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AUDIT REPORT
AGRICULTURE SECTOR
USAID/PERU

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I INTRODUCTION

The Office of the Area Auditor General, Latin America, has made an audit of the active Loans and Grants in the agriculture sector under the United States Agency for International Development bilateral economic assistance program to the Government of Peru (GOP).

The purpose of the audit was to evaluate progress being made on program activities and to review the effectiveness of implementation and resources utilization.

II BACKGROUND AND SCOPE

Peru is at a critical juncture in its development. It is a country attempting to consolidate 10 years of revolutionary change, moving toward a more open democratic political system, and trying to deal with a deepening economic crisis which is rapidly eroding the Peruvian standard of living. The U.S. assistance program has a vital role to play in helping to create the conditions for long-term growth and equality in Peruvian society.

The current situation of Peru is a marked contrast to the climate of hope which many felt when the Revolutionary Government announced and began to implement a sweeping program of social and economic reform 10 years ago. Then, the government carried out rapidly and without violence one of the most massive agrarian reform in the history of Latin America. Today, the government lacks the resources to make the agrarian reform work, or to deal with the bulk of rural poverty which was never touched by the reform measures. The performance of the agricultural sector, with a few notable exceptions, has been poor for the past 10 to 15 years.

The strategy paper prepared by the Mission for FY 1979 has principal focus on the sierra poor, secondary focus on the migrating poor (ceja de selva development and the urban slums), and a third focus on institutional innovation and reform. Within the agriculture sector priorities are as follows:

1. Improving farm productivity in the sierra is the crucial first step to ameliorating Peru's most severe poverty. The largest portion of AID financing will be concentrated in efforts to:
 - Increase food output on small to medium sized farms. These farms can absorb the majority of sierra surplus labor and dampen the flow of migration to coastal cities. Major increases in small-scale, on-farm investments are required. U.S. assistance is vital.
 - Help rebuild the structure of institutional services to agriculture. It will be difficult to reach the poorest rural Peruvians and affect productivity without improving institutional channels which have deteriorated badly in recent years.
 - Target in on identifiable groups within the sierra which stand at the bottom of the list of all the poverty indicators. Mission activities to improve high pastures and Andean livestock and to organize community nutrition programs will aim at these hard-to-reach groups.

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 - Test the feasibility of and help apply appropriate rural technologies.
2. Creating off-farm employment in the sierra is essential to a broad attack on the programs of landlessness, underemployment and income maldistribution. The Mission will assist through:
- Programs to stimulate small business, especially agriculture-related enterprises, in the private and cooperative sectors.
3. Exploiting the agricultural potential of the ceja de selva affords Peru one of its few opportunities for easing the severe land tenure constraints of the sierra over the longer terms. AID will be involved through:
- Building basic infrastructure to make commercial agriculture possible.
 - Upgrading the capacity of market towns in the ceja de selva to better serve their agricultural hinterlands and provide off farm employment for sierra migrants.

The agriculture sector assessment has identified the target groups on the basis of land tenure and rural organization. The development requirements include the revitalization of government institutions serving agriculture, assistance in small farmer organizations, land use planning, on-farm capital investment and appropriate rural technology. The major areas of proposed and actual agriculture sector assistance follow:

1. Research and Extension - Both research and extension are weak in farm management/production economics. There are two active projects, Project 0143, Campesino Para-Technician Training and Operational Program Grant (OPG)-0179, Campesino Training. The Mission plans a loan/grant program in research and extension for Fiscal Year 1980.
2. Small Farmer Organization - Loan No. 058, Agriculture Cooperative Federation Development is assisting the second-level farmer organizations. However, the majority of sierra farmers fall outside the organizations and must be grouped together to receive government services and to market their output more effectively. The USAID plans to provide grant funds for technical assistance to the Ministry of Agriculture (MUA), and, through OPG's, to experimental small farmer organizations in the sierra.

3. Agricultural Inputs

Improvement of Seed Multiplication and Distribution

Peruvian agriculture needs an orderly, self-sustaining system for improved seed production and distribution. Research and extension are inadequate without a plentiful source of improved seed for farmers to grow. Currently improved seed is often not available at planting time. Project 0149, Corn and Soybean Production on Small Farms is providing research assistance for the two crops. In the future the Mission will provide the MOA with a program of technical assistance for analyzing existing seed multiplication and distribution sub-systems, resulting in recommendations for improving the institutional and financial aspects of the structure.

Irrigation and Other On-Farm Investments

One of the principal basis of increased farm productivity in the sierra is the application of irrigation water. Considerable potential also appears to exist for capital investment through land leveling, drainage, reforestation, etc. Loan 059, Improved Water and Land Use in the Sierra is providing assistance in these areas. Future plans contemplate technical assistance to the MOA in on-farm capital investment activity, training for cooperative personnel and MOA technicians to improve their ability to identify on-farm investment opportunities and a study of private sector cooperative banking channels for on-farm investment.

Improved Breeding Stock

Severe decapitalization of breeding stock has taken place in the sierra. The USAID plans to study the problem of sierra breeding stock, to provide technical assistance to the MOA in the improvement of pastures and to provide technical assistance in improved management of alpaca and llama herds.

4. Off-Farm Employment Generation - There are presently two projects which generate off-farm employment. Project 0144, Fresh Water Fisheries Development and Loan 060, Rural Development Agribusiness Fund.

5. Ceja de Selva Regional Development - Loan 061, Sub-Tropical Lands Development is financing certain infrastructure to open the high jungle to more intensive cultivation.

6. Appropriate Rural Technology - The USAID is exploring unconventional technologies for potential benefit to the rural poor, as well as the more conventional technologies that deal with government research and extension. Project 0150, Use of Treated Sewage for Irrigation is an on-going pilot effort.

The scope of audit included a review of four loans (\$52 million) and seven grant projects (\$3.0 million). We examined project files, held discussions with project personnel, made visits to implementing agencies, inspected project sites, made a limited review of supporting financial records and performed such other procedures considered necessary to meet the objectives of the audit. The financial cut-off date was March 31, 1979, but project implementation was covered in some cases through May 31, 1979.

III SUMMARY

The review disclosed that AID assistance programs under the Agriculture Sector in Peru are within the U.S. country strategy plan. Most projects are slow in getting started and behind in planned implementation. The prime reasons for this are shortfalls in GOP counterpart support for projects and the constant changing of GOP implementing agencies. The economic situation in Peru is poor and as a result the GOP has had to make budget cuts for all of its agencies. Once projects do get underway, project results are usually successful. Project monitorship by the USAID in most cases is good although the implementation of two projects, Sub-Tropical Lands Development and the Soy and Corn Production on Small Farms have been delayed because of the late filling by AID/W of project personnel. Also we feel that the Fresh Water Fisheries Project has inadequate monitorship.

Following is a summary of projects reviewed under the Agriculture Sector. Details are contained in Part IV, Findings and Recommendations section of the report.

The Agriculture Cooperative Federation Development Loan is about 18 months behind in planned implementation. Delays in the approval of development plans and changes in implementing agencies have been the primary reasons for slow implementation of this project (see page 8).

The implementation of the Water and Land Use in the Sierra Loan is behind schedule because irrigation sub-project studies were late getting started. An advisor under a technical assistance contract was not performing satisfactorily because of a lack of Spanish language capability. A required audit of the technical assistance contract has not been performed (see page 11).

