A.I.D. Project Impact Evaluation Report No. 47

The Impact of PL 480 Title I in Peru: Food Aid as an Effective Development Resource

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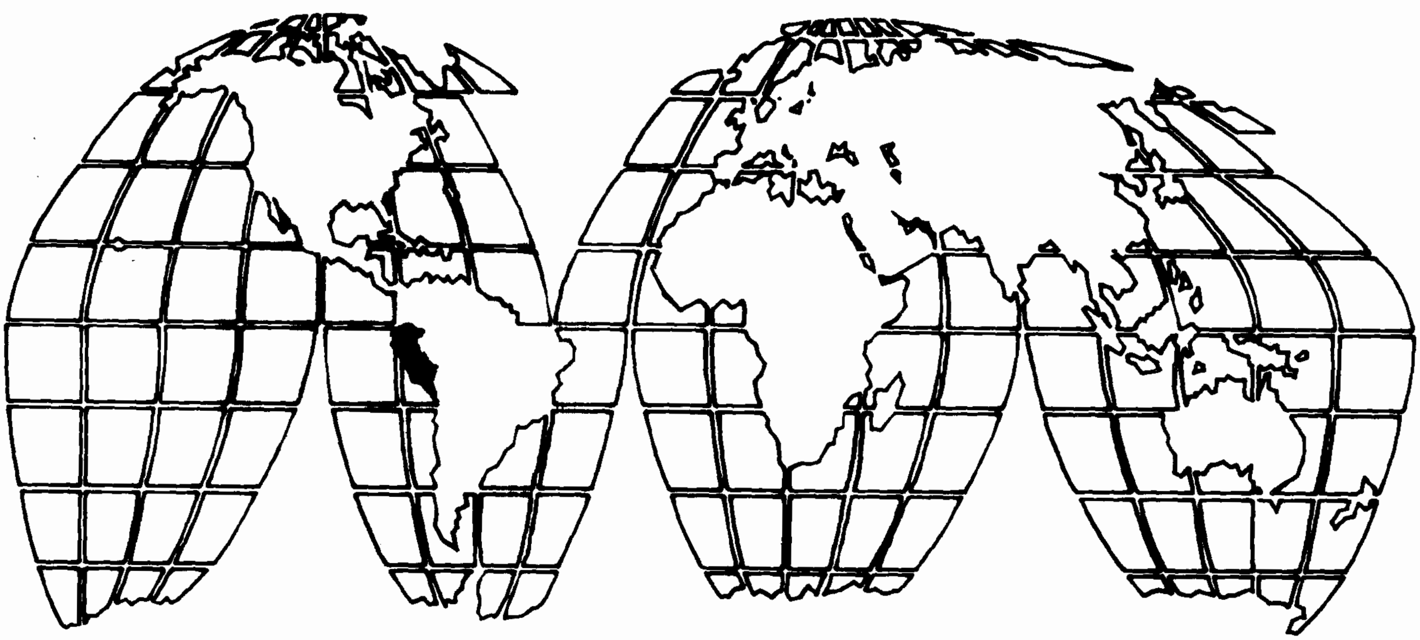

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THE IMPACT OF PL 480 TITLE I IN PERU: FOOD AID AS AN EFFECTIVE DEVELOPMENT RESOURCE

A.I.D. PROJECT IMPACT EVALUATION NO. 47

by

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FOREWORD

In October 1979, the Administrator of the Agency for International Development (AID) initiated an Agency-wide ex-post evaluation system focusing on the impact of AID-funded projects. These impact evaluations are concentrated in particular substantive areas as determined by AID's most senior executives. The evaluations are to be performed largely by Agency personnel and result in a series of studies which, by virtue of their comparability in scope, will ensure cumulative findings of use to the Agency and the larger development community. This study, Peru: The Impact of PL 480 Title I Food Assistance, was conducted in July and August of 1982 as part of this effort. A final evaluation report will summarize and analyze the results of all the studies in this sector, and relate them to program, policy, and design requirements.

PREFACE

PL 480 Title I represents the largest AID program. In FY 1982, over $600 million was spent. The program provides concessionary financial assistance to 25 countries for the purchase of food grains and other agricultural commodities. To improve the development programming of the provided assistance, the Administrator, Mr. McPherson, has mandated the Bureau for Program and Policy Coordination, Office of Evaluation, Studies Division, to conduct a series of country-specific impact evaluation studies to examine AID's experience.

Since the program assistance provided by PL 480 Title I is generally not "projectized," as in the case of a roads, irrigation, or agricultural services project, the evaluation methodology employed differs from that in other impact evaluations conducted to date. Given the program's economic focus, the evaluation has emphasized macroeconomic issues such as the impact on balance of payments support, agricultural price policy and related incentives or disincentives to food production, and income-distribution effects. In addition, where information was available, attention was focused on the program's impact on dietary patterns and nutrition and/or health. Where specific self-help agreements are identified, the evaluation teams have reviewed the available evidence on target population impact. Finally, where certain foreign policy objectives are attained through the use of this program, they are highlighted.

This report on Peru represents the fourth in the series of final PL 480 Title I studies. Four other studies are or will be available soon on Sri Lanka, Egypt, Jamaica, and Bangladesh. A synthesis paper to conclude the series in 1983 is to be followed by an international conference. We commend this report to you.

Richard N. Blue
Associate Assistant Administrator
Office of Evaluation
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SUMMARY

Peru's PL 480 Title I program has been shaped by multiple, often conflicting objectives pursued by the many agencies contributing to its formulation and implementation. The program is a product of compromises which moderate but do not eliminate the inherent inconsistencies and contradictions. It is also, like all Title I programs, the result of a unique combination of country- and program-specific characteristics. Nonetheless, Peru's experience with Title I provides some important general lessons, especially through the Mission's accomplishments in integrating Title I into AID's development assistance program.

Description

After a 14-year hiatus, the Peru Title I program was reinstated in 1978 as part of a general increase in U.S. support to Peru. The program level remained a constant $20 million a year (mostly in rice) until 1982, when the level dropped to $17 million and the terms were tightened. In evaluating the program's impact it should be remembered that the years from 1968 to 1980 saw substantial political, economic, and social upheaval in Peru, the repercussions of which are still being felt. This fact, combined with the relatively short life and small size of the current program, made it difficult to isolate the program's impact on such variables as agricultural production or the nutritional status of the population as a whole. For this reason, and because of the important lessons to be drawn, the analysis focuses on some more immediately measurable results which we believe have important downstream effects.

Distinctive Features

Local Currency Programming. Since 1978, USAID/Lima has been heavily involved in programming the uses of local currency. This has become more specific and targeted each year, even as the counterpart funding requirements of the AID program have gone from roughly one-half to two times the value of the Title I agreement. This has been accomplished not through a special account but through a detailed annex to the Memorandum of Understanding developed by USAID and the Government of Peru (GOP). Furthermore, the GOP "forward funds" these activities instead of waiting for local currency to be generated.

Additionality. This has been demonstrated in a variety of ways:

-- Local currency programming guaranteed AID counterpart during times of crisis in the late seventies.

-- When Title I exceeded AID counterpart requirements, it gave the Mission a quick-response capability for a variety of new initiatives and special projects.

-- It leveraged additional GOP resources into successful projects initiated in part with Title I resources.

-- Perhaps its major impact has been on the Title II program. By funding many of the operating costs associated with Private Voluntary Organization (PVO) Food-For-Work projects, it has allowed a very substantial increase in this program.

Policy Dialogue. No major policy impact could be identified, although there is ample evidence that it is an important part of the dialogue between the Mission, the Embassy, and the GOP. What is perhaps most remarkable, and an indicator of the degree of Title I integration into AID's program, is that Title I is part of the U.S./GOP dialogue at the project level.

Lessons Learned

1. The year-to-year uncertainty of Title I has reduced its effectiveness as a development tool. It is difficult, and dangerous, to program a resource that cannot be assured. The results of this year's delay are evident in disbursement of Title I resources to the Title II program. Some project activities have been stopped or scaled back, and some gains of previous years (e.g., in reforestation) are being jeopardized.

2. AID development objectives seem to carry no weight in Washington decisions regarding levels, commodity selection, financial terms, and timing. Furthermore, the multiplicity of objectives and actors defining each year's program occasionally generates contradictions. This adds additional instability to the process from AID's point of view.

3. U.S. and GOP staffing and institutional changes are an additional source of instability to which an annual program is particularly vulnerable.

Recommendations

1. A pilot multi-year (three to four years) Title I program should be authorized in Peru. This is justified because of the high degree of integration of Title I resources into the AID program. We believe that it would substantially eliminate the uncertainties in the current system and allow the Mission to exert greater policy leverage (e.g., reforming agricultural credit policies).

2. Programming local currencies should be integrated with the Peruvian budget cycle, rather than the Title I cycle. This would be greatly facilitated by a multi-year program.

INTRODUCTION

Title I of Public Law 480 authorizes the U.S. Government to finance the sale of "surplus" agricultural commodities on highly concessional terms--low interest rate and long repayment period--to "friendly" developing countries.[1] Commodities imported under Title I agreements are generally sold on the local market by the recipient country goverment. Sales generate local currencies for use by the government of the importing country. In principle, these currencies are to be allocated to important development activities specified in the "self-help" section of the Title I agreement.

Since the mid 1970s, AID has emphasized the development objectives of PL 480 generally and of Title I in particular. The effective utilization of Title I as a development resource is not easily accomplished. The program was designed and is implemented by a variety of committees and subcommittees with different, and occasionally conflicting, interests and objectives. Among these objectives are the disposal of U.S. agricultural surplus, market development for U.S. agricultural exports, support of U.S. foreign policy goals, humanitarian assistance, and support for economic development in the recipient country. Behind them stands an array of U.S. Government executive agencies (U.S. Departments of Agriculture, State, Treasury, and Commerce; AID; Office of Management and Budget; NSC; congressional committees; and special interest groups). The way in which this constellation of forces influences the annual allocation of Title I resources varies from year to year and crisis to crisis.

The relative importance of these objectives has shifted over time. Thus, surplus disposal was a prime mover in the 1950s, but receives relatively less attention today. Furthermore, the objectives are not necessarily consistent. Our immediate foreign policy aims may or may not support our economic development priorities which, in turn, may or may not support our surplus disposal or market development ends. Whatever the case, it is safe to say that the effectiveness with which AID and the recipient country utilize Title I resources to achieve developmental goals has not weighed heavily in the deliberations of the interagency Food Aid Subcommittee of the Development Coordination Committee which determines country allocations of Title I resources.

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[1]See Appendix C for a general description of PL 480 Title I and its various components. The reader unfamiliar with the details of this program is advised to refer to this appendix.

There are also problems of a more technical nature which complicate AID's effort to use Title I as a development resource. These include country eligibility and selection requirements, commodity selection, financial terms and self-help measures, as well as a number of operational details (e.g., timing of arrivals, currency generation).

A recognition of the importance of the Title I resource and the difficulties encountered by AID in using it effectively have led to the series of impact evaluations of which this Peru study is a part. The purpose of the exercise is to improve the program by examining some of AID's past experience with Title I, and drawing conclusions about what works, what does not work, and why.

During the initial planning of this evaluation series a wide variety of individuals were consulted. Most were asked to recommend country cases which might be instructive. Over and over again we heard that the experience of Title I in Peru should be studied because of the progress made there in linking Title I to AID's development program. The lessons learned from this experience could be instructive for other AID Missions and the Agency in general.

The Peru Title I evaluation was conducted by an interdisciplinary team composed of a macroeconomist, an anthropologist, two political scientists specializing in the Andean region, and one representative each from the State Department and from the U.S. Department of Agriculture, both of whom had worked with PL 480. With a team of this size, the report cannot precisely reflect the views of each member or the importance each assigns to his or her discipline. It does, however, reflect a concensus intended to provide an overview for a general audience. In the appendixes, each team member had an opportunity to include a more thorough analysis of a number of specialized issues.

The team would like to thank the Government of Peru for allowing so many of its busy officials to meet with us and for making available the data that existed on these complex issues. Without their cooperation and assistance, much of our analysis would have been impossible. We would also like to thank USAID/Peru for giving us general support, access to data, and the valuable time of its members who provided still another series of interviews on the program. The opinions expressed in the report and its appendixes are those of the team and its members and should not be considered in any manner to reflect the official views of the U.S. Embassy or the AID Mission in Lima, or any part of the United States Government.

Both in Lima and in its travels around Peru, the team had the privilege of meeting numerous officials and private citizen who graciously gave their time to speak with us. We would especially like to thank Carlos Romero Sanchez, David Lescano, Wenseslao Urbina, Doris Ulloa, Saul Calle, German Pastor, Manuel Gonzalez Prieto, Eduardo Delgado, Maximo Matos, Padre Enrique Leon, Jorge Montesinos M., Gonzalo Silva Santisteban, Jaime Paredes Castillo, Nelida Grant de Zavala, Lynn Renner, Padre Jose Rivera Martinez, Antonieta Valenzuela de Huaco, Nonencio Llanos, Edwin Montenegro, Americo Villalobos, Christiane Ramseyer, Celia Luna de Ruiz, Alejandro de la Fuente, Alvaro de la Fuente, Luis H. Valle Velazco, Jorge Montesinos, Gustavo Prochaska, Fernando Torres, Luis Giha Iza, Nahil Hirsch, Luis Valle Velasco, Carlos Pestana, and Alberto Azaldegui. The AID Mission and the Embassy in Lima were especially helpful, and we extend our thanks to all the staff. The following individuals, in particular, greatly facilitated our task: Malcolm Butler, Robert Maushammer, Gerry Foucher, Elvira de Varias, Veronica Sarmiento, Veronica Ferrero, Rebecca de Chavez, Tish Butler, Gordon Jones, Howard Lusk, Jack Rosholt, Norvel Francis, Julio Castillo, Norma Parker, Doug Chiriboga, and David Flood. We would also like to thank various individuals in Washington including Bob Kramer, Larry Smucker, Len Yaeger, Bill Rhodes, Bill Rhoads, Jim Durnan, and Paula Feeney, all of AID, Ulrich Thumm of the World Bank, and Alfredo Valencia of the Peruvian Embassy. Finally, we would like to single out three individuals who provided special contributions to this report: Charlotte Miller and Lisa Shapiro, both of USDA, who drew on their own experience, extensive research, and background materials to contribute essential technical data, and Joann Jones who worked with us in Peru, researching the earlier Title I programs.

GLOSSARY

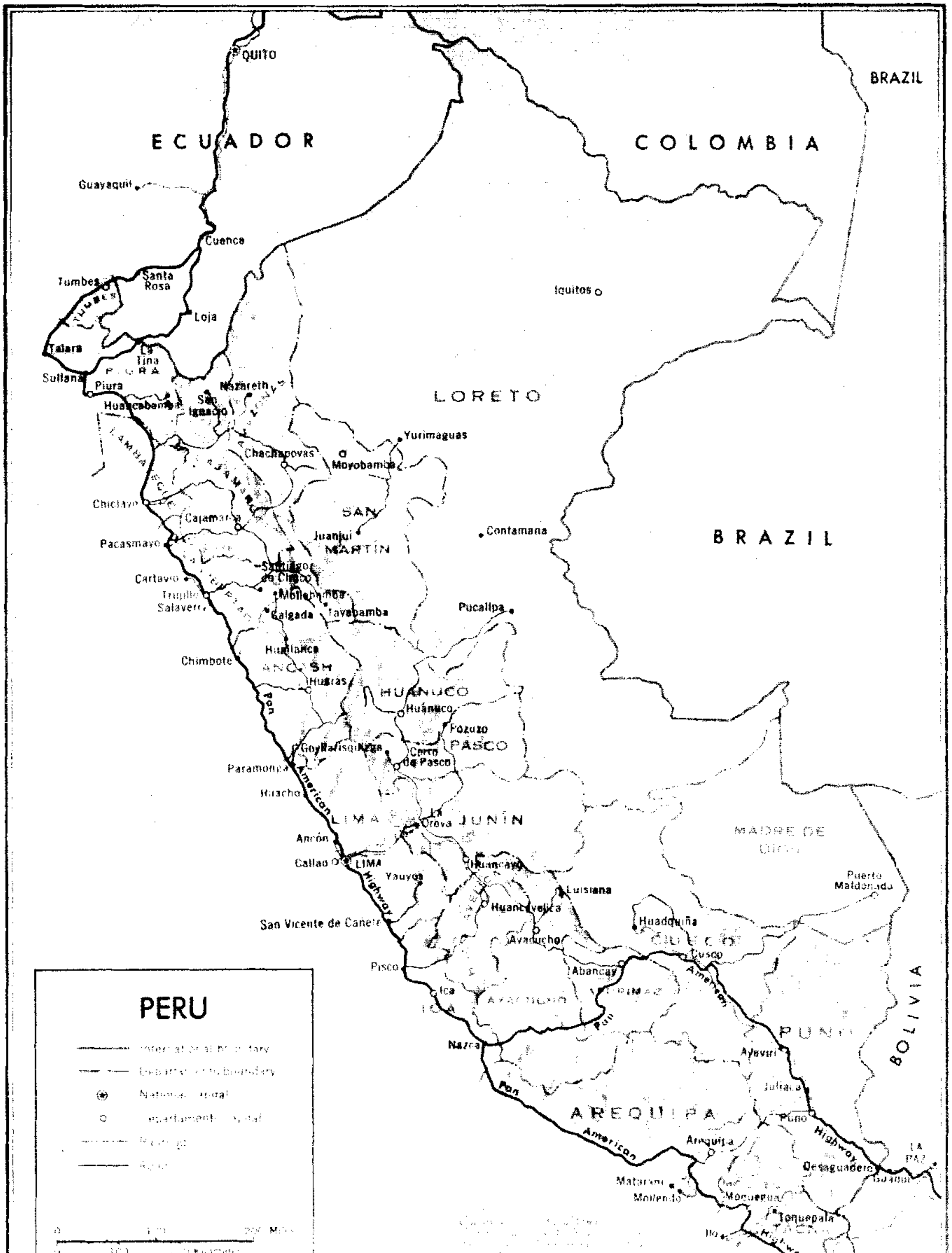
Accion Popular	Popular Action Party. The party of President Belaunde.
Additionality	One of the criteria increasingly in use to assess the development potential of self-help measures and local currency use under Title I. In essence, this refers to the likelihood that these devices permit a program or project to be undertaken that would not have been possible in their absence. It is related to leveraging, except that the latter is usually applied to policies and refers to shifts in their emphasis or details.
BOP	Balance of Payments.
Cooperacion Popular	Popular Cooperation (COOPOP), the civic action arm of Accion Popular.
Counterpart or counterpart funds	In a development grant context, this is the contribution required from the recipient government, in part as a way of guaranteeing its involvement and interest in the projects whose remaining financing comes from grants or loans. Its related use to refer to personnel provided by the recipient government is not followed here.
CRS/CARITAS	Peruvian social service organization sponsored by Catholic Relief Services (CRS).
CWS/SEPAS	Peruvian social service organization sponsored by Church World Service (CWS).
ECASA	Enterprise for the Commercialization of Rice. Parastatal rice-marketing monopoly enterprise created in Peru in the mid-1970s.
ENCI	National Enterprise for the Commercialization of Inputs. Parastatal created in Peru in the mid-1970s to deal with selected agricultural inputs and outputs.
FFW	Food-for-Work, program in which participants receive Title II food as payment for labor on community development projects.
GOP	Government of Peru.

IFI	International Financial Institutions
INP	National Institute of Planning. Created in 1962, but assumed increased importance during the 1968-1980 military Government.
LGC	Locally generated currency; local currency produced by in-country sales of Title I commodities.
MCH	Maternal/Child Health programs.
MEFC	Ministry of Economics, Finance, and Commerce--formerly Ministry of Economics and Finance (MEF).
MOA	Ministry of Agriculture--formerly Ministry of Agriculture and Food.
MOU	Memorandum of Understanding.
ONAA	National Food Support Office. Entity established in the Ministry of Food and Agriculture, now in the COOPOP sector where it handles much of the logistical work for PIBA.
PAE	Peru's school feeding program
PIBA	Basic Infrastructure Program with Food Aid, a Food-for-Work program in Lima's slums, using Title I funds and Title II food.
PRAA	CWS/SEPAS reforestation project, using Food-for-Work techniques
Pueblos jovenes	Literally "young towns," a term introduced by the military Government in 1968 to designate the sprawling squatter settlements which have grown up around most urban centers. The new title symbolized a series of new policies aimed at giving these settlements an official status (which they have retained) as well as greater access to urban services.
SAWS/OFASA	Seventh Day Adventist World Services (SAWS) sponsored Peruvian social service organization (Adventist Philanthropic and Social Assistance, OFASA).
Sierra	Highlands. Used in Peru to designate the upland Andean region where the population traditionally lived.

Self-help measures	As defined in Sections 106(b) and 109 of PL 480, the steps a Title I recipient agrees to take toward progress in agricultural development, rural development, nutrition and population planning, and related areas. Specific self-help measures are negotiated by the recipient country and USAID, and recipients are further expected to submit annual reports detailing their progress.
Title I	A U.S. foreign assistance loan program that provides commodities to a recipient government, which in turn sells these commodities. It differs from Title II, which is a grant program of food assistance through private and voluntary organizations.
USG	United States Government.
UMR	Usual Marketing Requirement. Represents the average annual volume of commercial imports of a commodity over the preceding five years. Unless waived, Title I assistance must be additional to this level.
VOLAG	Voluntary agency, also known as PVO or private voluntary organization.

Exchange Rates, 1977-1981
(official buying rates in soles for U.S. dollars)

Month	Average Rate for Each Month				
	1977	1978	1979	1980	1981
January	70.32	129.98	198.42	252.17	347.5
February	71.81	129.99	203.67	257.28	362.5
March	73.42	129.99	208.45	262.88	387.3
April	75.22	130.00	213.26	268.90	401.5
May	77.11	142.17	218.25	274.94	408.5
June	79.09	152.39	222.76	281.07	415.3
July	80.83	157.65	227.49	287.67	424.4
August	80.88	165.30	231.79	294.06	434.4
September	80.88	173.14	235.69	303.41	447.3
October	85.97	180.55	239.59	313.78	462.0
November	111.00	187.28	243.22	325.30	479.6
December	124.76	193.14	247.46	336.08	499.4
Year Average	84.27	155.96	224.17	388.13	422.5



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I. THE PERUVIAN CONTEXT

A. Background

In some sense, each Title I recipient and each Title I program are unique; the four countries chosen for the first series of evaluations are no exception. In the Peruvian case, that uniqueness poses special problems for analysis. Recent events in Peru, and especially the 1968-1980 period of political, social, and economic upheavals, have been extremely important in conditioning the impacts of development programs, including Title I. Thus this section, in addition to the usual introductory overview, provides a specific background on the political and institutional context in which the program operates.

With an estimated 1980 per capita income of $1,120,[1] Peru is apparently a moderately well-off country by Latin American [illegible] ever, the distribution of that income, one of [illegible] in the region, means that a large portion of [illegible] (according to USAID/Peru 1980 estimates, 50 percent[2] of a total 18 million) lives below the poverty line. Most of the poor are found in the rural areas, which in 1980 had 54.4 percent of all families but only 23.5 percent of family income. The number of urban poor has also been increasing rapidly over the last three decades, in large part due to migration from the countryside. Lima and the major provincial capitals are now surrounded by slum settlements (pueblos jovenes) which may comprise half of their population. Although urban residence gives access to basic health and educational facilities not found in rural areas, the economic crisis of the late 1970s heavily affected urban groups, driving down real income, increasing unemployment and underemployment, and raising levels of malnutrition.

Poverty in Peru is a geographic, cultural, and sectoral phenomenon. Geographically, the country is divided into three major regions: a narrow costal strip, the costa, with 11 percent of the land area, 40.6 percent of the population, and 69.1 percent of the national income; the highland sierra with 26 percent of the land mass, 50.8 percent of the population, and 23.9 percent of the national income; and the eastern jungle, with 62 percent of the territory, 8.6 percent of the population, and 7.0 percent of the national income.

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[1]World Bank 1981 estimate.

[2]This is a high estimate. The 1981 World Bank figure is 25 percent.

Culturally the poor have traditionally been the Indian masses who lived in the sierra and provided cheap labor for the large landowners of Spanish descent. Today the situation is far more complex, but it is the unassimilated Quechua- or Aymara-speaking Indian communities in the sierra (and a very small number of still more isolated groups in the jungle) who have benefited least from any national progress. Furthermore, for the poorest one-quarter to one-third of the population, individual progress toward a higher standard of living also means leaving behind traditional "Indian" lifestyles and adopting Western ways, a process which itself requires access to material resources.

The skewed distribution of national income is indicative of the strongly dualistic nature of the Peruvian economy (based in part on these cultural distinctions). The economy comprises a modern sector, located largely on the coast and containing the major export-related enterprises (agribusiness and mining), the major industrial and financial institutions, and most government offices; and a traditional sector based in the sierra and the jungle. Although agriculture forms the basis of the traditional economy, the poor land, scarcity of marketing and transportation facilities, and lack of access to improved technologies and other inputs means that it is usually conducted at little more than a subsistence level. More recently, with the high levels of in-migration, urban areas have developed their own traditional sector, characterized by labor-intensive activities and high levels of unemployment and underemployment.

Despite sporadic efforts by the GOP over the last two decades to decentralize development programs and draw the traditional sector (geographically, culturally, and functionally defined) into the national economy, progress has been slow, hindered by high costs and financial constraints, the difficulties of reversing patterns of concentration established over the course of a century, and the limited economic potential of much of the highland region. Attempts between 1968 and 1980 at realizing a more equitable distribution of national income generally resulted only in vertical transfers within each of the two sectors, but not in horizontal transfers--i.e., from the modern to the traditional sector.[3] At the present time, any efforts at redistribution and the inducement of more equitable patterns of growth are hampered by the aftermath of Peru's economic crisis of the late 1970s, in which per capita GDP growth fell to about zero, with absolute declines in manufacturing, agriculture, and construction; inflation accelerated

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[3]Richard Webb, Government Policy and the Distribution of Income in Peru, 1963-1973, (Cambridge: Howard University Press, 1977).

(from 24 percent in 1975 to 67 percent in 1979); and external debt grew to an all-time high of $10 billion.

Little of Peru's current political and economic situation can be understood without reference to the military Government which held power from 1968 to 1980. Although even in the present century Peru has had a series of military interventions, these have usually produced short-lived "caretaker" governments, called in by elites to restore order and undermine threats to the status quo. The self-proclaimed Revolutionary Government was unique for its long tenure in office, its independence from and rejection of traditional elites, and its efforts to produce a broadreaching transformation of the country's basic social, political, and economic structures.

What exactly the military achieved during its 12 years in power, especially during the "First Phase" (1968-1975) under the leadership of Gen. Juan Velasco Alvarado, is still being debated. It is clear that it succeeded in breaking the political impasse that had obstructed previous efforts at reform and went far beyond this to a series of more radical policies. An across-the-board agrarian reform conducted from 1969 to 1976 effectively eliminated the old landowning class and redistributed its properties among a portion of the rural laborers. A series of expropriations placed the major public services, banks, the press, and a number of the most prominent nationally and foreign-owned industries in the hands of the Government. The size of the state apparatus doubled, so that Government share of GDP rose from 11 percent in 1967 to 22 percent in 1975, while total employment in the public sector went from 7 percent to 11 percent.[4] These and other structural changes, combined with the military's direct effort to mobilize and control popular support, had the further important effect of drawing a greater portion of the population, especially the urban and rural poor, into the political process. Many of the more ambitious plans of the military for increasing national independence, building a new society, and creating a new Peruvian man came to naught. Others were partially reversed by the "Second Phase" Government (1975-1980) and by the subsequent civilian regime. However, it remains indisputable that the military Government, and especially the "First Phase," significantly redirected patterns of national development, often, if not always, in a permanent fashion. For better or for worse, the nation they handed over to the civilians in 1980 was far different from what it would have been without their intervention.

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[4]David Scott Palmer, "Peru" in Howard Wiards and Harvey Kline, Latin American Politics and Development, (Boston: Houghton-Mifflin, 1979), p. 208.

The military's success in transforming basic social, political, and economic structures was not matched by achievements in spurring economic growth and development. Per capita growth slowed and then declined over the 12-year period, although there was some sign of recovery by the final year. Agricultural and industrial productivity fell, private investment and savings declined (from 14.6 percent of GDP in 1971 to 7.5 percent in 1975, although total investment rose over the same period from 15.1 percent of GDP to 19.0 percent),[5] and external debt rose to unprecedented levels. The economic decline hit the poorest groups most heavily, leaving the lowest quartile worse off than in 1968, despite the Government's claims that one of its first priorities was to better the lot of the poor. Efforts to decrease external dependency were similarly unsuccessful, and the nation remained highly vulnerable to shifts in the international economy. Although some of the setbacks can be attributed to a run of bad luck--falling prices for major exports, climatic shifts, and rising oil prices combined with shortfalls in Peru's domestic oil production--they also originated in mismanagement and ill-chosen economic strategies on the part of the "First Phase" Government.

In August 1975, Velasco was ousted in an internal coup led by Gen. Francisco Morales Bermudez. The next year saw a struggle between the military moderates and the leftists over the direction the Government would take. The victory of the moderates marked the beginning of the "Second Phase" Government which, while promising to preserve the goals of the revolution, moved to deemphasize some of its more ambitious and radical policies. They worked intermittently toward the concurrent implementation of a stabilization program worked out with the IMF, a cut-back in Government expenditures, elminatation of food and petroleum subsidies, and the return of some of the state enterprises to the private sector. The military's efforts to toe this narrow line and balance the demands of a politicized and discontented populace against the constraints imposed by the economic crisis and their external creditors proved increasingly difficult. Efforts to revitalize the private sector and attract foreign investment brought limited responses as both groups adopted a wait-and-see attitude. Thus, by 1978 the military began to make preparations for a return to civilian Government, calling for a constitutional convention in 1979 and presidential elections in the next year. In July 1980, Peru returned to democratic government, and Fernando Belaunde, who had been ousted from the presidency in 1968, took office for his second administration.

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[5]Figures are taken from Appendix A which contains citations and further details.

In terms of personalities and major policies, the second Belaunde Government shows many parallels with the first. The Prime Minister and Minister of Economics, Manuel Ulloa, is once again pushing for private sector development, a more difficult task given the expansion of the State role since 1968. Belaunde's earlier interest in a broader and more equitable pattern of national development, one that will benefit all inhabitants and all regions of Peru, remains a major theme. Despite severe budgetary constraints, efforts are being made to encourage departmental development corporations and self-help measures in the urban slums through the "Popular Cooperation" program. Although the agricultural budget remains modest, with too much of it still devoted to massive infrastructure projects, the Government is promoting a series of less ambitious measures to increase agricultural productivity and better the lot of the rural poor. Agricultural development has also involved an emphasis on opening up Peru's last frontier, the still sparsely populated jungle and high jungle areas. Finally, in a reverse of the previous Government's hostile stance, efforts are being made to attract foreign investment, although this time in closer cooperation with Peru's own development goals.

