

UNCLASSIFIED

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



ANDEAN REGIONAL

**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 82

Small Program Statement

January 1980

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON, D.C. 20523

This strategy statement has been prepared by the AID field mission. It is prepared annually and used for planning purposes in the field and in Washington but is neither officially approved nor disapproved by AID/Washington. It does not represent official Agency policy.

THIS STRATEGY STATEMENT HAS BEEN PREPARED BY THE
A.I.D. FIELD MISSION. IT IS PREPARED ANNUALLY AND
USED FOR PLANNING PURPOSES IN THE FIELD AND IN
WASHINGTON. IT DOES NOT REPRESENT OFFICIAL AGENCY
POLICY!

**

*

Table of Contents

Pg. No.

| | |
|---|----|
| I. Regional Cooperation - A Major Objective of the Latin America and Caribbean Bureau | 1 |
| II. The Andean Pact | 2 |
| III. Evolution of Pact Policy | 4 |
| IV. Emerging U.S. - Andean Cooperation | 5 |
| V. Why Initiate an Andean Regional Program | 7 |
| VI. Program Strategy | 11 |
| VII. Attachment: Andean Regional Target Group Description | 15 |

ANDEAN REGIONAL PROGRAM

SMALL PROGRAM STATEMENT

Regional Cooperation - A Major Objective of the Latin America & Caribbean Bureau

During the past years the Latin America Bureau has assisted regional and subregional cooperation efforts throughout the Hemisphere. Regional loan and grant activities in Central America and in the Caribbean have been two of the Bureau's larger programs. This has been in line with our Congressional Presentations which identified as a major objective of the Latin American Program the encouragement of regional cooperation to foster the growth of internal markets and overcome the diseconomies of small national scale.

The most important cooperation effort in South America has been that of the Andean Pact. As a result of technical and political difficulties associated with some of the Pact's early cooperation efforts, initial opportunities for A.I.D. participation in the Pact's activities were limited and our regional program in South America has been more modest than in other regions. To date A.I.D. support to the Andean Region has included only small grants to the Andean Pact for technical advisors and one \$15 million loan to the Andean Development Corporation (CAF) approved in 1972 for re-lending to the private sector for projects which furthered economic integration. The loan was closed out at the end of CY 1979.

The Andean Pact

The Andean Pact was formally established in late 1969 with the signing of the Group's basic charter, the Agreement of Cartagena, by the Governments of Bolivia, Chile, Colombia, Ecuador and Peru. Venezuelan membership in the Group was agreed upon in early 1973; Chile withdrew in 1976. The basic reason for establishing the Pact was to enable the member countries to compete on a more equal basis with the Latin American big three -- Brazil, Mexico, and Argentina -- and to accelerate the process of economic integration and development among member countries.

Several entities were established under the Pact among which the most important are the Andean Commission, the Junta of the Treaty of Cartagena, and the Andean Development Corporation. The Andean Commission is composed of one representative of each of the five countries and is the highest level permanent institution of the Pact; it is responsible for the economic/technical implementation of the Treaty of Cartagena. Serving the Commission is a three-person Junta appointed by the Commission and serving as its technical secretariat. The Junta is headquartered in Lima with a professional staff of 30 - 40 augmented by advisors and other experts financed by various external donor agencies (e.g., CIDA, EEC, UNDP).

The Andean Development Corporation (CAF) was created as the financing arm of the Pact and began operations in 1970. In mid-1979, total operations approved by CAF (technical assistance, pre-investment credits, working capital credits, and capital participation) exceeded \$240 million. CAF's authorized capital is \$400 million of which \$100 million is to be paid in through annual installments from member countries by 1982; \$200 million is committed to a central guarantee fund and \$100 million is authorized but not paid in.

During the first few years of its existence, the Andean Pact exhibited substantial harmony and dedication in both designing and implementing cooperation programs. Intra-regional trade barriers were substantially reduced and trade among the six Andean countries grew from \$78.6 million in 1970 to \$464.5 million in 1977 (excluding petroleum). Three major regional industrial allocation and development programs -- in the metalworking, petrochemical, and automotive sectors -- were developed and are now being implemented. A common Andean Foreign Investment Code (referred to as Decision 24) was agreed to by member countries and a legal framework was developed for promoting Andean Multinational Enterprises (Decision 46). The Andres Bello Convention covering the integration of the educational, cultural and scientific sectors was approved and was followed by Decision 84 that proposed, among other initiatives, an effort to promote Andean Regional scientific and technological development. During this period, the Andean Development Corporation (CAF) rapidly developed into one of Latin America's most

important regional development banks and was increasingly able to attract international resources to meet the growing regional industrial development needs of member countries.

