

Country Assistance Program (Peru)

<1> POLITICAL, ECONOMIC, AND SOCIAL CONDITIONS

(1) Political conditions

Democratic governments have taken hold since the 1980s. Although the Fujimori government, established in 1990, invoked a mechanism to partially suspend the constitution in 1992 in order to promote national reconstruction, a new constitution ratified by a referendum was put into effect in December 1993. Numerous results have since been achieved, including moves toward a stronger economy and sound public finances, structural adjustment, restraint of inflation, a return to the international financial community, and anti-terrorism measures.

Having made campaign promises to fight unemployment and poverty, President Fujimori was re-elected in 1995 with 64% of the vote, and the parliament subsequently recognized an interpretation of the constitution in advance of the election in April 2000 that cleared the way for him to run for a third time. Although economic stability, the return of public safety, and a fair degree of political stability have been achieved under the Fujimori government, many issues remain to be addressed, such as economic recovery and the problems of poverty and unemployment.

In the diplomatic arena, a peace agreement was established in October 1998 (effected in May 1999) to resolve a border dispute with Ecuador that had been a pending issue since the previous century. An agreement was also achieved with Chile in November 1999 on the use of the Arica (a good seaport on the Pacific Ocean) region, also a source of contention. Attention has accordingly been turning to the development of these border regions.

2) Economic conditions

In the late 1980s Peru adopted an external debt payment restriction mechanism against its cumulative debt burden and consequently become non-eligible for financing by the International Monetary Fund (IMF), World Bank and the Inter-American Development Bank (IDB). While the government followed a policy of expanding internal demand, spiraling inflation, dwindling foreign currency reserves, and an expanding budget deficit were indicative of a rapidly deteriorating economic situation. With the inflation rate at over 1,000% from 1988 onward (7,650% in 1990), the economy had essentially collapsed.

The Fujimori government reached agreement with the World Bank, IMF, and other institutions on economic reconstruction plans, realized the adoption of international assistance measures, and facilitated a return to the international financial community. A series of economic liberalization measures aimed at economic stabilization and production recovery was also taken in pursuit of economic recovery.

Specifically, economic stabilization as symbolized by a single digit inflation rate (6.0% in 1998) was achieved through measures aimed at improving the fiscal balance, such as revamping the price system, dramatically raising prices for various utilities and public services, cutting government expenditures, and adopting emergency taxation measures. With respect to trade policy, major reductions in customs duties encouraged the liberalization of imports, while preferential tax treatment and other measures were implemented in order to promote exports. Administrative reforms were also undertaken, including the privatization of state enterprises, a 10% cut in expenses for all government agencies, and reductions in the number of government employees.

As a result, the rate of real GDP growth recovered to an average of 9% for each of the three years from 1993, 2.5% in 1996, and 7.2% in 1997, exhibiting a high level of economic growth*1 among the countries of Central and South America. In the public sector, the basic fiscal account is shifting toward surplus (between 1 and 2% of GDP), and the overall fiscal account excluding interest payments on government loans was in balance for the first time ever in 1997. Although the trade deficit roughly doubled every year from 1991 to 1995 due to increased imports resulting from strong economic growth, it has been shrinking since 1996. The current account deficit peaked in 1995 at 7.3% of GDP, and has declined to the 5 % range in recent years.

The economic growth rate dropped to 0.7% in 1998, as the El Nino phenomenon*2 impacted on fishing and agriculture, the world economy slowed down, and international prices declined for mineral products, which are important sources of foreign currency. A shift towards recovery has been seen since the start of 1999, but tax revenues have declined despite economic growth of over 3% for the year. Concurrent with the enactment of legislation for fiscal restraint and transparency aimed at improving the fiscal account, economic reforms are being implemented in coordination with the IMF and other international institutions.

(3) Social conditions

The biggest challenge for social policy is the alleviation of poverty, which has been identified as a cause of terrorism and general crime. The population of Peru,

which numbered about 10 million in 1960, has increased to 24.37 million by 1997. During this period, rural poverty became more prevalent amidst continuing political and economic instability, such that population rapidly shifted from the countryside to the cities, and city outskirts and inner city areas developed into slums (the percentage of the population living in cities grew from 52% in 1965 to 72% in 1997).

