

4. Trends of International Assistance for Peru

4.1 Assistance for Peru by international financial institutions

4.1.1 Assistance for returning to the international financial community

As the García Administration (July 1985 to July 1990) decided to limit external debt payments to within 10% of exports, unpaid debts accumulated. In 1986, the IMF classified Peru as being disqualified for financing. The World Bank and the IDB suspended new financing in 1987 and 1988, respectively. The most important challenge of the Fujimori Administration, which published its adjustment plan, called "Fuji Shock," was to lower the monthly inflation rate of 400%. High funding was needed to correct the fiscal imbalance, the largest cause of inflation, to sustain economic growth, and to activate the private sector. Domestically raised funds were, however, insufficient, and new external funds had to be introduced. In the third quarter of 1989, when the García Administration was failing, debt repayment to the IMF was partially resumed, and the Fujimori Administration resumed debt repayment to the World Bank and the IDB in October and November 1990. The arrears of debts to international financial institutions, however, had expanded to 2.1 billion dollars, to the extent that a drastic measure was required.

The first Assistance Group²⁴ was organized, to cover the deficits in the balance of payments for 1991 and 1992 (1.3 billion dollars), with the initiative of Japan and the United States (406 million dollars from the U.S. and 400 million dollars from Japan, etc., totaling about 1.1 billion dollars). In response to this, the IMF and the Peruvian Government reached agreement on the Rights Accumulation Program²⁵, which was to last for 15 months. Based on this agreement, the arrears of debts to the IDB were dissolved in September 1991, through a bridge loan from the Latin American Reserve Fund. The World Bank gave preliminary approval to three loans for assisting the balance of payments²⁶, and resumed financing simultaneously with the completion of the Rights Accumulation Program between the IMF and the Government of Peru.

The second Assistance Group was organized in March 1993, to cover deficits (about 410 million dollars) in the 1993 balance of payments (105 million dollars from the U.S. and 100 million from Japan, donated from existing commitments). The arrears of debts to the IMF and the World Bank were dissolved through bridge loans from the U.S. Department of the Treasury and the Export-Import Bank of Japan. The IMF immediately made the first tranche of the Extended Fund Facility (EFF) for three years, and the World Bank executed its planned the Balance of Payments Support Loans.

The payment of bilateral official debts was rescheduled in September 1991, when agreement was reached on the Rights Accumulation Program. Then, in response to the agreement on EFF with the IMF, respective second and third agreements were made on rescheduling.

Following normalization of the debts to international financial institutions and bilateral debts, final agreement was reached in March 1997 between the foreign private banks

²⁴ The first Assistance Group, organized in March 1991, comprised Belgium, Canada, France, Germany, Italy, Japan, Spain, the United States, Sweden, Switzerland, and the Netherlands.

²⁵ The IMF monitors the trend of economic reforms every quarter, and accumulates rights to special drawing (623.7 million SDR), equivalent to the sum of debts in arrears to the IMF, according to reform results.

²⁶ Trade reform lending, financial sector adjustment lending, and structural adjustment lending.

concerned and the Peruvian Government on the Brady Proposal, with assistance of the IMF, the World Bank, the Export-Import Bank of Japan, etc. This marked Peru's return to the international financial community.

4.1.2 Assistance for Peru by international financial institutions

Table 4-1 shows the sums provided for Peru by international financial institutions. Since 1993, net receipts from the World Bank and the Inter-American Development Bank have been increasing.

Table 4-1 Net Disbursements of ODA by Multilateral Agencies to Peru

(Unit: US Million \$)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Commission of the European Communities (CEC)	12.8	15.1	19.7	19.7	35.4	37.8	31.9	40.7	67.7	39.3
International Bank of Reconstruction and Development (IBRD)	31.9	2.0	-	-	-95.0	-93.9	401.1	90.7	116.4	29.3
Inter-American Development Bank (IDB)	96.1	37.9	2.3	3.2	55.7	-23.8	176.6	207.6	202.1	97.0
International Finance Corporation (IFC)	1.6	-2.9	-2.1	-	-1.9	2.8	23.6	17.8	32.0	-12.4
United Nations Development Programme (UNDP)	6.1	6.4	5.0	3.7	3.6	9.2	24.1	74.4	61.3	80.7
Total Multilateral	165.9	72.1	43.8	51.7	27.3	-54.4	680.0	451.3	505.9	250.9

Source: OECD/DAC (1987, 1990, 1995)

4.1.3 World Bank

Amid the international financial community's reaction against the García Administration's policy of limiting debt repayments to less than 10% of exports, the World Bank, too, stopped assistance for Peru in 1987. With the beginning of debt repayment to the World Bank and the IDB at new maturity in 1990 by the Fujimori Administration, the World Bank, together with the IMF, resumed dialogs with the Peruvian Government. Although President Fujimori's emergency measures in April 1992 brought the suspension of new assistance, the relationship between the World Bank and the Peruvian Government was improved again, as he showed his intention to conduct a Democratic Constituent Congress election. Since then, the World Bank has been providing positive assistance for Peru.

The World Bank defined the period until the dissolution of arrears of debts as a "performance period," during which it prepared a structural adjustment loan (SAL) of 300 million dollars, and sector adjustment lending (SECAL), comprising a trade sector loan of 300 million dollars and a financial sector loan of 400 million dollars, and preliminary approval was given. The performance period ended in February 1992, as with the IMF, and the lending was executed.

The World Bank currently gives priority to infrastructure-building, social development, administrative system building, and continued macroeconomic stability. Table 4-2 is a summary of its strategy on assistance for Peru.

4.1.4 Inter-American Development Bank (IDB)

After Peru's isolation from the international financial community, the IDB restored normal relations with Peru earlier than the World Bank, resuming assistance in 1991. After the suspension of assistance due to Peru's emergency measures in April 1992, it approved new lending in September.

The IDB gave top priority to the realization of social equity, in its lending plan 1994-1997, decided at the time of the eighth capital increase in April 1994. It mentioned, as priority areas, poverty alleviation, the pursuit of social equity, the modernization of economic systems, the promotion of regional economic integration, protection of the natural environment, proper management of natural resources, modernization of the state, the establishment of a sound civil society through education, activation of the private sector, and continued efforts for social and economic development. Its assistance for Peru was also in line with these policies.

The CG Meeting in November 1995 expressly stated its intention to focus on mining, agriculture, and fisheries; infrastructure, energy, transportation, the environment, public health, education, urban development, and structural adjustment. The IDB has been extending assistance in structural adjustment, including modernization of the state, strengthened measures for trade liberalization, financial sector reforms, and tax system reforms, as well as assistance for FONCODES aimed at poverty alleviation and assistance in basic sanitation.

Table 4-2 World Bank Group's Country Assistance Strategy for Peru

Infrastructure Development	Priorities: Improve performance of infrastructure services, particularly urban, intercity, and rural transport, water supply, sewerage, and urban services.	
	Lending: <ul style="list-style-type: none"> • Electricity Privatization Adjustment Loan (FY95) • Lima Water Rehabilitation and Management Project (FY95) • Irrigation Subsector Project (FY95) • Rural Roads Rehabilitation and Maintenance Project (FY96) • Municipal Finance and Management Project (FY96) • Land-Water Management Project (FY97) 	Economic and Sector Work: <ul style="list-style-type: none"> • Water Resource Management (FY95) • Provision and Regulation of Urban Transport (FY97)
Social Sector Development	Priorities: Promote human resource development and encourage targeted measures that reach poorer groups.	
	Lending: <ul style="list-style-type: none"> • Primary Education Project (FY95) • Primary Health (FY97) 	Economic and Sector Work: <ul style="list-style-type: none"> • Poverty and Income Distribution (FY96)
Institution Building	Priorities: Improve effectiveness of public agencies and redefine the role and structure of both local and central government institutions.	
	Lending: <ul style="list-style-type: none"> • Lima Water Rehabilitation and Management Project (FY95) • Irrigation Subsector Project (FY95) • Municipal Finance and Management Project (FY96) • Primary Education Project (FY95) • Primary Health (FY97) • Mining Environment Project (FY97) 	Economic and Sector Work: <ul style="list-style-type: none"> • Assessing Local Government Investment Capacity (FY95) • Public Sector Reform (FY96)

Macroeconomic Sustainability	Priorities: Sustain fiscal and monetary policies and continuation of key reforms	
	Lending: Electricity Privatization Adjustment Loan(FY95)	Economic and Sector Work: • Economic Policy Notes (annually) • Country Economic Memorandum: the Reform Experience(FY97)

Source: World Bank (1994b) Table-3

4.2 Assistance for Peru by major industrialized countries

Table 4-3 shows the change in Peru's net receipts from bilateral ODA of major industrialized countries.

Table 4-3 Net Disbursements of ODA by Bilateral Agencies to Peru

(Unit: US Million \$)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total net disbursements ODA by bilateral	261.2	244.1	263.4	343.9	600.1	377.8	513.5	293.8	319.0	277.7
United States	63.0	61.0	36.0	79.0	82.0	32.0	100.0	85.0	81.0	51.0
Canada	15.4	22.5	22.4	23.2	10.3	30.8	19.6	13.7	16.8	18.7
France	3.7	3.8	4.7	6.5	7.1	7.8	24.3	12.5	22.6	11.6
Germany	71.4	48.7	55.3	60.4	55.0	40.9	142.7	51.7	45.6	42.2
Italy	19.2	35.8	77.9	80.6	18.7	35.0	34.0	21.7	8.4	7.2
Netherlands	31.5	22.5	23.5	30.0	11.0	35.7	27.6	25.8	29.0	31.5
Japan	37.6	28.4	27.9	39.8	352.9	154.8	130.6	54.6	66.1	56.4
Percentage of Japan disbursement	(14.4)	(11.6)	(10.6)	(11.6)	(58.8)	(41.0)	(25.4)	(18.7)	(20.7)	(20.3)

Source: OECD/DAC(1987/1990,1995)

4.2.1 United States

The United States Agency for International Development (USAID) has formulated its strategy on assistance for Peru, in line with U.S. diplomatic policy. It comprises four strategic objectives and one special objective. The strategic objectives include 1) citizens' more comprehensive participation in democratic development, 2) increased income for the poor, 3) improved health for high-risk people (including family planning), and 4) improved management of the environment in target regions. The special objective is a reduction in illegal narcotic trading in target regions. Each objective has its medium-term goals, implementation conditions, approaches, and indicators for evaluating attainments. These objectives and indicators are connected with the DAC strategies and the Peruvian Government's policies. These connections are shown in Table 4-4.

4.2.2 Canada

Canada is an important donor for Peru, lending 13.7 million dollars in 1994 and 16.8 million dollars in 1995²⁷. The Canada-Peru Fund (Fondo Peru-Canada)²⁸ is especially important in Canada's assistance for Peru. The Fund, established in April 1988 by the Governments of Peru and Canada, is controlled, in Peru, by the Secretariat of International Technical Cooperation (Secretaria Ejecutiva de Cooperación Técnica Internacional: SECTI) of the Ministry of the Presidency, and in Canada by the Canadian International Development Agency (CIDA). Its main objective is sustainable independence of poor smallholder farmers and the self-employed. It provides loans for small and micro businesses, and offers vocational training in extremely poor regions. It also extends assistance in the decentralization of state functions and environmental conservation.

From 1989 to the end of 1995, 187 projects were implemented under the Fund, and the sum provided totaled 55 million dollars. In 1995, a commitment of 8.9 million U.S. dollars, in total, was made for 29 projects in poor regions, including the coca cultivating areas. These projects are estimated to benefit 17,500 households.

²⁷ OECD/DAC (1995)

²⁸ For the Canada-Peru Fund, refer to the Canada-Peru Fund (1995), etc.

Table 4-4 USAID Common Objectives

DAC Goals	USAID/Peru Targets	The Government of Peru (GOP) Targets
<ul style="list-style-type: none"> - A reduction by one-half in the proportion of people living in extreme poverty by 2015 - Universal primary education in all countries by 2015. 	<ul style="list-style-type: none"> - A reduction by one-half in the proportion of people living in extreme poverty by year 2000. 	<ul style="list-style-type: none"> - A reduction by one-half in the proportion of people living in extreme poverty from 19.5% in 1994 to 9.8% by year 2000. - Improve quality of primary education by year 2000. - Reduce to 27.3% the school repeating - Reduce illiteracy rates from 12.8% in 1995 to 7.6% in 2000 - Reduce female illiteracy rate from 18.3% in 1995 to 11.3% in 2000 - Reduce rural women illiteracy rate from 42.9% in 1995 to 30% in 2000
<ul style="list-style-type: none"> - Demonstrated progress toward gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005 - A reduction by two-thirds in the mortality rates for infants and children under age 5 by 2015 	<ul style="list-style-type: none"> - Reduction in infant mortality from 55 deaths per 1,000 live births in 1992 to 40 by year 2000. - Reduction in under-five mortality rate from 78 per 1,000 children in 1991 to 60 by year 2000. 	<ul style="list-style-type: none"> - Reduction by two-thirds in the mortality rates for infants (from 55 to 34) by year 2000. - Reduction by 50% infant and under-five mortality in the 156 provinces with the highest rates of mortality. - Prevalence in chronic malnutrition reduce from 48% in 1993 to 34% in 2000
<ul style="list-style-type: none"> - A reduction by three-fourths in maternal mortality by 2015 - Access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than year 2015. 	<ul style="list-style-type: none"> - Reduction to 200 deaths per 100,000 live births by year 2000 - Immunization (tetanus toxoid) coverage of women in high-risk areas to 60% by year 2000. - Proportion of pregnant women who benefit from at least 4 pre-natal care visits from 47% in 1992 to 65% by year 2000. - Contraceptive prevalence rate for women (or their partners) in union to 67% by year 2000 	<ul style="list-style-type: none"> - Reduction to less than 100 by year 2000 - Access of the extremely poor to health systems will increase from 34% in 1994 to 45% by year 2000. - Reach a coverage of modern contraceptives to at least 50% of women in reproductive age, and at least 70% of women in union by year 2000.
<ul style="list-style-type: none"> - The current implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015. 	<ul style="list-style-type: none"> - GOP will have established and be implementing the new national environmental plan developed with the full participation and support of the public and private sectors by year 2004. 	<p>CONAMA's agenda includes:</p> <ul style="list-style-type: none"> - Establishment of national environmental management system, including an environmental fund and a national environmental information system. - Legislation on the use of natural resources and adoption of participatory management for protected areas. - Promotion of clean technologies and pollution prevention practices. - Establishment of environmental arbitration procedures. - Environment subjects in school, and university curricula.
<p>Qualitative Factors to Achieve the Goals</p>		
<ul style="list-style-type: none"> - Capacity development for effective, democratic and accountable governance 	<ul style="list-style-type: none"> - Confidence of Peruvians in their democratic institutions and processes will increase by 45%. - Peru's democracy will be recognized by international community as stronger, more accountable and more transparent. 	<ul style="list-style-type: none"> - Eliminate corruption, and improve transparency. - Increase access of the poor to the judiciary system. - Improve judiciary system.
<ul style="list-style-type: none"> - Protection of human rights 	<ul style="list-style-type: none"> - Promote the protection of human rights. - Strengthen human rights organizations 	<ul style="list-style-type: none"> - Improve protection of human rights through the Ombudsman.
<ul style="list-style-type: none"> - Respect of the rule of law 	<p>Special Binational Objectives</p> <ul style="list-style-type: none"> - Reduction of illicit coca production by half in target areas in Peru. 	<ul style="list-style-type: none"> - Reduce gradually the area planted to illicit coca leaf by year 2000. - Incorporate 50% of the farmers involved in non traditional coca cultivation to other licit forms of activities by year 2000

Source: USAID, Common Objectives

4.3 Japan's assistance for Peru

Japan has been assisting Peru positively, together with the international community, including the United States, through the first and the second Donor Groups, since the inauguration of the Fujimori Administration.

On April 5, 1992, President Fujimori took emergency measures, including dissolution of the congress and suspension of the functions of the courts, with a view to promoting national reconstruction more decisively. The international community, criticizing these measures, wanted Peru to return to democracy as early as possible. While a number of donors, including the United States, suspended assistance, Japan, emphasizing the necessity of Peru's early democratization through messages of the Prime Minister and the Minister of Foreign Affairs, extended assistance for elections, by providing computer equipment (580,000 dollars) for the election for the democratic constituent congress (also intended for the national assembly), accepting training participants, and dispatching an OAS Election Supervisory Team, comprising three election observers (with a contribution of 1 million dollars as expenses for dispatching the Team). Japan made a positive contribution to democratization by dispatching observers to the plebiscite in October 1993 and the presidential election in April 1995.

Peru is one of the largest recipients of Japan's ODA in Latin America. It received about 221.4 billion yen, in total, up to 1994. This sum was the second largest in Latin America. Japan's ODA accounted for 59% of assistance for Peru in 1991 and 41% in 1992, making Japan the top donor.

4.3.1 The first Fujimori Administration - before the Huaral case

In 1990, when the Fujimori Administration was inaugurated in July, Japan provided general grant aid in two projects: aid for increased food production, and grant aid for disaster relief for damage by drought. In addition to these, Japan extended non-project grant assistance to support economic reconstruction under an extreme imbalance of international payments and financial pressure. Technical cooperation also became active.

In July 1991, three Japanese experts in the Vegetable Production Technology Center were intentionally killed by terrorists (the Huaral case). This forced the return to Japan of the other experts, as well as JOCV members. Technical cooperation decreased after that, as a result. Halting of sending not only experts but also study teams made it impossible to conduct development studies for Peru, and greatly affected project formation. Regarding grant aid, projects for provision of equipment increased, and it became difficult to extend loan aid, except structural adjustment lending in cooperation with international organizations.