Evolution of Pact Policy

During its early years, the Pact focused almost exclusively on removing trade barriers among member countries, developing a common foreign investment code and implementing regional industrial planning. The CAF directed most of its financing to large private and public sector industrial enterprises and to some infrastructure projects. It vigorously supported the Pact's sectoral programs of industrial development and its underlying long-term objective of capital intensive import substitution.

The difficulty of reconciling conflicting interests on such sensitive issues as industrial planning, investment policy and tariffs retarded the integration movement in recent years. The withdrawal of Chile from the Pact in October 1976, because of a dispute over the Pact's investment code and schedule for reducing tariffs -- reflecting Chile's fundamental disagreement with the Pact's import substitution strategy -- has greatly contributed to a major rethinking of the Pact's previous development and integration strategy. As most observers agree, Andean cooperation is at a critical turning point. The response to current problems could either lead to the stagnation of Andean cooperation or to the emergence of significant new opportunities for promoting the growth of South America's most important regional grouping.

In recent months, a political consensus has begun to emerge among the member countries and has contributed to a resurgence of interest in and optimism about the future of the Pact among its members. This new activism stems from the meeting of the five Andean Presidents at Cartagena in May 1979 which celebrated the tenth anniversary of the Pact. The "Cartagena Mandate" signed by the Presidents was a strong reaffirmation by the member countries to the goal of regional integration and cooperation. Importantly, it underscored the need to emphasize cooperation in dealing with common economic development problems, including problems which affect the rural population. Other key actions included the signing of a treaty creating the Andean Court of Justice, the first supranational Judicial body to be instituted in the Americas. Plans also have been made for an "Andean Parliament" and a monetary stabilization fund.

Emerging U.S.-Andean Cooperation

The increased cohesiveness and activism of the Andean Pact against the backdrop of the restoration of the democratic process in Ecuador, Bolivia, and Peru, are welcome developments in U.S.-Andean Cooperation. Two watershed events during the past several months have improved the prospects for better relations with the Pact: the visit of the Dr. Frank Press delegation to the headquarters of the Andean Junta in Lima in October and the high-level Andean Commission-U.S.G. discussions in Washington in November.

The purpose of the visit of Dr. Frank Press of the White House Office of Science and Technology Policy (accompanied by representatives of key U.S.G. agencies involved in S&T) to the Junta in Lima was to underscore and advance our concern with increasing cooperation in the area of science and technology. Given the limited time available for advance preparation and the small Junta professional staff directly involved in S&T, little was expected from the Press visit beyond general expressions of interest by both parties. However, the Junta responded in a very positive manner and expressed the desire to define specific projects/activities to reinitiate the long-dormant technical cooperation between the Junta and the U.S. The response of the Junta to the Press delegation opened the door to detailed technical-level discussions on specific project activities.

In December, members of the Andean Commission and the Junta met with U.S.G. representatives in Washington to consult on broadening the base of U.S.-Andean cooperation. These consultations were held at the request of the Andean Pact and were the most direct, high-level discussions in recent years. The Memorandum of Understanding (MOU) issued following the consultations stated that both parties agreed that it would be in their interest to seek the basis for effective cooperation in areas involving trade, finance, science and technology, and agriculture. A separate MOU on Science and Technology also was issued building on the foundation of cooperation laid during the Press visit. Although the anticipated technical discussions on specific joint S&T activities did not take place, the MOU did define further areas of priority interest to the Junta. These areas include

agriculture and livestock, intermediate industrial technology, use of remote sensing, and development of a sub-regional technology information system. As outlined below, our strategy will seek to build upon these areas of priority within the Andean region.

Why Initiate an Andean Regional Program

As a result of the recent political and technical dialogue with the Andean Commission and Junta, the framework for implementing the Andean regional initiative has been established.

Until now, very little Pact attention has been directed to regional agricultural development or other programs that might directly address some of the fundamental problems of the poor in the Andean Region. Thus, since the establishment in 1973 of A.I.D.'s New Direction legislation, it has been difficult to establish an A.I.D. Andean Regional program.

Recently, however, a number of Andean Regional initiatives in agricultural development and nutrition improvement have been developed. In agriculture, the Junta has been working in collaboration with the Ministries of Agriculture of the member countries to coordinate agricultural policy within the sub-region. In addition, the Junta's Office of Agricultural Development has undertaken specific activities which address agricultural problems of common concern, involving agro-industrial development. Other activities in the planning stage include seed technology and encouraging the production of food crops in regional deficit.