Although the implementation of anti-poverty social policies by the Fujimori government reduced the percentage of the poor facing difficulty in maintaining minimum living standards (from 55.3% in 1991 to 49.0% in 1997), the percentage of the population below the poverty line remains high, and some 20% of these people are classified as being at the poorest extreme lacking minimum daily calorie consumption. In terms of population distribution by income level, those in the bottom 20% account for 4.4% of total income, while those in the top 20% account for 51.2% (as of 1996). Furthermore, with 64.7% of the mountainous rural population in poverty as opposed to approximately 40.0% of the urban population, regional disparities are large. Of the working population of 7.11 million, 34% is concentrated in Lima. Unstable employment conditions are indicated by a 1996 incomplete employment rate of 42.6%, nearly half, with complete unemployment of 7.9%.

With respect to social development, mortality rates for infants and children under five are high (respectively, 40 and 52 per 1,000 population in 1997), as is perinatal mortality (average of 280 per 100,000 from 1990 to 1997).

(4) Public safety conditions

The terrorism and general crime situations have improved dramatically (terrorism-related deaths fell from 3,261 in 1989 to 113 in 1998). Terrorist organizations have been subdued through arrests of leaders by public safety authorities, and, although these organizations have not been completely stamped out, it has been made difficult for them to carry out large-scale terrorist activities. General crime has also been reduced as a result of measures such as 1998 legislative revisions to strengthen penalties for crimes, as well as restricting possession of weapons to the armed forces and police. Terrorist activities are financed by coca=

cultivation in the Eastern Andes and Amazon River forest regions, and it has been estimated that drug exports once reached 4% of GDP.

<2> CHALLENGES TO BE ADDRESSED IN DEVELOPMENT

(1) Peru's development plans

(A) Development programs

There has been no long-term and comprehensive development plan under the Fujimori

government , and development programs are formulated individually by sector. As there is no institution to perform horizontal coordination among the various government agencies, priorities have not necessarily been established among individual development projects, and decisions tend to be occasionally made on the basis of political factors.

The targets for macroeconomic indices agreed upon with the IMF for 1999 through 2001 are on an inflation rate of 5 to 6%, declining to 3% by 2001, with the achievement of a GDP growth rate of 3% in 1999, rising to 6% by 2001.

(B) Linkage with DAC Development Partnership Strategy*3 objectives

Peru has established its own specific development goals in line with the DAC Development Partnership Strategy, which seeks human-centered development. A goal was announced in June 1997 to reduce the population deemed in 1995 to be in extreme poverty by 50% by 2000 (from 4.5 million to 2.2 million), and the Intensive Strategy for Anti-Poverty Programs 1996 - 2000 was formulated to achieve this, involving the priority implementation of the social sector assistance and the social and economic infrastructure development noted below. The total amount of social investment estimated to be required is \$2.7 billion.

(i) Social sector assistance: food aid programs for the socially vulnerable family planning programs with priority emphasis on households with large numbers of members, and other programs.

(ii) Social infrastructure: educational materials and equipment, public health centers, clinics and medical equipment, water supply and sewer improvement, etc.

(iii) Economic infrastructure: transportation (roads, bridges, tunnels etc.) , small-scale irrigation (small dams, water supply channels, drainage channels, wells, etc.), and electrification (construction and improvement/repair of small-scale hydroelectric and thermal power facilities, installation of power transmission lines, solar panels, etc.).

Although 2000 is the stated deadline for achievement of the foregoing, Peru has indicated that it will establish goals every five years in conjunction with DAC objectives.