4.3.2 The first Fujimori Administration - after the Huaral case

As Japan could not dispatch personnel, it accepted an increased number of training participants from Peru, which, together with increased cooperation by the provision of equipment, made Japan the top donor.

In technical cooperation, more than 500 training participants were accepted in three years, from 1992. As for project-type technical cooperation, four projects were continued. Third-country training was also continued in the existing center, with the cooperation of Peru, which accepted trainees from its Latin American neighbors.

Grant aid projects were implemented for road rehabilitation, water supply for regions inhabited by low-income people, and the second regional small-scale hydroelectric power generation rehabilitation. The scale of grant aid exceeded that in the past.

In "grant assistance for grassroots projects," started in 1989, only one to three projects were implemented annually until 1991. Fiscal 1992 had five projects, 1993 four, and 1994 eight projects. Although the assistance was focused mainly on health and sanitation, education, and training, it was also used to protect cultural properties and the natural environment by local governments, as well as for computer equipment, to count votes, for fairer and more efficient elections.

In loan aid, Japan provided a financial sector loan through co-financing with the IDB. Then in 1993, rescheduling was carried out, based on agreement with the Paris Club. In March 1994, Japan decided to provide a "welfare service strengthening loan" of a nearly project type, through co-financing with the IDB. In fiscal 1994, however, only rescheduling was carried out, as it took time to coordinate procedures for the projects' implementation.

Box 3 Peru Vegetable Production Technology Center Project

Japan started technical cooperation in the development of appropriate vegetable growing technology and its dissemination among producers in 1986, in response to the Peruvian Government's request for cooperation from Japan for changing the Huaral area in the suburbs of Lima into a fresh-vegetable producing and supplying area for the increasing population of Lima. In 1989, the Peru Vegetable Production Technology Center was established with grant aid, and it began working as a center equipped with testing and training capacities. By 1991, it conducted breed improvement testing, training in cultivation technology, and training for agricultural extension advisors, with dispatched experts and through the acceptance of training participants and the provision of equipment. It produced results steadily. In July 1991, the Center was attacked by Sendero Luminoso, and three Japanese experts were slain. Japan had the Japanese experts and JOCV members, not only of the Center but also in all other areas of Peru, leave the country, for their own safety in view of terrorism. Then, Japan's cooperation for Peru was limited to that not requiring the dispatch of personnel. Subsequently the Center was managed and operated by Peruvian personnel.

Several years have passed since the dispatch of personnel was suspended. The Center is managed and operated normally. This is a product of the Peruvian Government's positive support from the beginning, including the securing of operating expenses, appropriate technology transfer by personnel who had received training in Japan, and Japanese experts' advice and guidance that were observed even after their return to Japan. The project is a good example of self-help efforts of Peruvian personnel. The fruit of the project was well maintained and developed.

4.3.3 The Second Fujimori Administration

In 1995, when the Second Fujimori Administration was inaugurated, Japan resumed providing three project-type yen loans. At the time of Prime Minister Hashimoto's visit to Peru in September 1996, he announced that Japan made Peru an annual-based loan recipient. Large projects made the yen loans in fiscal 1996 total 62.1 billion yen, about double the sum in the preceding year.

Grant assistance for grassroots projects was extended in 16 projects in fiscal 1995, doubling those in the preceding year. Fiscal 1996 had 15 projects under this type of

assistance. They included the provision of medical equipment and toilet materials in urban quarters inhabited by the poor, the construction of facilities for the socially vulnerable, support for rural women, and afforestation. Assistance was also extended to promote the growing of narcotic substitution crops, according to the framework of the Japan-U.S. Common Agenda.

Regarding technical cooperation, Prime Minister Hashimoto announced Japan's policy of expanding the dispatch of economic cooperation personnel in September 1996, when he visited Peru, where public peace and order were being restored steadily. But a hostage incident occurred in the Official Residence of the Ambassador to Peru on December 17 of that year. With conclusion of the incident on April 22, 1997, the Japanese Government sent a security study team in July of the same year, and in February 1998, it dispatched the Government Policy Dialogue Mission on Economic Cooperation, whose dispatch had been postponed by the hostage case. (For Japan's results of assistance for Peru, see Appendix 4 and 5 at the end of this paper.)

4.3.4 Japan-U.S. Common Agenda

Japan and the United States have been promoting "the Common Agenda for Cooperation in a Global Perspective" (hereinafter referred to as the "Common Agenda") since 1993, as an important pillar of the U.S. - Japan Framework Talks. The purpose of the Common Agenda is positive, common leadership exerted by Japan and the United States in various issues to be addressed on a global scale, such as those on the environment, population, AIDS, and WID, where addressing by individual countries cannot produce effective results. The United States gives priority to promoting the development and growing of narcotic substitution crops. Regarding technical cooperation in assisting the development of narcotic substitution crops, Japan is studying with Peru and the United States, cooperation in the growing of camu-camu (tropical fruit), the promotion of rice culture, and education for preventing the use of narcotics, although deliberate consideration for public peace is necessary. Cooperation is also possible in the problems of population and AIDS.

5. Framework for Japan's Assistance to Peru

5.1 Basic direction of assistance

5.1.1 Basic perspective - implementation of the DAC's New Development Strategy

As mentioned earlier, the ideas of "human-centered development" and "sustainable development" have been gaining a consensus in the international community, as an objective of assistance for developing countries. Japan defined four general rules, as follows, in its ODA Charter in 1992.

- (i) Environmental conservation and development should be pursued in tandem.
- (ii) Any use of ODA for military purposes, or for aggravation of international conflicts, should be avoided.
- (iii) Full attention should be paid to trends in recipient countries' military expenditures, their development and production of weapons of mass destruction and missiles, their export and import of arms, etc.
- (iv) Full attention should be paid to efforts for promoting democratization and introduction of a market-oriented economy, and the situation regarding the securing of basic human rights and freedoms in a recipient country.

In this situation, "Shaping the 21st Century: The Contribution of Development Cooperation" was adopted in May 1996, and Japan, as a DAC member, contributed greatly to its compilation. This DAC New Development Strategy, in compliance with changing priorities in viewpoints of the international community toward assistance, defines the basic direction of assistance toward the 21st century, focusing on the ultimate goal of "human-centered development" (for specific goals, see 2.1 of Chapter 2). In August 1996, Prime Minister Hashimoto, during a formal visit to Peru, explained the idea of the new development strategy to President Fujimori. Obtaining the president's consent, Japan expressed its intention to apply the new strategy to Peru.

Application of the new DAC strategy is significant in two points. First, as has been repeatedly mentioned, social improvement, including poverty alleviation, is urgently necessary in Peru. Second, Peru is taking daring measures toward economic liberalization, which could widen income gaps within the country. Integration of the Peruvian economy into the world economy reduces the barrier of national boundaries and exposes individuals to intensified, more comprehensive competition. This necessitates the improvement of basic capacities of individual people. In Peru, where different topographic and social conditions have widened regional economic gaps, due consideration has to be given to people's participation, benefit from development, and its social utilization. Social problems, including poverty, can be thoroughly solved through sustainable development, as a matter of course. A proper balance must be kept between the appropriation of funds to the production sector and infrastructure-building, and appropriation to the social sector, according to individual countries' conditions. The Second Fujimori Administration has been devoting itself to social development as its major policy goal. The urgency of the issue is understood widely by not only the Peruvian Government but also the donor community. It is comparatively easy, therefore, to maintain ownership in the recipient country and form partnerships among the donors. It will be

necessary for Japan to keep these points in mind in studying priorities and extending assistance.

5.1.2 Priority issues in assistance

It would be appropriate to define priority issues in Japan's assistance for Peru as follows, in relation with the areas necessary for "people-centered, sustainable development" mentioned in chapter 2, based on Peruvian people's awareness of the necessity of development, their basic idea on development itself, and the Peruvian Government's and people's efforts for reforms and development mentioned in earlier chapters.

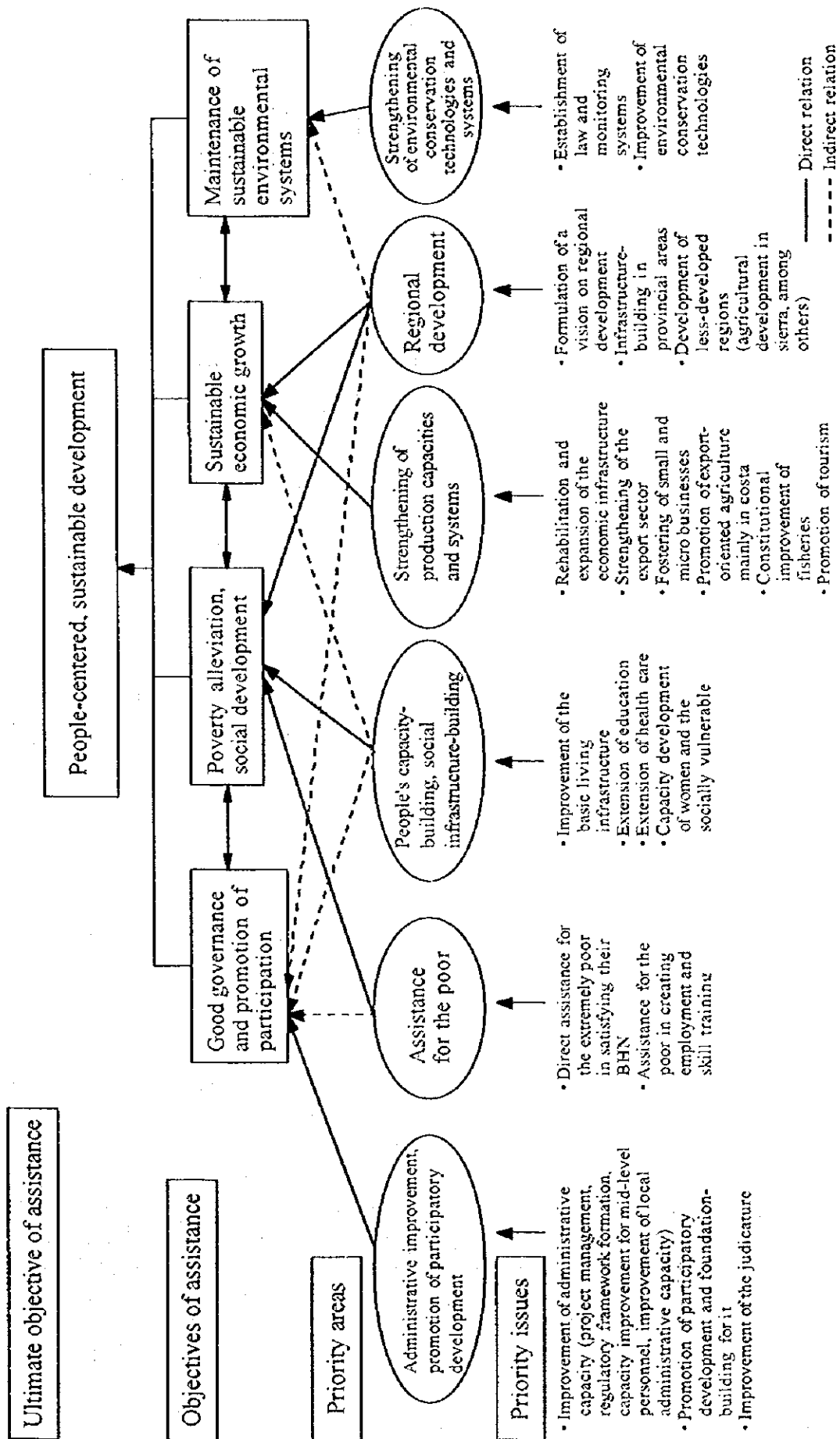
<Objectives of assistance>	<Priority areas>
(1) Poverty alleviation and social development	(i) Assistance for the poor (ii) People's capacity-building and social infrastructure-building
(2) Sustainable economic growth	(iii) Regional development (iv) Strengthening of production capacities and systems
(3) Maintenance of sustainable environmental systems	(v) Strengthening of environmental conservation technologies and systems
(4) Good governance and promotion of participation	(vi) Administrative improvement and promotion of participatory development

As shown in Fig 5-1 "Priority Areas in Assistance for Peru," these issues are not always confined to a single area of development. It is therefore necessary to combine several different sectors, which has not been done thus far, or it is required to formulate a program from components needed in attaining goals, and to implement individual projects in line with it, not just by mixing several types of projects.

It is also important, in development assistance for Peru, to take the great gender disparity into consideration. It is necessary to extend assistance so that poor women (female indigenous people in rural communities in sierra, and poor urban women from rural regions), among others, can participate in and benefit from the processes of development in all cooperation areas, including education, health services, life improvement, skill training, and vocational training.

The Peruvian Government seemingly places top priority on (I) poverty alleviation and social development. Realization of these goals requires Japan's cooperation with Peru in its various urgent measures for alleviating poverty. It also requires improvement of the health sector, human resources development for it, and the building of basic physical and institutional infrastructures. Raising people's income and consumption, as well as their capacity, to the level that does not allow the reproduction of poverty is important in terms of humanitarian cooperation, and is further to provide human resources that contribute to economic growth. Such human resources development will be able to not only improve people's capacity but also provide people that are capable of contributing to economic growth. There is a difference in content between "assistance for the poor" and "assistance in capacity-building and social infrastructure-building". The latter is aimed at raising the entire social development level, which is lower than other countries, while the former assists the poor directly and urgently in satisfying their BHN.

Fig. 5-1 Priority Areas in Assistance for Peru



(2) Sustainable economic growth is a foundation to promote social development capable of providing improved welfare services for the people and to encourage people to escape from poverty. Various measures and efforts are needed in distributing the benefits of national and regional development, widely among the people. Macroeconomic stabilization is an indispensable basic condition. Japan should always be prepared to extend appropriate assistance at appropriate timing, in order to cope with possible economic instability, as it did in positively extending cooperation to the Fujimori Administration just after its establishment. Macroeconomic stability must be reinforced by efficient industrial development. The development of strong industries can be realized through strengthened networks of domestic enterprises and industries, and through open, deepened economic and technical communications with Latin American neighbors and countries of other regions. Connections between/among domestic enterprises and industries, including small- and medium-scale businesses, are especially necessary, so that they can make the most of opportunities provided by a market economy, strengthen the market economy itself, and share economic benefits. Japan, having ample experience in economic growth and development cooperation, will be able to extend cooperation most appropriate to the present conditions in Peru. Regional development has two meanings. One is to take measures for regions that could be left behind in economic liberalization, in aspect of geographic locations of industries and investments. The other is that continual national economic growth is not realized without active regional development. Japan's experiences in village development and national land development planning can serve as a reference.

(3) The maintenance of sustainable environmental systems is an important issue in making development sustainable for a long period of time through environmental conservation. It is especially important for a country like Peru, which has just begun building a framework for environmental administration, in order to address an accumulation of environmental problems, such as conservation of the natural environment, improvement of urban environments, and industrial pollution control. Environment-related law systems and monitoring systems must be established and operated appropriately, to implement measures against environmental concerns, such as air pollution, water contamination, lack of waste treatment, soil erosion, and deforestation, which have already posed problems. Environmental conservation technologies also need improvement. In planning large-scale infrastructure, opinions of the people concerned must be reflected. Japan should extend cooperation attentive to the social and environmental conditions, based on environmental assessment.

(4) Good governance and the promotion of participation are the foundation that supports the development areas mentioned above. Administrative and judicial modernization, which constitutes the foundation, is an independent issue for Peru. Assistance in administrative and judicial modernization means the establishment of a foundation that is durable for a long period of time. It includes assistance for an improved administrative system and administrative capacity-building, assistance in promoting ongoing judicial reforms, and building a framework for establishing relationships between suppliers and beneficiaries of public services. Promotion of these requires due consideration of values and behavior patterns of the Peruvian people.

5.2 Priority areas in assistance

5.2.1 Assistance for the poor

(1) Direct assistance for the extremely poor in satisfying their BHN

Although sustainable economic growth is indispensable for poverty alleviation, those who can hardly benefit from it and those who cannot satisfy their BHN need urgent aid to raise their standard of living. The poor especially need direct and urgent aid for satisfying their BHN through social development, which involves living-infrastructure-building, education, and expanded health care. A description concerning these is given in the following section.

Specifically, assistance involves living-infrastructure-building, such as housing, focused on poor quarters of cities and provinces, waterworks and sewerage systems, roads, nutrition programs, focusing on infants and expectant and nursing mothers; and expansion of basic education and health care for the poor. Effective assistance in such areas can be extended through small-scale type cooperation encouraging people to participate, such as through financial cooperation with FONCODES, grant assistance for grassroots projects, and Japan Overseas Cooperation Volunteers (JOCVs). Regarding education, for example, assistance can be extended through NGOs and communities, to help residents take initiative in constructing and rehabilitating schools. In health care, health posts in sierra can be built, and vehicles for health-related visits to people of the region can be provided. Support can also be given to community-rooted, people-led activities, such as the milk distribution movement (*vaso de leche*)²⁹, which has been obviously effective in Peru, the community kitchen movement (*comedores populares*)³⁰, and the school meal movement, in some regions.

(2) Assistance for the poor in creating employment and skill-training

Escaping from poverty and sustaining improved living standards require the creation of employment. In addition, it is necessary to secure employment by acquiring skill that does not allow the reproduction of poverty. Cooperation in this area involves the formulation and implementation of projects for employment creation and skill acquisition.

