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Lessons Learned Evaluation

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List of abbreviations

AD	Alternative development
ADD	Acute diarrheal disease
A.I.D.	Agency for International Development
AID/W	Agency for International Development/Washington
AMIDEP	Multidisciplinary Population Studies Association
APEMI	Asociación Privada Equipo Misionero Itinerante
APRA	American Popular Revolutionary Alliance Party
ARI	Acute respiratory infection
ARRO-SAMSA	San Martín Rice Anonymous Society
BANCOP	National Cooperative Bank
BAP	Agrarian Bank of Peru
CARE	Cooperative for American Relief Everywhere
CD	Community development
CDSS	Country Development Strategy Statement
CEAS	National Episcopal Commission for Social Action
CECOAH	Central Cooperatives of the Alto Huallaga
CEDISA	Centro de Desarrollo e Investigación de Selva Alta
CEDRO	Center for Information and Education on the Prevention of Drug Abuse
CENCIRA	National Center for Research & Training for Agrarian Reform
CEPCO	Centro de Estudios y Promoción Comunal del Oriente
CESPAC	Center for Production & Audiovisual Services for Small Farmers, MAG
CIPA	Center for Agricultural Research & Promotion
CNP	National Population Council
COFIDE	Corporación Financiera para el Desarrollo
COOPOP	Popular Cooperation
CORAH	Upper Huallaga Coca Eradication Accord
CORDESAM	Regional Development Corporation of San Martín
CRS	Catholic Relief Services
CUANTO	S.A. consulting firm
DEA	Drug Enforcement Administration
DIGEMA	General Direction of the Environment, MOH
DISAR	Direction of Rural Sanitation, DIGEMA
DGRAAR	General Direction of Agrarian Reform & Rural Settlement, MAG
DGFF	General Direction of Forests & Fauna, MAG
EAP	Economically active population
ECASA	Public Rice Commercialization Enterprise
EEA	Experimental Agricultural Station
ELECTRO-PERU	Public Electricity Enterprise of Peru
EMDEPALMA	Public Oil Palm Development Enterprise
ENCASA	National Rice Marketing Enterprise
ENCI	National Agricultural Input Marketing Enterprise
ENACO	National Coca Enterprise
EPA	Economically active population
FID	Colegio de Propagación Católica
FDN	Foundation for National Development
FONCODES	National Compensation and Social Development Fund

FY	Fiscal year
GNP	Gross national product
GOP	Government of Peru
GTZ	German technical assistance
ha	Hectare
HC	Host country
HCOLC	Host country owned local currency
IBRD	International Bank for Reconstruction & Development
IDA	Alternative Development Institute
IDEA	Development Alternative Institute
ILD	Liberty & Democracy Institute
INADE	National Development Institute
INAF	National Institute for the Extension of the Agricultural Frontier, MAG
INANDEP	Andean Institute for Studies in Population & Development
INDA	Institute for the Promotion of Self Development
INDDA	National Institute for Agroindustrial Development, MAG
INEI	National Statistical & Information Institute
INFOF	National Forest and Fauna Institute
INIAA	National Institute for Agriculture & Agroindustrial Research
INIPA	National Institute for Agricultural Research & Promotion, MAG
INM	International Narcotics Matters, U.S. Department of State
INP	National Planning Institute
IQC	Indefinite quantity contract
kg	Kilogram
km	Kilometer
LC	Local currency
LOP	Life of project
m	Meter
M	Million
MAIZSELVA	Corn-growers' association
MAG	Ministry of Agriculture
MEA	Municipalities in Action Program
MOE	Ministry of Education
MOH	Ministry of Health
MRTA	Tupac Amaru Revolutionary Movement
MT	Metric ton
MTC	Ministry of Transport & Communications
NAS	Narcotics Affairs Section, U.S. Department of State
NGO	Nongovernmental organization
OER/SPD	Office of Economic Recovery/Special Projects Division
OGIN	General Engineering Office, MAG
ONERN	National Office for the Evaluation of Natural Resources
OSE-MA	Sector Office for Statistics, MAG
OCGR	General Office for Rural Survey, MAG
PACD	Project completion date
PBC	Basic cocaine paste
PCTMTC	Tingo María-Tocache-Campanilla Colonization Project
PEAH	Special Project for the Development of the Alto Huallaga Area

PERS	Special Project for the Rehabilitation & Development of the Ucayali, Chontayacu & Purus Basins
PID	Project identification document
PMU	Project Management Unit
PP	Project paper
PVO	Private voluntary organization
RSO	Regional Security Office, U.S. Embassy
SAN	National Aerial Photography Service
SENHAMHI	National Meteorological & Hydrological Service
SER	Selva Economic Revitalization
SL	Sendero Luminoso
TA	Technical assistance
TAPESA	Peruvian Tobacco Company
TCN	Third-country national
UDES	Departmental Office, Ministry of Education & Health
UHAD	Upper Huallaga Area Development
UHV	Upper Huallaga Valley
UMOPAR	Mobile Rural Patrol Unit, Peruvian Civil Guard
UN	United Nations
UNAS	National Agrarian University of the Selva
UNDP	United Nations Development Program
UNFDAC	United Nations Fund for Drug Abuse & Control
USAID	United States Agency for International Development
USG	United States Government
WID	Women in development

Executive summary

Purpose

The purpose of this report is to identify lessons learned from the Upper Huallaga Area Development (UHAD) Project (527-0244) that can be incorporated into the design of the up-coming Selva Economic Revitalization (SER) Project (527-0348). This report also will serve as the final evaluation of the UHAD Project. Information obtained from the "Lessons Learned" field investigations on agriculture, infrastructure, agro-industrial, marketing and social and economic conditions will be used for the SER project design effort.

Information gathering methodology

The evaluation team used a wide variety of data collection and analysis methods, including (a) document and literature review; (b) interviews and meetings with Mission staff and other United States Government (USG) representatives, Government of Peru (GOP) personnel, Upper Huallaga Special Project Office (PEAH) staff, private sector and non-profit organizations, members of the business and banking communities and local groups; (c) field visits to project and non-project areas, including Iquitos, Leoncio Prado, Picota, Pucallpa, Tarapoto, Tingo María and Yurimaguas; and (d) field studies that addressed specific technical issues, as well as larger socio-cultural questions.

The evaluation team used standard quantitative and qualitative research techniques. Fieldwork accounted for 20 percent of the total effort. The chief constraint to gathering information was the inability to make a thorough review of UHAD activities on-site because of travel restrictions to the project area because of security reasons.

Report organization

The team developed a series of recommendations for the follow-on SER design (see Chapter Four). These recommendations emerged after the team analyzed each component of UHAD's activities in terms of the following: the political context in which the project had been implemented; UHAD's project goal and purpose, which were developed during its initial Project Paper (PP) design effort in 1981 and the subsequent Project Paper supplement (also referred to as the Second Amendment) in 1986; the Agency for International Development (A.I.D.) analysis of narcotic control programs worldwide as articulated in its report, *A Review of A.I.D.'s Narcotics Control Development Assistance Program*; and A.I.D.'s Alternative Development Strategy.

The report has been developed to reflect the team's line of inquiry. The second chapter presents a review of the PP, the assumptions that underpinned the project design and the political and economic situation found in the Upper Huallaga Valley (UHV) in 1981.

The second chapter traces the dramatic economic, social and political changes that took place in the UHV during the project implementation period. The rise of the coca economy with its attendant inflation is discussed, as are the disintegration of the social structure in the project area and the implications for UHV residents, as well as for migrant laborers. Finally, the arrival of the Sendero Luminoso (SL) and the Tupac Amaru Revolutionary Movement (MRTA) is discussed along with the effect these, and other counterforce groups, had upon the UHV.

The third chapter delineates three phases in UHAD's implementation. The three phases roughly reflect the rise of coca economy-inspired violence in the project area, the Mission's design response to that violence (the Second Amendment) and the tentative re-emergence of GOP agencies in the project area. The final section in the third chapter analyzes the financial performance and personnel policies of UHAD's implementing agency, PEAH.

The fourth and final chapter presents the team's findings and conclusions for each of UHAD's component activities, as well as recommendations for SER project design.

Summary of recommendations

The following is a summary of the recommendations found in Chapter Four.

General area development project design recommendations

- **SER activities must not be initiated unless security is assured.**

- **Consider development activities for "sending" areas, or communities of origin for migrants.** Containment strategy, which limits project activities to coca production areas, does not work because small farmers whose coca crops are eradicated turn to coca production elsewhere (either up-valley or in another region). The search for wage labor and off-farm income was the principal force behind migration to the UHV, where demand for manual labor in coca production was high.

- **Flexibility must be built into SER's implementation plan through use of a rolling design that has been used by A.I.D. in past projects.**

- **The project area should be divided into geographic zones. (For suggested zones, see map, page xv). When the GOP has assured a minimum level of security, development activities should be introduced to each zone in a phased fashion.**

- **The SER implementing agency must assess the security situation continually and report quarterly to the Mission for review.**

- **Infrastructure projects should follow community development activities, with agricultural projects being implemented only after a zone has been given the highest security rating.**

- **Target the major part of project investment for community-level groups and small farm households by identifying and discriminating between direct and indirect beneficiaries.**

- **Choose an implementing agency that is physically and organizationally close to target groups.** Organizations that have links with target groups implement project activities efficiently and effectively. The SER design team should assess existing local organizations -- whether private sector, non-profit, local government or community -- when choosing an appropriate implementing agency.

- **The design team should include PEAH as an implementing agency for the SER project.** PEAH should be considered as the implementing agency because PEAH has demonstrated an ability to learn from its experience, to adapt to the changing project environment and to maintain a presence in the project area in the face of deteriorating security. Reasons to seek other implementing agencies include the need to disengage SER from GOP activities, increased efficiency of nongovernmental organizations (NGOs) over government institutions and because NGOs are generally less prone to political pressures than are government agencies.

- **The SER design team must establish links between project purpose and objectively verifiable indicators.**

- **Monitoring and reporting requirements must be standardized for all project activities.** These requirements include number of beneficiaries, geographic location of beneficiary population, type of activity -- planned versus actual execution time -- and a cost breakdown. Given the security situation, use of standard surveys in monitoring and/or evaluation is not possible. Other methods, such as beneficiary assessment and increase in trucking volume, are more suitable,are just as reliable and are less costly.

- **SER should encourage natural resource management activities that can be promoted as alternative economic activities.** Throughout the Huallaga Valley, and more recently on the eastern slopes of the Ucayali drainage around Aguaytia, coca cultivation has caused wholesale destruction of tropical forests, erosion of hillsides and serious pollution of the Huallaga watershed as a result of cutting and burning the tropical forest and disposal of tons of toxic waste from coca paste production. These waste products frequently endanger or destroy small watersheds.

Infrastructure development

- **Include the road rehabilitation component in the SER project once the GOP assures security in the project area.** A functioning transportation system is essential as a viable alternative if alternate economic activities are to compete with coca production. All other activities are dependent upon re-establishing the UHV link with Lima and with the rest of the country via the Marginal Highway.

- **Responsibility for small-scale infrastructure projects (such as rice milling) should be the responsibility of SER's community development component to ensure that these projects meet local needs and that they concur with GOP municipal plans.**

Agriculture production support

- **Continue to develop alternative agricultural packages once the project area is secured.** Project area farmers have proven that they are capable of adopting valid technical agricultural packages as shown by their adoption of the "coca package." SER must develop alternate agricultural packages that can compete with coca once producers decide to, or are forced to, abandon coca production.

- **All adaptive research, higher education and extension efforts must be market-driven.**

- **Commission an in-depth study of credit in the project area as part of SER's start-up activities.**

- **Do not include land titling in SER.** The majority of coca producers will not need land title when they choose to abandon coca farming because their plots are on forest reserve or public land. The SL has proven that it is willing to kill GOP personnel who are involved in land titling. GOP law is evolving, and the current legislation contains many contradictions. SER resources could be more effectively used in other areas.

Community development component

- **A community development (CD) component should be included in the SER project to provide flexibility, to lend credibility, to promote human resource development and to provide SER with relatively easy short-term successes that will help build a constituency for the project within the project area.**

- **Link CD human resource development activities to SER project purpose.** SER CD component outputs and objectives should target delivery of training in community skills, project planning, design, execution and evaluation.

- **Increase the range of accepted community-level activities under SER.** The CD component must have a stronger area development focus. Activities such as environmental protection and reforestation that can be more directly linked to encouraging alternative economic activities in the project area should be added to UHAD's accepted CD activities.

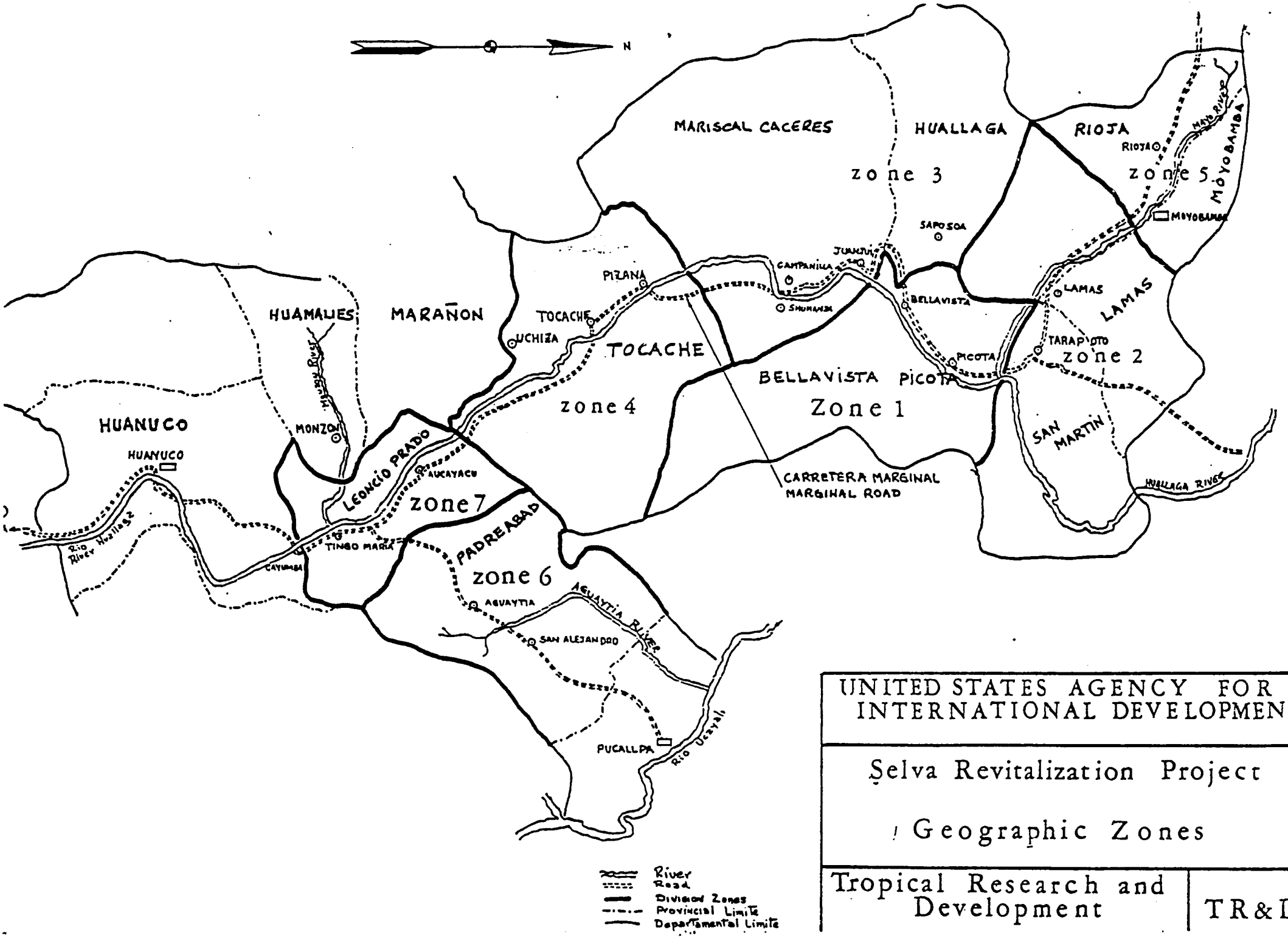
- **Include CD training for local and municipal government staff.** Training should include sessions in standard CD processes, as well as in urban and rural planning skills. This component can be implemented only when project area security is assured to avoid retaliation against CD personnel by terrorist groups.

