a major aspect of our objective to achieve sustainable economic growth. Improving access, availability and utilization of food is a recurrent theme both in this SO and the second which targets health status in particular. Defining food security as an output in itself will make it easier to highlight and display progress in the future. This output incorporates the previous program output dealing with the "social safety net." It is important to clarify that the intention of our social safety net activities (which center around the large P.L. 480 Title II program) is not to perpetuate charity, but to help bring the poor into the economy (which can be defined as improving food access) and provide temporary employment to those affected by the short-term negative impacts of the economic readjustment program. With the commencement of the PVO Support Project and the institutionalization of new tracking and reporting systems for food aid-managing PVOs, we should be able to have data for an integrated set of indicators by next AP.

We have also increased the visibility of our **natural resource management** (NRM) efforts in formulating a program output directly tied to conservation and sustainable natural resource use. We have made considerable progress in the last year in highlighting environmental protection/sustainability issues and actions in projects, and have plans for a new Sustainable Environmental Management project, as well as more policy dialogue on NRM in 1994.

As noted in the introduction, we have made a major effort to narrow the focus and concentrate management units in our portfolio. Changes made in Mission portfolio plans have necessarily led to modifications in outputs and indicators. Following advice from Washington on last year's Action Plan that counseled caution in dealing with agricultural credit institution-building, we decided not to pursue the design of Agricultural Credit and Rural Savings Mobilization (0359). We have since decided not to proceed with the planned projects Small Business and Employment Expansion (0350), Agricultural Technology Dissemination (0358) (which had been renamed Agricultural Export Promotion project in some Mission documents), and Policy Analysis for Private Sector Agricultural Development (0357). We have eliminated from our monitoring plans indicators which would have been strictly related to these projects.

Reference to possible GOP contribution for credit activities has been eliminated from the Export, Trade and Development (ETD - formerly Investment and Export Promotion) project. After the delay in contracting for ETD of virtually one year because of April 5th and new US legislative requirements, some simplification of the project's activities (e.g., elimination of all plans for investment activities, per se) has been made. We will not pursue the investment-centered project amendment described in last year's Action Plan. Instead, next phase agricultural production/export activities will be incorporated into ETD in a project amendment (a

summary description is included in Section II of this AP). The result is a portfolio of interventions in agriculture and trade which has fewer units and is more focused on areas in which we believe there is an opportunity for long-term sustainable success in the next few years.

Combining of the two strategic objectives does not imply any flagging of USAID attention to this objective, nor decrease in funding planned (although USAID's ability to support balance of payments is directly tied to ESF levels, which we cannot control, and access to P.L. 480 resources is dependent on availability of resources to an extent not encountered in DA dollar programs).

#### B. Strategic Objective Performance

There has been strong performance in the **macro-economic reform** aspect of this SO in the past year. As displayed in the attached economic policy score table, performance in most cases has exceeded expectations. This has been a year of achievements in the economic program. Peru reduced annual inflation to the lowest rate in 15 years. In December, it successfully completed an IMF Rights Accumulation Program and a World Bank Debt Workout Program. The Bank noted that Peru had met all 83 loan-specific conditions during the performance period, with one exception. Peru cleared arrears with the IMF and the World Bank in early 1993, and has been declared credit-worthy by the IMF after a long hiatus. Peru has met over 50 conditions of Inter-American Development Bank (IDB) loans, and kept current with payments to the IDB in the past year. The GOP has recently agreed with commercial creditors on the principles of a debt rescheduling plan under the Paris Club. Bilateral donors are meeting in June for the IBRD-led Consultative Group, and have pledged for the 1993 Support Group, of which the United States Government is the co-leader (and in which the USG pledges funds from USAID/Peru balance of payments programs from 1991 and 1993).

USAID's influence on economic reform during this period has been exerted through conditional balance of payments support, Title III, and PAPI project technical assistance/studies to public and private sectors, in particular. One example of progress tied to USAID efforts is the government's development of a liberalized exchange rate policy, for which the PAPI project provided technical advisors and studies. Similarly, PAPI consultants have provided the data economists needed to convince government of the advantages of privatization of various parastatals, and liberalization of regulations on export trade which were constraining that sector's growth. USAID policy dialogue and actions have helped the government move toward privatization or liquidation of ENCI, the grain import and marketing parastatal. Our refusal to hire ENCI to manage the \$25 million in FY92 Title III wheat imports has played a major role in reducing ENCI's power to resist reform. We also demonstrated to a very reluctant Ministry of Economy and Finance

TABLE E

INDICATOR: ECONOMIC POLICY SCORE INDEX  
(Actuals and targets)  
Update: March 1993

Category Weights	Policy Areas	Policy Criteria	Policy Weights 'The Ideal'	Baseline 1 Period 1980-1988		Baseline 2 Period 1989		Actual Period 1990-1991		Current 1/ Period 1992		Target Period 1992-1993	
				Rating	Score	Rating	Score	Rating	Score	Rating	Score	Rating	Score
19	Trade policy	Low and uniform non-tariff barriers	9	60%	5.4	20%	1.8	60%	7.2	60%	7.2	65%	7.65
		Low and uniform tariff barriers	6	60%	3.6	30%	1.8	70%	4.2	80%	4.8	80%	4.8
		No local content regulations	4	50%	2.0	30%	1.2	90%	3.6	90%	3.6	90%	3.6
14	Exchange rate policy	Market determined exchange rate	9	50%	4.5	20%	1.8	90%	8.1	90%	8.1	95%	8.55
		Minimal exchange controls	5	70%	3.5	10%	0.5	100%	5	100%	5.0	100%	5
11	Credit policy	Market-driven real interest rates	7	70%	4.9	20%	1.4	90%	6.3	95%	6.7	100%	7
		Minimal preferential interest rates	1	60%	0.6	30%	0.3	80%	0.8	85%	0.9	85%	0.85
		Equal access to capital	3	60%	1.8	30%	0.9	70%	2.1	80%	2.4	80%	2.4
11	Wage/price policies	Limited wage and price controls	7	70%	4.9	20%	1.4	90%	6.3	95%	6.7	95%	6.65
		Minimal subsidies	4	70%	2.8	20%	0.8	90%	3.6	100%	4.0	100%	4
10	Tax and expenditure policies	Balanced budget / slight surplus	6	60%	3.6	40%	2.4	90%	5.4	95%	5.7	95%	5.7
		Reduced marginal tax rate	2	50%	1.0	50%	1.0	40%	0.8	60%	1.2	70%	1.4
		Equitable / uniform tax collection	2	50%	1.0	50%	1.0	50%	1	70%	1.4	70%	1.4
10	Role of State	Divest nonstrategic SOE's	5	40%	2.0	20%	1.0	40%	2	70%	3.5	80%	4
		Franchise out state services	2	40%	0.8	40%	0.8	50%	1	80%	1.6	90%	1.8
		Simulated privatization	3	60%	1.8	40%	1.2	60%	1.8	80%	2.4	90%	2.7
7	Investment policy	Non-discriminatory treatment	6	60%	3.6	40%	2.4	100%	6	90%	5.4	100%	6
		Proactive promotion	1	60%	0.6	40%	0.4	80%	0.8	90%	0.9	95%	0.95
18	Legal, regulatory and judicial environment	Free flow of market information	2	70%	1.4	70%	1.4	80%	1.6	70%	1.4	80%	1.6
		Private property rights	9	70%	6.3	50%	4.5	70%	6.3	70%	6.3	70%	6.3
		Efficient gov. administration	2	50%	1.0	50%	1.0	50%	1	60%	1.2	75%	1.5
		Legal and accounting system	2	60%	1.2	60%	1.2	60%	1.2	60%	1.2	60%	1.2
		Infrastructure	3	50%	1.5	30%	0.9	20%	0.6	40%	1.2	40%	1.2
100 TOTAL REFORM SCORE (*)				100	59.8	31.1	76.7	82.7	86.25				

(\*) TOTAL REFORM SCORE/WEIGHTED - MEAN REFORM SCORE/UNWEIGHTED  
Source: Center for International Private Enterprise; APOYO  
1/ USAID/Peru, Economics Office Estimates

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(MEF) that the private sector could provide equivalent services at lower cost, with competition and transparent transactions.

Peru still has many changes to make in its economic policies and government regulations, if it is to correct completely the effects of thirty years of skewed economic policies, and to revive an economy badly hit by recession and the effects of narco-terrorism. It is important that the United States Government maintain a positive role in this ongoing process of change, through a combination of policy dialogue and economic assistance. One of the steps needed is a final decision by Washington on whether balance of payments support can actually be provided to reward this extremely impressive performance, and to promote new economic reforms.

The Mission focuses a large portion of its resources and policy dialogue on **food security**. For example, we are working with the IDB and World Bank (IBRD) to effect change in **agricultural pricing policy**. Although, because of April 5, we were for several months not allowed to engage high-level GOP officials in policy dialogue, we were able to work behind the scenes last year to show the GOP that we are serious about the issue of surcharges (sobretasas) on agricultural imports. With the Title III and Stabilization, Trade and Marketing Program (STMP) design processes, we have raised our profile on this issue. Under an agreement with the IDB, USAID is financing independent studies of aspects of the sobretasa system, while IDB and IBRD lead the public policy dialogue. The GOP has made some changes in the system already, as suggested. We expect more progress in the next two years in the broad range of agricultural pricing and marketing issues through the policy aspects of the 1993-95 Title III program and the 1993 STMP balance of payments conditions.

During the past year, USAID has continued to provide food for over 3,000,000 Peruvians, or one in seven residents. In addition, our food program directly supports the outreach programs of four PVOs, with special attention to **income and employment generation, and health/nutritional status of children under five**. One example of the way in which food assistance is used to help the poor become economically active is community soup kitchens (comedores). The comedores are organized by community groups, almost always women. Through PVOs we support thousands of comedores in poor neighborhoods throughout the country. The organizers prepare and sell meals for a small price (with the truly indigent eating for free). The fees go to buy vegetables and condiments to improve the meals, and to provide savings which can be used to continue the kitchens once food aid ends and/or to start income-producing activities. In many cases, the women have used their good management records in handling comedor resources to qualify for other PVO assistance, such as micro-enterprise training, loan guarantees and credit. Through the new PVO Support Project, we will expand these efforts and help build capacity and outreach of

indigenous PVOs in grassroots development, with special attention again to employment generation, natural resource management, and child survival. The Title III program adds **policy conditionality relating to food pricing, import and marketing**, as well as generating sales proceeds for use in activities of mutual interest to the Government of Peru and USAID, with special attention to food security. This year we have been able to direct funds at PVOs without going through a technical ministry as sponsor. This innovation, part of the policy dialogue on Title III, will help expand PVO participation in the program, as using a ministry as liaison had proven a barrier for some voluntary organization programs in the past.

Despite many constraints (including drops in foreign investor confidence immediately following April 5), we are helping to make progress towards an **increase in incomes and employment in export trade**. Although we were not able to field a large technical assistance team last year as planned to help potential exporters of non-traditional products (such as asparagus, mangoes, jewelry), the Peruvian exporters' association, ADEX, has been very active on its own in sponsoring seminars, arranging for consultant assistance, publicizing the importance of export trade. We are also promoting policy dialogue on export promotion, which may result in "tax drawbacks" or other incentive systems for exporters which do not undercut the macroeconomic reform program.

The past year has marked completion of many of the Mission's long-standing **agricultural research and dissemination** activities. A modern seed multiplication capacity has been established through efforts of USAID's Agricultural Technology Transformation project. The GOP is moving to privatize agricultural research to the extent possible, and some research stations have already been privatized and are in the hands of communities/producer groups. The World Bank has announced its intention of assisting the Government in this area in the future. Hence, USAID is able to close out its direct support to the system as a whole, and will negotiate with the Government and the Bank possible future support to selected stations which have potential for pay-offs for our export trade programs.

After a slow start, in part tied to inability of The Nature Conservancy (TNC) experts to gain permission to travel to Peru, the Employment and Natural Resource Sustainability project is showing progress in helping residents of the Pacaya-Samiria reserve to increase their incomes while protecting this fragile **environment**. We have also built in environmental review criteria into other projects, including for review of PVO proposals under the PVO Support project.

Activities in the **Huallaga Valley** during the past year picked up in pace, and are closely tied to the strategic objective and the outputs relating to markets, food security and natural resources.

Through a combination of local currency and dollar resources, we have been able to start a variety of community development activities aimed at **reviving production, processing and trade of licit products** of this potentially productive zone. Unfortunately, external factors tied to staffing and funding levels are likely to end our direct participation in 1994, with the PACD of the Upper Huallaga Area Development Project.

C. Monitoring and Evaluation Status and Plans

Monitoring systems have been designed for trade activities, and will be fully implemented with arrival of the contract team for ETD (before end of FY93). We are able to maintain part of the system in USAID, under the MIS activity (financed under NSD-18). We are also maintaining reporting and monitoring systems developed for alternative development projects, as they are very appropriate for measuring progress towards improved competitiveness of selected goods and enhanced food security.

Various monitoring systems are being designed for food security. Each Title II food aid-recipient PVO is introducing new monitoring and reporting systems, designed to allow comparison among programs. The PVO Support project will have its own monitoring system, to be managed by PACT, the implementing agent. We have requested assistance from LACTECH in synthesizing these various systems, and developing monitoring systems related to Title III and STMP conditionality, to provide an overall food security monitoring system for USAID. These systems are all designed to focus on impact on disadvantaged groups. Unfortunately, Embassy has not allowed the Chief of Party of PACT to move to Peru, causing delays in start-up of PACT's monitoring system, and we have had difficulties for the past year in gaining approval for TDYs on program monitoring issues. Next year's Action Plan will include a full set of indicators for food security, designed and implemented by PACT.

By the end of the 1993, final evaluations will have been completed on the previous generation of grants to food aid PVOs, and on the Agricultural Technology Transformation project. The evaluation results will be used in design efforts, and also to improve monitoring of such activities in the future.

