

No. 19905

**UNITED STATES OF AMERICA
and
PERU**

Loan Agreement concerning a sub-tropical lands development project (with annexes). Signed at Lima on 30 June 1978

Authentic texts: Spanish and English.

Registered by the United States of America on 10 June 1981.

**ÉTATS-UNIS D'AMÉRIQUE
et
PÉROU**

Accord de prêt concernant un projet de développement des terres subtropicales (avec annexes). Signé à Lima le 30 juin 1978

Textes authentiques : espagnol et anglais.

Enregistré par les États-Unis d'Amérique le 10 juin 1981.

LOAN AGREEMENT¹ BETWEEN THE REPUBLIC OF PERU AND THE UNITED STATES OF AMERICA—SUB-TROPICAL LANDS DEVELOPMENT PROJECT

Date: June 30, 1978

A.I.D. Loan No. 527-T-061

LOAN AGREEMENT, dated June 30, 1978 (the "Agreement"), between the REPUBLIC OF PERU (the "Borrower") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

Article 1. THE AGREEMENT

The purpose of this Agreement is to set out the understandings of the parties named above with respect to the undertaking by the Borrower of the Project described in Section 2.1, (the "Project") and the financing of the Project by the parties.

Article 2. THE PROJECT

Section 2.1. DEFINITION OF PROJECT. The Project, which is further described in Annex 1, will consist of: road construction, road maintenance, agricultural credit, land clearing and farm machinery equipment and services, marketing facilities and services, land surveying and titling activities, extension services, resource studies, and technical assistance for the development of a sub-tropical lands area known as the Huallaga Central-Bajo Mayo.

The Project may be complemented with the development of social infrastructure with funds generated from the sale of food under the P.L. 480 program. Also, A.I.D. may orient funds from other A.I.D. credits to finance urban development of localities in the Project Area.

Annex 1, attached, amplifies the definition of the Project contained in this Section 2.1. Within the limits of the definition of the Project in this Section 2.1, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the parties named in Section 9.2. without formal amendment of the Agreement.

Article 3. FINANCING

Section 3.1. THE LOAN. To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend to the Borrower under the terms of this Agreement not to exceed Nineteen Million United States Dollars (\$19,000,000) (the "Loan"). The aggregate amount of disbursements under the Loan constitutes the principal of the Loan.

The Loan may be used to finance U.S. dollar costs (as defined in Section 7.1) and Peruvian soles costs (as defined in Section 7.2) of goods and services required for the Project.

¹ Came into force on 30 June 1978 by signature.

Section 3.2. BORROWER RESOURCES FOR THE PROJECT. (a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources reasonably required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the Borrower for the Project will be not less than the equivalent of Six Million Five Hundred Thousand United States Dollars (\$6,500,000) including costs borne on an "in-kind" basis. These resources may be contributed by the Borrower through funds generated by the sale of P.L. 480 commodities.

Section 3.3. PROJECT ASSISTANCE COMPLETION DATE. (a) The Project Assistance Completion Date ("PACD") which is June 30, 1983, or such other date as the parties may agree to in writing, is the date by which the parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement under the Loan for services performed after the PACD or for goods furnished for the Project, as contemplated in this Agreement, after the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D. giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4. LOAN TERMS

Section 4.1. INTEREST. The Borrower will pay to A.I.D. interest on the Loan which will accrue at the rate of two percent (2%) per annum for seven years following the date of the first disbursement of the Loan hereunder and at the rate of three percent (3%) per annum thereafter on any outstanding balances. Interest on the outstanding principal balance will accrue from the date (as defined in Section 8.5) of each respective disbursement, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement of the Loan hereunder, on a date to be specified by A.I.D.

Section 4.2. REPAYMENT. The Borrower will repay the principal to A.I.D. within twenty (20) years from the date of the first disbursement of the Loan in twenty-seven (27) approximately equal semi-annual installments of principal and interest. The first installment of principal will be payable six and one-half (6 1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

Section 4.3. APPLICATION, CURRENCY AND PLACE OF PAYMENT. All payments of interest and principal hereunder will be made in U.S. dollars and will be applied first to the payment of interest due and then to the repayment of

principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A. and will be deemed made when received by such office.

Section 4.4. PREPAYMENT. Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of principal in the inverse order of their maturity.