- **Expand and coordinate health sector activities.** The project area population suffers not only from health problems associated with a remote underdeveloped region but also from poisoning problems associated with coca processing. UHAD health care activities should be coordinated with the Ministry of Health (MOH) in order to maximize their effectiveness. SER project personnel should analyze the impact of coca processing upon the project area's drinking water supply. If increased health risks can be linked to coca processing, USAID's CEDRO project will be better able to increase local awareness about health risks associated with the narcotics industry.

- **Assess the success of the Municipalities in Action Program.** This program emphasizes social and economic development by means of municipal strengthening and execution of small infrastructure and social services projects identified in town meetings. PEAH had already established a similar program for municipalities when the "Programa de Apoyo a Municipios" was initiated in 1992 in the municipality of Tocache. This program was further refined following the El Salvador experience. Experience to date has demonstrated the potential for this model of project identification, control and execution. Successes include the execution of projects in rural areas, rapid project execution, increased

confidence in local authorities, establishment of government presence through municipal supervision in areas where it was previously unknown and renewal of communal labor and community problem-solving.

- **SER CD activities must be kept separate from local defense force activities.** SER must emphasize the separation of development activities involving community participation from local defense activities. Development should be freely articulated in a community and not subject to a real or perceived threat of armed pressure or intervention. A.I.D.'s review of narcotic control activities worldwide supports the above recommendations.



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

Selva Revitalization Project

Geographic Zones

Tropical Research and Development | TR&D

1. Project history

1.1. U.S. Government strategy in 1981

The idea of the Upper Huallaga Area Development (UHAD) was formulated in 1981 as part of a coordinated United States Government (USG) and Government of Peru (GOP) strategy to reduce coca production in Peru. In 1980, the USG proposed to the GOP the joint funding of:

- a countrywide coca eradication program to be financed by International Narcotics Matters (INM) for $17.5 million (M) between 1981-87 and, .
- a large-scale economic development program for the Upper Huallaga Valley (UHV) to "minimize negative social impacts of an eradication program" [Project Paper (PP), p. 56].

UHAD was envisioned by the design team as a pilot project -- the first of a series of area development projects in coca-producing regions in Peru. UHAD was designed for the UHV to coincide with, but remain organizationally and operationally separate from, the INM's national eradication program, which was to be initiated in that area.

1.2. UHAD project goal and purpose

One key component of the Mission's overall development strategy was to promote economic development of the sierra region. The Mission's Country Development Strategy Statement (CDSS) cited Peru's low percentage of overall per capita arable land rations as a constraint to development. Thus, UHAD's goal,

> to increase and diversify agricultural production in the Peruvian high jungle (sic),

and purpose,

> to strengthen public sector agricultural support services and to develop and test agricultural production packages in the Upper Huallaga region of the Peruvian jungle (sic),

were in accord with the Mission's attempts to provide critical infrastructure, research and human resources for improving agricultural production in the sierra in order to expand the country's productive resource base.

1.3. Project design assumptions and constraints analysis

The PP cited the apparent success of the GOP's two coca eradication programs in the UHV region (Green Sea I and II) conducted in late 1979 and 1980 and stated that government eradication efforts had "generated considerable fear" on the part of coca growers (p. 60). The PP posited that the growers' response to government eradication programs would be to seek alternate economic activities to coca production.

An assumption that must be ascribed to the PP design team, since neither the PP nor the log frame make this assumption explicit, was that the GOP had the power to implement eradication efforts, as well as implement the economic development project. Power is defined here as the ability to cause others to act

in a manner they would not otherwise, at an acceptable cost. This assumption was predicated on the presence of a reasonably stable political situation in which personal and group safety was assured.

The PP stated that the primary constraint that hindered coca producers from abandoning coca production was a lack of viable economic activities. Constraints to regional economic development were, in summary,

- related to physical environment and location;
- related to agronomics, market conditions and state of public sector agricultural services;
- those associated with expansion of agricultural production (lack of knowledge about local conditions);
- lack of trained human resources; and
- social constraints occasioned by disruption of the current mainstay of the region's economy, coca production.

The PP called for a series of activities that can be grouped under three major headings:

- agriculture,
- development of infrastructure and
- health and community service activities.

A detailed description of planned and actual project activities is presented in Chapter Four.

1.4. Implementation design and rationale

The PP led to the creation of the Peruvian Upper Huallaga Special Project Office (PEAH), which acted as a project management unit (PMU). PEAH, in bureaucratic and hierarchical terms, was placed within the Office of the Prime Minister and was created in order to accomplish the following:

- circumvent many of the more time-consuming bureaucratic procedures required of line ministries,
- attract highly qualified professionals through offering liberal salary schedules and
- coordinate with line ministries and other implementing agencies to ensure smooth implementation of project activities.

This final point was of particular importance since the PP listed more than 10 agencies that were to assist in the project's implementation, and PEAH collaborated with more than four times that number during the project implementation period.

The project design called for contractor implementation with monitoring and evaluation to be conducted by the Mission's project manager, who was to be assigned from the Office of Agriculture and Rural Development.

1.5. PP description of project area in 1981

The Huallaga Valley has an extension of 46,743 kilometers (km)^2, or 3.6 percent of the national territory. Population density is seven inhabitants per km^2. The Valley is characterized by three geographic levels: Alto Huallaga, 800-plus meters (m) above sea level; Middle Huallaga, between 400 and 800 m; and

Lower Huallaga, with an altitude of less than 400 m. The Huallaga Valley covers the departments of Huánuco, San Martín and Ucayali, containing 7 provinces and 40 districts. Central Huallaga includes Cáceres, as well as the provinces of Lamas and San Martín in the Department of San Martín. Alto Huallaga covers the provinces of Leoncio Prado, Tocache and part of Mariscal Cáceres.

The PEAH project originally encompassed five provinces: Mariscal Cáceres, Tocache, Leoncio Prado, Huamalies and Marañón. In 1981, the target population was 6,000 small farm families, or 27 percent of the project area population (130,000). Thirty-three percent of target population families were growing coca. Among this group, a significant number were said to be cultivating coca exclusively. The 1992 PEAH target population is 92,304, or 45 percent of the Upper Huallaga Valley population of 200,000. Total Valley population was estimated at 320,600, or 1.5 percent of the national population, and is evenly distributed between urban and rural areas.

For the period 1980-90, population growth rate in the Valley was 4.8 percent versus a 2.8-percent national growth rate for the same period. In the PP, the project area's population was estimated at 120,000 -- a 65-percent increase over 1972. The majority of the population increase, above the national average of 2.8 percent, was attributed to "pull" migration into the UHV in response to the profitable coca economy.

The majority of the beneficiary population is from the sierra. In the early years of the project period, 90 percent of households in the project area were nuclear families. Average household size was six people (four in urban areas versus eight in rural areas). The number of children per household was related to parents' ethnic origin. Families of coastal origin had an average of three children; families from the sierra, six; and families from the selva, eight. Seventy-five percent of families had a child 14 years or older who was studying or working in one of the larger cities in the area.

The coca economy has increased per capita income in the UHV although no mention was made in the PP of there having been inflationary pressures caused by the influx of narco-dollars (foreign exchange generated by the sale of narcotics).

2. Economic, social and political changes in the project area: 1981 - 1992

The UHAD project area changed dramatically during the project implementation phase, and these changes had a fundamental impact on the project's efficiency and effectiveness. These changes dramatically changed the UHAD project environment and created the context in which this report's lessons learned and recommendations must be analyzed.

2.1. Economic change

The 1980s brought a dramatic increase in coca production to the project area (see Table 2.1). Between 1981 and 1990, the area devoted to coca production in the project area increased by 168 percent (PEAH-OEA statistical compendium).

Table 2.1 National coca production in Peru: area cultivated and yield

Year	Hectares (ha)	Yield (metric ton)
1950	16,500	8,100
1960	18,400	9,000
1970	17,000	15,000
1975	19,000	14,800
1980	40,700	38,600
1985	60,200	63,600
1991	120,800	217,400

Sources: 1950-1960: ENACO, Lima 1966. 1965-1985: M.A. OSE. Lima 1986. 1991: USAID 1992.

The table above shows that before 1980, the area under coca cultivation in Peru was fairly stable at just under 20,000 ha. From 1980 until 1983, production increased to 40,000 ha. By 1992, production reached from 120,000 to 160,000 ha, depending on the source of the estimate.

The project area became the primary coca-production area in Peru after 1975. Before that time, 70 percent of Peru's coca was produced in the Department of Cusco and was primarily legal. In 1978, the Peruvian government enacted Decree Law 22095, which fixed the number of licensed coca growers at 25,000, hectares under production at 18,000 and banned new coca production. Cusco is an area with an established GOP presence that discouraged new coca production.

After 1978, the locus of production shifted to the project area for two primary reasons. First, the UHV was, and still is, a frontier region in which the GOP did not have a long-established presence. Second, production in the region increased in response to the advent of the new value-added activity of converting dry leaf to basic paste. The UHV is closer to sources for this conversion, such as acids and solvents that were used legally in the mining operations of Cerro de Pasco, as well as in natural formations of lime. Other inputs, such as plastic, were readily obtained from Lima, which is closer to the UHV than to Cusco.

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A maximum price of $700 per kilogram (kg) of basic paste was obtained from 1984 through 1988. Since then, prices have been declining steadily in the project area to $400 in 1989 to as low as $252 in May and June of 1992. At present prices, the value of coca paste produced in Peru is $476.5 M and $285.9 M in the project area.

As shown in Table 2.1 above, improved varieties and better technology have generated an increase in productivity with yields almost tripling over the past 20 years to about 1.8 metric tons (MT) per ha. Using the official PEAH estimate of 120,800 for Peru and 72,480 ha, or 60 percent, for the UHV, total production of dry leaf coca was approximately 130,464 MT in the project area.

For the period 1980-90, the population growth rate in the Valley was 4.8 percent versus a 2.5-percent national growth rate for the same period. Total population in the project area is estimated at 200,000. The majority of the migrating population is from the sierra. The 1990 PEAH-OEA statistical compendium reported that the economically active population (EAP), comprising the age group 15 to 64 years, was approximately 57 percent of total population in the project area. Men represented 57 percent of the EAP. Nearly 58 percent of the urban population was economically active. Of this 58 percent, 55.6 percent was male. Almost 56 percent of the rural population was economically active. Of this 56 percent, 60 percent was male. San Martín Department had an EAP of 34.5 percent, with rural population representing 57.6 percent. Nationally, over 70 percent of the EAP is either unemployed or underemployed.

In sum, the project area has a higher proportion of economically active people than does the department of San Martín or the country as a whole. This is because the production of coca created a tremendous demand for labor.

2.2. Social change

In addition to the increased population mentioned above, a dramatic disintegration of the traditional family and social structures has occurred. In the early 1980s, 90 percent of households in the project area were nuclear families. The average household size was six people (four in urban areas versus eight in rural areas). Seventy-five percent of families had a child 14 years or older who was studying or working in one of the larger cities in the area.

When violence in the area increased in 1984, the nuclear family began to disintegrate. The family developed a survival strategy to deal with violence, and this survival strategy helped to destroy the nuclear family unit. Wives and children were moved to large cities, while husbands stayed behind in small communities or on their plots (parcelas). Migration of household heads in search of work is common throughout Peru, as well as throughout the rest of the developing world. However, moving families out of the coca production zone for safety purposes is unique to the UHV. A direct consequence of internal migration was the rise in the number of squatter settlements during the period from 1985 to 1992. For example, Tingo María had two squatter settlements in 1982 and 23 in 1992.

The coca economy and its attendant violence affected families in other ways. It was a widely held belief by project area inhabitants who were interviewed during field work interviews that every coca-producing family in the project area had lost family members to violence, prison or drugs. The two highest causes of death among school-age children in the project area (Tingo María, Campanilla and Nuevo Progresso) are poisoning and trauma. Poisoning is caused by extended dermal contact with organic solvents

(acetone, kerosene and toluene) during the coca-conversion process. Most trauma can be traced to coca-related violence.

Trauma and poisoning combined do not rank in the top 10 causes of death for the same age group nationwide (MINSAL, 1988). The Regional Development Corporation of San Martín (CORDESAM) reported that in the area of the Ponaza River watershed, the population suffered from a variety of health problems caused by the consumption of well-water contaminated with residual chemicals from the coca-conversion process. Finally, dengue fever, cholera and malignant malaria have been introduced to the project area in recent years. In an interview with the evaluation team, the UDES director attributed the introduction of cholera to a Colombian who was a member of the coca economy.

2.3. Political change

A stable political situation in which a government entity has legitimacy and authority is the *sine qua non* of economic development. The UHAD project area did not enjoy a stable political environment during the project implementation period because of the advent of the coca economy and terrorist organizations in the area.

Peruvian growers produce as much as 70 percent of the world's coca crop, and the country has recently become a major cocaine-processing center. Most of the coca is grown in the Upper Huallaga Valley, where terrorists of the Sendero Luminoso (SL) and the Tupac Amaru Revolutionary Movement (MRTA) vie for control of the valley, its people and revenue from taxing the coca economy.. In addition, more than 25,000 members of the coca economy live in the project area and resort to violence to defend their portion of the trade. Some of the more successful drug traffickers support well-armed groups of up to 70 members.

The two terrorist groups work in collusion with the drug traffickers to protect coca production and the coca economy. In direct contrast to the design assumptions found in the PP, coca producers did not abandon production because they feared government sanctions. Instead, members of the coca economy, including SL and MRTA, retaliated against the GOP's eradication program and either targeted GOP officials for terrorist attack and murder or moved to more remote lands to produce coca.

Neither of the terrorist groups is indigenous to the project area. Each was attracted to the area by the coca economy, which was viewed as a ready source of revenue for financing their operations. The SL began as a political party in 1973 in Ayacucho and was not detected in the UHV until 1980. Most of its members are from outside the project area. The SL attempts to govern parts of the project area and often tailors its policies to better meet the needs of the region's inhabitants than does the GOP, such as by its land titling efforts. However, the SL cannot be called a grass roots movement from the UHV. The SL occupies the UHV in order to collect revenue from the coca economy and will, therefore, use violence and extortion to fight efforts to control coca production in the project area.

The MRTA started as a political movement in Lima in 1981 and moved into the project area also for revenue purposes. The MRTA is not as vicious as the SL. In 1990, MRTA reportedly accounted for approximately 14 percent of all terrorist attacks in Peru and five percent of deaths. A total of 68 deaths was attributed to MRTA as opposed to 1,512 attributed to SL. While few claim to fathom the SL's brutality or its ideology, the MRTA approach consists of familiar Marxist ideology, coupled with well-armed and disciplined cadres.