The Rural Development Agribusiness Fund Loan was slow getting started because of credit institutions unfamiliarity with procedures necessary to process sub-loans. However, as these credit institutions become familiar with these procedures, processing of sub-loans is expected to improve (see page 14).

Loan conditions precedent have not all been met and thus implementation of the Sub-Tropical Lands Development Project Loan has not started. The late designation of the Project Manager position by AID/W has contributed to the slowness by the borrower in meeting conditions precedent (see page 15).

The Campesino Para-Technician Training Project, although slow in starting, has progressed satisfactorily and the first stage of the project has been completed (see page 16).

Implementation of Fresh Water Fisheries Development in the Department of Ancash has not been satisfactory. Inadequate GOP project management, lack of counterpart funds for construction and operating expenses, administrative problems between GOP agencies and inadequate training of operating personnel have contributed to the poor performance of this project. Deficiencies were also noted in the use of project commodities (see page 18).

The Soy and Corn Production on Small Farms Project, delayed in getting started, has made progress since the arrival of a U.S. contracting team. GOP budget cuts have slowed project progress (see page 23).

The use of Treated Sewage for Irrigation Project is now progressing satisfactorily after delays in construction of the irrigation infrastructure. A production loan to the cooperative whose members are cultivating the project site has not been made because the agreement between two GOP agencies has not been consummated (see page 25).

The initial state of the On-Farm Water Management project went well. However, funds for the continuance of the project are being held up because a completed required evaluation by the GOP has not been approved (see page 28).

The activities of the first phase of the Campesino Training operational program grant are completed. The project is in its second phase. Required baseline data for project evaluation has not been submitted to the USAID (see page 30).

Ten of 11 Special Development Projects in the Agricultural Sector were successful. The one project failure was found to be economically unfeasible (see page 30).

IV FINDINGS AND RECOMMENDATIONS

A. Loan AID No. 527-T-058, Agriculture Cooperative Federation Development

1. Background

The Loan in the amount of \$7 million between the United States of America and the Republic of Peru was signed September 29, 1976. The purpose of the Loan are threefold: to provide funds for technical assistance to 20 agricultural cooperative federations (Centrals), to provide funds for the preparation of development plans for the selected Centrals and to establish a \$12.9 million Central Development Fund to assist the Centrals to finance investments and requirements identified in the approved development plans. The Chief, Office of Sectoral and Technical Services, is the Project Manager for USAID and the Agrarian Bank of Peru is the implementing agency for the GOP. The Bank has delegated responsibility for contracting for preparation of the Development Plans to the Director General of Agriculture and Livestock of the Ministry of Agriculture.

As of March 31, 1979, the status of Loan funds were as follows:

	<u>Authorized</u>	<u>Disbursements</u>	<u>Unliquidated Balance</u>
Technical Assistance	\$ 100,000	\$ 19,830	\$ 80,170
Development Plans	1,000,000	375,365	624,635
Central Development Fund	<u>5,900,000</u>	<u>295,195</u>	<u>5,604,805</u>
	<u>\$7,000,000</u>	<u>\$690,390</u>	<u>\$6,309,610</u>

2. Implementation

There has been a delay in the implementation of Loan 058 for several reasons. First, terms of reference for the Development Plans had to be prepared by the Ministry and approved by the Agrarian Bank. This was more time consuming than was originally planned. Secondly, the implementation responsibility for the project has been transferred between Ministry of Agriculture agencies twice. Initially, the responsibility was in the Office of Support to the Farmer's Firms, then it was transferred to the Director General of Agrarian Reform in August, 1978 and in January 1979 to the Director General of Agriculture and Livestock. These transfers have disrupted the administration and implementation of the project. The third reason for delay is that there has been an inadequate staff to carry out the technical assistance portion of the Loan. As a result of the delays, implementation is approximately 18 months behind schedule.

The \$100,000 of Loan funds allocated for technical assistance is for contracting for specialized professional services which the Agrarian Bank and the Ministry of Agriculture are not able to provide. These services are to assist with the preparation and review of Development Plans of the Centrals. As of March 31, 1979, less than 20 percent of the Loan funds allocated for technical assistance had been spent. The funds are being used to pay the salaries and expenses of an agronomist and an industrial engineer. These technicians are members of the Development Planning Staff of the Director General of Agriculture and Livestock. Because the review of the Development Plans is so time-consuming, the USAID has urged the Director General to contract with additional technicians, using technical assistance loan funds, to speed up the review process. At present six additional positions are in the process of being filled. This will provide eight loan funded technicians to review the 20 Central Development Plans.

The \$1.0 million of Loan funds earmarked for preparation of Central Development Plans is being used to prepare plans according to the terms of reference prepared by the Minister of Agriculture in coordination with the Agrarian Bank and approved by the USAID. Loan funds are available to finance independent professional services which may include the salaries and other costs required to prepare the development plans. The average cost of a development plan is \$37,000.

The 20 Centrals selected for development studies and plans were divided into three groups. The first group consists of six Centrals. Contracts were awarded in February 1978 to three consulting firms. They completed the development plans in October. The plans were reviewed by the technical assistance technicians and officials from the Ministry of Agriculture and the Agrarian Bank. Their comments and suggestions were transmitted back to the consultants for revision. Four of the revised development plans have been resubmitted and are under review in the Ministry.

The second group consists of eight Centrals. Contracts were awarded to eight consulting firms in July 1978. Some studies and plans have been completed and forwarded to the Development Planning Staff and are being reviewed.

Contracts for the third group of six Centrals were awarded to six consulting firms January 30, 1979, and work began in April 1979.

A Central Development Fund in the amount of \$12.9 million is to be established in the Agrarian Bank to include \$5.9 million from the Loan and a \$7.0 million contribution from the Government of Peru. The fund is to finance investments and requirements identified in approved development plans for the 20 selected Centrals. Eligible uses include short-term working capital sub-loans to finance both start up costs and operating expenses, medium and long-term sub-loans to finance investments

in fixed assets that will enable Centrals to supply agro-inputs, and marketing, accounting, maintenance and other services to member organizations and lastly, medium and long-term crop production cycle credits to Centrals with the \$7.0 million Government of Peru contribution to the fund. Interest rates on sub-loans will be charged on outstanding balances and will be the same as those established by the Agrarian Bank for agricultural associative enterprises. This part of the Loan cannot be implemented until the development plans are approved.

A project evaluation will be carried out in May and June 1979 by a joint GOP/USAID team.

B. Loan AID No. 527-T-059 - Water and Land Use in the Sierra

1. Background

The Loan in the amount of \$11 million between the United States of America and the Republic of Peru was signed September 29, 1976. The purpose of the Loan is to contribute to improving water and land use in the sierra of Peru by financing the planning and implementation of small scale irrigation and drainage works and complementary reforestation in the watershed and bordering areas of the Mantaro, Crisnejas, Condebamba and Cajamarca Rivers. There are six project objectives:

- a. To increase the productive land area.
- b. To increase crop yields.
- c. To expand cropping alternatives.
- d. To increase the efficiency of the use of water.
- e. To reduce soil erosion.
- f. To strengthen the GOP technical capacity at the regional level.

The USAID Agriculture Advisor is the Project Manager and the National Program for Small and Medium Irrigations (Plan MERIS) of the General Executive Directorate (DGE) under the Ministry of Agriculture, is the implementing agency for the GOP.