Section 4.5. RENEGOTIATION OF TERMS. (a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of Peru, which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either party to the other to so negotiate will be made pursuant to Section 9.1 and will give the name and address of the person or persons who will represent the requesting party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested party will communicate to the other, pursuant to Section 9.1, the name and address of the person or persons who will represent the requested party in such negotiations.

(d) The representatives of the parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested party's communication under sub-section (c). The negotiations will take place at a location mutually agreed upon by the representatives of the parties, provided that, in the absence of mutual agreement, the negotiations will take place at the Office of the Ministry of Economy and Finance in Lima, Peru.

Section 4.6. TERMINATION ON FULL PAYMENT. Upon payment in full of the principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. relating to the provisions of this Agreement shall terminate.

Article 5. CONDITIONS PRECEDENT TO DISBURSEMENT

Section 5.1. CONDITIONS PRECEDENT TO INITIAL DISBURSEMENT. Prior to the first disbursement of the Loan or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) An opinion of the Director General of the General Department of Legal Counsel of the Ministry of Economy and Finance, or other counsel acceptable A.I.D. to the effect that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;
- (b) A statement of the name of the person holding or acting in the office of the Borrower specified in Section 9.2, and of any additional representatives, together with a specimen signature of each person specified in such statement; and

- (c) Evidence of legislation establishing a regional authority for implementation of the Project.

Section 5.2. CONDITIONS PRECEDENT TO DISBURSEMENT FOR OTHER THAN TECHNICAL ASSISTANCE. Prior to any disbursement of the Loan or the issuance by A.I.D. of documentation pursuant to which disbursement will be made for purposes other than technical assistance, the Borrower will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) Evidence of implementing legislation for a Project administrative organization and assignment of a Project director and other key Project personnel;
- (b) An implementation plan for the Project which will include a time-phased plan for Borrower counterpart contribution and an environmental resource protection plan.

Section 5.3. CONDITIONS PRECEDENT TO DISBURSEMENT FOR ROAD CONSTRUCTION ACTIVITIES. Prior to any disbursement of the Loan or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for road construction activities, the Borrower will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) For road design: executed contract(s) for engineering services for final design and supervision of road construction;
- (b) For road construction activities:
- (1) Executed contract(s) for construction of road sub-project(s).
 - (2) A detailed plan for maintenance of the road subproject(s) for which new construction or improvement designs have been approved.

Section 5.4. CONDITIONS PRECEDENT TO DISBURSEMENT FOR CONSTRUCTION OF MARKETING CENTERS. Prior to any disbursement of the Loan or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for construction of the marketing centers, the Borrower will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) Final marketing facility designs compatible with completed equipment specifications;
- (b) Executed construction contract(s) for the marketing facility(ies); and
- (c) A maintenance plan for each facility for which final designs have been approved.

Section 5.5. CONDITIONS PRECEDENT TO DISBURSEMENT FOR CONSTRUCTION OF MACHINERY PARKS. Prior to any disbursement of the Loan or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for construction of the machinery parks, the Borrower will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) Final machine shop designs compatible with completed equipment specifications;
- (b) Executed construction contract(s) for the machine shop(s);

- (c) Maintenance and operation plans for each facility for which final designs have been approved; and
- (d) SENAMA operation policy regarding machinery services.

Section 5.6. CONDITIONS PRECEDENT TO DISBURSEMENT FOR MEDIUM-TERM CREDIT AND CREDIT INFRASTRUCTURE. Prior to any disbursement of the Loan or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for sub-lending for medium-term credit and credit infrastructure, the Borrower will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.: Evidence of the establishment of a facility in the Agricultural Bank for sublending for on-farm land clearing and other specific farmstead improvements, including a description of procedures, administrative responsibilities, eligibility criteria and sublending terms and conditions.

Section 5.7. NOTIFICATION OF MEETING CONDITIONS PRECEDENT. When the conditions precedent specified in Sections 5.1 through 5.6 have been satisfactorily met, A.I.D. will promptly notify the Borrower.

Section 5.8. TERMINAL DATES FOR CONDITIONS PRECEDENT. (a) If all the conditions specified in Section 5.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Borrower.

(b) If all of the conditions specified in Section 5.2. have not been met within 120 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Borrower. In the event of such termination, the Borrower will repay immediately the principal then outstanding and any accrued interest.

Article 6. SPECIAL COVENANTS

Section 6.1. REPLACEMENT EQUIPMENT AND SPARE PARTS. The Borrower covenants that it, and in particular the National Agricultural Machinery Service ("SENAMA"), will provide on a timely basis replacement equipment and spare parts for the Project as required, including necessary imported equipment and parts.