(2) Primary challenges in development

(A) Poverty alleviation and employment promotion

Although the second Fujimori government has set anti-poverty efforts as a priority agenda, there are continuing requirements in terms of enhanced fulfillment for basic human needs,*4 such as improvement of health and medical care conditions, (maternal and child health, family planning, development of medical care facilities) ,

the improvement of education (reduction of the illiteracy rate, spread of basic education, raising the quality of teachers), and infrastructure development in support of living standards (housing, water supply and sewers, roads). In addition, from the perspective of the necessity of addressing unemployment, gender disparities, and regional disparities, all of which are causes of poverty, another important issue is the encouragement of employment through industrial promotion (including small and medium-sized enterprises, or SMEs) and human resources development (vocational training, improvement of agricultural technology).

(B) Promotion of privatization and maintenance of investment levels

From 1990 onward, concurrent with the use of public funds and the accumulation of foreign exchange reserves derived from revenues from the active privatization of state enterprises, the Peruvian government has succeeded in attracting foreign investment, and this has become a driving force for economic development. Continued privatization would be desirable from the standpoint of increased economic efficiency, although major strides have already been taken in the areas where privatization is comparatively easy to achieve (141 firms had been privatized as of May 1997, with resulting revenues of \$7 billion). From the perspective of securing privatization revenues from further privatization, as well as maintaining investment levels, the extent to which future direct investment can be encouraged will be a key to economic development. Accordingly, it will be important to create an environment in which private investment, including that from Japan, can be fostered.

(C) Enhancing export competitiveness

Stronger export competitiveness through the diversification of export industries and products is needed in order to eliminate the perennial current account deficit. The formulation of medium and long-term policies for industrial investment and trade, as well policies for the development of SMEs, are therefore necessary, as is the development of economic infrastructure.

(D) Improvements in terms of the cumulative debt problem

Cumulative external debt as of the end of 1998 totaled \$30 billion (estimated), while the debt service ratio (DSR)*5 showed improvement from 44.5% in 1995 to 30.9% in 1997. There are currently no overdue debt repayments, but the ratio of the present value of external debt to GDP is 45%, with the ratio of the present value of external debt to exports of goods and services standing at 293%. Both of these figures remain quite high, and the debt repayment peak is anticipated to arrive in 2002 to 2003. Foreign exchange reserves had risen from \$531 million in 1990 to \$10.824 million by the end of 1997, having thus improved to a level capable of covering 12 months

worth of imports. The majority of debt is composed of medium and long-term public debt, with short-term commitments accounting for 17% of the total. Short-term capital inflow has tended to decline in the wake of the Asian currency crisis. There are constraints placed on the development budget due to the fact that 24% of expenditures are devoted to debt servicing (1997), and improving the cumulative debt problem will be important for promoting development.

(E) Terrorism countermeasures

Although terrorist activities are subsiding and states of emergency were lifted on February 29, 2000 from all regions where they had been declared, effective government countermeasures will continue to be needed, together with those directed at general crime.

(3) Relationships with key international institutions and efforts of other donor countries

Japan ranked first (20.3%) in bilateral ODA to Peru in 1996 on a net disbursement basis, with the U.S. placing second and Germany placing third. In 1997, the U.S. was first, Germany was second, and Japan was third. With respect to international organizations, the United Nations Development Programme (UNDP) and Committee of the European Commission (CEC) were the main aid donors.

Peru has also maintained good relations with the World Bank (IBRD), the IMF, and the Inter-American Development Bank (IDB) since 1993, and is receiving regular financing. The World Bank reopened its Lima office in 1994, and, with the primary objective of poverty alleviation, is providing assistance to Peru for social development, infrastructure improvement, the construction of administrative systems, and macroeconomic stabilization. In addition, the UNDP is devoting a considerable amount of its budget to anti-poverty measures and social programs for health, hygiene, etc. Meanwhile, under the leadership of Japan, consultations have begun for the promotion of aid coordination.

<3> JAPANESE AID POLICIES FOR PERU

(1) Significance of aid to Peru

As explained below, close and friendly ties have been enjoyed with Peru thanks to the long-term efforts of Japanese emigrants and their descendents. Peru is eagerly moving forward with democratization and the transition to a market economy, as well as with measures against the poverty that may cause drug and

terrorism-related problems. The country is also participating in APEC, and is making efforts to strengthen its relations as a Pacific country. Considering that certain results have already been achieved, continued assistance for these efforts through aid will contribute to the maintenance and strengthening of relations with Peru, as well as helping to extend the range of Japan's diplomacy in the Latin American region and contributing to the securing of a stable supply of mineral and other resources.