Table 1: Strategic Objective Performance

Peru					
STRATEGIC OBJECTIVE NO.1 Sustainable economic growth led by the private sector					
Indicator: Increase in private sector investment as % GDP					
Unit: %	Year	Planned	Actual		
Source: CRBP	1990	---	13.6		
Comments:	1991		12.7		
	1992	16	Not available		
	1993				
	1994				
	1995	18.7			
	1996				
	1997				
PROGRAM OUTPUT 1.1 Establishment of economic policies favoring private initiative					
Indicator: Economic policy score index					
Unit: Points: 1-100	Year	Planned	Actual		
Source: CIPE  Comments: See attached full table. Progress in 1992 exceeded expectations.	1989		31.1		
	1990				
	1991	80.0	76.7		
	1992	80.0	82.7		
	1993	83.0			
	1994				
	1995	85.0			
	1996				
	Target	90.0			

Indicator: Trade Policy						
Unit: 1-19	Year	Planned	Actual			
Source: CIPE  Comments: Indicator tracks progress in estab. of low and uniform tariff and non-tariff barriers, and no local content regulations.  Progress lagged behind expectations in 1992 because of continued reliance on complicated set of surcharges.	Baseline	----	4.8			
		1992	16.1	15.6		
		1993	17.0			
		1994	18.0			
		1995	19.0			
		1996	"			
		1997	"			
	Target					

Indicator: Tax and expenditures policies						
Unit: 1-10	Year	Planned	Actual			
Source: CIPE  Comments: Policies rated are balanced budget/slight surplus, reduced marginal tax rate, equitable/uniform tax collection. Performance exceeded expectations in 1992.	Baseline	----	4.4			
		1992	7.4	8.3		
		1993	9.0			
		1994	9.5			
		1995	10.0			
		1996	"			
		1997	"			
	Target					

Indicator: Privatization					
Unit:	1-10	Year	Planned	Actual	
Source:	CIPE	Baseline	---	3.0	
Comments: "Role of State" in divestiture of nonstrategic state-owned-enterprises, franchising of state services, simulated privatization. Greatest improvement in 1992 was in divestiture.		1989			
		1990			
		1991		4.8	
		1992	5.6	7.5	
		1993	8.0		
		1994	9.0		
		1995	10.0		
	1996	"			
	1997	"			
	Target				

Indicator: Legal, regulatory and judicial environment					
Unit:	1-18	Year	Planned	Actual	
Source:	CIPE	Baseline	---	9.0	
Comments: Grades free flow of market info, private property rights, efficient govt. administration, legal and accounting system, infrastructure.		1989			
		1990			
		1991		10.7	
		1992	10.8	11.3	
		1993	15.0		
		1994	16.5		
		1995	18.0		
	1996	"			
	1997	"			
	Target				

PROGRAM OUTPUT 1.2 Expanded participation and efficiency of domestic and export markets						
Indicator: Increase in non-traditional exports						
Unit: US \$M	Baseline	Year	Planned	Actual		
Source: CRBP, ADEX		1990	---	974		
Comments: ETD is contracting a study to establish specific baseline data for targeted export sector.		1991	N/A	996		
		1992	1000	1,013		
		1993		TBD		
		1994				
		1995	1400	***		
		1996	TBD			
		Target	1997	"		

Indicator: Increased production of rice in target areas						
Unit: MT	Baseline	Year (Year)	Planned	Actual		
Source: UHAD		1990	---			
Comments: Target areas currently limited to Huallaga Valley. Reduction in production due to credit, marketing and weather constraints. Target year is set to 1993. UHAD ends in June 1994.		1991	N/A	121,723		
		1992	N/A	102,313		
		1993	122,000			
		1994				
		1995				
		1996				
		Target	1997			

Indicator: Increased production of maize in target areas					
Unit:	MT	Year	Planned	Actual	
Source:	UHAD	1990	---	71,445	
Comments: Target area currently Huallaga Valley. Target year set to 1993. UHAD ends in June 1994. Decrease in production due to weather, credit and marketing constraints.		1991	N/A	65,584	
		1992		TBD	
		1993	80,000		
		1994			
		1995			
		1996			
		1997			
		Target			

PROGRAM OUTPUT 1.3 Enhanced food availability, access and utilization							
Indicator: Decrease child malnutrition rate in target groups							
Unit: Children under 5 years in Title II recipient target groups (a)	Year	Planned	Actual				
Source: PRISMA	1990	---	---				
<p>Comments: Targets will be reached by increasing the proportion of children 0-3 years in the beneficiary population, and not by increasing the overall beneficiary targets. In 1992, 27% of all beneficiaries were aged 0-3 years and malnutrition (2SD w/a) detected among this 0-3 population was 85% (c). Graduation criteria for beneficiaries is also being established so that children do not leave program before their nutritional status improves.</p> <p>(a) Total beneficiary population: 226,000 for FY 92 and 220,000/year from FY 93-97.</p> <p>(b) Of 226,000 children in the program:</p> <ul style="list-style-type: none"> <li>- 164,980 were ages 3-5 (73%)</li> <li>- 61,020 were ages 0-3 (27%)</li> </ul> <p>(c) Of the 119,780 children identified as malnourished:</p> <ul style="list-style-type: none"> <li>- 51,867 were ages 0-3 (i.e. 85% of the 61,020 children 0-3 years in the program)</li> <li>- 67,913 were ages 3-5 (i.e. 41% of the 164,980 children 3-5 years in the program)</li> </ul> <p>(d) Of the 220,000 beneficiary population per year, the program will target an increasing proportion of children 0-3 where the incidence of malnutrition is higher; therefore, the proportion of children targeted that are actually malnourished will tend to increase over the FY 93-97 period.</p>	Baseline						
	Target						

Indicator: Decrease in acute malnutrition in pre-school children						
Unit: Preschool children in target groups vs. general population (acute malnutrition rates)			Year	Planned	Actual	
Source: PRISMA, other PVOs			Baseline			
Comments: System will yield following: (000) %			1990			
Number Enrolled			1991			
Acute Mal. Beginning			1992			
End Partic. Acute Mal.			1993			
Gen. Rep. Acute Mal.			1994			
			1995			
			1996			
Target			1997			
Indicator: Increase income/employment targeted disadvantaged groups						
Unit: Income increased among disadvantaged groups.			Year	Planned	Actual	
Source: PVO Support, Title II PVO reports			Baseline			
Comments: Increase in # of days worked (man/month). Measures to be determined. PACT (PVO Support Project is responsible for designing impact monitoring systems. PACT has not been able to start this work due to lack of Embassy clearance for COP to move to Peru.			1992			
			1993			
			1994			
			1995			
			1996			
Target			1997			
Indicator: Increase income/employment targeted disadvantaged groups						
Unit: Income increased among disadvantaged groups.			Year	Planned	Actual	
Source: PVO Support, Title II PVO reports			Baseline			
Comments: Increase in # of days worked (man/month). Measures to be determined. PACT (PVO Support Project is responsible for designing impact monitoring systems. PACT has not been able to start this work due to lack of Embassy clearance for COP to move to Peru.			1992			
			1993			
			1994			
			1995			
			1996			
Target			1997			

Indicator: Private competitive systems take over agricultural commodity import & marketing				
Unit: ENCI trading limit (000 MT)	Baseline	Year (Year)	Planned	Actual
Source: GOP, IBRD data  Comments: ENCI is final existing parastatal in ag. import/marketing ENCI's removal from competition with private sector is an indicator of policy progress. Note: USAID has already eliminated ENCI from role in our PL 480 imports.		1991		
		1992	N/A	300
		1993	Non-USAID	
		1994	Donations	
	Target	1995	Only	
Unit: Private sector commodity exchange (or alternative system) established  Source: Title III reports  Comments: Final legal form accepted in Peru may diverge from Ecuador model under review. The objective is a legally accepted, transparent and competitive system without parastatal involvement.	Baseline	1993		None
		1994	Tested	
	Target	1995	Established	
Note: GOP policies affecting food availability (e.g., tariffs, non-tariff barriers, exchange rate, property rights, etc.) are tracked in Economic Policy Score Index (see Section I.B). Population growth rates, see Section II. Agricultural Practices will be factored into Output 1.2.				

PROGRAM OUTPUT 1.4 Improved preservation and sustainable use of natural resource base				
Indicator: Increased reforested areas, decreased use of agrochemicals, better protection of endangered species, increased income from sustainable use of natural resources.				
Unit:	Year	Planned	Actual	
Source:  Comments: Design of Sustainable Environmental Management Project (FY 94) will yield baseline and monitoring systems.	Baseline			
		1991		
		1992		
		1993		
		1994		
		1995		
		1996		
	Target			
	1997			

**TABLE 2: STRATEGIC OBJECTIVE PROGRAM "TREE"**

Peru	
Bureau Objective: Support the achievement of broadly-based, sustainable economic growth	
Bureau Sub-objective: Encourage economic policies that promote investment, productive employment and outward-oriented diversification; encourage accelerated opportunities in the economy by the historically disadvantaged	
<b>STRATEGIC OBJECTIVE NO. 1: Sustainable economic growth led by the private sector</b>	

PROGRAM OUTCOME NO. 1.1 Establishment of economic policies favoring private initiative	PROGRAM OUTCOME NO. 1.2 Expanded participation in and efficiency of domestic and export markets	PROGRAM OUTCOME NO. 1.3 Enhanced food availability, access and utilization	PROGRAM OUTCOME NO. 1.4 Improved preservation and sustainable use of natural resource base
Projects (Number\Title)	Projects (Number\Title)	Project (Number\Title)	Project (Number\Title)
527-0343 Policy Analysis, Planning and Implementation	527-0244 Upper Huallaga Area Development	P.L. 480 Title II	527-0341 Employment and Natural Resource Sustainability
527-0367 Stabilization, Trade and Marketing Program	527-0349 Export, Trade and Development	P.L. 480 Title III	527-0353 PVO Support
P.L. 480 Title III	527-0353 PVO Support	527-0353 PVO Support	527-0368 Sustainable Environmental Management

## USAID Strategic Objective 2:

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

### Program Outputs

1. Increased equity of access and use of primary and preventive health services.
2. Improved sustainability of primary and preventive health services.

### A. Refinements/Changes in Strategic Objective and Program Outputs

We have refined somewhat the statement of the outputs under this unchanged strategic objective definition, to increase attention to equity issues and to make sustainability of services an output rather than focus on the use of private sector services, which is really a subset of the above. We have dropped the output which was improved targeting of information-education-communication (IEC), as this is more a description of project activities than a program goal.

Modification of the outputs has led to some changes in and further focusing of indicators. We have eliminated indicators which are not directly related to our program (except at the strategic objective level) and/or which appear to be project outputs.

### B. Strategic Objective Performance

Despite sanctions (which limited USAID's ability to provide dollar resources for public sector child survival efforts), a continuation of the seasonal cholera epidemics, MOH personnel strikes, and some disruptions to the MOH decentralization process because of April 5 events, there has been real progress seen in achieving objectives and outputs.

The 1991-1992 Demographic Health Survey (DHS) yielded the following key statistics:

- \* Drop of **infant mortality** rates from 88/1000 (1987) to 55/1000. The Government of Peru's goal for the year 2000 is 35/1000.
- \* **Immunization rates** for children under five at an all-time high for Peru (80 percent), up from 35 percent in 1987.
- \* **Modern contraceptive prevalence** at 46 percent (from 23 percent), and overall rates at 59 percent (from 46 percent).

Peru is close to eradicating the **wild polio virus**. USAID financial support for special immunization campaigns in the last year has been key to this action.

Although **cholera** continues to resurge in summer, the mortality rate is low, due in large part to health worker/epidemiologist training received under USAID auspices, which led to correct clinical management of the disease and early warning on disease outbreaks.

Peru continues to show relatively low rates of **HIV and AIDS**. And thanks in part to USAID-financed PVO educational activities, there is growing awareness of the problem, and positive steps to monitor conditions of at-risk groups in the Lima/Callao metropolitan area, where nearly a third of the Peruvian population now resides. We have devolved our direct involvement in the effort to other donors and Peruvian organizations as we clarify the focus of our health activities and reduce units of management.

Within the past year, our efforts to increase **private sector involvement in family planning** have progressed well. Overall contraceptive prevalence increased by 13 percent in the last five years, with use of modern methods gaining 11 percent. Private sector sales of modern contraceptives are increasing, and there is growing client demand for more permanent forms of contraception. However, the continuing economic recession has had a negative effect on the ability of Peruvian PVOs offering private family planning services to recover costs. Clients have proved unable to pay more for services and products, thus making it difficult for the PVO services to become self-sustaining. An evaluation is being conducted to determine how to increase revenues without jeopardizing quality of services. Convincing private companies to include family planning in private health plans has also proven difficult during the recession. Many companies are actually cutting health coverage for their employees, for financial reasons.

USAID looks forward to rapid expansion of **centrally funded services for population** in the next year, as an emphasis country for A.I.D. for both child survival and population. Through the services the centrally funded agencies can offer to the MOH and voluntary agencies, we can help Peru reach more women in rural areas, where there is a large unmet demand for services, and where fertility rates are still very high (total fertility rate 6.2, and unchanged in five years). The R&D/Population contractor is now setting up its operations in Peru.

**Sustainability of health services** is a major preoccupation for Peru. We are dealing with this issue through a variety of projects. After a slow start for reasons beyond our control (sanctions, April 5 fall-out), the Strengthening Private Sector Health Institutions project (SHIP) is moving to set up a model **private primary health care system** in one region of northern Peru, and expanding **community-based primary health care systems** through

grants and technical assistance to NGOs which are involved in primary health care in southern Peru (Arequipa and Puno). The intention is to test varying models of primary health care delivery for financial self-sustainability. The Mission is now completing design of a seven-year project, Sustaining Child Survival Programs, which will focus on cost recovery, greater efficiency through decentralization, and technical service issues for public sector delivery of these essential services.

The PVO Support project and Titles II and III also support achievement of Mission objectives for health. Through the Title II program, we provide nutritional assistance and counseling to at-risk mothers and small children. An example of the success of this program is the very poor San Juan area of metropolitan Lima, where 73 percent of at-risk children and mothers have met nutritional standards needed to graduate from the PRISMA nutrition program after six months (at which time they continue to be monitored, but do not receive supplemental foods).

### C. Monitoring and Evaluation Status and Plans

Each of the projects which have direct impact on this objective features monitoring and evaluation systems aimed at extracting impact data. This includes a health/management information system (HIS/MIS) installed in the Ministry of Health, and impact monitoring systems being designed and installed for private sector primary health care activities under SHIP. The periodic Demographic and Health Surveys (DHS) are of particular value for measuring achievement on the national level, both in health/child survival and in family planning.