In the area of nutrition, the Junta has been working with member countries on developing high nutrition food supplements using agricultural products grown in the sub-region. The target group of this effort is low-income urban and rural children and women in the pre- and post-natal period.

In addition to agriculture and nutrition, a number of new initiatives in science and technology development, and regional training are emerging. For example, the Junta's Office of Science and Technology is developing a regional project to promote the introduction of appropriate production-related technology to small farmers in the Andean highlands. That Office also is working toward the creation of a sub-regional technology information system.

These new ideas represent the beginnings of a fundamental shift in the Pact's previous development strategy. The implementation of these new concepts could begin moving Andean cooperation towards more attention to concrete development activities as contrasted with past emphases on policy measures.

An important opportunity exists to provide support for the Region's evolving shift away from its prior major emphasis on import substitution. At this juncture in Andean Regional development, A.I.D. funding could make a difference in whether and how far some of the specific new initiatives are carried out. A.I.D. funds, carefully placed, could not only assist in programs designed directly and

indirectly to benefit the region's poor, but could offer a valuable opportunity to encourage policy measures in such areas as agricultural and rural development, choice of technology, environmental protection, and resource planning. Moreover, A.I.D. may be able to utilize its funds to attract a sizeable financial commitment from Venezuela to Andean Regional programs, particularly in areas such as non-conventional energy and technology development and agro-industry which are in Venezuela's own development interest.

In addition, the strategy and program outlined in this statement are in direct support of two of the LAC Bureau's stated policy objectives of (a) overcoming global problems in such areas as food and raw materials production, conservation and management of natural resources, development of alternative energy resources, and control of environmental pollution, and (b) engaging LAC countries in addressing regional problems of poverty and resource management. We are carrying out these objectives in part through active bilateral programs in Peru, Bolivia, and Ecuador. A regional activity would allow us to address development problems outside our current activities. It should be noted that Venezuela is the only Andean country not considered eligible for A.I.D. assistance, and it is expected that it will not receive any A.I.D. funds under this proposed regional program.

Supplementary to the developmental rationale for an Andean Regional program is the positive human rights record throughout the region. The

five Andean countries are exemplary in the hemisphere for their commitment to civil liberties and public participation. Venezuela, Colombia and Ecuador all have democratically elected governments. In Bolivia, a military coup in November disrupted the transition to civilian rule following the July elections. However, faced with determined opposition by a broad spectrum of Bolivians, the leader of the coup stepped down and an interim government is in power until new elections scheduled for 1980. And Peru, in its first step toward a return to participatory democracy, has elected a constituent assembly to redraft the constitution. In none of the five Andean countries is there a consistent pattern of gross violations to human rights of prisoners, political opponents, trade and labor unions, or other political groupings. This outstanding record clearly warrants a positive expression of U.S.G. and A.I.D. support.

Since, if no other assistance were provided, A.I.D. would formally close its relationship with the Andean Region with the completion of the CAF loan, we should consider renewing that relationship with an innovative and important regional program. Such a program is proposed in this Program Statement -- innovative because it addresses new problems in sectors such as energy, technology, and the environment; and important as a catalyst in effecting a fundamental shift in Andean Regional development strategy. While building on past successes in Andean cooperation, the program embraces the less ambitious goal of

regional coordination in those areas of development which are in the interest of all the member countries. A significant opportunity exists at this time for A.I.D. to capitalize on a viable institutional framework and the growing momentum for policy change in order to encourage the Andean Region to address those high priority development issues.

Program Strategy

A new A.I.D. initiative to provide development assistance to the Andean Pact institutions beginning in FY 81 is proposed to assist the Andean Pact undertake specific regional activities which will impact on the Region's poor. Our strategy is to encourage initiatives in areas which address major regional development constraints and are particularly appropriate for regional action. Our program will seek to enhance the institutional capability of Pact institutions to identify and work to resolve common development problems of the sub-region, including those which impact upon the region's poor. Initially, the focus of the program will be in the area of rural development to facilitate the utilization of available technology in rural areas and to expand marketing opportunities for small farmer crops. Further activities could include the expansion of the Region's capability to identify, develop, and adopt technology for development (including alternative energy resources) and to establish a regional mechanism to address environmental problems facing Pact member countries. The A.I.D. program would be designed to serve the following basic purposes:

- Support the implementation of Andean Regional development and cooperation policies that can more effectively

deal with the region's serious poverty problems.

