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

PERU

PROJECT PAPER

POLICY ANALYSIS, PLANNING AND IMPLEMENTATION
AMENDMENT NUMBER 1

AID/LAC/P-960
CR-554

PROJECT NUMBER 527-0343

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1 TRANSACTION CODE <input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number One	DOCUMENT CODE 3
2 COUNTRY/ENTITY PERU	3 PROJECT NUMBER 527-0343		
4 BUREAU/OFFICE Latin America and Caribbean	5 PROJECT TITLE (maximum 40 characters) Policy Analysis, Planning & Implementation		

6 PROJECT ASSISTANCE COMPLETION DATE (FACD) MM DD YY 03 30 97	7 ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4) A. Initial FY 90 B Quarter 4 C Final FY 95		
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8 COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B FX	C L/C	D Total	E. FX	F L/C	G Total
AID Appropriated Total	1,155	31	1,186	6,572	578	7,150
(Grant)	(1,155)	(31)	(1,186)	(6,572)	(578)	(7,150)
(Loan)	()	()	()	()	()	()
Other US						
1						
2						
Host Country					200	200
Other Donor(s)						
TOTALS	1,155	31	1,186	6,572	778	7,350

9 SCHEDULE OF AID FUNDING (\$000)									
A. APPRO. PRIATION	B. ACTIVITY CODE	C. ACTIVITY CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1 Grant	2 Loan	1 Grant	2. Loan	1 Grant	2. Loan	1 Grant	2 Loan
(1) ESF	PRNS			6,646				7,150	
(2)									
(3)									
(4)									
TOTALS				6,646				7,150	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	11. SECONDARY ACTIVITY CODE PSMG						
12 SPECIAL INTEREST CODES (maximum 7 codes of 4 positions each)							
A. Code	NAR	SPR	INS	REH	TPU	FRN	
B Amount	5,363	3,575	3,575	2,860	1,073	1,788	

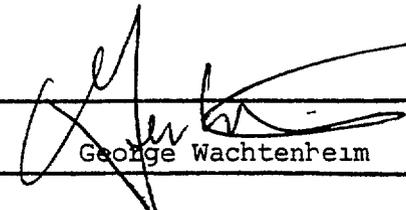
13 PROJECT PURPOSE (maximum 480 characters)

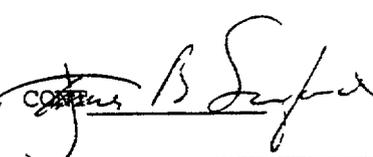
To assist the new GOP and private sector in developing sound economic policies and strengthening the policy dialogue and decision-making process

14 SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 1 0 9 4 0 1 9 7	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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16 AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

Methods of implementation and financing remain unchanged

17 APPROVED BY	Signature  George Wachtenheim Title Director	Date Signed MM DD YY 10 13 95	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
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James B Sanford, 

POLICY ANALYSIS, PLANNING AND IMPLEMENTATION (PAPI) PROJECT

PROJECT PAPER SUPPLEMENT (Amendment No. 1)

I. Objective

The objective of this modification to the PAPI Project design is to

a) extend the PACD by 2 years, and, b) simplify the project administrative structure and procedures, so as to enable the project to more quickly respond to requests for assistance from the public and private sectors in Peru. The supplement also defines project activities and end of project status within the Mission's new strategic framework and updates the description of Peruvian Government counterpart involvement in the Project.

II. Background

In September 1990, USAID/Peru approved the Policy Analysis, Planning and Implementation (PAPI) Project (527-0343) with the Government of Peru (GOP). The purpose of this four and one half-year, \$7.15 million grant was to assist in the analysis of current and proposed GOP economic policies, support dialogue on economic policy between the GOP and the private sector, develop and reinforce the GOP policy decision-making process, and assist the public and private sectors in establishing their own capacity to design and implement sound economic policies in the future.

The Grant Agreement required that the GOP complete several Conditions Precedent prior to initiating procedures to contract an institution to assist the Secretary General of the Presidency (SGPR) in implementing the project. Recognizing the time the GOP would require to meet these conditions, and in order to avoid delays in project start-up, budget elements were re-aligned to temporarily permit USAID to contract badly needed technical assistance at initial, critical stages of the Fujimori Administration. Through a USAID-direct implementation line item, the project financed several key studies requested by the Ministry of Economics and Finance (MEF) and approved by the SGPR.