The National Census, to be conducted in July 1993, should prove very valuable for future monitoring, as there have been no accurate nationwide population data for years (there have been particular studies financed by USAID and other organizations relating to specific issues or geographic areas). Census data will be of value to the program as a whole, when analyzed and published.

PVO family planning activities are being evaluated in April-May 1993, and results of the analysis will help determine needs for the remainder of the current project (0335), and for the future Quality Improvement project. The PVO managing the Mission's Private Commercial Family Planning Project is installing and testing a variety of monitoring systems to track outputs (e.g., sales of contraceptives) and impact. The system is not fully completed, as it requires U.S. consultants, who have had difficulty obtaining permission to travel to Peru in the last year.

STRATEGIC OBJECTIVE NO. 2 Improve Health Status Through Access to Quality Primary Health Care						
Indicator: Decreased Infant Mortality Rate						
Unit:	Number of deaths among live births under 1	Year	Planned	Actual		
Source:	Encuesta Demografica y de Salud Familiar en el Peru (ENDES)/Demographic Health Survey (DHS) 1991-1992.	1986	---	78/1000		
Comments:	Source has been changed from previous UNICEF reference (81/1000 in 1990) to ENDES 1986 and 1991/1992. The 1991/1992 survey, financed by USAID and other UN agencies, estimated a lower rate which was somewhat of a surprise due to the economic situation. These results, however, parallel a regional trend. A further study commissioned by AID/W was apparently carried out by the John Hopkins University and estimated even lower rates.	1987				
		1988	79/1000			
		1989				
		1990				
		1991		55/1000		
		1992				
		1993				
		1994				
		1995	45/1000			
		1996				
		1997				
	Target					

Indicator: Decreased childhood malnutrition (weight for age less than 2 s.d. of NCHS standard)						
Unit: Children under 5 years a. rural / b. urban	Year	Planned	Actual	Year	Planned	Actual
Source: ENDES* DHS PRISMA/HN Survey	Baseline			1984	---	A. 23% B. 6.5%
<p>Comments: The actual malnutrition indicators for FY 92 for children under 5 years represent the national average for rural and urban areas. These figures were obtained from ENDES 1991-92 (weight for age less than 2 s.d. of NCHS standard).</p> <p>The malnutrition indicators for FY 95 were estimated considering that support for food aid programs in Peru will remain at constant levels, especially the PL 480 Title II Program. Aspects taken into consideration for this projection include: the rate of migration from rural to urban areas, the future socio-economic situation, the intensity of the recession which affects the poorest segments of the population, and the effects of the school feeding program to be implemented by the GOP.</p> <p>* Encuesta Demografica y de Salud Familiar (1991-92)</p>				1985		
				1986		
				1987		
				1988		
				1989		
				1990		
				1991		A. 23% B. 6.5%
		ENDES 92		1992	A. 22% B. 6%	A. 17.7% B. 6.4%
				1993		
				1994		
			1995	A. 15% B. 5%		
			1996			
	Target		1997			

Indicator: Decreased total fertility rate						
Unit: Women in Reproductive Age (W.R.A.)	Year	Planned	Actual			
Source: Demographic & Health Service (DHS) II (91-92)	1986	---	4.1			
<p>Comments: The decrease in the Total Fertility Rate (TFR) which is the average family size, was explained mainly by the decrease of TFR in urban areas. Due to lack of family planning services and cultural factors, fertility in rural areas remained constant between 1986 and 1991-92 (TFR of 6.2).</p> <p>It is a generally accepted assumption by DHS analysts, based on studies conducted in-country, that higher incidence of induced, illegal abortion contributed to the decline of the TFR.</p> <p>* Estimate</p>	1987					
	1988					
	1989					
	1990					
	1991		3.8*			
	1992		3.7	3.5		
	1993					
	1994					
	1995		3.3			
	1996					
Target	1997					
PROGRAM OUTPUT 2.1 Increased equity of access and use of primary and preventive health services, including Family Planning						
Indicator: Inc. % children < 1 immunized						
Unit: %	Year	Planned	Actual			
Source: MOH/PAHO Office stat.	1990	---	70%			
Comments:	1991	60%	73%			
	1992	80%	80%			
	1993					
	1994					
	1995	85%				
	1996					
Target	1997					

Indicator: Increased couple- years-protection					
Unit:					
Source:	Year	Planned	Actual		
DHS I (86) & (91-92) and estimates	1990	---	620,000		
Comments: Increase of CYP in 1992 is partially explained by improvement in service statistics of the MOH and PVOs.	1991		700,000		
	1992	800,000	1'717,000		
	1993				
	1994				
	1995	1 million			
	1996				
	Target	1997			

Indicator: Increase modern contraceptive prevalence							
Unit: % married women reproductive age (M.W.R.A.)	Baseline	Year	Planned	Actual			
Source: DHS I (86) & DHS II (91-92)		1986	---	23%			
<p>Comments: According to DHS 91, overall contraceptive prevalence increased from 46% in 1986 to 59% in 1991-92. However, the use of modern more effective methods, showed a greater increase (11 percent points) than traditional methods (2 percent points).</p> <p>In order to increase modern contraceptive prevalence, the mission strategy is to increase the offer of, and access to long lasting methods (VSC &amp; IUD) thru the public and PVO sectors and provide assistance to the commercial sector, also to increase access to supply and long lasting methods.</p> <p>* Estimate</p>		1987					
		1988					
		1989					
		1990					
		1991			28%*		
		1992		30%	33%		
		1993					
		1994					
		1995		40%			
		1996					
	Target	1997					
PROGRAM OUTPUT 2.2 Improved sustainability of primary and preventive health services							
Indicator: Inc. sales of oral contraceptives							
Unit: Thousands cycles pills	Baseline	Year	Planned	Actual			
Source: IMS reports		1991	---	1,075			
<p>Comments: Sales of pills did not reach the expected target for 1992 because the communication campaign could not start in May as planned, due to technical and administrative reasons. The campaign started at the end of August and monthly sales started to increase in the last quarter of 1992.</p>		1992	1,130	1,007			
		1993					
		1994					
		1994					
		1995		1,500			
		1996					
	Target	1997					

Indicator: Inc. share MOH budget for primary health care						
Unit: %		Year	Planned	Actual		
Source: MOH Budget Admin/Budget & ANSSA/PERU 1986	Baseline	1990	---	5%		
Comments:		1991		8%		
		1992	10%			
		1993				
		1994				
		1995	15%			
		1996				
		Target	1997			
Indicator: Percent operating costs recovered in PVO family planning services						
Unit: % of total budget		Year	Planned	Actual		
Source: PRISMA Evals	Baseline	1991	---	10%		
Comments: PVOs have increased income generation appreciably. These funds have been used to cover increased costs resulting from inflation and low exchange rate.		1992	15%			
		1993	20%	26%		
		1994	30%			
		1995	35%			
		1996	50%			
		Target	1997	70%		

Indicator: Increased availability of private primary health services					
Unit: Number of NGOs providing health services	Year	Planned	Actual		
Source: SHIP Project Data (South)	1991				
Comments: This is an approximate indicator that will need to be refined as SHIP Health Information System goes into operation.	1992				
	1993				12
	1994				
	1995				
	1996				18
	Target	1997			

Peru
Bureau Objective: Support the achievement of broadly-based, sustainable economic growth
Bureau Sub-objective: Encourage accelerated opportunities in the economy by the historically disadvantaged
<b>STRATEGIC OBJECTIVE NO. 2: Improve health status through access to quality primary health care</b>

PROGRAM OUTCOME NO. 2.1 Increased equity of access and use of primary and preventive health services, including family planning	PROGRAM OUTCOME NO. 2.2 Improved sustainability of primary and preventive health services
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Projects (Number\Title)	Projects (Number\Title)
527-0285 Child Survival Action	527-0366 Sustaining Child Survival Programs
527-319 Strengthening Private Sector Health Institutions	527-0355 Quality Improvement and Strengthening of Population\Family Planning Programs
527-0326 Private Commercial Family Planning	
527-0335 Private Voluntary Sector Family Planning Services Expansion	
527-0355 Quality Improvement and Strengthening of Population\Family Planning Programs	
527-0366 Sustaining Child Survival Programs	
527-0353 PVO Support	

## LAC Bureau Objective:

**Support the Evolution of Stable, Participatory Democratic Societies**

### Strategic Objective 3:

**Strengthened democratic institutions that sustain individual rights and freedoms and are responsive to their constituencies**

#### Program Outputs

1. Strengthened judicial and legislative systems that promote the rule of law and protection of human rights.
2. Increased democratization and transparency of public decision-making.

#### A. Refinements/Changes in Strategic Objective and Program Outputs

Over the past year, despite and in some cases because of the turmoil following April 5th, USAID has made significant progress in developing a strategy for the strengthening of democracy and human rights in Peru, and in carrying out an integrated set of interventions in support of this strategy. Our strategy is indicated in the two program outputs. The first, "strengthened judicial and legislative systems that promote the rule of law and the protection of human rights," is in direct support of the USG's first two overriding goals for Peru, as expressed in the Mission Program Plan for FY93-97: 1) promote democratic evolution and strengthen democratic institutions, and 2) promote respect for human rights in accord with U.S. and international standards. The second program output, "increased democratization of public decision-making," is aimed at the second aspect of strategic objective No. 3, i.e. strengthening the responsiveness of the democratic institutions to their constituencies. Assistance will thus be provided for electoral reform, and to both representative non-governmental organizations and to governmental bodies charged with channeling the political will of the people upward to **decision-making** levels of government.

The result for the Action Plan is a strategic objective, program outputs and indicators that are more focused, less project output-oriented than in the previous Action Plan. For example, we have scaled back on the number of different indicators used for judicial

reform efforts, as the previous set was very large and individual indicators tended to overlap. We have added indicators which reflect new democratic initiatives activities which will continue through 1995, and dropped ones which no longer need tracking. With the commencement of our next generation judicial reform (JUST) and democratic initiatives projects over the next two years, we will continue to refine the program outputs and indicators. Note that we have now incorporated anti-drug education efforts into this strategic objective, as they all involve mobilizing public opinion and community action against drug trade and use in Peru.

The democracy/human rights situation in Peru is rapidly evolving. A year ago, for instance, no one foresaw that the President would close courts and Congress in one day. Nor could anyone have predicted the writing of a new Constitution in 1993. Our approach to democratic initiatives must be flexible enough to be able to take advantage of targets of opportunity such as requests for elections assistance, and to be able to survive unpredictable setbacks that will occur during this difficult process.

#### B. Strategic Objective Performance

The past year has had tumultuous effects on the evolution of democracy in Peru. There have been pronounced achievements and setbacks, and almost continual change. All of this has demonstrated the need for the USG to remain engaged in the process - through USAID policy dialogue and financial and technical assistance - so as to help move the process in the right direction. As mentioned previously, the events of April 5, when the President of Peru closed the courts and the legislature, caused immediate repercussions. For the elements of the USAID program which are directly related to democratic initiatives, it meant: freezing of activities of the AOJ project (lifted in September after modification of the project to move implementation responsibilities directly to USAID); slowdown of the establishment of the National Registry of Detainees (formal hold on activities lifted after three months); cancellation of plans for an immediate move into a second generation judicial support project; and derailment of many of the democratic initiative activities then being undertaken by the Institute for Liberty and Democracy (ILD - project 598-0772). This situation required USAID to modify certain of its activities, adjust schedules and look for opportunities to promote a return to democratic systems. Ironically, we have been able to do much more in the last several months than ever before. The disruption of entrenched institutions has provided a more receptive audience, and many requests for substantive assistance in moving towards democratic, responsive institutions in the judiciary, national, state and local governments.

The President's actions of April 5th, as well as numerous subsequent declarations and actions, such as sacking of numbers of judges with dismal reputations, demonstrated his determination to

**clean up and modernize the judicial system**, previously plagued by corruption, lethargy, and antiquated methods of jurisprudence. He followed the court closure with the naming of new personnel at all levels of the Judicial Branch and Public Ministry, including the President of the Supreme Court and Attorney General. Subsequently, orders were given to purge the Public Ministry of its worst performers (from prosecutors to administrative personnel; based on an analytical study financed under AOJ), and to shift the jurisdiction of trials for senior-level terrorists to military courts (a move with both positive and negative aspects). USAID has refocused and concentrated activities in administration of justice to assist the government in making changes in a transparent, equitable manner. We are working closely with key reform-minded leaders in government and private sectors, and have been able to obtain the services of experts from the United States and Latin America to advise the government on how to move towards a more responsive, efficient and honest judiciary. For example, the April 1993 TDY of Dr. Timothy Cornish, which coincided with an A.I.D.-sponsored National Conference on Criminal Justice implemented by ICITAP, helped to coalesce support among key GOP actors in the Judicial Branch, Public Ministry, CCD, Ministry of Justice, and the National Police for upcoming reforms that will be transcendental in the area of criminal procedures. The project is also providing a variety of training courses for judges and prosecutors, to help prepare for introduction of the accusatorial system of justice, and to improve administrative skills. The follow-on Judicial Strengthening project is currently being designed, to commence by the end of FY93.

USAID is also supporting a variety of efforts to inform policy makers, and the Peruvian public, on **democracy and human rights** issues. An example is the study commissioned from ex-Senator Bernales on the economic costs of terrorism, which is being completed now. This study will form the basis for public discussions of this complex and touchy subject. We are actively working on a number of levels to promote the protection of human rights in Peru. Through our financing and the expert assistance of the UN-affiliate ILANUD, Peru is establishing a **National Register of Detainees**, which is an important step in preventing disappearances of detainees - one of the problems which human rights advocates cite in Peru. Despite slowdowns because of April 5th, the system is well on the way to installation and active use throughout the country. We have financed design of the system, computer acquisition, training and installation, and will monitor for effective use. We plan to continue work with the Registry under the JUST project, and to work with ILANUD, which is the regional specialist in this domain.