Section 6.2. REINVESTMENT OF SENAMA REVENUES. The Borrower covenants that it will reinvest exclusively in the Project area the revenues generated by SENAMA from its activities in the Project area.

Section 6.3. ROAD MAINTENANCE EQUIPMENT. The Borrower covenants that road maintenance equipment will be assigned in sufficient quantities to assure all-year operation of the existing road from Juanjui through Tarapoto to Chiclayo.

Section 6.4. FOOD PRICING POLICY. The Borrower covenants that it will conduct an annual review of its food pricing policy with respect to its impact on agricultural production in the Project area.

Section 6.5. BORROWER COUNTERPART CONTRIBUTION TO THE PROJECT. The Borrower covenants that it will provide as counterpart contribution to the Project not less than the equivalent of US.\$6.5 million, which can be generated

from the sale of P.L. 480 commodities, in accordance with the agreed plan specified in Section 5.2. (b).

Article 7. PROCUREMENT SOURCES

Section 7.1. U.S. DOLLAR COSTS. Disbursements under the Loan pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("dollar costs"), except as A.I.D. may otherwise agree in writing, and except as provided in Annex 2 (Project Loan Standard Provisions Annex), Section C.1(b) with respect to marine insurance.

Section 7.2. PERUVIAN SOLES COSTS. Disbursements under the Loan pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Peru ("Peruvian Soles Costs").

Article 8. DISBURSEMENTS

Section 8.1. DISBURSEMENT FOR DOLLAR COSTS. (a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the dollar costs of goods or services required for the Project in accordance with the terms of the Agreement, by such of the following methods as may be mutually agreed upon:

- (1) By submitting to A.I.D. with necessary supporting documentation as prescribed in Project Implementation Letters, requests for reimbursement for such goods or services, or requests for A.I.D. to procure commodities or services on behalf of the Borrower for the Project; or
- (2) By requesting A.I.D. to issue Letters of Commitment for specified amounts to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services.

(b) Banking charges incurred by the Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. in advance to the contrary.

Section 8.2. DISBURSEMENT FOR PERUVIAN SOLES COSTS. (a) After satisfaction of conditions precedent, the Borrower may obtain disbursement of funds under the Loan for Peruvian soles costs required for the Project in accordance with the term of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The Peruvian soles needed for such disbursement hereunder may be obtained by acquisition by A.I.D. with U.S. dollars by purchase.

(c) The U.S. dollar equivalent of the Peruvian soles made available hereunder will be, in the case of subsection (b) above, the amount of U.S. dollars required by A.I.D. to obtain the Peruvian soles in accordance with the provisions of Section 8.4.

Section 8.3. OTHER FORMS OF DISBURSEMENT. Disbursements of the Loan may also be made through such other legal means as the parties may agree to in writing.

Section 8.4. RATE OF EXCHANGE. Except as may be more specifically provided under Section 8.2, if funds provided under the Loan are introduced into Peru by A.I.D. or any public or private entity for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements may be necessary so that such funds may be converted into Peruvian soles at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Peru.

Section 8.5. DATE OF DISBURSEMENT. Disbursements of the Loan by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment or Letter of Credit; (b) on the date on which A.I.D. disburses to the Borrower or its designee Peruvian soles acquired in accordance with Section 8.2(b); or (c) in the case of disbursements pursuant to Section 8.3, on the date specified in the other form of disbursement documents.

Article 9. MISCELLANEOUS

Section 9.1. COMMUNICATIONS. Any notice, request, document or other communication submitted by either party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Borrower:

Mail Address:

Ministry of Economy and Finance
Lima, Peru

Cable Address:

MINECONOMIA
Lima, Peru

With copy to General Directorate of Public Credit

To A.I.D.:

Mail Address:

United States A.I.D. Mission to Peru
c/o United States Embassy

Cable Address:

USAID, AmEmbassy
Lima, Peru

All such communications will be in English unless the parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of prior notice.

Section 9.2. REPRESENTATIVES. For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the Director General of Public Credit and A.I.D. will be repre-

sented by the individual holding or acting in the office of Mission Director; each of whom, by written notice may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Borrower with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 9.3. CONTROLLING LANGUAGE. This Agreement is executed in both the English and Spanish languages. In case of inconsistency or conflict between the two versions, the English version shall control.