As of December 31, 1978, the status of funds was as follows:

	<u>Authorized</u>	<u>Disbursements</u>	<u>Unliquidated Balance</u>
Technical Assistance	\$ 900,000	\$ 331,961	\$ 568,039
Credit Fund	1,000,000	-	1,000,000
Studies	1,902,000	172,788	1,729,212
Equipment	1,823,000	463,378	1,359,622
Construction	4,242,000	361,509	3,880,491
Reforestation	833,000	-	833,000
Supervision	300,000	-	300,000
	<u>\$11,000,000</u>	<u>\$1,329,636</u>	<u>\$9,670,364</u>
Total			

The project assistance completion date is January 18, 1982.

2. Implementation

Disbursements are behind schedule as the irrigation sub-project studies and construction phases of the project are just beginning to be implemented. Of the 26 sub-projects, three feasibility studies have been completed, one construction sub-project has been completed, two sub-projects are under construction and six feasibility studies are in process. An on-farm demonstration program is in effect at the completed sub-project and demonstration sites have been selected at two other sub-projects under construction. In addition, two regional offices of Plan MERIS have opened at Huancayo and Cajamarca and are staffed with irrigation specialists, agronomists and extension technicians. Watershed planning studies have been prepared for the two sierra project areas.

The technical assistance portion of the project consists of a two-year contract between Plan MERIS and two Peruvian consulting firms, Technical Advisors Associates and Latin American Consultants Associates (ATA-CLASS) and one U.S. consulting firm, Consortium for International Development (CID). The amount of the contract is \$721,202 and S/. 30,600,945. As of March 31, 1979, costs were \$159,099 and S/. 18,586,236. The contractors are to execute a program of technical assistance for the improvement of water and land resources use in the highlands of Peru by providing technicians in economic planning, project administration, extension services and evaluation. Specifically the eight ATA-CLASS technicians are assisting Plan MERIS in the development of irrigation project feasibility studies in the Huancayo and Cajamarca regions of Peru. Their performance is considered satisfactory by the project manager and Plan MERIS. As of March 31, 1979, three studies had been completed and six were ongoing.

The CID contract team consisted of three long-term U.S. consultants with short-term consultants provided on an as-needed basis. In December 1978 the services of the Chief of Party were terminated because of his lack of a Spanish language capability. The remaining two long-term consultants, an extension technician and a water use expert, are working at the two regions, developing extension programs, conducting training and doing irrigation research. Plan MERIS considers the performance of the water use expert to be excellent while the extension technician's performance has been marginal because he had assumed some Chief of Party responsibilities and had therefore been unable to develop the extension program. He has devoted full time to the development and execution of the extension program since January 1979. Short-term consultants under the CID contract have conducted short courses in irrigation, hydrology and water use with technicians from Plan MERIS. One hundred fifty-two technicians have received training. Plan MERIS considered the training

to be satisfactory. The contract provides that Plan MERIS and AID have joint audit responsibility. As the contract has been in effect for more than one year, an interim financial audit should be made of the contractor ATA-CLASS. The review can be made by a private accounting firm or by the Peruvian Controller General.

Recommendation No. 1

USAID/Peru request Plan MERIS to have an interim financial audit made of the contractor ATA-CLASS.

The purpose of the credit fund portion of the loan is to provide production credit to the farmers living in the area where the irrigation systems will be constructed. This will be a permanent fund of \$3 million, \$1 million of Loan funds and \$2 million GOP contribution, administered by the Agrarian Bank. Even though the Agrarian Bank has prepared a Credit Manual no contributions have been made to the fund because Plan MERIS has not completed the Credit Instruction Manual for their technicians. The technicians will assist the farmers in preparation of Loan applications.

Loan funds have been used to purchase the following equipment:

<u>Name</u>	<u>Number</u>	<u>Location</u>
Chevrolet Pick-up Trucks	12	6 at each regional office, Huancayo and Cajamarca
Chevrolet Suburban	2	DGE, Lima
Caterpillar Front End Loaders, with Ware Backhoes	2	1 at each regional office
Caterpillar Tractors	2	Same
GM Dump Trucks	6	}Held in Peruvian Customs }pending receipt of original }invoices. Equipment will be }sent to the two regional }offices.
GM Trucks with Platforms	4	
GM Water Tank Trucks	2	

Additional equipment costing approximately \$1 million will be procured during 1979 for use by the two regional offices. This equipment consists of four dump trucks, three front-end loaders, three tractors, a motor-grader, automotive shop equipment and tools, pneumatic equipment, and agriculture and laboratory equipment. Proposals were received on January 16, 1979. Awards were to be made in May 1979.

The reforestation portion of the Loan is to provide funds to plant Eucalyptus trees on the slopes and non cultivated areas of the watersheds and bordering areas to prevent soil erosion and provide the farmers with a future source of timber. The regional office in Cajamarca has entered into an agreement with the local national university to provide seedlings for the forestation of sub-projects. Reforestation will begin in June 1979.

Loan funds have been earmarked for supervision of sub-project construction. USAID and Plan MERIS have reached an agreement in which the USAID will contract for the supervision.

As of December 31, 1978 the GOP had contributed the local currency (sol) equivalent of \$787,400 to the project. The total GOP contribution according to the loan agreement is \$10 million.

C. Loan No. 527-T-060 - Rural Development Agribusiness Fund

1. Background

The Loan in the amount of \$15 million between the United States Government and the Republic of Peru was signed May 31, 1978. There are two purposes of the Loan: to establish a facility in the Central Reserve Bank of Peru (Central Bank) for rediscounting loans made by intermediate credit institutions (ICI's) to sub-borrowers which process of market agricultural products or provide complementary goods and services to the agricultural sector, and to establish a program of promotion and development of agribusinesses, including appropriate technical assistance, which will maximize benefits to small farmers and people of low income.

The rediscount mechanism in the Central Bank, the Rural Development Agribusiness Fund (Fund), will consist of a total initial capitalization of \$19.6 million, of which \$14.7 million will be Loan funds and \$4.9 million will be provided by the Central Bank. The Fund will finance agribusiness sub-projects that meet eligibility criteria through the banking system. The project's target group of low income people including small farmers will benefit as a result of sub-loans made to agribusinesses providing marketing and processing of goods and services to the target group. The project is directed toward stimulating the role of the intermediate credit institutions in the development of a viable agribusiness sector. ICI's will review sub-project proposals according to guidelines established in the Credit Manual considering the impact on the designated target group as well as financial feasibility. The Credit Manual was developed by the Special Unit in the Central Bank, which is administering the fund, and was approved by the USAID. The rediscount rate charged ICI's is 9 percent with the sub-borrower paying 16 percent interest. Sub-loans can be made on terms of from 1 to 10 years.

The USAID's Capital Project Development Officer is the Project Manager and the Central Reserve Bank of Peru is the implementing agency for the GOP.

As of March 31, 1979, accrued expenditures were \$363,880. The project assistance completion date is December 31, 1982.