The Belaunde Government took office in 1980 with ambitious goals and possibly overoptimistic expectations of what it would accomplish. Like the "Second Phase" military Government, it is forced to balance a number of conflicting external and internal demands in the context of extremely adverse economic conditions. Furthermore, it now has both the military and a politically mobilzed populace looking over its shoulder. It is one question whether the present administration will be able to move the country out of the current economic impasse; it is still another whether it will be able to last out its five-year term and pass control to another elected government.

B. Stage 1 of Title I (1955-1965)

Although this evaluation focuses on the period from 1978 to 1982, this was not Peru's first experience with PL 480 Title I programs. Peru received a steady if moderate amount of Title I commodities from the program's inception until 1964. This period is slighted in the present analysis because of the program's different emphasis and format and the shortage of reliable data relating to its operation and impact. However, it is summarized here as historical background and because of another kind of impact suggested by several informants--the generally favorable attitudes it engendered among Peruvian officials (most notably the current President, Fernando Belaunde, whose first term lasted from 1963 to 1968). Although not mentioned in the interviews, the earlier program may have had another effect on the present one. Under the earlier agreements, locally generated currency was kept under U.S. Government (USG) control and distributed only in part to Peruvian development projects. This precedent may have made the Mission's subsequent insistence on targeting local currency less objectionable to the Peruvians, especially given the current practice of earmarking all of it for AID or GOP development projects.

From 1955 to 1964, the United States and Peru signed seven PL 480 Title I agreements for the purchase of surplus U.S. agricultural commodities, involving a total of more than 46,000 mt with a market value of $39.2 million. These early agreements stressed the U.S. desire to expand markets and surplus disposal for its agricultural products in a manner that would not disrupt world prices or normal patterns of trade among the United States and other friendly countries. Under the agreements, the USG arranged long-term concessional financing for the sale of certain agricultural commodities to authorized Peruvian buyers. Payment was made in Peruvian soles. The local currency thus acquired became the property of the United States and was held in Peruvian banks. The USG was entitled to use these soles for the following purposes:

a. Payment of expenditures by the USG in Peru

b. Loans made by the Export-Import Bank

c. Loans to U.S. business firms and branches, subsidiaries, or affiliates of such firms in Peru for business development and trade expansion in Peru (Cooley Loans) and to U.S. and Peruvian firms to promote markets for U.S. agricultural products (see Appendix I)

d. Loans to the GOP to finance economic development projects (see Appendix I).

Development programs receiving Title I funds from 1955 through 1968 (based on the 1964 agreement) include several road construction projects, both to improve main roads and to build penetration roads, thus giving greater access to markets for productive agricultural areas and allowing increased colonization of more remote lands. Other priority projects designed to increase agricultural production were the construction or improvement of irrigation canals to bring more land into cultivation in several regions of Peru. Projects to improve urban water and sewerage systems also received significant Title I monies, thus reducing the incidence of water-borne diseases and improving the sanitary conditions of urban slums.

In 1964 and 1965, several projects were undertaken for construction and equipment of regional agricultural experiment stations and for the construction of a new campus for the University at La Molina, Lima. Title I funds proved to be an integral part of these projects and allowed much-needed expansion of Peruvian agricultural research and development facilities. One last major category for which PL 480 funds were used was for data processing (equipment and staff training) for the Sample Survey Center (National Statistics Center).

In the 1960s, the United States faced more serious balance of payments problems. PL 480 was amended in 1966 to require, whenever possible, dollar credit rather than local currency sales. In addition, as the world hunger problem worsened, there appears to have been a shift in U.S. perceptions of the purpose of the PL 480 Title I program. Rather than serving solely as a means of disposing of agricultural surplus, PL 480 Title I became an important foreign policy and development-assistance tool.

From 1965 to 1978, no PL 480 Title I agreements were signed between Peru and the United States. The reasons for this are not entirely clear. The official explanation is that Peru "graduated" from the program. It has also been suggested that the real catalyst for the cut-off was the growing tensions between the USG and the GOP over nationalization of certain U.S.-owned firms in Peru. Worsened relations were clearly a consideration, if not the only one; furthermore, they appear to have delayed the resumption of the program in the mid-1970s as Peru began to experience increasing difficulties in feeding its population.

II. TITLE I IN PERU: 1978 TO THE PRESENT

A. Overview

In 1978, a Title I program was reinitiated in Peru as part of a general buildup of U.S. assistance to that country. This was a response to changes in Peru's domestic and international situations. These included the Peruvian economic crisis of the late 1970s and in particular the GOP's own financial crisis, a declining GNP, decreasing real wages, the faltering Peruvian agricultural sector and the dramatic rise in food imports, and the nation's growing balance of payments deficit and unprecedentedly expanded external debt. These and related factors created a situation of absolute need for external assistance to ease the short-term crisis and to aid longer term development efforts. Improved relations between the two Governments encouraged a positive response by the United States to Peruvian requests for assistance.

Resumption of a Title I program had been contemplated by USAID/Peru as early as 1975. It was argued that the program would serve three development-related goals: (1) it would marginally ease balance of payments difficulties by allowing some food imports on concessional terms; (2) it would help the GOP guarantee adequate supplies of basic foodstuffs for the urban and rural poor; and (3) through local currency generated by in-country sales, the program would allow Peru to continue financing its development efforts, both alone and in cooperation with AID. By 1978, when the first Title I agreement was signed, conditions had worsened; the program level was doubled from the $10 million proposed in 1975 to $20 million. The balance of payments situation had become still more critical while food imports had almost doubled. The financially strapped GOP was unable to meet counterpart requirements for many donor projects, and had problems funding its own development programs.

Since 1978, four Title I agreements have been signed by the GOP and the U.S. Government for a total level of $97 million. Each agreement includes dollar and commodity levels, loan terms, self-help measures, and a general statement regarding priorities and conditions for use of local currency. Except in 1978-1979, the agreement was accompanied by a memorandum of understanding (MOU) focusing on this last item and detailing in its annexes the precise projects to be funded and the amount of the GOP contribution to each. So far as can be determined, in 1978 and 1979 the agreements on projects and funding level were arranged informally through letters exchanged between USAID/Peru and the relevant Peruvian Government offices.

Three interrelated sets of decisions and accompanying negotiations are involved in the annual formulation of Peru's Title I program: the setting of dollar levels and program terms, the determination of the commodity mix, and the programming of locally generated currency (LGC). Although it would be stretching a point to insist on their absolute conceptual and chronological separation, it is convenient to envision them as occurring in three decision arenas, defined by a different mix of participants and issues.

The next sections examine each decision set and the negotiation processess and outcomes as they have evolved over the past five years. Emphasis is placed on identifying the actors and issues involved, the objectives sought by the former, and the means by which decisions are reached and implemented. Later sections of the report will focus on program impact especially as it is affected by this process of disjointed decision-making.

B. Decision Arena I: Setting Program Levels and Terms

Annual PL 480 agreements are first negotiated in Washington by the Food Aid Subcommittee Working Group, which includes representatives from State, the U.S. Departments of Agriculture (USDA) and Treasury; AID; the Office of Management and Budget (OMB), and occasionally the Department of Commerce and the National Security Council. Decisions taken by the Working Group reflect a mixture of priorities with varying degrees of compatability and complementarity.

The Working Group operates within the context of the PL 480 legislation as first enacted in 1954 and subsequently amended by Congress. Its decisions are constrained by the law's provisions and by the anticipated level of funding for the entire program. Because Peru's per capita income lies above the $795 cut-off point for Relatively Lesser Developed Countries (RLDCs), its share of the program must come out of the 25 percent earmarked for the better off LDCs, and it is not eligible for a Title III program. Overall budget cuts also affect individual country programs across the board, although some suffer less than others.

It is within the Working Group that the first two sets of decisions are made--on program level and terms, and on commodity mix. Each involves all five agencies--State, AID, OMB, Treasury, and USDA--but whereas the first four are most active in shaping the first decision, USDA dominates the selection of commodities. Congress is not formally involved in either decision, but its approval of the allocation table and overall program level is essential. Depending on the circumstances of each case, members of Congress may exert considerable pressure on the Working Group's members.

In the reinitiation and continuation of the Peruvian program, State and AID played, as in most cases, the strongest advocacy roles. Aside from its general contribution to development objectives, the 1978 reinitiation was crucial to AID because local currency generations were needed to provide counterpart funding for country programs. The State Department is most concerned with utilizing PL 480 to further U.S. foreign policy objectives. It is the key actor in determining overall annual dollar allocations for each country. In 1978, State officials advocated a PL 480 program to demonstrate U.S. support for the GOP's moderating stance and to help Peru surmount its economic crisis. After Belaunde's election, State continued to support Peru's program, to promote economic stabilization and ease the transition to democracy, to encourage the GOP's renewed free market policies, and to recognize Peru's important role among nonaligned nations.

Whereas the State Department and AID have been program advocates, OMB and the Department of Treasury serve as watchdogs with respect to PL 480. Both agencies have generally pushed to make the terms of the agreements less concessional and thereby increase repayment receipts. Treasury also looks to ensure that the United States reduce its purchases of local currency to sustain embassy operations. The terms of Peru's PL 480 program became less concessional from 1978 to 1982. This reflects Peru's improved economic situation, but it is also a function of OMB's, Treasury's, and Congress's attempts to tighten the terms of PL 480 agreements in general. Although Peru's 1982 agreement calls for a 21-year repayment rather than the 24-year period of previous agreements, some compromises were made, and the grace period (before payments begin) was lengthened from three to four years in partial compensation.

The final member of the group, USDA, has a less direct interest in this set of decisions,[6] but this does not prevent its frequent exercise of influence. The intensity of its participation hinges on linkages with the second decision set, the commodity mix. When, as in the case of Peru, the commodity component is important to USDA, it takes a strong stand on program levels. USDA also intervenes on the final formulation of the self-help measures, especially when they include agricultural projects.

These initial decisions as to program initiation, size, and terms are made collectively by representatives of at least five separate agencies, each with its own agenda and constituency. Complicating things still further, the views expressed within the Working Group already reflect compromises among conflicting or at least varying interests at the agency level. The disagreements over the specific components of each agreement often lead to protracted negotiations. As a consequence, programs once established tend to change only incrementally in the absense of major alterations in the U.S. or host country situation. Both tendencies are evident in recent changes in the Peruvian program--the tightening of terms, discussed above, and the $3 million reduction in the 1982 funding level. The reduction was influenced by a number of new trends, of which the most important was the restructuring of U.S. priorities in Latin America in favor of the Caribbean Basin Initiative (and hence the State Department's and AID's slightly diminished concern with Peru). Potentially bigger cuts were prevented by

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[6]There are groups within USDA with a more active interest in development questions who (depending on the general atmosphere in the agency and specific directives from upper-level management) have occasionally pushed for USDA's more direct consideration of these issues.

Table 1. PL 480 Title I Agreement, FY 1955-1982
(in thousands of metric tons and U.S. dollars)

FY	Total Value	Rice		Wheat Wheat/Flour		Vegetable Oils		Butter and Dairy Products		Bulgur	
		000 MT	$ 000	000 MT	$ 000	000 MT	$ 000	Long Tons	$ 000	000 MT	$ 000
1955	9,743,000	-	-	100	6,420	10	3,000	250	23	-	-
1956	2,780,000	-	-	40	2,780	-	-	-	-	-	-
1957	3,500,000	-	-	5	3,500	-	-	-	-	-	-
1958	7,100,000	30	4,400	40	2,500	-	-	0.4	0.2	-	-
1959		-	-	-	-	-	-	-	-	-	-
1960	11,000,000	20	2,600	120	7,500	4	900	-	-	-	-
1961		-	-	-	-	-	-	-	-	-	-
1962	1,850,000	-	-	-	-	6	1,850	-	-	-	-
1963		-	-	-	-	-	-	-	-	-	-
1964	7,318,000	25	3,300	40	2,470	6	1,500	-	-	5	48
1978	20,000,000	0	0	73	6,200	24	13,800	-	-	-	-
1979	20,000,000	73	20,000	0	0	0	0	-	-	-	-
1980	20,000,000	53	20,000	0	0	0	0	-	-	-	-
1981	20,000,000	44	20,000	0	0	0	0	-	-	-	-
1982	17,000,000	55	17,000	0	0	0	0	-	-	-	-

Table 2. U.S. Economic Assistance, 1977-1982
(in millions of U.S. dollars)

Category	1977	1978	1979	1980	1981	1982 (projected)
Total USAID Assistance[1]	7.822	77.45	85.32	64.90	115.92	86.90
PL 480 Title I Assistance	-	20.0	20.0	20.0	20.0	17.0
Title I as a % of Total USAID Assistance	0.0	25.8	23.4	30.8	17.3	19.6
Total U.S. Food Assistance (Titles I and II) as a % of Total USAID Assistance[2]	70.3	38.4	42.5	71.2	40.4	36.5

[1]Total USAID assistance is defined as PL 480 Title I and II, development assistance, and housing investment guaranties.

[2]Includes ocean shipping charges for Title II commodities.

Table 3. "Grant Element"[1] as a Percentage of Peru Title I Agreements, 1979-1982

Date	Percentage
1979	48.36
1980	46.39
1981	45.83
1982	39.43

[1]Calculation includes the nonconcessional initial payment (IP) which in 1980, 1981, and 1982 was 5 percent. OECD criteria excluded the IP, giving more favorable figures for these years (48.60, 48.01, and 41.31, respectively).

U.S. (State Department) support of the Belaunde Government, recognition of Peru's successful development program and the need for local currency generations to support AID projects, and the USDA need to export excess rice.

C. Decision Arena II: Setting the Commodity Mix

Although decisions on commodity mix are usually made concurrently with those on program level, they are dominated by different actors and objectives. USDA plays the major role in commodity programming by determining which commodities are available and making country-specific recommendations on the basis of recipient country import needs, U.S. needs to export surplus commodities, and its legislative mandate of expanding markets for U.S. agricultural commodities. The Peruvian case suggests that both State and AID may attempt to counter the decision if it appears unpalatable to the host country. It also suggests that, in the face of countervailing pressures from U.S. producer lobbies channeled through Congress and the USDA, the State Department's and AID's influence is likely to be negligible. Those lobbies, and members of Congress representing their interests, are ever-present informal participants in decisions on commodities despite their lack of direct representation in the Working Group.

Decisions on Peru's commodity mix have thus been a result of the "objective" judgments of USDA based on criteria set forth explicitly or implicitly in legislation, and the more subjective but perhaps more powerful pressure coming from USDA's own interests and those of U.S. producer groups. Recent changes in Peru's commodity mix have responded more to the latter than the former, with unfortunate results. Another problem arising in the "objective" evaluation is the potential conflict among the legislative goals of surplus disposal, market development for U.S. goods, and agricultural development in the host country.

The 1978 agreement included wheat and vegetable oils, commodities which Peru has traditionally imported, often in quantities far exceeding domestic production (i.e., wheat). This agreement was amended in October 1978 and later in 1979 to allow for the concessional purchase of 73,000 mt of rice, in response to the very poor rice harvest in 1978. Since 1979, only rice has been programmed for Peru, although production rose again in 1981 and 1982. The decision to program rice in 1982, given Peruvian production and import patterns and the GOP's increasing objections, constitutes a clear case of response to the informal pressures referred to above. Not only is this of questionable service to the broader multiple objectives of the program, it has interferred with negotiations in the other two areas, leading to delays in the signing of the 1982 agreement and subsequent problems in local currency allocations (see Appendix D).

These two sets of decisions, one on program level and terms (the grant element) and the other on commodity mix, provide the framework for the agreement signed by the USG and the recipient country. Each agreement also contains sections on self-help measures and local currency use, neither of which has been discussed here. To the extent that they constitute a real plan for action, they tend to be negotiated in the third decision arena with the participation of USAID/Peru and the GOP. Both the self-help measures and the brief summary of local currency uses appearing in the agreement are drawn up by USAID/Peru (with varying degrees of consultation with GOP officials).

D. Decision Arena III: Local Currency Use

So much of the discussion of PL 480 Title I has focused on commodity transfer that the program's potentially most direct development impact is frequently overlooked. This is the use of local currency generated by the sale of commodities within the recipient country. At present, USAID treatment of LGC varies considerably--from regarding it as the property of the recipient and hence outside USG control, to efforts to target its use through self-help measures or other more specific arrangements. The Peruvian experience is particularly significant in this context since the Mission has been unusually successful in targeting the funds and integrating them into its development assistance program. Both its accomplishments and the obstacles it has overcome in reaching them are the source of lessons with much wider potential applications.

Unlike the decisions on program levels and commodity mix, negotiations over local currency usage center in Lima where the major participants are the Mission and a variety of GOP agencies. The targeting and management of local currencies have undergone a rapid evolution since 1978 in response to the shifting objectives and perceptions of the GOP and AID/Peru, changes in personnel, and both sides' increased familiarity with the mechanisms of negotiation. Despite the conflicts that have emerged, the narrow focus of the negotiations and the objectives involved make this the arena for the most direct and flexible pursuit of development goals.

1. The Actors

Negotiations over local currency use have involved considerable continuity of institutional actors on the American side and relatively greater variety on the Peruvian side. For the U.S. Government, negotiations have been handled through the Mission's Program Office, which coordinates input from the various project managers. On the Peruvian side, the greater variation in individual and institutional actors is a function of shifting roles and responsibilities in the GOP and of the Mission's perceptions of who ought to be involved.

The initial Title I agreements of 1978 and 1979 were negotiated with the then Ministry of Agriculture and Food, a choice based on the program's emphasis on agricultural development. The Ministry of Economy, Finance, and Commerce (MEFC)--then the Ministry of Economy and Finance--was also involved in its multiple roles of national treasurer, comptroller, and budgeter. The National Planning Institute (INP) played a major role in the negotiations in 1978, 1979, and 1980. By the latter year, the Ministry of Agriculture's (MOA) participation was marginal, apparently a result of AID's changing perceptions as to who had the power to make decisions. INP's participation was subsequently reduced, coinciding with the institute's general eclipse under the new Belaunde Government. As of 1982, MEFC assumed virtually complete authority over Title I negotiations, consulting only marginally with INP and the relevant line ministries. While these changes complicated the negotiations, creating additional misunderstandings and delays, they reflected rapid shifts in institutional and personal power within the GOP. Similar changes can and should be anticipated in countries undergoing comparable political transitions.

Aside from the various line ministries, two other institutions play a role. They are the state-operated National Enterprise for the Commercialization of Inputs (ENCI) and the Enterprise for the Commercialization of Rice (ECASA). ECASA is responsible for handling in-country sales of Title I rice while ENCI acts as purchasing agent for agricultural imports.

The final actor in this process is the Peruvian Congress which was reestablished with the return to civilian government. While the legislative branch is not a party to negotiations over Title I, it does figure in the budgetary process in that it authorizes programs and appropriates funds to support them, including local currencies generated from Title I commodity sales. Because President Belaunde's Popular Action party effectively controls both legislative chambers, there has so far been little problem in gaining support for Title I projects.

Aside from the institutional interests of the Peruvian agencies, the negotiations were affected by two characteristics of the Peruvian budgetary process. The first is the distinction maintained between operational and investment budgets (roughly comparable to recurrent and investment expenses). Under current Peruvian law, Title I funds may be used only for investment expenditures. A second source of problems is what one official described as the budget's status as an upper but not necessarily bottom limit on expenditures. Funds actually disbursed to projects depend on resources available. The theoretical problems posed by this system became fact in 1981 when a number of AID projects, especially those in the service sector, began to suffer from a lack of funds.

2. The Process

Unlike the Washington-based negotiations, the process of programming local currency was a novelty in the Peruvian context and consequently has changed markedly over the five-year period. This increased the potential for constructive innovations but it also made for a series of problems. The changing Peruvian political and economic environment also necessitated its own series of modifications.

The first set of negotiations went easily, with few conflicts over the programming of funds. As stated in the initial agreements (April 1978 and the three amendments in September 1978, February 1979, and April 1979) first priority in funding was to go to AID projects in the following areas:

- Development of second-level federations of agricultural cooperatives
- Irrigation on small farms in the *sierra*
- Development of high-jungle lands for settlement

The remainder (a percentage left unspecified) was to support the investment program of the Ministry of Agriculture and Food.

The actual negotiation of the more specific distributions was lengthy, involving meetings between AID and Ministry of Agriculture and Food personnel to establish a preliminary division, and subsequent discussions with AID and staff from INP and MEF. By November 1978, AID presented the INP with a list of the agreed-upon projects and its share of the $33.8 million to be generated by the sales of commodities from the first agreement and the September 1978 amendment. (Documentation on the allocation of the $6.2 million resulting from the second and third amendments was not available, but reports from the

Ministry of Agriculture and Food suggest that most of this went to its projects.)

In the course of negotiations the process of integrating the local currency into the overall AID program began to evolve (see Appendix H for a precise accounting for this and later years). Thus, while $3.3 million of the total $33.8 million was earmarked for counterpart for AID Development Assistance (D.A.), $2.6 million was to be used to support Title II feeding programs, and $2.0 million for a new public works progam in the urban slums (pueblos jovenes), where Title II would also be utilized as Food-for-Work. This latter program arose out of discussions with the INP and the Ministry of Housing and is counted by the Mission as one of its more innovative applications of Title I local currency and Title II foods. A further $0.4 million was assigned to the Ministry of Agriculture and Food for feasibility studies and other activities related to future AID projects, and $5 million went for road improvement in preparation for the Central Huallaga-Lower Mayo Project. Over half ($18.5 million) was left for investment in the rural sector to be programmed by the Ministry of Agriculture and Food. Given the budgetary crisis, it was argued that just about any use in the rural sector would constitute additionality.

Only one significant problem arose in these first negotiations. Initially, the Government was to start disbursing funds to projects once it had bought the commodities, sold them in-country, and received payment. The inevitable delays meant that projects remained without funds for months and might never get them; according to Peruvian law, funds not used or obligated by the end of the year revert to the Treasury. By late 1979, the problem was resolved with the GOP's agreement to forward fund projects rather than waiting for the actual local currency to be generated.

An important question emerging from the initial negotiations is that of why the Peruvian Government complied with AID efforts to direct the use of local currency. Several answers have been suggested, including the relative novelty of the process for the GOP (which had not had a Title I program since 1964), its urgent need both of the commodities and of any kind of budget aid, its general concurrence with AID priorities, and its interest in the D.A. programs for which its counterpart would be used. The small size of the D.A. program and the limited counterpart required also guaranteed a surplus of locally generated currency for GOP uses. Finally, the military Government was on the verge of turning the country back to a civilian administration and may have been less anxious to argue the issue. The explanation undoubtedly lies in a combination of these factors. The important lesson to be drawn is that compliance rested on a series of circumstances that were likely to change over time.

The basic process remained unchanged over the next two years. The division of local currency among counterpart for AID D.A. loans and grants, support for Title II programs, and complementary Peruvian rural development projects was altered in only one significant area. Whereas in 1980 a sizable surplus of local currency ($11 m) remained for Peruvian projects, by 1981 counterpart requirements and Title II support exceeded Title I local currency by $4 million.

Meanwhile certain routines began to characterize the negotiating and monitoring process. In 1980 and 1981 the agreement was accompanied by a memorandum of understanding whose annexes listed the counterpart requirements, in the former case divided between treasury input and Title I funds. In 1981, the distinction was dropped in the annex, although project budgets still separate disbursements by sources. The negotiations were a much abbreviated form of the first round--AID representatives presented their list (based on estimates of needs by project managers and their Peruvian counterparts) to the INP and the MEFC which readily gave their approval. In both cases the Peruvian Government further formalized its commitments with a decree law taking the form of a mid-year budget amplification.

The budget amplifications illustrate another informal aspect of the system. For some projects, the Title I currency constituted a real addition to their budgets as first presented to the MEFC in October of the preceding year. While this supports the argument for additionality (the initial budget already including GOP counterpart) it also created the expectation among some Peruvian project directors that their budget would be increased by a mid-year addition of PL 480 funds. This encouraged directors to budget sparsely in the first round, in the expectation of the later windfall. The expectations were met in 1980 and 1981. In 1982 they posed a problem.

The second informal aspect of the system concerns the monitoring of Title I currency and other counterpart disbursements. An earlier decision not to establish a special account for Title I local currency (to avoid additional administrative burdens) meant that the projects receiving it were dependent on the good faith of the MEFC and various sectoral ministries. They were also at the mercy of the Peruvian budgeting process and the variety of means by which the initial allocation of funds may be revised over the course of a year. Since the reports of disbursements--on a project-by-project basis--frequently come late or not at all, monitoring hinged on communications between AID project managers and their Peruvian counterparts and on the formers' ability to shake up Ministries who were slow in disbursing funds. The system functioned fairly well through 1980 and 1981, although in the case of some projects, and notably those in the social service area, it had to be called into operation more often than in others, adding a certain precariousness to their operations.

With these exceptions, the formal and informal mechanisms worked fairly well until 1982. In that year a series of new developments provoked a significant disruption, suggesting the need for a more serious readjustment. On the AID side, factors influencing the shift include a sizable turnover in Mission personnel and another increase in the counterpart requirements--from \$24 million to roughly \$35 million. Concurrent with this came the cutback of \$3 million in the Title I program and the debate over the commodities involved. On the Peruvian side was pressure to reduce the budget deficit from the previous 8.4 (1981) to 4.2 percent (1982). There was also the change in the Peruvian budget law, prohibiting the utilization of investment revenue for operational projects. Thus, MEFC's revised list of Title I-funded projects ommitted social service projects like the Title II Program, having left them to the operating budgets of their respective ministries, where AID's leverage was at best indirect. A final factor, a consequence of AID personnel changes, was the insistence on the part of the new Mission director that the Peruvians supply disbursement reports for the last quarter of 1981 and first two quarters of 1982 before the MOU could be signed. Although meeting that request should have posed no special problem, the Peruvians were slow in complying.

The "minicrisis" uncovered a number of problems whose longer term resolution may require more basic changes in the system. For the first time since 1978 there was substantial disagreement between the Mission and the Peruvian negotiators over the targeting of local currency. The immediate issue was the fate of the social service projects (Title II, etc.) which the Mission did not want lost in the sectoral budgets--where they were certain to get only a portion of their funding. The larger question involved Peru's contention that because of the new law such projects could not be funded with Title I (investment) funds. The Mission's acquiescence to this argument would have significantly limited its ability to target local currency and could be interpreted as a first step toward giving control back to the GOP.

The dragged-out negotiations posed problems for all projects expecting Title I funds. These were more serious in the Title II projects which receive little or no Peruvian counterpart from other sources, but even the others were concerned about meeting expenses. The immediate implications for the overall AID program and its utilization of Title I funds were not entirely clear. It was evident that despite the misunderstandings surrounding the 1982 negotiations, Title I had become so well integrated into the program as to, somewhat paradoxically, reduce its innovative, flexible, and quick response potential. The GOP had come to count on Title I LGC on the revenue side. Given the constraints on the Peruvian budget (and the more limited opportunity for AID to shift percentages of allocated funds from project to project from one year to the next) the funds still provided additionality. However, the higher counterpart requirements combined with the $3 million cut in the 1982 Title I level left little room for significant deviations from past expenditure patterns. Hence this may be, as the Mission director has suggested, a good time to rethink Title I usage and reintroduce more flexibility by reducing its use as counterpart for ongoing projects. This may place a greater strain on the Peruvian budget even if total counterpart requirements remain stable. The Mission strategy currently being devised might eliminate from Title I support those projects most favored by the GOP, reserving perhaps half of the local currency for on-going AID projects and making the rest available for entirely new programs, including some funded entirely by the GOP.

E. Summary of Title I Multiple Objectives and Developmental Impact

The foregoing sections have analyzed the formulation of Peru's Title I program as a result of three sets of interrelated decisions, each produced by a slightly different constellation of actors pursuing slightly different ends. This is, as the participants themselves recognize, a program shaped by multiple objectives and in consequence entails a good deal of horsetrading and compromise. The various stages of decision-making, and especially the separation between the Washington and Peruvian arenas, facilitate matters by averting some conflicts, but this also increases the likelihood of contradictions.

The developmental impact of Title I is only one of the objectives pursued through the program. While the decisions made by the Working Group in Washington set its boundaries, the developmental impact is most directly shaped by decisions made in the third arena--on local currency usage. To the extent that the developmental impact involves more than just a transfer of funds and commodities, it depends on what happens between the Mission and the GOP in their negotiations. Washington-based actors can facilitate or obstruct this process through their decisions and the manner in which they present them. Peru has recently seen the negative side of this impact in the form of decisions which have made cooperation between the GOP and the Mission more difficult. These decisions respond to other objectives of Title I, but intended or not, they have unavoidable consequences for the program's developmental potential. <u>To the extent that development is a valued goal of the program, there</u>

<u>are strong arguments for considering these consequences more directly in the earlier stages of decision-making</u>.

The Peruvian case also suggests some conditions and possibilities for the creative integration of LGC into a country development program. This integration may take a variety of forms, ranging from direct budget support and use as counterpart to funding complementary and start-up projects and the support of Title II programs. Depending on the country's specific situation, any or all of these may meet the requirement of additionality. One key to success is a flexible program and one responsive to rapidly changing conditions. Another factor is the willingness of the host government to negotiate with the Mission on the targeting of LGC. Here the Peru Mission had some unique advantages arising in the specific perspective and needs of the GOP. To the extent we can generalize from its experience, two conditions seem essential: the expectation on the part of the host government that compliance will be rewarded in some form (including continued access to Title I), and the Mission's ability to create an ongoing dialogue with host government officials with room for trade-offs and compromises. The Mission staff's sensitivity to the host government situation is critical, but its task can also be facilitated by some sensitivity and responsiveness on the Washington end.

III. <u>THE IMPACT OF PL 480, TITLE I</u>

The following sections analyze the impact of Peru's Title I program on a variety of objectives, drawn directly or indirectly from goals established in the program's legislation. A special emphasis is put on macroeconomic, agricultural, and other developmental impacts which are those of most concern to AID.

In conjunction with the analysis, a few preliminary remarks are in order. The Peruvian program was relatively small and the period covered is only five years. While neither the program's size nor the time frame prevent impacts being made, they do hinder our ability to identify some of these with a high degree of certainty. The Peruvian case is further complicated in this regard by a number of events and tendencies associated with the period from 1968 to 1980, many of which affected the same general areas examined here. To the extent these other factors may have masked, reinforced, or reversed trends associated with Title I, it then becomes more difficult to isolate the latter's impact.