Cooperation in formulating and implementing projects immediately effective in employment creation, includes financial assistance for organizations, such as Food for Work³¹, which is implementing such projects. The skills of the poor should be improved, in order to increase production and stabilize employment. For rural regions, assistance in improving agricultural production technology is effective. It is also effective to provide women, who are often in a disadvantageous condition, with skill-training for earning cash income. In cities, assistance involves skill-training for those who run small and micro businesses, and the

²⁹ The movement for distributing milk mainly to children of school age, through communities. It is operated by regional organizations of mothers, with financial assistance from the Public Treasury. The movement, started in the municipality of Lima in 1983, has been extended all over the country, and it is now operated by district municipalities (administrative units smaller than cities), in closer connection with citizens. It provides milk also for mothers, the elderly, and tuberculosis patients.

³⁰ In poor regions of cities and their peripheries, housewives jointly buy and cook food, in a rotation system. The common kitchen not only reduces costs of meal-making but also enables mutual assistance in emergencies and provides opportunities for communication in the community. The movement, which started at the end of the 1970s, became active with economic stagnation from the latter half of the 1980s. Some comedores are provided with goods by Government agencies and assistance groups.

³¹ A scheme by the WFP (World Food Programme) to implement projects on rural development, infrastructure-building, etc., with the participation of citizens, and to distribute food for services they provide.

provision of basic managerial know-how. The provision of micro-credit would be as effective as skill-training. As the poor often have few opportunities to receive education and training, it is important to select target people appropriately and set appropriate training items that will enable them to find employment.

5.2.2 People's capacity-building and social infrastructure-building

(1) Improvement of the basic living infrastructure

Improving the living infrastructure is important for improving the living conditions and health and sanitation. In cities, assistance will involve the building of an urban sanitary infrastructure, such as waterworks and sewerage systems, and the control of urban pollution through waste treatment. Rural regions, too, need electrification and improvement of the living infrastructure, including waterworks, sewerage systems, and roads. Assistance in the construction of common facilities, such as community centers and community working facilities, will be effective in strengthening community capacity and in building a base for participatory development.

(2) Extension and improvement of education

The Fujimori Administration places importance on education, focusing on qualitative improvement of primary education and extension of secondary education. Vocational training is also important for stabilized employment and poverty alleviation.

Qualitative improvement of primary education involves improving school facilities and employing qualified teachers. The school infrastructure needs not only construction of school buildings but also electricity, water supply and facilities for education, and rehabilitation of existing facilities. For the construction and rehabilitation of small-scale school facilities in rural regions, it is effective to utilize people-led community activities. Effective assistance schemes should be studied in this area. It will also be necessary to consider financial aid for providing textbooks and teaching materials. Regarding the securing of qualified teachers, teacher retraining will be effective, in view of the number of unqualified teachers currently teaching in schools. The World Bank and the IDB have been extending assistance for primary education on a large scale. Coordination with them will be indispensable for Japan in extending assistance in this area. Japan will be able to cooperate in extending secondary education through the construction of school facilities in regions especially backward in this area. Use of JOCVs, whose dispatch has resumed, would be effective in extending primary and secondary education, which directly benefits people in these regions. Cooperation in expanding education targeted at indigenous people, such as bilingual education, which the constitution ensures, should be studied.

Japan has long experience in providing vocational training. Cooperation is possible through the dispatch of experts and JOCVs. As social development and economic development are closely interconnected, it is important that human resources be developed in areas that are expected to become important in the future, such as agriculture, small- and medium-scale manufacturing industries, trade, and tourism.

(3) Extension and improvement of health care

The promotion of maternal and child health and family planning is urgently necessary. This will involve the provision of such services as nutrition aid, strengthened care for perinatal expectant and nursing mothers and infants, and the provision of reliable means of family planning. It will also involve education, with the provision of information on AIDS prevention and control, family planning, maternal and child health, and reproductive health. In this area, results are expected from the continuation and expansion of a training program, "Family Planning and Maternal and Child Health," now under way with Japan's cooperation.

The modernization of health administration, another issue, requires the establishment of a referral system. The key to it is extending and strengthening of local primary health centers. This will involve constructing necessary facilities, providing equipment, nurturing of medical personnel, including nurses, and transferring of operational and managerial know-how. Cooperation in rural regions, which urgently need expansion of medical facilities, requires careful planning and selected approaches. In addition, the administrative system should be reformed, as cooperation activities are required to produce effects within a limited budget, and the central institution's planning and coordination capacity plays an important part in promoting health care in provinces. Peru has various medical services and medical insurance systems, such as a system controlled by the Ministry of Public Health, a system managed by the IPSS, a system managed by the army and the police, and in private hospitals³². Japan's cooperation will be necessary for reorganizing these complicated systems.

(4) Capacity development of women and the socially vulnerable

Cooperation in social development and assistance for the poor should involve capacity-building for those who are in disadvantageous conditions.

For women, capacity-building is important. Consideration should be given, as early as in the planning stage, to roles women will play in extending cooperation even in areas not directly aimed at women, in addition to maternal and child health, which directly target women. Cooperation should be implemented, placing more importance on women in many areas.

Direct assistance for women will involve assistance for community activities. It includes the construction of schools to which girls can go comparatively easily, and campaigns to increase female school enrollment, as percentages of girls attending secondary schools are much smaller in rural regions. It also includes vocational training and financing services, to bring incomes to rural women; the fostering of life improvement extension advisors, to improve women's welfare; the common kitchen movement and the milk distribution movement, started by urban poor women; and the day nursery movement (wawa wasi)³³.

Capacity-building is also needed for the socially vulnerable, including indigenous people, farmers in sierra, and the urban poor. As mentioned in 5.2.1, projects are possible for raising the standard of living through direct assistance for the poor in mainly satisfying their BHN,

³² The Ministry of Public Health is in charge of medical and health insurance for Government officials and the self-employed. The IPSS, under the Ministry of the Presidency, is in charge of medical and health insurance for wage-earners. The medical institutions under the control of the Ministry of Public Health receive appropriations from the Government, while the IPSS operates with premiums from the insured, as a general rule. Peru's medical and health insurance currently operates under these two systems, and about 1% of the people use private medical institutions or military hospitals.

³³ Day nurseries for children under age three whose parents work during the daytime. One trained nurse takes care of 10 children, in a general citizens' home in a community of a city or its periphery. Now assistance is provided by the National Institute of Family Welfare (Instituto Nacional de Bienestar Familiar: INABIF), under the Ministry of the Presidency, the IDB, and UNICEF. "Wawa wasi" means a "children's home" in Quechua.

employment creation, medical services, and education. As in the case of assistance for women, it is important to regard the socially vulnerable as the main target, in planning, formulating and implementing such projects. Assistance is also needed for building a system that does not exclude the socially vulnerable from access to market activities and social services (the establishment of a system for selecting target people and evaluating the result).

5.2.3 Strengthening of production capacities and systems

(1) Rehabilitation and expansion of the economic infrastructure

The First Fujimori Administration implemented its emergency program, with assistance of the World Bank and the IDB, in order to rehabilitate Peru's infrastructure, which was already heavily deteriorated in 1990. Amid steady economic and social development, it is increasingly important for Peru to strengthen and expand the economic infrastructure, which supports people's economic activities, toward full-scale development. Rehabilitation of the transport route running north and south has been completed. Cooperation in improving east-west routes connecting the coastal region and inland regions, the construction of local roads extending from trunk roads and roads for conveying agricultural products, and the introduction of urban traffic systems enabling mass transport, contribute to not only poverty alleviation but also reduced transport costs and increased economic efficiency. Cooperation is also needed in rehabilitating and modernizing airport facilities and developing human resources for safe aviation. Cooperation should be extended also to the modernization of harbor facilities, which are indispensable for prompt goods distribution in the international trade system. The construction and improvement of waterworks and sewerage systems are highly necessary to replace old ones and to meet increasing demand from industries.

Demand for electric power is estimated to double in seven years. The Peruvian Government, considering private-sector-led development, expects aid organizations to create conditions that encourage private investment (cooperation in project formulation, capital and financial participation, credit guarantee, etc.). Assistance in these areas should be studied. In promoting cooperation, it is necessary to give due consideration to the insufficient coordination capacities of the ministries concerned and their insufficient capacity to implement measures for solving problems.

(2) Strengthening of the export sector

The Government of Peru, aiming its macroeconomic policy at export-oriented, sustainable economic growth, has been positively encouraging domestic and foreign investment in the export sector. It expects prospective medium- and small-scale businesses to contribute to export expansion. The strengthening of the export sector involves the development and processing of primary products, to activate processing by large enterprises of natural resources, such as mineral products and agricultural products, and to add value to these products. It also involves technology introduction, market development, and renewal of production facilities and improvement of their efficiency. Small- and medium-scale businesses should improve their managerial capacity and technical competence, as well as competitiveness, so that they can participate in the export sector. It is necessary to organize private export unions, to reduce costs of information on technologies and markets; and to promote subcontractor systems, both domestic and foreign. Positive financial and technical

assistance should be extended to these areas.

(3) Fostering of small and micro businesses

It is not an exaggeration to say that sustainable economic growth in Peru depends on the promotion of small and micro businesses, which mostly belong to the informal sector. The Government has been promoting technical improvement, managerial capacity-improvement, assistance in information provision, and increased competitiveness through vocational training. These are provided for entrepreneurs and workers through export and service centers for small and micro businesses (business promotion centers operated by experts equipped with information and technology). The Government has also been promoting incorporation of the informal sector into the formal sector (in order to remove impediments to fair competition), mainly by deregulation and simplified administrative procedures. Japan should extend assistance for small-scale credit services through, for example, the Development Finance Public Corporation of Peru, and provide information technology and incentives (see Box 4). It is important, among other efforts, to create an environment that enables small and micro businesses to compete freely and work hard together in a market economy. It is also necessary for relationships between/among enterprises to be systematized by established subcontract/outside order systems or a mechanism of consortiums. The Peruvian Government, aiming to promote a subcontract system, has decided to establish subcontract-coordinating offices in major cities besides Lima, Arequipa and Trujillo, which already have such offices established in the National Industry Society (Sociedad Nacional de Industria:

Box 4 Micro-credit

The poor, especially women, usually have only limited access to production means, including credit, because they lack credit-worthiness or securities. Micro-credit is intended to increase incomes of the poor. It provides them with small sums of short-term credit without securities, for production purposes or an income increase. Bangladesh's Grameen Bank is famous as a recent successful example. Supported by such success, micro-credit has been attracting increasing attention as an effective means of poverty reduction.

Most micro-credit programs provide services in a combination of saving, training, networking, etc., in addition to financing toward economic independence. These programs are said to be provided for about 8 million extremely poor people (an estimate) in developing countries. Japan has provided yen loans for these programs, including lending to Grameen Bank. Japan has also provided assistance that includes a revolving fund, through its contributions to international organizations, for a Cambodian NGO engaged in rural credit development to open its regional offices.

In February 1997, a "Micro-Credit Summit" was held in Washington by a U.S. NGO. In the summit, the basic concept of its objective was presented as "providing micro-credit for 100 million extremely poor families of the world, especially for women, by 2005." This objective, acquiring approval of most of the participants, attracted global attention. President Fujimori, who attended the summit, expressed the Peruvian Government's support of micro-credit. (For the president's speech, see Annex 6.)

SNI)³⁴. The Small and Micro Business Development Agency (Entidades de Desarrollo de la

³⁴ Sociedad Nacional de Industria is a national industrial society established in 1896, to facilitate business activities by providing information and training for enterprises. According to a field survey in July 1996, 1,500 manufacturing companies, including those that play a leading role in Peru, were its members, though it was not compulsory for companies to join trade organizations. The member companies are said to produce about 70% of the manufactured goods in Peru.

Pequeña y Microempresas: EDPYMES)³⁵, which provides financial assistance for small businesses, and INDECOPI³⁶, which supervises fair competition, have begun working. Japan will be able to extend technical assistance based on its experience in the strengthening of inter-business cooperation, for capacity improvement of these agencies and the expansion of target businesses.

(4) Agricultural promotion in costa

Costa has the most advanced, entrepreneurial, high-productivity agriculture in Peru, producing vegetables and fruit for export. It has great potential not only for satisfying domestic demand, which is expanding with the population increase, but also for export promotion aimed at industrial development and employment creation. As irrigation is the key to development of costa, which is classified as a desert region, old irrigation facilities need rehabilitation. Assistance should involve the construction of drainage facilities for salt damage control; strengthening and expansion of research and examination for productivity and quality improvement; the development of new export crops and related importers; the securing of agricultural materials, such as fertilizers and pesticides; pest control; strengthening of post-harvest management; infrastructure-building for improved access to markets; and the provision and extension of agricultural information.

(5) Structural improvement of fisheries

Fisheries, a promising development area, contributes greatly to improving people's nutrition. It is important to carry out structural improvement for steady fisheries

Box 5 Peru Marine Product Processing Center

~ As the place of dispatching marine product processing technologies to Latin American neighbors ~

In 1979, the Peru Marine Product Processing Center was established, with Japan's grant aid, for the purpose of improving productivity, increasing competitiveness, and developing industries, by making effective use of Peru's rich marine resources, and by developing technologies for producing high-quality, processed marine foods. Technical cooperation was extended from 1976 to 1984 in research and development of marine product processing technologies, and in their related training and extension. It has produced remarkable results. It developed technologies for producing smoked fish, canned fish, and fish paste, and it produced low-priced, highly nutritious marine foods for low-income people. The Center has among the most advanced facilities and highest technologies to be found in Latin American countries. It also serves as a base for disseminating technologies to these countries. In addition to research and training activities, it produces low-cost, highly nutritious marine foods for low-income people, under the Marine Food Program the Ministry of Fisheries is promoting, in cooperation with PRONAA, promoted by the Fujimori Administration. The Center is expected to contribute greatly to poverty alleviation in Peru.

³⁵ A private institution. It makes a pool of various funds, including private and foreign assistance, and makes small-scale loans to small and micro businesses, which have had difficulty finding financing. Spain extends technical assistance. Source: Japan Economic Foundation (1993), *Chunonbei Chiki niokeru Cynshokigyō no Genjo to Wagakuni no Kyoryoku no Arikata nikansuru Chosa Hokokusyo*

³⁶ INDECOPI was established by administrative law in November 1992, in order to secure a proper market mechanism, and it began operating in March 1993. Its role was expanded in April 1996, when it was given authority to investigate and punish. It has three organizations in charge of protecting intellectual property rights (trademark rights, patents, and copyrights), in addition to its seven

development, while appropriately exploiting the rich marine resources of the coastal region of Peru. Assistance should involve the promotion of fishery development through fishery resources management, diversification in fisheries for supplying food (promotion of new types of fisheries), small-scale coastal fishery and fish culturing, the development of technologies for these, the development of processing technology, as well as with the environment through raising fishermen's awareness of protection of the marine environment and inland water.

(6) Promotion of tourism

The promotion of tourism, which contributes greatly to employment creation and foreign currency acquisition, requires the building of a tourist infrastructure (roads and airport facilities, among others), with financial cooperation, and human resources development, through training. It is important, first, to survey the present conditions of tourist resources and infrastructure, and then define priorities in tourism development.

In addition to the existing southern sightseeing routes (Lima, Cuzco, Puno, Arequipa, and Nazca), assistance is needed for developing new tourist resorts, partly to reduce regional gaps. From this viewpoint, high-potential regions are said to include Chiclayo, Trujillo, Cajamarca, Piura, and Tumbes, in the northern part of Peru, and Iquitos and Huaras. At the same time, cooperation should be extended for excavating and protecting vestiges of ancient civilization, which the Peruvian people are proud of. It should involve conservation for wildlife and the natural environment. In some regions, tourism conservation and development are important from the viewpoint of environment-attentive tourism.

In infrastructure-building, it is important to define a vision on regional development and formulate and implement plans that are in harmony with the environment, and to mitigate the negative social impact on inhabitants.

5.2.4 Regional development

(1) Formulation of a vision on regional development

To reduce income gaps between cities and regions, and to achieve independent development in regions, cooperation requires comprehensive consideration of the promotion of advantageous local industries, rural industry, and tourism infrastructure-building, and the establishment of an administrative assistance system based on regional characteristics. It will be effective to cooperate in formulating regional development plans (visions) attentive to conservation of the regional environment.

(2) Infrastructure-building in local areas

Substantial cooperation should be extended for improving the economic infrastructure, toward independent regional development and poverty alleviation. Cooperation should involve improving and constructing local roads (those extending from trunk roads, and those for conveying agricultural products) and airport facilities, constructing waterworks and

committees in charge of security of competition and consumer protection. In accordance with the purpose of its establishment, its targets of support include not only small-scale businesses but also large enterprises.

sewerage systems, securing of communications, and expanding electrification. Although privatization has been promoted in the sectors of electric power and communications, it will be necessary for the public sector to provide services in remote and low-profit provinces. Human resources that manage and maintain these facilities should be developed through technical cooperation.

(3) Development of less-developed regions (agricultural development in sierra)

In regional development, it is important to focus on the development of less-developed regions. Rural development in sierra, where poverty is serious, is an important challenge, among others. Assistance in sierra development should be considered from various viewpoints, such as poverty alleviation, reducing regional disparities, absorption of the labor force, the securing of self-sufficiency in food, and environmental conservation.