2. Implementation

In September 1978 the USAID advanced \$2,933,842 (S/. 576.5 million) of Loan funds to the Central Bank for sub-projects already approved by the Bank. Sub-lending of the advance has been very slow as the intermediate credit institutions have not requested funds as fast as was initially anticipated. As of March 31, 1979, three sub-loans in the total amount of S/. 95.3 million had been made, S/. 71.5 million of Loan funds and S/. 23.8 million of GOP counterpart funds. The Loan Agreement provides that sub-loans will be made on a three to one ratio, i.e., for each \$3.00 of Loan funds disbursed for a sub-loan the GOP will provide the sol equivalent of \$1.00 at the official rate of exchange on the day of the sub-loan disbursement. Also at March 31, 1979 the Central Bank had committed funds in the amount of S/. 219.4 million for 7 sub-loans and 14 sub-loan applications requesting over S/. 1 billion were under review.

There are several reasons for the slowness in making sub-loans. First, this is a new project and the ICI's have been very slow in reviewing and processing sub-loan applications as they were unfamiliar with the procedures. They also have been reluctant to request funds from the Central Bank until all of the legal aspects of sub-loans were met. Compounding the delay was the December 1978 holiday season in which very little work was accomplished. The Project Manager believes that as the ICI's become familiar with sub-loan procedures, sub-lending will speed up and the Fund could be fully disbursed by December 1980.

The project provides \$300,000 for technical assistance and goods and services required to institutionalize the Fund operations. As of March 31, 1979 no loan funds have been used for these purposes. It is planned to use technical assistance loan funds for seminars and participant training in other South American countries.

D. Loan No. 527-T-061 - Sub-Tropical Lands Development

1. Background

The Loan in the amount of \$19 million between the United States Government and the Republic of Peru was signed June 30, 1978. The purpose of the project is to develop the Huallaga Central Bajo Mayo's agricultural potential, an area of high jungle located in the Department of San Martin. Project elements consist of road construction and maintenance, agriculture credit, land cleaning and farm machinery equipment

and services, agriculture extension, resource evaluation and technical assistance. End of project goal is an expected increase of more than 100 percent in the project area's agriculture output. Additionally, the experience and data which result from project implementation will determine whether or not the project methodology is adequate for future replication. In addition to the \$19 million AID Loan, the GOP is to contribute at least the equivalent of \$6.5 million to the project. The project assistance completion date is June 30, 1983. As of March 31, 1979, accrued expenditures of loan funds were \$21,505.

The Chief, Office of Sectoral and Technical Services, is the interim USAID Project Manager pending the arrival of an AID direct hire technician. The implementing agency for the GOP is the Development Committee for San Martin.

2. Implementation

As of March 31, 1979 implementation has consisted of meeting two conditions precedent to disbursement and establishment of the offices for the Peruvian implementing agency. Loan funds disbursed have been for the technical assistance services of a Peruvian technician under a contract with the National Planning Institute to prepare a Project Implementation Plan. The Contract is for S/. 4.5 million, about \$25,000. The plan has been completed and is being printed. In addition to an implementation plan, conditions precedent include preparation of an Environmental Resource Protection Plan. The GOP did not have funds to cover the cost of the plan and on September 26, 1978, using technical support funds, USAID executed Project Grant Agreement No. 527-0166 for \$15,000 with the Office of Evaluation of Natural Resources to gather data for the plan. The plan has been completed and was approved by USAID on May 8, 1979.

There are four additional conditions precedent to be met to qualify loan funds for road construction, construction of marketing centers, construction of machinery parts and credit. An AID direct-hire technician is scheduled to arrive in June and assume project manager responsibilities. The present project manager estimates it will take the new project manager from 8 to 10 months to meet the remaining conditions precedent. Pending approval of the implementation plan the other project elements not requiring conditions precedent for disbursement may begin to be implemented. These are equipment procurement, land surveying and titling, and agriculture extension.

E. Project No. 527-0143 - Campesino Para-Technician Training

1. Background

The USAID executed this Project Agreement with the GOP on June 30, 1976. The purpose of the project is to establish a core of farmer para-technicians in support of Associative Enterprises (AE) created under

the Peruvian Agrarian Reform. The project will establish a cadre of campesino para-technicians who will introduce improved management and agricultural production practices and also serve as a channel of communication between the management and the Associate Enterprises membership. This is to be accomplished through a strategy of selecting, training and then hiring farmers as para-technicians to assist in problem solving and to serve as promoters and organizers within their respective AE's. The project is implemented by the GOP Center for Training and Research for Agrarian Reform (CENCIRA). During the first year of the project, activities will involve two sites each containing approximately 10 AE's. A minimum of 120 farmer candidates will receive training in the first year. Based on satisfactory performance of project implementation and subject to the availability of funds. AID will provide additional funds estimated at up to \$150,000 to assist in financing the project's planned second year activities. CENCIRA is to contribute costs estimated at S/. 7,685,000 to carry out the activities during the first year of the project.

At March 31, 1979, the status of funds was as follows:

	<u>Obligated</u>	<u>Accrued Expenditures</u>	<u>Unliquidated Balance</u>
Contract	\$ 19,668	\$18,583	\$1,085
Commodities	14,982	13,235	1,747
Other Costs (Training)	<u>65,350</u>	<u>65,350</u>	<u>-</u>
	<u>\$100,000</u>	<u>\$97,168</u>	<u>\$2,832</u>

The GOP contribution to the project is approximately S/. 8 million. The final contribution date is December 31, 1978.

2. Implementation

Training sites for the project were selected at Cajamarca and Tumbes. Training courses were started in Cajamarca in April 1977 and in Tumbes in October 1977. Implementation of the project was slow getting started due primarily because this was a new program which caused administrative problems at all levels of the implementing agency. As a result, the first year activities took one and a half years to complete. However, at the end of the first stage of the project at December 31, 1978, 17 training courses had been conducted producing 158 trained farmer para-technicians. A project evaluation report prepared by CENCIRA reports favorably on the results of the first stage of the project. The report indicates that improved administrative and productive structure of the AE's has resulted in increased production levels. The USAID Project Manager completed an evaluation report in May 1979 on the first stage of the project activities. This report also reports favorably on the results of the project. The evaluation report is currently under review with Mission management which will make a determination on the continuing of the project into the second stage.

F. Project No. 527-0144 - Fresh Water Fisheries Development in the Department of Ancash

1. Background

The USAID entered into a grant agreement in the amount of \$465,000 with the Ministry of Fisheries on July 7, 1977 to develop a pilot project to establish a viable model for increasing trout production by rural poor Peruvian highland communities which will increase the incomes and protein availabilities of the inhabitants. There are four elements of the project. These elements and end of project goals are described below:

a. Establish an experimental, medium capacity trout feed pelleting plant in Huaraz. This plant will have an ultimate capacity of two metric ton of feed per 16-hour operating day and will assure a regular supply of recommended feed rations delivered to sub-projects at Huaraz, Huashao, Acopalca and future fish farms in the area.

b. Improve the fish hatchery at Huaraz. The brood fish holding area will be renovated, eggs and fingerlings for genetic improvement will be imported from the U.S., a laboratory and a covered water delivery system will be constructed, a filter for the egg and fry incubation rooms will be installed and the feed storage facilities will be improved to insure moisture resistance and rodent free storage. With the modifications planned under the project the hatchery will have a capacity for producing two million ova per year. This is more than four times the current production.

c. Establish two community trout fish farms in the communities of Huashao and Acopalca. The Huashao fish farm will be improved by the construction of a main canal to provide water to the hatchery, installation of fencing, remodeling and improving existing feed storage facilities and an office.