During this crucial period, USAID, through PAPI, was the only source of funds available to assist the GOP in the design and implementation of its macroeconomic reform program, including negotiations of a Rights Accumulation Program with the IMF and the GOP's very successful Paris Club renegotiation of Peru's external debt. Due to GOP arrears with the World Bank, the IDB and the IMF, it could not access funds from these major international financial institutions.

Pre-implementation studies and technical assistance by experts financed by the Project resulted in the following initial successes: rescheduling of the external debt by the GOP at the Paris Club meetings and formation of the Donor Support Group, enactment of two new laws governing public enterprises policy and initial privatization of public enterprises, a law governing financial institutions, a project to merge state owned banks into one bank to increase efficiency, and laws in the trade sector which led to a nearly total liberalization of the legal framework governing foreign trade.

The selection of an Institutional Contractor, under which most project activities would be implemented, (the Developing Economies Group - DEG) was accomplished in March 1992, after a protected contracting process. Key personnel were to have arrived at post in June 1992, but before DEG's staff could be relocated to Peru, the political events of April 5, 1992 (closing down of Congress) led to the temporary suspension of U S direct assistance to the GOP. This resulted in an long delay in the start-up of project activities. Nevertheless, the project continued to support private sector initiatives, through the Confederación Nacional de Instituciones Empresariales Privadas (CONFIEP), using remaining funds in the Direct USAID Implementation budget line item.

In December 1992, USAID/W approved full resumption of the Project, with the Institutional Contractor (IC). At that time, the Deputy Chief of Party was hired, but due to security concerns of the U S Embassy in Peru, DEG's Chief of Party (COP) was unable to obtain clearance for permanent residence in Peru until September 1993. The training officer of the IC too did not begin work until September 1993. Since the bulk of the training component of the PAPI Project is dependent on the IC's work plan, and since training funds can only be disbursed under IC supervision, implementation of the majority of the training component did not begin until late 1993.

Initially, and up to the "autogolpe" in April 1992, the PAPI project was meeting its targets in terms of project purpose and goal. After that date -- due to the suspension of support to the GOP and security concerns of the U S Embassy -- severe delays in project implementation occurred. As the bulk of project funds lie with the IC, this delay in start-up seriously affected project implementation and impact.

Further, USAID Project management has recognized for some time that the project's implementation arrangements and structure required that a disproportionate amount of funds would be absorbed by the contractor, thus reducing the amount of funds available for project purposes, namely studies and training for policy analysis. Of a total project budget of \$5,200,000, only 31%, or \$1,625,000, was allocated directly to studies and training under DEG's contract. While the tremendous success of the project,

particularly in terms of assisting the Government of Peru (GOP) to achieve macroeconomic stabilization cannot be negated, this imbalance, combined with lengthy and cumbersome administrative procedures for the selection of technical studies and training activities, have lessened the project's ability to conduct a greater number of studies and training, thus reducing its overall potential impact

A mid-term management review of the PAPI project was carried out during the month of August 1994, which confirmed USAID's concerns related to the financial imbalance between project management and project activities, as well as the project's complex administrative procedures. The evaluation recommended a re-focusing of the project, in addition to modifications to its administrative procedures, if the project were to be extended. Implementing such changes would strengthen the focus of the project on USAID's policy and program interests, and would contribute to improved impact.

This Project Paper Supplement addresses the following concerns learned from project implementation to date:

A. PAPI's Policy Agenda

The PAPI project was designed in 1990, following the election of Alberto Fujimori as President of Peru. The intent was to offer assistance to the new government in undertaking an ambitious economic program, in order to achieve macroeconomic stabilization. Since that time, the Peruvian economy has stabilized and is growing at a high rate, priority structural and sectoral policy reforms have occurred, and the institutional capacity of the major GOP economic policy entities has been strengthened.

During the same period, USAID development assistance priorities changed, which has had a direct impact on the Project. As a result, a new policy agenda, focused on structural and sectoral policies, as well as reform of the GOP's institutional framework, was adopted by the project in January, 1994. These reforms are needed to reduce the cost of doing business in Peru, to improve the economic situation of the poor, especially in the areas of micro enterprise development, agriculture, and financial management of social ministries, and to achieve sustainable economic growth.