In sierra, many farmers cannot even support themselves by agriculture. It is necessary to enable them to support themselves, first, and then expand production and improve productivity, in order to increase their incomes. Assistance will involve, first, infrastructure-building for agricultural production and improved productivity, as well as the modernization of farming technology. Technical cooperation will involve infrastructure-building for water supply, small-scale irrigation, distribution facilities, and markets for agricultural products. It can also involve the distribution of favorable seeds, assistance in mechanization and the extension of agricultural instruments, technical extension, afforestation, and agricultural product processing. Improving productivity requires the development of crops suitable for local conditions and improving cultivation techniques. Assistance can be extended to research on these and the establishment of a system to disseminate the results.

It is necessary, at the same time, to establish a financial system for farmers' self-reliance and to promote land registration for established land tenures. Employment-creating activities, such as Food for Work, or utilization of revolving funds³⁷, for maintaining facilities and equipment, are effective. A counterpart fund of agricultural machinery and fertilizer, provided under grant aid for increased food production (2KR), can be utilized as capital for such funds.

Poverty elimination in sierra requires not only agricultural but also social approaches. It needs an integrated strategy involving improving rural administration and social services, while taking into consideration the historical and social foundation of rural communities³⁸. As topographic, climatic, and environmental conditions differ from area to area, even within sierra, it is necessary to elaborate the most suitable measures. Furthermore, development should be promoted without destroying the foundations of the existing societies and cultures, as the Peruvian Government is implementing projects with *comunidad* (community) as the basic unit, through PRONAMCHICS³⁹ (comunidad people provide labor and work together, as a general rule). From this viewpoint, cooperation can involve the activation of existing organizations

³⁷ "Revolving fund" refers to a re-lending fund produced from the difference between loan conditions and sub-loan conditions in a development loan through the banking system (two-step loan). Funds loaned to end users by a development financing institution, which needs to make repayments, revolve several times (lending - collection - lending) until the due date.

³⁸ A sierra community is composed of farmers communities called "comunidad campesina." As the basic unit of Andean regional communities, it has been closely connected with the inhabitants. Being called "comunidad indigena" (community of the indigenous), it was renamed under the Velasco Administration. The communities of ethnic minorities in selva are called "comunidad nativa." Source: Akira Ishii (1997).

³⁹ Proyecto Nacional de Manejo de Cuencas Hidrográficas y Conservación de Suelos (National Project for the Management of Soils and Hydrographic Basin). A government agency under the Ministry of Agriculture. It executes public works, mainly for the highland Andean region, such as soil and water quality conservation, afforestation, small-scale irrigation, investment in small-scale industries, grass improvement, and rural electrification. It made an investment of about 73.6 million dollars between 1992 and 1995, and created 101,500 jobs. It had 122 offices in sierra and selva in 1996. Source: Local Consultant Report (1996)

for farmers' social capacity-building, and the development of social leaders, as well as assistance for NGO activities, to enable farmers to participate in their development process.

For selva, another less-developed region, assistance can involve the promotion of substitution crops for the illegal cultivation of cocas, as sound-foundation-building for rural development. Cooperation in transport-infrastructure-building will be effective for promoting the cultivation of such crops.

Box 6 Kuntur Wasi and regional development ~Regional development for poverty alleviation

The village of La Conga in San Pablo, Cajamarca, has ruins of an ancient civilization, at an altitude of 2300 meters. The village is inhabited by about 450 smallholders, in about 90 households. Their incomes allow them only a bare living, and male villagers go off to construction work or farming in valleys in the coastal region when they are free from their farm work. The ruins were excavated by the University of Tokyo Ancient Andean Civilization Investigation Team, which started investigation in 1988. From the remains of a temple, which seemed to have been constructed around 1100 BC, the team discovered a number of tombs with numerous grave goods, such as stone sculptures, pieces of gold work, refined earthenware, and jewelry. In 1989, the ruins yielded gold products that were classified as the oldest in Andean civilization, drawing villagers' instant attention to the Kuntur Wasi ruins. Although there was much deliberation on how to keep the excavated articles, a museum was constructed in La Conga, for their custodial care, mainly funded by contributions of the Japanese general public, together with grant assistance for grassroots projects. The Kuntur Wasi Cultural Association, established by about 120 villagers, organized the Museum Steering Committee (comprising 10 members), and began operating the museum in October 1994, with positive assistance of the Investigation Team.

So far the museum has been run smoothly. The committee members have been devotedly performing their duties without pay. The members of the association participate in voluntary work once every ten weeks, such as the cleaning of the garden and the outside of the museum. The opening of the Kuntur Wasi Museum has brought various changes, as mentioned below.

- 1) It drew attention of the regional administrative authority, which had roads improved, waterworks built, and other infrastructure developed.
- 2) The number of people visiting the museum, and favorable reception of lectures about the museum in various places, showed that it was highly evaluated. Villagers recognized the significance of running the museum, and willingly supported activities of the steering committee.
- 3) As visitors from other regions and foreign countries and the regional administrative authority's awareness increased, villagers came to view their village in relation with the external world. They became careful about the cleanliness of the village, so that it would be praised by outside people. Proud and confident, they came to take a broad view of themselves, and included even foreign countries in relationships between others and their village, where they could not, for example, watch television, because electrification was not yet present.
- 4) Women's participation in the steering committee became outstanding, and an increasing number of women became officials of the association. The operation of the museum increased the importance of women. The selling of souvenirs brought them some cash income. They became aware of their social roles and heightened their will to participate. A women's committee was organized in the association.
- 5) A sense of self-government was born among the villagers, and they began making efforts to have their village promoted to a category independent of the county of San Pablo. In the future, the villagers will elect village officials who will perform public duties. The majority of villagers will participate in the operation of their democratic society.

5.2.5 Strengthening of environmental conservation technologies and systems

(1) Establishment of law and monitoring systems

Environmental conservation requires the establishment of an environment-related law system and a monitoring system. It is urgently necessary to build a monitoring network to control air pollution, caused by increasingly serious automobile emissions, in the Lima metropolitan area. Industrial pollution control needs the establishment of industrial waste standards, while a system is needed to prevent and control natural disasters, including revision of the building standards and the establishment of an evacuation system, to protect citizens from damage and disasters caused by earthquakes and floods. For environmental conservation, it is urgently necessary to formulate regional environmental management plans and a basic guideline for monitoring the destruction of natural balances. Assistance will be possible in this area through the dispatch of experts and policy advice, with trends in other assistance institutions being taken into consideration. Individual and group training (training programs) on the environment should be expanded, to develop human resources and strengthen the environmental administration system. Third-country training on the environment has been started in the Chilean National Center for the Environment, established in June 1995 with JICA project-type technical cooperation. Assistance could be extended in cooperation with the Center.

(2) Improvement of environmental conservation technologies

Japan has long experience in controlling environmental pollution, including water contamination, air pollution, and mine pollution, as well as in waste treatment. Cooperation can involve development study and technical and financial assistance. It specifically includes financial assistance in formulating plans for developing and extending facilities for treating flue gas and wastewater, with appropriate technology, technical assistance in waste treatment in major provincial cities, financial assistance for building waste treatment facilities, and grant aid to provide and improve equipment for monitoring and analyzing air pollution in Lima. Assistance can also involve surveying and training on the environment. Cooperation in regulations and guidance for enterprises is also important.

For environmental conservation, assistance is possible in the implementation of and research on trial afforestation projects, for forest conservation in selva. To prevent natural disasters, assistance is possible in R&D and extension of river-control and aseismatic technologies.

5.2.6 Administrative improvement and promotion of participatory development

(1) Improvement of administrative capacity (project management, regulatory framework formation, capacity improvement for mid-level personnel, improvement of local administrative capacity)

Improvement of administrative capacity is indispensable for the Peruvian Government to successfully promote development. The expected role of the Government, which intends to slim itself and promote privatization, is to supervise operations of private companies that provide public services in place of the Government. In doing so, it must secure not only

efficiency but also equity. Japan can assist it in improving the related law system and establishing a supervisory institution, especially through technical cooperation for improved expertise (e.g. technical assistance in demand surveying, for setting public utilities charges, and advice on methodologies of charge-setting).

The Government is required to play a leading part in social development, such as education and health care, as well as in poverty alleviation. It establishes organizations other than central ministries, such as FONCODES, and entrusts them with implementing specific, emergency measures. This would make it necessary to define the roles of the ministries, and restructure the administrative system to remove its overlaps. As the Government can currently take budgetary measures for only half of the necessary expenses for social development and poverty alleviation, it needs to positively utilize foreign assistance. It is therefore necessary to improve the Government's capacity to accept foreign assistance, for its effective use.

Cooperation is needed in building a system of administrative checks and balances, to monitor impropriety and to strengthen the function of checking illegal activities. Cooperation is needed in preparing for decentralization and improving local governments' administrative capacity, so that they can promote regional development and provide more substantial services.

The strengthening of administrative capacity of an organization providing public services cannot be realized without improved expertise of individual mid-level personnel. Their practical capacity-building is important from this viewpoint. It will also be necessary to study a system that supports improvement of Government officials' expertise, such as a personnel system, inclusive of employment, transfers, and promotions. Assistance should be augmented in this area through financial assistance, dispatch of experts, and various training programs.

(2) Promotion of participatory development and foundation-building for it

The satisfaction of BHN and increased options in living are important in poverty alleviation and in building self-sustaining capacity for the socially vulnerable. Effective cooperation involves ensuring them access to basic social services, improving the Labor Standards Act and the functions of the labor standards inspection office, to promote their employment and enhance the welfare system, including social security and public assistance.

Development projects beyond communities' capacity that are to be implemented under Government leadership require participatory approaches in policy-making and the administrative process, so that community people, who are direct beneficiaries, can reflect their will and needs. Such approaches include surveying their needs, listening to their opinions, and studying an appropriate system for communities to raise objections.

In promoting indigenous people's participation, it is important to respect their own cultures (including languages), in school education, communications, and broadcasting services. Effective cooperation involves preserving their cultures and a campaign to eliminate discriminative employment opportunities and wide wage gaps, which impede their participation in society, and a social measure, such as providing them with scholarships that enable them to receive higher education.

(3) Improvement of the judicature

The Government of Peru has been promoting judicial reforms, in order to provide fair and

efficient judicial services for the people. Japan should positively extend intellectual assistance and establish a training system, making the most of Japan's judicial system and the way it settles economic disputes as a guide. Financial assistance and technical cooperation in education for the legal profession, the construction of training facilities, the provision of equipment, and human resources development will also be effective.

5.3 Considerations in assistance and necessary improvements

Peru can be regarded as being basically prepared to promote long-lasting, steady socioeconomic development. A challenge of the Second Fujimori Administration is to promote sustainable socioeconomic development without injuring the foundation built thus far, to utilize the development results to improve people's welfare, and to attain the goal of "people-centered, sustainable development." Effective assistance from Japan depends on its development assistance system working effectively. It depends on whether or not Japan can provide effective ODA. From this viewpoint, the following nine points are mentioned as considerations and challenges when Japan extends assistance.

(1) Balance between emergency measures, such as for the extremely poor, and a long-term viewpoint toward people-centered, sustainable development

As described earlier in detail, the recovery and maintenance of economic growth and the realization of social development in Peru require several approaches. One is to solve the poverty problem through expanded employment and increased incomes amid long-lasting sustainable economic growth and development, and to realize social development. Another is to take emergency social measures for those who cannot wait for long-term effects of development. A number of projects are already under way by the Peruvian Government and aid organizations, in both approaches. The former approach needs to be addressed more intensively. Although the latter has been introduced in a number of projects that set measurable goals by 2000, more assistance is needed, as they remain small in scale. It is important for Japan to bear these different approaches in mind in promoting cooperation, keeping a balance between assistance from the long-term viewpoint and emergency assistance.

(2) Improvement of Japan's assistance system for poverty alleviation and social development

Japan must be able to provide its ODA promptly, with flexible operation of its system. Positive assistance for Peru's social development must be closely connected with Peruvian society and communities. Operation of the system should be flexible in employing not only existing ODA personnel but also Peruvian and third-country consultants that have good knowledge about local conditions, in forming projects in which experienced local NGOs participate, and in entrusting NGOs with extension and training services. These will facilitate cooperation with NGOs. It is necessary, at the same time, to establish a system that enables the appropriate transfer of powers of decision-making and budget execution to the overseas office which is close to projects, and further down to the project manager level. It is also necessary to improve the implementation system of ongoing grant assistance for grassroots projects in order to promptly accept increasing emergent requests for grassroots-type assistance for poverty alleviation, and to build a system for expanding such assistance in

loan aid and technical cooperation. In social development focusing on poverty reduction, which requires prompt project formulation, it is important to establish a flexible system for formulating, approving, and implementing projects, enabling prompt cooperation, without producing discrepancy, from the time of a request.

(3) Strengthening of coordination between loan aid, grant aid, and technical cooperation

The realization of sustainable growth and social development in Peru needs assistance in various areas, as well as securing the sustainability of development effects. Japan is required not only to utilize all possible schemes but also to promote mutual coordination between loan aid and technical cooperation, and between technical cooperation and grant aid in order to meet various needs of Peru. Fondo Peru-Japan, established with counterpart funds in grant aid, must be strengthened for further utilization, and Japan must be engaged in broad-based cooperation involving local governments, trade insurance companies, the Export-Import Bank of Japan, the Japan External Trade Organization, the Metal Mining Agency of Japan, and economic organizations.

(4) Strengthening of coordination with other donors

Coordination with other donors is indispensable for efficient and effective assistance. It is necessary to utilize donor conferences in Peru positively, especially in promoting coordination for poverty alleviation in accordance with the DAC's New Development Strategy.

(5) Participation in institutional reform assistance

Structural adjustment, administrative reforms, and privatization in Peru have been changing the roles played by its central Government and government agencies. Institution-building is thought to require a long period of time, as a number of political and social factors must be incorporated in restructuring of the national government mechanism, which is the main entity in promoting development. It is necessary for Japan to extend steady, persistent cooperation to address such a long-term undertaking, as well as to develop personnel to work in assistance in this area.

(6) Assistance for decentralization

Answering increasing social needs efficiently requires expanded discretion of local governments, while securing people's long-term participation and monitoring decentralization is important in this sense. Successful institutional reform through decentralization depends on institutional, political, and financial foundations. As such preconditions are still insufficient in Peru, decentralization should be promoted carefully.

(7) Support for Peruvians of Japanese descent

The emigration of Japanese to Peru has the longest history among Japanese emigration to Latin America. The number of Peruvians of Japanese descent is said to be about 76,000.

The society of Japanese ancestry in Peru is full of energy, compared with Japanese societies in other Latin American countries. Support for the society of Japanese descent, such as extension of the Japanese language (it provides a means of technology transfer) for second and third generations of emigrants, and technical training, should be continued, because effective technical cooperation can be highly expected through people of Japanese descent, who are establishing their identity as Peruvians and who are increasingly willing to contribute to the nation.

(8) Strengthened security system

The Fujimori Administration's intensified measures against terrorists (e.g. the Surrender Remission Act) contributed to the rapid restoration of public peace and order. Terrorism, however, has not been terminated even since 1996, as seen in the killing of leaders of community organizations, the blasting of the residences of military heads and the Director of Anti-terrorism, and the hostage case in the official residence of the Japanese Ambassador to Peru. Although terrorists will not recover the organizing ability and scale they once had, continued measures are needed to maintain public peace and order. Japan should extend cooperation, taking these conditions into due consideration.

(9) Resumption of personnel dispatches to the institutions Japan assisted in the past

Technical cooperation requiring the dispatch of personnel was suspended after the Huaral case in July 1991, producing a void that lasted four years. Despite the void, cooperation effects were maintained in a number of institutions, including the Vegetable Production Technology Center and the Marine Product Processing Center. Now that Japan has resumed full-scale assistance, it can extend effective assistance through follow-up cooperation. It would be effective, among other efforts, to resume the dispatch of personnel mainly to institutions where project-type technical cooperation was provided in the past.

Box 7 What Peru expects from Japan (from Latinobarometro)

The Latin Barometer Association, a private conference organization in Santiago, Chile, set out a common questionnaire on people's awareness, in Argentina, Brazil, Chile, Mexico, Paraguay, Peru, Uruguay, and Venezuela, from April to June 1995. The Association published the results as "Latinobarometro." Surveying through the questionnaire was carried out by the representatives of public-opinion census organizations of these countries, under the guidance of the International Consultative Conference composed of the representatives of influential research institutions in Europe and the United States and 10 university professors. Apoyo Opinion y Mercado took charge of surveying and compiled a report on the Peruvian results.

Questions covered eight fields, namely, (1) economic conditions, (2) country problems, (3) social conditions, (4) political system, (5) organization, (6) international image, (7) foreign investment and economic integration, and (8) religion and ideology. About 1,200 (587 only in Paraguay) people 18 years and over (male and female) in each country were individually interviewed and asked to answer 47 questions. The result showed the interviewed Peruvian people expected more from Japan than those of the other countries.

For example, they were asked to choose a "country (region) toward which they feel friendly" and a "country (region) important for their domestic economy," from among Japan, the United States and Europe. People of five countries out of the eight had a friendly feeling toward Japan, and Peruvian people's friendly feeling toward Japan was especially remarkable. Mexicans and Brazilians had a better feeling toward the United States, while Uruguayans had a better feeling toward Europe. Peruvians and Paraguayans expected (projected) a closer relationship with Japan, while people of the other countries emphasized the relationship with the United States, by choosing it as most influential to their domestic economies and projecting a deepened relationship with the United States. Peruvian people's expectations toward Japan were especially conspicuous. Regarding the question "Which do you think becomes more closely connected with your country, the United States, Japan, or Europe?" As an average of eight countries, 38.3% of the interviewed mentioned the United States and 21.8% mentioned Japan. Among the interviewed Peruvians, however, 13.5% mentioned the United States and 61.7% Japan. To the question "Which do you think is important for your country's economy?" As an average of those countries, 42.1% of the interviewed mentioned the United States and 22.8% Japan. Among the interviewed Peruvians, 19.9% mentioned the United States and 58.4% Japan. Peruvian people seemed to give importance to the relationship with Japan, while seemingly giving less importance to that with the United States.