(A) Historical ties

Japan and Peru concluded the Japan-Peru Friendship and Trade Treaty [CHECK] in 1873, marking the first establishment of Japanese diplomatic relations with a Latin American country, and this was followed in 1899 by the first Japanese emigration to the South American continent. The Commemoration of the Centennial of Japanese Emigration to Peru was observed in May 1999 and attended by Her Highness Princess Sayako. There are currently over 100,000 Japanese and Peruvians of Japanese descent living in Peru, where this group plays an important domestic role, and there is considerable pro-Japanese sentiment. There are 2,620 Japanese nationals resident in Peru (as of October 1998; including permanent residents). The leaders of both countries visit each other frequently, and bilateral ties are close.

(B) Political importance

In the context of Japan's Latin American policy, it is of great importance that Japan strengthens bilateral relationship with Peru, which is a longtime friendly country for Japan and is ranked as a middle power in the region in terms of land area, population and natural resources. According to a domestic Peruvian opinion poll (1997), Japan placed second in a ranking of friendly countries, first as a praiseworthy country, and first as a country with which economic ties should be strengthened. As a Pacific Rim state, Peru also shows interest in the Asian-Pacific region and participates in APEC.

Furthermore, aid to Peru also serves as an anti-drug, anti-terrorist measure through the alleviation of poverty and contributes to fostering international peace because drug crops are cultivated in the South American region, and there are frequent occurrences of terrorism by organizations financed by drug money, therefore Rampant terrorism rocks the stability of such countries, as well as threatening regional stability.

(C) Economic importance

Japan imports mineral products, fish-meal, coffee, cotton, textile products, non-ferrous metals, and other items from Peru (total imports in 1998 of

\$217 million), which is an especially important source for Japan of mineral resources such as copper ore. Japan exports industrial products such as automobiles and electrical equipment to Peru (total exports in 1998 of \$340 million). Japan thus ran an export surplus in 1998, although the basic trend has been for Japan to be a net importer. As an export destination for Peru, Japan places sixth (3.9%), behind the United States, Switzerland, the United Kingdom, China and Germany (IMF and DOT figures for 1998). In total trade, Japan also places sixth in importance behind the United States, Spain, Switzerland, Chile, and Germany (IMF and DOT, 1998). (Peru accounts for a share of about 0.1% of Japan's external trade). There are currently 24 Japanese companies with operations in Peru in areas including commerce, manufacturing, construction, industrial plant engineering, mining, and fisheries.

Japanese direct investment in Peru had reached a cumulative figure of 205.4 billion yen by 1996, centered on mining development. Although investment in Peru had not been particularly active due to economic and public safety conditions, the investment environment has been gradually improved since the inauguration of the Fujimori administration, and future growth is expected. In 1992, the Japan Chamber of Commerce and Industry and the Federation of Peruvian Private Enterprise Associations established the Japan-Peru Economic Council with the goal of promoting economic exchange at the private sector level.

Having participated in APEC since 1998, Peru is anticipated to strive for stronger relationships with the Asian-Pacific region, and expanded Japan-Peru bilateral economic ties.

(D) Coordination with DAC's new development strategy

In Peru, disparities in wealth continue to exist, and the Peruvian government is demonstrating ownership over its approaches to this problem through such means as establishing independent and specific goals within its social development policy. This is in accordance with DAC's development partnership strategy, which also represents the basic thinking underlying Japan's ODA implementation. The conditions are therefore in place for assistance with priority implementation of the new development strategy in Peru

(2) Relationship with ODA Charter principles*6

The Peruvian government is proceeding with trade and investment liberalization, and with transition to a market economy evidenced, for instance, by the privatization of state enterprises. These positive efforts at economic liberalization are deserving of merit.

With respect to basic human rights and guarantees of freedom, despite the fact that certain limitations had been placed on basic human rights in declared state-of-emergency regions, these declarations have now been withdrawn, and the country is moving in a desirable direction.