MRTA taxes coca growers but apparently does not randomly kill civilians. In the Huallaga Valley, a number of small farmers have fled SL territory and sought refuge in MRTA territory north of Juanjuí. In other areas, entire communities have turned to MRTA for protection from SL and the army.

Between 1984 and 1990, GOP officials within the project area responded to heightened insecurity by abandoning the region to narco-traffickers and the two terrorist groups. The GOP's actions were understandable because of the litany of terrorist acts these groups were able to perpetrate and because the GOP has not been able to project its power into the UHV. A few examples of terrorist activities are cited below:

- Municipalities were virtually inactive because of SL terrorist presence and activity until 1990. From 1982 to 1992, eight mayors were assassinated: 3 in Tingo María, 2 in Naranjillo, 1 in San Isidro and 2 in Aucayacu.

- Uchiza was the only municipality in the project area to hold elections during the most recent municipal elections, which were held in 1989. No candidates ran for office in the other provinces and districts because of the presence of the SL.

- Between 1985-90, UHAD suffered four terrorist attacks.

  The first occurred in 1984, when three Ministry of Agriculture (MAG) surveyors were killed while participating in land titling activities under a PEAH/MAG agreement.

  In 1986, PEAH opened a zone office in Campanilla in response to increased coca production in the area. This office was subsequently transferred to Juanjuí following a terrorist attack in 1989.

  In 1986, terrorists burned seven pieces of heavy equipment at the PEAH sub-zone office in La Morada (Aucayacu) and brutally murdered a small, local farmer in front of PEAH employees and community members. The office in La Morada closed within a week. Before the attack, PEAH had a policy against using GOP protection. Afterward, PEAH changed its policy. The GOP provided the Republican Guard, a military group serving under the President, to protect PEAH staff and equipment. Armed forces later replaced the Republican Guard.

  Following a terrorist attack on PEAH workers and equipment under GOP protection in 1989, when several workers were wounded and three soldiers killed, PEAH requested and received a change in security strategy. The defensive GOP posture -- soldiers seated on top of heavy machinery -- became an offensive posture -- a protected perimeter.

The only agencies that retained any sort of presence in the project area were the Ministries of Education and Health.

The absence of legitimate authority in the UHV made most development activities problematic. The GOP has been unable to assert control over the project area since 1985. This lack of authority has had a fundamental impact upon the ability of PEAH to implement its programs.

Local governments have begun to re-establish themselves in the project area. As of 1989, candidates have used an election strategy that responded directly to the terrorist threat and was based upon the approach adopted in 1989 by the Uchiza mayoral candidate. This approach consisted of identifying with a movement, the Frente Solidaridad Uchizana, rather than identifying with a political party. Several reasons existed for this strategy. In the absence of party politics, the SL would not be able to justify impeding municipal elections, and the candidate would thus gain a measure of protection for his physical well-being. Traditional political party influence would be diminished by united fronts, which represented a large number of people and a wide variety of interests. In addition, local communities would gain from electing young professionals who were willing to work outside the usual parameter of political favors and largesse. The only candidate subsequently elected mayor who did not use this strategy was the mayor of Tingo María, elected on the American Popular Revolutionary Alliance Party (APRA) ticket.

Despite the serious political situation in the project area, municipalities became active again in 1991. For example, the mayor of Juanjuí initiated construction of a new airport. From the above description of the project area, it is clear that local government activities were definitely influenced, in part, by anticipated terrorist response to government programs.

3. Project responses to changes in UHAD

The two previous sections described UHAD's original goal, purpose and design assumptions. Implicit in the design was the assumption that the GOP would be able to implement its eradication program, which would cause serious social dislocation. Coca producers would lose their primary economic activity, which would be mitigated by PEAH's economic development activities. The above assumption proved to be incorrect. Therefore, the GOP essentially abandoned the UHV to the superior power, using the operational definition, of the members of the coca economy, the SL and MRTA. As a result, PEAH, working as a coordinating PMU, could not continue many of its projects for lack of implementing agencies.

This section of the evaluation divides the project implementation period into three phases: 1981-1985; 1986-1990; and 1990 to present. These three phases reflect the following:

- critical changes in the project environment, starting in 1984;
- change in the project purpose, Amendment #2 in 1986; and
- re-emergence of local government in the project area, with a concomitant increase in PEAH activity.

This section will limit its discussion to a description of the United States Agency for International Development's (USAID's) response to changes in the project area in the first portion and a discussion of UHAD's administrative and financial performance in the second portion. Chapter Four will present a detailed discussion of PEAH's activities over the life of the project (LOP) and the lessons that can be learned from PEAH's efforts in order to assist in the design of the SER project.

3.1. First phase: 1981 - 1985

The UHAD project was authorized on August 9, 1981, and the project agreement signed on September 14, 1981. The original project completion date (PACD) was September 30, 1986.

The first project authorization amendment was signed in early fiscal year (FY) 82 to increase LOP funding by $1 million. Original funding was deemed insufficient to meet project purposes. However, project funding was not increased at that time so as not to endanger the signing of the program agreement before the end of FY 81.

The first phase of the project was distinguished from the latter two phases by the relative ease of working in the project area at a time when the level of violence was low. State agencies were present and executed a variety of project activities through agreements with PEAH. Among the participating government agencies were SENAMA, DISABAR, INIAA, MTC, MOE and MOH. Long-term technical assistance to PEAH was provided by the United States (U.S.) contracting firm TRI as provided for in the project agreement.

The last year of this phase witnessed the first attack upon PEAH personnel when three MAG surveyors were killed while participating in land titling activities under the PEAH/MAG agreement. After this attack, land titling activities were significantly reduced and never regained momentum.

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3.2. Second phase: 1986 - 1990

3.2.1. Changes in project environment

The second phase of UHAD was characterized by the highest profit levels for coca production, a shift from coca growing to coca processing by many project area inhabitants, the highest levels of violence against PEAH and GOP personnel, the lowest levels of GOP activity and a resulting shift in UHAD objectives and activities.

Section 2.3. lists some of the attacks upon PEAH personnel and equipment during this phase. Before the attacks, PEAH had a policy of not using government protection for project activities in order to separate themselves from the police and the military. The police and the military both were engaged in regular distortion activities and had earned the enmity of the project area's inhabitant. After the attacks, PEAH changed its policy and sought government protection. The government provided the Republican Guard to protect PEAH staff and equipment. Armed forces later replaced the Republican Guard.

During 1986-88, technical assistance (TA) by the U.S. contracting firm Ronco frequently was interrupted because of increased security risks and increasingly strict USAID travel restrictions. The absence of regularly scheduled TA visits to the project area not only impeded the flow of necessary inputs to the project, but also caused morale problems among PEAH staff. In 1988, the TA delivery mode changed from overland to helicopter. By the end of 1988, all contracted project TA was halted for security reasons.

The 1988-90 period witnessed major swings in the ability of GOP military and police to project their power into the project area. While USAID was not responsible for eradication efforts, the following discussion underlines how the political impact of eradication work impeded UHAD's effectiveness and must be taken into account when designing the Selva Economic Revitalization (SER) project.

The Upper Huallaga Coca Eradication Accord (CORAH), supported by the Drug Enforcement Administration (DEA), introduced new crop eradication technology into the project area in 1988, and more than 5,000 ha of coca was eradicated. Eradication efforts were successful from a tactical perspective but were a resounding failure from a strategic perspective because no attempt was made to link eradication to alternative development activities.

Coca farmers, with prompting from the SL, reacted angrily to the threat eradication efforts posed to their livelihood. Coca farmers had not been informed of the other side of the alternative development equation: the delivery by PEAH, or by its implementing agencies, of alternate licit economic development activities. This lack of information existed for a variety of reasons. First, no package of alternate activities had yet been developed. Research activities had been suspended because they had been targeted by the SL. Second, even if research personnel had been able to produce an alternative packet, PEAH extension personnel had to keep a low profile at that time for security purposes. Coca producer resentment had been increased through SL efforts and terrorism so PEAH could not extend its protection to clients. Third, much of the coca eradicated was from public lands, making it impossible for PEAH to introduce alternate crops to replace the coca. When eradication occurred, no provisions were made to restore the environment by means of reforestation. Although PEAH complained about lack of coordination with CORAH, CORAH eradicated coca on land unsuited for agriculture, thus eliminating the need for PEAH follow-up activities. These measures result in a net loss of productive land for coca producers.

Many coca growers participating in eradication programs with CORAH reported that they had not been compensated for reducing the amount of land devoted to coca production despite receiving an official document that guaranteed compensation. The Asociación de Ex-cocaleros del Alto Huallaga in Tingo María stated that of 100 farm families who had coca eradicated in Santa Rosa de Shapajilla, only four families were compensated, at a rate of $500 each. Coca was grown in areas not suitable for licit crops -- corn, yuca and plantain; in areas were eradication was difficult because of inaccessibility; and in areas where no provisions had been made to restore the environment by means of reforestation. Coca growers abandoned their eradicated farmsteads close to population centers and moved to inaccessible areas of the hillsides in order to cultivate coca. Coca growers who received credit for eradication from the Bancop National Cooperative Bank (BANCOP) used the credit for coca cultivation. The net result was eradication without replacement. Most coca producers whose crops were eradicated, including farmers who owned valley bottom land, moved higher into the marginal hillside areas to cultivate coca again.

The perception of the local population was that the government was destroying their main source of income without providing a viable alternative -- a belief reinforced by SL. The GOP was seen by a large percentage of the UHAD area population as a force that was using its power to the detriment of the population. This perception, combined with the propensity of the police and the military to extort money from the local population, greatly compromised PEAH's ability to work with the local populace on development activities. The anticipated social dislocation described in the PP came to pass without PEAH's being able to provide alternative economic development activities as promised.

3.2.2. Second project amendment

As a result of increased violence, the absence of other state institutions with which PEAH could work and lack of technical assistance, a second project amendment (Project Paper supplement) was signed in June of 1986. The amendment called for the following changes:

- increased LOP by two years to the last quarter of FY 88,
- increased grant funds from $2 M to $8.4 M,
- increased project emphasis on "improving community development services, such as potable water and related sanitary facilities, educational programs, and community markets." (PP supplement, p. i).

The second project amendment changed the project purpose by shifting emphasis from development of agricultural services in the project area to delivering a variety of community development services.

The amendment also expanded the size of the beneficiary community and the project area itself. In 1981, 27 percent of the population in the project area was targeted as beneficiaries whereas more than 45 percent of the project area's population was targeted after the second amendment.

The amendment states repeatedly that the original PP design was still valid, and that the project had successfully completed most of the agricultural activities called for in the original design. This point will be discussed in Chapter Four. However, the amendment refuted its own contentions in other sections (p. 5) when it presented cogent arguments as to why agricultural research and extension personnel had become targets of terrorist threats and could not continue to function effectively.

The amendment states repeatedly that PEAH was virtually the only functioning GOP entity in the project area (pp i, p. 7, for example) and could no longer act as a coordinating agency. The report continues to say that more direct services with short-term benefits to project beneficiaries were necessary to,

> stabilize the project-implementation environment by showing Upper Huallaga residents that the GOP plans to remain in the Valley and that increased GOP presence can have positive benefits for local communities. In turn, an improved implementation environment will facilitate implementation of both the PEAH development project and the eradication and enforcement programs (p. 6).

The PP amendment states, in essence,

- PEAH was the only GOP entity remaining in the Valley;
- PEAH could no longer coordinate with other agencies in an institutional vacuum, referred to as a "no-man's land";
- agricultural activities had been successful and were, therefore, the target of terrorist attacks; so
- the only viable course left to PEAH was to implement a variety of community development activities.

The amendment called for the activities listed in Table 3.

Table 3

INTEGRATED BUDGET

UPPER HUALLAGA AREA DEVELOPMENT PROJECT AND PP SUPPLEMENT

SOURCE AND APPLICATION OF FUNDS
(US$000)

	Previous Budget*			Amendment-ESF Funds		Total			Grand Total
	Loan	Grant	GOP	Grant	GOP	Loan	Grant	GOP	
01. Research	1,365	1,362.617	1,976	139	-	1,365	1,501.617	1,976	4,842.617
02. Extension	1,950	556.790	2,071	627	392	1,950	1,183.790	2,463	5,596.790
03. Training	900	412.344	643	-	-	900	412.344	643	1,955.344
Long-Term RET Specialist	-	400.000	-	-	-	-	400.000	-	400.000
04. Agricultural Credit	3,800	156.223	-	-	-	3,800	156.223	-	3,956.223
05. Farm Production Services	618	6.739	174	150	-	618	156.739	174	948.739
06. Dev. & Int. of Res. Inf.	250	16.100	394	48	-	250	64.100	394	708.100
07. Road Maintenance	3,500	-	2,000	1,344	1,131	3,500	1,344.000	3,131	7,975.000
08. Community Development**	650	-	250	2,479	810	650	2,479.000	1,060	4,189.000
09. Project Office	1,550	-	200	340	150	1,550	340.000	350	2,240.000
10. Evaluation	-	45.600	-	150	-	-	195.600	-	195.600
Inflation/Contingencies	417	43.587	792	123	75	417	166.587	867	1,450.587
TOTAL	$15,000	$3,000.000	$8,500	$5,400	$2,558	$15,000	$8,400.000	$11,058	$34,458.000

* Amended project budget as of March 18, 1986, PIL No. 55 (Loan) and May 16, 1986, PIL No. 56 (Grant)
** Formerly Potable Water and Environmental Sanitation

The amendment signalled a change in strategic planning: communities would receive community development assistance and, in turn, human and material project resources would be protected by the community. This strategy has proven to be highly successful in that no community infrastructure work has been destroyed to date.

On September 30, 1988, the planned LOP was extended to 10 years from the date of initial obligation to September 14, 1991.

3.3. Third phase: 1990 - present

The last phase of UHAD saw a final project adaptation to changed circumstances. During the period 1990-92, USAID project monitoring and evaluation methods changed in response to increased security risks. TA trips to the project area were still restricted because of security considerations. In lieu of actual on-site visits, videotapes and photographs of project activities were introduced as a means of verification.

Two-way radio communication was increased to maintain contact with project personnel, and PEAH staff and others from the project area were invited for periodic visits to Lima to report on the project. The above innovations demonstrated a high degree of willingness by PEAH and USAID officials to effectively implement the project, but the need for such innovations illustrated the difficult circumstances under which UHAD operated.

The participation of non-PEAH personnel constituted a new planning and implementation strategy: working relations were sought with local groups, organizations and authorities instead of with national public institutions because the latter were terrorist targets and because local ownership of projects would provide protection as well as contribute to genuine development. At the same time, subversion would be more difficult in areas of project activities if the community was organized around a common goal that PEAH helped to support.

In 1991, PEAH began to work directly with municipalities in the project area. PEAH'S annual operating plan incorporated a municipalities' model for the first time. This model was initiated in the March 1992 agreement between PEAH and the municipality of Tocache: PEAH provided $77,960 to finance 31 small rural projects in the areas of education, health, water and transport. The municipality's counterpart contribution would consist of salaries, equipment, material and supervision, while the community counterpart contribution would be manual labor. The strategy of working with municipalities and establishing local ownership of projects was further refined in May 1992 with the use of PEAH equipment ceded to selected municipalities for community development activities.

On September 30, 1992, the planned LOP was again extended, to December 31, 1992.

3.4. Staffing and finance

PEAH began operations in 1982 with a staff of 137: 28 executives, which was 13.1 percent of the total staff; 18 professionals, 13 percent; 30 technicians, 21.7 percent; and 61 workers, 44.2 percent. In 1992, the percentage of executives was 11.5 percent, or 37 people; professionals, 20.8 percent, or 72 people; technicians, 52.9 percent, or 187 people; and workers, 14.6 percent, or 52 people.