Some interesting results are given below.

Which do you think becomes more closely connected with your country?

	Average	Peru	Argentina	Brazil	Chile	Mexico	Paraguay	Uruguay	Venezuela
USA	38.3	13.5	57.4	43.1	38.6	64.3	17.5	21.0	40.9
Japan	21.8	61.7	8.4	21.8	23.1	6.0	28.3	10.0	17.6
Europe	10.7	5.1	9.3	12.6	18.1	4.7	10.2	15.0	9.9
Neither of them	4.9	4.6	4.3	5.8	8.1	1.7	4.3	6.0	4.3
All of them	4.7	5.1	3.3	0.0	3.0	9.6	14.3	5.0	2.2
Cannot tell	17.7	7.9	15.5	16.5	8.0	10.4	22.5	40.0	23.3
No answer	1.8	2.0	1.8	0.3	1.1	3.3	2.9	2.0	1.8

Which do you think is important for society and economy of your country?

	Average	Peru	Argentina	Brazil	Chile	Mexico	Paraguay	Uruguay	Venezuela
USA	42.1	19.9	49.5	47.3	43.4	79.7	19.8	15.0	51.5
Japan	22.8	58.4	10.9	20.9	25.6	4.8	34.6	18.0	14.5
Europe	9.6	6.6	12.3	10.3	15.2	3.1	14.3	11.0	6.6
Cannot tel	23.1	13.4	24.3	21.0	14.5	8.2	27.6	53.0	25.1
No answer	2.4	1.7	3.0	0.4	1.4	4.2	3.7	3.0	2.3

Source: Apoyo Opinion y Mercado, ed (1995), Latinobarometro

Appendix I ODA Disbursements to Peru

Donors	1991	The rate of increase (1991-1992)	1992	The rate of increase (1992-1993)	1993	The rate of increase (1993-1994)	1994	1995 (estimated)
1. Multilateral Agencies								
1.1 United Nations Organizations								
CELADE (Centro Latinoamericano de Demografía)	380	149.5	948	7.0	1,014	176.6	2,805	732
FAO (Food and Agriculture Organization)	573	-15.5	484	66.9	808	-28.8	575	16
IAEA (International Atomic Energy Agency)	77						117,727	
IBRD (International Bank of Reconstruction and Development)	283	-15.2	240	-64.6	85	370.6	400	
ILO (International Labour Organization)							561	
IMF (International Monetary Fund)	4,847	9.8	5,323	13.4	6,035	-35.0	3,924	17
PAHO/WHO (World Health Organization)					380	-1.1	376	
UN (United Nations)	4,475	-16.9	3,719	101.9	7,508	-12.2	6,594	
UNDCP (United Nations International Drug Control Programme)	2,487	18.1	2,937	-25.9	2,176	19.0	2,590	
UNDP (United Nations Development Programme)	993	-5.5	938	16.0	1,088	178.7	3,032	
UNFPA (United Nations Population Fund)			4,712	21.0	5,700	33.3	7,600	
UNICEF (United Nations Children's Fund)	74	20.3	89	83.1	163	-30.1	114	
UNIDO (United Nations Industrial Development Organization)	151				4	75.0	7	
UNIFEM (United Nations Development Fund for Women)	7,223	14.9	8,301	64.3	13,635	36.1	18,561	
WFP (World Food Programme)	21,563	28.4	27,691	39.4	38,596	325.5	164,878	765
Total								
1.2 Other Multilateral Agencies								
CAF (Corporación Andina de Fomento)	584	-26.5	429	-66.2	145	440.0	783	
EU (European Union)	44,788	20.4	53,906	11.8	60,269	4.6	63,024	
IDB (Inter-American Development Bank)	327,196	-71.2	94,312	145.4	231,451	-13.5	200,171	219,769
IICA (Instituto Interamericano de Cooperación para la Agricultura)	91	90.1	173	238.2	585	40.7	823	

Donors	1991	The rate of increase (1991-1992)	1992	The rate of increase (1992-1993)	1993	The rate of increase (1993-1994)	1994	1995 (estimated)
OIM	1,294	98.4	2,567	-4.8	2,445	-1.1	2,419	
Total	373,953	-59.5	151,387	94.8	294,895	-9.4	267,220	219,769
2. Bilateral Agencies								
Argentina	170	34.1	228	-96.9	7		7,989	
Australia			142	378.2	679		23,877	
Canada	21,865	-10.8	19,500	-16.7	16,250	46.9		
Denmark	831	-93.9	51					
France	2,955	-55.5	1,314	756.9	11,260	25.0	14,070	17
Germany	13,877	-2.6	13,514	12.3	15,179	116.4	32,851	
Italy	72,405	-40.9	42,797	-35.7	27,498	-69.4	8,412	310
Japan	49,543	757.1	424,617	-58.6	175,883	-12.4	154,060	
Netherlands	29,114	-47.1	15,407	188.5	44,447	-35.9	28,482	4,992
New Zealand	8							
Spain	15,459	-8.0	14,224	-6.2	13,349	-12.6	11,673	13,293
Sweden			50	-22.0	39		5,951	
Switzerland	7,212	-35.3	4,667	1.4	4,733	-45.4	2,593	
United Kingdom	1,537	7.4	1,640	-11.0	1,459	-74.3	375	
United States	70,719	34.0	94,734	12.6	106,706	-1.7	104,856	26,258
Total	285,685	121.5	632,885	-34.0	417,489	-5.3	395,179	44,870
3. NGO								
Ayuda en Accion	743				1,689	53.2	2,588	462
Adventist Development and Relief Agency Internacional							1,003	
Agencia para el Desarrollo y Recursos Asistenciales					37	-45.9	20	
Auxilio Fluvial Amazónico	88							
Arbeitsgemeinschaft o Kologischer Landbau			43					
Argidius Kellogg			80	-37.5	50			

Doners	1991	The rate of increase (1991-1992)	1992	The rate of increase (1992-1993)	1993	The rate of increase (1993-1994)	1994	1995 (estimated)
Australia Relief Services	89				20		72	
Fundación Asbel Terre							543	401
British Refugee Council			125	72.0	215	21.9	262	
Save the Children Canada	1,172	6.2	1,245	-51.6	602		18,899	2,404
CARE	208	-15.9	175	163.4	461	-76.1	110	
CARE Canada	2,600	75.6	4,556	-99.4	26			
CARITAS					302	0.3	303	
CARITAS Austria					492	22.8	604	
CARITAS Alemania					394			
CARITAS Europeas					140	514.3	860	
CARITAS España					46	-82.6	8	
CARITAS Neerlandica			47		219		9	
CARITAS Francia					23			
Canadian Centre for International Studies and Cooperation								
Centro Esiense de Recursos en Desarrollo Internacional	657						1,720	
Canadian Food Grains Bank	10							
Centro Internazionale Crocevia								
Concern-Ireland					32		8,281	
Org. Canadiense por la Rehabilitación			15	6.7	16		573	
Catholic Relief Services								
CUSO								
Cyted-D			2					
Developpment et Paix			12					
Development Associates			11	-81.8	2		455	
Confederacion Cooperativas Alemanas	155	-6.5	145	-17.2	120	-2.5	117	
Accion Ecuemencia Sueca	\$76							

Doners	1991	The rate of increase (1991-1992)	1992	The rate of increase (1992-1993)	1993	The rate of increase (1993-1994)	1994	1995 (estimated)
EZE					193			
Fundación Antoy Spinoy de Malinas	116							
Fundación Bernard van Leer	122							
Fundación Anna D'ambrosio de Piscopo	65							
Fundación Ford	1,388	8.1	1,500					
Fundación Friedrich Ebert	260							
Fundación Friedrich Naumann	301							
Food for the Hungry International	393	8.1	425	99.8	849	-23.1	20	
Fundación Hewlett					26			
Fundación Kellogg					83	32.5	110	
Fundación Konrad Adenauer		-89.4	160	97.5	316	-51.3	154	
Fundación McArthur/International Planning Parenthood Fund	1,503				13		14	13
German Agro Acción								
Hellen Keller International	138							
Heifer Project International	30						14	14
Andean Economies Development Management-Interandes					68	-16.2	57	44
Interamerican Foundaton	170							
Instituto Cooperazione Universitaria	6							
International Executive Service Corps	35							
Intl. Planning Parenthood Foundation							1,343	
Technology Development Group	605				226	494.2		
Le Club Deux Tiers			319	-18.4	217			
Instituto para la Cultura y la Cooperación					34			
Liberales Cooperación al Desarrollo	203				70	5.7	74	
Lutheran World Relief	324							
Fundación Mariko Ike			124	-72.6	34			

Doners	1991	The rate of increase (1991-1992)	1992	The rate of increase (1992-1993)	1993	The rate of increase (1993-1994)	1994	1995 (estimated)
Misión de la Iglesia Sueca	253	5.5	267	19.9	320			
Misereor Campaign Against Hunger & Disease in the World	27				30			
Movimiento Laico America Latina							277	
Marie Schlei	87	149.4	40					
Médicos sin Fronteras			217					
National Centre for Development in Cooperation			92	104.3	188			
Netherlands Organization for International Development			437	-52.4	208			
Oxfam United Kingdom	1,800	12.6	2,027		1,679	-5.3	1,590	
Oxfam in America					25			
Pathfinder International					673	11.6	751	
Asociación Amazonica de Suecia	45							
Progeto Domani: Cultura e Solidarieta	81							
Pax World Foundation	32							
Radda Bamen	1,994	-24.6	1,504	-13.8	1,296	-98.5	19	
Swisscontact	180	372.2	850	-64.7	300	-20.0	240	
Save the Children Fund	634							
Misión Suiza en el Peru								8,263
Sociedad de Cooperación y Desarrollo Internacional			95	44.2	137	-16.1	21,278	
Comite Belga Campaña Contra el Hambre	213						115	
Solidarite Tiers Monde	50							
Fondo Humanitario de los Trabajadores de Acero					53		530	
Terre des Hommes France							529	
Terre des Hommes Suisse					531	-0.4	211	
Terranuova								60
Technoserve, Inc.	466	-56.7	202	-89.1	22			
The Population Council	148	-69.6	45	577.8	305	-68.5	96	

Donors	1991	The rate of increase (1991-1992)	1992	The rate of increase (1992-1993)	1993	The rate of increase (1993-1994)	1994	1995 (estimated)
The Pathfinder Fund	649	-90.8	60		65			
University of British Columbia	87				86			
Adiestramiento Asistencia al Desarrollo	402				122	-75.4	270	130
Universidad Laval					25		30	
Unión Mundial/ORT	1,925		133					
Visión Mundial								
Westin Hotels								
World Vision								
World Wide Fund for Nature								
Total	22,085	-29.2	15,641	-8.3	14,343	348.7	64,363	11,791
Grand Total	703,285	17.7	827,604	-7.5	765,324	16.5	891,641	277,195

Source: UNDP Lima Office (1995), Development Cooperation Report.

Appendix 2 The World Bank's Disbursements to Peru

The World Bank's projects approved by fiscal year 1991-1997 as follows;

1991 Projects not approved.

1992 - Development Finance Companies: IBRD - \$400 million.

The country's medium-term program of macroeconomic stabilization and structural reforms, in particular reforms within the financial sector, will be supported.

- Industry: IBRD - \$300 million.

The government's medium-term program of trade-policy reform - it includes a reduction in tariff protection, the elimination of most nontariff barriers and export subsidies, and the initiation of customs reforms - will be supported.

- Nonproject: IBRD - \$300 million.

The government's medium-term program of macroeconomic stabilization and broad-based structural reforms will be supported.

1993 - Industry: IBRD - \$250 million.

The governments privatization program and related sectoral policy, legal, and regulatory reforms - designed to promote competition and private investment and improve economic efficiency and fiscal performance - will be supported.

- Nonproject: IBRD - \$150 million.

Supplemental funds will be provided to support the government's macroeconomic stabilization program and broad-based structural reforms taken in macroeconomic policy, the fiscal sector, the social sector, privatization, agriculture, and labor policy.

- Technical Assistance: IBRD - \$30 million.

The government will be assisted in the preparation and implementation of its privatization program and related sectoral policy, legal, and regulatory reforms.

Cofinancing(\$6.5 million) is expected from Canada, Japan, the CAF, and the UNDP. Total cost: \$43.3 million.

1994 - Population, Health, and Nutrition: IBRD - \$34 million.

The health and nutritional status of residents(poor women and children in particular)living in three poor regions of the country, as well as one of Lima's poorest districts, is expected to improve through extending access and improving the quality of maternal and child health and nutrition services and through promotion of better health and nutrition practices. Total cost: \$44.5 million.

- Social Sector: IBRD - \$100 million.

Community-based projects in the areas of social assistance, social and economic infrastructure, and credits to small-scale farmers and entrepreneurs - all managed by the National Fund for Social Compensation and Development (FONCODES) - will be supported, thus helping to sustain the government's poverty-reduction efforts and mitigate the social costs of adjustment. Cofinancing is expected from the IDB(\$100 million)and others(\$53 million), including Germany. Total cost: \$495 million.

1994 - Transportation: IBRD—\$150 million.

The rehabilitation of 725 kilometers of main highways, as well as of railway facilities, will be supported, and new initiatives in the areas of road maintenance, traffic safety, and nonmotorized transport will be undertaken. In addition, the process of railway privatization will be accelerated. Cofinancing is anticipated from Germany (\$38 million) and the OPEC Fund for International Development (\$5 million).

Total cost: \$242 million.

1995 - Education: IBRD—\$146.4 million.

The quality of primary education will be raised by rehabilitating dilapidated classrooms in poor, rural areas and by distributing teaching materials and training teachers on their use.

Total cost: \$ 298.6 million.

- Power: IBRD—\$150 million.

The government's electricity-privatization program and related legal/ regulatory and institutional reforms will be supported.

- Water Supply and Sewerage: IBRD—\$150 million.

Water conservation will be promoted, the privatization of Lima's water and sewerage utility supported, Lima's water-supply and sewerage system rehabilitated, and water and sanitation services to the urban poor expanded.

Total cost: \$306.2 million.

1996 -Transportation: IBRD—\$90 million.

Investments—targeted to the poorest rural communities—in the maintenance and rehabilitation of rural roads, as well as secondary and primary roads connecting to the primary road network, will help reduce poverty and raise living standards of rural communities.

Total cost: \$250.3 million.

1997 - Agriculture: IBRD—\$85 million.

Twenty-five irrigation systems will be rehabilitated, benefiting more than 50,000 families enhancing agricultural productivity, and promoting a market-oriented approach to water.

Total cost: \$172.4 million.

- Agriculture : IBRD—\$51 million.

The incomes of 75,000 poor rural families will increase and poverty will be reduced through better natural resource management, soil conservation and reforestation, increased irrigation, and improved agricultural practices.

Total cost: \$ 93.2 million.

- Finance: IBRD—\$183 million.

Support will be provided to restructure commercial bank and private suppliers' debt.

- Multisector: IBRD—\$100 million.

The pension system will be reformed and capital market efficiency will be improved.

- Social Sector: IBRD—\$150 million.

The government's poverty alleviation efforts will be supported; they target the poorest areas and people, including indigenous people, by providing social infrastructure and assistance.

Total cost: \$430 million.