- Assist the Pact to develop organizational structures and implementing mechanisms for dealing with such concerns as environmental protection, science and technology development, and satellite technology where they can be most effectively treated on a regional level.
- Attract a significant financial contribution to Andean Regional development from the region's wealthy partner, Venezuela, and from other donors.
- Reinforce the commitment of member countries to regional cooperation while strengthening existing regional institutions.
- Demonstrate U.S.G. support for closer Andean cooperation and for the human rights records of the Andean member countries.

The projects in the proposed Andean Regional program have been identified as those addressing development problems which can most effectively be treated on a regional level. These include, first, problems which go beyond national borders, either because they relate to common resources or because their resolution requires a pooling of resources from two or more Andean countries. (Examples of these kinds of problems include over-fishing of Lake Titicaca on the Peru-Bolivia border, agor-industrial development in which raw materials for processing industries straddle

national boundaries, or imbalances in labor and energy supplies among Andean countries.) Second, certain kinds of programs exhibit significant economies of scale in planning and implementation. Programs in satellite technology development, some kinds of agricultural research, and R & D on alternative technologies and energy sources will benefit all Andean countries and, if done on a regional scale, can eliminate duplication of efforts and investments in facilities, research, training and administrative infrastructure. And last, regional cooperation is critical to the viability of programs which may require standardized policies and uniform controls, particularly in the fields of environmental improvement and technology development. The projects proposed below, therefore, are necessarily regional in nature, and cannot be as effectively undertaken on a bilateral basis.

These projects and proposed funding levels for FYs 1981 - 1986 are as follows:

| <u>FY</u> | <u>Project Title</u> | <u>Funding</u> (in \$ 000) |
|-----------|---------------------------------------|-------------------------------|
| 81 | Rural Technology Network (G) | 300 |
| | Agro-Industrial Development (L) | 3,100 |
| | Program Development and Support (F&N) | 100 |
| | Program Development & Support (SDA) | 40 |
| 82 | Rural Technology Network (G) | 300 |
| | Agro-Industrial Development (L) | 6,000 |
| | Environmental Improvement (G) | 300 |
| | Program Development & Support (SDA) | 100 |
| 83 | Rural Technology Network (G) | 400 |
| | Environmental Improvement (L) | 10,000 |
| | Program Development & Support (SDA) | 150 |

| <u>FY</u> | <u>Project Title</u> | <u>Funding (in \$ 000)</u> |
|-----------|--------------------------------------|--------------------------------|
| 84 | Energy/Science & Technology (G) | 300 |
| | Satellite Technology Application (G) | 400 |
| | Program Development & Support (SDA) | 150 |
| 85 | Satellite Technology Application (L) | 6,000 |
| | Program Development & Support (SDA) | 150 |
| 86 | Energy/Science & Technology (L) | 8,000 |
| | Energy/Science & Technology (G) | 1,000 |
| | Program Development & Support | 100 |

Other projects which could be developed include regional agricultural planning and research, manpower training, agricultural marketing development, regional health services, reforestation, and fuelwood management.

These projects will be implemented through the Andean Region's major institutions: the Andean Development Corporation (CAF), the region's development bank, and the region's technical secretariat charged with regional policy formulation and development and implementation of projects. Other regional institutions, such as training and research institutes, will also participate.

Implementation of this proposed program would facilitate a fundamental shift in the Andean Region's development policies and would encourage the region to establish new programs and mechanisms for dealing with regional problems that will continue well into the future. Such an A.I.D. effort would represent a new USG commitment to Andean cooperation and would allow A.I.D. to play a more creative and dynamic role in assisting Andean Regional development.

Attachment

Andean Regional Target Group Description

The Andean regional grouping of nations contains the poorest country in South America -- Bolivia -- and one of the most affluent -- Venezuela. In each of the four less affluent nations of the Andean Group, however, a second nation exists consisting of both rural and urban poor who live on the brink of economic and social disaster. In Peru, it is estimated that fully half of the population of 16,000,000 can be counted in this group, while in both Bolivia and Ecuador approximately 60% of their population live below the poverty line. Even in Colombia, where the annual per capita income is approximately \$710, at least 9 to 10 million people live in dire poverty. This is the population group that is the target of both the proposed regional and our continuing bilateral assistance programs in Bolivia, Peru and Ecuador.