A. Macroeconomic Impact

The impact of the PL 480 Title I program as measured by most macroeconomic variables was very small. The ratios of the equivalent of the $20 million annual program for 1978-1981 to central Government current expenditures, central Government total expenditures, disbursements of external credits (of over 1-year original maturity) to the public sector, and of commodity imports were quite small. The specific ratios, as percentages, are as follows:

Item	1978	1979	1980	1981
Central Government Current Expenditures	1.07	1.01	0.86	0.59
Central Government Total Expenditures	0.73	0.63	0.57	0.39
Disbursements of Credit to Public Sector	2.35	1.83	1.65	1.25
Commodity Imports	1.25	1.02	0.65	0.52

The fact that these ratios are very small does not suggest that the program lacked an effect but only that the effect of the program upon Government spending, utilization of external credit, and imports was necessarily small. Therefore, impacts of the Title I program in these directions are not likely to be significant even though analytically interesting.

Two areas in which the Title I program was of more significant concern were external debt service and food imports. During the 4-year period 1978-1981, Title I agreements provided $80 million, which amounted to 4.46 percent of the improvement of Peru's net international reserve position--from $ -1,100.0 million at year-end 1977 to $ + 692.2 million at year-end 1981. In addition, Title I agreements financed 14.4 percent of food imports during this 4-year period. It could be argued that in the absence of the Title I agreements, Peru would have imported slightly less food, due to the severe foreign exchange crunch of 1978. Peru's public sector debt service is extremely high, reaching 53.2 percent of commodity export earnings in 1981, and is expected to continue at high levels in the 1980s. In this context the relatively small Title I agreements serve to improve Peru's external debt structure and can be viewed as additions to the stock of public sector debt at relatively long maturity. In particular, the Belaunde Government has attempted to obtain, insofar as possible, new credits from foreign commercial banks with minimum terms at 10-year maturity.

B. Impact on Peruvian Production and Price Policy

1. The 1978-1982 Programs: Rice Production

One of the most significant criticisms directed at food aid is its potentially adverse effect on agricultural production, both directly and through its impact on price policy. During the second stage (1978-1982) Title I program (the first stage is treated briefly below), production of rice and other basic foodstuffs did experience some declines. (It should be noted, however, that rice production reached new highs in 1981 and 1982.) Furthermore, the GOP's preferred, if not consistent, policies of holding down consumer (and less frequently) producer prices and subsidizing consumption of basic foodstuffs are the sort of negative effects sometimes associated with concessional food sales. Despite these trends, our analysis did not find Title I imports to have a measurable impact in either area. Given a larger program and a longer time frame, some impact might have been registered. However, during this period, food production, price policy, and subsidy policy were governed by forces which far outweighed the resource impacts of the PL 480, Title I program. These forces and their effects are discussed in detail below and in Appendix B. While in some cases the availability of Title I commodities might have reinforced existing trends, in others it appears that their most likely impact was actually overridden.

With the exception of the first agreement (1978-1979), rice has been the only commodity directly involved in Peru's second series of Title I programs (1978-1982). Peruvian officials interviewed by the team claim that the availability of PL 480 rice had no effect on GOP decisions on farmgate prices of rice (and thus through prices, on supply). Fluctuations in domestic production were more strongly shaped by forces independent of Title I--a severe drought (causing the declines in 1978-1980) and a return to normal weather conditions with an increase in official producer prices (accounting for substantial increases in rice production in 1981 and 1982).

Peru's domestic rice production is located predominantly in north-central coastal valleys; this area accounts for about 70 percent of domestic paddy rice production. Here rice productivity is relatively high by Latin American standards--4.5 to 5.0 metric tons of unmilled rice per hectare. The concentration of rice production in this area is explained by usually abundant water for irrigation and a long, warm, growing season. However, this region is also vulnerable to occasional droughts. The 1978-1980 drought resulted in a 19 percent decrease in rice production as compared with the previous three-year period (1975-1977). Drought conditions were also responsible for reduced production of other coarse grains. In aggregate, the production volume of these grains (wheat and barley in the sierra, and corn and sorghum in the costa) decreased by 16.4 percent for the same time period.

Rice production after the drought set a new record; 1981 production was 40 percent higher than in 1975, 25 percent higher than in 1975-1977 (pre-drought years), and 33 percent higher than 1971-1975. By way of comparison, 1981 production of domestic wheat was 16 percent lower than in 1975, corn was 6 percent lower, and barley was 5 percent lower. Cotton production, on the other hand, was 33 percent higher than in 1975 and the area harvested was 10 percent higher.

In regard to price, the real prices paid by Government agencies for rice and corn (derived by deflation with the Lima consumer price index; see Table B-6) were usually higher in the period 1978-1982 than in 1974, and close to those of the period 1975-1977. The most significant factor inducing crop substitution was the lifting in 1978 of the governmental regulation requiring that a certain portion of each costa farm be planted in food crops. Removal of this requirement permitted an increase in cotton production, which went along with a decrease in corn production. The behavior of rice producers is consistent with the hypothesis that at least at 1980 prices no other crop produces higher economic rents with normal water availability, and that with drought corn and even cotton may require more than the likely supply of water.

One of the principal problems for Peruvian consumers and also for Peru's agricultural sector was the deep recession and decline in real income in the second half of the 1970s. According to national accounting expenditure estimates, consumption (both private and public) declined by 5.5 percent from the 1974-1976 base period average to 1979. Supplementary evidence suggests that the decline in real incomes in the urban sector was substantially greater than the nationwide average.

The decline followed an unusual bulge in urban real incomes during the first half of the 1970s, caused by Phase I military Government policies. Rectification of strong disequilibria in Peru's external accounts and Government finances after 1975 left Phase II military Government with few options in its struggle to prevent hyperinflation and disruption of imports. Inconstant application of stabilization policies also heightened inflation and lengthened the recession (see Appendix A). In any event, the decline in urban real incomes after 1976 coincides with a strongly recessionary situation of Peru's urban-industrial sector, strong devaluation of the sol--particularly in late 1977 and early 1978--and accelerating inflation.

Table 4. Production of Basic Grains, 1975-1982

Volume Harvested (1,000 mt)

Year	Wheat	Corn	Barley	Sorghum	Rice	Total
1975	143	625	168	30	322	1,261
1976	148	700	165	40	388	1,441
1977	130	720	170	50	372	1,442
1978	90	550	175	80	288	1,183
1979	95	600	175	90	300	1,260
1980	80	440	150	35	285	990
1981	120	590	160	50	450	1,370
1982	120	600	165	50	480	1,415

Area Harvested

Year	Wheat	Corn	Barley	Sorghum	Rice	Total	Cotton
1975	137	400	187	12	118	854	130
1976	140	400	185	15	129	869	96
1977	135	390	180	18	125	848	133
1978	100	300	185	22	100	107	108
1979	95	360	185	25	115	780	132
1980	90	320	165	16	100	691	140
1981	100	340	170	20	120	750	143
1982	100	345	175	20	130	770	-

Peru's commercial agricultural sector was affected by the decrease in urban incomes and the devaluation of the sol. Also important was the decline in the domestic demand for food. As noted in the FAS Report of January 1979, "Because of the economic crisis and the attendant decline in consumer purchasing power, agricultural product offtake suffered sharp drops. Cotton utilization increased, but this was due to greater demand by the textile industry for the export market." As compared with 1976, domestic consumption of major agricultural commodities had declined by the following percentages: wheat (3.8), corn (22.8), barley (2.2), milled rice (8.0), vegetable oil (8.2), and sugar (8.9). In line with reduced urban food consumption, even the nominal dollar value of Peru's imports of agricultural products was about 25 percent lower in 1977-1979 than in 1974-1976.

It is in this context that Peru's food subsidy policy, or more accurately policies, must be understood. Subsidies were introduced to lessen the burden of the economic crisis on the urban consumer, but their incidence and the specific form they took were also conditioned by the Government's own financial situation (perhaps affected at the margins by the balance of payments effects of Title I) and by pressures imposed by external actors, notably the IMF. From 1974 to their nearly complete phase-out in 1978, subsidies were limited mainly to imported foodstuffs. In contrast, the second-bout resurgence of food subsidies in 1979 and 1980 also included domestically produced foodstuffs (see Appendix B, Table B-6). Food subsidies increased from the equivalent of $67 million in 1974 to $246 million in 1977. The steady increase in the value of subsidies was related to the sharp increase in prices of food items with a heavy import component required by the devaluation of the sol. The rapid devaluation of the sol beginning in October 1977, plus the imperative of deficit reduction in 1978--at least to a level not inconsistent with negotiations with the IMF--induced the Government to abandon food subsidies. The cold logic of this decision rested upon the fact that by 1977 food subsidies had come to represent about 2.0 percent of GDP, as compared with a net domestic fiscal deficit of 3.8 percent of GDP (see Tables A-1, and B-5). Thus, in May 1978 the Government abandoned food subsidies to obtain foreign exchange--food subsidies (along with petroleum product subsidies) were simply the most expendable items in a program to reduce fiscal expenditures and the public sector's domestically financed deficit.

During 1978 the prices of cooking oil, evaporated milk, wheat flour, and white sugar were increased by more than 100 percent; inflation had reached only 38.0 percent in 1977. The real suffering imposed on low-income urban households clearly disturbed the Government, but it was only able to restore subsidies in 1979 as the result of a large but unanticipated increase in its revenues, the product of the worldwide materials price boom in that year. The Government reinitiated food subsidies by slowing down the periodic upward adjustments of selected food prices. Most of the financial transfers involved took the form of central Government acceptance of the external debt obligations of importing agencies (without public announcement). Inasmuch as the Government was able to stay within the targets of its arrangement with the IMF, external donor agencies were largely unaware of or lacked appropriate leverage to debate the resurgence of subsidies with Government authorities.

In 1981, the Belaunde Government began an experimental nationwide food stamp program as a substitute for food subsidies. However, this program was not given permanent status. The Belaunde Government has stated its intention to eliminate all food subsidies, and in 1982 the sharp declines in mineral prices, reduced fiscal revenues, and a new arrangement with the IMF all suggested a near-term realization of this intention.

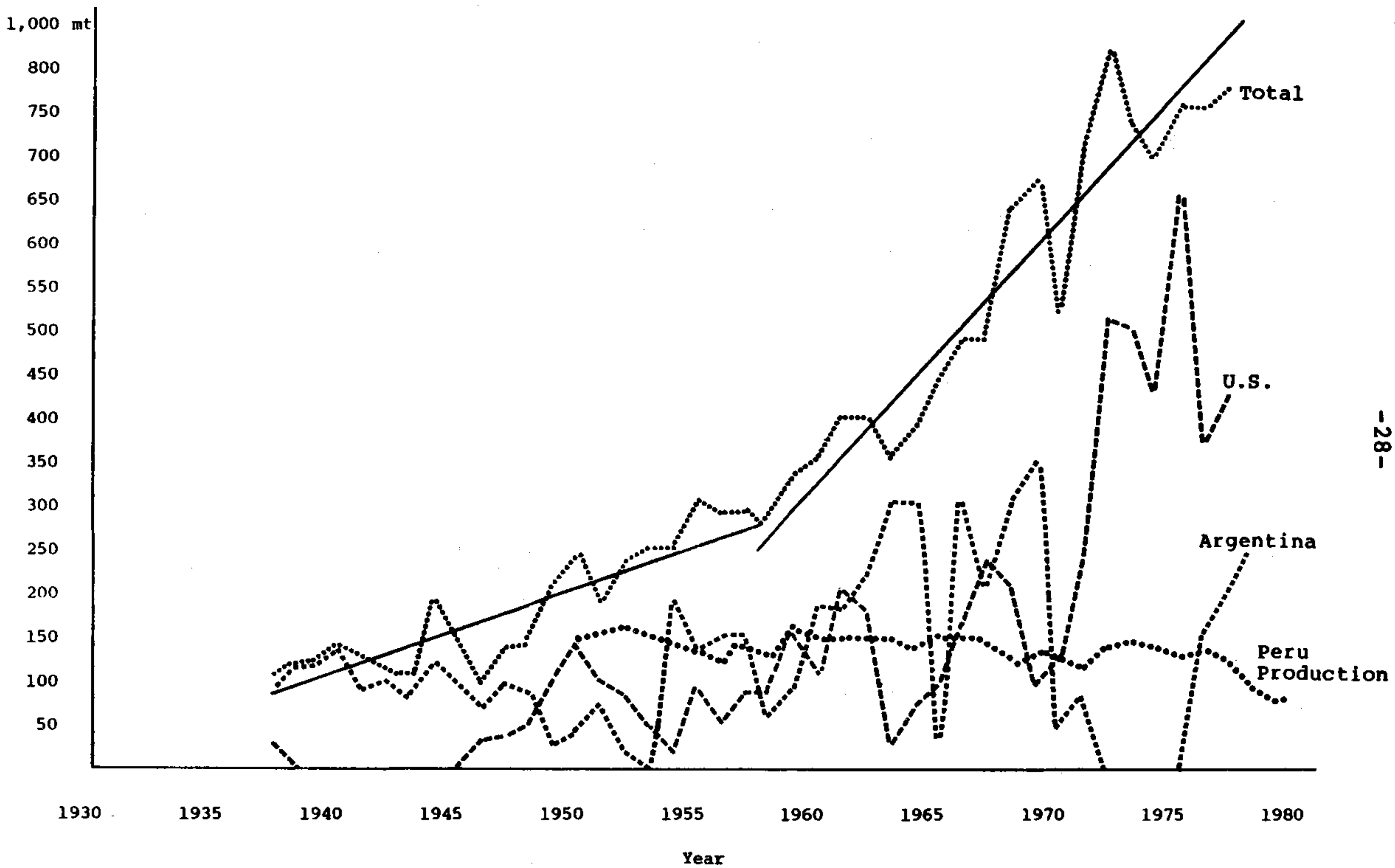
The relative size of the Title I program and the cost of food subsidies in 1979 and 1980 ($40 million versus $522 million) argue against the hypothesis that the resurgence of Peru's food subsidies was caused by the Title I program. Other evidence also supports this view, e.g., the willingness of the GOP to forward fund the full amount of local currency counterpart, its desire to recover national self-sufficiency in rice production, and its success in obtaining that objective. One can also hypothesize that apart from the unique circumstance of a fiscal surplus and an out-going Government attempting to maintain social peace and improve a very tarnished image, the 1978 phase-out of food subsidies would have been durable.

2. The 1955-1964 Programs: Title I Wheat Imports and Peruvian Wheat Production

Under the first Peruvian Title I programs (1955-1964), the principal imported commodity was wheat; it was included in five of the seven agreements in amounts ranging from 120,000 mt to 5,000 mt (see Table 1). Peru's average annual wheat production during this period was about 146,000 mt. Production declined slightly from a record high of 169,000 mt in 1953 to as low as 123,000 mt in 1956. After an erratic period in the late 1950s it remained about 150,000 mt from 1961 to 1967, during which years Title I wheat was imported only once (1964). A last very substantial drop in the late 1970s (to 90,000 mt) has been attributed to the three-year drought (see Figure 1).

These statistics should be interpreted with three caveats. First, as a Peruvian refrain states, "statistics are poetry,"

Figure 1. Peruvian Wheat Imports (1937-1977) and Domestic Production



Sources: Imports taken from Fernando Gonzalez Vigil, Carlos Parodi Zevallos, and Fabian Túme/Torres, <u>Alimentos y transnacionales</u>. (Lima: Desco, 1981), p. 49. Peruvian production statistics from USDA. Production statistics only cover 1950 on and it should be noted that those prior to about 1963 are not regarded as very accurate.

and this is especially true of those describing agricultural production before the early 1960s. Second, the data do not indicate whether the markedly higher production in 1952, 1953, and 1954 was the beginning of an upward trend, the result of three unusually good years, or poetic license, although expert observers favor the latter. Finally, although no Title I wheat was imported from 1964 to 1978, production remained static or declined in these years. With these cautions in mind, the production patterns throughout these years allow the possibility of a disincentive effect, with some contribution by Title I imports.

Before any more definite conclusions can be drawn, two additional factors must be considered. First, as indicated in Figure 1, Peru is a long-term wheat importer, first from Chile (from the 18th century), then from Argentina, and after 1945 from the latter country, the United States, and (1950 on) Canada and Australia. Wheat imports currently (1982) total about 90 percent of total consumption. The rate of growth in imports increased markedly in the late 1950s, coinciding with the first Title I programs but also overlapping a period of higher urban growth rates. Imported wheat is consumed almost entirely by urban populations, while domestic wheat remains in the _sierra_ for local, usually on-farm, consumption. As Peru's population changed from 40 percent urban (1940) to 67 percent (1980) there has been a corresponding increased demand for food for urban markets, most of which has been met by imports rather than by increased domestic production. Wheat imports in particular are also linked to the development of a highly concentrated coastal milling, refining, and manufacturing complex which emerged between 1905 and 1940, and whose owners had strong ties with major wheat importers.

These observations raise several questions: first, why did domestic production not rise to meet the increased demand? Second, to what extent were increased imports a consequence or a cause of this failure? And finally, the question relevant to this analysis, to what extent did PL 480 imports discourage potentially increased production of domestic wheat or other crops? Although we have no definitive answers, we can provide further insights into the first two questions, and in this way come closer to resolving the third. In brief, (the interested reader is referred to Appendix B for more background), to understand why wheat or some other domestic crop did not fill the demand, one must recognize that most foodstuffs have traditionally been grown in the _sierra_ where most of the population once lived and where most production was for on-farm consumption. With the exception of four major upland valleys, farmlands in the _sierra_ are marginal; without the introduction of new technology (to help compensate for scarce water, harsh climate, and high altitudes) they could not produce enough to feed the growing population. Inadequate transportation and marketing infrastructure mean that even if they could, the costs of transporting food to the coastal population centers might make this an inefficient means of feeding the population. While coastal agriculture under irrigation is more productive and without the high transportation costs, higher returns from a limited number of crops (rice, corn, cotton, sugar), many of them for export, have made producers reluctant to raise other foodstuffs there. It has been suggested that until and unless new technologies are developed for high altitude agriculture, Peru's comparative advantage may lie in the production of crops for export on its coastal lands--and a continued reliance on the import of such basic commodities as wheat and possibly even rice.

Questions as to why Peru imports so much wheat are usually answered with the explanation that it cannot grow more. This is clearly an oversimplification. However, for Peru to have grown wheat or some other foodcrops in sufficient quantities to eliminate the need for imports would have required some rapid, radical and costly changes both in the structure of production and in supporting infrastructure. While the availability of imports and the political and economic power of the milling industry were clear disincentives to making those changes, there is no real indication that producers, especially those in the <u>sierra</u>, could have adequately responded to rising demand. Their failure to do so and the resulting higher food prices might have encouraged coastal farmers to shift to more production for local consumption, but this would have deprived Peru of its export crops. (It also would have run counter to a longstanding policy of cheap urban food, a response to political if not economic logic.)

Turning specifically to Title I imports, it thus appears that their role in whatever disincentive effect that may have existed was at most a small part of a whole collection of influences: the shortage of arable land; the location of much farming activity in inaccessible areas where getting inputs in and products out becomes a major obstacle to increased yields; a longstanding policy of holding down food prices in the urban areas (and perhaps also holding down wages for an emerging industrial sector); an expanding urban population located far from where foodcrops are traditionally grown but close to ports and thus in easy reach of imports; and the emergence of powerful industrial interests dependent on wheat imports. Title I wheat did nothing to lessen the cumulative disincentive effect. That it added a substantial additional disincentive of its own which outlasted the program seems doubtful.

C. Impact on Food Consumption and Nutrition

General discussions of the impact of food aid on consumption and nutrition suggest a potential for both positive and negative effects. On the positive side, the availability of more food should increase consumption and improve nutritional status, especially during periods of sudden declines in supply due to decreased domestic production or reduced ability to import commercially. On the negative side, this initial positive effect may have long-run adverse consequences by discouraging domestic production and so decreasing future food supply. In addition, food aid may lead to changes in consumption patterns which may also adversely affect domestic production and/or nutritional levels. Finally food may go to the wrong groups, benefiting urban, better-off populations as opposed to the poor and especially those in rural areas.

As indicated in earlier discussions, malnutrition is a chronic problem in Peru and one which has its greatest impact on both rural and urban poor. Statistically the incidence of malnutrition is higher in rural than urban areas (affecting 39 percent of Lima households as opposed to 54 percent in rural areas, in 1980), although the rural poor may be better able to protect themselves against sudden drops in consumption levels (like that associated with declines in real income in the 1976 to 1979 period).

Over the past decades, basic consumption and nutrition patterns have been altered by several trends. The first of these is the relative and absolute increase in the size of the urban population and the consequent increase in the proportion of the population eating an "urban diet" and relying on a commercial market and imports to provide it. For a number of reasons, ranging from culturally dictated changes in taste to transportation cost (see Appendix B), the shift in dietary patterns is characterized less by the amount of food consumed (roughly equivalent) than by what is eaten (e.g., more rice and imported wheat in urban areas and less domestic wheat, corn, and quinua, an indigenous grain). While two of the urban staples, rice and imported wheat, have been Title I commodities, the changing patterns long predate their inclusion in the program.

These long-term changes in dietary patterns have been complicated over the last decade by the economic downturn and accompanying decline in real income. As discussed in the previous section, this produced a decline in food consumption which hit hardest at the urban areas, and which was severe enough to affect the middle as well as the lower income groups. Government programs to help the affected groups through food subsidies, and longer term efforts to hold down food prices, have also altered basic patterns.

The simultaneous, often contradictory impact of all these factors has yet to be unraveled and is beyond the scope of the present evaluation. But, two important points can be made. First, long-term trends (and especially urban growth, the lack of a breakthrough in food production, and an increasing reliance on imports to feed the urban population) have produced important changes in consumption and nutritional patterns on a national level. While these changes may be affected at the margin by the Title I program, their origins precede and are independent of it. Second, over the last decade, the economic near collapse has had a clear negative impact on the nutritional status of the population and especially of the urban poor. Declines in real income, combined with increases in food prices, mean that people are eating less and paying more for what they eat. The Government subsidy program has attempted to ease the burden on the poor, and to some extent has succeeded. It is evident that the commodities included benefit primarily urban groups (but these are the groups experiencing the greatest decrease in consumption), and that the upper and middle classes may benefit disproportionately. The subsidies, combined with the economic hardships (putting a premium on cheap, filling food) have further encouraged the consumption of staples like rice, potatoes, and sugar.

Given all that has happened over the last five years, it is difficult to measure precisely the impact of the Title I program on the macro-nutritional picture. Title I commodities probably increased the amount of food Peru was able to import, although we cannot say by how much. They were incorporated in the reinitiation of the subsidy program in 1979 (although much of the subsidy program seems to have been funded by increased revenues from export trade). As to the impact on other trends, like changes in dietary patterns, this seems doubtful, but we simply lack the data and the means to test these relationships.

While the PL 480 Title I program has not measurably affected food consumption and nutrition on a macrolevel it has had some localized impact on consumption and nutrition by supporting PL 480 Title II direct feeding programs.[7] Title I funds have allowed these direct feeding programs to expand, by helping to cover administrative and related costs. Title I funding of transportation costs has also allowed for food

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[7]The extent of this impact will be better understood following the evaluation of the Title II program scheduled for summer of 1983. Some preliminary conclusions and further details on the Title I-Title II linkage are presented in Section D below.

delivery to more remote rural areas where the incidence of malnutrition is highest. Given the tendency of food subsidies to benefit affluent urban dwellers, targeted direct feeding programs are probably the most effective ways to improve the nutritional status of the poor.

The direct feeding programs supported by Title I funding appear to reach truly needy families in the coastal and sierra regions. There are few feeding programs in the jungle due to the logistical problems involved. It is difficult to ascertain whether the recipients of these programs are the "poorest of the poor." The VOLAGs administering them are probably not fully objective in their choice of participants, although their organizing capabilites at the grass-roots level are invaluable. Further, recipients of Food-for-Work programs, besides being healthy enough to do the work, are often selected because they are already organized and are able to accomplish a task together. Inasmuch as that task encompasses the developmental component of these programs, there is clearly a trade-off involved between the strictly humanitarian and the development objectives.

Finally, we lack specific evidence as to the consumption and nutritional impact of these programs on their beneficiaries. Data, (e.g., weight-for-age standards, anthropometric data, or household surveys) are generally not available, as the agencies administering the programs lack the baseline data and resources needed for such internal evaluations.

D. Developmental Impact at the Project, Program, and Policy Level

The developmental impact of Title I in Peru was best summed up by AID officials who observed that its effect on national policy was negligible, but that at the project level, it has made a decided and favorable difference. In Peru Title I resources have been used to complement development assistance, to leverage non-Title I Peruvian funds for development purposes, and to underwrite and expand the impact of Title II activities. Although legally Title I revenues belong to Peru and can be used as the Government sees fit within certain statutory and negotiated limits, AID has maintained substantial leverage over allocation of local currencies. Fortunately, AID project priorities by and large have coincided with those of the Peruvian Government. Even by 1982, when the first real dispute over allocations emerged, the Peruvians eventually agreed to most of AID's priorities.

The amount of the Peruvian contribution to Title I projects in excess of commodity sales receipts has been and continues to be significant (see Appendix H). Both leveraging and additionality have resulted from Title I in Peru. During 1981 and 1982, all Title I revenues were used for AID projects to which the GOP also contributed in excess of U.S.$21 million of regularly budgeted, (i.e., non-Title I) funds.

For the time being, leveraging and additionality tend to be at the project or program level--in terms either of encouraging GOP participation in a project or program which might not have received attention (or funds) or changing the emphasis of on-going projects. Perhaps the most important example to date is in the relationship of Title I to Title II projects, as discussed in the next section.

However, this is far from the only example; discussions with AID and Peruvian project managers suggested that Title I funds had played an important role in the development of all projects to which they contributed. In some cases, and especially during the first years when the GOP had problems meeting any counterpart requirements, this meant that projects did not have to be discontinued for lack of a GOP contribution. This is the acid test of additionality in its strictest sense, since it permitted an activity that would not have occurred otherwise. During these years and later, Title I funds were also used for complementary and start-up projects in preparation for later direct AID or other donor participation. Even the earmarking of almost half of the 1978-1979 funds for general budget support for the Ministry of Agriculture must be considered as additionality for these same reasons. Although some of the funding went to projects not accorded a high priority by AID, without the Title I assistance much of the Ministry of Agriculture's development budget would have temporarily vanished.

By 1982, the Mission had not only succeeded in targeting all Title I funds to AID projects but had obtained a further direct GOP contribution equal to that amount. A quick survey of the projects included and sources of funding (see Appendix H) suggests the level to which Title I funds had been integrated into the Mission's overall development program. Furthermore, the local currency negotiations themselves, even with the conflicts arising in 1981 and 1982, provided a valuable forum for coordinating AID and GOP priorities at the project level. The Mission is currently considering ways in which the program may be used to leverage policy at a more general level. In conjunction with this, it is also considering modifications that may increase the program's additionality and leveraging effects on projects.

One of the ironies of the Mission's success in integrating Title I into its overall development program is the diminishing room for additionality and flexible response. One solution is thus to remove projects or types of projects from Title I support as the GOP commitment to them, and hence its willingness to contribute its own funds, increases. One obvious example of a project in this category is the Central Huallaga project to which the GOP has increased its initial $6 million contribution by $25 million. This would free Title I funds for new types of undertakings and recapture some of the innovative functions it has enjoyed all along. A further suggestion now under consideration by the Mission is a multiyear Title I program which might allow a broader policy dialogue as well as higher levels of integration both on a yearly basis and over time. (The appendixes provide a more detailed description of those projects evaluated in conjunction with this report.)

In summary, we would suggest that the Mission's innovative and varied use of Title I funds has had a positive impact on its development program comparable to that of an equivalent amount of direct grants and loans. The rationale for this statement is severalfold. First, Title I funds were substituted for GOP counterpart funds when the latter were not available. Second, the Title I funds were used to augment the effect of ongoing programs (Title II support, complementary GOP projects or start-up) in ways that took advantage of their potentially greater flexibility. Third, use of Title I funds in many cases eventually attracted more GOP funds into programs, over and above the counterpart requirement. Fourth, at least in the early years, these funds provided a surplus to meet unexpected expenses and those resulting from progress ahead of schedule or later add-ons. Fifth, by linking GOP counterpart and other required contributions to the commodity program and to an entire list of local currency-funded projects, this policy may have given the Mission additional leverage when problems arose on specific projects. In these cases, the issue became more than the single project or single missed disbursement, but an entire interconnected program which as a whole was more valuable to the GOP than any of its parts.

E. Impact of Title I on Title II

Since the 1950s, Peru has been receiving commodity food-aid under PL 480 Title II. This "Food for Peace" program provides direct grants of wheat or wheat flour, vegetable oils, cornmeal or corn-soya mix, milk powder, oats, or other blends of highly nutritious foods to feed the very poorest of the population.

Private Voluntary Agencies (VOLAGs)[8], working throughout Peru, have been the key organizations assigned to distribute these food rations in the context of various community development educational projects which they administer. Such activities are classified as one of the following:

-- Maternal and child health programs (education and care)

-- Feeding programs for young children

-- School lunch programs

-- Food-for-Work projects

1. Integration of Funding Sources

With the resumption of PL 480 Title I sales in 1978, a small but important proportion of the monies earned from the open-market sales of the Title I commodities was allocated to the VOLAGs to facilitate their Title II operations. (See Appendix E for a brief description of each agency and its program.) VOLAGs also receive counterpart funds from the Peruvian Government and USAID Operational Program Grants. The latter can be used to buy materials or for operating expenses. This is in addition to private donations received by their parent organization and grants from other governments or international organizations (e.g., CIDA, the Canadian development agency, and certain U.N. agencies).

Because each VOLAG calculates the value of its inputs (both government and private sources) differently--sometimes imputing a value to services or contributions in kind provided by other agencies or support groups--it is extremely difficult to make any significant comparative analysis of Title I as a precise proportion of total budgets of the VOLAGs. In general, it appears that Title I funds represent approximately 10 percent to 15 percent of the VOLAGs' total operations in Peru (see Table 5).

Title I funds can be used for program administration; general office and operating expenses; the purchase of transport and cargo vehicles as well as office equipment; collecting Title II food from the ports, storing it, and transporting it

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[8]Voluntary agencies include Seventh Day Adventist World Service (SAWS), Catholic Relief Services (CRS), Cooperative for American Relief Everywhere (CARE) and Church World Service (CWS).