In addition, an agreement to end the conflict over the border with Ecuador was reached in October 1998, and President Alberto Fujimori [CHECK; note different presentations on MOFA page] has declared a "peace dividend" including the diversion of military expenditures to the development budget, particularly to the social sector.

(3) Orientation for Japanese aid

(A) Japanese aid to date

Japan has provided active cooperation to date, with cumulative aid from Japan through fiscal 1998 composed of 302.665 billion yen in ODA loans, placing first in the Latin American region, 48.195 billion yen in grant aid, placing third in the region (foregoing figures on an E/N basis), and 36.705 billion yen in technical cooperation, placing fifth in the region (JICA cost basis). Japan provided \$80.14 million to Peru on a net disbursement basis in 1998, placing second in the region.

ODA loans have been made as sector adjustment and sector program loans*7 since 1990 in areas such as trade, finance, and welfare (medical care). However, with the positioning of Peru in 1996 as an annual recipient country for yen loans, provision has been made both for large-scale projects, such as hydroelectric power, and for projects of direct benefit to the poor, such as water supply and sewage system construction and assistance for small-scale farmers.*8

Grant aid has been provided in recent years for general project grants in fields such as health and medical care and education, as well as in cooperation with increased food production, cultural grants, and non-project grants.*9 In addition, grass-roots grants have been provided within the framework of the U.S.-Japan Common Agenda*10 for assistance with substitute crops for drugs.

Technical cooperation has been centered on fields such as measures for small enterprise,*11 environmental measures, and health and medical care, based mainly on the acceptance of trainees and third-country training.

(B) Orientation for aid over the next five years

In February 1998, a Japanese high-level mission for economic cooperation and the Peruvian government decided to place priority on four areas from the perspective of medium and long-term economic cooperation: poverty alleviation, social sector assistance, economic infrastructure development, and environmental

conservation. Poverty alleviation comprises the most important challenge, which is to be addressed through effective and efficient aid for self-help efforts. Specifically, these include assistance in social development fields such as health and education, in addition to assistance for improved industrial productivity through basic infrastructure development and strengthened market access (access to information, and development of legal and financial systems).

As income levels are higher than the general grant application standard, agreement was reached with Peru in 1999 to undertake a staged transition of future financial cooperation from grant aid to an aid scheme centered on ODA loans. From the perspective of poverty alleviation, however, grass-roots grants will be continued, centered on projects in rural and mountainous regions, where the impact is substantial.

With respect to ODA loans, given the current exigencies facing Japanese ODA, effective and efficient implementation will be undertaken while endeavoring to improve the quality of aid. Specifically, Peru has been an annual recipient country for yen loans since 1996, and the regular and stable provision of development funds from Japan can be assumed. Japan will proceed with requests from Peru, while considering the economic, fiscal, and debt situation, bilateral relations, and other factors. Accordingly, long list*12 compilation should be pursued from a medium- and long-term perspective, such that a higher level of project maturity can be sought in reaching for higher effectiveness and efficiency in the implementation of yen loans. Private sector funds and technology are being increasingly utilized in economic infrastructure projects due to privatization (concessions*13) in Peru. Assistance will be provided where private sector and other official flows (OOF) response is difficult, while stressing complementary roles and linkage between the private sector and OOF on the one hand and yen loans on the other.

In order to improve project formation and administrative capabilities on the part of counterpart project implementing institutions, continued efforts will be made to train the Peruvian side in yen loan procedures, as well as assist with establishing implementation systems.

Dispatch from Japan of economic cooperation personnel will be conducted with the greatest caution, based on the public safety situation. Although the dispatch of Japanese technical cooperation personnel has been extremely limited during the eight years since 1991 due to public safety concerns, cooperation is to be gradually expanded while ensuring their safety. Japan will emphasize the implementation of the thinking behind DAC's new development strategy in Peru. In order to smoothly formulate and implement projects in aid priority areas in conjunction with various

other schemes, policy advisory experts*14 will continue to be dispatched to relevant central government institutions.