Section 9.4. STANDARD PROVISIONS ANNEX. A "Project Loan Standard Provisions Annex" (Annex 2)¹ is attached to and forms part of this Agreement.

¹ For the text, see annex 2 of the "Loan Agreement between the United States of America and Peru concerning rural development—*Agribusiness Fund Project*, signed at Lima on 31 May 1978", on p. 37 of this volume.

EN TESTIMONIO DE LO CUAL, la República del Perú y los Estados Unidos de América, actuando cada cuál por medio de sus respectivos representantes debidamente autorizados, han suscrito el presente Convenio en sus nombres y lo han otorgado en el día y el año mencionados en el encabezamiento.

República del Perú:
Republic of Peru:

JAVIER SILVA RUETE

Título: Ministro de Economía y Finanzas

Title: Minister of Economy and Finance

IN WITNESS WHEREOF, the Republic of Peru and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed the day and year first above written.

United States of America:
Estados Unidos de América:

HARRY W. SHLAUDEMANN

Title: United States Ambassador

Título: Embajador de los Estados Unidos

LEONARD YAEGER

Title: USAID/Peru Mission Director

Título: Director, USAID/Perú

ANNEX I. DESCRIPTION OF THE PROJECT

I. GOAL AND PURPOSE

The Project is intended to contribute to Peru's food production capability, employment and income for the rural poor. The Project's purpose is to develop the Huallaga Central Bajo Mayo's agricultural potential, an area of the high jungle located in the Department of San Martin. Achievement of the Project purpose will be through basic infrastructure and institutional interventions aimed at testing a low cost development model for possible replication in other areas in Peru. The basic Project components which will be financed to achieve the Project's purpose are: roads, road maintenance, agricultural credits, land clearing and farm machinery equipment and services, marketing facilities and services, land surveying and titling activities, extension services, resource studies and technical assistance.

II. PROJECT ELEMENTS

The Implementing Agency, responsible for the implementation and execution of the Project, will be the Development Committee for the Department of San Martin, which will later be converted into a Regional Development Committee patterned after those which exist in the Departments of Ancash and Loreto.

The Development Committee will assign funds to the Implementing Agencies (e.g. Ministry of Agriculture, Ministry of Transport, ONERN, etc.) by means of Specific Operations Contracts designating the work to be completed.

The National Planning Institute will establish in its National Headquarters a Coordination Office to coordinate the inputs of A.I.D. and Public Sector Institutions.

A. Road Construction

The Project will contract for the upgrading of 76 Kms. of existing roads and the construction of approximately 98 Kms. of new roads. The Project budgets US \$7,505,000 to finance the design, construction, and supervision costs for penetration road construction and improvements. The roads will be four meter roadbeds designed as all weather roads. Following is a table of roads to be constructed or upgraded:

	<i>Length (Kms)</i>
1. Bellavista-San Pablo	34.0
2. San Pablo-San José	35.5
3. Biabo Valley	31.8
4. Ponaza Valley	30.0
5. Pucacaca (West Valley)	10.3
6. Buenos Aires-Paujilsapa	12.5
7. Sacanche-Sapozoa	20.0
	174.1

Rapid construction of these basic penetration roads is vital to the success of the Project. Project design anticipates that all road construction will be completed by the private construction sector (from any code 941 country or Peru) through bids let by the Ministry of Transportation and Communications (MTC). The total road construction package will be split into several packages for bidding so as to allow simultaneous construction by several different firms. Supervision of the contracted construction work will be by the MTC.

B. Road Maintenance Equipment

The Project provides for the equipment necessary to maintain the roads in the Project area. The equipment is for the maintenance on an all weather basis of the Marginal High-

way between Tarapoto and Juanjui, Project built or improved penetration roads, and other public highways which service the Project area.

Further, the equipment is to be used to build additional penetration tracks opening up farm areas which are not easily accessible but are in the general Project area.

The equipment will be operated and maintained by the Ministry of Transportation and Communications. The Ministry of Transportation and Communications will use the equipment only for roads servicing the Project area as described in the first paragraph of this section. The Project's budget for this component is established at US \$1,416,000.

C. Machinery Parks

SENAMA will develop a Project area machinery facility designed to facilitate land clearing and cultivation. Project funds of US \$3,725,000 have been budgeted for construction and equipment of the machinery parks. A.I.D. funds are intended for the capitalization of SENAMA's operation in the Project area; as such these funds should be directly transferred on a grant rather than a loan basis from the Peruvian Government to SENAMA. SENAMA's pricing policy should reflect depreciation costs as well as other fixed and variable costs accrued as a result of the operations.