**USAID has been active in promoting free and fair elections** in Peru. Following the disbanding of Congress, the President agreed to the **election of a constituent assembly** (Congreso Constituyente Democrático - CCD), which would serve in a legislative capacity

and revise the constitution. USAID actively participated in the national and municipal election process. We helped the Peruvian government prepare for and conduct the November CCD elections and January 1993 municipal elections through the provision of expert technical assistance. USAID ESF funds were also contributed to the OAS, through the Department of State, for elections observers and an assessment of electoral performance. The OAS declared both elections free and fair. We hope to be able to assist in building a more permanent capacity for democratic elections in the future, and to increase assistance to the CCD itself. We recently financed travel by members of the constitutional committee of the CCD to provincial cities, where they met with constituent groups from different economic strata, to get feedback on the constitutional reform effort. We are awaiting the results of the OAS assessment of the 1992/93 elections to determine next steps for elections support. Building governmental capacity to conduct fair elections will be one of the activities under the 1994 Democratic Initiatives project as well.

With the lifting of 620(q) sanctions, we were finally able to sign the contract for implementation of the Peruvian Peace Scholarship project (PPSP - CLASP II), the follow-on to the highly successful Andean Peace Scholarship project. PPSP will play an integral role in our efforts to build democratic institutions in Peru through its **targeted training of current and potential leaders from socially/economically disadvantaged groups.**

The Institute for Liberty and Democracy's (ILD) activities were also affected last year by April 5, which disrupted many of the grassroots democracy-type activities then underway, as well as by the major bomb attack on its headquarters in July. However, ILD has adapted quickly to changed circumstances, and continues to be a leader in exploring and promoting change in Peru. ILD is active behind the scenes in shaping the new Constitution. For example, ILD suggested (and used news media to press for) a national referendum on the Constitution. This has been accepted and incorporated into the draft Constitution by the CCD. Note that certain of the indicators used in last year's Action Plan were based on ILD activities. In the case of a **unified business registry**, ILD has completed its work and spun it off to the government, after registering more than 80,000 businesses in 1992 (exceeding its goal). ILD has also transferred responsibility for **administrative simplification** to government officials trained by ILD, as well as fostered other entities' participation. An A.I.D. evaluation of the regionally-funded project which supports ILD (Private Sector Institutional Reform) gave unstinting praise to the institution as a think tank and gadfly, and to its efforts to help the informal sector.

USAID is promoting a variety of efforts promoting **democratic governance**. ILD has been and remains active in promoting progress, using studies, seminars, media releases and formal proposals for

constitutional change. We are about to co-finance with the National Endowment for Democracy an assessment by a Peruvian NGO (FORO Nacional/Internacional), aimed at improving democratic governance in Peru.

During the last several months, pilot testing of the **Municipalities in Action** system for building grassroots leadership and community action (first developed in El Salvador) has been carried out in the Huallaga Valley. This program, as implemented in Peru, is aimed at strengthening participatory democracy at the critical levels of provincial and district governments. The program has been enthusiastically received by government and communities, and we plan to expand the effort to other economically less developed areas of Peru over the next five years. A new project, Democratic Development of Local Governments, is proposed for FY94, to be financed with NSD-18 funds and host government owned local currency.

The Peruvian counternarcotics educational organization, CEDRO, continues to be the leader in South America in promoting community awareness and organization to combat drugs. A recent evaluation of narcotics awareness and education activities in Latin American lauds CEDRO for its excellent reputation in international **drug prevention** circles. CEDRO is also the leader in Peru in assisting **street children** to be reincorporated into society. USAID has been able to finance part of this extraordinary effort, thanks to special Congressional funding.

### C. Monitoring and Evaluation Status and Plans

USAID, CEDRO and ILD have recently developed benchmarks for achievement in the area of democratic initiatives. We have in place already project-specific monitoring systems which can be verified in evaluations. An internal "lessons learned" evaluation of the AOJ Project is now underway and the baseline study for the FY93 Judicial Strengthening Project will be completed in May. The new JUST and planned FY94 Democratic Initiatives and Democratic Development of Local Governments projects will further refine these methodologies.

Monitoring systems, including development and tracking of impact indicators, will be designed into the new projects planned for this strategic objective. In the interim, we will use PD&S funds over the next year to commission particular studies and surveys on democratic initiatives issues (supplementing baseline data being gathered on judicial issues). We will also arrange for expert visits from other countries on these issues, to the extent that TDY restrictions allow. Given the fluid situation in Peru in terms of democratic systems and institutions, leeway must be allowed to continue to refine these systems over time.

STRATEGIC OBJECTIVE NO. 3 Strengthened democratic institutions that sustain individual rights and freedoms and are responsive to their constituencies.

Indicator: Promulgation and implementation of Constitution which meets democratic norms.

Unit:	N/A	Year	Planned	Actual
Source:	Analysis of 1993 constitution, monitoring 94-97	Baseline	---	
Comments:	1) Constitution is expected to be presented by the Constituent Congress (CCD) July 28, 1993. 2) Constitution to be "graded" based upon internationally-accepted standards of democracy. 3) Application of new Constitution to be monitored once promulgated.	1992		
		1993	TBD	
		1994	TBD	
		1995	TBD	
		1996	TBD	
		1997	TBD	
	Target			

Indicator: Periodic free and open elections.

Unit:	Years	Year	Planned	Actual
Source:	Election analysis and JNE	Baseline	National	Yes
Comments: That they take place and that there are a variety of measures that indicate they are free and open, e.g., freedom of registration, advertisement, assembly (rally, etc.) and non-interference on voting day and during vote count.  1992/93 elections were declared free and fair by OAS.		1992		
		1993	Municipal	Yes
		1994		
		1995	National and Municipal	
		1996		
		1997		
	Target		Municipal	

Indicator: Percentage of public with confidence in judiciary and legislature			
Unit: %	Year	Planned	Actual
Source: Apoyo public survey and print and broadcast media.  Comments: Survey instruments must avoid gauging reaction to personalities, particularly in legislature, rather than performance.	Baseline		J-25
	1992		
	1993		J-29
	1994	J-35	
	1995	J-40	
	1996	J-45	
	1997	J-50	
	1998	J-55	

Indicator: Decline in number of "disappearances"				
Unit: Number of persons	Year	Planned	Actual	
Source: USG Human Rights (HR) Report, Special HR Prosecutor, and annual HR report by Coordinadora	1990	---	246	
Comments: USAID use of disappearances as an indicator of achievement of the objective is based on the assumptions that strengthened judicial and legislative systems, increased public awareness of problem, and assistance to Peru under our portfolio (e.g., National Registry of Detainees) can and will have a positive effect - helping to reduce disappearances over time, despite the fact that A.I.D. may not work with police (except through ICITAP training) and military. Also assumed no resurgence of terrorism.	1991		301	
	1992		178	
	1993	138		
	1994	23		
	1995	58		
	1996	18		
	1997	0		
	1998	0		
Target				

<p><b>PROGRAM OUTPUT 3.1</b> Strengthened judicial and legislative systems that promote the rule of law and protection of human rights.</p>				
<p><b>Indicator:</b> Demonstrable autonomy of judiciary and legislature from executive interference.</p>				
<p><b>Unit:</b> N/A</p>	<p><b>Year</b></p>	<p><b>Planned</b></p>	<p><b>Actual</b></p>	
<p><b>Source:</b> Political analysis of GOP, independent studies/surveys</p> <p><b>Comments:</b> Separation of powers is vital to democracy. TBD based on international models for similar governments/systems of jurisprudence. Factors will include: government in power does not overturn legislative action in ways which exceed mandated veto powers, no harassment/arrests of legislators for offenses without evidence of wrong-doing, no arbitrary dismissal/naming of judges.</p> <p>This indicator must be monitored with measures of <u>efficiency</u> and <u>quality</u>.</p>	<p>Baseline</p>			
	<p>1992</p>			
	<p>1993</p>	<p>To start in 1994</p>		
	<p>1994</p>			
	<p>1995</p>			
	<p>1996</p>			
	<p>1997</p>			
<p><b>Target</b></p>				
<p><b>Indicator:</b> Average time between formal judicial accusation and ruling.</p>				
<p><b>Unit:</b> Months</p>	<p><b>Year</b></p>	<p><b>Planned</b></p>	<p><b>Actual</b></p>	
<p><b>Source:</b> Judicial statistics updating of May 1993 baseline study</p> <p><b>Comments:</b> Tracking is for criminal cases in civilian courts, not terrorism cases.</p>	<p>Baseline</p>		<p>26 mos.</p>	
	<p>1992</p>		<p>---</p>	
	<p>1993</p>	<p>26 mos.</p>		
	<p>1994</p>	<p>24 "</p>		
	<p>1995</p>	<p>22 "</p>		
	<p>1996</p>	<p>20 "</p>		
	<p>1997</p>	<p>18 "</p>		
<p><b>Target</b></p>		<p>16 "</p>		

Indicator: Average time for a bill to become a law.						
Unit:	Months		Year	Planned	Actual	
Source:	Congressional statistics, Apoyo	Baseline	1992			
Comments:	One measure of congressional efficiency System will be set up in late 1993, as CCD is not now serving standard congressional role (writing Constitution as part of work). Baseline needs to be determined based on former legislature (to 1992).		1993			
			1994	TBD		
			1995			
			1996			
			1997			
		Target	1998			

PROGRAM OUTPUT 3.2 Increased democratization and transparency of public decision-making.				
Indicator: Percentage increase in public participation in law-making/policy-making.				
Unit: % Proposals of non-legislative organizations that become law (or official policy)	Year	Planned	Actual	
Source: ILD and CEDRO reports, GOP reports, and print and broadcast media	1992			
Comments: This is meant to measure the activities of a variety of representative groups - including policy-oriented think-tanks such as ILD and CEDRO as well as grass-roots organizations - that affect GOP policy making. The ideal is that there be continuous popular input into Executive and Legislative branch policy making.	Baseline			
	1993			
	1994	TBD		
	1995			
	1996			
	1997			
	1998			
	Target			

Indicator: Percentage of registered voters participating in elections.				
Unit: % Voting in municipal elections	Year	Planned	Actual	
Source: JNE  Comments: While voting is mandatory (and there is a fine for not voting), the percentage varies for a number of reasons, nonetheless, a higher percentage indicates broader based support for the democratic system.  1/93 election baseline (data being compiled).	1992			
	Baseline	Data being analyzed		
	1993			
	1994			
	1995	TBD based on 1993		
	1996			
	1997			
	Target	1998		

Indicator: Increase in public's awareness of key civic issues.				
Unit: N/A	Year	Planned	Actual	
Source: Apoyo public survey and print and broadcast media  Comments: USAID will commission survey firm to report on particular issues over time.	Baseline			
	1992			
	1993			
	1994	TBD		
	1995			
	1996			
	1997			
	1998			
	Target			
Indicator: Increased transparency of government monetary transactions.				
Unit: No. of complaints of wrong-doing on contracting investigated by Contraloría and action taken.				
Source: Print and broadcast media, Contraloría records  Comments: Meant to measure corruption and influence peddling through the monitoring, inter alia, of monetary transactions by GOP officials.  Indicator is linked to Democratic Initiatives Project (94 start).	Baseline			
	1992			
	1993			
	1994	TBD		
	1995			
	1996			
	1997			
	1998			
	Target			

Peru
Bureau Objective: Support the evolution of stable, participatory democratic societies
Bureau Sub-objective: Strengthen civilian government institutions and public participation in democratic processes
<b>STRATEGIC OBJECTIVE NO. 3 Strengthened democratic institutions that sustain individual rights and freedoms and are responsive to their constituencies</b>

PROGRAM OUTCOME NO. 3.1 Strengthened judicial and legislative systems that promote rule of law and protection of human rights	PROGRAM OUTCOME NO. 3.2 Increased democratization and transparency of public decision-making
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Projects (Number\Title)	Projects (Number\Title)
527-0303 Administration of Justice	527-0061 Special Development Activities Fund
527-0352 Judicial Strengthening	527-0244 Upper Huallaga Area Development
527-0340 Peruvian Peace Scholarship Program	527-0340 Peruvian Peace Scholarship Program
527-0356 Democratic Initiatives	527-0347 Narcotics Education and Community Initiatives
598-0772 Private Sector Institutional Reform	527-0356 Democratic Initiatives
	527-0371 Democratic Development of Local Governments
	598-0772 Private Sector Institutional Reform

## SECTION II. PORTFOLIO ANALYSIS

### A. New Initiatives

New Project Descriptions (NPD) are provided for the FY 1994 projects: Democratic Initiatives, Sustainable Environmental Management and Democratic Development of Local Governments. We have also included a summary NPD for the planned FY93 amendment to Export, Trade and Development. Not included are NPDs for the FY 1994 and 1995 balance of payments programs (provisionally named Stabilization, Trade and Marketing Program II and III). Given the complicated situation of our current balance of payments program, and that the GOP macro-economic reform program is moving very fast, and that future balance of payments programs may have minimal funding available (\$8-10 million per year under rumored \$22.5 million ESF levels for Peru), it would be premature to speculate what those programs might entail. In any case, it is anticipated that the PAADs will be submitted to Washington for review.

As noted in previous sections, USAID no longer plans to proceed with the following projects, listed in last year's Action Plan and other Mission documents:

527-0350 Small Business and Employment Expansion  
 527-0357 Policy Analysis for Private Sector Agricultural Development  
 527-0358 Agricultural Technology Dissemination (later called Agricultural Export Promotion)  
 527-0359 Agricultural Credit and Rural Savings Mobilization

The amendment to the Export, Trade and Development Project (formerly Investment and Export Promotion) will be executed in lieu of a new project in agricultural export promotion. The amendment described in last year's Action Plan is not being pursued.

The Non-Project Assistance/Health Policy Reform program (527-0360) planned for FY 1993 has been changed to 527-0366 - Sustaining Child Survival Programs. The NPD was approved by Washington in FY93.

The planned Selva Economic Revitalization project (527-0348) will only be implemented if there is a policy determination and restoration of staffing and funding levels which give reasonable assurances of long-term support to alternative development in Peru.

### B. Status of Portfolio

See the attached Table 3. Given uncertainty as to ESF funding, this plan may be revised.