A more detailed look shows that in three of the Andean countries -- Bolivia, Peru and Ecuador -- the target group consists primarily of the rural sierra and altiplano Indian population. Bolivia, where the average rural nuclear family numbers approximately 5 members, is the poorest. Problems of health are severe, with men's life expectancy averaging 47 years and women 51. The nationwide crude death rate for children under 1 year of age in rural areas is 235 per thousand. These rates are the highest in South America, the major causes of

which are communicable respiratory and gastrointestinal diseases, and malnutrition. Health problems persist largely because of inadequate preventive medicine, inappropriate training, minimal community involvement and poor distribution of medical services. The rural family typically lives in an adobe dwelling which has no basic sanitary conveniences. It consumes only 77% of its minimum daily requirements of calories and 49% of its minimum daily requirements of proteins.

Of the total population over 15 years of age, 60% are illiterate. The school age population between 5 and 19 years of age is 1.7 million or 37% of the population. Of this group 61% live in rural areas, of which only 36% were attending school as late as 1975.

Bolivian agriculture is comprised primarily of small subsistence farmers with traditional production technologies. The average land holding of a rural pool family is less than 3 hectares of cultivated land from which most of the family's income is derived from potatoes, barley, wheat, rice, vegetables, and coca. A minimal amount of income is derived from mixed livestock production.

Traditional farming implements and techniques have continued to play a dominant role in Bolivia's agriculture. On the altiplano, a wooden hoe is still the principal tool used for the cultivation of potatoes, and a wooden club is used to break up earth clods. Sowing of seeds is generally accomplished by hand. Crop residue and animal manure, although used for fertilizer on the altiplano, is more commonly

employed as fuel for household cooking. All commercial fertilizers are imported and generally are inaccessible to the rural poor due to high cost, lack of credit or poor distribution. The only soil conservation method practiced by poor farmers is crop rotation. The exact length of the rotation cycle varies with soil fertility, but is generally four to five years.

This bleak picture is repeated to some extent in both Peru and Ecuador. In the former, there are vast regions where the majority of families exist on per capita incomes of less than \$150 per year, entire cities in which more people live in slums than in acceptable housing. A recent World Bank study has concluded that at least 28% of Peru's population, or 4.5 million people, cannot satisfy the most minimal food and non-food requirements to adequately sustain life needs. The severity of the poverty problem is indicated by the fact that the income of the average poor person in Peru would have to be more than doubled to reach the minimum poverty threshold.

In Ecuador, where 60% of the rural population is Indian, poverty is widespread. It is estimated, for instance, that some 450,000 farm families (2,400,000 individuals) live in a perpetual state of poverty. And poverty in the urban areas can be just as severe. In both Ecuador and Peru, large groups of the population do not have an adequate diet nor do they receive adequate health care. It is estimated, for instance, that fully one half of all Peruvian children are malnourished and at least 54% of all rural families do not satisfy acceptable

caloric intake levels. Similar deficiencies exist in Ecuador. Both countries exhibit high infant mortality rates, primarily resulting from the high incidence of malnutrition in the area's poorer regions. And medical care is largely beyond the reach of rural families, with a high percentage of the doctors and medical facilities located in urban areas.

Another poverty problem relates to the poor's access to potable water and sewerage systems. As an example, in Peru in 1972, only 6% of the rural population had access to potable water and a miniscule 1% had plumbing facilities.

Literacy rates in the region vary from country to country, 40% in Bolivia to 72% in Peru, to 81% in Colombia. While literacy rates have in general been rising in the region, in Ecuador the rate remained the same for the decade 1962 - 1972 -- 67%. Literacy rates in rural areas are considerably lower than in urban areas. For instance, in Peru rural literacy is only 48%. In certain areas of Colombia the functional literacy rate is believed to be between 5 to 15%.

As can be seen from the foregoing, poverty in the Andean Region can be as severe as any in the world. While great strides have been made over the last decade in bettering the lot of the poor, considerable work remains to be done. Two overwhelming problems persist which directly affect how fast development can take place -- rapid population growth and high unequal income distribution. The average population

growth rate of the Andean Region is 2.8%, which means that the current population of the five Andean Regional countries will nearly double by the year 2000. This can have a disastrous effect on the region in terms of food production, health care, education resources, employment and overall standard of living of the region's poor.

Related to the population problem is the highly distorted income distribution in the region. In Peru, the lowest 20% of the population receive only 1.8% of the national income. Similar percentages for Bolivia and Ecuador are 4% and 3%, respectively. This highly skewed pattern will be difficult to break without a major across-the-board attack on poverty from both a bilateral and a regional standpoint.