The existing infrastructure of the Acopalca fish farm will be expanded by the construction of 12 raceways, a pond, a feed storage room, feed bins and a facility for fish processing and shipping. Brood stocks will be upgraded through the importation of high genetic quality ova and fingerlings.

At full operation the Huashao and Acopalca fish farms were each expected to produce 36,000 kilograms of market size trout per year.

d. Stock two community controlled lakes, Yanacocha and Purhuay, with trout. The lakes will each be stocked with approximately 100,000 improved fingerlings purchased from sub-project hatchery at Huaraz. It is expected that 80 percent of the monthly output will be consumed locally with the balance sold to beneficiaries at a low price.

The Project Agreement provides for 33 weeks of technical assistance in the development of technically and economically viable trout fish farming techniques in the highland region of the Department of Ancash. In addition, AID will finance training, commodities and certain other costs. The Agricultural Economist in the Office of Sectoral and Technical Services is the USAID Project Manager. Originally, the Ministry of Fisheries was the GOP implementing agency; however, on April 4, 1978 project administration was transferred to the North-Center Regional Development Organism (ORDENOR-CENTRO) by Decree Law 221341. The GOP contribution of \$386,000 will provide technical and administrative personnel, construction costs, the site for the pelleting plant, initial operating costs of the plant and hatchery operating costs. Participating communities will contribute land, existing facilities and labor valued at \$13,000.

As of March 31, 1979, the status of project funds was as follows:

	<u>Amount</u>	<u>Accrued Expenditures</u>	<u>Unliquidated Balance</u>
Technical Assistance	\$ 83,000	\$ 35,546	\$ 47,454
Commodities	125,457	122,713	2,744
Participants	81,000	-	81,000
Other Costs	<u>175,543</u>	<u>67,710</u>	<u>107,833</u>
Total	<u><u>\$465,000</u></u>	<u><u>\$225,969</u></u>	<u><u>\$239,031</u></u>

The project assistance completion date is December 31, 1980.

2. Implementation

The project is a year behind schedule. One of the major difficulties in implementation has been the counterpart field project management. The USAID Project Evaluation made in August 1978 stated that the project lacked sufficient and adequate project administration and management. The counterpart Project Manager had very poor managerial capability and did not cooperate with USAID technicians. Efforts by USAID to have the Project Manager replaced were unsuccessful and it was only in March 1979, after he was charged with malfeasance in the use of funds, that he was replaced. The USAID made an audit of project expenditures and accounted for all local currency advances made with project funds. The new Project Manager is considered to be an adequate administrator and gets along well with USAID and the contract personnel.

Along with poor counterpart management, GOP funds for construction and operating expenses have not been provided as agreed upon in the project agreement. As a result, infrastructure construction was delayed and there has been no fish production. Another cause of delay in the implementation of the project has been the transfer of the administration of the project from the Ministry of Fisheries to the North-Center

Regional Development Organization (ORDENOR-CENTRO). This transfer has caused some confusion with regard to project responsibilities. The USAID has prepared an amendment to the Project Agreement defining each institution's responsibilities in the administration and implementation of project activities. The amendment should be signed in the third quarter of fiscal year 1979. The status of each sub-project site, as of March 31, 1979, is discussed below.

Construction was essentially completed at the fish farms and they are ready for stocking of fingerlings. Project funds of \$5,937 were spent at Huashao and \$6,560 at Acopalca. Personnel for the two sites have been selected and trained. We noted during our visit to the Huashao Fish Farm that 300 meter access road to the farm is too rough for the trucks that will bring fish and feed to the farm on a regular basis. There is an Army engineer construction unit working on the main road in the area and could easily improve the access road to the farm in a day's time. Although the access road is not part of the project, we suggest that the USAID request ORDENOR-CENTRO to improve the access road.

Construction of improvements and additions at the Huaraz Hatchery has been completed with the exception of 130 meters of feeder canal which will be financed with counterpart funds. Project costs of construction were \$19,268. In May 1979 S/. 5 million of counterpart funds were budgeted for the hatchery.

The laboratory has been renovated and all equipment, costing \$19,130, installed except copper tubing for gas for Bunson burners. This will be financed with counterpart funds. The laboratory equipment is not being utilized because the employee assigned to the laboratory is not a qualified chemist and is unfamiliar with the operation and maintenance of the equipment. We discussed the laboratory situation with members of the Colorado State University (CSU) contract team. They feel that the laboratory employee should receive three to four months laboratory training in analytical chemistry in order to be able to use the equipment and perform basic laboratory tests. USAID officials said they planned to ask ORDENOR-CENTRO to train the employee.

Recommendation No. 2

USAID/Peru request ORDENOR-CENTRO to train the Huaraz laboratory employee in the use of the equipment.

Largely through the efforts of the Colorado State University contracting team the trout feed pelleting plant was constructed, all of the equipment installed and operations began in August 1978. Total cost of the plant was \$57,567 with \$23,414 for construction and \$34,153 for equipment. Funds for operating expenses were exhausted in February 1979, and the plant was idle until May 31, 1979 when, again through the efforts of the

CSU contracting team and the availability of money for operating expenses, pellet production was resumed. The CSU contract team trained a new crew and the contract nutritionist is working on a ration formula that while being economical will provide the project goal of a two to one ratio of food to growth. The contract nutritionist told us he did not know the pellet plant operations had ceased in February 1979 until informed by another contract team member in May 1979 after the latter's visit to Huaraz. In order for the CSU contract team to be continually informed of project events the USAID should provide the contract team with project status reports on a regular basis.

Recommendation No. 3

USAID/Peru provide the Colorado State University contracting team with timely status reports of project events.

At the recommendation of the contract team biologist Lake Purhuay has been dropped from the project because of poor growth of the fish. Lake Yanacocha will be stocked with 8,000 fingerlings in June. Also the fish farms will be stocked in June 1979. With GOP operating expense funds now available and the pellet plant in operation, the project is entering a critical stage. As the pellet plant personnel are new, plant operations should be closely monitored. The sale of fish will begin after furnishing stocks and feed to the fish farms and stocking the lake. This too needs to be closely monitored as records must be established and maintained and cash properly accounted for. USAID should closely monitor the project over the next few critical months. If personnel are not available in the USAID for this task, then a TDY technician should be requested from AID/W. USAID officials are aware of the need to assign personnel to monitor progress and plan to comply with the draft audit report's recommendation to closely monitor the project.

3. Contract

To implement the technical assistance portion of the Project Agreement, USAID entered into a 30-month \$83,000 contract with Colorado State University to provide expertise in six areas: fish culture, fish nutrition and diseases, fish biology, fish processing, biology and management of lakes, fish marketing and cost analysis. As of March 31, 1979, disbursements were \$28,585. The Project Manager reported that as of March 31, 1979 a total of 11 weeks of technical assistance service in five specialities has been provided with 22 additional weeks to be provided over the remaining life of the contract. The contract team has assisted in the procurement of equipment, construction and installation of the fish pelleting plant, development of food ingredients and advisory services to the fish hatchery, lakes and farms. The USAID Project Manager and counterpart personnel consider the contractor's performance to be satisfactory with the exception that CSU has not provided the agreed to fisheries economist to make an economic analysis.