### C. Central and Regional Projects

USAID benefits from an array of centrally-funded population activities, which may or may not shift to Mission management in future years. We also benefit from central grants to PVOs related to food assistance. There are various other central and regionally-funded activities from which we receive occasional assistance. One important one for the Mission is LACTECH, which has provided short-term assistance by agriculture and rural development experts which has proven of great benefit to USAID's program. Given security concerns, USAID has reduced use of central and regional projects over the past years, to eliminate those of marginal interest to the Mission. Unfortunately, at times, security problems have also precluded access to resources (such as a Michigan fellow) which would be of direct value to our program. We treat one regionally-funded project (Private Sector Institutional Reform - which supports ILD) as our own project in all USAID reports. Management responsibility was shifted to USAID by LAC, hence this presentation of the project as one of our core management units is appropriate.

NEW PROJECT DESCRIPTION

LAC BUREAU OBJECTIVE: Support the achievement of broadly-based, sustainable economic growth.

LAC BUREAU SUB-OBJECTIVE: Encourage economic policies that promote investment, productive employment and outward-oriented diversification; encourage accelerated opportunities in the economy by the historically disadvantaged.

MISSION STRATEGIC OBJECTIVE: Sustainable economic growth led by the private sector.

PROJECT TITLE: Export, Trade and Development (ETD) - Amendment

PROJECT NUMBER: 527-0349

FUNDING (\$000): FY 1993: 1,000 (DA) LOP: 8,000 (DA - this amendment)  
19,500 (ESF - previously authorized)  
10,000 (PL 480 local currency)

TYPE OF FUNDING: DA  
ESF  
P.L. 480

Authorized in 1991, previously named Investment and Export Promotion Project, the ETD Project is currently ongoing. The purpose of the NPD Amendment is to inform Washington of the Mission's plans to authorize an increase in Project activities and funding. This NPD amendment supersedes the NPD amendment in the 1993-94 Action Plan.

A. Consistency with Mission Strategy: This project amendment does not alter the goal and purpose of the ETD project. The amendment will provide a more integrated systems approach to increasing agro-exports by incorporating production technology techniques proven to be successful under another soon-to-be terminated Mission project. The amendment and ETD project as a whole, directly support the Mission objective of sustainable economic growth led by the private sector, and program outputs relating the expanded participation and efficiency of domestic and export markets. The project provides support to food security objectives as well.

B. Relationship to A.I.D. and Other Donor Activities: The project and this new component will be coordinated with planned World Bank rural development project interventions in agricultural research, infrastructure development, etc. By increasing emphasis within the ETD project on agricultural products, and foregoing a discrete agricultural project, USAID is assuring tight integration of all production and marketing activities sponsored by A.I.D.

C. Relationship of Project to Overall A.I.D. Policy Objectives: As stated previously, the project and this amendment are closely linked to free market, economic growth and food security objectives in Peru. The project amendment supports policy dialogue on market liberalization, privatization of State-owned-enterprises, and support to private sector initiative.

D. Project Description: The Project will be expanded from the present agro-processing and export activities to include a focus on complementary export-oriented production support activities. It will take the most successful, directly applicable aspects of the Agricultural Technology Transformation (ATT) Project--which will end on August 31, 1993--and incorporate them into the structure of the ETD Project. The final evaluation of ATT (May - June 1993) will verify USAID'S technical assessment of activities which are export-oriented, private sector-managed, and which merit continuation. The planned interventions will be carried out with private agricultural organizations (including some producers' associations) and feature: technology dissemination, private seed and root stock systems, and small credit funds.

E. Planned Implementation Arrangements: A Handbook 13 Cooperative Agreement will be signed for the additional activities with a registered Peruvian PVO (FUNDEAGRO). On the basis of Memoranda of Understanding (MOU), FUNDEAGRO will make small grants to private research stations, farmer groups, and agro-processors to support the dissemination of the production technologies and will manage a small rotating credit fund for production. ADEX will managed a small rotating credit fund for agro-processors and agro-industries. The same U.S. institutional contractor selected for technical assistance to ADEX will be used to provide short-term assistance to FUNDEAGRO on production issues.

F. Sustainability of Proposed Activities: By emphasizing private sector implementation of all activities USAID is promoting sustainability of activities. The activities to be undertaken are of great interest to the Peruvian private sector, and with potential to make agricultural exports much more profitable in the medium and long-term. This should assure sustainability.

G. Mission Management Role: The amended Project will continue to be managed by the Private Sector Unit of the new Office of Rural Development.

H. Potential Issues and/or Innovative Approaches:

- o A program for Rural Women training and preparation to do income raising activities for the household should somehow be added to the project. ATT has had a very good experience in this area.
- o The final evaluation of the ATT project will be conducted May-June 1993, and should yield lessons learned and guidance on

optimal organization of the activities planned under this amendment.

- o USAID will assure that funding for credit is needed and can be managed adequately by implementing agencies before supporting any/all requests for HCOLC for this purpose. The final decision on credit activities depends on the GOP, whose funds (PL 480 Title III proceeds) would be used.

## NEW PROJECT DESCRIPTION

LAC BUREAU OBJECTIVE: Support the evolution of stable, participatory democratic societies.

LAC BUREAU SUB-OBJECTIVE: Strengthen civilian government institutions.

MISSION STRATEGIC OBJECTIVE: Strengthened democratic institutions that sustain individual rights and freedoms and are responsive to their constituencies.

PROJECT TITLE: Democratic Initiatives

PROJECT NUMBER: 527-0356

FUNDING (\$000): FY94: \$ 3,000  
LOP: \$10,000

TYPE OF FUNDING: ESF

A. Consistency with Mission Strategy: The Mission's strategy to strengthen democratic institutions that sustain individual rights and freedoms and are responsive to their constituencies includes two basic elements: a) strengthening the judicial and legislative systems; and b) securing wider public participation in selected political institutions and practices to ensure their openness and transparency, public accountability and responsiveness. This project will address both elements of this strategic objective.

B. Relationship to A.I.D. and Other Donor Activities: The project will follow on A.I.D.-funded activities undertaken by the OAS in support of the National Elections Board (JNE), and other activities supported by the PAPI Project in support of the Constituent Congress (CCD). It will also complement a number of other activities, including those supported by the new FY93 Judicial Strengthening Project, which will expand efforts to strengthen Peru's judicial system begun under the Administration of Justice Project (PACD 12/31/93), as well as those undertaken by the Institute for Liberty and Democracy (ILD) with respect to democratic initiatives and property rights. Other donors have shown their interest in the issue of democracy and human rights, and their activities range from sponsoring visits by experts in a specific field to provide technical assistance to their Peruvian counterparts, to the development of sector studies that identify which areas they would be interested in pursuing to help strengthen Peru's democratic institutions. Such institutions include the United Nations Development Program and the World Bank.

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

D. Project Description: The project goal will be to strengthen democratic institutions that sustain individual rights and freedoms and are responsive to their constituencies. The project purpose is to support the development of democracy in Peru through strengthening the legislative branch of government and ensuring responsiveness of public institutions to society.

The project is directed toward many activities carried out by the Peruvian State that affect the country's nascent democratic institutions, as well as toward activities undertaken by non-governmental organizations that complement those public-sector efforts. It will include a strengthening of the technical capabilities of the legislative branch of government and a variety of activities aimed at increasing the government's responsiveness to its constituencies. The National Elections Board and the Office of the Controller General will be the objects of efforts to strengthen these two GOP institutions that are key to the development of a government that is accountable and responsive to its constituency. An improvement in civil-military relations will be the objective of training activities that, given the prohibition on A.I.D.'s provision of assistance to benefit the military, will be directed toward selected segments of the civilian population. Assistance to such non-governmental entities as grass-roots organizations, the journalism profession, and labor unions is designed to expand and improve the quality of popular participation in the governing process.

E. Planned Implementation Arrangements: The Mission will decide during project design whether to obligate funds through an overall Cooperative Agreement or another instrument. The project is probably not appropriate for an HB 3 grant due to the political sensitivity of its activities. Nonetheless, activities will be implemented in coordination with corresponding GOP institutions such as the CCD and the JNE. Technical assistance will be acquired from local and international PVOs/NGOs, such as AIFLD, PARTICIPA and CEAL (Chilean civic education PVOs), Constitución y Sociedad, IFES, and others. TA also will be acquired through buy-ins to regional projects funded by LAC/DI.

F. Sustainability of Activities: In keeping with the sub-objective of strengthening civilian government institutions, activities will focus on GOP entities requiring further institutional development and will necessitate substantial involvement in the planning, coordination and implementation of activities to ensure GOP "ownership", and to ensure the funding and adequate staffing of any follow-on activities.

G. Mission Management Role: Design will focus on measures to assure that the activities are within the management capacity of USAID. Should implementation be through a cooperative Agreement, the role of the Mission technical office will be one of providing technical support to the recipient as well as oversight to ensure that proper coordination and information-sharing occurs between contractors, PVOs/NGOs and GOP institutions. Should implementation be through an NGO grant, the Mission technical office role will be more limited, primarily to one of oversight.

H. Potential Issues and/or Innovative Program Approaches: The pace and willingness to change in this area is particularly subject to the vagaries of the Peruvian Government. Consequently, the project will include allowances for unanticipated adjustments to the project design to permit timely responses to a changing environment.

## NEW PROJECT DESCRIPTION

LAC BUREAU OBJECTIVE: Support the achievement of broadly-based, sustainable economic growth.

LAC BUREAU SUB-OBJECTIVE: Encourage economic policies that promote investment, productive employment and outward-oriented diversification; encourage accelerated opportunities in the economy by the historically disadvantaged.

MISSION STRATEGIC OBJECTIVE: Support sustainable economic growth led by the private sector.

PROJECT TITLE: Sustainable Environmental Management (SEM)

PROJECT NUMBER: 527-0368

FUNDING (\$000): FY 1994: 1,275 LOP: 11,000

TYPE OF FUNDING: DA

A. Consistency with Mission Strategy: The goal of this Project is to improve the natural resource base of Peru. The purpose is to encourage and strengthen community groups and private organizations to carry out improved, sustainable management of natural resources while preserving biological diversity. This purpose directly supports the stated CDSS objective of increasing the productivity and income generating possibilities of the Sierra and Selva populations. It is also a direct expression of the Mission's desire to preserve, and where possible rationally exploit, the tremendous biological diversity of Peru, leading to increased incomes and productivity.

B. Relationship to A.I.D. and Other-Donor Activities: The World Food Program (WFP) and the International Fund for Agricultural Development (IFAD) are initiating a similar natural resource conservation program in 65 watersheds in the southern Highlands working through the Ministry of Agriculture. Similar activities have been carried out by various PVOs (CARE, ADRA) under the USAID-managed Title II program. A.I.D./W is supporting with central funding various activities related to protected areas and biological diversity in Peru (Parks in Peril, Biodiversity Support Program, Environmental Support Program) while a number of U.S. PVOs (World Wildlife Fund, The Nature Conservancy, Conservation International) are also providing support.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The project directly supports both the Environmental Strategy and the Agricultural Development Strategy prepared recently by the LAC Bureau.

D. Project Description: The Project will improve the preservation and sustainable use of the Peruvian natural resource base. Activities will be concentrated in the Northern and Central Sierra

and the high Jungle (Selva Alta) where problems of soil erosion, deforestation, and decline in biological diversity are especially aggravated by existence of widespread poverty and the need to maximize production over the short run in detriment of long-term sustainable production. Project activities will consist of the following focussed efforts:

1. Forest Management - Emphasis will be placed on the integration of selected tree species into agricultural production activities (agroforestry), regeneration of timber stands in presently denuded areas (reforestation), and preservation of existing forested areas (forest management).

2. Soil Management - In areas with erosion problems, various types of conservation mechanisms (bench terraces, wind breaks, contour planting, etc.) will be employed, while soil quality will be improved through the use of biological practices (organic fertilizers, humus, nitrogen-fixing legumes, etc.).

3. Integrated Pest Management - IPM will be emphasized in order to reduce air pollution, water/soil contamination, and health problems in humans, plants and animals by excessive or inappropriate use of pesticides and other agrochemicals.

4. Biological Diversity - Disappearing species of flora and fauna which are important to the Peruvian ecosystem will be identified, protected, and managed in a sustainable manner. This could include a rational exploitation of these species for income and employment generation purposes (e.g., Andean crops for market).

5. Institutional Strengthening - Since these activities will be carried out principally through local NGOs and community groups, efforts will be made to strengthen these environmental and natural resource groups in problem identification, project planning and implementation, environmental education and extension. Close coordination will be maintained with the PVO Support Project (527-0353) which will assist in the training and technical assistance activities related to institutional strengthening.

A special effort will be made to arrange for food assistance support from PVOs participating in the Mission's Title II program, while the possibility of using Title III local currencies will be explored.

E. Planned Implementation Arrangements: A contract will be signed with a U.S. institution to assist the Mission to carry out the soil conservation, agro-forestry and IPM activities. The Mission will sign a cooperative agreement with a U.S. PVO to manage a project-financed biodiversity fund from which Peruvian NGOs will be selected on a competitive basis to undertake biodiversity activities. Individual agreements will be signed with each selected NGO. An implementation agreement will be made with the PVO Support Project to carry out the institutional strengthening of the participating NGOs and community groups. The issue of whether

an overall bilateral grant agreement or single Cooperative Agreement should obligate the funding for this project will be studied during project design.

F. Sustainability of Activities: The participation of community groups and NGOs directly interested in the purposes and benefits of the various activities, as well as the institutional strengthening of these groups, assure the sustainability of the proposed activities.

G. Mission Management Role: The Project will be managed by the senior FSN Mission Environmental Officer within the Office of Rural Development. The Project Officer for the PVO Support Project, located within the Office of Rural Development, will participate with the Controllers Office and the Program Office in a Project Implementation Committee.

H. Potential Issues and/or Innovative Approaches:

- o What kind of role will the GOP take (or want to take) in this project?
- o Will an institutional contractor be allowed to establish a permanent presence in the country? If not, what are the implementation alternatives?
- o Will the Office of Rural Development have sufficient person-power to handle this project?

NEW PROJECT DESCRIPTION FY 94

LAC BUREAU OBJECTIVE: Support the evolution of stable, participatory democratic societies.

LAC BUREAU SUB-OBJECTIVE: Strengthen civilian government institutions.

MISSION STRATEGIC OBJECTIVE: Strengthened democratic institutions that sustain individual rights and freedoms and are responsive to their constituencies.