Table 5. Private Voluntary Agencies PL 480 Title I Funds as Proportion of Total Program Value, Sample Year 1980

FY 1980 Programs	OPG Funds ($100)	OPG Funds Percentage of Total Prog. Value	Title I ($100)	Title I Percentage of Total Prog. Value	Subtotal ($100)	Subtotal Percentage of Total Prog. Value	Peruvian Government Funding Other Than Title I ($100)	Peruvian Government Funding Other Than Title I Percentage of Total Prog. Value	Funds From Other Sources ($100)	Funds From Other Sources Percentage of Total Prog. Value	Total Program Value ($100)	Number of Recipients (000)	Volume of Food (MT)	$ Value of Title II Food (O.F. Included) ($000)
School Feeding Program (PAE)	0	0	680	10.7	680	10.7	5,671	89.3	-	0	6,351	500	8,157	3,603
CRS/CARITAS	150	0.9	1,232	7.8	1,382	8.7	1,361	8.6	13,050[2]	82.7	15,793	473	21,125	8,059
SAWA/OFASA	200	19.8	156	15.5	356	35.3	319	31.7	332	33.0	1,007	133	14,569	6,313
CWS/SEPAS	150	29.6	174	34.4	324	64.0	68	13.4	114	22.6	506	20.4	2,446	1,094
CARE (PIBA only)	300	7.4	2,200	54.3	2,500	61.7	1,500	37.0	50	1.3	4,050	31.6	1,650	617
	$800	2.9	$4,442	16.0	$5,242	18.9	$8,919	32.2	13,546	48.9	27,707	1,158	47,987	19,685

[1] Represents approximate amount of funds received from sources other than the U.S. or Peruvian Governments.
[2] Approximation based on CARITAS data, which included Diocesac aid in kind.

to distribution centers; and expenses incurred for nutritional education and training programs and health and nutritional promotion and education seminars. In one case, they also paid the per diems of GOP personnel supporting the program.

2. Impact of Title I on Title II Programs

One useful measure of the importance of Title I funds to the voluntary agencies is the impact on the number of recipients of Title II food stuffs each year. Table 6 illustrates that each of the VOLAGs' was able to increase the number of food aid beneficiaries between calendar years 1979 and 1980 (in essence, fiscal year 1980, when Title I monies were well integrated into the VOLAGs' financial pipelines). Such program expansion continued between 1980 and 1982.

While one must be cautious about attributing causality, it is clear that Title I funds facilitated the rapid and significant growth of the Title II programs by providing additional operating expenses. For example, the OFASA and SEPAS programs have benefited greatly from the receipt of Title I funds. Besides applying the money to their general administrative budgets, both organizations have been able to cover a large portion of their transportation costs (particularly in the remote <u>sierra</u>), hire technicians, and pay expenses of training nutritionists and health/nutrition promoters as well as their travel costs when on special assignment. Alternative funding for those expenses might have been arranged through large Development Assistance funded-OPGs, but this would have been far too costly for the Mission.

3. Problems in 1982 Due to Delay of Title I Funds to VOLAGs

Although the PL 480 Title I Agreement for 1982 was signed in April 1982 and Title I counterpart funds have been allocated to the VOLAGs by the GOP, there have been delays in getting funds to the agencies. All VOLAGs except CARE[9] encountered serious budgetary and operational problems in the first half of 1982. Two of the agencies--OFASA and SEPAS--appeared to have suffered greatly from the funding delay which has required

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[9]It should be noted that CARE receives no direct Title I funding for its PIBA program (since GOP agencies implementing the program elements receive that support directly). All the other VOLAGs do receive cash transfers directly and make their own expenditures of such funds.

Table 6. PL 480 Title II--Number of Recipients and Cumulative Commodities Received During Calendar Years 1975-1981

Program	CY 1975		CY 1976		CY 1977			CY 1978			CY 1979			CY 1980			CY 1981		
	MT	Value ($000)	MT	Value ($000)	Recip. (000)	MT[1]	Value (000$)	Recip. (000)	MT	Value (000$)	Recip. (000)	MT	Value (000$)	Recip. (000)	MT	Value (000$)	Recip. (000)	MT	Value (000$)
1. School Feeding Program (PAE)	11,076	3,906	3,894	1,581	-	2,259	773	500	7,262	3,721	500	4,880	2,055	500	3,637	1,809	500	9,601	5,466
2. Catholic Relief Service	3,399	1,054	6,817	3,267	-	6,368	2,471	275	7,982	3,174	275	19,330	8,244	473	20,350	10,599	500	21,863	12,133
3. Seventh Day Adventist	224	63	2,320	898	-	1,796	710	31	3,645	1,350	38	12,320	4,937	133	11,657	5,536	143	13,078	6,949
4. Church World Service	69	28	830	338	-	494	170	11	248	104	11	2,919	1,270	20.4	1,907	959	25.5	3,100	1,714
5. CARE[1]	-	-	-	-	-	-	-	-	-	-	-	-	-	10	144	75	45	4,147	1,747
Total	14,768	5,051	13,861	6,084	-	10,917	4,124	819	19,137	8,349	824	39,449	16,506	1,136.4	37,695	18,978	12,135	51,789	28,009

[1] Fiscal year data.

cutbacks in staff levels and projects, and severely limited supervisory visits to work sites. Food distribution has also been delayed and SEPAS had to cancel one food shipment of 439 MT from the United States because of uncertainties about their ability to fund in-country transportation. These problems, which in some cases threaten the survival of on-going projects (see Appendix E), demonstrate the vital role played by Title I funds in implementing both the humanitarian and developmental objectives of Title II programs.

F. Impact on Market Development and Surplus Disposal

This section explores the extent to which the Peruvian PL 480 program has fulfilled the legislative mandates of developing markets for U.S. agricultural commodities and disposing of surplus commodities. Emphasis is on the 1978-1982 period and thus focuses on rice imports, as other commodities figured only in the first of this series of agreements.

In FY 1982 Peru will import approximately 55,000 mt of rice under the PL 480 program (see Table 7). Rice has been imported on commercial terms this year, and Peruvian officials do not plan to import rice beyond their PL 480 allocation. Further, representatives of ECASA (the public sector entity responsible for rice procurement, handling, and distribution) and the Ministry of Agriculture (MOA) have stated that no rice would have been imported in 1982 had it not been for the PL 480 allocation. Therefore, this $17 million rice allocation to Peru represents additional imports from the United States. As such, the 1982 program was a useful vehicle for surplus commodity disposal.

The importance of the surplus disposal aspect of PL 480 to U.S. agricultural interests is illustrated by the fact that the executive vice president of the U.S Rice Millers Association, with strong endorsement by a legislator from a rice-producing state, personally visited Lima in June 1982, in order to expedite rice purchases under PL 480.

With respect to market development, a number of factors determine a country's level of commercial imports. Overall import levels are primarily a function of the gap betwen domestic production and consumer demand (after allowing for change in stocks), and of a country's ability to pay. Domestic consumption of rice has been steadily increasing since 1978, although production levels have been somewhat erratic, due to drought and changes in Government policy. Still, 1981 was a record year and 1982 promised to be one, despite some concern about a recurrence of the drought. When domestic production is insufficient, Peru's commercial import capacity is limited by foreign exchange constraints. Another determinant of overall rice imports in Peru is the Ministry of Agriculture's widely publicized policy objective of achieving sulf-sufficiency in rice production. This could result in the GOP's allowing demand to outstrip supply for this commodity.

Table 7. Peruvian Rice Imports, 1977-1982

Year	Total Peruvian Rice Imports (000 mt)	Quantity Provided Under PL-480 (000 mt)	Total Quantity Imported from U.S. (000 mt)	% U.S. Market Share of Total (000 mt)	Commercial Imports from U.S. (000 mt)	% of U.S Market Share of Commercial Imports
1977	0	-	-	-	-	-
1978	0	-	-	-	-	-
1979	150	73	90	60	17	22
1980	251	53	97	38	44	22
1981	103	37[1]	72	70	35	53
1982	55	55	55	100	0	NA

[1]Actual imports were 37,365 mt, although the agreement called for 44,000 mt.

The choice of supplier is principally determined by the terms offered (i.e., price, interest rate, and repayment period). The quality of the commodity and its compatibility with local tastes are also important, as are political considerations and loyalty to traditional suppliers. Given the multiplicity of issues which determines a country's choice of commercial suppliers, it is difficult to ascertain the extent to which the concessional import of commodities influences their commercial import.

The expansion in the U.S. commercial market share of Peruvian rice imports from 22 percent in 1979 and 1980 to 53 percent in 1981 (see Table 7) is probably a <u>cumulative</u> effect of the PL 480 program. Peru's exposure to U.S. rice through PL 480 may have enhanced demand for U.S. rice over that grown by far-eastern suppliers (e.g., Pakistan, Japan, Thailand, Peoples Republic of China, Burma). The director of ECASA stated that U.S. rice imports were preferred over far-eastern rice for two reasons: (1) Peruvians prefer long-grain rice, which is the variety that is domestically produced and consumed, and the U.S. supplies long-grain rice, whereas the far-eastern suppliers produce short-grain rice; and (2) ECASA has experienced quality problems with some rice from the Far East (e.g., Pakistan) such as fungus growth and Khapra bettle infestation. Quality problems have not arisen with U.S. rice.

In summary, PL 480 rice allocations to Peru have been useful to American agricultural interests in disposing of surplus rice. Further, the provision of U.S. rice under PL 480 may have enhanced preference and contributed to increased demand for the U.S. product and subsequently to an increased market share. However, market demand can be expected to vary from year to year depending on Peru's ability to meet its own rice needs.

G. Impact on U.S.-Peruvian Relations

Furthering foreign policy goals has been one of the main purposes of PL 480 since its inception. It is easy to see how this has shaped the Title I program both in Peru and elsewhere. It is somewhat more difficult to determine whether U.S. interests have been positively affected as a result of these efforts. The problem is complicated by the program's other purposes, the many unpredictable and uncontrollable events influencing its impact, and the fact that U.S. foreign policy-making and implementation is itself a multipurpose, multidimensional process. The impact identified also depends on ones own ordering of foreign policy objectives as well as the point in time when the judgment is made. Still, with all these reservations, it appears that Title I has contributed to improving U.S.-Peruvian relations in a general sense. In specific areas there have been problems, but it has so far been to the interests of both parties to downplay them.

Foreign policy concerns have clearly shaped Peru's Title I program from its cutoff in 1964, through its 14 year disappearance (overlapping the Revolutionary Government) and reemergence in 1978. In the last instance, the immediate U.S. goal was to head off the impending financial collapse by signaling to bankers and official donors that the U.S. Government supported the incumbent Government and its efforts to reach accommodation with the IMF and commercial creditors (including concerned U.S. banks who held a significant portion of Peru's external debt). The overall increased aid level (including Title I) gave the new U.S. Ambassador and AID Mission Director something tangible to offer the Peruvians as they worked to improve U.S.-GOP relations on a number of fronts. Because it was the quickest form of significant U.S. assistance available (and because of its provision of balance of payments relief and local currency for counterpart), Title I was especially important.

Although the Peruvian economy improved considerably toward the end of 1979, the U.S. maintained Title I and overall assistance levels. This was partly in recognition of the deep-seated economic and social problems still faced by the GOP. However, even in the absence of these factors, it is agreed that a reduction in U.S. aid below levels received by the military would have been a slap in the face for the new democratic Government. The Mission's innovative approach to integrating Title I with the rest of its development assistance had made the program highly visible. Title I's positive impact on U.S.-GOP relations is further enhanced by President Belaunde's personal interest in the program and by acceptance of AID development priorities.

This generally positive picture has been marred in the last year by two incidents. First, the 1982 Title I allocation for Peru fell to $17 million. Second, the provision of rice under that agreement became a focus of conflict between the two Governments.

The first case demonstrates the varying perceptions of aid levels by the different actors in the PL 480 process. Members of the Food Aid Working Group considered the $17 million level to be an increase over the $15 million "tentatively" allocated to Peru in the FY 1982 Congressional Presentation. The Embassy, always optimistic and supporting a $20 million program, never prepared the Peruvian Government for the eventuality that their allocation might be lowered. As a result, Peruvians, and for that matter, Embassy officials, were shocked that the Title I level had been "lowered" to $17 million. The Belaunde Government encountered political and economic pressures when trying to "make-up" the difference, in terms of foreign exchange and counterpart requirements. The close working relationships between U.S. and Peruvian officials in Lima, and the fact that many high level Peruvian officials spent their "exile" in the United States and can "appreciate" U.S. budgetary pressures, helped to mitigate the view, especially popular with Peruvian leftists, that Peru gains little by cooperating with the United States. Also important was the Embassy's ability to get the Development Assistance level increased by $3 million, thus maintaining the previous year's level of U.S. assistance to Peru.

The question of commodity mix in the 1982 agreement is treated more fully in Section II above and in Appendix D. As in the first case, a more serious problem was averted by the importance which many GOP leaders attach to PL 480 assistance, their appreciation of the pressures on U.S. decision-makers, and a "mop-up" job by the Mission and Embassy officials.

Timing made this still more difficult, given that the issue emerged while the Falklands/Malvinas crisis was raging and while U.S. Government and GOP officials were already involved in minor disputes over civil air and narcotics control issues. One clear lesson emerging in both these conflicts is that the Title I program is not automatically a source of better relations; if handled with insufficient sensitivity it can very conceivably make things worse.

IV. CONCLUSIONS

1. PL 480 Title I assistance has made up a significant portion of total U.S. economic assistance to Peru since 1978. It is a highly visible symbol of U.S. support for Peru and makes a positive contribution to U.S.-Peruvian relations. The GOP gives wide publicity to the Title I program, emphasizing the softness of the credit, the support given to development projects, and the amount of commodities being supplied.

2. The absolute amount of the Title I resource transfer was less important than the timeliness of its resumption. Coming when it did, it signaled U.S. support for Peru's Government and a concern that the GOP take appropriate steps toward economic stabilization.

3. Although the Mission justified resumption of the Title I program on balance of payments grounds, its most significant short-term impact was keeping AID development projects fully funded when other donor projects were being cut back due to the lack of GOP counterpart funds.

4. The Mission's decision to use Title I local currency to provide counterpart for AID development projects was an innovative strategy which responded to the GOP's critical economic situation. This tactic resulted in the GOP becoming more sensitive and responsive to the budgetary needs of development projects.

5. The Title I program and use of its proceeds are fully integrated into the AID development strategy. Its developmental impact has been positive, significant, and highly prized by the Belaunde Government.

6. Although Title I is negotiated annually, the GOP treats it, for planning purposes, as a multiyear resource.

7. The dollar level of Title I assistance expected by the GOP in 1982 was not the Congressional Presentation level of $15 million, but the previous year's level of $20 million. GOP officials did not appear prepared for the possibility of a lower

level. On the contrary, high-ranking U.S. officials gave them the impression that U.S. economic support would not be reduced.

8. In Peru, the Title I program can be shown to have benefited the poor indirectly. We believe it also benefits them directly, but the evidence is less complete. Besides financing agricultural development projects, Title I local currency proceeds have been used to fund logistical support for Title II food donation and Food-for-Work programs.

9. Because the GOP is already a "good performer" under PL 480, the Gilman/Solarz requirement for more specific and measurable self-help activities does not appreciably affect GOP performance. The requirement to implement the measure came after negotiations were underway, causing temporary confusion and further delay in the PL 480 proceedings.

10. The PL 480 Title I program was not intended to affect, nor did it affect, GOP agricultural production, pricing, or other macroeconomic policies. The Mission considered the amount of the assistance ($20 million) too small an incentive to induce significant GOP policy changes, although it intends to try to achieve some such changes with the 1983 agreements.

11. PL 480 Title I commodities have not been a significant disincentive to agricultural production. Declines in rice production in 1978, 1979, and 1980 were caused by drought and other unrelated factors. While wheat imports under the earlier (1955-1964) program may have contributed to a preexisting disincentive effect, it is doubtful that they made a significant difference.

12. Since 1978, the food supplied under Title I has helped meet food import needs which have been exacerbated by a decline in production. As a proportion of total food need, the tonnage provided was useful but not critical.

13. Peru's climatic and soil conditions are such that it cannot expect to be self-sufficient in wheat at present levels of consumption. Thus, wheat may be an appropriate Title I commodity for Peru, constrained by the usual marketing requirement and by the consideration that it not provide a further disincentive to domestic production of wheat or substitute commodities.

14. The GOP promotes domestic rice self-sufficiency through the use of producer price supports. Given this policy, which does not necessarily result in efficient use of resources, the GOP can be expected to reach self-sufficiency in rice if favorable climatic conditions prevail.

15. There is an artifically high demand for common rice among Peruvians due to consumption subsidies. Lifting the subsidies could deflate the artificial demand and bring consumption into line with domestic production. As long as the GOP continues to support domestic rice production, rice will be an appropriate Title I commodity only in times of domestic shortages.

16. The Title I program has been an important balance of payments resource, especially in 1978 and 1979 when Peru had little foreign exchange. However, the $20 million program, when discounted by the financing costs to the GOP, was not particularly significant in terms of the magnitude of GOP deficit, Peru's foreign exchange gap, and the amounts of assistance being offered through the IMF, World Bank, and other facilities.

17. The GOP considers the Title I credit attractive because of its high degree of concessionality. Accordingly, substantially tightening the terms of the Title I agreement would reduce its desirability, and hence its impact. The decision to tighten terms slightly in the FY 1982 agreement did not produce an outcry from GOP officials because, among other things, the terms were still perceived as being very concessional. It also appears that problems in programming rice overshadowed the change in terms.

18. The program has been modestly useful in supporting the objective of surplus disposal and reducing U.S. rice payments/CCC rice takeovers. In FY 1982, GOP acquiescence in taking rice was important in meeting a USDA pledge to U.S. Congressmen from rice growing areas to program a certain dollar level of rice from the Title I allocation.

19. Setting a UMR for rice of 39,000 mt in FY 1982 was unreasonable, given that Peru has been and hopes to be self-sufficient in rice, and inappropriate given GOP representation that it had no intention of buying imported rice commercially.

V. LESSONS LEARNED

1. Although most discussions of the developmental impact of Title I and other food assistance programs have focused on macro-economic issues, its most direct potential as a developmental resource may lie in its leveraging effect on policies, programs, and projects. This is especially true of smaller and medium-size programs whose macro-level effects may be too marginal to influence deeply entrenched political and economic trends. Policy, program, and project leveraging offer the possibility of more precise targeting of otherwise limited influence.

2. The complexity of Title I and its interaction with other U.S. and recipient country programs make across-the-board generalizations about its impact of dubious value. Beyond the basic resource transfers, Title I is essentially a tool whose potential for positive or negative contributions to a variety of objectives depends on the skill and imagination of Mission and Embassy actors (and also on the willingness of Washington decision-makers to take their efforts and aims into account).

3. The potential contradictions and inconsistencies in Title I programs are the inevitable result of its multiple objectives. They are exacerbated by the policy process which allows decisions affecting all objectives to be made by actors interested in only a few of them. This has particularly negative effects on AID's developmental objectives because they tend not to be considered in the early stages of decision-making.

4. Title I's leveraging impact on policies, programs, and projects can be realized in a variety of ways ranging from policy dialogues structured around the program to self-help measures and the targeting of local currency. This variety is desirable, since even within a single country, the utility and appropriateness of any single device may change from year to year. Insistence on a standard approach would be counterproductive; what is needed is an emphasis on Mission utilization of these or other means of increasing the program's developmental impact.

5. Targeting of local currency and its effective integration into the USAID program is unlikely to be successful unless the recipient government agrees in principle with the process. Factors likely to produce that agreement include the lack of a precedent to the contrary, the novelty of the program, and a belief that cooperation may bring more, or at least equally, favorable treatment by the United States in this and other areas. Cooperation is also more likely where at least some of the currency is targeted to programs of interest to the host country.

6. Efforts to target local currency are likely to involve a good deal of horsetrading and considerable change in both process and final decisions from year to year. This puts a premium on the Mission's familiarity with and sensitivity to the ins and outs of local policymaking and budgetary processes. It also requires flexibility and innovativeness and an ability to look beyond the immediate negotiations to some longer term objectives.

7. While additionality is an important criterion for local currency use, it is essentially a relative one. What is additional may change from year to year and from country to country.

8. The year-to-year uncertainty of Title I reduces its effectiveness as a development tool. As is evident in the recent problems with Title I support for Peru's Title II program, it is difficult to program a resource that cannot be assured. The resulting problems may jeopardize the gains of previous years.

9. U.S. and GOP staffing and institutional changes are an additional source of instability to which an annual program is particularly vulnerable.

10. Actions taken by U.S. special interests, which are not coordinated through Embassy channels, have the potential to jeopardize U.S. foreign policy interests. The intervention of the U.S. rice lobby in the 1982 negotiations is a strong case in point.

VI. RECOMMENDATIONS

1. A pilot multiyear (3-4 years) Title I program should be authorized in Peru. This is justified because of the high degree of integration of Title I resources into the AID program. We believe it would substantially eliminate the uncertainties in the current system and allow the Mission to exert higher level policy leverage (e.g., reforming GOP policies on agricultural credit, irrigation water charges, and food subsidies).

2. Programming local currencies should be integrated with the Peruvian budget cycle, rather than the U.S. fiscal year cycle. This would be greatly facilitated by a multiyear program.

3. The GOP should be given all possible help and encouragement in phasing out its subsidy and price control policies and in eliminating other obstacles to a more rational and efficient use of agricultural resources (i.e., the raising of water rates to reflect real costs, the elimination of remaining regulations on marketing of goods--for example, anti-hoarding regulations).

4. If the Peruvian experience in targeting local currency is to be used as an example for others to follow, it may be desirable to clarify that the level of locally generated currency and agreement on its use are basic ingredients in making development progress with Title I. Although LGC clearly belong to the importing country, they, and a Title I agreement, are possible only if there is an understanding between the AID Mission and the host country about how the LGC will be used. AID Missions should never feel that they are "pulling one over" on their counterparts.

5. Efforts to encourage developmental applications of Title I by adding further standards to be met in self-help measures and local currency use may be counterproductive. The complementary and sometimes identical purpose of the two devices should be recognized by giving Missions some flexibility in deciding whether they will use one or both and how they use them.

6. Choice of commodities for Title I program should not be based so heavily on market development and surplus disposal objectives, but should give more weight to the various other aims of Title I as well as the likely reactions of the recipient.

7. Since it seems inevitable that some of the decisions made in Washington will not meet the expectations of recipient countries, some effort should be made to improve Mission and Embassy advance information so that they can soften the blow and not allow the build-up of false hopes.

APPENDIX A

AN ECONOMIC OVERVIEW, 1968-1982

by

Robert Adler

I. ECONOMIC STRUCTURE AND GROWTH

Chronologically, Peru's growth has fluctuated violently from periods of boom to periods of stagnation and decline when major exports were exhausted or world demand collapsed. The economic structure became increasingly divided between the export sectors, which introduced modern technology in periods of boom, and the rest of the economy, where technology changed little and output growth was slow. The periods of bonanza did not result either in the development of linkages between the primary export sectors and the rest of the economy, or in much permanent development progress.

Compared with the meager development achievements of previous centuries, the first half of the 20th century and the post-World War II period up to the mid 1970s was an era of remarkable economic growth. By the 1960s, Peru had acquired a [illegible] mary products export base including fishmeal, [illegible] lead, zinc, cotton, sugar, and coffee. The [illegible] Peruvian exports was 1958-1962, when volume increased by 82 percent due to the rapid growth of the fishmeal industry and the one-time effect of the opening of the large-scale Toquepala copper mine in 1959.

This diversity of exports tended to dampen the boom-bust cycles, and by the 1960s, due in part to the comparative abundance of foreign exchange earnings, a small manufacturing sector had emerged behind large protective walls. During the period 1951-1975, Peru's global economic output as measured by GNP (1951-1970) or GDP (1971-1975) grew by 250 percent and the output of basic productive sectors grew by 245 percent. This sustained economic growth outstripped a population growth of approximately 92 percent and produced an average annual increase in GNP per capita of about 2.5 percent.

The ownership pattern of economic assets up to 1968 was highly concentrated. The best croplands and most of the modern sector were owned by relatively few people. With substantial growth of the modern sector, the economic distance between the modern and traditional sectors grew. Migration from rural to urban areas and from <u>sierra</u> to <u>costa</u> expanded the urban middle-income group, and undoubtedly intensified political pressure to modify the pattern of development and the distribution of income.

The reformist strategy of the first Belaunde Government (1960-1968), particularly agrarian reform and recovery of foreign-owned petroleum exploitation, ran into serious political and financial problems. By 1968, the Peruvian military was convinced that reform could occur only by means of direct intervention and that the democratic institutional apparatus had been manipulated by the oligarchs to prevent reform. By 1969 in rural areas, particularly in the sierra, political pressure to modify land tenure had become intense.

II. THE PERUVIAN REVOLUTIONARY EXPERIMENT

A basic tenet of the revolutionary experiment was that structural changes in the land tenure system, ownership of major economic assets, education, and worker participation in the industrial, mining, and fishing sectors would lead to increased incomes for the poor and a more just society. The Velasco, or Phase I Government (October 3, 1968-August 29, 1975) undertook the most sweeping reform in Peruvian history to restructure the ownership of national wealth. By 1973, the state had assumed the role previously held by foreign capital in electricity, telephone, and railways, and had taken over much of the mining sector and banking system, virtually all export marketing, and the entire fishing sector. Through nationalization and the creation of new enterprises, the state took direct control of over 150 enterprises in key economic sectors.

In addition to the drive toward socialism via direct ownership and new cooperative enterprises, the state imposed strict operating controls on the nonpublic sector through copious and intricate legislation. Controls were imposed on crop planting decisions, agricultural marketing and food prices, foreign exchange transactions, industrial investment, and employee termination. These controls tied up scarce management and administrative know-how, were usually ineffective in terms of objectives sought, and reduced the fluidity of decision-making processes in both public and private sectors. In addition, these controls--perhaps even more than expropriations--served to alienate and distance the private sector. A key supposition was that the attack on large-scale capital, foreign and domestic, would open the way for a new stratum of dynamic local enterprises of medium scale. However, on the whole, private investment declined in the period 1969-1973. Many potential investors left Peru, and most of those who stayed adopted a "wait and see attitude." The Government achieved a larger degree of success in maintaining a net foreign capital inflow than in mobilizing domestic savings.

The Velasco Government mobilized external resources by means of large-scale borrowing to finance its major investment projects and other purposes. From year-end 1971 to year-end 1975, public sector debt on a disbursed basis rose from $1.0 billion to $3.1 billion. The major sources of this increase were foreign private commercial banks ($1.2 billion), socialist countries ($0.1 billion), and other governments ($0.6 billion).

The common element that diminished the impact of the USG and International Financial Institutions (IFI) credit freeze (related to unsettled expropriation cases) was petroleum. In 1972, the Government began to contract with foreign private petroleum companies for the exploration of petroleum, mainly in Peru's northeast jungle. Over a dozen firms entered into contracts, and exploration proceeded at an intensive pace. By late 1975, despite two successful oil strikes, the total reserves located amounted to only 550 million barrels (about 3 to 4 months of Venezuelan production).

By 1975, Peru's balance of payments also became a pressing problem, with a reserve loss of $0.6 billion (see Table A-5). With a fixed exchange rate, the rapid growth of domestic credit had led to increased real incomes, expanded aggregate demand, and a sharp increase in imports. At the same time, export earnings were being eroded due to an absolute decline in export volume associated with reduced or negative profits, particularly in the small- and medium-size mining sector and agriculture. By 1975, the Phase I policy of maintaining stable food and petroleum product prices was also becoming a substantial fiscal drain. Thus, pressure was building to correct the growing overvaluation of the sol, the balance of payment deficits, and the inflation-promoting expansion of domestic credit directly related to the growing public sector deficit.

III. ECONOMIC DETERIORATION

Estimated GDP per capita for 1981 was 14.3 percent lower than that which would have resulted from a 2 percent per annum growth from 1970. After 1974 the economic trends included (a) accelerating inflation, (b) declining real income (mainly in the urban sector), (c) declining rate of growth of output of goods and services as measured by Gross Domestic Product, (d) an increase and then a decrease in the domestically financed fiscal deficit, and (e) a substantial decline and recovery in Peru's net international reserve position.

From December 1976 to June 1978, a period of approximately 17 months, Peru did not receive sufficient external balance of payments financing to qualify the first-round as a completed stabilization transaction. The recessionary effects of stabilization on the domestic economy were in clear evidence by the first half of 1977. If one ignores the second half of 1976, which the IMF evaluated as a significant stabilization effort, fiscal restraint was markedly absent prior to the second half of 1978. The key elements responsible for the inability of the GOP to obtain balance of payment support loans in 1977 were (1) failure of the GOP to pursue a program of fiscal restraint (which impared 1977 negotiations with the IMF); (2) expanded arms purchases in 1976 (which increased the resistance of foreign bank creditors to a credit package without IMF involvement); and (3) political unrest arising from the onset of recession in 1977, which undermined Government support for any stabilization effort that was perceived as reducing aggregate demand. By the second quarter of 1978, Peru entered into arrearage on short-term commercial debt, thereby closely approaching the disruption of imports which is the antithesis of a completed stabilization transaction.

The second round stabilization effort initiated in May 1978 was marked by strong improvement in Peru's external accounts. The Phase II Government obtained and complied with a $300 million stand-by arrangement with the IMF which was signed in September 1978 (to run through 1980) and undertook a major renegotiation of external debt in late 1978. Peru's balance of payments moved to a strong surplus position in 1979 and 1980. The increase in the net international reserves of the Peruvian banking system, i.e., the balance of payments surplus, amounted to U.S. $1,578.9 million in 1979 and U.S.$767.0 million in 1980. The favorable balance of trade of 1979-1980 was due to (a) high prices for mineral exports, which traditionally represent about 45 percent of export earnings; (b) a strong increase in the international price of petroleum along with a significant increase in domestic petroleum production; (c) growth of nontraditional exports and; (d) a low level of imports in 1979, which reflected a situation of urban-industrial recession.

Even by 1982, Peru had not recaptured the dynamic growth of the 1950s and 1960s. To what extent the economic deterioration of the latter 1970s should be attributed to Peruvian revolutionary experiment or only to structural reform is a moot question. Some of the economic costs are obvious, e.g., the start-up costs of various state enterprise, losses due to decapitalization of physical and human capital in the foreign enterprise and agricultural sectors, and the loss of potential investment of wealthy emigrants. Apart from these costs, some of which will be offset by future benefits, the most powerful identifiable causes of economic deterioration were the following:

1. <u>Living Beyond Its Means</u>. From 1971 on, and apart from 1974, Peru's balance of payments was not strong. Public and private external debt increased rapidly. Expansion of domestic credit was too rapid to assure price stability and the efficient operation of a fixed exchange rate. Tax revenues declined as a proportion of GDP, and the Government of Peru failed to capture sufficient domestic resources to avoid inflationary finance. By 1976, the erosion of international reserves brought increasing doubts concerning Peru's external credit-worthiness. Unfortunately, the Government delayed undertaking appropriate macroeconomic corrections. The argument here is that a more timely reduction in aggregate demand in 1974-1975 would have brought a milder recession and easier adjustment.