Through this amendment, the project's policy agenda will be focused further, as the agenda is still too broad and the studies being undertaken vary widely. The GOP agrees with this need and with the need to ensure that priorities accord with USAID strategic objectives.

B Technical Role of the IC

The Project Paper specifies that almost all activities will be managed by an IC, which will be contracted within the first eight months of project implementation. At that time, due to the effects of hyperinflation and terrorism, the GOP and the country in general were suffering from a lack of highly qualified professionals who could design and implement a sound stabilization program, which was one of the reasons behind hiring a US institutional contractor. Another reason was the need to minimize USAID/Peru's administrative burden in terms of direct project management.

In practice, however, the technical role of the IC is actually quite limited. Among the findings of the recent management review of the project was that "the IC's technical capabilities are applied mainly on the quality supervision of studies performed by outside consultants. If the IC's role is administrative and supervisory, one could well ask why it is necessary to have such highly qualified economists instead of administrative and/or contract experts with a certain degree of training." In sum, IC is fulfilling basically an administrative role, which is a costly under utilization of its current technical skills and capabilities.

C. IC's Costs

USAID/Peru selected DEG as the institutional contractor for the implementation of PAPI activities from March 11, 1992, to March 30, 1995, with a contract cost of US\$5,204,268. Of this amount, US\$5,060,000 has been budgeted. The contract was negotiated based on a four-year field technical assistance effort, and contains a clause giving USAID the right to extend the contract term, at its option, through March 10, 1996.

The Project Paper contemplates an amount of \$1,903,000 for technical studies and \$1,000,000 for training during the Life of the Project (LOP). As the result of the high overhead cost of the DEG contract, these amounts were reduced to \$868,000 and \$757,000 for studies and training, respectively. Regrettably, DEG's overhead is based not only on its long-term staff, overseas and home-office based, but also on short-term consultancies.

III. Revised Project Description

The project design requires no basic changes that would invalidate the goal and purpose. However, the administrative structure of the project needs simplification to increase flexibility and the project's policy agenda requires further focussing. Implementing such changes will enhance the project's ability to support economic policy objectives of the GOP and the private sector and will contribute to improved impact. The following changes are made to the project description.

A Project Goal and Purpose

The goal and purpose remain essentially unchanged, other than to delete the word "new" (GOP) from the purpose statement and the word "renewed," which is replaced by the words "broad based," in the goal statement. The goal of the project, therefore, is to bring about economic stabilization and build the foundation for broad-based growth through improved economic policies. The purpose is "to assist the Government of Peru and the private sector in developing sound economic policies and strengthening the policy dialogue and decision-making process."

B. End of Project Status

The technical studies/assistance component seeks to improve the policy environment in Peru to achieve broad-based growth. This will be accomplished primarily through the development of technical studies and the provision of short-term technical assistance needed to assist the GOP and the private sector, through CONFIEP, in the formulation of sound economic policies oriented toward poverty alleviation and broad-based economic development of microenterprises and small farmers, and the consolidation of economic reforms initiated in 1990.

The specific end-of-project status will be the following:

- Increased policy analysis capacity of the public and private sector
- Major GOP economic and social policy-making decisions influenced by PAPI's technical studies/assistance
- Improved public-private sector policy dialogue
- Economic production gains achieved through policy reforms developed under the project

IV. Project Activities

A Technical Studies/Assistance

The general description of technical studies/assistance will be changed. The GOP and CONFIEP agree with the need to ensure that priorities are consistent with new USAID strategic objectives. The areas proposed herein as the basic elements of the new PAPI policy agenda for 1995/97 fall within the scope of the original PAPI policy agenda.