PROJECT TITLE: Democratic Development of Local Governments

PROJECT NUMBER: 527-0371

FUNDING (\$000): FY 94: \$ 1,500 LOP: \$ 4,000  
HCOLC: \$10,000

TYPE OF FUNDING: ESF (NSD-18)

A. Consistency of Project with Mission Strategy: The project directly supports USAID's democratization objective and program output of democratization of public decision-making. The project builds on past USAID-financed efforts in this regard.

B. Relationship to A.I.D. and Other Donor Activities: This project builds upon current Mission activities in the Huallaga Valley, as well as a similar highly successful Municipality in Action Program in El Salvador. It will support efforts of the GOP to decentralize government and promote the provision of basic services through democratically elected participatory local governments. Both bilateral and multilateral donors have shown an interest in strengthening local governments. Members of the European Community are currently providing funding for a social development fund, FONCODES, and the IDB is discussing the possibilities of funding local government projects in the near future.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The project will strengthen participatory democracy at the critical levels of provincial and district governments. Both levels are considered to be crucial in achieving political and economic stability because of their direct interaction with the population and because they are the lowest level of government to have the financial and technical capability to provide basic services. Strong local governments will promote an improved environment for economic growth, A.I.D.'s highest priority.

D. Project Description: The Project Goal is to promote the development of democratic institutions that protect individual

rights and freedoms and are responsive to their constituencies. The Project Purpose is to strengthen local government's capability to plan and implement democratically selected development projects and to provide basic services such as environmental protection, potable water, public markets, sewage, public lighting, garbage collection, communication and maintenance of local roads, paths and bridges. The project will focus on strengthening the GOP decentralization process by providing long term technical assistance at the national level and training Peruvian provincial mayors, district level mayors and members of local government councils in Peru in project selection, planning and implementation techniques and local government management. The Project will also implement community-based democratically selected development projects using PL480 Title III generated HCOLC. These small scale activities will serve as on-the-job training for local officials. The project area will cover two culturally and economically distinct regions of Peru, the Sierra and the Selva.

The GOP is currently redefining relationships between the national government and local governments. It is attempting to decentralize the unresponsive current system which is run from the top down. One attempt being implemented by the GOP, is the construction of small scale community development projects in many areas of Peru in an attempt to restore people's confidence in local governments and to improve economic and social conditions at the community level. Unfortunately, local governments have not traditionally played an active role in the development process because of lack of understanding of what local government's role is in the development process as well as the lack of resources at the local level.

Experience gained in the Huallaga Valley during implementation of "Municipalities in Action" type of activities funded by the Upper Huallaga Area Development Project, showed that strong responsive local governments are a key factor in the promotion of social stability and economic growth even where terrorism and/or narcotics trafficking had previously reduced the role of Government. UHAD funded training programs for local officials improved the quality of public administration and delivery of public services. This, in turn, generated popular support for the government, improved the security situation and encouraged private investment. This proposed project will use grant funds to provide training for all of the local government mayors as well as a significant portion of the local government councilmen in the Project area. The Mission expects that this will be the initial effort in strengthening local governments and can later expand the training to the whole country, if funds are available. The Mission will actively encourage other donors to participate and will coordinate this project with donors such as the IDB and EC who have signified an interest in local government strengthening.

E. Planned Implementation Arrangements: The project will be funded through a bilateral agreement between the GOP represented by INADE, Ministry of the Presidency and USAID/Peru. The dollar funds will be obligated through a HB3 grant agreement to Peruvian

institutions such as the Universidad del Pacifico which will be competitively selected to provide the development training of local officials. The local PVOs and GOP institutions such as INADE will implement the development activities using HCOLC. A cooperative on-the-job training and exchange program between the GOP and the Government of El Salvador (GOES) has already begun, and will continue, if needed, during this project.

F. Sustainability of Proposed Activities: Part of the training provided local officials will include the provision and maintenance of basic services. Any facilities constructed with HCOLC funds related to this Project will be maintained by the communities themselves with support from the GOP. No construction will be approved without assurance that the facility will be properly staffed and maintained after the project is terminated.

G. Mission Management Role: The Mission technical office's role will be one of oversight to ensure proper planning, implementation, monitoring and reporting of project elements.

H. Potential Issues and/or Innovative Program Approaches: The main problem in project implementation is security, because the activities will be implemented in emergency zones of Peru. Although the threat of terrorism is diminishing, it is anticipated to remain a potential problem during the life of the project. A second issue which may occur is the changing philosophy of a new government. The current President of Peru, President Fujimori, will finish his term in office in June, 1995. It is possible that a new President will not place local government support at the same level of priority as President Fujimori.

Note: This is local modification of the successful project in El Salvador.

TABLE 3: USAID/PERU PORTFOLIO - PROJECT TIMELINE

STRATEGIC OBJECTIVE PROJECT NUMBER/TITLE	FY 92				FY 93				FY 94				FY 95				FY 96				FY 97			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<b>1. SUSTAINABLE ECONOMIC GROWTH LED BY THE PRIVATE SECTOR</b>																								
PL 480 Title II	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
a. 527-0323 PRISMA OPG	--	--	--	--	XX	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
b. 527-0328 ADRA/OFASA OPG	--	--	--	--	--	--	XX	(PLANNED)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
c. 527-0330 CARE OPG	--	--	--	--	--	--	XX	(PLANNED)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
PL 480 Title III	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0238 AGRICULTURAL PLANNING & INST. DEVELOPMENT	XX	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0244 UPPER HUALLAGA AREA DEVELOPMENT	--	--	--	--	--	--	--	XX	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0272 PRIVATE SECTOR MGMT. IMPROV.	--	--	--	--	--	--	--	XX	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0282 AGRICULTURAL TECH. TRANSF.	--	--	--	--	--	--	--	XX	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0298 PRIVATE POLICY PLANNING AND INST. DEVELOP.	--	--	--	XX	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0341 EMPLOYMENT & NATURAL RESOURCE SUSTAINABILITY	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	XX	--	--	--	--	--	--	--	--
527-0343 POLICY ANALYSIS, PLANNING AND IMPLEMENTATION	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	(Current PACD: 3/31/95)	--	--	XX	--	--	--	(Planned)
527-0344 ECONOMIC STAB. AND RECOVERY PROGRAM*	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

\*Balance of payments program with individual names, project numbers (ESRP 1991-93, 527-0367 STMP 1993, etc.)

FY 92      FY 93      FY 94      FY 95      FY 96      FY 97

STRATEGIC OBJECTIVE PROJECT NUMBER/TITLE	FY 92				FY 93				FY 94				FY 95				FY 96				FY 97							
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4				
527-0349 EXPORT, TRADE AND DEVELOPMENT	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0353 PVO PROGRAM SUPPORT	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0368 SUSTAINABLE ENVIRONMENTAL MANAGEMENT	--	--	--	--	FY 94 NEW START	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>SUB-TOTAL (END OF FY)</b>	14				10				8				8				7								5			

**2. IMPROVE HEALTH STATUS THROUGH ACCESS TO QUALITY PRIMARY HEALTH CARE**

527-0269 PRIVATE SECTOR FAMILY PLANNING	--	--	--	XX																								
527-0285 CHILD SURVIVAL ACTION	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	XX											
527-0319 STRENGTHENING PRIVATE SECTOR	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0326 PRIVATE COMMERCIAL FAMILY PLANNING	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0333 HIV/AIDS EDUCATION AND PREVENTION	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
527-0335 PRIVATE VOLUNTARY FAMILY PLANNING	--	--	--	--																								
527-0355 QUALITY IMPROV. FOR FAMILY PLANN. SERVICES	--	--	--	--																								

STRATEGIC OBJECTIVE PROJECT NUMBER/TITLE	FY 92				FY 93				FY 94				FY 95				FY 96				FY 97							
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4				
527-0366 SUSTAINING CHILD SURVIVAL PROGRAMS																												
<b>SUB-TOTAL (END OF FY)</b>	5				5				6				5				4								2			
<b>3. STRENGTHENED DEMOCRATIC INSTITUTIONS THAT SUSTAIN INDIVIDUAL RIGHTS AND FREEDOMS</b>																												
527-0061 SPECIAL DEVELOPMENT ACTIVITIES FUND																												
527-0303 ADMINISTRATION OF JUSTICE																												
527-0313 ANDEAN PEACE SCHOLARSHIP (CLASP I)																												
527-0340 PERUVIAN PEACE SCHOLARSHIP PROGRAM (CLASP II)																												
527-0288 DRUG EDUCATION AND PUBLIC AWARENESS																												
527-0347 NARCOTICS EDUCATION AND COMMUNITY INIT.																												

Does not include large centrally funded population portfolio, some or all of which may be transferred to USAID management in future years.

STRATEGIC OBJECTIVE PROJECT NUMBER/TITLE	FY 92				FY 93				FY 94				FY 95				FY 96				FY 97			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
598-0772 PRIVATE SECTOR INSTITUTIONAL REFORM	--	--	--	--	--	--	--	--	--	--	--	--	--	XX										
527-0352 JUDICIAL STRENGTHENING	FY 1993 NEW START				--				--				--				--				--			
527-0356 DEMOCRATIC INITIATIVES								FY 94 NEW START	--				--				--				--			
527-0371 DEMOCRATIC DEV. OF LOCAL GOVTS.								FY 94 NEW START	--				--				--				--			
<b>SUB-TOTAL (END OF FY)</b>	6				6				7				6				6				6			
<b>4. OTHER</b>																								
527-0363 ELECTIONS SUPPORT																								
527-0365 ORPHANS & DISPLACED CHILDREN- AYACUCHO											XX													
968-2058 SUPPORT TO AGRICULTURE PRODUCTION DROUGHT AREA (OFDA)																								
<b>SUB-TOTAL (END OF FY)</b>	1				2				0				0				0				0			
<b>TOTAL PROJECTS</b>	26				23				21				19				17				13			

Project is implemented by the OAS.

'92 Carryover funds obligated in FY 93.

## SECTION III. ENVIRONMENT

### A. Major conservation challenges facing Peru

**Deforestation** in Peru has been high due to unsustainable agriculture in the Andes, and the exclusively extractive nature of product harvest practices and coca cultivation in the jungle. An estimated 120,000 farmers are engaged in coca cultivation in approximately 129,000 hectares of land throughout the country. Coca is associated directly with deforestation, erosion and damage from indiscriminate disposal of toxic chemicals into rivers.

Another challenge for Peru is the conservation of its rich **biological diversity**. The two major causes of species extinction or rapid declines in animal populations are hunting and habitat destruction. Hunting of wild animals for food or commercial purposes has been cited as the primary cause of endangerment for species. Although many threatened species inhabit areas that are now protected, inadequate enforcement of hunting laws and increasing human encroachment and disturbance in reserved areas continue to be major problems. Habitat destruction, primarily a result of increased turnover of wildlands for agriculture or timber harvesting, is perhaps the most critical cause of species losses. Despite the establishment of conservation units that represent many of the ecosystems to be found in Peru, many more are needed to preserve those species with broad ranges or which are highly adapted to particular habitats.

Peruvian environmental **legislation** is still inadequate. The Environmental and Natural Resources Code, promulgated in September 1990, has not been implemented. Regulations are interpreted in contradictory fashion by various agencies. The lack of clear criteria for environmental impact assessments of productive activities tends to allow manipulation for short-term gain over longer-term ecological sustainability.

A natural resource assessment prepared by the Mission in 1990 identified the following problems, grouped according to the three conventional major regions: Costa, Sierra and Selva.

**Costa**, comprising the Tropical Desert region, the Subtropical Desert region and the Desert Scrub region.

- Soil salinity associated with over-irrigation and poor water management, leading to ultimate abandonment of some 400,000 ha., with other areas suffering from reduced productivity.
- Destruction of Prosopis, Capparis and Acacia stands in the Piura and Lambayeque departments, and the consequent advance of the desert.

- Desert encroachment into irrigated areas, wind erosion, obstruction of irrigation canals with wind-blown sand, particularly in the San Lorenzo irrigation project in Piura.
- Destruction, through uncontrolled tree cutting, hunting fishing, aquaculture and other activities of the mangrove forests near Tumbes in the northern coastal area, which are primary breeding areas for many commercially valuable marine organisms and are feeding grounds for juvenile marine species.
- Destruction of coastal "lomas" (fog-supported naturally vegetated hills in desert zones).
- Destruction of forests and overgrazing of hill pastures, especially with goats, leading to instability of watersheds such as that of the Rimac river and the catchment areas of important reservoirs, particularly those of San Lorenzo and Poechos in Piura department.

**Sierra**, comprising the High Andean Desert region, the Paramo or Puna region, the Steppe region, the Moist Steppe region, the Andean Tundra region, and the Permanent Snow region.

- Low productivity and erosion of agricultural soils. According to available historical records, the Sierra in Inca times was able to support more than twice its present population on a sustainable basis. This was possible, despite what modern experts would consider a highly unfavorable land-capability picture, because Inca technicians knew how to change land capability by means of bench terraces which had the effect of modifying the topography, preventing erosion and permitting controlled irrigation. Since the Conquest, these structures have fallen into disuse and farming has spread to the hillsides. These, in Inca times, were under natural forest, but under the Colony mining was developed intensively, with increasing demands for timber and fuel, leading to deforestation and permitting a progressive change to agricultural use. Destruction of these hillside forests has led to a breakdown of fuel supplies and to the burning of farm manure as fuel, a practice that aggravates soil depletion. Erosion of agricultural soils is now present wherever land is cultivated in the Sierra, excepting on limited areas of riverine soils and on those bench terraces that are maintained. Erosion is also widely associated with uncontrolled grazing, particularly of goats and sheep.

- Pasture degradation in the Paramo or Puna region. This region's most important renewable resource is its 7.4 million hectares of natural pastures, which are suffering from a serious decline in productivity due to poor range management.

**Selva**, comprising the Dry Forest region, the Rain Forest (Cloud Forest) region, the Wet Forest region (High Jungle), and the Moist Tropical Forest region.

- Landslides and sheet erosion, increased incidence of damaging flash-floods in rivers and streams, with damage to roads and structures. These problems occur in both the Rain Forest (Ceja de Selva) and Wet Forest (High Jungle) regions.