Furthermore, Japan will provide support for democratization in Peru from the following points of view ; President Fujimori shows his commitment to make utmost efforts for strengthening democracy in Peru in response to international criticism in the Presidential election in 2000, and democratization in Peru will contribute to the stability not only in Peru itself but also in the all Andes region.

(4) Aid policies for respective priority areas and challenges

(A) Poverty countermeasures

As urban/rural income disparities and agricultural village development are major issues, emphasis will be placed on assistance with infrastructure for agricultural production and with modernization of production methods. Accordingly, consideration will be given to areas related to water supply and small-scale irrigation infrastructure development through financial cooperation, and cooperation for the financing of small-scale farmers. Cooperation in basic human needs (BHN) will continue to be promoted centering on the development of water supply and sewerage systems. Also, with respect to cultivation of substitute crops for illegal coca, cooperation will continue to be provided from the perspective of promoting the U.S.-Japan Common Agenda.

Furthermore, based on the fact that inferior living environments are closely related to poverty issues, Japan will provide assistance for projects that contribute to the improvement of living environments in impoverished regions.

(B) Social sector assistance

Since elementary school enrolment rates and literacy rates are characterized by large discrepancies between cities and villages and between males and females, assistance will be provided in areas such as training and retraining of current teaching staff, and the development of teaching and educational materials. As mortality rates are high for perinatal women and for infants and children, mothers' and children's health as well as family planning will be promoted, while emphasis will also be placed on the provision of equipment to health and medical care facilities and on the training and development of health care workers. Consideration will also be given to the use of new information and communications technologies in the context of social sector assistance.

(C) Economic infrastructure development

Cooperation for development of economic infrastructure essential to the

promotion of sustainable economic growth, including transportation (roads, airports, and seaports), electrical power, and information communications, is to be provided while keeping in mind trends in privatization as well as response to remote regions. Other areas to be emphasized include the strengthening and improvement of the agricultural, forestry, and fisheries industries (e.g., increased food production), environmentally considerate promotion of mineral development in the mining industry, the major source of exports, and energy-related infrastructure development for oil and natural gas, as well as tourism development.

(D) Environmental conservation

Environmental issues are crucial to sustainable development, and, based on the ISD philosophy (Initiatives for Sustainable Development toward the 21st Century),*15 assistance is to be provided centered on pollution countermeasures such as those pertaining to air and water pollution, waste disposal, and industrial waste, and on global issues such as global warming. Consideration is also needed for natural disaster preparedness and rehabilitation measures associated with El Nino.

(5) Matters to note in aid implementation

(A) Strengthening aid absorption capacity

The point of contact for economic cooperation in the form of grant aid and technical cooperation is the International Technical Cooperation Bureau of the President's Office (SECTI), while that for international organization and bilateral ODA loans is the Ministry of Economy and Finance (MEF). In terms of their respective aid absorption capacity, SECTI has an overall high capacity, while the MEF Investments Office rates relatively high. Although the low execution rate for yen loans has been pointed out as a problem, major steps towards improvement have been taken since the beginning of 1999. However, continued monitoring of the status of project progress will be needed. In order to boost future absorption capacity, it will be important to enhance dialogues with individual counterpart institutions while also requesting a closer linkage between Peruvian institutions that serve as liaison points, thereby ensuring consistency in the acceptance of economic cooperation and leading to the identification, formulation, and implementation of worthwhile projects. JICA experts are currently dispatched to SECTI and to the MEF Investments Office, and they are involved in areas such as the coordination of projects having to do with technical cooperation, human resources development, coordination of projects related to financial cooperation, and in the promotion of linkage between technical cooperation/grant aid and ODA loans. Close dialogue is also being sought between

the local office of JICA and the local office of the Japan Bank for International Cooperation (JBIC). Further improvements in the capacities of counterpart institutions may therefore be expected.

(B) Linkage with other donors and international institutions

Peru receives aid from sources such as major countries, the World Bank, and the Inter-American Development Bank. Dialogues with these institutions through local meetings of donors are needed, as has already been undertaken in some sectors. There is also a need for the implementation of coordinated, mutually complementary aid.