SENAMA Project area generated revenues will be reinvested into additional machinery services for the Project area and in no case will these funds be diverted into SENAMA's national machinery operation program. In the event that SENAMA's Project area operation generates more resources than are needed for its Project area operations, maintenance, replacement equipment, spare parts and expansion (as determined by effective demand) these funds will be reinvested in the Project area at the discretion of the Development Committee. Any diversion of funds made according to the above criteria will require advance written approval by A.I.D. Funds authorized for diversion from SENAMA may, at the discretion of the Development Committee, be invested in Project activities and/or in social infrastructure for the Project area (e.g. schools and rural health facilities).

It is contemplated that SENAMA's services will not be able to meet the anticipated demand in the Project area, however, A.I.D. may authorize in writing the use of SENAMA's Project financed machinery in areas contiguous to the Project due to the temporary lack of demand resulting from weather conditions and/or crop cycles.

Major requirements for the effective SENAMA operation in the area include:

- a. Adequate maintenance and repair facilities and field servicing capability. SENAMA will develop its principal machinery service center at Tarapoto with four additional centers located throughout the Project area. These centers will be fully staffed with trained mechanics, a full complement of tools, spare parts and equipment.
- b. Development of a radio communication network and a transportation infrastructure capable of moving machinery operators, fuels and spare parts to work sites.
- c. A management system capable of programming and organizing equipment use at maximum efficiency.
- d. An Operations Policy which will establish as a condition precedent (Section 5.5), machinery services eligibility criteria, including but not limited to the following:
 - Upper and lower limits on the amount of land that will be cleared or prepared for a single landholder;
 - Establishment of ecological criteria, based on the environmental protection plan to be developed by ONERN, for quality of land eligible for clearance including at least the following variables: location (including distance from rivers and streams), slopes and land class;
 - A preference system for clearance of secondary growth over virgin forest;

—A pricing structure which will cover actual operation and depreciation costs of the machinery operation.

D. Agricultural Credits

A fund for credits, to complement credit lines for production will be established in the Agrarian Bank. An amount of US \$4,730,000 has been budgeted for this Fund. The Borrower will designate as Financial Agent the Agrarian Bank of Peru to implement this component of the Project. The Agrarian Bank in turn will sign the appropriate Agreement(s), with the Development Committee for the Department of San Martin and the Ministry of Agriculture and Food, for the approval of loans on behalf of the Development Committee in order to coordinate the activities incumbent to each party. Eligible uses of the Fund for medium term credits will be restricted to improvement and capitalization activities, including financing for on-farm improvements such as land clearing, purchase of machinery, well drilling, livestock purchases, construction of farm buildings, development of simple on-farm irrigation structures and reforestation. In the aforementioned categories, first priority will be for land clearing activities. The conditions for granting loans will be consistent with similar lines of agricultural credits.

E. Marketing and Collection Centers

The zone's marketing infrastructure will be expanded by EPSA to efficiently market the increased agricultural production in the Huallaga Central Bajo Mayo area. EPSA will expand its two existing storage facilities of 4,000 metric tons to four facilities with a capacity of 9,000 metric tons. These facilities are primarily for clearing, drying, loading, handling and shipping grains produced in the region. A total of US \$840,000 of Project funds are allocated for materials, equipment and personnel.

F. Land Surveying and Titling

The Ministry of Agriculture and Food through its land titling office will rationalize the land tenure in the Project area. Normalization of land ownership is a critical component of the Project needed to encourage the necessary medium-term, on-farm investments. A new set of aerial photos will be taken as a data base for the area's land tenure. A Project budget of US \$820,000 for land titling activities, including the financing of equipment, materials and personnel has been determined.

G. Agricultural Extension

The Ministry of Agriculture and Food will undertake a major expansion of its existing extension program in the Project area. The extension service will add additional personnel and purchase a variety of equipment for fully equipping its activities including vehicles, motor-cycles, boats, demonstration tools, electric generators and supplies of pesticides and fertilizers. The main thrusts of the additional resources dedicated to the extension activity are to assist in crop pattern changes, land clearing and soil conservation activities and farm production changes resulting from the various project interventions. A budget of US \$1,148,000 is allocated to finance the expansion of the extension program.