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Two critical points in the PEAH project are shown in Figure 3.1. First, in 1985 at the end of the Belaúnde government as UHAD approached its original termination date, PEAH began reducing its personnel. Second, in 1988 during the García regime, gross national product (GNP) began to drop precipitously, and an era of hyper-inflation began in Perú. Salaries for PEAH personnel came from PL480 counterpart funds.

Figure 3.2 shows distribution of personnel by areas (components) for 1992: extension occupies 105 persons, or 30 percent; community development, 78 persons, or 22 percent; road maintenance, 21 percent; project administration, 51 persons, or 14 percent; development and interpretation of resource information, 19 persons, or 5 percent; farm services, 10 persons, or 3 percent; training, 10 persons, or 3 percent; and 7 persons in other areas.

Budget and disbursement of AID funds for the PEAH project are shown in Figure 3.3. The drops in 1985 and 1988 are mentioned above.

Disparities between the obligation and disbursement of project monies were not the result of poor project management but rather the result of factors beyond PEAH's control. In 1989, a marked increase in violence occurred. On June 8, 1989, the mayor of Aucayacu was murdered in the street. On June 15, 1989, the mayor of Tingo María was murdered in his office. On October 15, 1989, a second mayor of Tingo María was murdered in his home. Consequently, in 1990, the AID budget for UHAD was almost twice its disbursement. PEAH claimed that the cooperating agencies did not submit invoices to PEAH and, thus, AID could not pay them. In addition, many agencies abrogated their conventions with PEAH, thereby causing earmarked funds not to be disbursed. Thus, the discrepancies between obligations and disbursement cannot be attributed to poor project management but rather to factors beyond the PEAH's control.

In the 11-year project period, the percentage of executives remained essentially constant, professionals increased four-fold, technicians increased six-fold and the percentage of workers fluctuated greatly but decreased to 14 percent by 1992. The fluctuation in percentage of workers was primarily the result of varying levels of road maintenance effort and was acceptable.

Table 3.1 shows the budget for PEAH for 1981. The budget, which covers 5 years, is US $26.5 M, of which 57 percent is a loan ($15 M), 11 percent a grant ($3 M) and 32 percent financed by GOP ($8.5 M).

Table 3.2 presents the modifications incorporated by nine amendments up to September of 1991, which increased the budget to US $41.7 M for 11 years. The new budget consists of 35 percent loan money (US $15 M) and 32 percent grant money (US $12.9 M). GOP's contribution of 34 percent (US $13.8 M) is mostly from PL480 money.

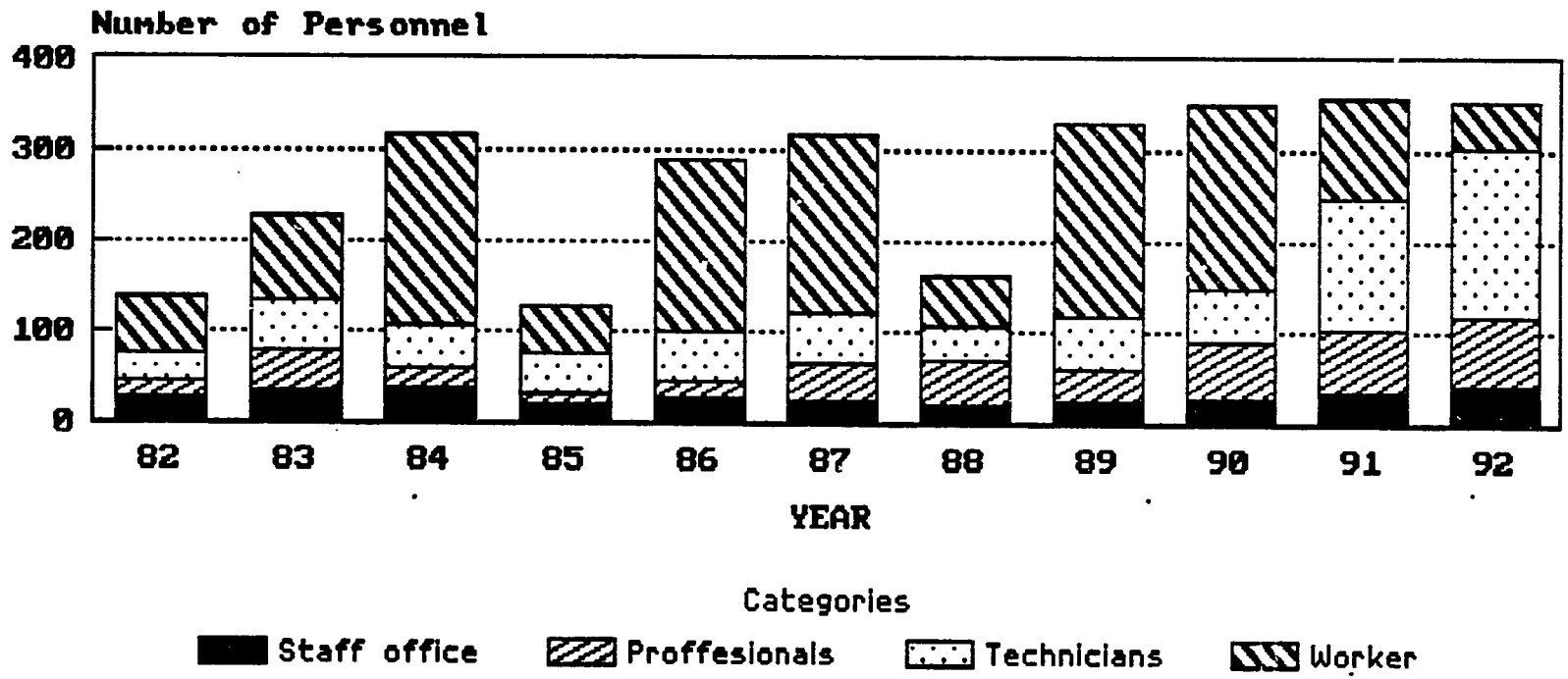
Distribution of funds among components is shown in Figure 3.4, excluding project administration. In 1983 and 1984, large expenditures were made in road maintenance; in 1986, research used a large proportion of funds. Almost no support for applied or basic research has existed since 1987. This lack of funds for applied or basic research was the result of destruction of the experiment station at Tulumayo. In September 1984, an attack on the experiment station was staged by SL. This attack destroyed the meteorological station, offices and laboratories of Servicio Nacional de Metereología e Hidrología (SENAMHI), as well as two electrical generators. In January 1986, the SL attacked the agricultural experimentation station at Tulumayo and destroyed the labs, the library, field equipment and vehicles.

In 1987, the SL again attacked the station and destroyed records of on-going field investigations. This attack resulted in the administration's move to the town of Tingo María, 26 km away. In September 1988, the SL attacked the station a third time and dynamited the remaining installations.

Figure 3.5 shows distribution of expenditures by activities and administration -- personnel, administrative goods and services. During the first year, administrative expenses were 58 percent of total budget. The GOP financed 60 percent of these costs with proceeds from PL480 donations from AID. These costs declined to 40 percent in 1983, remained constant at about 20 percent for the period 1984-87 and averaged 36 percent during 1988-92. On average, over the lifetime of the project, 30 percent of expenditures was for administration and 70 percent for activities such as extension and research.

Table 3.3 shows the AID budgets (including GOP expenditures) planned and executed during 1982-1992. The AID portion is shown graphically in Figure 3.3, including GOP expenditures. The most substantial AID investment was in 1984 (US $5.5 M). After 1987, the USG registered its disapproval of the Garcia regime's policies by reducing funding of on-going projects. GOP expenditures remained almost constant during 1982-1990, fluctuating between $1.2 M and $1.5 M. Paradoxically, 1989 was a financially critical year for PEAH, yet personnel doubled that of 1988 (Figure 3.1). PEAH staffing increases were paid for by PL480 funds and, therefore, are not captured in Figure 3.1. The precipitous staffing increase was instituted at the request of the Garcia government during the run-up to the presidential election of 1989 and was viewed by USAID staff and observers as an attempt to garner votes.

FIGURE 3.1
PERSONNEL BY CATEGORIES
1982-1992



Source: PEAH

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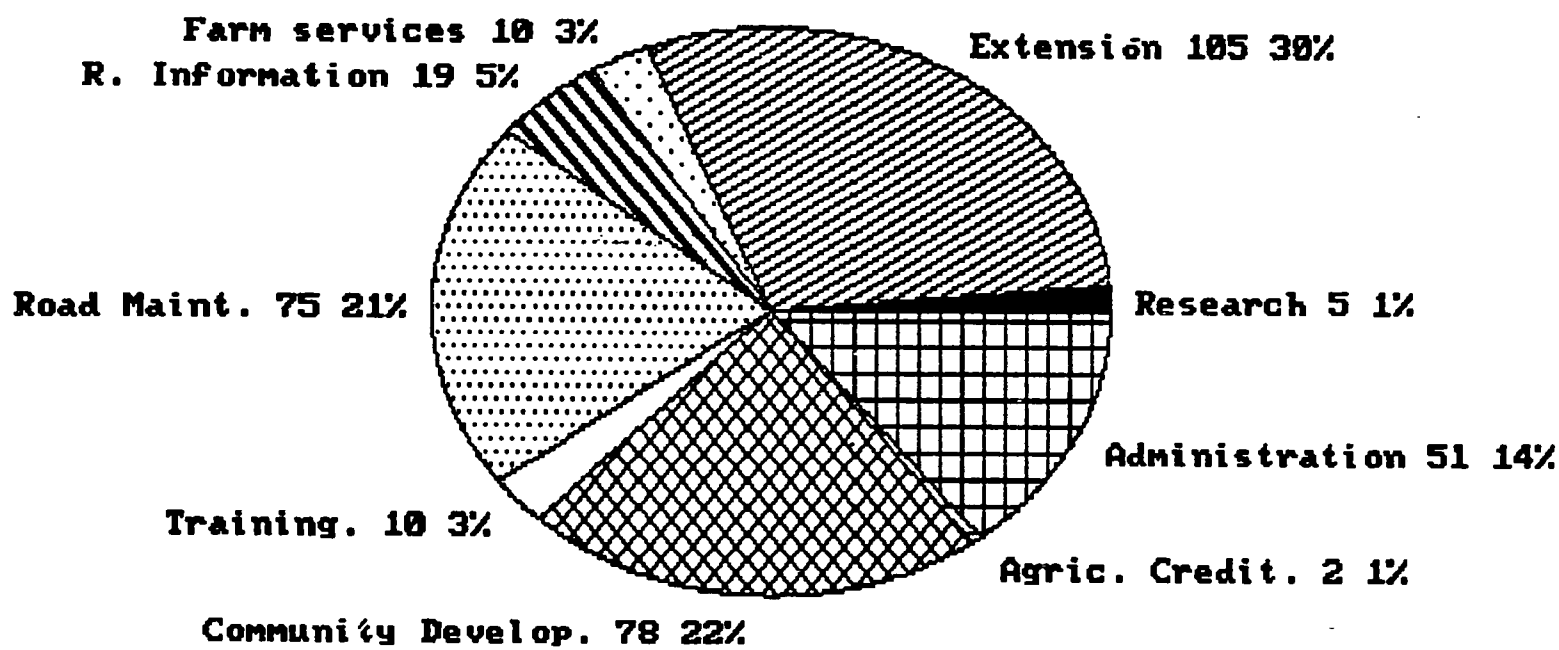
FIGURE 3.2.
PERSONAL PEAH, 1992
By component, 355 persons



Source:PEAH/OPP

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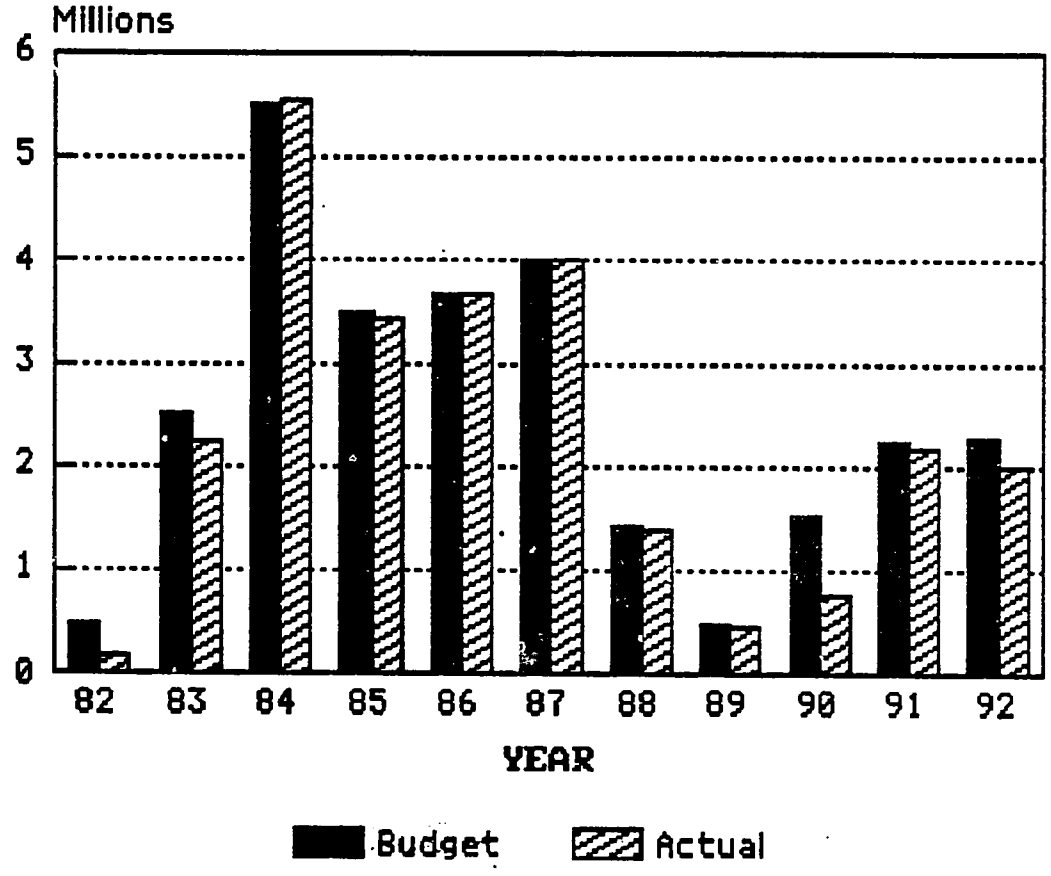
FIGURE 3.3.
EXPENDITURES AID
Loan and Grant (US $)



Source: AID/Peru. A. Livelli

Table 3.1. Source and application of funds budgeted

Date: Dec, 1981
(US$ 000)

COMPONENTS	LOAN	GRANT	AID	GOP	TOTAL
1. Research	1,464	970	2,432	1,976	4,410
2. Extension	1,581	465	2,046	2,071	4,117
3. Training	853	1,008	1,861	643	2,504
4. Agric. credit	4,800	200	5,000		5,000
5. Farm services	1,088	14	1,102	174	1,276
6. Develop. & Int. of res. infor.	164	98	262	394	656
7. Road Maint.	3,000		3,000	2,000	5,000
8. Com. Devel. Water Potable	250	250	250	500	
A. Project Office	800		800	200	1,000
B. Evaluation Inflation/cont.	1,000	195	1,195	792	1,987
TOTAL	15,000	3,000	18,000	8,500	26,500
	7%	11%	68%	32%	100%

Source: PEAH, Project Paper, 1981.