(C) Issues for the Japanese implementation structure

Peru has become an annual recipient country for ODA loans, and in 1998 it became the second largest recipient of Japanese ODA (net disbursement basis) in Latin America. While Peru has high expectations for economic cooperation from Japan, problems include limited economic cooperation involving the dispatch of personnel, the lengthy periods required for project selection, and insufficient linkage among Japan's various economic cooperation schemes.

For future cooperation, it will be necessary to foster better linkage among Japan's various economic cooperation schemes.

While assisting with the strengthening of project formulation capacities within the counterpart government, Japan is required to build up a more planned structure of cooperation, for instance, by setting up a forum for regular dialogue among the counterpart government and aid recipient institutions together with the relevant Japanese institutions (Japanese Embassy in Peru, and JICA and JBIC offices), which would also encourage progress on a long list for projects and other measures to achieve a grasp on medium-term project demand.

(D) Safety considerations

Future dispatch of personnel will be considered, based on the adoption of all specific measures possible in regard to safety, and it will be necessary to respond in a more detailed way to regional circumstances.

Notes

<1> RECENT POLITICAL, ECONOMIC, AND SOCIAL CONDITIONS

(2) Economic Conditions

*1 Peru's per capita GNP (World Bank figures)

1989: \$1,090

1997: \$2,610

*2 The El Nino phenomenon

This involves a rise in the temperature of Pacific Ocean seawater off the coast of Peru and Ecuador near the equator, bringing about changes in atmospheric circulation. Strong rising currents create cumulonimbus clouds that in turn cause heavy rains over the coastal areas of Peru and Ecuador. The El Nino phenomenon that continued from around spring 1997 to summer 1998 brought heavy rains to Peru, impacting on general economic activity.

<2> CHALLENGES TO BE ADDRESSED IN DEVELOPMENT

(1) Peru's development plans

*3 OECD/DAC Development Partnership Strategy

In May 1996, the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) adopted a document titled The Development Partnership Strategy (Shaping The Twenty-first Century : The Contribution of Development Co-operation). This development strategy sets specific goals and timeframes desired to improve the living standards of all people around the globe. Goals include: 1) reduction by half of the number of people in extreme poverty by 2015, 2) universal primary education in all countries by 2015, 3) elimination of gender disparity in primary and secondary education by 2005, 4) reduction to 1/3 of the 1990 level in the infant mortality rate by 2015, 5) reduction to 1/4 of the material mortality rate during the same period, 6) spread of health and medical access through the primary health care system to reproductive health service, 7) formulation of a national strategy for sustainable development in every country by 2005 so as to reserve the current trends in the loss of environmental resources at both global and national levels by 2015. The strategy emphasizes the importance of a global partnership because it will be essential that developed and developing countries work together if goals are to be achieved.

(2) Primary challenges in development

*4 Basic human needs

Refers to minimum consumption requirements for things such as food, shelter, and clothing, as well as services essential to local society such as safe drinking water, public health facilities, means of public transportation, health, and education.

*5 Debt service ratio (DSR)

The percentage of exports of goods and services accounted for by debt repayments (interest and principal) for one year. Serves as a measure of debt burden magnitude.

<3> JAPAN'S ODA IN PERU

(2) Relationship with ODA Charter principles

*6 Japan's Official Development Assistance Charter (the ODA Charter)

This is the most basic and important document in Japanese ODA policies, defining aid guidelines in light of past achievements, experiences, and lessons from ODA. It was adopted by cabinet resolution on June 30, 1992 as a means of providing a clear statement of Japanese ODA principles and rules. The document covers six areas: basic philosophy, principles, priorities, measures for effective implementation of ODA, measures to promote understanding and support at home and abroad, and ODA implementation systems. The basic philosophy for ODA is defined as including: 1) humanitarian considerations, 2) recognition of interdependency, 3) self-help efforts, and 4) environmental conservation. The principles instruct aid administrators to "take into account comprehensively each recipient country's request, its socioeconomic conditions, and Japan's bilateral relations with the recipient country." They are also instructed to consider the following four areas: 1) balancing environment and development, 2) avoiding use for military purposes or for aggregation of international conflicts, 3) safeguards against diversion for military expenditure, development and production of weapons of mass destruction and missiles, and imports and exports of arms, and 4) promotion of democratization, efforts to introduce the market-oriented economy, and guarantees of basic human rights and freedoms.