H. Resource Evaluations

ONERN will carry out a resource evaluation measuring the changes within the Project area; evaluate two additional areas for possible project replication; and develop the environmental protection plan for the Project area. Remote sensing and on-site verification of satellite imagery will be employed to identify and map soils, gradients, ground water, roads, tracks, crops, vegetation and other aspects of the resource base. Such systems should be designed so as to provide project administrators with accurate timely information on the area cleared, planted, status of plantings including probable yields, and harvest dates. This capability will be applied not only to the Project area to assist Project management but also to two other areas of the high jungle for future planning and possible project

replication. The Project has allocated US \$500,000 to assist ONERN in developing these resource studies.

I. Project Direction

The Project will be directed by a Development Committee for San Martin. The Project includes funding (US \$490,000) for assisting the Development Committee in carrying out its overall Project Management functions including the preparation of an implementation plan, preparation of an integrated development plan, the purchase of vehicles, office equipment, radio equipment, and personnel. These funds are also to be utilized in carrying out the Project evaluations and baseline studies.

J. Technical Assistance

A technical assistance component has been included to assist in five of the basic Project components. This loan-funded technical assistance will be contracted by the Government of Peru. The following Table (I) specifies the type of technical assistance to be financed. Funds in the technical assistance component may be used to finance the Project development plan which is to be developed by the Project Committee.

III. PROJECT FINANCIAL PLAN

Table II presents a summary financial plan by source for each of the project components. Table III develops a disbursement schedule based on planned implementation targets. The financial plan has been developed to minimize Government of Peru counterpart contributions during the first two years of the Project. Starting in the third Project year Government of Peru counterpart contributions increase rapidly, largely to finance the Project's on-going programs. By the fifth and final year, Government of Peru contributions total US \$6,500,000.

IV. PROJECT OUTPUTS AND TARGETS

The following outputs are anticipated under the Project:

1. The construction of 97,3 kilometers of new all-weather penetration roads and the upgrading to an all-weather basis of an additional 76.4 kilometers of improved roads.
2. A fully equipped road maintenance unit capable of maintaining project area roads.
3. A credit fund with the Agrarian Bank lending for land clearing and other medium-term on-farm capital improvements.
4. One main SENAMA machinery center and four field maintenance shops located throughout the Project area fully equipped and clearing land.
5. A marketing infrastructure established by EPSA capable of handling the Project area's increasing production.
6. A normalized land tenure system with approximately 15,000 verified possession documents in existence.
7. An extension service capable of maintaining and equipping 70 extension agents in the Project area.
8. Two additional resource studies published by ONERN for determining areas for future replication of the Project.
9. A Regional Development Committee effectively planning, coordinating, and administering the Department of San Martin's development programs.

Successful completion of the above Project outputs will result in an expected increase of more than 100% in the Project area's agricultural output. Additionally the experience and data which result from the Project's implementation will determine whether or not the Project's methodology is adequate for future replication. It is expected that as a result of the above listed outputs the Project's purpose of increased agricultural production will be accomplished.

[TRANSLATION — TRADUCTION]

TABLE I. SUB-TROPICAL LANDS DEVELOPMENT

*Technical assistance programme⁽¹⁾**(in thousands of dollars)*

Implementation	Sources		
	A.I.D.	Peruvian Government	Total
1. Machinery parks			
1.1. Management adviser (3 man/years)	180		180
1.2. Maintenance specialist (3 man/years)	150		150
1.3. Agronomist (2 man/years)	105		105
1.4. Specialist in soil conservation (2.5 man/years)	125		125
1.5. Engineering services		30	30
Sub-total (1)	560	30	590
2. Marketing and collection centres			
2.1. Agronomist specialized in handling and storage plants (1 man/year)	60		60
2.2. Maintenance specialist (2.5 man/years)	150		150
2.3. Engineering services		50	50
Sub-total (2)	210	50	260
3. Resource evaluations			
3.1. Specialist in resource evaluations and inventory (3 man/ years)	230		230
3.2. Professional services		150	150
Sub-total (3)	230	150	380
4. Land surveying and titling			
4.1. Aerial photography services and maps		150	150
Sub-total (4)		150	150
5. Project direction			
5.1. Management specialist (3.5 man/years)	190		190
TOTAL (1) to (4)	1,190	380	1,570
Plus: Inflation and contingencies	176	78	254
GRAND TOTAL	1,366	458	1,824

⁽¹⁾ The Peruvian Government's share finances either engineering design services or personnel.