Table 3.2. Source and application of actual funds

Date: Sept, 1991 (Amendment 9) (US $)

COMPONENTS	LOAN	GRANT	AID	GOP	PROJECT
1. Research	1,451,581	1,838,778	3,290,359	2,056,000	5,346,359
2. Extension	2,206,811	2,793,161	4,999,972	2,848,000	7,847,972
3. Training	912,330	1,086,626	1,998,956	723,000	2,721,956
4. Agricultural credit	3,012,462	175,177	3,187,639	1,200,000	4,387,639
5. Farm ser.	784,258	299,458	1,083,716	254,000	1,337,716
6. Develop. & int. of res. inform.	300,287	500,602	800,889	74,000	74,889
7. Road maint.	3,792,078	2,879,949	6,672,027	3,601,000	10,273,027
8. Com. Develop. Water Pot.	732,038	2,070,730	2,802,730	1,260,000	4,062,768
A. Proj. Off.	1,808,155	1,059,919	2,868,074	575,000	3,443,074
B. Evaluation	195,600	195,600	195,600	867,000	867,000
Inflation/ cont.					
Total	15,000,000	41,758,000	12,900,000	27,900,000	13,858,000
	34%	32%	66%	34%	100%

Source: PEAH, Implementation Letter No. 90.

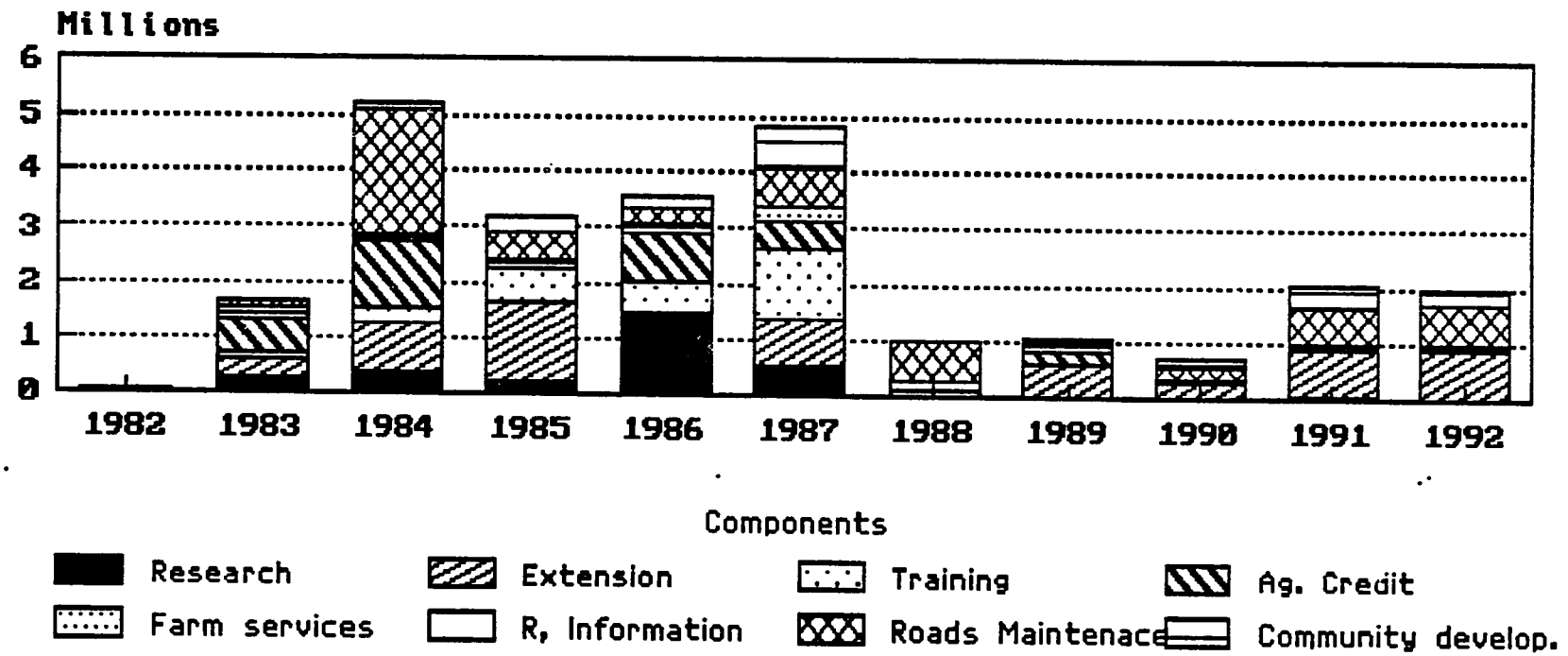
Table 3.3. Upper Huallaga Area Development Project Expenditures

(US $)

	GRANT AND LOAN AID			TOTAL
Year	Budgeted	Actual	Project GOP (PL480)	
1982	500,000	171,481	1,226,000	1,397,481
1983	2,500,000	2,236,598	1,718,000	3,954,598
1984	5,500,000	5,528,988	1,512,000	7,040,988
1985	3,500,000	3,433,438	1,512,000	4,945,438
1986	3,675,512	3,655,495	1,532,000	5,187,497
1987	4,000,000	3,993,000	1,230,000	5,223,000
1988	1,400,000	1,385,777	1,228,000	2,613,777
1989	500,000	470,710	1,063,121	1,533,831
1990	1,500,000	764,770	1,222,526	1,987,296
1991	2,238,715	2,157,818	1,802,816	3,960,634
1992*	2,260,805	1,987,817	2,700,000	4,687,817

* Estimated
Source: SPD/OER, A. Livelli (AID/PERU).

FIGURE 3.4.
EXPENDITURES AID
Loan and Grant (without administration)



Source: SPD/OER, A. Livelli

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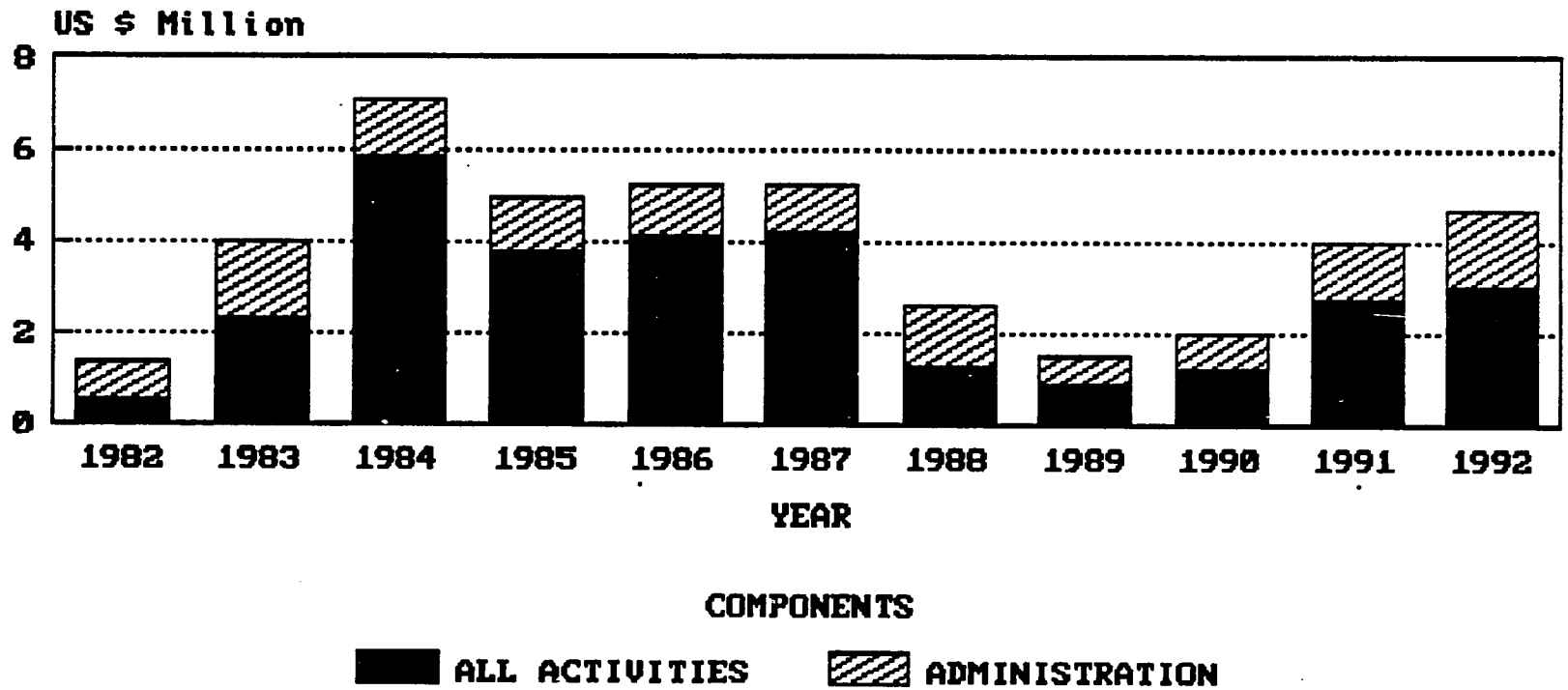
FIGURE 3.5
EXPENDITURES PEAH ACTIVITIES AND ADMINISTRATION



Source: SPD/PEAH

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3.5. Analysis of PEAH's performance

3.5.1. Implementing agreements and coordination

For the period 1981-92, PEAH reached agreements for execution of project activities with 36 public institutions, 4 local governments and 3 community-based organizations. Fifty-nine percent of these agreements had an execution time of one year or less; 14 percent, between two and five years; and 6 percent, six years or more. Project execution by means of agreements was not entirely successful. Many agreements were abrogated because of security problems -- some stage agencies left the area when violence increased during the mid-1980s; because of long-lived strikes by labor; because of dissolution of the executing agency, BANCOP; or because the contract was cancelled as the result of poor implementation.

For example, the National Institute for Agriculture and Agroindustrial Research (INIAA) had an agreement with PEAH for the period January 1 through December 31, 1992, to establish 14 one-quarter hectare plots to field-test INIAA research findings on (a) management of acid soils with dolomite treatments in Uchiza; (b) on-farm test plots with papaya in Milagros; and (c) a small animal husbandry pilot project for guinea pigs in Tingo María. INIAA hired five staff who began work in January. PEAH cancelled the contract in April because only five of the 14 plots had been established.

Coordination between PEAH and executing agencies caused problems. PEAH staff members were paid better for the same work than were other public sector employees. This discrepancy caused resentment and led to poor working relations. PEAH extension efforts on the part of PEAH, CORAH, and the Mobile Rural Patrol Unit, Peruvian Civil Guard (UMOPAR) were less than optimal. As mentioned above, CORAH, with assistance from UMOPAR, destroyed coca grown on land located in forest reserves. PEAH could not subsequently work in this area because the land was unsuitable for agriculture and/or cattle production.

Recent events indicate that coordination by PEAH is improving. In March 1992, CORDESAM presented to PEAH an alternative development proposal for a pilot project in the sub-watershed of the Ponaza River. This proposal subsequently was approved for financing. The primary objective of the project was to provide a barrier to coca expansion and to subversive incursion into the area by means of program and sub-project implementation in the areas of economic, social, and financial and investment development, as well as in infrastructure. The project covers 21 population centers, and the number of beneficiaries is estimated at 6,000. The number of sub-projects is 30; the total project cost is $1,694,070; and the execution period is 9.5 months, through December 1992. The project was designed in consultation with authorities from beneficiary communities. Community contribution will be 11.2 percent of the project cost. Responsibilities for project execution had not been defined as of July 1992. PEAH's contribution to the project will be three staff members.

3.5.2. Performance indicators

PEAH's performance as executing agency for UHAD was adequate in light of the rapidly changing political conditions and deteriorating security situation in the UHV. Indicators of PEAH's performance include the following facts:

> PEAH maintained operations in the project area in the face of repeated attacks by SL.

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Project area inhabitants associated PEAH with positive community development activities.

PEAH organization and operations were flexible -- operating procedures and staffing patterns were adapted in response to

- the 1986 PP supplement, which expanded the community development component,
- abandonment of the project area by many GOP agencies, resulting in the transformation of PEAH from a PMU to direct implementation,
- community needs, and
- renewed municipal activities and development potential.

PEAH fulfilled its reporting requirements to USAID.

PEAH disbursed funds at a generally acceptable rate until 1988, when many GOP agencies left the project area and could not, therefore, fulfill their contractual obligations for project activity implementation.

3.5.3. Institutional image

PEAH should be viewed as a success because it was able to continue operations and to adapt to deteriorating security and the changed political environment. This fact demonstrates the difficulty of development project implementation in the UHV. PEAH's tenacity, resilience and activities resulted ultimately in the positive perception of its presence by the local population. In 1985, 5 percent of persons interviewed approved of PEAH activities, and 80 percent disapproved. Five percent of those interviewed did not respond. However, in 1992, 85 percent approved of PEAH activities, and 10 percent disapproved. Again, 5 percent did not respond.

Since PEAH distanced its development activities from the eradication efforts conducted by CORAH and other agencies, community-level work was facilitated. Over time, PEAH also substantiated and improved its image as a GOP entity. This improved image as a GOP entity was particularly important in light of popular resistance to and resentment of eradication programs in the area. In 1987, 62 percent of persons interviewed identified PEAH with CORAH; 13 percent identified PEAH with the government; 19 percent did not know PEAH's affiliation; and 6 percent thought PEAH was an autonomous institution. In 1992, 82 percent of persons interviewed identified PEAH with the government; 10 percent identified PEAH with DEA; 5 percent thought PEAH was an autonomous institution; and 2 percent associated PEAH with CORAH.

PEAH's community development work contributed greatly to its positive image. In addition, the 1986 expansion of the community development component also improved efficiency. As PEAH gained experience with communities, its approach changed. PEAH became more receptive to community input and came to view community participation as a means for achieving project objectives rather than an end

in itself. The validity of this approach in terms of helping PEAH achieve UHAD's purpose is discussed in Chapter Four.

Analysis of PEAH's performance as an implementing agency revealed deficiencies common to most public agencies in the developing world. Many personnel decisions were not based on merit but on political patronage or favor-seeking. For example, the Garcia government dramatically increased PEAH's staff levels in 1989 just before elections in an apparent attempt to win votes. In addition, changes in the position of executive director tended to signal replacement of a large number of employees regardless of their previous performance. Changes in employee status also occurred because personnel contracts did not exceed one year. Therefore, job security, performance-based or otherwise, was minimal. Organizational effectiveness was impaired by such turnovers in personnel, as well as by the lack of uniform application of job qualifications.

3.6. UHAD and the narcotic control program

UHAD did not directly promote the joint USG-GOP narcotic control program in Peru because of the security situation in the UHV. The narcotic control program's operating paradigm was that coca eradication, or interdiction, efforts must be coordinated with area development programs. Area development programs such as UHAD are designed to provide coca producers with legitimate alternative economic activities to producing coca.

The UHAD project did not provide alternative economic activities, primarily agricultural production schemes, for coca producers who wished to abandon coca production. Agricultural research programs were destroyed by SL, and extension activities were suspended because of SL harassment. As mentioned above, UHAD support for research was suspended in 1987. The agricultural credit program was ineffective from the project's onset and is now moribund. The community development component of UHAD has efficiently generating outputs; however, these outputs have not led to attainment of the project goal, which was to increase and diversify agricultural production in the project area.