2. Waste of Capital. Gross Domestic Investment, which had averaged 20.9 percent of resource utilization (the sum of consumption plus Gross Domestic Investment) during the 9-year period 1960-1969, fell to 15.6 percent of total resource utilization during the 9-year period 1969-1977. The public sector's share of Gross Fixed Investment averaged 46.6 percent during the 5-year period 1972-1976 as compared with 27.3 percent during the period 1962-1966. Unfortunately, not all public spending proved to be economically productive. For example, Peru's Minister of Economy and Finance stated publicly on June 14, 1978, that military expenditures had been excessive. Excessive military expenditures, certain public sector projects of low productivity, private sector capital flight (related mainly to the over-invoicing of imports) and "protective" private sector investment of low productivity resulted in a large waste of resources. This waste would have a negative impact on the pace of economic growth and would necessarily lead to a lowering of living standards, but always with a significant lapse of time. Some experts claim that the efficiency of public sector resource use was so low during the Phase I Government that more growth and development benefits could have been achieved with a much lower level of investment.

3. Bad luck. The failure to find more ample petroleum reserves was a very important force in limiting the external resources inflow. World market conditions for Peru's exports also weakened markedly after 1974 and did not revive until 1979. In the mid-1970s some analysts were projecting that Peru's commodity exports would reach nearly $4 billion in 1978. Earnings in 1978 were actually $1.9 billion. (The difference arose principally from lower-than-forecast volumes of fishmeal and petroleum exports and from low copper and sugar prices.) As the mirror image of bad luck export earnings reached $3.9 billion in 1980.

4. Inconstant Economic Policy. Consistent application of the Phase II first round stabilization effort would have led to a smaller reduction in real incomes and less recession of the economy than what actually took place. The inconstancy of Phase II economic policy increased inflation and heightened recession mainly as a result of a 150-percent devaluation from October 1977 to June 1978. The only feasible option for avoiding a sharp decrease in real incomes after 1975 was to obtain bridge financing to 1978-1979; the Phase II Government failed in this task.

Table A-1. Gross Domestic Product (GDP) Per Capita Data, 1970-1981

Year	In Current Market Prices					In Constant 1970 Soles		
	GDP in Millions of Soles	Population in Thousand (mid-year)	GDP per Capita in Soles	GDP in Millions of Dollars[1]	GDP per Capita in Dollars[2]	GDP per Capita in Soles	Annual Percentage Change in GDP	Annual Percentage Change in GDP Per Capita
1970	240,666	13,447	17,897	6,219	462	17,897	--	--
1971	264,437	13,830	19,120	6,833	494	18,294	5.1	2.2
1972	294,683	14,224	20,717	7,614	535	18,826	5.8	2.9
1973	359,214	14,628	24,557	9,282	635	19,441	6.2	3.3
1974	447,505	15,044	29,746	11,563	769	29,199	6.9	3.9
1975	555,550	15,470	39,911	13,772	890	20,299	3.3	0.5
1976	769,052	15,908	48,344	13,792	867	20,339	3.0	0.2
1977	1,052,146	16,357	64,324	12,485	763	19,547	-1.2	-2.9
1978	1,670,945	16,819	99,349	10,714	637	18,668	-1.8	-4.5
1979	3,068,200	17,293	177,424	13,687	791	18,842	3.8	0.9
1980	4,962,461	17,779	279,119	17,223	969	18,876	3.0	0.2
1981[1]	8,484,925	18,278	464,215	20,083	1,099	19,074	3.9	1.0

[1]Preliminary data.
[2]Conversion to U.S. dollars effected at a rate of exchange of U.S. $1 = S/.38.70 for the years 1972-1974, S/.40.34 for 1975, S/.55.76 for 1976, S/.84.27 for 1977, S/.155.96 for 1978, S/.224.17 for 1979, S/.288.13 for 1980, and S/.422.50 for 1981.

Source: Banco Central de Reserva del Peru, Memoria and consultation.

Table A-2. Inflation in Lima, Peru, 1969-1981
(based on Lima Consumer Price Index and GOP deflator)

Year	Percentage Change in Annual Index Number	Percentage Change December Year Cited Over Previous December	Percentage Change in GDP Deflator CBR National Accounts
1969	6.2	5.7	8.5
1970	5.0	5.6	6.8
1971	6.8	7.8	4.5
1972	7.2	4.3	5.3
1973	9.5	13.8	14.8
1974	16.9	19.2	16.6
1975	23.6	24.0	20.1
1976	33.5	44.7	34.4
1977	38.0	32.4	38.5
1978	57.8	73.7	61.7
1979	67.7	66.7	76.3
1980	59.2	60.8	57.3
1981	74.4	72.7	--

Table A-3. Real Wages Lima Area, 1970-1981
(annual averages in 1973 soles and
as index number 1973 = 100)

	White-Collar Workers		Blue-Collar Workers	
Year	1973 Soles	Index Number	1973 Soles	Index Number
1970	8,941	86.5	3,903	75.8
1971	9,478	91.7	4,337	84.2
1972	9,794	94.7	4,718	91.6
1973	10,338	100.0	5,150	100.0
1974	9,487	91.8	4,852	94.2
1975	9,062	87.7	4,658	90.4
1976	7,980	77.2	5,020	97.5
1977	6,883	66.6	3,987	77.4
1978	5,619	54.4	3,535	68.6
1979	5,606	54.2	3,720	72.2
1980	6,048	58.5	3,754	72.9
1981[1]	6,110	59.1	3,744	72.6

[1]Estimated.

Source: <u>Peru Economico</u> (January-February 1982, p. 12). Original source is Ministry of Labor.

Table A-4. Consolidated Operations of the Non-financial Public Sector[1] as Percentage of GDP, 1970-1981

Item	1970	1971	1972.	1973	1974	1975	1976	1977	1978	1979	1980	1981
Current Income	23.2	24.9	29.3	33.8	37.9	36.2	35.5	38.9	41.3	47.6	53.6	48.2
(of which non-tax income)	(7.0)	(9.0)	(13.0)	(17.5)	(21.0)	(18.2)	(19.8)	(23.0)	(24.6)	(29.2)	32.3	29.5
Current Expenditure	18.7	21.4	26.7	32.1	35.2	36.2	36.5	41.7	42.0	42.6	52.2	48.0
Capital Income	0.6	0.7	0.4	0.2	0.4	0.1	0.1	0.1	0.3	--	0.7	0.4
Capital Expenditures	5.9	5.6	5.8	6.5	9.9	9.8	9.1	7.1	5.8	6.2	8.6	8.8
Deficit	0.8	1.4	2.9	4.6	6.8	9.7	10.0	9.8	6.2	1.1	6.4	8.2
Externally Financed	1.2	0.2	1.6	3.2	4.6	4.9	3.4	4.8	2.6	-0.7	2.2	3.5
Domestically Financed	-0.4	1.2	1.3	1.4	2.2	4.7	6.5	5.0	3.5	1.8	4.3	4.6

[1] Includes central Government, decentralized entities, state enterprises, local government, social security, i.e., all public sector entities except those in the banking sector.

Source: Banco Central de Reserva del Peru, Memoria 1980, p. 162 and Gross Domestic Product in current soles.

Table A-5. Peru's Balance of Payments, 1973-1981
(in millions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981[a]
I. Goods and Services									
1. Exports, FOB	1,111.8	1,503.3	1,209.9	1,359.5	1,725.6	1,940.7	3,490.9	3,898.3	3,218
2. Imports, FOB	-1,033.0	-1,908.9	-2,390.1	2,100.0	-2,164.0	-1,600.5	-1,951.3	-3,061.7	-3,850
A. Trade Balance	78.8	-405.6	-1,099.2	-740.5	-438.4	340.2	1,539.6	836.6	-632
3. Freight	-47.7	-60.3	-102.5	-60.7	-56.4	-6.7	3.9	-50.5	-141
4. Interest & Profit Payments	-180.9	-218.5	-240.3	-366.4	-426.4	-577.7	-966.5	-834.7	-850
(Public)	(-65.6)	(-104.4)	(-193.4)	(-275.4)	(-299.6)	(-420.2)	(-483.7)	(-478.2)	(-526)
(Private)	(-115.3)	(-114.1)	(-46.9)	(-91.0)	(-126.0)	(-157.5)	(-428.8)	(-356.5)	(-324)
5. Government Transactions	-14.2	-14.2	-16.5	-12.3	-23.4	-22.0	-25.6	-27.5	-44
6. Transportation	-56.2	-112.2	-94.3	-93.4	-88.4	-76.0	-74.1	-99.2	-122
7. Travel	15.0	18.5	8.0	44.8	75.6	107.9	143.6	98.2	155
8. Other Services	-28.6	-59.9	-43.0	-21.3	-35.6	-13.5	-14.0	-81.9	-151
B. Balance of Services (items 3 to 8)	-312.6	-446.7	-488.6	-509.3	-544.6	-588.0	-932.7	-995.6	-1,153
C. Transfer Payments	42.1	45.1	49.4	57.8	56.8	56.0	122.0	134.3	167
D. Balance on Current Account (A+B+C)	-191.7	-807.2	-1,538.4	-1,192.0	-962.2	-191.8	728.9	-24.7	-1,618
II. Capital Account (Net)									
9. Direct Investment[b]	49.4	143.8	315.7	170.8	54.1	25.0	71.0	26.9	280
10. Loans to Private Sector	20.1	57.8	26.6	25.0	15.0	13.8	-31.8	64.5	176
11. Loans to Public Sector	319.5	697.0	792.7	547.4	610.7	393.7	662.5	374.7	411
12. Loans to Rest of Public Sector	55.8	12.8	-28.4	-67.7	-6.0	-11.2	-26.0	-5.7	-1
13. Change in Assets and Liabilities	-61.8	-16.5	28.5	--	--	--	--	--	--
E. Long-Term Capital (net)	383.0	894.9	1,135.1	675.5	673.8	421.3	675.7	460.4	866
F. Net Basic Balance (D+E)	191.3	87.7	-403.3	-516.5	-252.4	229.5	1,404.6	435.7	-752
15. Short-Term Capital	-124.7	243.5	-150.0	-387.7	-114.8	-75.5	100.5	c/	c/
16. SDRs	--	--	--	--	--	--	22.4	21.7	21
17. Errors and Omissions	-53.4	-49.3	-23.4	36.6	17.6	-78.1	51.4	264.9	147
H. Total (F+15+16+17)	13.2	281.9	-576.7	-867.5	-349.1	75.9	1,578.9	722.3	-584
III. Compensatory Movement[d]	-13.2	-281.9	576.7	867.5	349.1	-75.9	-1,578.9	-722.3	584

[a]Preliminary data, subject to revision.

[b]Includes portfolio investment.

[c]Included with errors and omissions.

[d]Negative sign indicates increase in banking system net international reserve position.

Source: Banco Central de Reserva, December 1980 for data 1973-1979, March 1981 for data on 1980.

Table A-6. Peru's External Debt--Disbursed Basis, 1973-1981

(in millions of U.S. dollars, December 31 of each year)

Item	1973	1974	1975	1976	1977	1978	1979	1980	1981
1. Long-Term Debt (over one-year term)	2,692	3,441	4,352	4,865	6,263	7,225	7,941	8,125	8,457
A. Public Sector	1,491	2,182	3,066	3,554	4,311	5,134	5,764	6,043	6,454
B. Central Bank	--	--	--	--	626	751	869	710	455
C. Private Sector	1,201	1,259	1,286	1,311	1,326	1,340	1,308	1,372	1,548
2. Short-Term (less than one year)	1,771	2,128	2,056	2,436	2,134	1,830	1,186	1,262	1,405
A. Commercial & Financial Credits	1,610	1,854	1,704	1,316	1,202	964	751	695	724
B. Banking System	161	274	352	1,120	932	866	435	567	681
Central Bank	35	--	21	486	275	309	5	25	24
Banco de la Nacion	115	264	267	505	489	452	376	450	530
Commercial Banks	11	9	64	128	166	101	47	61	92
Development Banks	3	3	3	3	2	4	7	31	35
3. Total (3 = 1 + 2)	4,463	5,569	6,408	7,301	8,297	9,055	9,127	9,387	9,862

Sources: MEFC; DGCP; BCRP, Departamento de Deuda Externa.

APPENDIX B

AGRICULTURE AND FOOD

by

Robert Adler

I. GENERAL STRUCTURE AND CHARACTERISTICS

Peru is endowed with a very small amount of land suitable for intensive agricultural use. With a surface area of 1,285,000 km^2 or 128.5 million hectares (ha), only 3.5 million ha, or 2.7 percent, are suitable for clean tillage agriculture (Classes I through IV), and the productivity of this land is not uniformly high. Peru is divided into three well-defined topographic/climatic areas; from west to east they are the costa, a narrow arid coastal belt; the sierra, the high inter-mountain lands of the Andes and associated narrow valleys, and the selva, the forested, humid slopes and lowlands east of the Andes.

A. The Costa

 is 16 to 160 km wide and comprises 11 percent of u. The costa is accessible by road. It is irrigated by some 52 rivers draining the western slope of the Andes and about half its agricultural land is cultivated, almost exclusively under irrigation. Most of it is under the management of agrarian reform-created, collective-ownership entities, primarily agricultural production cooperatives (CAPs). A quarter to a third of the 800,000 ha of irrigated coastal cropland suffers from drainage and salinity problems. Major industrial crops, predominantly sugarcane and cotton, account for 33 percent of the harvested area; another 30 percent is sown to grains, mostly rice and corn; 9 percent is cultivated pastureland, and 28 percent is in pulses, vegetables, potatoes, and fodder crops. The costa accounts for about 43 percent of the gross value of agricultural production. It also serves a predominant role in the economic structure of Peru, containing about 50 percent of total population and producing over 70 percent of Gross Domestic Product (GDP). The focus of trade, finance, administration, and manufacturing is Lima, the capital city, by far Peru's most heavily populated food-consuming center.

B. The Sierra

The sierra contains about 26 percent of the land area of Peru and is a highland region up to 320 km wide with elevations over 1,200 meters and a topography which includes isolated mountain valleys and a few high plains. The quantity of land used for crop agriculture amounts to 1.5 million ha, with substantial use of fallowfield/crop rotation and 250,000 ha under irrigation. Approximately 18 million ha of the sierra are in natural pastures which sustain most of Peru's grazing animals (sheep, bovine, and native ruminants). Characterized by generally poor and eroding soils, recurrent drought and frost, this area nevertheless has some valleys with deep fertile soil.

Almost all of Peru's wheat, 90 percent of its potatoes, and a third of its corn are produced in this region, largely by small farm holders. The sierra accounts for approximately 80 percent of the nation's cattle, almost all of its sheep, over 60 percent of its pigs, 70 percent of its goats, and all of its 3.2 million alpaca and 1.5 million llamas. The area is noted for its large, collectively held farms and ranches, which are mainly in natural pasture. They are operated under agrarian reform-instituted management schemes, but reflect traditional landholding patterns. The large associative enterprises exist side by side with small farmers working two or three hillside plots of 2 to 20 ha each. Virtually all <u>sierra</u> land suitable for agriculture (and much that is not) is presently occupied. Increased crop yields and reduced land erosion are feasible through more appropriate land use, application of available technology, and improved irrigation. About 42 percent of the gross value of agricultural production originates in the <u>sierra</u>. The predominant share of production is for on-farm consumption; however, there are some limited areas that produce mainly for commercial markets, notably the Mantaro, Cajamarca, and Urbamba valleys. The region's principal commercial agricultural exports are wool, potatoes, and barley.

C. <u>The Selva</u>

The <u>selva</u> represents about 62 percent of the land area of Peru and is distinguished by two zones, the <u>ceja de selva</u> (or high jungle), a narrow band of eastern Andean foothills, and the <u>selva baja</u> (or low jungle). The area has abundant rainfall throughout the year and numerous rivers which flow into the upper Amazon. Nearly all the developed permanent agriculture is confined to the high jungle, and land of acceptable sustained productivity for the usual agricultural purposes is limited to those areas where annual rainfall is less than 2.5 meters. The area is characterized generally by fragile, acid soils, pest problems, sporadic torrential rainfall, and is isolated by the Andes from coastal markets. Climate, rainfall patterns, and soil vary considerably from north to south, generally becoming less favorable toward the south.

Many <u>selva</u> products are at a competitive disadvantage because of high freight rates resulting from difficult ground transportation and the rudimentary market structure. Although much of the farming is for on-farm consumption, beef and other livestock are raised, as well as a variety of crops including upland and paddy rice, coffee, rubber, cacao, citrus, pineapple, maize, and other food crops. Technology for successfully exploiting the region on a sustained-yield basis is incompletely developed and is not always readily transferable without local adaptive research, although a body of knowledge is growing slowly as a result of accumulating farmer experience and results of scientific research. The selva accounts for about 15 percent of total agricultural production. Production has been expanding in recent years, primarily as a function of improvements in land transportation.

II. PRODUCTION, EXPORTS, AND IMPORTS

Estimates of how fast agricultural production has increased in Peru during the past two decades are unreliable. The USDA agricultural production index (which is based upon 18 crop items and 7 livestock items) indicates almost zero change for total agriculture in 1980 as compared with 1969-1971 (see Table B-1), and the previous index revealed a similar situation for 1975-1978 as compared with 1961-1965. Peru's Oficina Nacional de Estadisticas' (ONE) global data on agricultural production for the period 1960-1978 indicate a 2.1 percent increase per year. We suspect that a broadly based index of total agricultural production weighted for periodic price changes might reveal production growth on the order of one percent per year. This performance, if true, is strikingly inferior to the USDA agricultural production index for 22 Latin American countries which indicated an annual growth of 3.1 percent per year for the 15-year period 1963-1978.

The failure of Peruvian agricultural production to keep pace with population growth is reflected in a secular increase in imports of agricultural goods and a secular decline in exports of agricultural goods as percentages of imports and exports over the past three decades. Even though suitably detailed data are not available for imports, the export data indicate that while Peru's exports of cotton, sugar, coffee, and wool accounted for 56.2 percent of total export earnings in 1945, the ratio had declined to 43.9 percent by 1955 and to 24.3 percent by 1965. In 1975, the ratio was 36.0 percent, and it declined to 10.5 percent in 1978-1980. Even though other agricultural exports may have grown slightly, the declining ratio of agricultural exports to total exports reflects the growth of Peru's mineral, fish, and, in recent years, petroleum exports.

The widening gap between stagnant domestic agricultural production and the expanding requirements of a growing population that is increasingly urban has made Peru increasingly dependent on a variety of imported food and feed commodities.

Table B-1. Annual Production by Commodity, Value, and Indices of Agricultural and Food Production, 1971-1980

Commodity	Price Weight	Average 1969-1971	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
	Dollars	1,000 Metric Tons										
Wheat	111	128	122	40	149	150	143	148	130	90	95	90
Rice, Paddy	78	541	591	552	451	426	473	570	547	430	478	367
Corn	88	605	616	589	616	600	625	700	720	550	600	450
Barley	66	164	159	160	165	168	168	165	170	175	175	150
Millet	80	9	8	8	8	8	8	10	8	8	8	8
Sorghum	80	15	18	20	22	18	30	40	50	80	90	60
Beans, Dry	209	50	48	47	37	35	36	36	38	40	40	38
Potatoes	59	1,918	1,968	1,750	1,713	1,722	1,640	1,667	1,600	1,560	1,400	1,300
Cassava	30	477	482	490	460	469	470	402	410	410	425	410
Sweet Potatoes	35	167	168	170	155	146	150	163	165	165	160	150
Onions	35	149	158	150	136	149	138	154	155	169	160	150
Sugarcane	5	7,345	8,291	8,582	8,746	9.179	8,928	9,560	9,410	7,970	7,034	5,596
Tobbaco	504	3	2	3	4	5	5	4	3	3	3	4
Cotton	611	86	77	73	84	88	73	57	58	76	90	96
Cottonseed	61	144	122	115	149	160	132	102	99	127	155	166
Soybeans	152	1	1	1	3	5	8	3	3	4	5	5
Bananas	34	654	685	736	730	743	740	702	700	705	740	725
Coffee	425	59	62	62	60	54	54	57	62	66	76	61
Cattle Imports[1]	217[2]	98	101	87	30	10	10	10	5	0	0	0
Beef and Veal	608	95	111	96	85	95	91	84	81	83	78	74
Mutton and Lamb	526	33	33	31	34	36	32	32	33	33	33	33
Pork	570	49	54	42	45	55	55	53	52	52	55	58
Poultry	893	47	50	63	73	92	108	130	120	88	86	114
Milk	102	595	606	606	619	625	634	640	630	635	639	634
Wool, Greasy Basis	485	10	11	8	9	9	9	9	9	8	8	8
Eggs	625	27	39	53	53	66	60	62	62	44	40	44
		Million Dollars At Constant Price										
Aggregates of Productions												
Crops		418.2	425.1	409.9	408.9	410.2	399.6	405.9	402.8	383.1	394.5	351.2
Livestock		206.1	230.0	234.8	254.6	297.6	304.3	320.5	309.8	272.3	267.1	293.4
Livestock Feed Deduction	.21	-43.2	-48.3	-49.3	-53.4	-62.4	-63.9	-67.3	-65.0	-57.1	-56.0	-61.6
Total Agriculture		581.1	606.8	595.4	610.1	645.4	640.0	659.1	647.6	598.3	605.6	583.0
Total Food		497.2	527.1	519.0	526.9	561.7	565.5	593.7	579.9	518.4	512.9	492.5
		Index Number										
Indices of Production[3]												
Crops		100	102	98	98	98	96	97	96	92	94	84
Total Agriculture		100	104	102	105	111	110	113	111	103	104	100
Total Food		100	106	104	106	113	114	119	117	104	103	99
Per Capita Agriculture		100	101	97	96	99	95	95	90	81	80	73
Per Capita Food		100	103	98	97	100	98	100	95	82	79	74
Index of Population												
1969-1971 Population = 13,333,000		100.0	103.1	106.1	109.4	112.7	116.2	119.6	123.2	126.8	130.4	134.0

[1] In 1,000 head.
[2] Average price per head.
[3] 1969-1971 = 100.

These imports include wheat, corn, grain, sorghums, rice, soybeans, beef and offals, milk products, and vegetable oils. The volume of these principal imports averaged 996,948 metric tons in 1970-1974 and 1.195 million metric tons in 1975-1979, a growth of 19.9 percent and an average annual growth of 3.7 percent per year. The value of agricultural imports grew from $125 million in 1970 to $477 million in 1980 (see Table B-2). Year-to-year movements in value were erratic. Prior to 1980 the highest food-feed import bill was $390 million in 1975. World inflation obviously impacts on current-year dollar values. Deflating the Peru import values by the U.S. index of food and feedstuffs (at producer levels for further processing) indicates a 65.0 percent increase in constant value from 1970 to 1980.[1] However, comparing the period 1978-1980 with the period 1970-1972 indicates a growth of 10.9 percent, i.e. an annual average of 1.3 percent. This relatively low rate of growth was disturbed mainly by the high price of wheat in 1975 and Peru's drought-related rice imports in 1980. This constant value index grew rapidly from 1970 to 1974, undoubtedly reflecting the substantial increase in urban incomes during that period, and declined markedly after 1975 up to 1980--undoubtedly reflecting the deterioration of urban incomes during that period.

III. PERUVIAN DIETS

Analytically interesting similarities and differences exist with regard to food consumption and diets in Peru. According to the Encuesta Nacional de Consumo de Alimentos (ENCA) survey, food consumption is quite similar in Lima and the rural areas of Peru, with 414.9 kg for Lima and 402.8 kg for the rural areas.[2] However, dietary composition is quite dissimilar. By volume average, the Lima diet contains approximately four times as much vegetables, milk, fruit, and fish as the average rural diet. The latter contains about three times as much tubers and a slightly higher amount of fresh-water fish. The consumption of cereals is similar only in quantity; the

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[1]The specific values generated from this deflator (from Economic Report of the President, 1981, p. 296), applied to Table B-2 in 1967 constant dollars as follows (in millions): 1970 (111.6), 1971 (131.3), 1972 (130.4), 1973 (132.2), 1974 (185.3), 1975 (203.3), 1976 (163.1), 1978 (110.0), 1979 (119.7), 1980 (184.2).

[2]See Carlos Amat y Leon and Dante Curonisy, La Alimentacion en el Peru, (Centro de Investigacion de la Universidad del Pacifico, Lima, November, 1981).

Table B-2. Value of Agricultural Imports, 1970-1981
(in millions of U.S. $)

Item	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
<u>Principal Agricultural Imports</u>												
Wheat	38.4	52.3	54.2	96.0	136.0	135.7	118.8	96.7	103.4	145.1	142.1	169.6
Corn	-	-	8.5	20.9	41.4	54.1	36.9	24.3	16.6	16.7	69.3	50.4
Rice	-	-	-	-	-	31.2	19.2	-	-	47.6	101.2	50.0
Dairy Products	8.4	16.9	28.4	28.2	37.0	38.5	27.3	24.5	20.8	17.5	46.9	58.8
Vegetable Oil	13.0	17.8	12.3	27.0	40.0	40.2	36.4	38.5	48.0	15.3	25.0	37.2
Sorghum	-	0.6	3.0	2.4	8.0	4.5	-	3.0	-	3.7	-	-
Soybeans	-	-	6.5	5.4	3.8	7.9	6.9	7.0	8.6	6.3	-	-
Other	43.8	49.5	40.7	42.7	74.2	69.5	57.2	47.2	8.3	38.3	73.0	134.8
Total	103.6	137.1	153.6	222.6	334.4	381.6	302.7	241.2	235.9	290.5	457.5	501.7
Total Peru Imports	700.0	730.0	812.0	1,033.0	1,908.0	2,390.0	2,100.0	2,164.0	1,601.0	1,951.0	3,062.0	3,850.0
Principal Agr.Imp. as % of Total Imports	14.8	18.8	18.9	21.6	17.5	16.0	14.4	11.1	14.7	14.9	14.9	13.0
PL 480 Title I as % of Principal Agr. Imports	0	0	0	0	0	0	0	0	8.44	6.76	3.95	
PL 480 Title I as % of Total Imports	0	0	0	0	0	0	0	0	1.24	1.02	0.65	0.52

average Lima diet contains bread and rice, and the average rural diet contains corn, domestic wheat, and quinua.

In regard to particular foods (see Table B-3), the average Lima diet contains a high proportion of such imported products as bread and spaghetti (imported wheat), evaporated milk (imported nonfat dried milk), chicken (based partly on imported corn used for feed), and vegetable oil (based partly on imported soybeans and vegetable oil). The average rural diet depends almost exclusively on domestic products, principally tubers, corn, cassava, and locally produced wheat and barley. This dependence results mainly from the high ratio of on-farm production in rural consumption. In rural Peru 63 percent of food commodities come from on-farm production of rural households, and in the sierra and selva these ratios are even higher--72 percent and 65 percent, respectively.

Based on quantity, 16 specific food items account for 66 percent of the average Lima diet, and 16 food items also account for 69 percent of the average rural diet. Nevertheless, a total of 278 products was encountered in the costa and 142 products were encountered in the sierra, excluding an additional number of varieties of corn, potatoes, beans, etc. Even though nearly all rural households engage in some off-farm food marketing, the dominant force in the commercial food market is obviously urban. The average rural diet is shaped principally by what can be grown by the farm family, and the average urban diet is shaped by what can be transported to markets. The calculation of effort and reward operates for the rural families in much the same way as availability and relative price shape the urban diet.

High percentages of households in Peru suffer malnutrition (defined as less than 90 percent of the caloric intake required by activity level)--39 percent in Lima and 54 percent in rural Peru. The principal difference between well-nourished and malnourished households is the quantity of food consumed and the level of expenditures and, hence, income (see Table B-4). The authors of the study La Alimentacion en el Peru (Food Consumption in Peru) found also that it was possible to obtain good nutrition without consuming imported food and that food prices did not discriminate between the well and poorly nourished.

IV. DEMAND FOR COMMERCIAL FOOD

Peru's urban population has been growing at a higher rate than that of the total population. Data from the 1981 census indicate an urban growth rate of 3.6 percent per year and a rural growth rate of 0.9 percent per year. In 1981, approximately 65 percent of the people resided in urban areas.

Table B-3. Spacial Distribution of Consumption of Some Foods, 1971-1972
(percentages)

Commodity	Lima	Other Cities	Towns	Rural	Total
High Imported Component					
Bread	56	14	17	13	100
Spaghetti	34	16	13	37	100
Vegetable Oil	38	22	18	22	100
Fresh Milk	41	26	14	19	100
Evaporated Milk	65	15	12	8	100
Chicken	56	20	12	12	100
Beef	39	26	17	18	100
Domestic					
Potatoes	15	9	11	65	100
Rice	36	20	17	27	100
Corn	9	5	10	76	100
Cassava	8	9	11	72	100
Plantains	19	14	14	53	100
Beans	18	13	14	55	100
Wheat	6	4	12	78	100
Quinoa	-	-	10	90	100
Sugar	51	19	15	15	100
Crude Sugar	0	13	21	67	100
Population %	25	17	14	44	100

Table B-4. Comparison of Well-Nourished and Malnourished Households, 1971-1972

Item	Lima		Rural Peru	
	Well-Nourished	Malnourished	Well-Nourished	Malnourished
Percentage of Expenditure on Food	45.0	34.0	68.0	57.0
Monthly per Capita Consumption	42.9	26.3	48.2	21.9
Monthly per Capita Food Expenditures (1972 prices)	655.0	372.1	415.9	178.9
Caloric Intake	2,649	1,622	3,749	1,429
Protein Intake (grams)	82.9	54.3	95.7	n.a.
Cost per 1,000 Calories (S/.)	8.0	8.5	4.3	4.7
Cost per 10 gr. Protein (S/.)	2.6	2.6	1.5	1.8
Percentage of Households in Group	61.0	39.0	46.0	54.0

Supplementary estimates suggest that approximately 24 percent of the population resides in the Lima metropolitan area and another 13 percent is located in another 12 urban areas with populations in excess of 50,000. In recent years, these major urban areas have had a relatively higher population growth rate than that of urban Peru--4.5 percent versus 3.6 percent per year. Therefore, demand for food from commercial markets is obviously growing at a higher rate than would be dictated by the secular rise in population and incomes.