The five strategic objectives of the Mission are:

- 1) Increased participation of citizens in democratic processes,

- 2) Improved health of high-risk populations,
- 3) Increased food security of the extremely poor,
- 4) Increased incomes and employment of the poor, and,
- 5) Improved environmental and natural resource management

The PAPI project can contribute to all of these development objectives, particularly to the third and fourth, through economic policy analysis and reform. The following is an illustrative list of areas of policy reforms that support strategic objectives three and four that the project could address over the next two years

1) Institutional reform and decentralization

- 1a Improve the quality of public sector personnel. The GOP's economic reform agenda contemplates, among other things, the improvement of the civil service through training programs for public personnel, and a gradual financial independence among decentralized public institutions in order to establish competitive salaries schemes over the medium-term.
- 1b Improve the fiscal system to increase fiscal revenues. Tax revenues as a percentage of GDP should increase from the current 13 percent to at least 18 percent over the medium and long-term to enable the GOP to meet minimum social expenditure and other fiscal needs. Studies and/or technical assessments in this area might examine the possibility of tax reform, improvements in fiscal collection, the incorporation of the informal sector into the formal economy and/or the implementation of effective legal enforcement procedures in order to lessen tax evasion.
- 1c Improve the quality of fiscal investment/expenditures. Scarce fiscal revenues must be allocated in an optimal manner. PAPI will support GOP initiatives to improve the quality of public investment/expenditures, e.g. the GOP's Programa de Focalización del Gasto Básico, which targets the poor in the health, education and justice sectors.
- 1d Eliminate administrative obstacles. Transaction costs, especially those generated by the government, are important constraints.

for doing business in the country. The PAPI project may help to identify some of these constraints and recommend effective ways to overcome them.

1e Promote decentralization. It is well accepted that decentralization is one of the central elements of equitable economic development and democracy. PAPI may help in the decentralization process through the training of local government officials, technical studies to identify effective and efficient ways in which to allocate central government resources and/or to improve municipal tax collection in order to achieve some degree of financial sustainability.

2) Improve the legal and regulatory systems

2a Improve the GOP's capacity to develop and implement proper norms and regulations. PAPI studies and training activities may assist the public sector in developing adequate norms and regulations related to key economic activities, especially those with high impact on social sectors.

2b Improve regulatory mechanisms. Efforts in this area will focus on monopolies that have been created through the sale of state-owned enterprises. Initiatives coming from Instituto Nacional de Defensa al Consumidor y Protección de la Propiedad Intelectual (INDECOPI) or Superintendencia de Administración de Fondo de Pensiones (SAFP) will be given priority.

3) Microenterprise development and rural household development support studies

3a Microenterprise development and rural household development are important tools of an effective poverty reduction strategy. In the past, the PAPI project has studied other country experiences in microenterprise development by hiring experts from other countries and assisting the Ministry of Industry to formulate an adequate legal and regulatory framework for microenterprise development. In the future, similar initiatives may be supported by PAPI.

- 3b Rural development comprises a set of complex elements PAPI may help in the identification and conceptualization of solutions to rural development in Peru, in coordination with USAID/Peru's Food Security Strategy and GOP efforts in this area
- 3c Support the development of economic policies to effect relative price adjustment that will promote the use of labor-intensive technologies
- 3d Support policies to improve labor relations and new methods of labor contracting so as to stimulate job creation and greater use of labor intensive technologies

4) Fine-tuning of macroeconomic policies

Although macroeconomic concerns will be deemphasized, the project may address a few macroeconomic issues in the face of unpredictable events or exogenous economic shocks that could hit the economy In addition to this, some of the topics that may qualify under macro policies are

- 4a Improve financial services for the poor, mainly for micro entrepreneurs and small scale rural entrepreneurs The creation of new financial instruments and services for microenterprises and small rural households in Peru is just beginning In the rural area, the creation of Cajas Rurales is at an incipient stage of development These require support in training officials or in the introduction of viable financial instruments to develop rural financial markets Credit delivery and savings mobilization are also lacking for microenterprise activities
- 4b Support of efficient export and import-substitution activities for micro and small enterprise sectors PAPI may support policies to encourage production activities in efficient tradable sectors with special focus on those which have direct or indirect positive effects on microenterprises and rural households
- 4c Periodic review of macroeconomic developments, especially in the external sector of the economy An adequate internal and external

macroeconomic balance is still missing in the Peruvian economy. The success of bringing inflation down and the recent economic recovery may be hiding a growing problem of a current account imbalance in the balance of payments. The recent Mexican external crisis is a good example of the need to keep an adequate balance in both the internal and external sectors of the economy.