4. Findings, conclusions and recommendations

The first section of this chapter presents recommendations for SER's design. These recommendations are based on an analysis of UHAD's design weaknesses as well as on a review of A.I.D.'s worldwide analyses of narcotic control programs. Subsequent sections in the chapter present the team's findings, conclusions and recommendations by component -- agriculture, infrastructure and community development

The finding which drives all others is that today, in the project area, small farmers who had several years' experience in coca production reported during the team's field interviews that they are tired of the culture of coca. They believe themselves to have been deceived by coca production, which initially appeared very attractive because of high prices and the fact that it is basically a family enterprise. Instead, coca brought repression and violence to the project area. It made the cost of living unacceptably high. It destroyed family and community unity. It encouraged prostitution and delinquency. These farmers' calculation of risk versus profit has changed in the past few years. When prices were high, physical and other risks incurred in coca production were offset by profit. This is no longer the case because prices have fallen. The market is the only viable solution or escape that these small farmers perceive. Specifically, they need the market to free them from their economic dependency on coca production. This decision-making calculus is presented in Table 4.1.

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Table 4.1: Coca farmer profile

Advantages and disadvantages of coca production for a typical coca producer in UHV: 1981 versus 1992

1981

Advantages

- Agronomically suited to region
- Good support infrastructure (research and extension)
- Increased income (Coca earnings are five times income from licit activities)
- Steady income stream throughout year
- Guaranteed market
- Immediate payment for crop
- "Farmgate" purchase of commodity (no/low transport costs)

Disadvantages

- Illegal crop, subject to government sanctions

1992

Advantages

- Agronomically suited to region
- Good support infrastructure (research and extension)
- Increased income (Coca earnings are two times income from licit activities)
- Steady income stream throughout year
- Guaranteed market
- Immediate payment for crop
- "Farmgate" purchase of commodity (no/low transport costs)

Disadvantages

- Threat/reality of violence (from SL, MRTA, narco-traffickers, government forces)
- Prolonged separation from family (families removed from coca production zones to avoid violence)
- High cost of living (narco-dollar induced inflation) reduces return on investment
- Increased health risk posed by coca processing (dermal contact with solvents can lead to fatal liver damage)
- Exposure to taxation by SL, MRTA, Police, Military

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4.1. Design recommendations

The following general design recommendations were developed in response to lessons learned from UHAD and were also derived from the A.I.D.'s in-depth analyses of narcotic control programs, which were presented in *A Review of A.I.D.'s Narcotics Control Development Assistance Program*. The project-design team findings concerning UHAD's design problems concur with that report's major findings.

Area development cannot occur unless security is assured

SER activities must not be initiated unless security is assured.

SER programs will be ineffective until the GOP can secure the project area against violence from counterforce groups and narco-traffickers. USAID is not responsible for assuring security. In fact, it is banned from participating in such activities. But USAID must not initiate SER activities in an area where security is not assured for project beneficiaries and project personnel. If project activities have already begun and security issues arise, USAID must seriously review SER's status in order to determine whether the project should be discontinued.

The security situation in the UHV during UHAD's project period made long-term development activity problematic. For example, PEAH's initial successes in agricultural research and in infrastructure development brought this project management unit to the attention of SL. Shining Path terrorists then killed PEAH's agents and repeatedly attacked and destroyed its operations. Physical structures were destroyed, personnel terrorized and project area inhabitants learned the lessons of powerlessness.

Geographic coverage: Limit of containment

Consider development activities for migrants' communities of origin.

UHAD's containment strategy, limiting project activities to coca-production areas, did not work. It could not offer a viable economic alternative to coca growers. An estimated 95 percent of small farmers whose coca crops were eradicated CORAH and for whom PEAH was supposed to provide licit alternative economic activities turned to coca production elsewhere, either up-valley or in another region. The search for wage labor and off-farm income was the principal force behind migration to the UHV, where the demand for manual labor in coca production was high. SER should consider development activities for the migrants' communities of origin.

This expanded approach is used in the Bolivian Cochabamba Regional Development (CORDEP) Project (511-0617) to create economic opportunities outside of coca growing areas and to draw labor away from the Chapare. It is also in accord with A.I.D.'s alternative development strategy, which states that the majority of coca growers are acting in an economically rational manner and must be presented with viable options to coca production.

Targeting project beneficiaries

Project benefit targeting should distinguish between direct and indirect beneficiaries, and the major part of project investment should be directed at community level groups and small farm households.

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Project investment in community level activities for target population beneficiaries was 6 percent of total UHAD project cost. Primary beneficiaries were UNAS, MAG, BANCOP and other institutions that held agreements with PEAH. Therefore, the designated target population was largely an indirect beneficiary of project benefits.

SER should identify and discriminate between direct and indirect beneficiaries. Particular attention should be paid to the identification of target groups and should emphasize community level target groups as the major recipients of benefits.

Implementing agency

The project implementing agency should not be susceptible to undue political pressures which could adversely affect the delivery of services.

UHAD's experience demonstrates that developing a close link between target groups and the project implementing agency improves its efficiency. One of the major project successes was working with local producers' organizations. PEAH demonstrated that the closer the link between target group and project, the better the chances that project activities would be protected. The attenuated presence of state institutions reduced activities by these institutions. The state's continuing weak presence in the Huallaga Valley suggests that the new project should cast a wide net in terms of executing entities. The new project should take into account existing local organizations -- whether private sector, non-profit, local government or community.

The SER design team should determine if PEAH should be used as the project's implementing agency. Reasons for selecting PEAH as the implementing agency include its demonstrated abilities to learn from its experience, to adapt to the changing project environment and to maintain a presence in the project area in the face of a deteriorating security environment.

Reasons to seek other implementing agencies include the following: need to disengage SER from GOP activities; increased efficiency of NGOs over government institutions; and compared to government agencies, the lesser likelihood of NGOs succumbing to political pressures to provide sinecures for political allies.

Implementation flexibility

Management flexibility should be reflected in project design.

In an unpredictable political environment, a tightly drawn project design can become an obstacle to achieving project objectives. Throughout the project implementation period, PEAH was hampered because the number and type of activities were fixed and project activities were scheduled for a limited geographic area. Security problems increasingly influenced project implementation, including monitoring, and PEAH was unable to respond efficiently to changed circumstances.

Use of a rolling design, which has been used by A.I.D. in other projects, would allow flexibility to be incorporated into SER's implementation plan. A lesson learned from the UHAD project is that the SER design should designate the security conditions under which types of economic development activities can take place. The project area should be divided into geographic zones. (See map, p. xv, for suggested zones.)

Once the GOP has assured a minimum level of security, development activities should, in a phased fashion, be introduced to each zone. Community development activities would be followed by infrastructure projects, with agricultural projects reserved for a time when a zone has achieved the highest security rating. The SER implementing agency would on a quarterly or semi-annual basis assess security for each zone and presents its recommended security rating to the Mission for approval.

Measurement of achievement

To measure project impact, a clear relationship should exist between project purpose and indicators of achievement of project purpose.

Perhaps the most serious flaw in the UHAD design was the absence of a significant, demonstrable relationship between project purpose and objectively verifiable indicators. The given indicators served as an end rather than as the means by which the impact of the project could be evaluated. For example, 1,763 demonstration plots were established between 1981-92. But the impact of the demonstration plots on the intended project beneficiaries -- farmers -- is not known.

The new project should pay careful attention to establishing links between purpose and objectively verifiable indicators. For example, a community development component has been recommended to be included in SER for tactical reasons, as well as for reasons of empowerment. Given these reasons, the verifiable indicators should include numbers of community development training programs delivered, as well as follow-on activities undertaken by community group leaders or by GOP officials who have received such training.

Monitoring and evaluation

Monitoring and evaluation activities should include project management indicators and monitoring methods appropriate to local reality.

Project management indicators were lacking for UHAD although PEAH complied with semi-annual and annual report reporting requirements. Responsibilities for monitoring and evaluation were originally placed in the PEAH Office of Budget and Planning, which did not adequately fulfill these functions. In December 1991, an office of evaluation was created.
USAID project monitoring was problematic due to the security situation. As restrictions on travel became more common, the monitoring technique changed from site visits to helicopter flights to the nearly exclusive use of radio and videotape. Monitoring and reporting requirements should be standardized for all project activities, including number of beneficiaries, geographic location of beneficiary population, type of activity and planned versus actual execution time. These requirements should also include a cost breakdown of all unit costs, including construction materials, qualified and unqualified labor and administration. The costs should be recorded per activity/service and per beneficiary. However, given the security situation, use of standard surveys in monitoring and/or evaluation is not possible. Other methods, such as beneficiary assessment and increase in trucking volume, are more suitable, as reliable and less costly.

Environmental conservation and protection

Environmental conservation and protection, including natural resource management, such as reforestation, should be a project activity.

Despite early alarms on the environmental damage caused by coca production and processing, UHAD did not contain an environmental protection component and some coca eradication measures may have damaged the environment. Throughout the Huallaga Valley and, more recently, on the eastern slopes of the Ucayali drainage around Aguaytia, the cutting and burning of tropical forest to make way for coca cultivation and the disposal of tons of toxic waste from coca paste production has caused wholesale destruction of tropical forests, erosion of hillsides and serious pollution of the Huallaga watershed. The coca paste waste products frequently endanger or destroy small watersheds.

Ironically, CORAH eradication of established coca plantings in remote, inaccessible areas may cause additional environmental harm. In the Huallaga watershed, these areas of established coca plantings are in designated forest reserves that are unsuitable for cultivation of licit crops. Thus development activities are not possible in this area, and the eradication effort -- without a reforestation program -- will contribute to environmental degradation.

Reforestation projects would be subsumed under the community development component.

4.2. Infrastructure

4.2.1. Road construction

4.2.1.1. Purpose. An analysis of the 1981 project paper constraints concluded that high transportation costs and lack of infrastructural support made alternative economic activities unfeasible in the project area. In order to help meet the project purpose, the 1981 PP team proposed that the infrastructure development component of the project would " ...strengthen(ing) complementary production and information services, such as storage, marketing, and transportation facilities...." With the creations of a functioning roads system, river transportation, electricity and communication systems, alternative economic activities would be viable once coca producers were forced to turn to these activities.

4.2.1.2. Planned activities. The infrastructure component, with all extensions, ultimately contemplated the following: construction or renovation of facilities for grain processing and storage and irrigation facilities; construction and rehabilitation of schools, health centers and recreation facilities; possible additions to power generating plants; and most importantly in terms of investment made, maintenance of parts of the main highway, the Carretera Marginal de la Selva, through the region, as well as maintenance of an extensive network of access roads.

PEAH would coordinate infrastructure activities by undertaking "the following activities through agreements with the regional offices of the Ministry of Transportation and Communication (MTC) to:

- provide assistance to the MTC to improve the Ministry's ability to plan for road maintenance as well as to maintain both the highway and feeder roads;

- provide funds to assist the MTC in maintenance of the Marginal Highway from Tingo María to Puerto Pizana and in the general maintenance of 290 km of feeder roads; and

- with project funds, to upgrade and equip the maintenance center at Huayranga near Tocache.

4.2.1.3. Findings. The terrain presented obstacles. Terrorists created hazards. Several long strikes resulted in the MTC's abandonment of the project area in 1985. Nonetheless, PEAH set up four machinery pools. A bridge at Punte Arenas was completed with non-A.I.D. funds, opening the Marginal Highway between Tingo María and Tarapoto. And PEAH upgraded and maintained a 765km of highway and 582 km of access roads.

PEAH met almost all road construction and maintenance project objectives. However, as of June 1992, the Marginal Highway -- the primary transportation artery between Lima and the Central Huallaga Valley -- is effectively closed because of a 83km break in the road between Puerto Pizana and Campanilla. This break is inside the project area, but lies in an area of SL control and cannot, therefore, be repaired. The MTC has quit the project area, and PEAH is carrying out all of the ministry's functions there.

4.2.1.4. Conclusions. PEAH achieved nearly all road construction and repair objectives. It maintained the roads system within its project area and its unit cost for maintenance is superior to that of any other entity in Peru. It met most of its project objectives. Thus, PEAH has been an efficient road maintenance organization, given the security situation in the project area. However, lack of a viable road transportation system out of the project area continues to be a serious constraint to alternative agricultural productivity in the region. Positive results from maintaining the road system remain uncertain due to the break in the Marginal Highway.

4.2.1.5. Recommendation. Include the road rehabilitation component in SER Project once the GOP assures security in the project area.

A functioning transportation system is essential if alternate economic activities are to compete with coca production. Whereas coca can be transported by air out of the region, alternate crops cannot be and, therefore, require more traditional means of conveyance. Without the opening of the Marginal Highway, a reasonable flow of goods between the Central Huallaga Valley and the large market of Lima will be unfeasible, as will be all other economic activity.

Rationale for security stipulation

Farmer market access roads were built in some areas of the Upper Huallaga. These roads facilitate access of local farms to markets. However, the roads are generally under the control of SL.

4.2.2. Other infrastructure activities

4.2.2.1. Planned activities. In order to meet the project purpose of strengthening complementary production facilities, PEAH purchased rice mills, a dryer and one diesel generator for ECASA. PEAH also purchased a grain dryer for ENCI. There have been no other planned activities under this component.

4.2.2.2. Findings. No planned activities under this component were successfully completed.

Because of lack of money and the poor security situation in the project area, the installation for ECASA of the two rice mills with grain storage facilities at Aucayacu and Tocache, as well as a dryer and a diesel generator for Aucayacu were never completed. The rice mill for Tocache was purchased by PEAH for ECASA in 1984. PEAH let out a bid on construction of the building and platform to house the rice mill. The company that won the bid could not obtain the necessary bond to guarantee the project from the banks in 1987-88 and, thus, the project was never completed.

For the following reasons, banks refused to give the bond:

- the construction company was too small to deal with;
- it was a time of high inflation; and
- security problems were severe during this time of heightened SL activity.

After eight years, this mill (Suzuki) remained stored in Tocache.

The second rice mill PEAH purchased was intended for La Morada. The site for this mill was moved to Aucayacu for several reasons. The community had changed its mind about the mill. It was to be installed in the same place as an older existing mill. The location was also used as a community center. SL was also very active in the area and prohibited the mill because it would be a GOP presence.

In response, PEAH decided to move it to Aucayacu. Aucayacu is situated on the Marginal Highway, and a mill located there was expected to draw rice from a larger area. Because of the experience with the mill in Tocache, PEAH also decided to install this mill itself, rather than let the installation contract be put out to bid. To this date, this installation is 20 percent complete. Reasons cited for why the project has not yet been completed include:

- lack of funds for this project;
- PEAH administration had other priorities; and
- the security situation would not permit it.

The grain dryer for ENCI in Tocache was never installed because ENCI was unable to complete construction of the housing for the dryer. ENCI failed to install the dryer due to internal inefficiency.

The prospects for increased power generation were not pursued. The diesel power station bought for ECASA was used for the PEAH machinery shop in Aucayacu.

4.2.2.3. Conclusions. The lack of security in the project area has prevented successful completion of projects in this component. Contractors could not obtain a bond for construction purposes. GOP agencies withdrew from the project area, and project placement had to be reconsidered because of SL threats.

4.2.2.4. Recommendations. The SER project should refrain from working in geographic areas that are not secure. In addition to identifying infrastructure projects based on the security situation, identification and subsequent maintenance responsibilities of social infrastructure should be made in collaboration with communities and economic infrastructure and with appropriate authorities such as municipal government. This approach will ensure that community needs are met and that infrastructure projects complement regional and local development plans.

4.3. Agricultural production

4.3.1. Purpose

The purpose of this component was to "...strengthen public sector agricultural support service and to develop and test agricultural production packages in the UHV..." The PP constraints analysis determined that coastal agricultural practices would not transfer successfully to UHV selva region. Alternative agricultural activities had to be developed by local institutions if UHAD was to be able to provide coca producers viable options to coca production once their plots were eradicated.