The reason for the high growth of demand for food in urban Peru is clear: rural people who migrate to urban Peru cease to produce food and become a net addition to the commercial food market in urban areas. For urban Peru, as represented by the Lima metropolitan area, income elasticity of demand for food is 0.5 to 0.6. With a 4.5 percent per year population growth rate, even a 1.0 percent per year growth in real income would create an overall yearly demand for commercially marketed food of 5.0 percent per year. In a closed economy, food prices would rise, choking off the growth in real income, but in an open economy the demand can be transferred to increased food imports. Even with greater reliance on a price-directed resource in allocation, it is not obvious that the agricultural sector would benefit substantially from the increase in food demand. This pessimistic note derives from the heterogeneity of Peru's agricultural resource base, the absolute scarcity of high-quality available land, and the high cost of transportation to the <u>sierra</u> and <u>selva</u>, as well as the low level of applied technology in these areas. All of these encourage growing reliance upon imported food.

V. AGRICULTURAL MALAISE

Any discussion of Peru's agricultural malaise must include the agrarian reform. The military Government's massive land reform program wiped out private large landholdings and redistributed the best farmlands mainly to worker cooperatives or similar groups, with individual members acquiring entitlement or ownership rights. Limited amounts of other land, particularly in the <u>sierra</u>, went to individuals in small parcels, thus adding to the problem of fragmentation of holdings.

Altogether under the land reform program through the end of 1979, the Government acquired slightly more than 11.6 million ha of land in 16,483 farms. This represented 49 percent of all the land in agricultural units throughout the country. Land reverted to state ownership totaled more than 2.5 million ha. This left a net of nearly 9.1 millin ha, for which the Government was obligated for indemnification to the extent of over 15.3 billion soles. This amount was to be payable mostly in bonds after adjudication of the different properties obtained through expropriation.

Assertions that the agrarian reform weakened agricultural production, as its detractors claim, must be balanced against the situation that would have existed without the reform. The rural sector was politically powerless due to the concentration of ownership which existed prior to land reform. Therefore, in the ensuing decades, the agricultural sector would probably have become the victim of more exploitation through unfavorable price policy, government neglect, and malignant interference than is now likely. This argument is, of course, political, but with substantial economic impact over a long period of time.

Although massive land redistribution took place in the 12 years of the agrarian reform, the increases in productivity expected as a result of reform have not materialized. In fact, productivity improvements in land use have in many cases either stagnated or deteriorated. Since this was also the case in the period prior to reform, the causal effects of the reform on production are difficult to measure. The spector of land reform in the 1960s caused large landowners to cease making capital investments. Between the period that agrarian reform was announced (1969) and implemented, many landowners severely decapitalized their holdings through sales of livestock. The commercial banking sector also virtually ceased making agricultural loans. The cooperative mode dictated for land reform by the military Government can be signaled as a root cause for the lack of subsequent progress.

Thrown suddenly into the role of part ownership in the agrarian reform enterprise unit to which they belonged, members became more interested in maximizing immediate returns than waiting for later distributions of higher profits resulting from improvements in patterns of production. With this changed attitude, it was not possible to relate labor compensation to the value of its inputs. In some instances, the agrarian reform enterprise unit became overloaded with members interested more in getting membership entitlements than in working to achieve production goals and other common objectives of the association. This whole situation reflected a lack of cooperative conscience and gave rise to labor discipline problems, among others.

Most of the agrarian reform units have hired managers to oversee operations. Neither the agrarian reform members nor the managers had been previously educated to their respective roles and responsibilities in a cooperative or associative operating unit such as those brought into being under agrarian reform. For the most part, management itself lacked experience and know-how in dealing with the complex operational and organization problems that had to be confronted day after day. All of this coupled with the lack of adequate financing and backstopping support was eventually reflected in generally reduced productivity and lowered or flattened levels of output, despite the overall national need for substantial increases in production.

Apart from agrarian reform, the military Government's program for agricultural progress emphasized massive coastal irrigation projects, notably the Chira-Piura project and the Majes-Sihuas project (initiated in 1971-1972). The first project was subject to severe cost overruns, and the Majes project was economically unfeasible. The cost per hectare of this newly available land was, and is, substantially higher than the value of similar irrigated coastal lands by ratios of 2 to 5. Capital expenditures of domestic resources required for major coastal irrigation projects alone amounted to possibly one-third of the public sector resources devoted to agriculture in the 1970s.

At the same time, the qualitative side of agricultural growth was neglected. Many competent extension personnel in the Ministry of Agriculture were transferred to land reform assignments. The Servicio de Investigacion y Promocion Agraria (SIPA) was subsumed to the Ministry of Agriculture in 1969, thereby ending an extension and research program that by that time had 150 agencies and had especially helped small- and medium-size farmers for 26 consecutive years. This shift in staff and policies of the military Government resulted in a significant loss of qualified personnel as well as a steady decline in operating funds and equipment maintenance and operating standards.

In Peru, livestock accounts for only one-fifth of total output, suggesting the relatively high dependence of agricultural growth on crop performance. While recognizing that year-to-year changes in yields are usually heavily influenced by climatic conditions, over longer periods of time changes in yields are a more reliable indicator of agricultural efficiency. The average annual percentage changes in yields for nine crops for 1961-1973 are shown below.[3] Yield improvements were strong for corn; moderate for sugarcane, cotton, coffee, and potatoes; and negative for wheat, barley, and kidney beans. No crops appear to have achieved spectacular productivity breakthroughs. In aggregate, these data would be consistent with an average annual crop yield increase of about 0.5 percent. Many experienced agricultural technicians believe that a modest increase in funding for agricultural extension and

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[3]Fred Mann, "Agricultural Sector Review" (draft), March 1978.

research of $15 to $20 million annually would push overall yields to 1.0 percent per year. The Belaunde Government has moved vigorously to improve the research, extension, and education systems (with the assistance of AID, IDB, and the World Bank).

Crop	Average Annual Change in Yield (Percentage)
Sugarcane	0.8
Cotton	0.9
Coffee	0.9
Rice	0.5
Corn	2.6
Wheat	-1.5
Potatoes	0.9
Barley	-1.1
Kidney Beans	-1.2

Although the degree of state intervention has diminished under the Belaunde Government, during the 1970s the marketing of agricultural and livestock products had been bound up in pervasive and often inconsistent Government intervention through price controls, regulations, subsidies, and actual takeover by the state of numerous marketing functions, several on a monopoly basis. The marketing problems affecting Peruvian agriculture was a major topic in the "Report of the U.S. Presidential Agricultural Task Force to Peru" based on a 1982 visit to Peru. This report (now in draft) recommends strongly that the Peruvian Government unshackle private sector agriculture. It is difficult to comprehend the rationale for much of the public sector intervention in the agricultural sector marketing process, which appears, without strong intent, mainly to have injured the agricultural sector after the mid-1975 price increases.

Historically, the marketing of agricultural inputs and products in Peru has been subject to considerable Government intervention, through price controls, fixed margins, regulation of transport rates, "antispeculation" laws, and direct state monopolies. Under the military governments, the scope of intervention increased. While there is a long history of controls on rice, bread, and milk, the list of products regulated or controlled grew to include fertilizer, cotton, coffee, sugar, fishmeal exports, corn, wheat, edible oils, dairy products, and feed grains for imports. Some of these controls have had unintended effects.

The antispeculation laws, enforced at times by the police, provide severe penalties for persons who "hoard" for the purpose of selling later at higher prices. This law still exists and continues to be a strong disincentive to storage and investment in storage facilities. In the period just before the sierra potato harvest, when coastal potato supplies are dwindling, it is common to read accounts of the jailing of Canete potato producers caught with potato supplies in their cellars. When potato prices are low, it is equally common to read of supplies being dumped in the Canete river.

While seeds, pesticides, insecticides, and veterinary supplies have remained in private channels, the marketing of fertilizer is monopolized by the Empresa Nacional de Comercializacion de Insumos (ENCI). ENCI operates a network of regional distributors and licensed agents. Licensed agents typically have a local monopoly ("to avoid duplication") and are allowed a 5-percent mark-up over cost. Given low volumes of sales in many rural areas, the 5-percent margin does not provide sufficient incentive to establish an agency in many areas, nor does it permit the entrepreneur to capitalize for firm growth. Typically, the rural agent sells fertilizer as a sideline or "loss leader" in combination with the sale of other agricultural inputs.

For major products traded by the state (through ENCI and ECASA) uniform prices are paid or charged to farmers throughout the country. This includes prices for corn, rice, soybeans, wheat, and fertilizer. Thus, those areas with high transportation costs, such as the selva, in effect receive a price subsidy from the lower transportation cost areas. Transportation cost differentials may run as high as U.S.$50 per metric ton.

VI. FUTURE REQUIREMENTS AND POSSIBILITIES

The balance of payments implications of stagnant agricultural performance is obvious, although here much depends upon the growth of nonagricultural exports. During the 20-year period 1960-1980, Peru's total export earnings grew at an average annual rate of about 5.4 percent and nonagricultural exports grew at a rate of 7.0 percent. A recent projection of Peru's balance of trade drawing inferences from the past two decades suggests that continued annual increases in nonagricultural exports of about 6.5 percent (which seems reasonable given the 1960-1980 experience with terms of trade and possible expansion of Peru's highly efficient minerals sector) would require increases in domestic agricultural production of about 2.0-2.5 percent annually to satisfy an annual growth in domestic food consumption of about 3.6 percent (annually 2.6 percent for population growth and 1.0 percent for demand increase arising from a 2.0 percent real income increase).[4]

The required 2.0-2.5 percent expansion of agricultural production necessarily depends on increased yield and expansion of arable land and cost-effective allocation of public sector expenditures in agriculture. Substantial expansion in cultivated cropland took place in coastal Peru during the first half of the 20th century. According to Twomey (1972), total area cultivated increased from 262 thousand ha in 1905, to 384 thousand ha in 1929, 480 thousand ha in 1944, and 538 thousand ha in 1952. These data imply an annual compound growth rate of the order of 1.5 percent. By the decade of the 1960s, most of the least costly expansion of high-quality arable land (cropland) had taken place. Nevertheless, during the past two decades, more emphasis was still given to the quantitative dimension of the agricultural production problem (expansion of arable land) than to the qualitative dimension (increase in crop yields).

The public sector could possibly allocate its financial resources to and obtain external credits for massive coastal irrigation projects and engage in autarchic agricultural self-sufficiency. Implementation of these plans was undertaken to a partial extent by the military Government, but economic-financial costs were (and are) too high. Even though much depends on the future terms of trade between food and minerals, Peru cannot afford to employ all investment resources in agriculture and also ignore its comparative advantages within agriculture. Recently, 1 ha of Peruvian cotton produced foreign exchange to finance the importation of wheat equivalent to 3.8 ha of wheat grown on the same quantity of land.[5]

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[4]R. Adler, Policy Issues Concerning Expansion of Arable Land in Peru, USAID, May 1980)

[5]The calculation is based on 1977-1979 data and is as follows: (a) F.O.B. value $2.48 per kg of cotton and average production of 692 kg per ha, which yields $1,714.60 per ha; (b) C.I.F. value of wheat at $0.20 per kg and average production of 908 kg per ha (nearly all in the sierra) which yields $196 per ha; (c) adjustment to coastal ha equivalent is by a factor of 2.3, which yields $450,000 per ha; (d) the specifc ratio is $1,714.60 divided by $450.80, or 3.80.

With policy improvements, a 2.5-percent agricultural growth rate could be attained, with approximately half of this from expansion of arable land and half from increased yields and shifts to high-value export lines. Perhaps Peru's most underutilized agricultural resource is irrigated coastal cropland, where water is wasted because of almost nonexistent water-use charges. Very substantial gains in yield could be obtained by improved water allocation and distribution on existing irrigated lands. Even at present, one average hectare of irrigated coastal cropland produces a gross value of output equivalent to 2.3 ha of sierra cropland and 1.8 ha of jungle cropland. The lower productivity of noncoastal lands derives from fundamental climatological and soil conditions (not very amenable to change) and to fundamental inadequacies of transportation, marketing infrastructure, and knowledge of advanced agricultural practices.

VII. FOOD SUBSIDIES

Food subsidies existed in Peru in varying intensity in the decade of the 1970s and still exist. It is important to distinguish three sources of change in real income related to subsidies as they affect producers and consumers in Peru, inasmuch as each of these has been present at various times and in various degrees during the past decade: (1) a state subsidy attached to a particular commodity which is paid out of governmental revenues and which benefits consumers in proportion to their purchases of the subsidized commodity; (2) a controlled producer's or retail-level commodity price which may or may not indicate transference of real income from the farm sector to the urban sector, depending upon supplementary evidence; and (3) a change in real income for domestic consumers that results from an overvalued or undervalued exchange rate. Moving from this general theoretical statement to empirical data and impressions reveals two questions: (1) Have food subsidies and price controls reduced domestic farm product prices? and (2) What function do food subsidies perform in Peru? From the past, one can distinguish at least three distinct periods.

The first period began in about 1972 when President Velasco rejected the suggestions of some of his economic advisors and refused to allow price increases for most agricultural products as well as many other commodities. In regard to agricultural products, the situation became increasing difficult for producers up to mid-1975, as is described in the FAS report of January 1975 as follows:

> Price controls have at times led to reduced production, market scarcities, black marketing, hoarding, and clandestine sales across frontiers. Such problems have brought forth protests from consumers and producers alike and have also triggered government investigations of marketing agencies and state policy. Generally, the response has been to further increase government control in commercialization of food products and to legislate severe sanctions for offenders.

The second period began with the Phase II military Government and continued to May 1978. This period can be characterized as one of exchange rate adjustment from an overvalued exchange rate, of an undervalued exchange rate, and of periodic increases in the farmgate, wholesale, and retail prices of food products. As is shown in Table B-5, food subsidies grew and affected imported foods; this can be viewed as a partial offset to the devaluations initiated in June 1976. By early 1978, Government food price subsidies were limited to evaporated milk, wheat products, and cooking oil. Due to the exchange devaluation and to the increasing attention of Peruvian Government authorities to world market prices, food prices increased more rapidly than prices in general. The Government continued to intervene in a significant manner in the distribution and marketing of food imports and agricultural exports, but the prices of a substantial number of commodities were delegated to price regulating boards to conform more closely to changing supply and demand conditions.

During 1978 the prices of cooking oil, evaporated milk, wheat flour, and white sugar increased by more than 100 percent. Coupled with erosion of real income caused by the strong devaluation of the sol, consumers reduced purchases of even the most essential foods. If anything, the problem for the farm sector was not one of administered prices being set too low but rather one of weak domestic demand as evidenced by growing exports of food and a protest to the U.S. Government by U.S. poultry producers concerning Peruvian competition in the Venezuelan market. Also during 1978, the Government moved toward a more price-directed agricultural policy. As noted in the FAS report of January 19, 1979, "The GOP changed its producer pricing system. Now farmers will be paid in accordance with world market prices." Restrictions on production (obligatory allocations of farm land to food crops) were also lifted. As a result, from 1976 to 1979, coastal farmers increased their cotton plantings by about 40,000 ha to a total of 130,000 ha, while corn plantings decreased by about 40,000 ha to a total of 360,000 ha.

Table B-5. Direct Food Subsidies by Government, 1969/1973-1980
(in millions of soles)

Item	1969-1973	1974	1975	1976	1977	1978	1979	1980
Imported Wheat	1,975	2,256	1,806	3,366	11,969	1,751	21,014	26,202
Imported Evaporated Milk	5	-	-	280	973	-	3,366	4,470
Imported Maize	-	3	-	1,961	1,980	-	1,076	4,799
Imported Oil	-	-	929	373	4,099	2,250	7,189	4,764
Imported Soybeans	86	2	-	664	409	457	-	-
Imported Rice	-	-	492	-	-	-	3,757	9,055
Domestic Rice	95	-	790	394	-	-	5,200	11,459
Imported Sugar	-	-	-	-	-	-	-	8,405
Domestic Sugar	-	-	-	-	-	-	3,574	7,222
Domestic Maize	32	295	-	-	-	-	-	598
Domestic Sorghum	2	2	-	-	-	-	-	4
Domestic Soybeans	2	2	-	-	-	-	-	70
Cotton Seeds	-	-	-	-	-	-	-	2,934
Fresh Milk	-	-	-	-	-	-	-	7,480
Vegetables (potatoes, onions)	49	44	-	-	-	-	-	-
Other[1]	-	-	190	107	1,162	237	2,608	9
Total	2,240	2,604	4,207	7,145	20,592	4,695	45,364	87,471
Total in U.S.$ (millions)[2]	58	67	103	124	246	29	216	306
Foreign Exchange Benefit in U.S.$ (millions)	16	17	24	35	69	9	24	25
Total in U.S.$ (millions)	74	84	127	159	315	38	240	331

[1]Includes domestic products that were aggregated between 1974 and 1978.

[2]Calculated on the basis of 30 percent overvalued currency until 1978, and about 15 percent overvalued currency after 1978.

Source: Central Bank.

The third period began in 1979 when Finance Minister Silva Ruete decided to apply policies designed to promote recovery from recession by increasing real incomes and domestic demand. Enlarged subsidies simply were not increasing food prices in a timely manner. The motivations for this action are unclear, beyond the fact that Peru's fiscal situation was improving due to increased tax resources related to the windfall profits of the mining sector. Increased food subsidies were simply the most rapid mechanism by which the minerals price boom could be made to favorably affect the real incomes of the urban poor. For example, the reduction in subsidies from 1974 to 1977 reduced the real income of the average Lima household by about 5 percent, but for very low-income households the impact was about 10 percent.

When applied, food subsidies are a very costly drain on central Government expenditures (see Table B-5). In recent years in Peru they have been applied principally to imported foods, and have usually performed in contradiction to Government statements asserting that these subsidies were being phased out. Of course, food subsidies can never have a substantial impact on urban real incomes without absorbing enormous financial resources. With an annual inflation rate of 50-70 percent, even the prices of subsidized items (cooking oil, wheat products, evaporated milk, and rice) must be increased frequently. At best, the enlargement of the food subsidy package can increase real incomes of the poor in a relatively short time, but cannot have a substantial effect against longer trends in real income.

An economic case against food price subsidies includes the following points:

1. Food price subsidies subsidize the richest urban half of the population; rural consumers are generally poorer and are also less subsidized because of their consumption of on-farm produce.

2. As applied in Peru (mainly to imported foods, e.g., wheat, milk products, soybean oil) the price subsidy probably discourages domestic production of close substitutes.

3. Even for commodities having a probable nutritional benefit, such as evaporated milk, the incidence of the benefit is difficult to determine (that is, is the benefited group mainly the consumer, the rural dairymen, or the milk processor?).

4. The subsidy is always in proportion to consumption of the subsidized commodity, and on a per capita basis

middle- and upper-income households receive more benefits because they consume more food. Thus, food price subsidies are an ineffective mechanisms for transferring income from the rich to the poor and the very poor.

5. Food subsidies always relate to attempts to prevent increases in retail food prices and as such they are only one step away from price controls on domestically produced agricultural commodities managed to the detriment of the farm sector.

In regard to the prices of domestically produced foods, the evidence presented in Table B-6 suggests that price controls and a state monopoly on the purchase and sale of agricultural commodities were not used in a way that unduly reduced or increased farmgate prices after 1974. The emphasis here must be on the world unduly. Data on production costs would be useful to detect the trend in profitability for Peruvian producers of corn, sorghum, milk, and rice, and these are not available. In constant values, these prices ranged from about 90 percent to 110 percent of the 1980 price. Thus, one does not find pronounced deterioration or improvement. Obviously, international prices may influence these Peruvian administered prices, explaining the weakening of corn and sorghum prices after 1980, but this would also be the case without Government intervention.

Table B-6. Prices to Producers or at Processor Plant of Basic Domestically Produced Agricultural Commodities Under Government Control, 1974-1981

Commodity	1974	1975	1976	1977	1978	1979	1980	1981
				U.S. Dollars				
Poultry, Live (kg.)[1]	32.00	40.00	61.50	na	na	na	na	na
Corn, Yellow (kg.)[2]	5.30	8.20	11.00	13.90	24.50	45.00	65.00	96.00
Sourghum, Grain (kg.)[2]	3.80	7.40	9.90	13.20	22.05	40.50	60.00	86.40
Milk, Fresh (liter)[2]	7.50	8.70	14.50	20.10	33.00	54.07	93.00	173.00
Rice, Rough (kg.)[2]	6.00	9.00	11.20	14.40	23.00	46.00	78.00	180.00
Average December Exchange Rate (soles per U.S. Dollar)	38.70	45.00	69.37	130.04	195.69	249.50	336.08	499.4
				Current Soles				
Corn, Yellow	0.137	0.182	0.159	0.107	0.125	0.180	0.193	0.192
Sorghum, Grain	0.098	0.164	0.143	0.102	0.113	0.162	0.178	0.172
Milk, Fresh	0.194	0.193	0.209	0.155	0.167	0.217	0.277	0.346
Rice, Rough	0.155	0.200	0.161	0.111	0.118	0.184	0.232	0.360
Lima CPI (December 1974 = 100)	100.0	123.6	178.6	237.1	411.2	686.0	1,102,8	1,904.5
				Real Soles as of December 1974 (deflated by Lima CPI)				
Corn, Yellow	5.30	6.63	6.16	5.86	5.96	6.56	5.89	5.04
Sorghum, Grain	3.80	5.99	5.54	5.57	5.36	5.90	5.44	4.54
Milk, Fresh	7.50	7.04	8.12	8.48	8.02	7.88	8.43	9.08
Rice, Rough	6.00	7.28	6.27	6.07	5.59	6.71	7.07	9.45
				Number[3]				
Corn, Yellow	90.0	112.6	104.6	99.5	101.2	111.4	100.0	85.6
Sorghum, Grain	69.9	110.1	101.8	102.4	98.5	108.5	100.0	83.5
Milk, Fresh	89.0	83.5	96.3	100.5	95.4	93.5	100.0	107.7
Rice, Rough	84.9	103.0	88.7	85.9	79.1	94.9	100.0	133.7

[1]Control ceased in 1977.
[2]In the costa area.
[3]December 1980 = 100

Table B-7. Consumer and Producer Price of Selected Products, 1970-1980
(in soles per kilogram)

Commodity	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
						Consumer Prices					
Rice											
Current Price	8.80	8.80	8.80	8.80	10.56	13.18	18.14	25.35	36.52	67.68	93.00
Constant Price	123.77	115.24	108.11	98.76	101.34	102.33	105.52	106.28	97.49	109.16	93.00
Potatoes											
Current Price	4.01	3.96	5.11	6.12	5.47	9.71	9.39	18.57	18.61	38.88	85.20
Constant Price	56.40	52.17	62.78	68.68	52.49	75.39	54.62	78.26	49.68	62.71	85.20
Tomatoes											
Current Price	6.71	6.43	8.91	8.04	12.67	15.41	20.21	22.34	32.81	65.77	85.00
Constant Price	94.37	84.72	109.46	90.23	122.46	119.64	117.56	94.14	87.59	106.08	85.00
Oranges											
Current Price	7.23	8.25	9.60	9.58	10.64	13.89	18.28	24.80	33.29	58.85	87.77
Constant Price	101.68	108.69	117.94	107.52	102.11	107.84	106.34	104.50	88.87	94.92	87.77
Bananas											
Current Price	4.71	4.74	6.25	7.08	7.48	10.36	13.67	15.57	21.55	40.96	61.11
Constant Price	66.24	62.45	76.78	79.46	71.78	80.43	79.52	65.61	57.53	66.06	61.11
Meat											
Current Price	38.76	47.74	40.75	63.24	87.43	102.03	136.10	204.00	320.00	459.20	584.86
Constant Price	545.15	586.49	500.61	709.76	839.06	792.16	791.74	859.67	854.24	740.64	584.86
						Producer Prices (farmgate)					
Rice											
Current Price	4.92	4.85	5.15	5.24	6.28	8.98	9.17	14.19	22.45	47.90	81.46
Constant Price	69.20	63.90	63.27	58.81	60.27	69.72	53.34	59.80	59.93	77.25	81.46
Potatoes											
Current Price	2.18	2.14	2.94	3.42	4.69	5.43	5.86	8.01	13.05	20.88	44.88
Constant Price	30.66	28.19	36.12	38.38	47.60	42.16	34.09	33.75	34.84	33.68	44.88
Tomatoes											
Current Price	2.27	2.63	3.04	5.20	n.a.	8.28	8.57	9.00	12.15	18.45	24.55
Constant Price	31.93	34.65	37.35	58.36	n.a.	64.29	49.81	37.93	32.43	29.76	24.55
Oranges											
Current Price	1.85	2.03	2.82	3.81	n.a.	4.64	5.85	10.43	16.59	24.73	36.49
Constant Price	26.02	26.74	34.64	42.76	n.a.	36.24	34.03	43.95	44.29	39.89	36.49
Bananas											
Current Price	1.24	1.34	1.62	1.63	n.a.	2.33	3.81	4.50	9.58	15.24	24.23
Constant Price	17.44	17.65	19.90	18.29	n.a.	18.09	22.16	28.18	25.57	24.58	24.23
Meat											
Current Price	24.34	26.64	28.91	33.27	n.a.	54.19	59.87	n.a.	n.a.	124.72	262.05
Constant Price	342.33	350.99	355.16	373.40	n.a.	420.73	248.28	n.a.	n.a.	201.16	262.05

Source: Central Bank.

Table B-8. Supply and Distribution of Wheat, Vegetable Oil, and Rice
(in thousands of metric tons)

Commodity and Year	Beginning Stocks	Domestic Production	Domestic Consumption	Peru Food Import Requirement to Meet Consumption	Total Imports	Imports from the United States	End Stocks
Wheat							
1974	100	150	867	617	688	438	70
1975	70	143	837	624	725	662	100
1976	100	148	910	662	752	370	90
1977	90	130	888	668	768	432	100
1978	100	90	854	664	724	412	60
1979	60	95	880	725	825	396	100
1980	100	80	933	753	813	648	60
1981	60	120	1,072	892	972	972	80
1982	80	120	1,100	900	1,000	?	100
Vegetable Oil							
1974	6	26	87	55	58	53	3
1975	3	24	101	74	81	12	7
1976	7	22	98	69	81	35	12
1977	12	22	93	59	64	52	5
1978	5	25	99	69	89	72	20
1979	20	27	66	19	24	24	5
1980	5	31	71	35	40	30	5
1981	5	32	90	53	63	49	10
1982 (est.)	10	35	107	62	72	?	10
Rice							
1974	20	290	300	(10)[1]0	0	0	10
1975	10	322	370	38	78	0	40
1976	40	388	389	(39)[1]	71	0	110
1977	110	372	392	(90)[1]	0	0	90
1978	90	288	368	(10)[1]	0	0	10
1979	10	320	400	70	150	94	80
1980	80	285	466	101	251	97	150
1981	150	450	533	(67)[1]	103	70	170
1982 (est.)	170	480	580		55	55	125

[1]Numbers denote domestic production and stock sufficient to cover consumption needs.

Source: Peru Agricultural Situation Reports, USDA/FAS.

APPENDIX C

PL 480 PROGRAMS: GENERAL OVERVIEW

by

Fred Blott
USDA/FAS/CC

I. INTRODUCTION[1]

Public Law 480, or the Food for Peace program, is the primary means by which the U.S. Government provides food assistance to developing countries. Enacted in 1954, PL 480 has four legislative objectives: (1) to provide humanitarian assistance, (2) to support economic development within recipient countries, (3) to expand international trade and develop markets for U.S. agricultural commodities, and (4) to promote the foreign policy of the United States. Since its inception, 292 million metric tons of commodities valued at $32 billion have been exported through PL 480 programs.

PL 480 authorizes three programs through which the United States can provide food assistance:

Title I: Title I of PL 480 authorizes the U.S. Government sale of agricultural commodities on concessional

erest rates and long repayment terms--to eloping countries. Sales are financed through the Commodity Credit Corporation (CCC) of the Department of Agriculture.

Commodities imported through Title I are generally sold on the local market by the recipient country government. Currencies generated in this manner are available for use by the recipient government. Depending upon the particular country involved, these funds may be allocated to support "self-help" development measures specified in the Title I agreement or for general budgetary support in selected sectors which are also identified in the agreement, e.g., agriculture, nutrition, health, education.

Title III: In 1977, Congress authorized the "Food for Development" Title III program. Title III programs are similar to those of Title I, but provide for forgiveness of the original CCC loan if the recipient government uses the local currencies or the commodities themselves to implement programs in agriculture and rural development, nutrition, health services, and population planning which are specified in the Title III agreement. To facilitate development planning and to encourage recipient country participation, Title III authorizes multiyear PL 480 agreements of up to five years.

Title II: Title II authorizes donations of U.S. food to developing countries to meet famine or other urgent relief

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[1]From AID Impact Evaluation Report, "Jamaica: The Impact and Effectiveness of the PL 480 Title I Program."

requirements, to combat malnutrition, and to promote economic and community development. Donations are made through U.S. private voluntary agencies such as CARE and Catholic Relief Services, through the World Food Program of the United Nations, and through government-to-government grants. Unlike the Title I and III programs which are designed to augment the aggregate supply of food within the recipient country and to be marketed through existing commercial channels, Title II commodities are generally targeted to specific nutritionally vulnerable groups within the recipient countries. Direct feeding programs support mother-child health activities and school-feeding and Food-for-Work projects.

II. PL 480 TITLE I: CONCESSIONAL SALES

A. Country Eligibility and Selection

Consideration of Title I food assistance for any country formally begins when the recipient government makes an official request for assistance to the U.S. Embassy or USAID Mission. In most cases, however, the formal request follows discussions on the domestic food and agriculture situation between local government officials and Embassy/USAID staff. Moreover, for those countries which are traditional Title I recipients, work on preparing the program proposal may begin in anticipation of receiving the official request.

The U.S. country team within the Embassy reviews and analyzes the request for a Title I program and assesses the need for food assistance.[2] If viewed favorably, the request, along with the country team's analysis and recommendations, will be forwarded to Washington for review. The request must also be accompanied by supply and distribution data for whatever commodities are being requested by the recipient country government. Specifically, the supply and distribution data must include beginning stocks, local production, imports, consumption, exports, and ending stocks for the previous five years and estimates for the current year. Imports must also be identified by country of origin and must indicate whether they are commercial or concessional.

Since 1977, Section 401(b) of PL 480 also requires that the country team provide information so that the Secretary of

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[2]Depending upon the country involved, the U.S. country team may consist of various USAID and Embassy staff members and the agricultural counselor or attache.

Agriculture can certify that adequate storage facilities are available in the recipient country to prevent waste or spoilage of the commodities to be imported and that local distribution of the commodity will not result in a substantial disincentive to or interference with domestic production or marketing (Bellmon determination). This information need not accompany the official request, but must be provided and the certification made prior to the initiation of formal negotiations with the recipient government.

Review of requests for Title I food assistance and decisions on allocating available Title I financing are made in Washington by an interagency committee--the Food Aid Subcommittee of the Development Coordination Committee.[3] The Subcommittee is chaired by the Department of Agriculture. Voting members include the Departments of Agriculture, State, Treasury, and Commerce and the Agency for International Development and the Office of Management and Budget. Each voting member has one vote and decisions are made by consensus. In those cases where interagency consensus cannot be achieved at the working-staff level, issues will be directed to higher councils of government for resolution. While these issues are generally resolved at the cabinet or subcabinet level, in some instances a presidential decision may be required.