With regard to other USAID development objectives, the economic policy perspective of the PAPI project suggests that PAPI can make valuable contributions in the following areas:

5) In the area of environment, the PAPI project will contribute to the development of environmental policies in the following areas:

- 5a Unsustainable agricultural practices
- 5b Environmental destruction from targeted industrial sectors, especially mining, fisheries, and energy
- 5c Urban pollution from solid waste, contaminated water, and the untreated discharge of sewage directly into the environment
- 5d An inadequate legal, regulatory and judicial framework relating to environmental and natural resource management, and
- 5e Degradation of Peru's water and unique coastal resources

6) In the area of population and health, the PAPI project will contribute to improved health of high-risk populations through the development of more rational expenditure policies in public health, and in the development of new systems of active participation of the community in the provision of health services.

B. Training and Information Dissemination

This component will remain essentially as in the original PP. The only changes are (a) elimination of the long-term training, b) increased emphasis of in-country training in relation to participant training, and c) the technical Unit of the SGPR and USAID will be responsible for implementation of this activity.

C. Implementation arrangements

1 GOP Counterpart

The Project Paper states that the primary counterpart agencies in the public sector are the Interministerial Committee for Economic and Financial Affairs (CIAEF), the Ministry of Economics and Finance (MEF) and the Secretary General of the Presidency (SGPR). This tripartite division of power was never established. CIAEF has played little if any role at all in the project. SGPR has played a dominant role, with MEF submitting requests for assistance through and with the approval of the SGPR. This PP supplement approves a simplified approach to project implementation intended to facilitate project implementation.

The Project's Technical Unit (TU) will be the first filter to accept public sector proposals (for studies and training) from any GOP institutions. A copy of the proposal should be sent to the SGPR and USAID, which may provide comments, request changes, or reject the proposal. The private sector proposals channeled through CONFIEP will be reviewed and approved by USAID. The IC's Technical Advisor/Economist will assist the USAID Project Manager in this review and approval role.

Note: The original design discusses the role of the CIAEF as a "Board of Directors" for public sector aspects of the project. CIAEF has not played this role to date, and will not be expected to play a decision-making role in the future.

Under the new arrangement, the TU will be staffed by three economists (one serving as Project Coordinator), and a Secretary, with the occasional help of an Advisory Council. This Advisory Council would consist of renowned Peruvian economists that would be called upon as needed to provide advice in the development of terms of reference or the supervision of studies.

2 USAID

USAID will be staffed by a Project Manager, who will be contracted on a full-time basis. The Project Manager will work closely with the IC's Technical Advisor/Economist, who will act as his/her advisor on technical issues.

USAID will be responsible for the implementation of participant training activities through its Training and Social Development (TSD) Division. USAID will also be responsible for implementing and monitoring technical assistance/studies carried out under the USAID Direct Implementation line-item. These activities will be initiated and subsequently implemented by USAID, following approval of the TU and the SGPR to proceed.

3 Institutional Contractor

As was mentioned in the background section, the role of the institutional contractor (IC) in the project has been limited basically to administrative functions. The IC will continue to perform basically an administrative function, while providing technical expertise to USAID and CONFIEP

Under the new arrangement, the IC will be staffed by a Contract Administrator (Chief of party), a Technical Advisor/Economist, an Administrative Assistant/Accountant, a secretary and a driver/messenger. The Technical Advisor/Economist will advise the USAID Project Manager, especially on proposals for studies/training from the private sector

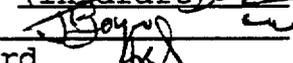
Since USAID recognizes that a disproportionate amount of funds have been absorbed by the contractor, thus reducing the amount of funds available for project activities, namely studies and training for policy analysis, the IC will not charge overhead on its short term consultancies, although it will continue charging overhead over its long term staff, as well as its fee. Short-term consultancies will be contracted using fixed-priced contracts

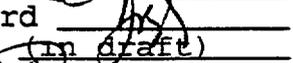
IV PACD

A two-year extension of the project is required. The proposed PACD will be March 30, 1997, for a total project life of approximately six and one half years. A revised Illustrative Financial Plan is shown in the attached Table I

Clearances

PDP STaylor (in draft) 

PDP JBoyer 

CONT JSanford 

RLA PRamsey (in draft)

DD DBoyd 