4. Commodities

Commodities costing \$119,186 have been procured with project funds. In addition to the pellet mill and laboratory equipment costing \$53,283 discussed above, the following has been procured for use at the sub-projects:

Tioga Motor Home Food Demonstration Unit, Serial No. 51N5233754680 (Huaraz) \$17,153. This camper type vehicle arrived in country November 22, 1978 and was taken by the counterpart Project Manager to Chimbote which is on the sea coast and not near the project site. Later, the Chief, ORDENOR-CENTRO acquired the vehicle and we were informed he has the vehicle for his personal use. We observed the vehicle parked at the Chief's house in Huaraz. We did not interview the Chief because he was in the United States at the time of our visit. Efforts by USAID to obtain this vehicle for project use have been unsuccessful. USAID officials said a letter was to be sent to the GOP asking for the vehicle to be returned to the project.

Two Chevrolet Blazer Carryalls (Huaraz). These were donated to the project by USAID. One is being used by Hatchery personnel and one is in Trujillo for repairs as it was involved in an accident.

Cherokee Truck (Huaraz) \$7,226. Used by pellet plant personnel.

Two Inflatable Rubber Boats (Huaraz) \$2,374. Used on the lakes.

Four Outboard Motors (Huaraz) \$3,309. Two are unsuitable for project use and have been sold to FAO-Peru. The other two are used with the rubber boats.

Two 10-horse power motors have been ordered to replace the motors that were sold.

Two Fish Tanks (\$6,454) and two Fork Trucks (\$15,359) (Huaraz). Trucks are used locally and fish tanks mounted on the trucks will deliver fingerlings to fish farms and lake.

Two Generators (Huashao and Acopalca Fish Farms) \$5,308. Not presently being used as the estimate of construction costs for the electrical distribution systems submitted to USAID were too high and were returned for revision.

Five Incubators (Huaraz Hatchery) \$3,027. Used to hatch fish.

Office Equipment (Pellet Plant, Hatchery and Fish Farms) \$5,693. Equipment at fish farms will be used when operations begin. Equipment at the pellet plant and hatchery is being used.

Recommendation No. 4

USAID/Peru assure the Tioga Motor Home Demonstration Unit in Huaraz is used for project purposes and if not successful request a refund of \$17,153 from the GOP for the cost of the Tioga Motor Home.

5. Participants

Participant training in the amount of \$81,000 was to be provided for 48 months of long-term training (two Masters Degrees) in the U.S. and approximately eight months of short-term training in the U.S. and/or third countries. Short-term training was also to be provided in-country for Ministry of Fisheries technicians and project farmers. As no local technicians working on the project in the Department of Ancash have a sufficient English language capability to pursue an advanced degree in the U.S., the original training plan has been modified. Now it is planned for CSU personnel to conduct short courses in August 1979 at Huaraz for 25 ORDENOR-CENTRO and Ministry of Fisheries technicians. The top students will be invited to attend two or three weeks of short courses at CSU followed by two or three months of laboratory and fish farm training.

6. Other Costs

Other costs financed by AID include the installation of the feed pelleting plant, improvement of canals and facilities at the sub-project sites, and costs of training farmers and potential fish consumers. Seventy thousand dollars has been earmarked for initial start-up costs. This includes feed, fingerlings, salaries, supplies and transportation expenses for from 18 to 24 months of operations. Any profits made from the sale of trout during this period will be placed in a savings account to be used when the community assumes full responsibility for paying operating costs.

G. Project No. 527-0149 - Soy and Corn Production on Small Farms

1. Background

This project was initiated September 30, 1976 when the USAID entered into a Project Agreement with the GOP for the initial implementation of a planned four-year program of soy and corn production on small farms. The project is implemented by the GOP Ministry of Agriculture and Food. The project will contribute to increased productivity, employment and income and improved nutrition among the poor, the primary goal of the

agriculture sector. The project aims at achieving self-sustaining growth in the production and consumption of soybeans, improved corn and soybean food products, thus increasing productivity and income among selected segments of the rural poor and increasing the national food supply while improving the quality of foods commonly used by the urban and rural poor. A contracting team from the University of Illinois will assist the GOP in carrying out the objectives of the project.

AID's contribution to the project is being provided in increments. The initial grant of \$840,000 under Project Agreement No. 1 was executed September 30, 1976. Project Agreement No. 2 for \$646,000 was executed March 31, 1978, and Project Agreement No. 3 for \$389,000 was signed March 30, 1979. The status of funds at March 31, 1979 was as follows:

	<u>Obligated</u>	<u>Accrued Expenditures</u>	<u>Unliquidated Balance</u>
Contract	\$ 749,442	\$373,442	\$376,000
Commodities	529,518	347,036	182,482
Participants	336,857	142,465	194,371
Other Costs	<u>259,183</u>	<u>102,464</u>	<u>156,719</u>
Total	<u>\$1,875,000</u>	<u>\$965,428</u>	<u>\$909,572</u>

The project completion date is September 30, 1981. The project contribution by the GOP includes personnel to build extension and research systems, local support costs, clerical staffs, office supplies, vehicle operation and maintenance, and unskilled labor.

2. Implementation

The project was delayed in getting started because of the late arrival of the University of Illinois contracting team due to the longer than usual time to negotiate the contract between AID/W and the University of Illinois and administrative difficulties and budget cuts in the Ministry of Agriculture and Food.

Contract No. AID/1a-C-1206 between AID and the University of Illinois was signed on November 11, 1977. The contract calls for five long-term specialists and short-term specialists as needed to render technical assistance to the Ministry of Agriculture and Food in the areas of soybean and corn. Four soybean specialists arrived in Peru January/February 1978. A candidate for the Corn Production/Soil Fertility specialist position could not be located. The infrastructure for the corn extension and research function within the GOP has been established and the expansion of these activities is the prime purpose of the project. Therefore, the lack of a long-term advisor for the corn production portion of the project was not critical. After consideration by all parties involved in the project, it was decided that the corn portion of the project could proceed without the long-term corn specialist. The contract was

amended to exclude the corn specialist from the University of Illinois team. The corn program has received and will receive in the future, technical assistance as needed on a short-term basis. With the arrival of the contracting team, implementation of the project began to progress. The contracting team during their early period in Peru assisted the GOP to develop work plans for soybean research, production, processing and marketing. This included coordinating the various Ministry entries involved in the field extension and research functions, assisting in the selection of candidates for training, performing in-country training and getting project commodities in place. The contracting team is currently focusing on the development of increased soybean production in Peru. The USAID and GOP consider the performance of the contracting team to be very good.

The latest USAID evaluation for the project was made in June 1978. This evaluation covers less than the project's first year of implementation and thus no realistic measurement of project progress could be made. However, the evaluation did identify problems affecting the successful implementation of the project. The most serious problems concerned the GOP budget cuts resulting in a shortfall of GOP personnel assigned to the project and administrative problems of a lack of coordination among various Ministry levels and units involved in the project. The USAID has recently initiated the scheduled June 1979 evaluation of the project. When this evaluation is completed, the current status in terms of successful progress to date will be available. Project personnel stated that considerable progress has been accomplished under the project during the past year although it is expected that there will be a shortfall in meeting project targets. They believe that due in large part to the efforts of the contracting team, administrative problems affecting the project have improved. GOP budget cuts are still a restraint on the project but this situation is expected to be alleviated with funds generated from P.L. 480, Title I sales.