When deciding on individual country allocations of Title I financing, the Subcommittee considers how each proposed country program will contribute to achieving the four legislative objectives of the program: (1) providing humanitarian assistance, (2) supporting economic development, (3) expanding international trade and developing export markets for U.S. agricultural commodities, and (4) promoting the foreign policy of the United States. In addition, country allocations will be influenced by Section 111 of the PL 480 Act which mandates that at least 75 percent of all Title I and III commodities shall be programmed to countries whose per capita income level falls below the criterion established for development loan financing by the International Development Association of the World Bank.

A further important factor which the Subcommittee will consider in allocating Title I food assistance is the existence of a "food gap" within the proposed recipient country. The "food gap" is the difference between current year food import requirements derived from the supply and distribution data

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[3]Prior to 1979, this committee was known as the Inter-Agency Staff Committee (IASC). In 1978, to forge a stronger linkage to the Development Coordination Committee, the IASC was reorganized and renamed, but membership and procedures were not greatly altered by this change.

supplied by the country team with the Title I request and the recipient government's other commercial and concessional imports of food. Hence the foreign exchange position of the requesting government and its ability to import commercially are factored into consideration of the Title I request.

Title I may also be allocated to a country which does in fact have the ability to meet its total food import requirements through commercial purchases. In this instance, the program may be designed to free up foreign exchange for other imports, particularly those which directly contribute to economic development programs.

Once Washington review of the proposed Title I program is completed and the size and details of the program are determined, negotiating instructions are drawn up and sent to the Embassy. Negotiations are authorized once the Bellmon storage and disincentive certification and consultations with third country exporters are completed.

B. Commodity Selection

The criteria by which commodities are chosen for inclusion in the PL 480 programs are mandated by Section 401 of the Act. Specifically, this section requires that the Secretary of Agriculture make an annual determination that the programming of each commodity will not reduce the domestic supply of the commodity below a level needed to satisfy U.S. domestic requirements, commercial exports, and adequate carryover. In addition, the cost effectiveness of individual commodities is considered before they are made available for programming. In recent years, commodities programmed under Title I have been wheat, wheat flour, rice, feedgrains (corn and sorghum), vegetable oil, blended and fortified foods, and cotton.

Selection of commodities for programming to individual Title I recipient countries is also guided by the PL 480 Act. In particular, Sections 103(c) and (n) require that Title I sales not displace U.S. commercial export sales nor unduly disrupt world prices of commodities and normal patterns of commercial trade.

To carry out these provisions of the Act, "usual marketing requirements" (UMRs) are established for each commodity included in the Title I agreement. UMRs represent the average annual volume of commercial import purchases during the previous five years. Title I assistance must be "additional" to the normal level of commercial purchases established in the UMRs. That is, the volume of any particular commodity which can be programmed to a recipient country is the difference between its total consumption requirements (minus domestic production and stocks) and the normal level of commercial imports identified in the UMRs. Where two or more commodities could be programmed using this criterion but overall assistance is limited by budget availabilities, commodities will be programmed which show the greatest export market development potential for that particular country.

In signing a Title I sales agreement, the recipient government explicitly agrees to purchase commercially the volume of commodities stated in the UMRs. For some commodities a "tied" UMR may also be included in the agreement. A tied UMR requires the recipient government to purchase a specified portion of its total UMR from the United States.

As previously noted, commodity selection is also guided by Section 401(b) of the PL 480 Act in that the commodities chosen must not be a disincentive to domestic production and marketing, and adequate storage and handling facilities must be available for importation. Title I agreements also prohibit the resale or transshipment of the commodities (export restriction) and prohibit the export of similar commodities (export limitation) to ensure that the commodities are not used to increase commercial exports from the recipient country.

C. Financial Terms

The concessional nature of Title I export financing comes from the financial terms of the agreements. The specific terms included in any agreement depend largely on the financial condition of the recipient country government.

Guidelines for Title I financial terms are provided by PL 480 and the Foreign Assistance Act of 1961. Repayment of the CCC loan is either in dollars or local currency which is convertible to dollars. Maximum repayment periods range between 20 years for dollar credit and 40 years for convertible local currency credit. Generally, 40-year repayment is limited to the poorest recipient countries. Title I agreements also provide for a grace period of between 2 and 10 years before repayment is required. Minimum interest rates, as established by the Foreign Assistance Act of 1961, are 2 percent during the grace period and 3 percent thereafter.

Title I agreements may also require an initial payment by the recipient country at the time of delivery of the commodities at a U.S. port. These initial payments range between 0 and 10 percent, although 5 percent is used in most cases. Title I agreements in some cases may require a currency use payment or CUP. This allows the U.S. Treasury to request a payment on demand of local currency for use by the U.S. Embassy within the recipient country, thereby helping the United States to avoid expending its own foreign exchange to purchase the necessary local currency. Currency use payments usually range between 0 and 10 percent of the total amount of the Title I agreement.

D. Title I Operations

In accordance with Section 103(e) of PL 480, Title I purchasing and shipping must use private trade channels within the United States to the maximum extent practicable. Section 115 and Title I regulations require that all purchases of food commodities be made on the basis of an invitation for bids (IFB) issued by the recipient government's embassy or other purchasing agency. IFBs must be publicly advertised in the United States, and offers must conform to the terms of the IFB and must be received and publicly opened in the United States. All awards of sales must be in conformance with the terms of the IFB, and all sales are reviewed and approved by officials of the Department of Agriculture.

Financing of Title I is provided by the CCC and is carried out through the U.S. commercial banking system. Following the signing of the Title I agreement, the recipient country government requests the issuance of purchase authorizations (PAs) which provide information on the commodities to be purchased, the timing of the purchasing and deliveries, and the financing available. With the issuance of a PA, the CCC issues a letter of commitment guaranteeing to repay the U.S. bank, through a designated Federal Reserve Bank, for repayments made to U.S. commodity suppliers for delivery of the commodities. U.S. commodity suppliers are paid promptly under letters of credit opened by the importing country through the U.S. commercial bank holding the CCC letter of commitment once documentation is presented that the commodities have been delivered. The Federal Reserve, acting as agent for CCC, in turn reimburses the U.S. bank. Repayment of the Title I loan is made in dollars by the recipient country government directly to the CCC according to the repayment schedule contained in the Title I agreement.

Public Law 480 commodity shipments are subject to provisions of the Cargo Preference Act which requires that 50 percent of the commodities be shipped on privately owned U.S. flag vessels, to the extent that such vessels are available at fair and reasonable rates. When U.S. flag vessels are used, the CCC will finance the ocean freight differential--the differential which exists between foreign flag and U.S. flag rates. Approximately 10 percent of the Title I annual budget is used to finance ocean freight differential payments.

E. Self-Help Measures and Local Currency Generations

Section 109 of PL 480 requires that before Title I assistance is provided, consideration be given to the extent to which the recipient country government is undertaking self-help measures to increase per capita production and improve local storage and distribution of agricultural commodities. In addition, Section 109 mandates that each Title I agreement shall describe the program which the recipient country is undertaking to improve its production, storage, and distribution of agricultural commodities. Accordingly, each Title I agreement specifies a number of self-help measures which the recipient country government agrees to undertake as part of the program of Title I assistance. Section 106(b)(2) expands the scope of self-help measures beyond the emphasis of Section 109 on agricultural production, storage, and distribution to include the broader categories of agriculture development, rural development, nutrition and population planning, and programs directed at achieving the policy objectives of Sections 103 and 104 of the Foreign Assistance Act of 1961.

Section 106(b) of PL 480 also mandates that all Title I agreements specify that currencies generated from the local sale of the Title I commodities will be used for the economic development purposes described in the self-help measures, as well as for programs of agricultural development, rural development, nutrition, and population planning.

Both the self-help measures and the provisions for use of local currency generations are negotiated between the U.S. country team and officials of the recipient country government, generally before formally negotiating the Title I agreement. As part of the Title I program, the recipient government also agrees to submit an annual report detailing progress made in implementing self-help measures.

APPENDIX D

<u>TIMING OF THE FY 1982 AGREEMENT AND ITS IMPACT</u>

I. INTRODUCTION

At the time of this writing, PL 480 rice for FY 1982 had not yet arrived in Lima. It is expected in late August or September. This section explores why the commodity is arriving at the end of the fiscal year and what the impact of this timing will likely be.

The negotiating process for the FY 1982 agreement was delayed both in Washington and Lima. The Washington delay in the Food Aid Subcommittee Working Group was due to disagreement among the members on terms of the agreement. (OMB advocated "tighter" terms, while the Department of State wanted to retain the FY 1981 terms.) As a result the Embassy did not receive the negotiating instructions until January 13, 1982.

 wing week, the Ambassador and the Agricultural th the Peruvian Minister of Agriculture to dis- ing PL 480 agreement. The Minister stated that he was opposed to signing the PL 480 agreement because it specified "the purchase of rice." He asserted that Peru would enjoy a bumper crop, with production covering domestic consumption, and said he would like to change the commodity allocation. The Minister is a strong advocate of rice self-sufficiency for Peru.

Subsequent conversations between Lima and Washington resulted in an agreement that if Peru's rice harvest were as high as predicted by the Minister of Agriculture (that is, if rice were not truly needed), a change to another commodity would be justified. Following further preparations, negotiations began on February 9. On February 23, the Embassy received final negotiating instructions from Washington. Earlier submittals to the GOP were superceded and the process was restarted.

The Minister of Agriculture continued to oppose rice imports but was told by the U.S. team that if rice production met projections, a commodity shift would be justified. This statement was based on conversations with Washington, from which the U.S. team inferred that a commodity reallocation was possible. The Minister, confident that he could justify the switch, agreed to proceed with the signing. As negotiations continued, it became clear that rainfall in the northern rice producing regions was inadequate and would adversely affect the harvest.

On April 5, the PL 480 agreement was finally signed. During the ceremony, the Minister of Agriculture stated publicly that he was pleased to have this credit available in order to ensure that Peru would not run short of rice.

However, the Ministry of Agriculture continued to oppose rice imports and refused to release the operational information needed in advance of a rice purchase. Further, the Ministry of Economy, Finance and Commerce was unable to issue the necessary Supreme Resolution without the Ministry of Agriculture's approval of rice purchases.

By late May, pressure on USDA from Congress and the U.S. rice lobby was to program rice. Although by this time it was evident that the 1982 rice crop would be severely reduced because of the drought, the Minister of Agriculture still would not agree to import rice. In early June, the executive vice president of the Rice Millers Association visited Lima as the personal representative of a Congressman from a rice-producing state. The purpose of the vist was to expedite Peruvian rice purchases. That week (before he met with GOP officials), rice purchase under PL 480 was authorized. In July, the Minister of Agriculture was quoted in the press as being appreciative of the PL 480 rice allocation to ensure that Peru's rice needs would be met.

As a result of the delays described above, PL 480 rice will reach Lima after the 1982 harvest. Although the rice will be fully utilized, this delivery time is not optimal. Rice importation in the months preceding the harvest (March-June) would have benefited Peruvian consumers, by helping offset a preharvest rice shortage in Lima (which is where most of the imported rice is sold).

From the point of view of U.S. agricultural interests, this delay was also detrimental in terms of forestalling sales and extending the time for storing the surplus rice.

II. CONCLUSIONS AND LESSONS LEARNED

1. The delay in signing the agreement and delivering the commodities was undesirable from both the United States and Peruvian points of view. Although the delay was caused by a number of factors, the overriding cause was the disagreement regarding commodity programming. Given the Ministry of Agriculture's strong and widely publicized interest in achieving rice self-sufficiency, such a disagreement was not surprising (despite the fact that Peru ultimately did have a poor rice harvest).

Future delays of this nature could be ameliorated by programming commodities over which such controversy regarding import needs does not exist (e.g., corn, wheat).

2. The PL 480 legislation has a number of objectives, principally surplus disposal, market development, furtherance of foreign policy objectives, and economic development. The 1982 negotiations demonstrate the consequences of allowing one of these objectives to predominate. Not only were commodity deliveries delayed, but implementation of development projects receiving Title I local currency was, in some cases, seriously hindered. Foreign policy goals were at least not aided by the conflicts.

APPENDIX E

VOLAGS RECEIVING TILE I SUPPORT

by

Elizabeth Berry and Joann Jones

with contributions by

Robert Landmann and Twig Johnson

Title I funds have been used to augment the activities of a number of voluntary agencies (VOLAGs) which had been managing small Title II programs in Peru. Title I money made possible the rapid expansion of those programs--in the case of OFASA, the normal program is about one-fourth the size of the current program.

I. SEVENTH DAY ADVENTIST WORLD SERVICE (SAWS)/OFASA

The Seventh Day Adventist World Service (SAWS), through its Peruvian social service organization, OFASA (Obra Filantropica y Asistencia Social Adventista), works in the Peruvian urban slums (pueblos jovenes), concentrating most of its efforts in Lima. Through its Food-for-Work (FFW) and maternal/child health (MCH) programs it aims at short- and longer-term remedies for problems of chronic unemployment, malnutrition, [illegible] community services. The SAWS/OFASA activities w[illegible],000 recipients in FY 1983, utilizing 12,376 m[illegible] commodities if the SAWS Annual Estimate of Requirements (AER) approved by USAID/Peru is also approved by AID/Washington.

The FFW projects provide Title II food as an incentive to the community to donate its labor in the construction of roads, parks, community centers, schools, health clinics, and daycare centers, thus fostering community organization and development. Another important element of the FFW program has been a handicraft instruction project which has developed into an income-producing activity for women who generally have the greatest difficulty finding any employment.

Maternal-child health programs are another high priority for SAWS. The GOP cooperates in this effort by supplying funds for the programs' operation. OFASA also runs a highly successful nutrition education center which instructs approximately 800 paranutritionists yearly. This program serves as a model for other VOLAG programs and has an extended impact in the pueblos jovenes via the health and nutrition promotors active in the community.

SAWS/OFASA supplements the work of the health promoters with a mobile medical unit which visits several of the pueblos jovenes weekly. This service provides a doctor, two registered nurses, and an assistant who treat approximately 120 patients a day. FFW participants can receive added food rations if they attend the health lectures given each week.

OFASA's operations outside of Lima consist of projects in the slums of Arequipa (where there is a FFW program with 10,000 recipients) and in the eastern jungle where it has a 5,000 recipient MCH program in the Pucallpa area. There are plans to expand into Iquitos with another MCH program. OFASA also has an integrated MCH feeding activity in Ica, a coastal department to the south of Lima. This program reaches 3,500 beneficiaries and is directly integrated into the AID Mission's Sur Medio Primary Health Care/Family Planning program, a major AID health sector initiative.

Financial support for the SAWS/OFASA feeding programs comes from an annual GOP Title I subsidy of about U.S.$250,000 and from a three-year Operational Program Grant (1980-1982) for U.S.$400,000. Title I and OPG funds help cover (1) increased administrative costs such as personnel and office expenses, (2) transportation and storage of PL 480 Title II commodities, (3) nutritional and health education, and (4) small amounts of funding for materials and supplies used in community development.

II. CATHOLIC RELIEF SERVICES (CRS)/CARITAS

CRS/CARITAS is the largest VOLAG Title II program and presently benefits 473,000 recipients with 21,507 metric tons of food. It is supported by a $175,000 three-year Operational Program Grant and about $500,000 per year in Title I funds. Approximately 60 percent of the CRS program is devoted to FFW economic and community development feeding programs. The FFW projects are mainly feeder-road repair and construction, as well as the construction of schools, community centers, health clinics, irrigation canals, drainage ditches, potable water, and sanitation systems. The majority of these projects are in the very poor underdeveloped *sierra* regions and provide badly needed infrastructure and food supplements to isolated rural villages.

The remaining programs are in MCH and other child feeding. They reach approximately 200,000 recipients, addressing a group of Peruvians that is increasingly incapable of providing for its own nutritional needs. It is estimated that up to 59 percent of the Peruvian population under 15 years of age is malnourished or undernourished. CARITAS' objective is to provide 30 to 50 percent of the minimum daily nutritional requirements to the beneficiaries of its MCH feeding programs.

Despite certain flaws in administrative and program quality, as well as a need for greater nutritional education as part of its overall program, CRS/CARITAS is having an important impact in addressing the chronic and acute malnutrition presently existing in Peru, and is making a contribution to the country's economic and community development.

III. CHURCH WORLD SERVICE (CWS)/SEPAS

CWS/SEPAS has been implementing a very successful reforestation program (PRAA--Programa de Reforestacion con Apoyo Alimentario) for the past three years utilizing Title I funds, Title II food, and a special AID Operational Program Grant. The beneficiaries of this program are located in the most marginal sierra regions and suffer serious malnutrition problems despite being part of an agrarian society. The campesino workers and their families who receive Title II food supplements as an incentive for their reforestation activities are thus given important nutritional benefits as they work to control severe soil erosion and provide forest resources for the future.

The overall program goal of planting 47 million trees on 31,000 hectares was surpassed in the 1980-1982 period. The effectiveness of this program is reflected by the fact that the IDB and World Food Program are now using the PRAA reforestation project as a model. PRAA is heavily dependent on Title I funds to pay for transport, travel, and some materials. Unfortunately, this means that it has been unusually hard hit by the recent disbursement problems which threaten to reverse many of its past accomplishments.

Although SEPAS is primarily associated with this project, it uses Title I funds in its maternal and child health and other child feeding programs in the Lima area. In 1983, CWS/SEPAS will continue these programs at a 2,100 recipient level while increasing its total number of recipients from 26,400 to 29,100 (if its AER is approved by AID/Washington).

IV. CARE

The CARE urban FFW program, PIBA (Programa de Infrasturctura Basica con Apoyo Alimentario), which began in 1980, provides essential basic infrastructure to the Lima pueblos jovenes in the form of classrooms, health clinics, urban reforestation, and other community service improvements (such as street leveling and the building of sidewalks). It is supported by a three-year $793,000 Operational Program Grant as well as Title II food and Title I counterpart funds.

CARE received approximately 4,000 metric tons of food for 35,000 FFW recipients (who, with their families, represented 184,000 beneficiaries) in 1982. Title I funds are approximately $2 million per year for three years. Title I funding is crucial to program implementation since the heavy input of construction materials calls for specifc cash expenditures.

PIBA is meant to be an integrated effort to encourage community self-help and development. CARE provides "overall program direction," monitors use of grant funds and receipt and distribution of Title II commodities, and assists in the purchase (with Title I funds) of all materials and equipment required for construction. PIBA activities are managed by a Multisectoral Commission composed of representatives of the Ministries of Health, Education, Housing and Construction, Agricultural and Food, and the government-sponsored National Food Support Office (ONAA). The Commission is currently under the direction of Cooperacion Popular (COOPOP), the civic action arm of President Belaunde's Popular Action Party. ONAA, which is part of the COOPOP sector, helps the VOLAGs with transportation, storage, and distribution of the Title II food. It also provides the outreach workers who go out into the communities and form local committees to carry out the FFW projects.

The intersectoral design of the program has posed some problems, originating in the unequal performance of the line ministries and tensions between them and the Commission. Although the ministries report to the Commission, the PIBA budget is controlled by each ministry. Ministries are frequently unable or unwilling to disburse PIBA funds in a timely fashion, leading to delays in project startups and completions. Getting them to release the funds has occasionally required high-level intervention, including some by the Executive Office. This suggests another aspect of the program: the commitment of GOP leadership to it and their willingness to back up that commitment with scarce funds--both from Title I and from the Treasury. Thus, whatever the problems or shortcomings of the program to date, there is every sign that, at least under the current administration, it will have an opportunity to grow and improve.

V. SCHOOL FEEDING PROGRAM (PAE)

As part of a government-to-government aid program, the Programa de Alimentacion Escolar (PAE) has been feeding school-aged children in education centers throughout Peru since the 1950s.

Though not a private voluntary agency program, PAE's school lunch program had received Title I monies since 1979. PAE applied this money to transportation and administrative costs. This added assistance also helped PAE to increase the number of its recipients to approximately 500,000 from 1980 on. These youngsters received Title II food in the form of milk, bread, soup, or oatmeal once or twice each school day.

Because of a change in AID priorities, Title II food and Title I assistance were stopped in 1981 and 1982 respectively. It was decided that Title I monies and Title II food should go to support FFW development projects and feeding programs aimed at maternal-child health and preschool children. It does not seem to reflect any problems or dissatisfaction with PAE itself.

APPENDIX F

<u>PROYECTO ESPECIAL HUALLAGA CENTRAL-BAJO MAYO</u>

(Subtropical Lands: 527-0163; Loan 527-T-061)

by

Linn Hammergren

I. PROJECT HISTORY

The history of this project and of U.S. involvement in it goes back at least 20 years to a study done in 1960 by SCIPA (Servicio Cooperativo Interamericano de Produccion de Alimentos) and the International Cooperation Administration. This study, conducted to support development of a road network, covered all of the Department of San Martin and identified the project area as suitable for immediate development. The departmental population at that time was 150,000, but based on productive capacity, a population of 1 million was predicted. Subsequent studies by the FAO and COPERHOLTA (Cooperative Peru-Holland Technical Assistance) also suggested the potential for accelerated development of the region.

The project also builds on a longstanding Peruvian interest in expanding its limited arable land through the development of its high jungle (Ceja de Selva). Since the mid-1960s a push on the part of the Government of Peru trunk roads linking the Ceja de Selva with the coast and its markets. The best known of these is the marginal jungle highway (carretera marginal), which by 1978 effectively linked the Upper Mayo and Upper Huallaga Central-Lower Mayo to the northern coast. With the scheduled opening of the AID-financed Rio Nieva-Tarapoto Highway (completed in 1978), the project area gained access to markets for a larger volume and wider range of its agricultural products, and the Mission concluded that the time had come to mount a concrete development effort in the area.

II. PROJECT SUMMARY

The project focuses on the area of Peruvian high jungle known as the Huallaga Central-Bajo Mayo, encompassing 4,654,000 hectares within the province of San Martin (87 percent of its total area). Of this total, 864,145 hectares constitute the more specific development target. This is one of the four major areas identified in the 1975-1978 National Development Plan as the "economic frontier of Peru." (The remaining three are the Upper Mayo, the central jungle, and the San Ramo-Satipo area.) Although, as of 1976, the project area figured within the lowest quintile of the USAID's poverty study, it has been identified as an area with the potential for producing a wide range of agricultural commodities and for absorbing large numbers of rural people especially from Peru's more densely populated sierra. The 1976 Project Paper suggests that with the addition of basic rural services and transportation facilities it would be possible to raise the level of living both for the existing population and for newcomers, while at the same time benefiting the entire Peruvian economy through increased production and productivity.

The goal of the project is "to seek significant per capita productivity increases in an area which contains nearly 10 percent of Peru's best agricultural land by bringing more land into production both through the expansion of existing farms and the establishment of new farms and by increasing rural employment." This is not a colonization project, but land titles and essential services would be provided to newcomers who were already filtering into the area at an estimated rate of four to six families per day. An expected increase of more than 100 percent in agricultural production was to be accomplished through the expansion of land in crops to 69,000 hectares (from an estimated 43,000), continuous cropping of at least 23,000 of these hectares, and establishment of permanent pastures and tree crops on another 50,000 hectares. Credit and extension services would be made available to at least 15,000 farmers on a regular basis, and the project would further produce two feasible plans for replication in areas of Peru with similar characteristics.

The project initially took the form of a $19 million loan, with $6 million in counterpart to be provided by the GOP. Project outputs under the agreement included 10 interrelated elements: roads, road maintenance, credit, machinery, marketing infrastructure, land tenure, extension, resource studies, a regional development committee, and technical assistance. Provision of all outputs was to be completed by the project termination date, June 30, 1983. Over the project lifetime, as outputs were completed, they were to be turned over to the relevant national and local authorities for their continued operation and maintenance.

Initially, the project was to be managed by the Development Corporation of San Martin, one of the 23 such corporations created in 1977 by the military Government. However, in view of the corporation's limited powers it was decided to create a Special Directorate within the Office of the Prime Minister to manage the project. This directorate, which was to exist only for the duration of the project, had the advantage of its own budget, independent of those of the various ministries whose work it coordinated. It managed the funds for the project and for related works, contracting either with the private sector or with Government entities for the building of infrastructure or provision of services. The Directorate's coordination with the Development Corporation was further facilitated by the election of its director to the presidency of the latter.

III. PROJECT MODIFICATION

The major modifications in the project as of 1982 have been two substantial budget amplifications to allow for unanticipated increases in the cost of road construction. This has been accompanied by the same minor reallocation of funds among other components, from year to year and also on an across-the-board basis. These reallocations were motivated in part by the need to transfer funds to the road budget and also by delays in the implementation of other components. Both increases, one in 1981 and one in 1982, each totaling $10 million, have been absorbed by the GOP with AID's contributions remaining at the initial $19 million. The final budget thus totals $46,500,000, of which the GOP will contribute $27,500,000. Project personnel attribute the increases to the unrealistically low estimates of the costs of road construction.

IV. PROGRESS TO DATE: IMPLEMENTATION OF COMPONENTS

Although the loan agreement was signed in June 1978, work on the project did not begin until October 1979. Despite this delay, progress on the infrastructural aspects of the project is currently (mid-1982) on or ahead of schedule. Barring any problems with funding, the major infrastructural components (roads, storage facilities, machine shops, and basic equipment) are scheduled for completion by June 30, 1983. Some doubts have been expressed about future maintenance but here the questions are addressed less to the adequacy of the project's work than to what will happen as control is passed to the Ministries of Agriculture and of Transportation.

Progress in other areas and especially in the provision of basic services--credit, land tenure regularization, and extension--has been much slower, although the quality of what has been accomplished seems high and its creation of a base for further work relatively sound. This last judgment hinges on the assumption that work can be continued after the project termination. Slow progress in the service component has received less attention because it is harder to measure, has involved small sums of money and more often produced budget cutbacks as opposed to the massive amplifications occasioned by infrastructure and the road program in particular. The delays, like those in the road program, originate in an underestimation of the difficulty of the task. To this can be added the need to coordinate with existing Government offices, and the latters' lack of preparation for taking on the new demands. A good part of the initial period, up to well into 1980, had to be spent preparing personnel and systems for service provision. Finally, it should be noted that unlike the case of the infrastructural components, the goals initially set here, if indeed intended to be met within the five-year period, were hopelessly unrealistic. Objectives like the provision of extension and credit on a regular basis to 15,000 farm families (a figure which, by 1982, accounted for only roughly half those in the area) would have been difficult to meet even given many times the budget and personnel allocated. As a result, the project's Directorate has limited itself to much less ambitious goals with the hope that these might provide the basis for post-1983 efforts. Should that hope not be met, much of the work done to date may be lost.

A final area suffering from substantial delays is that of resource studies. The initial proposal called for a study of resource potential and a resource utilization plan. As of 1981, an INP evaluation noted that these had been implemented at the "40 and 30 percent levels," respectively. The lack of an overall plan for resource use means that decisions on land development are made on the basis of an assessment of immediate potential with no discernible attention to wider impact or spillover effects. Slow progress (because of the delays in the service components) has meant that ecological damage has been limited, but in the absence of more comprehensive planning (and a commitment to comply with guidelines set forth) the potential for more extensive damage appears to be present. Even should the plan be completed, it is unclear who would be responsible for enforcing it or what their level of commitment and authority would be. Mission personnel, it should be noted, differed substantially on the importance of the studies and on the likelihood that their presence or absence (or indeed that of the project as a whole) would significantly alter the amount of normal, and presumably tolerable, ecological damage.

V. PROGRESS TO DATE: OVERALL IMPLEMENTATION AND IMPACT

Although project output goals were set in terms of ten discrete components, overall objectives hinge on their interaction with each other and combined impact on the project areas. The underlying logic is that each component's impact would be enhanced by its interplay with the others so that the whole became more than the sum of its parts. Delays in the realization of any single element could thus be expected to prevent the others from having their maximum effect over the short run.

As noted, some such delays have occurred with effects, if not precisely measurable ones, on the overall rate of change. For example, problems in starting up credit and extension services visibly limited the ability of local groups to respond to the opportunities provided by the new penetration roads, marketing facilities, and land clearing systems. A number of problems have also emerged in the coordination of various project elements and in their interaction with factors (and especially GOP offices) external to the project. Here too, the service components are most often affected. It is largely due to the influence of the Special Directorate that such problems have not been more serious.

For all these reasons, it is clearly too early to assess the impact of the Special Project and its accomplishments in meeting its longer range goals. It is indisputable that it has accelerated and possibly redirected the opening up of one of Peru's agricultural frontiers, and has done so in an impressive enough fashion to serve as a partial model for a World Bank-funded effort now beginning in the neighboring Upper Mayo Region. (The Special Directorate will direct that project along with a series of smaller undertakings in the original project area, grouped together as the Central Huallaga Integrated Development Project.) Continued development in the Central Huallaga area and realization of some of the longer run benefits will also clearly depend on provision of further inputs and still more infrastructure (processing plants, facilities for transporting perishable commodities, etc.) not included in the initial project. With the impetus given by the project, it is likely that over time these other inputs will be provided, possibly in large part by the private sector which is already responding to the new opportunities. To the extent that AID's and the GOP's interests lie in accelerating development, directing a share of its benefits toward the target group of rural poor, and guarding against negative impacts, it seems desirable that the formal termination of the initial projects be followed by related activities focusing on such areas as resource planning, credit, extension, the completion of the cadaster, and if not the actual provision of selected infrastructure, then at least efforts to encourage the provision of that considered most appropriate.

VI. ROLE OF PL 480 LOCAL CURRENCY

The contribution of PL 480 local currency to the Huallaga-Central Upper Mayo project is conditioned by the project's high priority for both Peruvian administrations involved and their willingness to provide funding, even beyond the counterpart requirement. In both 1981 and 1982 when budget amplifications were required, the GOP agreed to provide the entire extra amount (although in the current year there is some question as to whether it will actually be able to do so). Hence, in terms of additionality and policy leverage rigidly defined as allowing an activity which would not have been undertaken otherwise, use of local currency does not meet the criterion. Nonetheless, it does appear that PL 480 local currency did make a difference, if in a less dramatic form.

First, because of the Government's scarce resources in the early years and the substantial budget increases in the last two, it can be argued that local currency availability allowed for budget levels which might otherwise not have been reached. It is doubtful that the project could have begun as early as it did had the GOP not been able to use PL 480 funds as counterpart. Even with this possibility, GOP contributions were held to a minimum in 1978 and 1979. In both 1981 and 1982, the initial GOP counterpart came out of the Public Treasury, while PL 480 funds were used to finance a portion of the $10 million increase allocated at mid-year. This practice has led to some problems. By 1982, project personnel had come to anticipate an automatic addition to their budget and to plan accordingly.