4.3.2. Agricultural research and extension

4.3.2.1. Planned activities. The original PP design proposed to develop alternative agricultural packages that included land titling and access to credit, extension services and applied research for farmers who wanted to get out of coca production or whose coca was eradicated by CORAH.

Specifically the PP proposed to:

- improve existing farming practices through provision of improved and more intensive agronomic practices, such as the use of lime and fertilizer and pest management for existing crops;
- upgrade the experiment station at Tulumayo to expand and improve agricultural extension and focus research on plant protection, crop production,and plant breeding, as well as to establish on-farm testing of improved agricultural practices;
- upgrade UNAS capacity to perform additional adaptive research and extension, as well as an agricultural training program for the high jungle (sic);
- use project money to finance advanced degree training that requires thesis research to be done in the project area and to use facilities developed at Tulumayo.

4.3.2.2. Findings. Objectives of this component were not attained because of security reasons. The deteriorating security situation reduced the TA needed for development of the proposed "agricultural package," forced closure of experiment stations, caused the destruction of agricultural research, caused trained researchers to be reluctant to remain or take new jobs in the area, stopped the land titling effort and forced the GOP, which did not have a strong presence in the region, to cancel covenants with PEAH and eventually to abandon the project area.

The GOP institution in charge of applied agricultural research in the Huallaga Valley is INIAA (Instituto Nacional de Investigación Agraria y Agroindustria) with an experiment station at Tulumayo. For this region, this station has been in charge of crop and animal selection, adaptation and protection. It also produces seeds and seedlings to sell at a subsidized price. Principal crops are cafe, cacao, tea, native fruits and annual crops, such as rice, maize, yuca and beans. The station has a program in cattle and small animal production, such as guinea pigs and swine. The Universidad Nacional Agraria de la Selva (UNAS) in Tingo María conducts basic and applied investigations on the same tropical crops and livestock, as well as rubber, poultry and rabbits and management of pastures and forests. At one time, UNAS had 11 small extension stations for crop testing and demonstration plots. In 1984, seven UNAS extension stations were located at Tingo María, Aucayacu, La Morada, Tocache, La Divisoria, Aguaytía

y Palo de Acero. Today, only two -- Tingo María and Aucayacu -- are functioning, primarily in livestock management.

In Tingo María between 1982 and 1986, Instituto Nacional de Investigación y Promoción Agropecuaria (INIPA) conducted agricultural extension through its Centro de Investigación y Promoción Agropecuaria (CIPA). It held field training programs for extension agents and field visits to farmers, who were each then charged with passing information on to seven additional farmers in their region. In 1987, responsibility for agricultural extension was transferred by the GOP to the Ministry of Agriculture (MAG), which conducted agricultural extension through a less costly group method. This extension method used a series of talks to committees of producers, who were in turn to pass the information on to local farmers. In 1990, MAG discontinued this work for lack of funds, and PEAH assumed agricultural extension directly through the committees. In 1991, PEAH increased the number of extension agents by 35 percent.

All of these institutions used demonstration plots, field days and technical assistance. In addition, they promoted seedling production of cacao, citrus and papaya to sell to growers at subsidized prices.

By the end of December 1991, PEAH had produced 1,763 demonstration plots, provided technical assistance to 14,556 farmers, produced 130,699kg of seeds and 1,301,521 seedlings and, mostly in Brazil, had trained 19 professionals, three at the Ph.D. level and 16 at the M.Sc. level. Thirteen of these professionals are either employed at UNAS or in the UHV. One M.Sc is in Lima, employed on a United Nations Industrial Development Office (UNID) project dealing with the selva. By 1992, PEAH had 105 agricultural extension agents, 10 people coordinating training through UNAS, five people coordinating agricultural investigation with INIA and two people coordinating soil services with MAG. Unfortunately, the number of personnel in each category includes nontechnical personnel, such as secretaries and drivers. The groups included in the personnel county obscures the effect of technical assistance.

4.3.2.4. Conclusions. Although agricultural diversification took place within the project area, no evidence suggests that results were economically beneficial to the target population. No monitoring system determined the rate of adoption of new or different varieties of crops or cropping systems or measured the impacts of acceptance or change in economic terms. Nor was an economic and market analysis conducted prior to start-up of productive activities.

Despite PEAH's efforts to support CORAH's eradication efforts, coca production increased from less than 30,000 ha to more than 70,000 ha. Through the adoption of new varieties and application of agro-chemicals, productivity of these plantings also increased by at least 2.3 times.

This enviable record of achievement demonstrates that, with a market and the provision of an alternative agricultural package, local farmers are perfectly capable of adapting the necessary technology.

PEAH emphasized agricultural production and paid little or no attention to marketing. The project did not invest in market studies or design marketing strategies prior to start-up of production. The absence of a marketing component is attributed, in part, to a poor project design. As a result, the implementing agency was not called upon the respond to local reality. In some instances, productive activities were promoted by PEAH (e.g., achiote, cacao, etc.) despite information indicating that the international market was oversupplied and that crops promoted were not well suited to the area.

4.3.2.5. Recommendation. Continue to develop alternative agricultural packages once the project area is secured.

Project area farmers, through their adoption of the "coca package," have proven that they are capable of adopting valid, technical, agricultural packages. SER must develop alternate agricultural packages that can compete with coca once producers decide to or are forced to abandon coca production.

Although PEAH made some inroads into local institution building for agricultural research and delivery of extension services, terrorist actions quashed these efforts and destroyed information that had been gathered and institutional infrastructure. Once security is assured, both INIAA and UNAS personnel, who have for the most part stayed in the project area, can renew their activities.

Recommendation: All adaptive research, higher education and extension efforts must be market driven.

Most agricultural production is directed toward a market, whether local, regional, intra-regional or foreign. Knowledge of how these markets function, including understandings of market requirements and the distribution system which serves these markets, is essential to project design. A primary project objective must be facilitating understanding of and access to these markets.

Rationale

SER must use a market-led approach when developing its research, extension and training programs. Feasibility studies for new productive activities should be defined on the basis of a diagnostic evaluation, including fieldwork. Ironically, one of the recommendations of the PEAH 1987 Final Report is that a socioeconomic evaluation be undertaken after a project activity is completed. Unfortunately, this scrutiny is on the wrong end of the activity. Economic evaluations must be conducted as part of feasibility studies and prior to any productive activities, and they should address marketing as a primary concern.

For example, cacao is a commodity with a transparent international market; even the most rudimentary market analysis should have given project personnel an indication that this was not a good investment. Yet PEAH continued to invest in production of manteca de cacao, coco butter, despite a decade of plummeting prices, competition with neighboring countries who produce a higher quality and much cheaper coco butter and general knowledge of worldwide over-production of coco butter.

Achiote was also planted as a PEAH activity despite information that the achiote produced in the project area was low in bixin and that the Brazilians were planting large quantities the same year. Local producers and processors of this crop advised against this activity, but PEAH did not heed their advice.

The SER project should tailor development of technical or advanced education project activities to design market studies. UHAD courses were often based on local professors' expertise, rather than on the incipient needs of alternative development activities. In addition, SER must ensure that all participant training activities are needs based. Degree programs must be selected that respond to local conditions. Thus, extension and farming systems degree programs must be chosen instead of technical subspecialties.

4.3.3. Agricultural credit

4.3.3.1. Planned activities. The PP would have provided agricultural credit to farm households. Five million dollars was budgeted for this component. Credit was to be provided through the private banking system.

4.3.3.2. Findings. The institutional arrangements through which PEAH disbursed credit changed over the course of the project. At the beginning of the project, agreements were signed by PEAH with Banco de Cooperativas del Peru (BANCOP) and Banco Agrario del Peru (BAP). The joint credit programs were suspended in 1987. BANCOP only made 34 loans in the region because the bank judged that farmers were not credit-worthy. BAP used PEAH funds to supplement its own funds and made more than 2,000 loans.

No credit using PEAH funds were disbursed in 1988 and 1989, when both banks left the project area because of rising violence. Starting in 1990, PEAH began to give short-term and long-term credit directly to farmers. Amounts disbursed were below expectations, and the proportion of delinquent loans was high because PEAH personnel were not trained to assess loan applications.

At present, banks are not issuing credit in the project area. Political instability in the UHV is too high, and repayment is therefore uncertain. Rural credit unions being organized in the project area have not been able to secure sufficient resources from their members. Five percent of total capital is required in order to have formal approval to start operations. The credit unions are also being formed by people who lack financial expertise, but expect to secure GOP funds to start operations.

4.3.3.3. Conclusion. The security situation in the project area precluded successful completion of the credit component. The local banking system left the project area, and PEAH lacked the requisite skill to effectively assume responsibility for credit disbursement.

Recommendation: As part of SER's start-up activities, commission an in-depth study of credit in the project area.

Rationale

A condition for the successful development of rural areas is the existence of an efficient network of financial intermediaries that act not only as credit agents, but provide other financial services and can mobilize savings in the same geographical area where they are used. The project area has no such system, and this lack is a serious constraint for development of alternative economic activities.

Under ideal conditions, all of the credit needs of the project area would come from local savings. The amount of savings generated in the project area are sufficient to finance alternate economic activities. However, branches of the large commercial banks are transferring about 75 percent of these savings from the project area to other areas of the country.

To remove the constraint represented by the inadequate system of financial intermediation, it is necessary to determine the strengths and weaknesses of formal and informal credit agents. Their capacity to mobilize local savings and respond to a program that will require substantial increases in credit for rural areas should be evaluated.

The IBD is planning a study of formal and informal rural financial intermediation with three to four expatriates and a team of Peruvians, expected to perform for up to six months. SER should use or complement the IDB's findings to implement a program to determine whether it can develop a suitable system of financial intermediation in the project area.

4.3.4. Land titling and land registration

4.3.4.1. Purpose. Land titling was not originally an important component of UHAD.

4.3.4.2. Findings. The land titling program was seriously disrupted when Sendero murdered three surveyors in 1984. The lack of security in the project area forced many property owners to move. They generally sell their land informally or abandon it. The titling of land has moved very slowly. By 1985, only 494 titles had been legalized. During 1991, only 321 titles covering 6,243 ha were legalized. SL has murdered surveyors and actively discourages the local farmers from applying for a titles. SL has also started issuing titles of its own, including parcels that are smaller than the government's minimum size for land that can be titled. The realities of coca production created some perverse situations, where farmers did not want a title because of the illegal and transient nature of coca production.

4.3.4.3. Conclusion. The murder of the three surveyors by Sendero was an important impediment to the titling program. If legal activities become more profitable and allowed people an opportunity to get out of coca production, demand for clear land titles may grow. In this case, sales of land parcels smaller than the required government size for titling should be permitted. These sales are being made on an informal basis in the best and more accessible areas, which usually have the better infrastructure. Not to legalize these sales encourages illegality and, therefore, plays into the hands of the terrorist.

Recommendation: Do not include land titling in SER.

The majority of coca producers, because their plots are on forest reserve or public lands, will not need land title if they choose to abandon coca farming. The SL has proven that it will kill GOP personnel involved in land titling. GOP law is evolving, and the current legislation contains many contradictions. SER resources could be more effectively used in other areas.

4.4. Community development component

4.4.1. Purpose

This component of the project was designed to meet point seven of the purpose statement: "...provide(ing) potable water and sanitation systems to selected communities in the project area. The 1986 project paper supplement amended point seven to state, "...improving community development services, such as potable water and related sanitary facilities, educational programs and community markets."

The PP never developed a link from this component's purpose to the project goal, but the assumption can be made that the community development activities were included to provide short-term improvements to the project area inhabitants' quality of life and their ability to meet community needs through communal work. In addition, the component would complement two concurrent AID projects; the $5.5 M Rural Water Systems and Environmental Sanitation Project (527-U-074), which was scheduled to build water systems in 420 selva communities, and the Primary Health Project (527-U-072).

4.4.2. Planned activities

During 1982-86, direct investment in the target population was scheduled at $250,000 to finance the activity for drinking water and environmental sanitation. This activity provided for water systems and sanitation in 60 selected rural communities. The stipulated output was the construction of potable water systems and latrines. The corresponding indicators were the following: 10 surface water systems by 1986; 70 hand pumps installed by 1986; 40 smaller hand pumps provided to individuals by 1986; and 130 latrines constructed by 1986.

In 1986, the project was amended to include, *inter alia*, a community development component in the amount of $2,479,000, to be executed from September 1986 to September 1988. The objective was to improve the living conditions of the rural population in the project area. The component aimed to motivate potential project beneficiaries to participate in PEAH activities, direct PEAH activities -- principally agricultural extension -- to beneficiaries, organize and train small farm families to be responsible for their own development and assist the health and education ministries to extend and improve coverage in rural areas of the Upper Huallaga.

4.4.3. Findings

For the period 1981-92, the following community infrastructure works were completed: 36 potable water systems; three sewage systems; 15 latrines, installed in schools; 85 rehabilitated classrooms; 21 new classrooms; 34 rehabilitated health posts; 10 fish ponds; seven new health posts; and six small irrigation systems.

The total investment in infrastructure was $2,305,000.[1] The community contribution, including manual labor and local materials, was approximately $691,200. As of June 1992, an estimated 90 percent of project financed community infrastructure was functioning. Other investments in communities included upgrading training for traditional birth attendants and teacher training and accreditation in the amount of $284,000. Total project investment in communities was $2,589,000 and, including the community contribution, $3,280,200, or nearly 8 percent of total project cost, $41,758,000.

Project activities in the formal education sector included construction of 21 classrooms and rehabilitation of 85 pre-primary and primary classrooms. Beneficiary communities provided manual labor and local materials. Additionally, 750 of 1,460 teachers in the project area received one teacher training course per year to upgrade their professional skills. Project investment in the formal education sector was approximately $672,326, 80 percent infrastructure and 20 percent training, or 1.6 percent of total project cost. Project activities in informal education included drug-abuse prevention and awareness education, executed by CEDRO, an NGO.

Health sector activities included construction of seven health posts and rehabilitation of 34 health posts. PEAH did not calculate health post-coverage and/or area of influence. Beneficiary communities provided manual labor and local materials. Apart from infrastructure, in areas without MOH personnel, the project trained 67 traditional birth attendants. Training consisted of two courses per year, basic and refresher, which have been conducted every year since 1986. The project did not work with A.I.D.'s food-

[1] Infrastructure cost does not include sports fields, small irrigation systems, or the community contribution in manual labor or local materials.

assistance program. In addition, the NGO PROFAMILIA was contracted to provide family planning services.

Project investment in health was approximately $390,000, 64 percent infrastructure and 36 percent services/activities, or 0.93 percent of total project cost, $41,758,000.

Drinking water and environmental sanitation works were suggested in the project's environmental assessment, and in 1981, plans were made to provide water systems and sanitation to 60 communities. In 1986, this activity was subsumed under the community development component. The project investment in water and sanitation was approximately $1,525,000 or 3.65 percent of total project cost.

CEDRO is a USAID-financed project in the amount of $6 million over a seven-year period, 1985-92. The objective of the project is to "increase public awareness of problems in Peru related to the production, trafficking and abuse of illicit drugs and the social, political, economic and health consequences of these activities." In 1991, CEDRO signed an agreement with PEAH to develop an integrated drug prevention plan for the project area. The plan was drafted with collaboration from PEAH and CORAH, and some activities have been executed. CEDRO provided technical assistance to PEAH for small community programs in rural Tingo María. These programs included small animal husbandry and school garden. PEAH supported CEDRO in activities involving parents, teachers and children in drug prevention education activities in urban Tingo María.