H. Project No. 527-0150 - Use of Treated Sewage for Irrigation

1. Background

On March 31, 1977 the USAID entered into a project agreement with the GOP to successfully demonstrate the economic and technical feasibility of producing significant quantities of needed foodstuffs by irrigating desert lands with treated sewage effluent. The project, located near Tacna, Peru, provided a grant of \$200,000 to assist in financing the final engineering design study, construction of civil works, research and an operational plan for cultivation and harvesting of crops to be grown at the 200 hectares project site. Simultaneous with construction, an associative enterprise consisting of landless farmers is to be organized and legally established. An agreement is to be established with the Agrarian Bank to provide the associative enterprise with financing for production costs.

As of March 31, 1979, the status of project funds was as follows:

	<u>Obligations</u>	<u>Accruals</u>	<u>Unliquidated Balance</u>
Design Study and Research	\$ 53,545	\$ 32,714	\$20,831
Construction Work	146,000	120,010	25,990
Commodities	442	442	-
Uncommitted	<u>13</u>	<u>-</u>	<u>13</u>
Total	<u>\$200,000</u>	<u>\$153,166</u>	<u>\$46,834</u>

Extension of the project assistance completion date has been requested to December 31, 1979.

The GOP contribution of S/. 11.5 million consists of funds for design engineering, S/. 1.2 million; construction, S/. 5 million; supervision and field control of construction, S/. 3 million; and monitoring of the project and conducting research S/. 2.3 million.

The USAID Engineering Office and the Project Investment Office under the Regional Director of Agriculture and Food monitors the project. The Regional Director of Agriculture and Food was originally under the Ministry but in February 1979 was transferred to the Development Organization of Tacna and Moquegua (ORDETAM).

2. Implementation

There were delays in the construction of the irrigation infrastructure because of the unavailability of mechanical equipment and the shortage of construction materials; however, the irrigation system was completed in May 1979 and the project is progressing satisfactorily. The system consists of four sewage treatment lagoons and 7,940 meters of cement canals to irrigate the 200 hectares of land. Some modifications must be made to the lagoons to permit the top sewage water to be discharged into the irrigation canal. Research has concluded that the top sewage water is best for irrigation. In addition, a warehouse and an office have been constructed. The potable water system is under construction and should be completed in July 1979 but work has not yet started on fences and the houses for the 39 families, each has been assigned a five hectare plot to cultivate. House construction materials are on site and construction will begin in June 1979.

Within the 200 hectare site is a 6.37 hectare experimental plot in which soil, plant, water and fertilizer tests are being conducted. In addition, a laboratory in the departmental hospital in Tacna is used to conduct acidity, salinity and contamination tests on soil, water and food products grown on the site. USAID funds were used to purchase a refrigerator, ph meter, water bath, test tubes and other glass materials for the laboratory.

In October 1977 a detailed project study was published by the Tacna Agricutural Zone. This study provides planning guidance for use of the project site for 25 years. Each farmer plants so many hectares of a given crop. Presently, the approved crops are potatoes, peppers, corn, alfalfa and zapallos (in the pumpkin family) and 80 hectares of these crops are under cultivation. An operational plan for cultivation and harvesting of crops is being prepared by the Regional Directorate of Agriculture and Livestock. This plan will provide for raising other crops under experimental conditions including crops prohibited by law to be grown using treated sewage for irrigation. Tests will be made of these crops to determine if they are contaminated.

During our visit to the project site we noted that one farmer was raising onions which is prohibited by law to be grown on land irrigated by treated sewage. The ORDETAM Project Manager should indicate to each farmer the crops that are prohibited to be grown on the project site. In addition, he should establish an inspection system to ascertain compliance with the law.

Recommendation No. 5

USAID/Peru should request the ORDETAM Project Manager to indicate to the farmer the crops that are prohibited and establish an inspection system to assure compliance with the law.

The 39 member Service Agrarian Cooperative was officially established in August 1978. We talked with several member farmers. They all expressed satisfaction with their situation, voiced no complaints and did not ask for anything. In addition to cultivating crops they each have some livestock. Further indication of the project's success is that all of the 39 families selected to live and work on the project site remain.

The Project Agreement provides that an agreement will be established between the Ministry of Agriculture and the Agrarian Bank to assume financing for production costs. This financing will be in the form of a loan to the Service Agrarian Cooperative. The agreement with the Agrarian Bank has not been signed. As ORDETAM is now overall counterpart authority there is a question of who should sign the agreement with the Agrarian Bank, the Ministry or ORDETAM. The USAID should take action to resolve the problem and have the agreement signed.

Recommendation No. 6

USAID/Peru request the GOP to determine which agency, the Ministry of Agriculture or ORDETAM, will sign the loan agreement with the Agrarian Bank.

I. Project No. 527-0170, On-Farm Water Management

1. Background

On December 29, 1977 the USAID entered into a Project Agreement with the GOP to improve on-farm water management practices among small farmers in order to increase production. The project will be implemented by a Utah State University contracting team working with the Ministry of Agriculture's Directorate General of Water (DGE) technicians in conducting systematic research of soil, plant and water interrelationships for major Peruvian food crops, demonstrating the effects of improved water management practices on water use and crop production, and developing irrigation system designs that optimize water application according to soil type, fertilizer utilization and crop.

AID's contribution to the project is being provided in increments, with the initial grant of \$189,000 financed under Project Agreement No. 1, December 29, 1977. Project Agreement No. 2, March 30, 1979, makes an additional grant increment of \$191,000 available. Subsequent increments will be subject to availability of funds and to the mutual agreement of USAID and the GOP. As of March 31, 1979, the status of funds was:

<u>Project Agreement No. 1</u>	<u>Obligations</u>	<u>Accruals</u>	<u>Unliquidated Balance</u>
Contract	\$164,000	\$127,540	\$36,460
Commodities	14,547	14,541	6
Participants	5,453	-	5,453
Other	<u>5,000</u>	<u>670</u>	<u>4,330</u>
Total	<u>\$189,000</u>	<u>\$142,751</u>	<u>\$46,249</u>

The final contribution date is June 30, 1979. Project Agreement No. 2 with a project assistance completion date of September 30, 1981, provides funds as follows:

Contract	\$175,600
Commodities	5,000
Participants	7,700
Other Costs	<u>2,700</u>
Total	<u>\$191,000</u>

The project contribution of the Ministry of Agriculture includes administrative and technical personnel, agricultural machinery, vehicles, laboratory facilities, office space with secretaries and operating expenses for the operation of the Project Research/Demonstration Farm sites as well as facilities and materials for bulletin publication.

2. Implementation

The first year of project implementation went well. Research and demonstration farms were established in three locations. Six in-depth water-soil-plant interaction research studies were conducted. Some 60 applied research-demonstration studies were performed. A national irrigation manual was prepared, eight extension type bulletins were prepared and five farmer field days were held. Five students are writing their thesis on varying aspects of the project. Numerous students, professionals, Ministry of Agriculture personnel, farmer organizations and private individuals received informal training at the three research/demonstration sites.

An irrigation engineer and an agronomist are providing technical assistance to the project through a contract with Utah State University. Most of the project funds have been used to support the contracting team. In addition, project funds were used to procure a vehicle, and testing and demonstration equipment.

None of the funds earmarked for participant training have been spent because the contractor has not found any suitable Peruvian technicians to receive short-term training.