Second, PL 480 funds were also used to finance preparatory work for the project, specifically the completion of roads into the area. Lack of access to this funding, once again in the context of the GOP's scant resources, might have further delayed work on the project or required an internal reallocation of funding away from other project components. PL 480 funds were also utilized in startup components of the project itself, notably the creation and staffing of the Special Directorate.

Finally, although in the broadest sense one cannot argue for a policy leveraging effect, the availability of funding and the connection to the PL 480 program did seem to enhance AID's influence in shaping some aspects of the program. The most important example here is in the creation of a special directorate to manage the program, an innovation which has had an enormous impact on the quality of implementation.

To summarize, local currency impact, while not as dramatic as that in other projects, did constitute more than simple budgetary support. Its availability speeded up the implementation process, allowed for a higher level of funding than would have been possible otherwise, and at least around the margins may have influenced the shape the project took. Without the local currency, the Huallaga Central-Bajo Mayo Project would probably have been undertaken but with several years more delay, at a slightly less ambitious level, with less chance of meeting its implementation schedule, and, in the absence of the Special Directorate, in a less successful and integrated form.

APPENDIX G

PL 480 AND U.S. FOREIGN POLICY INTERESTS

by

Judy Cohen

PL 480 AND U.S. FOREIGN POLICY INTERESTS

PL 480 assistance is a significant component of overall U.S. economic assistance and, as such, is important to achieving U.S. foreign policy objectives. It is valued highly by recipients for several reasons:

1. PL 480 provides needed food, especially important to a government facing domestic unrest sparked by shortages of basic foodstuffs;

2. Concessional aid minimizes the recipients' need to use scarce foreign exchange;

3. Commodity sales generate local currency to be channeled into economic development projects;

rt of an overall assistance package, it provides nly visible and tangible show of support from the Government, which can be crucial to obtaining donor assistance and creditor cooperation.

U.S. foreign policymakers consider PL 480 to be a flexible and relatively fast disbursing form of U.S. assistance. U.S. Government officials may justify PL 480 allocations on the basis that the aid will demonstrate support for a particular government. In other cases it is used to reward and/or encourage specific policy actions by the foreign government.

In Peru, U.S. foreign policy interests benefited from the Mission's innovative approach to Title I negotiations and programming of local currencies. This approach maximized U.S. opportunities to establish good working relationships with Government of Peru (GOP) policymakers and economic technicians, thus paving the way for relationships which still exist today. The dialogue that developed allowed the GOP not only to focus on what their development needs were, but gave them access to U.S. technical and managerial resources in meeting these needs. To the credit of Washington agencies, they never objected nor interferred with the Mission's fairly hardline approach in the negotiations. Indeed, this approach emphasized to the GOP that the United States was not willing just to throw money at them, but that (1) the U.S. was serious about development and economic recovery in Peru, and (2) the U.S. Government expected the GOP to be serious about these too. This show of U.S. donor support thus complemented the efforts of the IMF. Peruvians have come to prize the PL 480 assistance for its show of U.S. support and development impact. It is likely that a simple resource transfer, initially, of $20 million, with use of the sales proceeds for general budget support, would have had less impact on our overall short- and long-term foreign policy interests in Peru.

What effect a reduction in the level of Title I assistance would have had on other Latin American countries' perceptions of U.S. support for the Belaunde Government is beyond the scope of this evaluation. Certainly, U.S. foreign policy-makers realize that Peru now serves as a test of whether a democracy can work in Latin America. U.S. aid demonstrates our commitment, beyond rhetoric, to a functioning Latin American democracy, in which human rights are respected and the government strives to implant free market principles encouraging private and foreign investment.

APPENDIX H

LOCAL CURRENCY USE, 1979-1982

Table H-1. Investment Projects Under PL 480 Title I, 1978-1979
(in thousands of U.S. dollars)
(Exchange Rate: U.S.$1 = S/.224.00)

Projects		Public Treasury	PL 480 Title I	Other Sources	Total
Prime Minister	Total:	18,304	2,232		20,536
Projects of Local Interest		18,304	2,232		20,536
Health	Total:		5,952		5,952
Programs for Construction and Equipping of Installations			3,233		3,233
Health Infrastructural Program			1,433		1,433
Construction and Equipping of					
Previous Page Blank			1,286		1,286
od	Total:	13,453	21,553	24,581	59,587
Agricultural Research			179		179
Irrigation: Chira-Piura			6,798	2,354	9,152
Small Irrigation Projects and Improvements		13,328	5,134	3,187	8,321
Irrigation: Majes-Sihuas			6,027	18,295	37,650
Forestry Seed Bank			49	4.5	53.5
La Yarada Settlement			469	--	469
Integrated Dev. Project Majes-Sihuas-La Joya			1,040		1,040
Cajamarca Development Project		125	112		237
Warehouses			1,415		1,415
Rural Settlement and Central Huallaga Marketing Services			80	237	317
Rational Use of "Vicuna"			250	504	754
Transports & Communication	Total:	12,875	5,580	2,009	20,464
Road Conservation		12,875	1,116	2,009	16,000
Rehabilitation of Roads: Yurimaguas-Tarapoto-Juanjui-Tocache - T.Maria			4,464		4,464
Education	Total:		4,018		4,018
Construction and Equipping of Education Centers			2,679		2,679
Field Education Centers			1,339		1,339
Total		44,632	39,335	26,590	110,557

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Table H-2. Projects Receiving PL 480 Title I Funds, 1980
(in thousands of U.S. dollars)
(Exchange Rate: U.S.$1 = S/.288.65)

Sectors and Projects		Public Treasury	PL 480	Multisectoral Commission	Total
Ministry Agric. and Food	Total:	5,155.5	4,249.0	519.7	9,924.2
Jungle Plan-1st. Phase		1,164.1	1,732.1		2,896.2
Sorghum & Corn Production on Small Farms		15.3	119.6	(up from 102.1)	134.9
Development of Agrarian Coop. Federations		11.9	62.5		74.4
Small Ruminants Colaborative Research Program			48.0		48.0
Administration of Tropical Soils			40.6		40.6
EPSA-Livestock Farm		1,385.8	190.5		1,576.3
Micro-planning project for Livestock Development, Technical Assistance and Services at Trujillo, Tacna and Cuzco		2,574.1	346.4		2,920.5
National Program for the Prevention and Control of Coffee Yellow "Roya"			346.4		346.4
Livestock Statistics			149.6		149.6
Water Management on Small Land Holdings		4.3	23.6		27.9
Alto Huallaga Rural Settlement Project			995.0		995.0
Food for Work Program in the Pueblos Jovenes of Lima & Callao			194.7	519.7	714.4
Ministry of Health:	Total:	3,418.3	5,623.5	8,245.3	17,287.1
Maternal Child Health & Population: Sur Medio Region		31.2	130.3	311.8	473.3
CARITAS			1,039.3	1,247.2	2,286.5
OFASA		34.6	321.1	277.2	632.9
School Feeding Program		303.1	866.1	5,196.6	6,365.8
Gamarra Gamma			43.7		43.7
Food for Work Program in the Pueblos Jovenes of Lima & Callao			798.2		798.2
Extension of Integrated Primary Health Care		104.8	2,031.5		2,136.3
Outpating Care		346.4	116.1		462.5
Remodeling and/or Termination of Hospitals		2,078.6	207.9	1,212.5	3,499.0
Hospital of Talara		519.6	69.3		588.9

Table H-2. Project Receiving PL 480 Title I Fund, 1980 (Cont.)
(in thousands of U.S. dollars)
(Exchange Rate: U.S.$1 = S/.288.66)

Sectors and Projects	Public Treasury	PL 480	Multisectoral Commission •	Total
Ministry of Education Total:	12,259.6	2,955.4		15,215.0
Basic Education as an Incentive for Community Development	19.2	6.9		26.1
Equipping Education Buildings	807.2	242.5		1,049.7
Construction and Improvement of Educ. Buildings	2,772.2	1,870.8		4,643.0
National University System (Infrastructure & Equipping)	8,661.0	346.4		9,007.4
Basic Educ. at Home		39.8		39.8
Food for Work Program at the Pueblos Jovenes of Lima & Callao		449.0		449.0
Ministry of Housing & Construction Total:	19,131.7	3,350.4	519.7	23,001.8
Food for Work Program at the Pueblos Jovenes of Lima & Callao		748.3		748.3
Improvement of Existing Services	1,359.4	415.7	519.7	2,294.8
Equipment & Motors (water extraction in rural areas)	277.1	454.2		731.3
National Urban Plan of Potable water-III Phase	17,495.2	1,732.2		19,227.4
Office of the Prime Minister Total:	966.1	1,277.9		2,244.0
Huallaga Central-Bajo Mayo	692.9	970.0		1,662.9
Integrated Regional Development at Junin and Cajamarca	173.2	207.9		381.1
Inventory of Natural Resources-Environmental Planning	100.0	100.0		200.0
National Office of Food Support (ONAA) Total:	710.2	1,119.0		1,829.2
Food for Work Program at the Pueblos Jovenes of Lima and Callao	710.2	79.7		789.9
Food Security Program to Support Drought Affected Areas		1,039.3		1,039.3
Ministry of Transport & Communications Total:	41.7	64.6		106.3
Rural Communications Services	41.7	64.6		106.3

Table H-2. Project Receiving PL 480 Title I Fund, 1980 (Cont.)
(in thousands of U.S. dollars)
(Exchange Rate: U.S.$1 = S/.288.66)

Sectors and Projects		Public Treasury	PL 480	Multisectoral Commission	Total
Ministry of Industry, Commerce, Tourism, and Integration					
	Total:	16.5	82.5		99.0
Appropriate Technology for Rural Areas		16.5	82.5		99.0
Ministry of Fisheries	Total:	46.4	38.1		84.5
Biological Fishery Research at Lake Titicaca		46.4	38.1		84.5
Ordenor Centro	Total:	2.4	31.2		33.6
Fresh Water Fisheries Dev. in the Dept. of Ancash		2.4	31.2		33.6
ORDE-PUNO	Total:	1,863.8	470.4		2,334.2
Reforestation of High Andean Slopes		131.6	173.2		304.8
Basic Education as an Incentive for Community Development			37.4		37.4
Road Conservation		1,732.2	259.8		1,992.0
ORDESO (Jungle Dev. Org.)	Total:	1,919.3	315.9		2,235.2
Basic Education as an Incentive for Community Development			56.1		56.1
Road Conservation		1,919.3	259.8		2,179.1
ORDETAM	Total:	772.6	376.3		1,148.9
Irrigation with Tributaries of the Sewage Treatment Plant at Tacna		79.7	29.9		109.6
Road Conservation		692.9	346.4		1,039.3
Total		46,304.1	19,954.2	9,284.7	75,543.0

Table H-3. Projects Receiving PL 480 Title I Funds, 1981
(in thousands of U.S. dollars)
(Exchange Rate: U.S.$1 = S/.426.7)

Sector and Projects		Public Treasury (C)	PL 480 Title I Authorized (A)	PL 480 Title I Spent (B)	Total Authorized (A+C)	PL 480 Leftover
Prime Minister	Total:	11,340	10,630	10,630	21,970	--
Huallaga Central-Bajo Mayo		8,378	4,429	4,429	12,807	--
Special Project Pichis Palcasu		2,964	6,201	6,201	9,163	--
Education	Total:	9,937	352	352	10,289	--
Construction of Service Centers		5,953	222	222	6,175	--
Classroom Construction and Equipping		3,984	130	130	4,114	--
Health	Total:	32,909	1,631	1,356	34,541	275
CARITAS		507	469	469	976	--
OFASA		250	221	221	471	--
SEPAS		93	86	86	179	--
School Feeding Program		28,404	89	89	28,493	--
Environmental Improvement in the Highlands		469	44	44	513	--
Integral Health Services		3,187	722	447	3,909	275
Agriculture	Total:	1,052	1,070	944	2,122	126
National Institute of Agrarian Research:						
Tropical Soils Administration			417	361	417	56
Small Ruminants		115	53	46	53	7
Agricultural Research, Extension and Education			221	219	221	2
Watershed Managements, Soil Conservation			53	0	168	53
Sorghum and Corn Production			281	273	281	8
Forestry Plantations for Protection and Production in Lima		937	45	45	982	--
Housing and Construction	Total:	1,457	855	728	2,312	127
Bank of Materials			177	177	177	--
Basic Infrastructure with Food Support for P. Jovenes in Lima and Callao		1,457	678	551	2,135	127
Ordenor Centro	Total:	75	22	22	97	--
Fresh Water Fisheries Development in Dept. of Ancash		75	22	22	97	--

Table H-3. Projects Receiving PL 480 Title I Funds, 1981 (Cont.)
(in thousands of U.S. dollars)
(Exchange Rate: U.S.$1 = S/.426.7)

Sector and Projects		Public Treasury	PL 480 Title I Authorized	PL 480 Title I Spent	Total	PL 480 Leftover
ORDEICA	Total:	949	341	341	1,290	--
Health		949	341	341	1,290	--
Cooperacion Popular	Total:	1,399	266	266	1,665	--
National Office of Food Support (ONAA)		1,399	266	266	1,665	--
Total		59,118	15,167	14,639	74,285	528

Table H-4. Projects Receiving PL 480 Title I Funds, 1982
(in thousands of U.S. dollars)
(Exchange Rate: U.S.$1 = S/.550)

Investment Projects		Public Treasury	PL 480 Title I[1] ($000)	Total
Council of Ministers	Total:	18,774	19,220	37,994
Special Project: Huallaga Central y Bajo Mayo		4,250	10,000	14,250
Special Project: Pichis-Palcazu		5,518	5,000	10,518
Integrated Regional Development Project Junin		3,005	1,311	4,316
Integrated Regional Development Project Cajamarca		1,638	1,091	2,729
Special Project		4,363	1,818	6,181
Ministry of Health	Total:	4,740	2,620	7,360
Outpatient Care		902	1,400	2,302
Lima Potable Water System		1,538	520	2,058
Primary Health Care		2,300	700	3,000
Ministry of Education	Total:		1,201	1,201
Basic infrastructure in the Pueblos Jovenes		--	936	936
Education Service Centers		--	265	265
Ministry of Agriculture	Total:	1,500	4,292	5,792
Forestation for Protection and Production in Lima		264	200	464
Administration of Tropical Soils		--	327	327
Agricultural Investigation, Extension and Education		--	898	898
Small Ruminants Program		--	38	38
Soil Conservation		--	93	93
Plan MERIS 1st. Stage		1,236	2,218	3,454
Plan Selva		--	518	518
Ministry of Housing & Construction	Total:		1,012	1,012
Basic Infrastructure Works with Food Support (include funds for Multi-sectorial Commission)		--	1,012	1,012

Table H-4. Projects Receiving PL 480 Title I Funds, 1982 (Cont.)
(in thousands of U.S. dollars)
(Exchange Rate: U.S.$1 = S/.550)

Investment Projects		Public Treasury	PL 480 Title I[1] ($000)	Total
ORDENORCENTRO	Total:		27	27
Development of Fresh Water Fisheries to the Dept. of Ancash		--	27	27
Evaluation of Natural Resource National Office	Total:		322	322
Inventory of Natural Resources and Environmental Planning		--	233	233
Headquarters of Technical Cooperation Teams			89	89
Total		25,014	28,704	53,718

[1]Includes Title I LGC ($17m) and additional GOP counterpart negotiated with Title I.

Table H-5. Summary of PL 480 Title I Agreements With The Government of Peru, 1978-1982

Agreement Signed	Supply Period	Commodity	Quantity (000 MT)	Market Value (millions)	Usual Marketing Requirement (000 MT)	Initial Payment	Currency Use Payment	Number of Installment Payments	Grace Period (years)	Initial Interest Rate	Continuing Interest Rate
April 26, 1978	1978	Wheat	52	$6.2	740	None	None	21	3	2%	3%
Amended:	1978	Soybean/ Cotton Seed Oil	24	13.8	71 (35 from US)						
10/27/78	1978[1]	Rice	50	13.8	None						
2/7/79	1979	Rice	23	6.2	None						
February 14, 1980	1980	Rice	53	$20.0	None	5%	None	21	3	2%	3%
February 5, 1981	1981	Rice	44	$20.0	22	5%	5%	21	3	2%	3%
April 5, 1982	1982	Rice	55	$17.0	39	5%	5%	17	4	3%	4%

[1]All rice under 1978 agreement was supplied in U.S. Fiscal Year 1979.

APPENDIX I

LOCAL CURRENCY USE, 1955-1965

Table I-1. Public Law 480 Title I Loans, 104 (e) Loans to Private Industry (Cooley)

Loan	Loan Value in U.S.$	Date Loan Authorized	Date Loan Signed
<u>FY 1959</u>			
Total	<u>1,532,287</u>		
527-E-008 C-27-5--Alcalis Peruanos S.A., Electrolytic Caustic Soda (completed)	448,693	3/5/59	3/5/59
[illegible] Previous Page Blank [illegible]uck del Peru S.A., [illegible]lities (completed)	261,738	5/11/59	5/11/59
527-E-010 C-27-4--Fabrica Nacional de Calzado, Footwear Production (completed)	82,260	4/30/59	6/3/59
527-E-011 C-27-2--Leche Gloria S.A., Evaporated Milk Product (completed)	154,425	2/5/59	6/10/59
527-E-012 C-27-3--Malteria Lima S.A., Malting Plant Facilities	585,171	4/30/59	6/23/59
<u>FY 1960</u>			
Total	<u>149,565</u>		
527-E-013 C-27-6--Hogares Peruanos S.A., Housing Construction	149,564	9/3/59	4/20/59
<u>FY 1964</u>			
Total	<u>972,169</u>		
527-E-026 Hogares Chavarria S.A., Construction Family Housing	972,169	11/1/63	3/6/64

Table I-1. Public Law 480 Title I Loans, 104 (e) Loans to Private Industry (Cooley) (Cont.)

Loan	Loan Value in U.S.$	Date Loan Authorized	Date Loan Signed
FY 1965 (completed)			
Total	317,824		
527-E-038 Laboratories Wyeth Inc., Expansion of Facilities	112,173	10/22/64	2/3/65
527-E-040 Armco Peruana S.A., Plant Construction	205,651	11/12/64	3/1/65
FY 1966 (completed)			
Total	549,089		
527-E-039 Arbor Acres del Peru, SCRL Poultry Breed Farm & Hatchery	287,351	10/29/64	1/18/66
527-E-041 Industrias Yuteras, Est. Plant to Mfg. Jute Products	261,738	2/4/65	4/20/66
FY 1967 (completed)			
Total	350,990		
527-E-044 Purina Pero S.A., Animal Feed Plant	350,990	5/9/66	8/2/66
FY 1970 (completed)			
Total	229,885		
527-E-043 Quimica del Pacifico S.A., Solar Salt Mg. Plant	229,885	5/28/65	9/28/69
Total	$4,101,808		

Table I-2. Public Law 480 Title I Loans, 104 (e) Loans to Government of Peru

Loan	Loan Value in U.S.$	Date Loan Authorized	Date Loan Signed
FY 1956			
Total	5,366,000		
527-G-002 FOAX 27-1--Project Assistance, Agriculture	2,630,000	2/10/55	8/1/55
527-G-003--Project Assistance, Agriculture ICAX 27-2	2,736,000	2/2/56	3/6/56
FY 1957			
Total	2,000,000		
527-B-004 Roads--ICAX 27-3	2,000,000	4/26/57	4/26/57
FY 1958			
Total	4,002,460		
527-G-005 Project Assistance, Agriculture Industry--ICAX 27-5	1,825,136	8/1/57	8/7/57
527-G-006 Project Assistance, Agriculture Industry--ICAX 27-5	2,187,324	4/24/58	5/1/58
FY 1959			
Total	3,109,787		
527-G-007 Project Assistance, Agriculture--ICAX 27-6	3,109,787	7/17/58	8/7/58
FY 1969			
527-22-690-067.1 IPFE	(S/.945,108)		4/10/64

Table I-3. Development Projects Financed by PL 480--Title I Local Currency Generations, 1955-1960

Name of Project (Number)	Total	Funding PL 480	Description
A. Agricultural Development of Quiroz Irrigation Project Piura (527-19-002)	Not Available	\$ 532,000 (loans under 104(g) thru 6/30/58) + 534,000 (FY1959) \$1,066,000 Total	Agricultural development of Quiroz Irrigation Project--Piura and Second Phase of Project Project designed to increase food production for a rapidly expanding population by increas-the cultivation of irrigable lands in the coastal region.
B. Second Phase of Quiroz Irrigation Project Piura (527-12-002)	\$28,000,000 (\$18,000,000 of which is IDB loan	\$6,476,000 (thru 6/30/58) \$3,425,000 (FY 1959) \$9,901,000 Total	Second phase began in June 1955 to more fully utilize the waters of the Quiroz River. Construction of a dam (San Lorenzo) to store water from the Quiroz River and to provide water by means of an appropriate distribution system for approximately 40,000 additional hectares of cultivable land.
C. Santa Rosa Irrigation Project	Not Available	\$423,000 (thru 6/30/58) \$173,000 (FY 1959 \$596,000 Total	To increase food production via irrigation projects that would increase cultivation of new lands in the coastal region. Involved the construction of a dam and other structures to provide a reservoir for additional water for irrigation of desert land, thus bringing 5,500 additional acres into productivity. The land was to be divided into economic farming units for production of fruit, alfalfa, dairy cattle, livestock and other food crops for domestic consumption. A farm-to-market road was also constructed.

Table I-3. Development Projects Financed by PL 480--Title I Local Currency Generations, 1955-1960 (Cont.)

	Name of Project (Number)	Total	Funding PL 480	Description
D.	El Frayle Dam-Arequipa (527-12-036)	$51,200,042	$123,000	To increase food supply for rapidly growing population by developing and cultivating new irrigable land in coastal region. Part of the "La Joya" Irrigation Project in southern Peru. Involved construction of an arch dam on the Rio Blanco about 100 km east of Arequipa and 8 km from the Arequipa Puno Highway, and the construction of canals and other water-conveying structures. To provide storage and diversion of an increased flow of water into the Chili River during the dry season. To make additional potable water available for the city of Arequipa and for the "La Joya" irrigation project. To provide for the development and irrigation of about 36,750 acres of desert land.
E.	Frigorifico de Productores S.A. (FRIPSA)	$270,092	$ 92,592 (FRIPSA contributed $167,500)	To finance the purchase of equipment needed to establish a livestock slaughter and freezing plant in high mountain-plains producing areas (in Cabanillas, Puno).
F.	Fishery Production Cooperative "AYLLU" Chimbote	Not Available	$ 64,000	Loan to Cooperativa por Produccion Pesquera "Ayllu" Ltd. of Chimbote, which consisted of 30 fishermen who owned one boat. To finance the purchase of equipment to be used to increase the supply of fresh fish for local consumption and to handle small fish for use in the fishmeal industry. Also, to help supply the Lima market with low-cost fish (30 to 40 percent below the normal price). Impact: The cooperative has been able to increase its catch of fish and to supply a large quantity and variety for domestic consumption. The Cooperative has contributed to increased exports of processed fish products, especially during the season of heavy catch of sardines and anchovies.

Table I-4. Projects Financed by PL 480 Title I Local Currency Generations, 1960-1964[1]

Name of Project (number)	Total	PL 480	Percentage of Total	GOP	Percentage of Total	Date of Original Agreement	Estimated Final Contribution Date
1. Aided Self-Help Housing Chimbote (527-12-840-046)	$584,500	$275,000	47	$309,500	53	6/28/61	12/31/63 (changed to 12/31/66)
2. Quincemil-Yoringo Puerto Carlos Highway Project 1st. Phase (527-22-310-071 or 527-42-310-071)	$889,712	$669,607	75	$220,105	25	12/12/63	12/31/66
3. Panamericana-Tembladera-Cajamarca Highway Project (527-22-310-072 527-42-310-072)	$2,141,642	$1,473,880	69	$667,762	31	1/9/64	12/31/67 (changed to 12/31/68)
4. Completion of Huallabamba Canal (527-22-120-074)	$164,925	$149,254	91	$15,671	9	1/23/64	12/31/65 (changed to 3/31/67)
5. Ica Valley Left Bank Canal 1st. Section (527-22-120-075)	$279,851	$205,224	73	$74,627	27	2/7/64	12/31/65 (changed to 6/30/68)
6. Chiclayo Water System (527-22-529-076)	$197,584	$197,584	100	None	--	2/25/64	12/31/65 (changed to 6/30/68)
7. Jauja Water System[2] (527-22-521-077)	Not Available	$37,494	--	Not Available			
8. Huaripampa, Muquiyauyo[2] Water System (527-22-520-078)	Not Available	$54,881	--	Not Available	--	2/12/64	

Table I-4. Projects Financed by PL 480 Title I Local Currency Generations, 1960-1964[1] (Cont.)

Name of Project (number)	Total	PL 480	Percentage of Total	GOP	Percentage of Total	Date of Original Agreement	Estimated Final Contribution Date
9. Chimbote Sewerage System (527-22-520-079)	$128,910	$89,450	69	$39,460	31	2/12/64	3/31/66 (changed to 6/30/66)
10. Iquitos Water System	$35,268	$35,268	100	None	--	2/24/64	6/30/65 (changed to 12/31/68)
11. Cuzco Water System Improvement (527-42-520-081- or 527-22-521-081)	$54,944	$52,305	95	$2,639	5	3/3/64	3/31/65 (changed to 6/30/66)
12. Water Meter Procurement (527-22-520-082)	$129,150	$121,975	94	$7,175	6	3/10/64	3/31/65 (changed to 12/31/67)
13. Rehabilitation of Cuzco Santa Ana Railroad	$1,697,567	$541,022	3	$1,156,545	97	3/17/64	12/31/67
14. Lambayeque Agricultural Experiment Station & other Rural Units.	$496,516	$203,174	2	$293,242	98	4/9/64	3/31/66 (changed to 10/31/68)
15. Univ. of Agriculture 1st. Phase of Construction Project (527-22-110-085) 2nd. Phase, see 18.	$1,333,666	$1,000,000	75	$333,666	25	2/25/64	12/31/66 (changed to 12/31/68)
16. Agricultural Development[2]	Not Available	$1,000,000	--	Not Available	--	7/8/65	
17. Tarapoto-Juanjui[2]	$4,736,362	$2,000,000	42	$2,736,362	58	2/15/65	3/31/68 (changed to 12/31/68)

Table I-4. Projects Financed by PL 480 Title I Local Currency Generations, 1960-1964[1] (Cont.)

	Name of Project (number)	Total	PL 480	Percentage of Total	GOP	Percentage of Total	Date of Original Agreement	Estimated Final Contribution Date
18.	Univ. of Agriculture[2] Second Phase of Construction Project (527-42-110-085)	$1,929,727	$1,063,060	55	$866,667	45	7/15/65	6/30/67 (changed to 12/31/68)
19.	Sample Survey Center Data Processing Equip.	$58,539	$43,950	75	$14,589	25	6/24/66	12/31/67 (changed to 6/30/68)
20.	Sample Survey Center National Sampling Frame	$30,687	$23,835	78	$6,852	22	1/24/68	12/31/68 (changed to 9/30/60)

[1]Based on Surplus Agricultural Commodities Agreement of February 12, 1960 and ICAX 27-7 of May 28, 1960 unless noted otherwise.

[2]Unsure of total project funding, no records available.

APPENDIX J

NOTES ON THE AUTHORS

NOTES ON THE AUTHORS

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Dr. Adler has been an economist with AID since 1966. He is currently working in the Office of Development Programs in AID's Bureau for Latin America and the Caribbean. He served as an economist in AID Missions in Chile, Paraguay, and Peru. His work in Peru from 1975-1981, where he served in the Embassy and AID Mission, covered a period of financial crisis, declining real incomes, and a return of Peru to civilian government, and gave him a unique perspective on interrelationships between macroeconomic stabilization, nutrition, and agricultural development. He received his doctorate from the University of Oregon. The major studies related to his work with AID include Chile Prior to Socialism; A Case Study of Slow Economic Growth ([illegible] ID/Paraguay Small Farmer Sub-Sector Assessment a Analyses (1976); and Policy Issues Concerning t [illegible] Arable Land in Peru (1980). He also co-authored Public External Financing of Development Banks in Developing Countries (1966).

Elizabeth Berry

Ms. Berry received her M.A. from the University of Minnesota, Hubert Humphrey Institute of Public Affairs. She worked in the USDA Office of International Cooperation and Development from 1979 to 1981 as a presidential management intern. Since 1981 she has been with the USDA Foreign Agricultural Service working on PL 480 programs. In addition to the present study, she has worked on two evaluations of Egypt's PL 480 Title III program.

Judy Cohen

Ms. Cohen entered the Foreign Service in 1978 and served at the U.S. Embassy in Lima, Peru in 1979-1981. In 1981, she joined the Office of Food Programs which is responsible for PL 480 programming on behalf of the State Department. Previous to joining State, she worked as an international financial analyst with the Office of the Comptroller of the Currency. She is a summa cum laude graduate of Emory University where she received a BBA in Finance. She received her M.A. from George Washington University in International Business/Economics.

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Dr. Hammergren is currently an instructor in the Development Studies Program of AID's Training Division. Previously, she was an Assistant Professor in Vanderbilt University's Department of Political Science and Associate Director of Vanderbilt's Center for Latin American Studies. She received her doctorate in Political Science from the University of Wisconsin-Madison and has done field research in Peru, Colombia, and Venezuela. She is the author of Development and the Politics of Administrative Reform: Lessons from Latin America (Westview, 1983) as well as articles on Latin American policy-making and politics.

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Dr. Johnson has been with AID in the Studies Division, Office of Evaluation since April 1979, first as Deputy and then as Acting Chief. Prior to joining AID, he was Country Director of the Peace Corps in Brazil, where he had previously served as a Volunteer between 1964 and 1966. He received his Ph.D. in Anthropology from Columbia University and taught at Queens College, City University of New York and at the University of Maine, and has conducted ethnographic research on peasant systems of production in Iberia, Central America, and the Caribbean. He has also worked as a Senior Management Consultant trying to make complex organizations "smarter."

Robert Landmann

Dr. Landmann is currently a Senior Research Scientist in the Department of Urban Studies and Planning, MIT. Prior to this he held positions as the Associate Director of the Institute for Social Research and Development and Assistant Professor of Sociology at the University of New Mexico; as Deputy Director of Planning for the State of New Mexico; and, most recently as Assistant Director of the U.S. Community Services Administration. Dr. Landmann was a visiting fellow at the Institute of Politics at the Kennedy School of Government. He received his Ph.D. in Political Science from the University of New Mexico and has spent six years living and working in Latin America.

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