Source: The World Bank Annual Report 1991-1997

Appendix 3 IDB Disbursements to Peru

Year	Project	Lending (Million \$)
1991	PLANNING AND REFORM (Trade Sector Adjustment Program)	425
	PLANNING AND REFORM (Trade Sector Adjustment Program)	4.9
	TRANSPORTATION (Highway Repair and Maintenance)	210
1992	FINANCE SECTOR REFORM (Planning and Reform)	200
1993	STRENGTHENING OF HEALTH SERVICES	68
	ELECTRIC POWER TRANSMISSION AND ELECTRICITY SUBSECTOR REFORM PROGRAM	45
	SUPPORT FOR THE FONDO NACIONAL DE COMPENSACION Y DESARROLLO SOCIAL FONCODES	100
1994	CUSTOMS MODERNIZATION PROGRAM	1.5
	HIGHWAY REHABILITATION AND IMPROVEMENT PROGRAM, STAGE II	252
	STRENGTHENING OF THE BASIC SANITATION SECTOR	140
	MULTISECTOR CREDIT PROGRAM	100
1995	NATIONAL RURAL TRANSPORT INFRASTRUCTURE PROGRAM	90
	IMPROVING PUBLIC INVESTMENT PROGRAMMING	4
	LAND TITLING PROGRAM	21
1996	FONCODES II	150
	PROGRAM TO IMPROVE THE QUALITY OF EDUCATION	100
	DEBT AND DEBT SERVICE REDUCTION PROGRAM	235.5
	MODERNIZATION PUBLIC SECTOR PROGRAM	58
	AGUAYTIA INTEGRATED GAS AND POWER	60
	INVESTMENT SECTOR REFORM	150
1997	AGRICULTURAL HEALTH DEVELOPMENT	45.6
	NATIONAL CUSTOMS ADMINISTRATION QUALITY ASSURANCE SYSTEM	0.8
	STRENGTHENING THE NATIONAL TAX ADMINISTRATION SERVICE III	2.7
	EL NINO EMERGENCY PROGRAM	150
	IMPROVING ACCESS TO THE JUSTICE SYSTEM	20

Source: Inter-American Development Bank Annual Report 1991, 1992, 1993, 1994, 1995, 1996, 1997

Appendix 4 Japan's ODA Disbursements to Peru

(Unit: Hundred Million Yen)

Year	Loan Aid	Grant Aid	Technical Cooperation
until 1989	538.51	153.97	259.95
			Acceptance of Participants for Training 1,722 persons Dispatch of Experts 533 persons Dispatch of Study Team Members 1,325 persons Dispatch of JOCV's 40 persons Provision of equipment for technical cooperation 46.46 Project-type Technical Cooperation 11 projects Development Studies 37 projects 22.65
1990	0	54.28	54.28
			Acceptance of Participants for Training 169 persons Dispatch of Experts 43 persons Dispatch of Study Team Member 64 persons Dispatch of JOCV's 14 persons Provision of equipment for technical cooperation 3.57 Project-type Technical Cooperation* 4 projects Development Studies 1 project 17.02
1991	546.20	52.63	52.63
	Trade Sector Adjustment Program (546.20)		Acceptance of Participants for Training 200 persons Dispatch of Experts 12 persons Dispatch of Study Team Members 28 persons Dispatch of JOCV's 11 persons Provision of Equipment for Technical Cooperation 3.89 Project-type Technical Cooperation* 4 projects Development Studies 3 projects 13.60
1992	126.90	25.06	25.06
	Financial Sector Adjustment Program (126.90)		Acceptance of Participants for Training 214 persons Provision of Equipment for Technical Cooperation 4.53 Project-type Technical Cooperation* 4 projects
			Project for the Rehabilitation of Muni Hydro Power Stations in Rural Areas 4.72 Project to Pump Water from Lake Vilacota 2.45 Rehabilitation of School Facilities 3.01 Non-Project Grant Aid 35.00 Aid for Increased Food Production 6.00 Aid for Disaster Relief (0.3 millions = 0.39) 0.44 Audio-visual Equipment to the National Museum 0.49 Lighting Equipment to "Estadio Mansiche Trujillo" 0.13 Grassroots Grant Aid (3 projects)
			Project for the Repairation of Educational Infrastructure 3.00 Project for the Improvement of Road Construction Equipment 9.91 Project for the Supply of Water-Tank Trucks 5.47 Aid for Increased Food Production 6.00 Equipment for the Observations of Geomanetics to Institute Geofisico de) Peru 0.45 Grassroots- Projects (5 projects) 0.23

1993	Reschedule Health Service Strengthening Project	327.13 304.73 22.40	35.08	8.26	Acceptance of Participants for Training Dispatch of Study Team Members Provision of Equipment for Technical Cooperation Project-type Technical Cooperation*	208 persons 5 persons 1.66 4 projects
1994	Re-schedule	84.82	39.02	7.01	Acceptance of Participants for Training Dispatch of Study Team Members Provision of Equipment for Technical Cooperation Project-type Technical Cooperation* Development Studies	203 persons 26 persons 0.46 1 projects 3 projects
1995	Lima-Callao Metropolitan Area Water Supply and Sewerage Improvement Project Irrigation Sub-sector Project Callao Port Development Project	817.74 84.27 67.23 166.24	86.38	8.86	Acceptance of Participants for Training Dispatch of Experts Dispatch of Study Team Members Provision of Equipment for Technical Cooperation Development Studies	199 persons 12 persons 56 persons 0.78 1 project
1996	Yuncan (Paucartambo II) Hydroelectric Power Plant Construction Project Rural Highway Rehabilitation and Improvement Project Southern Lima Metropolitan Sewerage Improvement Project	620.81 330 164.21 126.6	36.80	9.85	Acceptance of Participants for Training Dispatch of Experts Dispatch of Study Team Members Dispatch of JOCV's Provision of Equipment for Technical Cooperation Development Studies	249 persons 4 persons 70 persons 11 persons 0.782 4 projects
	Project for the Supply of Water-Tank Trucks Aid for Increased Food Production Non-Project Grant Aid Lighting Equipment to the Stadium of the Major National University of San Marcos Grassroots Projects (4 projects) Project for Improvement of Medical Equipment for Principal National Hospital in Lima City Project for the Rehabilitation of Mini Hydropower Stations in rural Areas (II) Non-Project Grant Aid Aid for Increased Food Production Lighting System to the Ministry of Education Grassroots Projects (8 projects) Project for Improvement of Equipment of Plant to Improve Machinery for Constructing Roads Project for Improvement of Waste Disposal Equipment Project for Reparation of Educational Infrastructure Project for Improvement of Equipment of Peruvian Radio and Television Aid for Increased Food Production Sound System and Audio-Visual Equipment to the National University of Engineering Grassroots Projects (15 projects) Project for Improving Medical Equipment in National Hospitals in Lima (II) Project for Rehabilitation of Small Hydropower Stations in Rural Area (III) Project for the Construction of Vessel for the Investigation of Fisheries and Oceanography Aid for Increased Food Production Supply of Equipment to the Provincial Municipality of Arequipa Emergency Relief Grassroots Project (14 projects)	327.13 304.73 22.40 84.82 84.82 84.27 67.23 166.24 817.74 620.81 330 164.21 126.6	35.08 2.38 7.00 25.00 0.50 0.20 39.02 5.54 5.52 20.00 7.00 0.50 0.46 86.38 7.38 7.36 3.48 9.66 7.00 0.50 1.00 36.80 9.12 5.48 13.79 7.00 (0.50) 0.10 0.82	8.26 208 persons 5 persons 1.66 4 projects 7.01 203 persons 26 persons 0.46 1 projects 3 projects 8.86 199 persons 12 persons 56 persons 0.78 1 project 9.85 249 persons 4 persons 70 persons 11 persons 0.782 4 projects		

1997	426.17	5.0	**
Sierra-Natural Resources Management and Poverty Alleviation Project	56.77	5.0	206 persons
Rural Highway Rehabilitation and Improvement Project (II)	91.84		1 person
Pomacocha-Rio Balanco Water Resource Transfer Project(Marca II)	116.40		5 persons
Electric Frontier Expansion Project	101.40		
Social Sector Development Project in Amazon Area	59.76		
Aid for Increased Food Production			
Acceptance of Participants for Training			
Dispatch of Experts			
Dispatch of Study Team Members			

Resource : Ministry of Foreign Affairs, ODA White Paper, 1990, 1992 and 1996
 Japan International Cooperation Agency, Annual Report, 1991-1996
 OECF, OECF Press Release

* : projects included as follows:

The Vegetable Cultivation Technique Center Project(Duration:1986-1993)

The Japan-Peru Earthquake and Disaster Mitigation Research Center

The Project for Paita Fisheries Training Center

Peru Family Planning and Maternal and Child Health Project

** : Other figures for Technical Cooperation, including Provision of Equipment, etc. not available at present.

<Appendix 5> List of Grant Aid for Grassroots Projects (from fiscal 1990)

Fiscal year	Name of project	Name of institution to which assistance is provided	Amount (thousand yen)	Date of E/N
1990	Animal Public Health	National University of Cajamarca	4,280	Nov-91
1991	State Initial Education Center (C.E.I.E.) Basic Unit Construction for Public Sanitary Service in the Autonomous Community of Huaycan Improvement of Small Scale Irrigation System in Chavin Equipment Supply for the Polyclinic "EMMANUEL" State Initial Education Center Protection and Conservation of Archaeological Monument, Flora and Fauna in Preserved Zone of Batangrande	Peru Shien No Kai Association (APENKAI) Institute of Urban and Rural Development PIRKA Care Peru Polyclinic "EMMANUEL" State Initial Education Center PUCALA Sugarcane Agricultural Cooperative Limited-BATANGRANDE Branch "ANTONIO LORENA" Hospital	5,000 4,378	Feb-92 Mar-92
1992	Improvement of Kitchen and Dining Set for "ANTONIO LORENA" Hospital Technical Training and Production Center of Handicraft Diagnostic Improvement in Cattle Disease Municipal Mobile Medical Network Construction of Initial Education Center Improvement of Sanitary Infrastructure	Center of Cooperation and Action for Development (CENCADES) Veterinary Institute of Tropical and Altitude Investigation Municipality of Lima Peru Shien no Kai Association (APENKAI) Social Promotion and Development Association (APDES) Kuntur Wasi Cultural Association	5,000 4,888 4,452 5,423 5,402 3,595	Nov-92 Dec-92 Oct-93 Oct-93 Jan-94 Feb-94
1993	Provision of Equipments for the Archeological Museum of Kuntur Wasi HIV Laboratory Reinforcement Expansion of the Auditorium and Construction of the Library Improvement of Small Scale Irrigation System Construction of Library and Multipurpose Room for youth Training and Implementation of Productive Activities in Cajatanbo Support for Actualization and Application of the Computer Equipment of the JNE Support to Pampas of Heath National Sanctuary Educational and Audiovisual Equipment Supply for Training and Readaptation of the Abandoned Children and Teenagers Construction of Latrines and Promotion of the Sanitary Education in the Rural Zone of the Province of Nasca	National Institute of Health Japanese Peruvian Association of the Province of Huaral Care Peru Peace and Development Institute of the Amazon Institute for the Labor and Investigation National Jury of Elections (JNE) Peruvian Foundation for the Conservation of Nature (FPCN) National Institute of Family Welfare	6,122 3,065 5,318 5,306 3,722 9,856 7,688 3,112	Sep-94 Sep-94 Nov-94 Dec-94 Dec-94 Jan-95 Feb-95 Mar-95 Nov-96
1995	Construction of Roads in Coles Valley Equipment Supply for the Medical Treatment of Neurotic Disease Paving Work of the Roads and Construction of Canal for Irrigation in Ayacucho Rehabilitation and Implementation of Forest Nursery	Rural Area Sanitation Committee of the Province of Nasca Food For the Hungry International The Spanish Institute of Foreign Missions Municipality of Pativilca District Canadian Center of Studies and International Cooperation (CECI) Municipality of Cuzco Association of Social Promotion and Development (APDES) Grau Region Nikkei Association Japanese Peruvian Cultural Association of Ucayali Association for the Sustainable Development (ADES) Regional Government of Arequipa Institute of Neuroscience National Government of Los Libertadores-Wari National Institute of Natural Resources (INRENA)	4,047 4,048 4,381 6,145 6,645 6,611 7,786 7,914 8,242 8,723 8,949 9,658 9,757 4,617	Feb-95 Oct-95 Nov-95 Jul-95 Nov-95 Sep-95 Mar-96 Mar-96 Nov-96 Jan-96

Fiscal year	Name of project	Name of institution to which assistance is provided	Amount (thousand yen)	Date of E/N
1996	Vocational Training and Production Center for Women in Ica	Charity Society of Ica	4,188	Oct-96
	Improvement of the Farmer House and Support to the Training of the farmer's Activities	Bartolome De Las Casas Andes Regional Study Center (CBC)	7,296	Oct-96
	Construction of the Rural Promotion Center Yachayhuasi	Civil Association of Integral Development Promotion (PRODEI)	5,966	Feb-97
	Construction of the Primary School of Huaypan	Integral Development Project for the Small Region	5,491	Feb-97
	Water Supply and Sanitary Education in El Carmen	Institute of Communication and Environment	4,905	Oct-96
	Renovation facilities and Equipment Supply for the "Comedor Social"	Charity Association of Ayacucho	8,872	Nov-96
	Equipment Supply for the Respiratory Infection and Pulmonary Tuberculosis Program	Polyclinic-Emmanuel	9,700	Oct-96
	Sanitary Improvement for the Rural Area in Ucayali Region	Doctors Without Borders- France	2,890	Oct-96
	Expansion of the Health Center of La Tinguina	Municipality of La Tinguina District	5,330	Oct-96
	Construction of Health Center of Ipana	Municipality of Ipana District	8,137	Nov-96
	Construction of Retama Centro Medical Station	Municipality of Culhu District	4,098	Nov-96
	Equipment Supply Project for the Shilla Health Office	Municipality of Shilla District	5,751	Feb-97
	Construction of Sewage Disposal Facilities in Huaylas	Municipality of Huaylas District	4,570	Jun-96
	Construction of Material to Support the Mathematics Instruction at the Primary Education	Latin America Friends Club of Osaka (CALO)	3,420	Feb-97
1997	Construction of Pamparque Health Office	Neighbors Peru	6,081	Jul-97
	Construction of San Cristobal Health Center	Neighbors Peru	7,279	Jul-97
	Supporting Project for the Realization of "Global Initiatives on Reduction of the Drug Consumption - The Americas-Asia Dialogue" Forum	CEDRO (Center of Information and Education for the Prevention of Drug Abuse)	9,407	Feb-98
	Construction of Cabildo Health Office	Sub-Regional Office of Health in Ica	5,599	Jul-97
	Construction of Tulin Health Office	Sub-Regional Office of Health	5,613	Jul-97
	Construction of Pilot Health Center San Jose	Piura Sub-Regional Office of Health	9,338	Feb-98
	Improvement and Equipment Supply Project for the Agricultural School in Canete	PROSIP-Valle Grande	9,740	Jan-98
	Project for the Improvement of Educational Environment of Nikkei Academies	Japanese Peruvian Association of Peru	9,855	Mar-98
	Vocational Training Project for Women in Poverty	C.E.O. Alcabor	9,245	Jan-98
	Renovation Project of Initial Education Center No.263 Maria Montessori-Nazca	National Office of Popular Cooperation	3,342	Feb-98
	Renovation Project of Initial Education Center No.273-Nazca	National Office of Popular Cooperation	7,927	Feb-98
	Improvement Project of the Primary Educational Environment in Ica	FONCODES, The District Office of Ica	8,067	Feb-98
	Improvement Project of the Primary Educational Environment in Lambayeque	FONCODES, The District Office of Chiclayo	8,067	Feb-98
	Improvement Project of the Primary Educational Environment in Nazca	FONCODES, The District Office of Ica	8,067	Feb-98
Improvement Project of the Primary Educational Environment in Huamanga	FONCODES, The District Office of Ayacucho	8,067	Feb-98	
Improvement Project of the Primary Educational Environment in Trujillo	FONCODES, The District Office of Trujillo	8,067	Feb-98	
Improvement Project of the Primary Educational Environment in Abancay	FONCODES, The District Office of Abancay	8,067	Feb-98	
Equipment Supply Project for the Aquacultural Center to Support the Amazonian Communities	National Fishery Development Fund	4,964	Oct-97	
Support to the Sustainable Development of 10 Settlements in the Reservation Pacaya Samina	PRO NATURALEZA	7,714	Oct-97	
Construction and Implementation of two Cooperative Dining Places for Children	Municipality of Casnilia District	9,897	Feb-98	
Implementation of the No.2 Well of La Tinguina	Municipality of La Tinguina District	9,746	Feb-98	

Appendix 6 Remarks of H. E. Alberto Fujimori
President, Per at the Plenary Session of the Microcredit Summit
Washington, D.C., February 2, 1997

Ladies and Gentlemen,

I believe our countries' greatest chance to create wealth and progress lies in the drive and courage of our smallest entrepreneurs, those self made men and women who turn adversity into hope.

In the midst of the severe and prolonged social crisis that has plagued many countries in the world in the last few decades, people the world over have used their imagination to set in motion a series of successful survival strategies where, in many cases, we can find the seed of people's capitalism.

Millions of citizens in our countries, of which Peru is but one example, have made what I call " ant-scale investments." Their small, even diminutive savings and earnings, have been invested in microbusiness and self-construction . In Peru, informal " ant-scale investments" just in homebuilding total 20 billion dollars.

My government is responding to this reality. These capital investments from low income Peruvians are frozen, because the homes they built lack property titles. And their legitimate owners cannot use their properties to provide credit collateral.

To overcome this barrier we have devised a program to title informal property. Through this initiative, it will be possible to turn thousands of Peruvians into property owners and therefore potential credit customers.

Our goal in Peru is to register one million titles by the year 2,000, thus reaching out to about six million people, or one fourth of all Peruvians. To accomplish this objective, the State has to render itself actively at the service of society.

Formerly, villagers had to walk for miles from their towns and wander in the bureaucratic jungle wasting their time and money. Obviously, they chose to dodge regulations.

Now , our titling teams reach the remotest towns, draw the settlements' plans, and after thorough surveying, they award property titles. Life in these human settlements will never be the same. Unable to produce their homes' property titles, unable to pass them on to their children, or mortgage their property to get a loan, our own citizens were treated as second class.

With imagination and effort, Government is opening the gates that for a long time held back the impetus and drive of small and micro entrepreneurs and owners.

A quiet revolution is underway throughout Peru. In our countries, extreme inequalities in the distribution of income and wealth have increased because financial systems conditioned granting of credit to guarantees principally based on possession of assets. This left the majorities outside the economic and financial mainstream. Peru's new banking law, the property titling program and the setting up MI BANCO, among several other initiatives, are part of a comprehensive strategy to fight poverty.

And this brings us to the second pillar of our strategy. The Government of Peru is about to launch MI BANCO, a credit and financial institution especially geared at supporting and promoting growth for low income entrepreneurs, energizing a vital sector of our economy. This initiative will dramatically boost microcredit in our country.

We feel that securing credit, in this case microcredit, to reach out to millions of producers, amounts to planting the best seed.