From 1981-92, PEAH reached agreements for the execution of project activities with 36 public institutions, four local governments and three community-based organizations. Fifty nine percent of agreements had an execution time of one year or less; 14 percent had an execution time of 2 to 5 years; and 6 percent had an execution time of six years or more. Project execution by means of agreements was not entirely successful. Many agreements were abrogated because of to security problems; some stage agencies left the area when violence increased during the mid-1980s. Other reasons for abrogation of agreements were long-lived strikes affecting the MTC, dissolution of the executing agency, BANCOP, and cancellation of the contract because of poor implementation.

For example, INIAA had an agreement with PEAH for the period January 1 through December 31, 1992, to establish 14 one-quarter-hectare plots. These plots were to be used for the following purposes: to field test INIAA research findings on management of acid soils with dolomite treatments in Uchiza; create on-farm test plots with papaya in Milagros; and, in Tingo María, small-animal husbandry for guinea pigs. INIAA hired five staff who began work in January. PEAH cancelled the contract in April because only five plots had been established.

Coordination between PEAH and executing agencies was uneven. PEAH staff were better paid than public sector employees conducting the same work. The difference caused resentment and led to poor working relations. Extension efforts on the part of PEAH, CORAH and UMOPAR were less than optimal. As mentioned above, CORAH, with assistance from UMOPAR, destroyed coca grown on land in forest reserves, where PEAH could not subsequently work because the land was unsuitable for agriculture and/or cattle production.

Recent events indicated that coordination by PEAH was improving. In March 1992, CORDESAM presented to PEAH an alternative development proposal for a pilot project in the sub-watershed of the Ponaza River. This pilot project was subsequently approved for financing. The primary objective of the project is to provide a barrier to coca expansion and subversive incursion into the area. The project will

accomplish this goal by means of program and sub-project implementation of economic, social, and financial and investment development, as well as infrastructure. The project covers 21 population centers, and the number of project beneficiaries is estimated at 6,000. The number of sub-projects is 30; total project cost is $1,694,070, and the execution period is 9.5 months, through December 1992. The project was designed in consultation with authorities from beneficiary communities, and community contribution will be 11.2 percent of project cost. Responsibilities for project execution had not been defined as of July 1992. PEAH's contribution to the project will be three staff.

During the first five-year period, INIPA executed community level activities as part of the agricultural extension component. To implement garden and small animal husbandry projects, INIPA promoters organized clubs for mothers in rural areas, Club de la Mujer Rural, and youth clubs, Club Agrícola Juvenil del Perú. However, the projects did not benefit from agricultural extension. Instead, the majority of the mothers' clubs' activities were related to domestic concerns, such as sewing, and those of the youth clubs were related to sports, excursions, and activities requiring manual labor. The clubs developed into social not productive organizations, in which the tendency was toward a membership composed of the wives and children of community leaders. A total of 90 mothers' clubs were organized, and 61 are presently functioning, with 2,188 women participating. Distribution of clubs by zone is the following: Tingo María (14), Aucayacu (14), Uchiza (12), Tocache (11), and Campanilla (10).

PEAH zone offices selected beneficiary communities in response to community requests. Seventy percent of community requests were for infrastructure, 5 percent for training, 10 percent for local road improvement, 10 percent for productive activities, such as gardens, small animal husbandry and fish ponds, and 5 percent for productive infrastructure. The high proportion of requests for infrastructure projects reflected the fact that, for the community, infrastructure was synonymous with development and social prestige. PEAH zone officers tried to satisfy these community requests although they recognized that they had little to do with improving legal agricultural production in the face of increasing coca production and narco-trafficking.

In 1988, PEAH reduced its range of activities in response to the worsening security situation. Sectors and area priorities were established in the zone offices, and available resources were distributed for each area. Beginning in 1990, PEAH began to concentrate its activities at the community level in rural areas. The 1992 operations plan assigned priority status to a total of 110 communities: 16 in Tingo María; 15 in Aucayacu, plus one urban center; 33 in Uchiza; 20 in Tocache; and 25 in Juanjuí.

4.4.4. Conclusions

PEAH was able to fulfill the majority of its CD objectives as shown above. CD projects have been protected by the communities in which they were established. Such protection indicates "ownership" of the finished product. PEAH was efficient while implementing the CD component, especially given the security environment in which it worked.

However, a strict interpretation of the project goal indicates that the CD component has not helped increase and diversify agricultural production in the Peruvian upper selva. Especially because no causal relationship between CD activities and project purpose was posited in either project design, no link can be made between the establishment and completion of the CD activities and a reduction in coca production.

Similarly, the CD activities had no short-term effect upon counterforce SL and MRTA. And CD activities could not have taken place without these groups' tacit permission.

A more strategic interpretation of the CD component's effectiveness leads to the conclusion that the component created an enabling environment for community development groups. This environment will have a long-term impact on the GOP's ability to implement an alternative development program in the project area. Four points to support this interpretation follow:

- The CD component was the only functioning element of the UHAD project during the height of the violence in the UHV, from 1986-1989. Without the CD component, PEAH would have had to have ceased operations, thereby, further reducing the GOP's presence in the project area.

- The link between CORDAH and PEAH was severed in the minds of the project area inhabitants. This disassociation improved PEAH's ability to implement other projects.

- Project beneficiaries associate GOP activities with positive results, which offset the poor image of the GOP resulting from the weak performance of other GOP agencies. Since CD activities help build PEAH's credibility, they can create an entree for PEAH to introduce other activities which are more closely linked to project purpose and goals.

- CD activities are not an end of themselves, but are, rather, a means to an end. Successful CD activities create an enabling environment, in which community groups seek to identify and meet other community needs.

4.4.5. Recommendations

A CD component should be included in the SER project for the reasons cited above, and to improve flexibility in project design, government credibility and human resource development related to democratic initiatives. This component is also critical to a project strategy which plans for short-term, medium-term and long-term impacts.

Flexibility

A.I.D.'s Alternative Development Strategy acknowledges that certain pre-conditions must exist in Peru before long-term area development activities can take place. The first such condition is that security is assured in the UHV. For the foreseeable future, the security situation in the project area will remain fluid. The CD component provides the implementation team with the option of maintaining a low-profile presence in the project area that is not prone to terrorist attack. When the security situation improves, SER personnel will already have a functioning presence in the UHV and will therefore be able to reduce start-up time for activities in other sectors, including agricultural production and infrastructure support.

Credibility

The GOP is not viewed as a legitimate political force by many project area inhabitants. Historically, certain GOP policies, such as agricultural policies, suppressed free-market practices essential to economic development. These policies constrained economic activities of the project area population. In addition, the government has not adequately delivered services to the area, such as agricultural extension. The lack of these services further thwarted development.

The GOP's inability to effectively deal with the subversive presence has also contributed to the government's loss of credibility. A widespread perception is that GOP representatives are corrupt and engage in illegal practices, such as extortion, which the local population is powerless to combat. The effectiveness of GOP policies and programs is hampered by the lack of sufficient human and material resources for adequate service delivery, such as health and education activities. Through its community development work, PEAH, as a government entity, improved the credibility of the GOP. The SER project should continue to support CD as a means, albeit minor, of re-legitimizing government actions.

Human resource development and democratic initiatives

During the CD activities, community groups and individuals in the project area develop problem-solving, planning, organizing, management, and consensus-building skills. Project experience helped community groups become development advocates. These skills can be transferred to productive activities once they are initiated and to the wider political process once security is assured. Because the alternative development strategy calls for a long-term perspective for commitment when designing and implementing area development projects, a greater emphasis should be given to human resource development of community group leaders.

Strategy

The SER project should plan activities designed to produce short-term, medium-term and long-term benefits, not only to ensure continuous project implementation, but also to show immediate impact. Such indications of project impact will provoke beneficiary interest and participation in the project. Community development activities in general and social infrastructure in particular will achieve the most immediate impact.

Specific recommendations for how the CD component of the SER can be improved are the following:

Recommendation: Link community development and human resource development activities to project purpose.

To promote community development and to improve local community skills in project planning, design, execution and evaluation, SER CD component outputs and objectives should target delivery of training in the above fields, as opposed to using objectives such as number of latrines or schools built.

Rationale

The larger issue of project impact on communities must be addressed by a change in SER's community participation methodology. PEAH's methodology was project oriented, not development oriented. Committees for water, school and health were organized for purposes of project execution, not community development. The result was that the activity was seen as a end in itself and was not related to longer-term purposes.

Development goals, such as improved health and improved production were not met by typical community infrastructure-building activities, particularly when the installed infrastructure was not accompanied by the requisite human and financial resources to make it operational. An example is construction of a health post, but no provision of training for community health promoters.

In addition, a common constraint against community participation in community development activities is a lack of motivation resulting from experience in previous projects that did not work. Project pitfalls are well understood. Community projects frequently suffer from insufficient promotion and motivation of the community before project execution, and the community may not understand the project or its role in project execution. During execution, material supplies may be inadequate or may not arrive on time, and the project is not completed because interest waned. Resources for project supervision, including transport and per diem, are seldom adequate, even though project execution and sustainability depends on regular supervision, not only for quality control but also because of the imputed value supervision is believed to give community efforts.

Project operations and maintenance depend upon properly trained community members, but training activities are usually attenuated and lack follow-up. The importance of training, especially in projects that have a cost-recovery component, cannot be over-emphasized.

Recommendation: Increase the range of accepted community level activities.

The CD component must have a stronger area development focus. Activities such as environmental protection, reforestation or family planning that can be more directly linked to encouraging alternative economic activities in the project area should be added to CD activities.

Rationale

If the SER project limits the range of possible CD activities, the needs of communities may not be met. CD activities should respond to community demand based on identification of needs, existing resources to meet needs and a priority ranking of community needs. This kind of problem-solving exercise will promote community development and advocacy and will help to avoid the expenditure of limited resources on unwanted or useless projects. A demand-based approach will also result in increased community participation and protection for the project.

Recommendation: Include community development training for local and municipal government staff.

Social and economic development cannot be achieved solely through community actions, but must be related to local development plans designed and implemented by local governments. Accordingly, local government should receive training in community development and planning. To avoid retaliation by counterforce groups, an activity for local government training can only be implemented once project area security is assured.

Rationale

Technical expertise in relation to social and economic development activities is a constraint on the part of local government. In the past, the lack of development skills -- notably planning -- limited municipal governments, as well as provincial and district governments to a standard range of activities. For the most part, municipalities have executed infrastructure projects that lacked both uniform technical criteria and priority ranking within a municipal planning scheme.

In the project area, a slight trend toward community development projects is related to the wider political support sought by mayoral candidates. Mayors of Uchiza and Toache are economists, and the mayor of

Juanjuí is an agricultural engineer. If government officials have increased skills in municipal planning and are able to incorporate community needs into a coordinated framework, potential will be greater for the area development strategy to be successful. Scarce resources will be utilized more efficiently.

Recommendation: Expand and coordinate health sector activities.

The project area population not only suffers from health problems associated with a remote, underdeveloped region, but also from poisoning problems associated with coca processing. To maximize effectiveness, UHAD health-care activities should be coordinated with the MOH.

Rationale

Health care activities in the new project will be reviewed and approved by MOH and the Mission's Human Resources/Population Health and Nutrition (HR/PHN) Office. The MOH would confirm that proposed health care activities were within Ministry norms, policies and programs. The HR/PHN office would provide technical expertise and sign off on the technical aspects of the proposed health activities.

MOH and the Mission's HR/PHN office were not involved in the PEAH project. Had they been, many problems for PEAH and MOH could have been avoided. For example, PEAH health activities were not coordinated with the departmental Unit for Education and Health (UDES) in Tarapoto. And according to the UDES director, the UDES was ignorant of PEAH activities. According to the UDES, PEAH donated electric refrigerators where electricity was not available. And PEAH made donations to the community as a whole, which restricted MOH from reprogramming the equipment in other communities.

SER should analyze the impact of coca processing upon the project area's drinking water supply. If increased health risks are linked to coca processing, the link will underscore CERO project efforts to increase local awareness concerning the health risks associated with the narcotics industry.

Recommendation: Assess the success of the Municipalities in Action Program.

In 1992, personnel from PEAH, regional and local governments and USAID/Peru visited the Municipalities in Action Program in El Salvador. The program was financed by USAID/El Salvador. In brief, this program emphasizes social and economic development by means of municipal strengthening and execution of small infrastructure and social services projects identified in town meetings. PEAH had already been at work on a similar program for municipalities, and this was further refined following the El Salvador experience. The Programa de Apoyo a Municipios was initiated in 1992 in the municipality of Tocache. Experience to date has demonstrated the potential for this model of project identification, control and execution. Successes include the execution of projects in rural areas, rapid project execution, increased confidence in local authorities, establishment of government presence through municipal supervision in areas where it was previously unknown and communities renewing the tradition of communal labor and community problem solving.

Rationale

The viability of the model has yet to be determined. Problems with this program include the following:

- Projects were not approved by the respective sector authority and, thus, may not have met established sector criteria. Examples include construction of inadequately sized classrooms and

construction of health posts contrary to MOH policy. Health posts were constructed and rehabilitated in the communities of Cayumba, Chinchabito and San Miguel. These communities are located on a highway and within 10km of one other. MOH criteria for health post construction is 10 km between facilities.

- Identification of project type and location was defined exclusively by the community and not in relation to a larger development plan of the area.

- Construction projects were not situated within the context of parallel activities; health post construction was not accompanied by health promoter training for community members.

These potential problems can be mitigated if training programs for community development underline the importance of planning and inter-institutional coordination.

Recommendation: Determine the feasibility of including NGOs in SER activities.

Rationale

Given the paucity of basic services in the project area, a great need exists to improve delivery of health, education and water and sanitation services. Potential community contribution to provision of basic services is high, as demonstrated by community participation to date. Performance of the public sector in the project area has been poor, but it can be improved. Major constraints are the following: low salaries; difficulty attracting personnel to an area characterized by violence; lack of financial resources; lack of material resources, including medical equipment and prescription drugs; and inherent weaknesses in the relevant ministries. At the same time, a potential for service delivery exists in the private, non-profit sector. This potential should be explored by SER.

Potential for NGO participation in a new, integrated rural development project is difficult to assess. Because of security problems, few NGOs work in the project area. Three local NGOs were interviewed. They reported no security-related problems. PROFAMILIA experienced two terrorist attacks in Huancayo, but none in the project area; the SL ostensibly favors health care and opposes family planning. Should the new project offer sufficient incentives and the GOP assure security, NGO activity could increase significantly.

The new project should assess feasibility of NGO participation in a wide variety of areas, including provision of extension services, micro and small enterprise development, promotion of agriculture for export and/or marketing and, more generally, technical assistance for integrated rural development. Local NGOs enjoy the advantages of knowing the area and of being known and trusted by their target groups and, in some cases, by subversive groups, as well. Nonlocal NGOs, such as environmental organizations, should be encouraged to work at least on a periodic basis. NGOs with national coverage and, in particular, those which receive funding from USAID/Peru, such as ADRA/OFASA, CARE, Caritas and PRISMA should be strongly encouraged to work in coca-producing areas, assuming that their services match the needs of the areas.

Recommendation/rationale: SER community development activities must remain separate from local defense activities.

SER must emphasize the separation of development activities involving community participation from local defense activities. Ideas promoted by ILD, IDA and IDEA using local defense committees as development catalysts is seriously misguided. Development should be freely articulated in a community and not subject to a real or perceived threat of armed pressure or intervention. Specifically, in the framework of community organization by committee, development committees should be charged with development activities. These activities should not be the responsibility of defense committees. A.I.D.'s review of narcotic control activities worldwide supports the above recommendations.