(3) Orientation for Japanese aid

*7 Sector program loan

A type of loan that provides commodity loans for the improvement of the international balance of payments as well as the allocation of appropriate counterpart funds which are through this to priority sectors in development assistance which have

been agreed upon in advance by donor and recipient countries.

***8 Assistance for small-scale farmers**

Resident participation-type projects for the development of public health, social, and economic infrastructure in poor villages in mountainous regions (with the Foundation for International Social Development [CHECK] (FONCODES) as the implementing institution), are being carried out in Peru as well as similarly oriented projects for afforestation, agricultural land development which promotes soil conservation, and for development of small-scale irrigation projects (with the Ministry of Agriculture National Project for Water Resources and Soil Conservation [CHECK] (PRONAMACHCS) as the implementing institution) are being carried out in Peru.

***9 Non-project grants**

For countries eligible to receive grant aid that are implementing or plan to implement economic structural adjustment programs agreed upon with the World Bank and the IMF, this type of grant aid assists in importing products urgently needed to facilitate such plans.

***10 Japan-U.S. Common Agenda**

This framework (Japan-U.S. Common Agenda for Cooperation in Global Perspective) was inaugurated in July 1993 with the objective of promoting joint Japan-U.S. action on an array of increasingly serious global issues including environmental challenges, population growth, and natural disasters. Various projects have been implemented in 18 different sectors, with attention to four underlying objectives (four pillars): promoting health and human development, responding to challenges to global stability, protecting the global environment, and advancing science and technology.

***11 Measures for small-scale enterprises**

Conducted by means of seminars, these are measures for human resources development in the context of policy planning and implementation for the development of small- and medium-sized industries (SMIs) and enterprises (SMEs). In Peru, these include SMI development seminars aimed at helping executive staffers search for better industrial policies for developing countries, small- and medium-scale industry policy seminars aimed at the development of human resources associated with SME policy planning in government institutions for the facilitation of SME policy and other institutions for SME promotion, and, the undertaking of SME managerial diagnostics with the goal of equipping consultants and specialist advisors with the knowledge needed for SME diagnostics and management consulting/guidance, thereby contributing to SME promotion.

*12 Long list

Annual recipients of yen loans are asked to submit requested projects spanning a number of years, and these submissions are used as a foundation for consultations between the recipient and Japanese governments for the confirmation and formulation of a multi-year, birds-eye type list of requests. (This does not mean, however, that Japan commits itself to the projects on the list.) With multi-year, birds-eye requests on the table, list confirmation can be conducted through dialogue between the donor country and the recipient, thereby facilitating Japan's implementation of policy-oriented and consistent financial cooperation.

*13 Concessions

While the government or a government-related institution continues to possess ownership rights, project management rights and/or permission for development are granted to private sector operators. Generally speaking, more efficient management and operation can be expected than if the government were to run such projects itself.

*14 Policy advisory experts

These are experts dispatched to core institutions responsible for policy planning and formation in developing country governments. The goal is to provide expertise for national development that will in turn contribute to human resources development for economic reforms and institution-building.

*15 ISD philosophy (Initiatives for Sustainable Development toward the 21st Century)

This is a comprehensive package of Japanese guidelines for ODA-led environmental policy and programs in the years ahead, announced by Japan in June 1997 at the UN General Assembly Special Session on the Environment and Development (UNGASS). The ISD philosophy rests on: 1) human security (address the environmental degradation that threatens human existence and that constitutes a security issue in a broad sense), 2) ownership (developing countries assume the primary responsibility for environmental issues, with supporting countries giving assistance to such efforts), and 3) sustainable development (the objective of assistance should be to realize sustainable development, with particular attention paid to the differing economic and social situation of each developing country).