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# Auditor General

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AUDIT REPORT  
AGRICULTURE SECTOR  
USAID/PERU

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Area Auditor General Latin American  
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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 reforms 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 (MOA), 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).

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, remodelling 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>\$465,000</u>	<u>\$225,969</u>	<u>\$239,031</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 Bunsen 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

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>

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>
Campeño Para-Technical 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
Campeño 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.

REPORT RECIPIENTS

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