Unemployment is a heavy burden for many countries around the globe. Microfinance clearly shows that people can start their own jobs with loans as small as \$80, \$100 or \$200 dollars.

To expand and enhance the availability of credit to small business, the Government of Peru has decided to promote the establishment of MI BANCO, a bank for microentrepreneurs, set up with capital contributions from private investors and financial organizations.

We are committed to ensuring the appropriate environment that will attract private investment willing to serve this dynamic and thriving market of small producers. Private capital can make MI BANCO a solid bank that will live and last beyond successive administrations and allow millions of Peruvians to defeat poverty.

As we are well aware, women have turned out to be the majority of customers in successful microfinance experiences throughout the world. They are also better payers than men.

Two years ago in Beijing I made a firm commitment to Peruvian women. During dire times in Peru, they actively engaged in successful survival strategies. And they showed they were born entrepreneurs.

Women make up half of our population and their participation in development efforts is paramount. Using microcredit as a lever, I am persuaded women in Peru and in poor countries around the world can make a substantial contribution to create wealth and jobs.

For the first time in Peru, MI BANCO will bring mass access to credit for women.

Peru offers today optimum conditions to carry out mass credit initiatives. Economic stability, sustained growth, low inflation, and dynamic markets provide the right environment for investing in MI BANCO.

Government is playing here an exclusively promotional role, as fits a modern State that strongly believes in free and open markets, but at the same time, is concerned with creating opportunities for all. And in this effort, the private sector must be actively involved.

Few microfinance experiences in the world today rely primarily on private capital.
This is our challenge and commitment.

My intention is to learn from the best microfinance experiences in the world and bring forward
Peru's contribution to achieving the noble objectives of this Summit.

Thank you.

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Supplementary Report

Characteristics of Peruvian Society and Its Social Development

– From the Perspective of International Cooperation –

Akio Hosono

I. Characteristics of Peruvian Society

In order to identify an effective approach for social development and international cooperation to aid the development, it is necessary to accurately grasp the characteristics of Peruvian society.

First let us consider the present state of Peruvian society, through an international comparison regarding several social indicators that are highly important from the perspective of social development.

While the World Bank classifies Peru as a lower-middle-income country, its per capita income is far below the average of middle-income countries. Also, as to the social development indices of the United Nations Development Programme (UNDP), Peru is ranked 91st out of 174 countries, with a social development index of 0.694, compared with an average of 0.909 for industrialized countries. As such, though Peru's level is above the 0.563 average for developing countries, the situation of social development in Peru is considered to still be at a quite low level, compared with industrialized countries and upper-middle-income countries.

The UNDP's social development report classifies developing countries into three levels of social development: high, medium, and low, and Peru is considered to be in the medium category. In terms of some social indices, however, Peru is below the average of other countries that are of medium-level social development.

This can be confirmed by the following international comparison of further specific indices related to social development. Peru's infant mortality rate is 52 out of 1,000 persons, which is considerably higher than the average of 46 for medium human development countries (excluding China). The under 5 mortality rate is 55 out of 1,000 persons, which is above the 52 average of medium human development countries (excluding China)^{Note1}. In contrast, in industrialized countries the infant mortality rate is 7 per thousand^{Note2}. As such, there is a large difference in these rates between Peru and industrialized countries. Peru's rates are higher than those of other lower-middle-income countries in Latin America, such as Paraguay (infant mortality rate, 42 per thousand; under 5 mortality rate, 34 per thousand) and its neighboring country, Chile (infant mortality rate, 13 per thousand; under 5 mortality rate, 15 per thousand). Peru's maternal mortality rate per 100,000 live births, is as high as 280 -- significantly higher than the 206 average of medium human development countries (excluding China), and also higher than the figures of 160 for Paraguay and 65 for Chile. Peru's rate is 10-fold higher than that for industrialized countries.

This situation is due to the prevalence of undernourishment among the poor, and the nation's inadequate medical system. The nutritional intake per person per day in Peru is 1,883

Note1 Infant mortality rate data refer to 1994, under 5 mortality rate data refer to 1995 and maternal mortality rate data refer to 1990. Same for Paraguay and Chile mentioned below. UNDP, *Human Development Report 1997*, p200.

Note2 Data refer to 1995. World Bank, *World Development Report 1997*, p224.

calories, which is significantly below the 2,730 calories per day of medium human development countries (excluding China)^{Note3}. The diffusion rates for water supply and sewerage in Peru are also significantly below the average of countries of medium-level social development: As to water supply, Peru's rates are 28% in rural areas and 88% in urban areas, compared with 55% and 92%, respectively, as the averages of countries of medium-level social development; and as to sewerage, Peru's rates are 25% in rural areas and 58% in urban areas, compared with 17% and 76% respectively, as the averages of countries of medium-level social development.

Today's Peruvian society displays these characteristics in comparison with other nations, and it also has the following important features.

First is the diversity of Peruvian society, which causes remarkable disparity among regions, especially between rural and urban areas, as well as gender disparity. This is shown by infant mortality rates, literacy rates, and nutritional states. For example, the infant mortality rate in rural areas is as high as 83 per thousand, which is double the rate in urban areas. The illiteracy rate for Peru overall is 13%, but this breaks down to 7% in urban areas and as high as 30% in rural areas. Further, gender disparity is large: The illiteracy rate among males is 7% overall nationally, but this breaks down to only 3% in urban areas and 17% in rural areas. For females, however, the national average rate is 18%, breaking down to 10% in urban areas and as high as 43% in rural areas. As mentioned later, such regional disparity of social development indices reflects that the low-income class, and especially extremely poor people, are unevenly distributed regionally in Peru.

The second important feature of Peruvian society is that the informal sector is remarkably large, compared with other nations. The ILO's data, totalized based on research by the Central Bank, revealed that the unemployment rate in cities in 1993 was as high as 9.9%, and the informal sector size was as high as 44.7%, while the rate of people working in the formal sector was only 41.3%.

A third noteworthy characteristic of Peruvian society is that there is a large difference among the three regions of Costa, Sierra, and Selva. Their environmental conditions, such as geographical features and climate, the level of infrastructure development, and the resulting production conditions, differ remarkably. In rural areas, the presence of regions where coca plants are grown represents another serious problem. These differences create disparity in poverty and social issues, and therefore, an approach toward social development that suits respective regional situations is essential.

2. Recovery of the Economy and Social Development

It is needless to say that recovery of the Peruvian economy and its sustainable growth constitute an important condition for solving social problems and for achieving social development. Without recovery of growth, finding true solutions for social problems will be difficult. Still, with recovery of growth alone, Peru's many social difficulties of today, especially poverty problems, cannot be solved in the short or medium term. Therefore, it is necessary to specifically study the relation between recovery and maintenance of growth, on one hand, and the realization of social development, on the other.

First, an extremely long time will be required for Peru to expand employment, fully employ presently unemployed people and youth that newly enter the labor market, and solve poverty

^{Note3} Data refer to 1992, *Human Development Report 1997*, p204

problems, while expanding production through expansion of employment. As reasons, at least the following three points can be mentioned. First, the poverty problem is very serious. Second, the population has continued to increase at a high rate, and the large number of people who were born in the last 15 years will newly enter the labor market. About 600,000 babies are born annually in Peru, and as such, employment opportunities for at least 300,000 persons, as new labor, must be created every year in the future. Third, the informal sector is extremely large in Peru, and without appropriate measures in systematic and socioeconomic aspects, recovery and maintenance of growth may not necessarily result in formalizing the informal sector or improving people's incomes.

In order to tackle social development in Peru, therefore, it is necessary to combine several approaches. The first approach is to solve poverty problems and realize social development, through expanding employment and improving income, while establishing a stable market economy and realizing sustainable economic growth and progress over the long term. This approach requires political measures and efforts to enable simultaneous achievement of, an efficient economy and long-term economic progress, and social development and expansion of employment. In particular, it is extremely important to cultivate, from a medium-term viewpoint, well-educated and skilled personnel that can fully respond to the new employment opportunities that are created through growth.

In reality, however, Peruvian society cannot afford to wait for such a long-term effect to be realized. The nation has urgent social development issues that must be pursued immediately. Therefore, the second approach is to implement effective poverty measures focused on the extremely poor and a social policy for the low-income class. An especially urgent issue is to secure minimum food requirements for the extremely poor, and in particular to provide nutrition to infants and small children, to prevent negative effects on their future development. Related to this, enriching the education opportunities for such extremely poor people is essential.

The third most important approach is to enable extremely poor people, small-scale farmers, and the urban informal sector to participate in Peru's newly established market economy, independently and with enhanced abilities. This approach is essential for simultaneous realization of poverty abatement and social development with economic growth and production expansion. This is also a very important approach to make the best use, for economic progress, of the new framework of a market economy that has been realized through the economic reform carried out since 1990. Among these three approaches, the second and third approaches in particular must be studied in detail, considering the characteristics of Peruvian society.

As to the second approach, attention must be paid to two points in particular. The first is to accurately grasp the problems extremely poor people face, and to implement effective measures to solve them. The second point is to prioritize the malnutrition problem, even among the many problems faced by the extremely poor. This point is also made in a document of the Peruvian Government (to be mentioned later). Malnutrition is greatly affecting the development of children, especially infants, and it is necessary to study the actual state and consider what should be done to solve it.

Regarding the third approach, it is necessary to grasp the actual states of the rural district in Sierra, where there are many poor and extremely poor people, and of the urban informal sector. It is necessary to clarify the major problems identified there, and to study what measures should be taken. In this report, after discussing the Peruvian Government's efforts for social development and poverty measures (Section 3), study will focus on these points (Sections 4 and 5).

3. The Peruvian Government's Efforts for Social Development and Poverty Measures

In this section, major measures Peru has taken so far, and the points that should be further strengthened, are studied from the perspective of the above-mentioned three approaches.

First, regarding social development, the Peruvian Government established a basic policy of social development (Lineas Básicas de Política Social; hereinafter referred to as LBPS), and a basic social expenditure improvement program, and based on these, coordination among related government offices has been conducted. In 1995, emphasis was placed on establishing a "basic educational program for all," a "basic medical program for all," a "foods supplement program for urgently-needy people," and a "basic judicial program."

The LBPS document states that the Peruvian Government shall promote equal opportunities for all people as the most important general purpose of the new social policy. Also, it states that, for that purpose, the Government must work to integrate each of economic, social, and environmental policies, and the chairman of the Cabinet Council (Consejo de Ministros) must place a high priority on the social field in adjusting policies among ministries.

The Peruvian Government presented a document regarding social support in Peru, at the Paris Club in June 1995, in which it said it would implement a policy that emphasizes employment, medical care, education, social security, public service, and infrastructure. Further, significantly different from policies followed before 1990, the Government now emphasizes conducting policy focused on the people that have the most urgent needs, and it claims it will place prime importance on optimal usage of usable resources and efforts to alleviate extreme poverty.

The most difficult issue in social policy is the balance between areas that require continual efforts, such as medical care, education, and administration of justice, on the one hand and the areas of high urgency, such as poverty measures on the other. The Government says it will emphasize enhancement of the basic abilities of government agencies to improve medical care, education, and administration of justice, and it is necessary to enable FONCODES (Fondo Nacional de Compensación y Desarrollo Social) and PRONAA (Programa Nacional de Apoyo a la Alimentación), which were established as transitional organizations, to integrate their activities with the divisions that conduct continual measures.

In terms of social expenditures, a trend of steady recovery and expansion has been seen in recent years, and in budgeting the rate of social expenditures increased from 5.0% of the total government expenditures in 1991, to 10.5% in 1993, 19.7% in 1994, 30.4% in 1995, and 37.8% in 1996. This means that the rate to GDP expanded from 2.1% in 1991 to 5.3% in 1996. As to the rates for social expenditure according to divisions, the rate for education was high, at 71 - 73% from 1991 to 1993, but in 1996, it lowered to 52%, and the expenditure for medical care was about 24%. In contrast, other social expenditures have gradually been increasing. Regarding the social expenditure program to support the extremely poor, the largest program is being conducted by FONCODES, and its rate in the total was 17.36% in 1996. The rate for PRONAA was 7.51%, and that of milk supply was 8.91%.

Furthermore, the Government announced "an target strategy to eradicate absolute poverty" in June 1996, and as to population measures, it announced a "basic population policy." The ideas shown in these are related to the basic policy of social investment, and they are reflected in government budgeting.

The future long-term targets in poverty measures and social development, based on these policies, are specifically as mentioned below. These targets attract attention in planning

assistance along with the new development strategy of OECD-DAC.

First, regarding poverty, the Government aims to decrease the number of extremely poor people by 50%, from the present 4.5 million to 2.2 million, by 2000.

The major social development targets are, first, in the educational aspect, to lower the illiteracy rate, which was 11% in 1991, to 7% by 2000, and to provide basic education to every child; in the health aspect, to reduce the under 5 mortality rate from the present 55.5 per thousand to 34 per thousand, by 2000, to decrease the maternal mortality rate from 261, out of 100,000 people, to 100, and to reduce the rate of small children suffering from malnutrition, from 48% to 34%. These targets are deeply related to the population policy, and in this regard the Government aims to reduce the birth rate from the present 3.7% to 2.5%, by 2000. To achieve this target, it is making strong efforts to provide information on family planning and childbirth.

4. Actual State of Extreme Poverty and Its Measures

(1) Poverty map, poverty index, and measures for extreme poverty

The number of people suffering from extreme poverty in Peru has been estimated repeatedly, and the most recently announced government document gives this figure as 4.5 million (as mentioned above), which is 19% of the national population. According to the price base in April 1995 (the price level of Lima city), persons whose monthly spending does not reach 33 dollars are defined as suffering from extreme poverty, as this level of spending per month per person is considered to be the minimum necessary to acquire food to sustain adequate nutrition. And 4.5 million people do not reach this level of spending. The number of people included in overall poverty, which includes extreme poverty, is estimated to be 11 million, which equals as high a figure as 47% of the total population. Those in poverty, excluding extreme poverty, number 6.5 million, or 28% of the national population. "Poverty" is defined as monthly spending per person of 67 dollars or less.

Persons whose monthly per-capita spending is 800 dollars or more are defined as belonging to the high-income class, and they are estimated to total 1.5 million, accounting for 5% of the national population. Those whose monthly per-capita spending exceeds 100 dollars are classified as being in the middle class (those who spend over 300 dollars are in the upper-middle class), and the middle class is estimated to total 3.5 million, or 15% of the total population. Those who spend between 67 and 100 dollars are classified as being in the middle-low class; they number 7.8 million and account for 33% of the total population.

Based on these standards, the President's Office prepared a detailed poverty map, and on this map, there are 237 districts with high rates of poverty, and 207 districts that each contain 5,000 or more people in extreme poverty. These 419 districts (25 districts are overlapped) on the poverty map are considered to be given high priority in national poverty measures.

The poverty map mentioned here is presented in "3. Developmental Issues in Peru" of the "Country Study Report for Japan's Official Development Assistance to the Republic of Peru." Before this, in Peru, FONCODES prepared a poverty map according to departments (departamentos), in 1993. This map indicates very poor departments and poor departments by classifying living standards into four levels. Even within the same departments, the levels of poverty are diversified; this is why the detailed poverty map was prepared by the President's Office.

The poverty indices used in the poverty map were calculated using the rate of children suffering from chronic malnutrition, the illiteracy rate, the school attendance-absence rate, the rate of homes with incomplete roofs, the rate of homes without water supply, the rate of homes without sewerage, the rate of homes without electricity, and other factors. The presence or absence of education, housing, water supply, sewerage, electricity, and so on is given a 50% weight, and chronic malnutrition is given the remaining 50% weight, as the latter indicates extreme poverty.

The poverty indices, calculated this way, were 1 in the San Isidro district in Lima, which is the richest area, and 36.4 in a district of Ayacucho department (departamento), which is the poorest. According to classification by the poverty indices, a value of 29 to 37 represents the extremely poor, from 21 to 29 represents the very poor, and from 14 to 21 represents the poor. As mentioned earlier, there were about 237 districts whose poverty indices showed extreme poverty.

The poverty eradication strategy that the Government, centered on the President's Office, is implementing to improve this poverty situation, is indicated in an Office document announced in June, and it is also cited in the "Country Study Report for Japan's Official Development Assistance to the Republic of Peru." And the two major pillars of the strategy are measures for priority needs of the extremely poor, and the formation of a base to create employment opportunities and increase income. The former task is urgent, because the rate of people in extreme poverty is high in Peru, and their situation is serious. That this is strongly recognized by the Peruvian Government is reflected in its target to reduce the number of poor people by 50% by 2000.

Along with these urgent measures, steady efforts must be made to build a base to create employment opportunities and increase incomes, because enabling the poor to actively participate in productive activities will lead to true solution of the poverty problem. Therefore, how to combine these two core poverty measures, and at what timing, constitute an important issue.

From this perspective, the following points attract attention among measures indicated in the document regarding poverty alleviation, issued by the President's Office in December 1996. One point is a policy to establish conditions for the assured supply of foods for the poor, through improving agricultural production and agricultural productivity. This policy aims to secure sufficient food supply in poor rural areas, and to productively improve the income level of the poor through increased agricultural production. This policy is very important, because it aims to simultaneously achieve poverty measures and poor people's active participation in productive activities.

On the other hand, activation of medium-level cities is emphasized, and it is also attracting attention. Because medium-level cities play a significant role in increasing employment and income of the poor, priority is to be placed on investment in basic social infrastructure in such cities. It is also explained that this measure aims to enable extremely poor people to participate in economic activities in cities and their surrounding areas and escape from poverty.