- Deforestation and erosive agricultural use of hillside soils officially classed as unsuitable for agriculture. Informed estimates put the area deforested in the Selva of Peru at 300,000 to 350,000 hectares a year. Contrary to general belief, the destruction of the tropical forest is not the work of loggers, although logging roads do encourage shifting agriculture. Basically, slash-and-burn farming is practiced in these regions because it is the cheapest way of converting forest to farm. Also, it is usually cheaper to cut and burn hillside forest land than to clean and fertilize weed-infested, degraded valley-bottom agricultural land or renovate worn-out pastures, in a region where costs are high and prices low because of the distance from markets and sources of inputs.

Conservation, or sustainable resource use, generally implies foregoing some short-term benefits for the sake of long-term productivity. The geo-economic handicaps of the Peruvian Selva do not favor this approach, and land-users generally are forced to seek quick gains, or, simply, to avoid up-front expenditure beyond what is strictly necessary for their cropping needs.

A special case which highlights this problem is that of illicit coca growing. Because of its high value, coca suffers less than legal crops from handicaps such as distance from markets, poor roads and economic disincentives of various kinds that affect the Selva. These adverse geo-economic factors cause people to exploit the soils of this region on a minimum investment, short-term profit basis. In most cases this means predatory land use.

In the case of coca, the depredation is fourfold: first, it causes deforestation at a rate never before experienced in the Selva, with the destruction of thousands of hectares of protected forest; secondly, as coca-growing requires frequent weedings, downhill planting and repeated defoliations and weedings, it is one of the most erosive crops known to man; thirdly, coca tolerates poor, eroded soils; and finally, large amounts of noxious chemicals and kerosene used in on-site coca processing are dumped in streams and rivers.

#### B. Progress over the past year on conservation of biological diversity and reduction of deforestation

There is gradual progress on bringing environmental concerns to the forefront in Peru, and inciting action. During the past year, the USAID-financed project, Environment and Natural Resource Sustainability, which concentrates on legal residents of the Pacaya-Samiria reserve in the Amazon basin, started on-site activities. The Mission has provided administrative support to centrally-funded conservation projects, such as the Parks in Peril Project (598-0782) which continues activities in area protection, training/equipping rangers, and promotion of park management activities in Pampas del Heath National Sanctuary (Madre de Dios)

and Yanachaga National Park (Pasco). Support has also been provided for the Biodiversity Support Program, a research grant administered by the World Wildlife Fund in consortium with The Nature Conservancy (TNC) and the World Resources Institute.

The Government of Peru has recently established a national environmental trust fund (Fondo Nacional para Areas Naturales Protegidas por el Estado, FONANPE) and has created a national natural resource institute (Instituto de Recursos Naturales, INRENA). Moreover, the existing forestry legislation is being revised.

### C. Recommended follow-up actions

During the Action Plan period, USAID plans to carry out the following actions:

- Analyze the feasibility of Debt-for-Nature Swap for Pacaya-Samiria and other selected protected natural areas.
- Support conservation initiatives in the following critical geographical areas: Upper Huallaga Valley, Tambopata-Candamo Reserved Zone (a large area with rich biodiversity located in the southeastern Peruvian Amazon and subject to increasing human impact from gold mining, international road construction, and unsustainable production systems), Pantanos de Villa (only natural wetland and migratory bird area in Lima district), and various inter-Andean valleys with potential for reforestation and soil conservation programs.
- Continue support for the centrally-funded Parks in Peril Project, Biodiversity Support Program, and Environmental Support Project (pilot projects for the conservation of biodiversity).
- Initiate support for FONANPE and INRENA.
- Contribute to the institutional development of small environmental NGOs with potential for significant contributions (Sociedad Peruana de Derecho Ambiental, Asociacion Amazonia, Asociacion Peruana para la Conservacion de la Naturaleza, Asociacion de Ecologia y Conservacion, Asociacion de Conservacion de la Selva Sur, Red de Accion en Alternativas al Uso de Agroquimicos, Asociacion Civil para la Investigacion y Desarrollo Forestal).
- Design and implement a new Sustainable Environmental Management project (described in Section II). We also will help PVOs involved in the PVO Support Project to carry out environmentally sound activities, including projects directly aimed at protection of the natural resource base.
- Extend the life of the ENRS Project in Pacaya-Samiria if delays outside of TNC's control cannot be made up, and if the possibility exists for additional TNC contributions.

The Mission will continue its efforts to highlight attention to the environment in its policy discussions with the Government of Peru.

## SECTION IV. RESOURCE REQUIREMENTS

### A. Program Budget Requirements

**DA levels.** The attached Table 4 presents funding controls as per Action Plan instructions, therefore does not include increased earmarked levels for population and child survival; nor does it incorporate population adjustments suggested by the Mission. Whether given directly to USAID, or made available in terms of services and commodities through central projects, the additional population funding (up to \$7 million per year) is of great importance to the program in Peru. Although the Mission staffing has been reduced overall (in effect by State not allowing new assignments over the level of 15 Americans), we have created a new USDH Population Officer position to provide oversight over this important, and fast growing program.

USAID is now receiving the majority of its DA funding in two program targets ("earmarks") and a substantially reduced amount (25 percent of the total OYB) for non-earmarked activities ("unrestricted"). If this reduction trend continues, it will create a problem for the Mission portfolio, which includes important projects in areas not in line with Congressional earmarks. A portfolio of health projects, for example, cannot be exclusively child survival and population funded without missing important opportunities to deal with the broader issues of primary health care and increased income which need resolution if a country

services.

The levels we have been instructed to use for DA for the Action Plan do not conform to levels we have been instructed to use for

dollar resources, as the project is currently designed) and related alternative development activities, we are prepared to proceed with SER in FY 1993. The Project Paper was submitted to Washington in April.

We are at this point uncertain of ESF and NSD-18 future funding levels. ESF funding levels in Table 4 are not based on the Action Plan guidance, consistent with ABS controls, but on advice of LAC to use \$22.5 million, the latest State recommendation for FY 1994. Current program mortgages and new project starts this year were based on the ABS level of \$100 million straight-lined for the planning period (in fact FY 1993 has been approved at \$40 million in lieu of the \$100 million). This \$22.5 million reduced level underscores the importance of the USAID/Peru concentration on program implementation in the period covered by the Action Plan. In effect, in addition to foregoing all alternative development, we will have to cut back more on activities such as balance of payments and the set of democratic initiatives interventions planned and underway. Another effect of reduction in ESF will be that O.E. Trust Funds may be impossible to create in future years, as they are tied entirely to balance of payments programs, and are only palatable to the Peruvian Government as small percentages of the value of the dollar transfer (as the Trust Funds are not created by "generation" but by contribution of the GOP).

**P.L. 480.** Note that the levels shown in Table 4 for 1994 and 1995 for Title II do not include ocean freight costs, hence may appear lower than other Mission planning documents would indicate.

USAID will need to count on continued availability of Title II and III resources at the levels planned for by USAID and Washington, that is, approximately \$100 million per year combined (including freight) for both 1994 and 1995. Maintenance of these levels is important. We have not been able to deliver planned Title III levels in the last two years, for a variety of reasons connected in part to events in Peru, but also to unanticipated needs in other countries. While we have been able to reduce funding to some extent and still convince the GOP of the need to be serious in its side of the bargain (conditionality, management, use of resources, etc.), we cannot continually cut back planned resources without a negative impact on USG credibility and in turn on our ability to negotiate reform in areas related to food security. In addition, proceeds from Title III commodity sales are essential to child survival and other food security-related programs of USAID.

Title II food and monetization budget needs remain high, as the Peruvian poor continue to suffer from dire conditions, and the numbers of the poor continue to rise. At the end of 1992, it was estimated that over 80 percent of the potentially economically-active population was un- or underemployed. Over fifty percent of the population falls below the internationally established standard of poverty line.

## B. Operating Expenses

The approved annual level of \$6.0 million appears adequate to cover anticipated needs for FY 93. Estimated O.E. costs for FY 94 and FY 95 are \$5.65 million and \$5.7 million respectively. Although current projections for FY 93 show only a slight decrease (2%) from our ABS estimates, projections for FY 94 were reduced by almost 20% from the proposed level in our FY 94 ABS. Personnel reductions, the transfer of financial management backstopping of MDCs Brazil, Chile and Colombia to Bolivia and Ecuador; the recovery of OE costs for support services provided to project funded contractors; and reductions in both operational travel and procurement of non-expendable property are primarily responsible for the lower cost projections for FY 94. The Department of State decision to reduce USDH staffing levels from 18 to 15 affected cost decreases in post assignment travel and freight costs, education and other allowances, housing, and other costs directly associated with US Direct Hire personnel. Also, during FY 93, two foreign national direct hire positions that became vacant were eliminated. Recently, the Mission implemented a hiring freeze, and our projections are based on the assumption that the freeze, with limited exceptions, will not be lifted during the period covered by this Action Plan.

Although a recent cost-of-living spot check resulted in an approved FSN salary increase of 36% across the board, retroactive to March 21, 1993, we have assumed no additional FSN wage increases this fiscal year. For FY 94 and FY 95, our budget projections include wage increases of 25% each year. We estimate that these increases will be only partially offset by exchange rate gains.

Although several budget elements, such as rent, office supplies and security guards services increased from the levels in the ABS, we have been able to maintain funding requirements at a lower overall level because of Mission's management efforts to reduce costs. For example, we estimate that over a 3 year period, more than \$150,000 will be saved by charging for costs associated with the USAID's support to project funded institutional and PSC contractors. Also, actions have been taken to more strictly control the costs of communications, especially telephone calls and faxes, utilities, and maintenance.

We expect to be fully under a LAN environment by FY 94. Cost estimates for procuring computer equipment necessary to continue the conversion during FY 93 and FY 94 is included in our estimates.

Although there has been considerable improvements in controlling terrorism and inflation, Peru continues to be a critical threat post; and Lima is one of the most expensive cities worldwide. Danger pay to U.S. and FSN employees and contractors (unique conditions allowance), two R&R's, Cost of Living Allowances to U.S. citizen (off-shore) contract and direct hire employees, and

security guard services are some of the reasons for the high cost of doing business in Peru.

Our budget projections for FY 93, FY 94 and FY 95 include funds for the partial amortization of accrued severance liability through 9/30/91. The projected financial plan is to fully amortize over a five year period. This projection reflects the recent State/Embassy decision to modify the current pay plan to reflect compatibility with Peruvian law changes made in 1991. This causes an abnormal funds requirement as each year also includes its own funding needs to remain current on the severance liability.

An alternative to the projection of dollar funds requirements over the five year period would be to pay off the liability through 9/30/91 with Trust Funds in FY 93. This approach to the problem was presented in prior year Action Plans, ABS, and by separate cable correspondence. The approach was rejected as an overall OE budget level increase, using Trust Funds, would not fit into the Bureau's regional OE requirements, and approved levels. Considering this alternative, the current year's OE approved levels would need to be increased by approximately \$1 million in Trust Funds. Concurrently, the Mission would need to renegotiate the FY 1991 Cash Transfer Agreement to provide the additional Trust Funds. This would be possible assuming that the remaining \$30 million dollars of this Agreement will be authorized soon. The Mission ability to provide for projected OE needs is dependent upon the availability of Trust Funds.

The Mission has already foreseen the need to renegotiate the FY 91 Agreement for an additional \$3 million to cover projected funding needs of FY 94 and FY 95. This increase would provide the \$1.8 million Trust Funds yearly base for FYs 93 through 95 and leave an approximate balance of \$400 thousand, assuming a constant exchange rate.

Currently, Trust Funds in excess of our immediate cash needs are deposited into an interest-bearing account at a local bank. Although interest is earned, the rates available do not allow us to maintain full Dollar value. This problem would be lessened if our Trust Fund levels were increased thus enabling quicker drawdowns of Trust fund balances.

During FY 95, the Embassy will move to a new building, and in all probability their current building will be used to house the USAID. This move will occur during FY 96. Our projections do not include any costs relative to this move, since we assume that 636 (c) funding will be used for remodeling and adapting the building to the USAID's requirements. The Mission will need to address this issue in the near future and coordinate with the appropriate AID/W Offices. If this assumption is incorrect FY 95 projections would need to be increased. See Section IV.D regarding this issue.

Our projected O.E. needs for FY 93, 94 and 95 reflect the general assumption that the Mission's Alternative Development Initiative will be eliminated. If the Alternative Development Program is reinstated and the USDH ceiling, for example, is set at 17, the FY 93, 94 & 95 O.E. Budgets would increase by approximately \$150,000, \$75,000 and \$200,000, respectively.

### C. Staffing Levels

#### O.E. Funded Staff Levels

As discussed throughout the Action Plan, USAID staffing of three of our approved level of eighteen USDH positions has been blocked by the Department of State. Mission requests Washington support to restore at least two of these positions as soon as possible to allow resumption of alternative development activities. If alternative development is not part of our future program, then the Mission will have to manage with fifteen positions, but can only do so if we have relief on security restrictions now imposed on other hiring (US PSC, institutional contractor and grantee employees). We also have one USDH resident-hire, part-time secretary, which position will be maintained throughout the planning period.

We are gradually reducing numbers of O.E.-funded FSN staff, both direct hire and contract. This plan was reported in previous Action Plans. We have recently imposed a freeze on O.E. hiring. Any exceptions must be personally approved by the Director. Trends in FSNDH employment are dependent on retirement rates, as the majority of employees in this category have long service and many are employed in key, senior positions. USAID is making every effort to reduce overlap in functions so that the trend to overall reduction in O.E.-funded employment can continue as planned without the necessity of disruptive forced reductions.

O.E. funded USPSC's reflect minimum requirements. These are positions in which we cannot afford to forego US employees because of vulnerability issues, and which cannot be shifted to project funding.

Staffing Pattern	<u>FY-93</u>	<u>FY-94</u>	<u>FY-95</u>
a) USDHs	15*	15*	15*
b) USDH -RH/PT**	1	1	1
c) FSNDHs	39	37	36
d) USPSCs	5	4	4
e) FSNPSCs	109	109	108

\* If NSDD-38 restrictions not lifted.

\*\* USDH resident-hire/part-time employee.