TABLE II. SUB-TROPICAL LANDS DEVELOPMENT

Brief cost estimate and financial plan
(in thousands of dollars)

	Sources			Total
	A.I.D.		Peru Soles	
	Dollars	Soles		
1. Penetration roads (Design, construction and supervision)		7,132	373	7,505
2. Road maintenance (Equipment, materials and personnel)	1,050	120	246	1,416
3. Agricultural credits (Fund, equipment and materials)	230	3,000	1,500	4,730
4. Machinery parks (Construction, equipment and personnel)	3,000	100	625	3,725
5. Marketing and collection centres (Construction, equipment and personnel)	430	30	380	840
6. Land surveying and titling (Equipment, materials and personnel)	140	30	650	820
7. Extension service (Equipment, materials and personnel)	390	8	750	1,148
8. Resource evaluations (Equipment and materials)	100		20	120
9. Project direction (Equipment, materials, evaluation and per- sonnel)	20	90	380	490
10. Technical assistance				
(Machinery parks)	660		30	690
(Marketing and collection centres)	300		50	350
(Land surveying and titling)	-		150	150
(Resource evaluation)	200	30	150	380
Sub-total	6,520	10,540	5,304	22,364
Plus: Inflation and contingencies	974	966	1,196	3,136
	7,494	11,506	6,500	25,500

TABLE III. SUB-TROPICAL LANDS DEVELOPMENT

*Annual disbursements by A.I.D. and the Peruvian Government
for the Implementation of the Project⁽¹⁾*

(in thousands of dollars)

	I	II	III	IV	V	Total A.I.D./Peruvian Government
1. Penetration roads (Design, construction and supervision)	320	3,250	3,740	888	75	8,273
A.I.D.	(320)	(3,250)	(3,410)	(800)	—	(7,780)
Peruvian Government	—	—	(330)	(88)	(75)	(493)
2. Road maintenance (Equipment, materials and personnel)	—	600	794	100	130	1,624
A.I.D.	—	(600)	(744)	—	—	(1,344)
Peruvian Government	—	—	(50)	(100)	(130)	(280)
3. Agricultural credits (Fund, equipment and materials)	—	850	1,450	2,340	770	5,410
A.I.D.	—	(700)	(1,050)	(1,280)	(500)	(3,530)
Peruvian Government	—	(150)	(400)	(1,060)	(270)	(1,880)
4. Machinery parks (Construction, equipment and personnel)	100	1,600	1,050	1,206	314	4,270
A.I.D.	(100)	(1,412)	(800)	(1,000)	(248)	(3,560)
Peruvian Government	—	(188)	(250)	(206)	(66)	(710)
5. Marketing and collection centres (Construction, equipment and personnel)	50	200	270	368	124	1,012
A.I.D.	(50)	(100)	(150)	(238)	—	(538)
Peruvian Government	—	(100)	(120)	(130)	(124)	(474)
6. Land surveying and titling (Equipment, materials and personnel)	40	220	309	300	139	1,008
A.I.D.	(30)	(100)	(59)	—	—	(189)
Peruvian Government	(10)	(120)	(250)	(300)	(139)	(819)

7.	Extension service (Equipment, materials and personnel)	(90)	220	400	376	260	1,346
	A.I.D.	(40)	(100)	(200)	(116)	—	(456)
	Peruvian Government	(50)	(120)	(200)	(260)	(260)	(890)
8.	Resource evaluations (Equipment and materials)	30	80	29	—	—	139
	A.I.D.	(10)	(80)	(29)	—	—	(119)
	Peruvian Government	(20)	—	—	—	—	(20)
9.	Project direction (Equipment, materials, evaluation and personnel)	120	120	120	100	134	594
	A.I.D.	(78)	(20)	(20)	—	—	(118)
	Peruvian Government	(42)	(100)	(100)	(100)	(134)	(476)
10.	Technical assistance	88	500	520	530	186	1,824
	A.I.D.	(30)	(400)	(420)	(430)	(86)	(1,366)
	Peruvian Government	(58)	(100)	(100)	(100)	(100)	(458)
	TOTAL	838	7,640	8,682	6,208	2,132	25,500
	A.I.D. total	(658)	(6,762)	(6,882)	(3,864)	(834)	(19,000)
	Peruvian Government total	(180)	(878)	(1,800)	(2,344)	(1,298)	(6,500)

⁽¹⁾ The reserves for inflation and contingencies have been included in each investment category.