A project evaluation, following guidelines established by the USAID, was made in April 1979 by personnel from the National Planning Office. The evaluation was not submitted to the USAID. As of May 18, 1979 the evaluation had not been approved on the GOP side. As a result there are no project funds available from Project Agreement No. 2, and project activity has been reduced. The agreement provides that an evaluation must be made of project accomplishments before funds can be considered as available for other activities. The USAID should determine why there has been a delay in approving the project evaluation. If the evaluation concluded that project implementation has been satisfactory the National Planning Office should immediately approve the evaluation.

Recommendation No. 7

USAID/Peru should obtain a copy of the evaluation and in conjunction with the National Planning Office determine if project objectives were met. If project objectives have been met, the USAID, in agreement with the GOP should proceed in implementing Project Agreement No. 2.

On January 23, 1979, by decree law, the National Institute for Agriculture Research (INIA) became the GOP implementing agency for the project. While there have been problems in the organization and functioning at the INIA, the Utah State University contracting team believes the new organization will be better for on-farm water management activities because the Directorate of Soil and Water under the INIA now has total counterpart responsibilities.

Counterpart funds for operating expenses have been limited but INIA is supposed to get an allocation of P.L. 480, Title I generated local currency in June 1979. The USAID is continually following-up on this matter.

J. Project No. 527-0179 - Campesino Training

1. Background

This Operational Program Grant was executed February 8, 1978 in the amount of \$100,000. The purpose of the grant is to increase agricultural production and productivity for approximately 2,500 independent, small farmers and their families in selected areas of the Peruvian sierra and ceja de selva through a pilot training program. The project is to be carried out in two phases. The first phase (approximately six months) will entail selection of trainers and technical advisors, diagnosis of needs and training required, and preparation of appropriate instructional materials. The second phase (18-24 months) will entail training farmers in approximately 200 short-term courses in subject areas relevant to the independent, small farmers' needs, including not limited to, livestock and poultry care, crop and food storage, animal nutrition, seed selection, fertilizer application, and food handling and preparation.

At the end of the project, instructional packages will be compiled and made available to GOP, private and international institutions interested in helping Peru's poor, small farmers.

The project is to be implemented by the GOP Instituto Peruano de Fomento Educativo (IPFE). IPFE will use its own staff as well as outside professionals for implementing the project.

The financial status of the project at March 31, 1979 was:

	<u>Obligated</u>	<u>Expenditures</u>	<u>Unliquidated Balance</u>
Other Costs (Training)	\$ 59,092	\$32,134	\$26,958
Commodities	<u>40,908</u>	<u>36,894</u>	<u>4,014</u>
Total	<u>\$100,000</u>	<u>\$69,028</u>	<u>\$30,972</u>

This phase of the project completion date is August 30, 1979. Subject to the availability of funds and the mutual agreement of the parties, AID will provide additional funds in FY 1979 to finance the activities remaining to complete the project.

2. Implementation

The first phase of the project is complete. Trainers and technical advisors have been selected and appropriate instructional materials have been prepared. The project is in the second phase of activities. Training sites have been selected in the departments of Junin and San Martin. Through June 1, 1979, 13 training courses for 273 participants have been held in Junin. In San Martin, 9 training courses for 388 participants have been held. Under the present funding, training is to be initiated for another department. Training for other departments will be initiated when additional funds are provided for the project.

IPFE has not provided baseline data to the USAID as required by Article IX of the grant. Article IX states that IPFE will provide AID with a copy of the following report:

"a. Based on a random sample, baseline data on farm production and productivity to be used to compare with end of project results and submitted to AID prior to the initiation of the training courses."

No copy of this report could be produced by IPFE. Since this data will be needed to measure project results, USAID should request IPFE to complete and report on this study.

Recommendation No. 8

USAID/Peru request IPFE to obtain baseline data for measuring project results.

K. Project No. 527-0061 - Special Development Project Activities in the Agricultural Sector

From October 1, 1977 to March 31, 1979 there were 11 special development projects in the agricultural sector at a total cost of \$23,928. These were small projects, ranging from \$500 to \$3,000 to help a specific rural community of poor farmers to either increase their income or produce food for internal consumption. We found that 10 of these projects were successful while one was a failure because it was economically unfeasible. As of March 31, 1979 there were three ongoing special development projects in the agricultural sector. The USAID is properly administering and monitoring the projects.

EXHIBIT A

SUMMARY OF AGRICULTURE SECTOR LOANS
As of March 31, 1979

<u>Loan Title and Number</u>	<u>Authorized</u>	<u>Disbursed</u>	<u>Available Balance</u>
Agriculture Cooperative Federations Development, 527-T-058	\$ 7,000,000	\$ 395,195	\$ 6,604,805
Water and Land Use in the Sierra, 527-T-059	11,000,000	1,329,636	9,670,364
Rural Development Agribusiness Fund, 527-T-060	15,000,000	363,880	14,636,120
Sub-Tropical Lands Development, 527-T-061	<u>19,000,000</u>	<u>21,505</u>	<u>18,978,495</u>
Total	<u>\$52,000,000</u>	<u>\$2,110,216</u>	<u>\$49,889,784</u>

EXHIBIT B**SUMMARY OF AGRICULTURE SECTOR GRANTS
As of March 31, 1979**

<u>Grant Title and Number</u>	<u>Obligations</u>	<u>Accrued Expenditures</u>	<u>Unliquidated Balance</u>
Campesino Para-Technician Training, 527-0143	\$ 100,000	\$ 97,168	\$ 2,832
Fresh Water Fisheries Development in the Department of Ancash, 527-0144	465,000	225,969	239,031
Soy and Corn Production on Small Farms, 527-0149	1,875,000	965,428	909,572
Use of Treated Sewage for Irrigation, 527-0150	200,000	153,166	46,834
On-Farm Water Management, 527-0179	189,000	142,751	46,249
Campesino Training, 527-0179	100,000	69,028	30,972
Special Development Project Activities, 527-0061	<u>33,928</u>	<u>23,928</u>	<u>10,000</u>
Total	<u>\$2,962,928</u>	<u>\$1,677,438</u>	<u>\$1,285,490</u>

LISTING OF RECOMMENDATIONS

Recommendation No. 1

USAID/Peru request Plan MERIS to have an interim financial audit made of the contractor ATA-CLASS.

Recommendation No. 2

USAID/Peru request ORDENOR-CENTRO to train the Huaraz laboratory employee in the use of the equipment.

Recommendation No. 3

USAID/Peru provide the Colorado State University contracting team with timely status reports of project events.

Recommendation No. 4

USAID/Peru assure the Tioga Motor Home Demonstration Unit in Huaraz is used for project purposes and if not successful request a refund of \$17,153 from the GOP for the cost of the Tioga Motor Home.

Recommendation No. 5

USAID/Peru should request the ORDETAM Project Manager to indicate to the farmer the crops that are prohibited and establish an inspection system to assure compliance with the law.

Recommendation No. 6

USAID/Peru request the GOP to determine which agency, the Ministry of Agriculture or ORDETAM, will sign the loan agreement with the Agrarian Bank.

Recommendation No. 7

USAID/Peru should obtain a copy of the evaluation and in conjunction with the National Planning Office determine if project objectives were met. If project objectives have been met, the USAID, in agreement with the GOP should proceed in implementing Project Agreement No. 2.

Recommendation No. 8

USAID/Peru request IPFE to obtain baseline data for measuring project results.

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