#### D. Information Resources Management

We are currently a Wang user of E-mail. This has significantly diminished the quality of services in both down-time and system capability. Over the past several years the Mission has been in the process of converting from a Wang VS system to a LAN environment. To date we have converted all offices to LAN except for the Executive and Controller's Offices. Our planned conversion date for these offices is FY 94. It is imperative that we complete our Mission conversion to the LAN as soon as possible. We have reprioritized our NXP budget, delaying some purchases until FY 94 thus allowing the conversion to occur. Based on LAC Bureau's instructions to preserve discretionary O.E. options, we are deferring the issuance of obligating documents for the high priority LAN related procurement until early fourth quarter of FY 93. In FY94, however, the Controller's office plans to convert MACS MACSTRAX from a Wang proprietary architecture to an open (UNIX) local area network during late FY 94 or early FY 95. This cost together with the delayed purchases from FY93 will again require that the Mission reprioritize our NXP budget.

#### E. Shared Administrative Services

USAID is continuing to explore combining certain administrative services between the Embassy and USAID in order to more efficiently provide services. These talks have been delayed due to severe key staff shortages in the Embassy. Now that authorized departure has been lifted, key positions in the Embassy should be soon filled and consolidation discussions may continue.

#### F. Management Controls

Through the Mission's Management Control Review Committee (MCRC) Senior Mission Management is actively involved in audit activities. Due to the increased workload associated with the Audit Management and Resolution Program (AMRP) and the Recipient Audit Program, one Financial Analyst is fully dedicated to monitoring these activities.

Of thirteen weaknesses identified during the Mission's FY 92 Management Control Assessment (MCA), five have already been resolved, and actions are being taken to resolve six of the remaining eight by May/June 1993. At this time, we cannot predict resolution of the other two, since they involve staffing issues that will require the Ambassador's and State Department approval, due to NSDD-38 restrictions and security reasons. Except for the staffing related issues, we do not anticipate any material cost implications for external support in resolving the MCA deficiencies.

**TABLE 4**  
**USAID/PERU**  
**SUMMARY PROGRAM FUNDING TABLE**  
Dollar Program (000)

Funding Category	FY93 Estimated	FY94 Requested	FY95 Requested
<b>STRATEGIC OBJECTIVE # 1: SUSTAINABLE ECONOMIC GROWTH LED BY THE PRIVATE SECTOR</b>			
Development Assistance (includes FY 92 carryover)			
527-0000 Program Development and Support	440	600	600
527-0282 Agricultural Technology Transformation	1,801	--	--
527-0341 Employment and Natural Resource Sustainability	1,475	--	--
527-0349 Export, Trade and Development	1,000	3,111	1,126
527-0353 PVO Support	2,201	3,300	4,989
527-0368 Sustainable Environmental Management	--	1,275	2,000
Subtotal DA	6,917	8,286	8,715
Economic Support Fund (includes FY 92 carryover)			
527-0000 Program Development and Support	635	400	869
527-0244 Upper Huallaga Area Development	7,000	--	--
527-0343 Policy Analysis, Planning and Implementation	2,000	2,000	2,354
527-0349 Export, Trade and Development	5,000	4,000	2,000
527-0367 Stabilization, Trade and Marketing	88,000	--	--
527-0369 Stabilization, Trade and Marketing II	--	8,500	--
527-0370 Stabilization, Trade and Marketing III	--	--	10,077
Subtotal ESF	102,635	14,900	15,300
P.L. 480 Title III	19,490	30,000	30,000
Title II	71,830	50,806	51,000
Subtotal P.L. 480	91,320	80,806	81,000
<b>STRATEGIC OBJECTIVE TOTAL</b>	<b>200,872</b>	<b>103,992</b>	<b>105,015</b>

**TABLE 4**  
**USAID/PERU**  
**SUMMARY PROGRAM FUNDING TABLE**  
**Dollar Program (000)**

Funding Category	FY93 Estimated	FY94 Requested	FY95 Requested
<b>STRATEGIC OBJECTIVE #2: IMPROVED HEALTH STATUS THROUGH ACCESS TO QUALITY PRIMARY HEALTH CARE</b>			
Development Assistance			
527-0000 Program Development and Support	190	400	400
527-0285 Child Survival Action	4,001	--	--
527-0319 Strengthening Private Sector Health Institutions	5,314	4,212	3,068
527-0326 Private Commercial Family Planning	2,496	--	--
527-0335 Private Voluntary Sector Family Planning Services Expansion	615	--	--
527-0355 Quality Improvement for Family Planning	--	2,887	5,411
527-0366 Sustaining Child Survival Programs	4,063	8,732	8,332
Subtotal DA	16,679	16,231	17,211
<b>STRATEGIC OBJECTIVE TOTAL</b>	<b>16,679</b>	<b>16,231</b>	<b>17,211</b>

**TABLE 4**  
**USAID/PERU**  
**SUMMARY PROGRAM FUNDING TABLE**  
**Dollar Program (000)**

Funding Category	FY93 Estimated	FY94 Requested	FY95 Requested
<b>STRATEGIC OBJECTIVE #3: STRENGTHENED DEMOCRATIC INSTITUTIONS THAT SUSTAIN INDIVIDUAL RIGHTS AND FREEDOMS AND ARE RESPONSIVE TO THEIR CONSTITUENCIES</b>			
Development Assistance			
527-0000 Program Development and Support	24	50	50
527-0061 Special Development Activities Fund	200	200	200
527-0340 Peruvian Peace Scholarship - CLASP II	869	2,616	1,207
527-0352 Judicial Strengthening	2,000	--	--
Subtotal DA	3,093	2,866	1,457
Economic Support Fund			
527-0000 Program Development and Support	340	100	200
527-0347 Narcotics Education and Community Initiatives	2,500	1,000	1,500
527-0352 Judicial Strengthening	5,192	2,000	2,000
527-0356 Democratic Initiatives	--	3,000	2,000
527-0363 Elections Support	4,500	--	--
527-0371 Democratic Development of Local Governments	--	1,500	1,500
Subtotal ESF	12,532	7,600	7,200
<b>STRATEGIC OBJECTIVE TOTAL</b>	<b>15,625</b>	<b>10,466</b>	<b>8,657</b>

**TABLE 4**  
**USAID/PERU**  
**SUMMARY PROGRAM FUNDING TABLE**  
Dollar Program (000)

Funding Category	FY93 Estimated	FY94 Requested	FY95 Requested
<b>OTHER</b>			
Development Assistance			
527-0365 Displaced Children - Ayacucho Orphanage	200	--	--
Subtotal DA	200	--	--
<b>OTHER TOTAL</b>	200	--	--
<b>PROGRAM TOTAL</b>	233,376	130,689	130,883

## SECTION V. ISSUES

### A. Staffing Levels

This Mission cannot maintain its current and approved future program as well as a labor-intensive and politically sensitive alternative development program with an effective USDH level of 15. It is for this reason that we have placed on hold the next generation alternative development activities until we have adequate personnel levels, funding and policy support for such programs. A LAC Bureau analysis in August 1992 revealed that Peru could justify 29 USDH positions. This is a large, complex and politically-sensitive program. We cannot continue to do more with less (as we did when a previous staff reduction exercise reduced USAID to 18 USDH slots) without having severe vulnerabilities of management and accountability. Since that time, under Washington mandate, the program has grown considerably.

This year we have stated in the Internal Control Assessment that the staffing situation is an administrative deficiency ("Unsatisfactory"), and one which the Mission cannot by itself resolve. We have, for example, approximately \$100 million per year in food aid (Titles II and III) which is now under the direct responsibility of a single USDH Food for Peace Officer. Plans to devolve some of the monitoring responsibility to a US PVO have been stymied by our inability to bring grantee employees to post under and following the lifting of Authorized Departure.

The removal of the MDCs from our direct responsibility for Controller and (in one case) EXO functions does not resolve the Mission's overall vulnerability problems. Coupled with limits on our USDH staffing, State has also placed limits on the number of Americans we can employ in any capacity (PSC, project contractor/grantee employee). And our operational budget, and the prospects for its diminution in future years, does not now allow us the luxury of adding new Peruvian professional staff outside of projects.

USAID/Peru needs immediate relief of external limitations on our staffing.

### B. OYB levels

At the time of writing of this Action Plan, the Administration's plans for counternarcotics and for Peru are still unclear. Because so much of our approved program in Peru is now dependent on funding from ESF (NSD-18), it is difficult to plan for the future. If NSD-18 funds are not available, USAID will need (regular) ESF and additional unrestricted DA funds to be able to complete already approved projects/programs in our portfolio, and to embark on

judicial strengthening and democratic initiatives activities which are of great interest to all parties in Washington.

C. Alternative Development

While we are prepared and anxious to build on experience gained under the Upper Huallaga Area Development Project and other alternative development initiatives over the last twelve years, as stated earlier, without an increase in our approved staffing levels for Peru, we cannot continue with the very personnel-intensive, politically-sensitive alternative development activities. These projects require direct oversight and involvement of American staff. With 18 USDH, we were already understaffed throughout the Mission.

D. Move to Current Embassy Building

As stated in the OE Narrative Section, USAID may be required to occupy the present Embassy Building when the Embassy moves to its new building. The condition of the Embassy Building has deteriorated over the last few years as only minimal maintenance has been provided. Since the Embassy move is imminent, major outlays have been deferred, thus increasing the investment that must be provided by A.I.D. To enable USAID to occupy this building during FY 96, necessary remodeling and other capital improvements must begin during FY 95. The Mission has requested FBO to provide a team to assess the extent of the improvements necessary. It is difficult to estimate at this time what specific building improvements will be necessary and the cost implications without a thorough evaluation by experienced engineering and architectural personnel. We would estimate at this point that in FY 95 approximately \$500,000 would be expended on air conditioning, electrical upgrade, new generator, etc. An additional \$600,000 is estimated for the remodeling, recarpeting, paneling, ADP preparation, restoration of existing A.I.D. building, etc., during FY 96. Request assistance as follows:

- a) Support our request to FBO to field a team to evaluate feasibility and cost implications of assuming current embassy building.
- b) If funding is required, fund the team from Non-Mission resources or provide additional O.E. to the mission to cover these costs.
- c) FBO holds title to the Chancery. Therefore, per 6FAM 722.5, FBO will be responsible for capital improvements and repairs. In the event that the cost is passed to A.I.D., then OE will have to be utilized per Section 636(c) of the Foreign Assistance Act. The Bureau will have to ensure that these and related costs will be covered with non-Mission O.E. funds.

#### E. Accrued Severance Liabilities

As the mission implements the New Severance Plan, we request an increase of \$1 million in the O.E. Trust Fund Cap to cover accrued severance liabilities through FY-91. If additional Trust Funds to cover this liability are not forthcoming, we request additional dollar resources to cover these costs.

#### F. Trust Fund Dependency

USAID/Peru has experienced difficulty in dealing with O.E. trust funds. Because of limitations on dollar resources for operational budgets, Mission was instructed to create an O.E. Trust Fund, using the resources made available under the FY 1991 Balance of Payments program (Economic Stabilization and Recovery Program - ESRP). We did so. Local currency is not "generated" by this program. The dollars are used for debt payments to IMF and similar institutions, hence there are no "proceeds" as in a GDP or similar program.

Further, Peruvian law requires that the Ministry of Finance (MEF) transfer local currency funds from the government budget to the Central Bank (BCR), which exchanges the currency for dollars and makes the debt payment. The BCR is not allowed to pass any of the budget funds back to MEF. Hence, the trust fund payment to USAID is a true grantee contribution. This fine point was not revealed in program negotiations, but only afterwards, when we prepared for the transfer of the first tranche. This has made the GOP reluctant to accede to large trust fund transfers, especially since the GOP has only been given the first of three tranches (40 percent of total dollar value) of the ESRP, because of State Department concerns over democracy and human rights.

Hence, USAID finds itself in a position of needing more trust funds, with only one potential source of additional trust funds (balance of payments programs). Either USAID will have to press the GOP to amend the ESRP agreement to provide additional trust funds out of the remaining tranches (which we hope may be released by Washington soon), or we will have to wait for the \$5 million trust fund transfer in the planned first tranche of the FY 1993 balance of payments program (Stabilization, Trade and Marketing Program - STMP). The STMP PAAD was submitted for approval to AID/Washington at the end of March. At the time of the writing of this Action Plan it has not yet been reviewed because of uncertainty over future funding to Peru. Neither option guarantees that additional trust funds will be available when needed by USAID. Mission understands that trust funds may be a necessary part of our programming. However, we have found it embarrassing to have grantee representatives suggest that our interest in helping the government to meet conditions precedent in the balance of payments program is tinged with a desperation to obtain trust funds. This puts us in a weak position in negotiations. The perceived weakness

G. Government of Peru Imposed Taxes

As the Bureau is aware, the GOP has suspended the tax exemption status for all U.S. Government Mission activities (as well as other donors) as pertain to the General Sales Tax (IGV) and the Selective Consumption Tax (ISC).

As a consequence of this action, the U.S. Government Mission organizations are required to pay substantial funds from limited operating expense budgets. A.I.D. appropriated DA and ESF Funds are utilized for the payment of GOP imposed taxes relating to the program, which is contrary to U.S. Government policy. In addition, the action by the GOP pertaining to the imposition of IGV and ISC taxes appears to be contrary to the terms of the Vienna Convention Agreement and the Bilateral Agreement between the United States of America and Peru.

Both the Embassy and A.I.D. have raised the tax exemption issue with the GOP officials at various levels. Due to general non-responsiveness of the GOP to requests to exempt the U.S. Government, the U.S.G. withdrew tax exempt status from Peruvian diplomats in the U.S. This action has not helped to resolve the issue.

The Mission has met many times with GOP Officials and we have been told that resolution of the tax issue for A.I.D.-funded activities would be forthcoming. Although such discussions have led to alternative arrangements being discussed (e.g., voucher type system, reimbursement type system) no functional solution has been implemented.

The Mission will continue negotiations with the GOP in order to resolve the tax issue. Our expectation is that we will resolve this issue within the next month. If we are unable to resolve this issue by Program Week, we will seek consultation from the Bureau and other AID/W offices, as appropriate, and take further action based on those consultations.

The RLA has been consulted on this issue and believes that the Mission's actions are and have been appropriate both legally and operationally. The RLA will continue to assist the Mission in resolving this issue. He has advised the Mission that formal consultations with AID/W regarding the tax will be necessary if the issue is not resolved in the near future. This issue will be discussed with AID/W at the time of the review of the AP, if not resolved before then.