(2) Actual state of malnutrition and its measures

Needless to say, malnutrition and undernourishment have various serious effects on people's lives. In particular, it interferes with the growth of children during their period of physical development, lowering their learning abilities and the efficacy of school education. It is

also known that undernourishment of women in their childbearing years affects their bearing of children and the babies born to them. Further, undernourishment tends to lower labor productivity in production activities.

The average caloric consumption of Peruvians, nationwide, has been decreasing on the long term. Specifically, caloric consumption per day per capita of population, which is calculated from the total food supply, consisting of foods produced in Peru and imported foods, decreased by 13%, from 2,365 calories in 1969-1971, to 2,062 calories in 1991-1993, which is below the level FAO considers appropriate (93%). Also, consumption of fat and protein decreased, respectively, by 11% and 6% in the above-mentioned 20-year period. Because these figures are for the national population, in view of the earlier-mentioned income disparity in Peru, the seriousness of the undernourishment situation in the poor and the extremely poor classes can be understood, as the state of nutrition in individual households is determined by their incomes and food prices. And in poor households, the portion of food expenses out of total spending is estimated to be higher than two-thirds (61.2% on average for the entire poor class, and 68.1% for the extremely poor class, according to a 1994 survey), and the average of all households nationwide was 49.4%.

Generally, undernourishment of children can be confirmed by physical characteristics, such as low height or light weight in comparison with age. In Peru, the rate of children whose height is low compared with age is 36.5%. The rate is 25.9% in urban areas, and it is 53.4% in rural areas, clearly indicating that undernourishment is more serious in rural areas. Similarly, the rates of children whose weight is light in comparison with age are 10.8% nationwide in Peru, 6.4% in urban areas, and 17.7% in rural areas. Further, children with significant malnutrition are confirmed by their light weight in comparison with height, and in Peru the rates of such children are 1.4% overall, 1.3% in urban areas, and 1.7% in rural areas. Although the rate of children with significant malnutrition is only 1.7% in rural areas, there is an urgent need to rescue children from this situation.

Low height in comparison with age is considered to be a long-term effect of inadequate nutritional intake from an early age after birth. In Peru, the rates of children of low height in comparison with age are 6.3% among children of age 5 months or younger, and 16.9% among children of age 6 to 11 months – and as children grow older the rates become higher: They are 33.1% for age 1 to 2, 43.2% for age 2 to 3, 45.4% for age 3 to 4, and for age 4 to 5 the rate is 48.8%, accounting for almost half of all Peruvian children of that age.

Recent research regarding school children's height in Peru also confirmed that rural areas in particular have a high rate of children of low height. The highest rate was in Cajamarca, at 65%, and high rates were also noted in the four departments of the Southern Sierra: Huancavelica (72%), Apurimac (69%), Ayacucho (64%), and Cusco (60%).

As mentioned above, the Peruvian Government places importance on the issue of undernourishment and malnutrition, and tackles this matter with priority, and it has made considerable efforts in the past five years. In 1992 the Welfare Ministry and UNICEF jointly implemented a program to eliminate a disorder caused by iodine deficiency (IDD). For that purpose, the Government abolished the monopoly of EMSAL, a government-affiliated company that produces iodine-supplemented salt, and it supported improvement of the productivity of 50 small-scale local producers of such salt. PRONAA conducted a program to support the supply of iodine-supplemented salt in rural areas, where iodine deficiency is serious, and it is also strengthening publicity activities. So far, however, no nationwide program has been conducted to improve iron-deficiency anemia or vitamin A deficiency.

Prime Minister Pandolfi emphasized a new effort to improve nutrition in his administrative policy speech in May 1996, and he clarified the following targets: food assistance to 600,000 children under age 5 who suffer from malnutrition, the supply of 2.6 million breakfasts to poor children in kindergarten and elementary school, the continuation of milk distribution movement (vaso de leche movement), assistance to 14,000 feeding facilities run by citizen organizations, and food assistance for pregnant and nursing mothers.

5. Approach for Growth and Participation

(1) Basic perspective

As mentioned earlier, it will be important to implement a policy that aims to simultaneously achieve growth and participation, because the poor class will escape from poverty through aggressive participation in production activities, in the medium or long term, which will widely support Peru's growth and further enable the poor to participate in production activities.

It is necessary to study further the relevance between growth and participation, from this viewpoint, and to evaluate the possibilities of a comprehensive approach, in order to simultaneously achieve the two targets, such as those mentioned in Fig. 1, with a basic framework for considering "participatory development," indicated in Table 1.

Table 1 Basic Framework in Considering "Participatory Development" ^{Note}

Relation with the Government	Three organizational principles in an economic system	Goods produced	Conditions to enable "participation"	"Participating" parties and opportunity equality
Laws and systems related to market; stable currency, economic policy, etc.	Market (price signals: profit maximization, efficacy maximization)	Market goods (including some public goods)	Reduction of market failure due to oligopoly and monopoly by eliminating participation barriers	Enhancement of capabilities of participating economic parties (individuals, enterprises); securing of access to respective factor markets (education, small- and medium-size enterprise policies)
Decision-making through the political process (including the case of planning at the center)	Order (order / implementation by laws and authority)	Public goods, market goods	Securing of participation in the decision-making process; democracy that enables substantial participation	Openness of the decision-making process; transparency and information to the public; education
Approval of a traditional / common informal system; respect toward civil organizations	Cooperation, etc. (bargaining, cooperation, persuasion)	Public goods, market goods (including non-market goods)	Consolidation and support of participatory communities and civil organizations	Improvement of participants' capabilities

(Note) Difference in combination of three types by nation

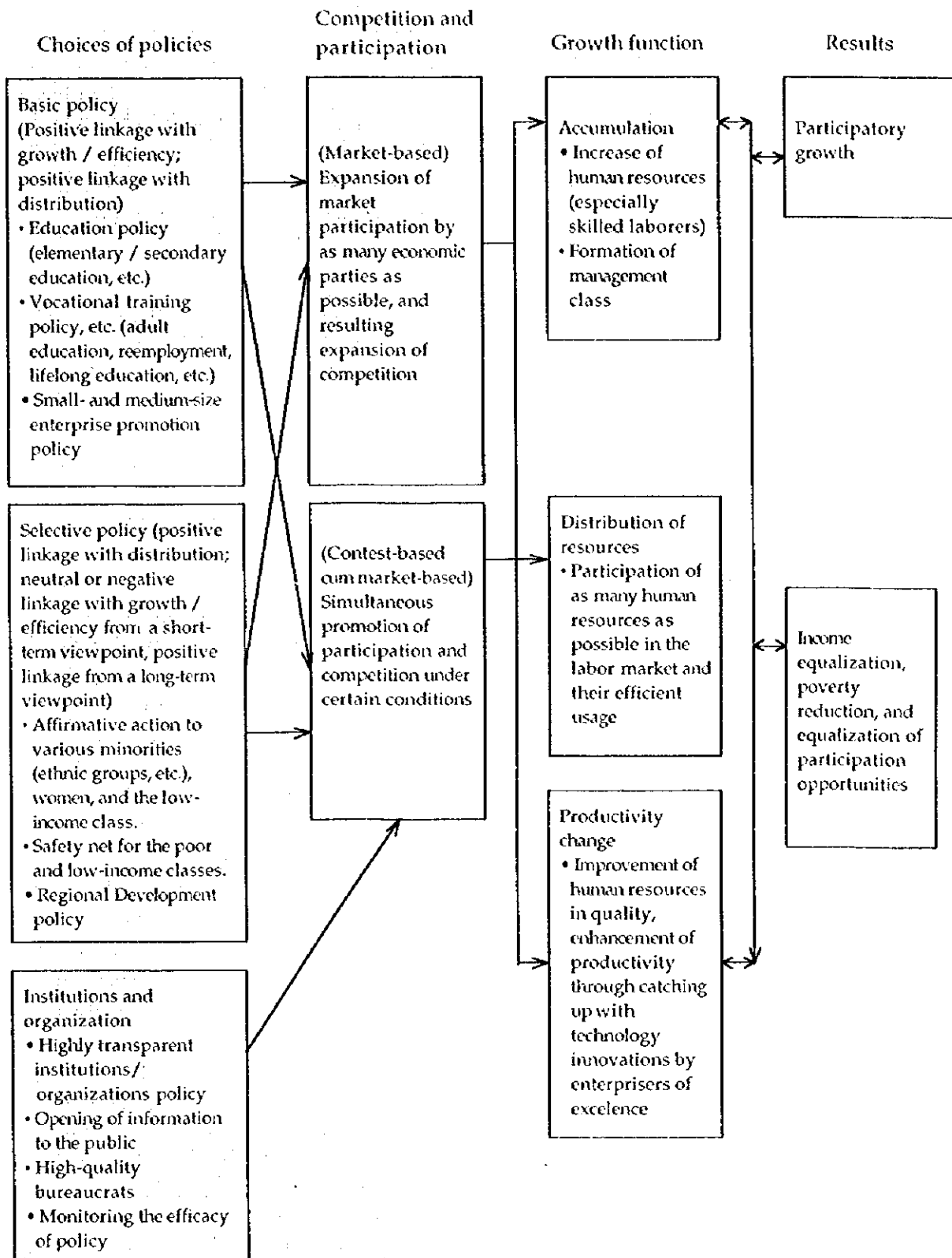
(1) Range of respective shares (including differences in overall systems)

(2) Interrelation (interface, articulation, integration)

(3) Institutions and organizations for respective types and their combination

(Source) Akio Hosono, "Economic Aspect of Participatory Development -- Three Types of Economic Systems and 'Participatory Development'," *Journal of International Development* No. 2, Vol. 4, Dec. 1996, Graduate School of International Cooperation, Kobe University

Fig. 1 A Comprehensive Approach to Achieving "Growth" and "Participation"



(Source) The same as Table 1

Fig. 1 was prepared as an approach to consider how "participation" could be realized under an economic system to efficiently conduct production and distribution.

First, importance of growth and efficiency should be emphasized. Without effective usage of limited resources, the people will become victimized and improvement of living cannot be achieved. Therefore, it is necessary to pursue, as much as possible, the simultaneous achievement -- a positive linkage -- of "growth and efficiency" and "participation." The idea is like trying to achieve the positive linkage of "growth and efficiency" and "the environment," in aiming at environmentally friendly sustainable growth. In addition, as indicated in the "basic policy," there is a strong positive linkage among growth, efficiency, distribution, and participation in such fields as educational policy, policy to enhance capabilities, such as by vocational training, and policy to promote small- and medium-size enterprises. From the viewpoint of emphasizing "participation," the above-mentioned policy is very important, and it is considered as the basic policy to enable "participation" in a market mechanism.

As a policy to further actively enable "participation," "selective policy" can be considered. It has a positive linkage with distribution, but this is not necessarily so with growth and efficiency in the short term, and it can have a neutral or negative linkage with them. From the perspective of "participation," however, this policy could be very effective. An example is a more aggressive and selective policy that would support affirmative action toward the socially weak, such as women and the low-income class, and enable and promote their participation by making it more advantageous. Or, there can be a policy to strengthen social security, by making a safety net in advance for people who cannot survive in competition. Another possibility is a selective policy for promotion of development of regions that can be left behind from development if things are left up to only the market mechanism. Such policies result, in the long term, in accumulation and participation of capable workers and human resources, through promotion of "participation," and so they might be considered to establish a positive linkage over the long term. In the short term, however, these policies can lower economic efficiency.

In Malaysia, the Bumiputera policy, which favorably treats Malays, was implemented, and this enabled participation in a broad sense, and realized social and political stability. If social stability is considered to be a condition for the realization of growth, this policy had a positive linkage in the medium and long term. Furthermore, in the long term, participation of Malays, who used to be in a disadvantageous position, in the labor market resulted in securing and training of work force, thus promoting progress of Malaysia. In this way, the possibility of great contribution in the long term is high, even if economic efficiency might be lowered in the short term. Realization of these, however, requires establishing an transparent mechanism and institutions, openness of information, high quality civil service, and monitoring of the efficacy of the policy.

Diversified values, such as "efficiency, growth, distribution, participation and the environment," are targeted in respective societies -- but, how, at what level, in what system, and in what combination these values should be realized, constitute matters that each respective society should define. Still, it should be clarified that these values can be simultaneously achieved to some degree, and the method can be flexibly considered. Growth / efficiency and distribution / participation are not "choose one or the other" matters. However, there is the issue of sequence whether they should be realized at the same time, or one after another. Also, it is necessary to consider the term length: short or long term, as well as the diversified combinations, also including the issue of distribution among generations.

(2) Policies for "growth" and "participation"

Policies for "participation" have various specific issues. Based on what has been mentioned so far, important issues among them are considered here.

(i) Economic reform and "participation"

The Fujimori Administration has aggressively tackled economic reform, including liberalization of trade and foreign investment, and domestic deregulation, in order to establish a competitive market economy. In Peru, protective policy and regulations might be said to be the foundation for a small number of leading enterprise groups to realize monopolistic rent. Elimination of protection through economic reform is considered to be a condition to enable participation by new enterprises. It is also important to enable new participation by eliminating barriers, such as through deregulation. It is necessary to recognize the important significance of a series of economic reforms for "participation." Such economic reforms have a very positive aspect for "participation" in the sense of eliminating the "rent" of a small number of people who have vested interests. If that is all that is done, however, then another limited number of groups may create an oligopolistic situation in the market. There is a possibility that the end result may just be a shift from state-run failure to market-system failure. In order to avoid this, it is necessary to establish laws related to monopolies, combined with trade liberalization, and to implement policies to promote new participation, as discussed below. It should be necessary to simultaneously implement a policy that promotes participation, policies for education and small- and medium-size enterprises, as mentioned later, and other policies that can enhance people's capability and enable them to participate, in the shift to a market economy.

(ii) Privatization and "participation"

From the viewpoint of "participation," privatization is also an important issue. Many public and national enterprises operate at a loss. Therefore, if deficits can be eliminated by privatization, public revenues can be increased, and accordingly social expenditures can be increased. Elimination of deficit-operating national enterprises can result in efficient supply of public goods, which is originally government's task, and improvement of social welfare, as well as realization of participation. However, there is still a possibility that privatization may not be properly conducted, and specific groups may take control of the enterprises placed under private management, thus creating oligopolies and monopolies. Therefore, it is necessary to appropriately determine the regulatory framework of enterprise activities in the fields concerned after privatization, to establish laws, such as anti-monopoly law, and to strengthen the capability of regulators. Efforts are also needed to distribute the transfer of ownership of national property to as many people as possible, and to enable participation through various combinations of privatization. In addition, effective usage of income obtained from privatization is important.

Also, the range of public goods provided by the public enterprises must be fully studied. For example, when medical care is placed under private management, it should not occur that the new medical system is inaccessible for the poor. This issue is deeply related to "participation."

(iii) "Participation" and small- and medium-size enterprise policy

It is necessary to study the small- and medium-size enterprise policy from the viewpoint of simultaneous achievement of "growth" and "participation." In the past, enough consideration was not necessarily given to the importance of small- and medium-size enterprises from this

viewpoint. For example, in the "The East Asian Miracle," study regarding their role is very short. Although the efficacy of small- and medium-size enterprises in expanding employment has come to be emphasized, the policy for those enterprises is taken up just as a measure to prevent complaints by letting them share the results of development, and it is discussed in line with the policies of agrarian reform and the supply of housing for workers.

However, the small- and medium-size enterprise policy should rather be considered very beneficial for growth and a policy that enables "participation." The above-mentioned study by the World Bank says, "Rapid growth of labor-intensive manufacturing in small- and medium-size enterprises absorbed large number of workers, reducing unemployment and attracting rural labor." Small- and medium-size enterprises have at least four major roles. The first is to create employment. The second is to produce an external economy that is extremely important as supporting industry for major enterprises. The third is to result in promotion of local areas through local industries in particular. Fourth, there is a possibility of the appearance of assertive, innovative enterprises from among small- and medium-size enterprises, such as HONDA and SONY in Japan. Therefore, the roles of small- and medium-size enterprises are considered very important also in the sense of simultaneous achievement of "growth" and "participation."

The Inter-American Development Bank (IDB) strongly set out the viewpoint of emphasizing small- and medium-size enterprises recently. A seminar regarding promotion of small- and medium-size enterprises was conducted in Guadalajara under sponsorship by IDB, and the document presented by IDB at the seminar states as follows: "Compared with Asia, Latin America regarded small- and medium-size enterprises much more lightly, so their participation is low. Among newly industrializing countries in East Asia, the share of small- and medium-size enterprises in the production structure exceeds 50% in the number of workers, and it is also as high as 25 to 40% in value added. Their participation in Latin America are much lower, and the share in employment is one-third to one-fifth of the total, and it is one-seventh to one-third in value added. These rates are based on study of various countries, such as Chile, Peru, Mexico, and Argentina."

These facts tell how the small- and medium-size enterprise policy has been insufficient in Latin America. One of the fundamental causes is inaccessibility of small- and medium-size enterprises to factor markets. They are in a disadvantageous position in the access to finance, skilled workers and information.

Another characteristics of the Latin America region is the existence of a large informal sector, in contrast to the relatively low participation of formal small- and medium-size enterprises, and Peru is a typical example. The informal sector has not been able to fully join small- and medium-size enterprises, and comprehensive "participatory" development has been hindered. From the above, it can be easily understood how important a small- and medium-size enterprise policy is in order to simultaneously achieve "participation" and "growth."

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In writing this supplementary report, the following references were used in addition to the ones listed for the main report.

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