



PERU

Ministry of Finance

Office of the Minister

“DECADE OF THE DISABLED IN PERU”  
“YEAR OF INVESTMENT FOR RURAL DEVELOPMENT AND FOOD SECURITY”

LUIS MIGUEL CASTILLA RUBIO  
MINISTER

Lima, 11 July 2013

**Letter 1288-2013-EF/10.01**

*POLICY LETTER*

**Mr. Luis Alberto Moreno**

President

Inter-American Development Bank

**Subject:** Agricultural Competitiveness Program III

I hereby confirm the commitment assumed by the Government of President Ollanta Humala Tasso to promote an agrarian policy based on principles of equity and competitiveness as part of the development of comprehensive socioeconomic policies.

In this framework, we are executing the “Agricultural Competitiveness Program” (the “Program”) with the Inter-American Development Bank (IDB), including reforms and commitments to be carried out in the period 2009-2013. The program consists of three programmatic policy-based loans. The first operation was approved and disbursed in 2009 after the government enacted several important legal provisions to promote agriculture sector competitiveness in the framework of the Free Trade Agreement. The second operation was approved and disbursed in 2011, seeking to consolidate and strengthen the measures approved during the previous phase. In the same vein, the third operation seeks to further the efforts to consolidate the reforms by supporting the implementation of effective management tools. The Reform Program includes actions to: (i) implement the Competitiveness Reward Program; (ii) develop value chains; (iii) implement the Agrarian Innovation System; and (iv) implement the Agricultural Statistics Information System.

A description is provided below of the Peruvian economic situation and program objectives, as well as the actions to be carried out under the third programmatic operation.

**A. Economic situation**

The global economy remains weak. In the first quarter of 2013, the U.S. economy grew 1.6%, the slowest growth in the last six quarters. Despite the monetary stimulus and upturn in the real estate market, the U.S. recovery is constrained by a weak labor market and contractionary fiscal policy. In the first quarter of 2013, the Eurozone economy shrank by 1.0%, the largest setback since the fourth quarter of 2009. The region’s largest countries all posted negative growth: Germany, -0.3%; France, -0.4%; Italy, -2.3%; and Spain, -2.0%. Moreover, the Eurozone’s unemployment rate rose to 12.2%, a record high. Fitch downgraded Italy’s credit rating on 8 March reflecting the

“DECADE OF THE DISABLED IN PERU”  
“YEAR OF INVESTMENT FOR RURAL DEVELOPMENT AND FOOD SECURITY”

LUIS MIGUEL CASTILLA RUBIO  
MINISTER

**Letter 1288-2013-EF/10.01**

political uncertainty, and on 21 March S&P lowered the credit rating on Cyprus because of the fragility of its banking system, evidence that the fiscal crisis in the region is not yet over. China’s economy grew 7.7% in the first quarter of 2013, down from 7.9% for the previous quarter. In May, exports showed annual growth of 1.0%, the lowest figure in the last 10 months. In May, JP Morgan lowered its growth projection for 2013 to 7.6% (in March it had estimated 8.2% growth for China).

On 19 June, the U.S. Federal Reserve indicated that it was considering the withdrawal of the monetary stimulus as one of the future measures to be implemented in the medium term; this announcement had a negative impact on the financial markets. In late June the price of copper fell to US\$301 per pound, and the price of gold fell to US\$1,192 per troy ounce, the lowest levels in the last three years. On 2 July, copper and gold prices were down 11.8% and 24.4%, respectively, compared to year-end 2012.

In this context, despite a weak and uncertain global economy, Peru has remained one of the fastest growing economies in the region. From January to April 2013, its GDP grew by 5.5%, and growth over the last 12 months has stabilized at 6.2%. Beginning in the second quarter of 2013, growth rates of 6.0% to 6.5% are expected, to the extent that mining volume recovers and domestic demand remains strong. Thus, GDP growth for 2013 is projected at 6.0% to 6.3%, making Peru one of the most dynamic and stable economies in the region and in the world.

In April, at the sector level, there was strong growth in the construction sector (26.5%), services (7.2%) and trade (7.5%). Nonprimary manufacturing grew 6.9%, associated with the increased production of intermediate goods (10.1%), consumer goods (3.8%), and capital goods (16.6%). In construction-related industries, nonmetallic minerals (9.2%) and furniture (7.7%) showed noteworthy growth. Production in the textile-garment industry remains affected by weak foreign demand, falling 10.7%. The value of exports in the sector contracted by 14.1% in April, primarily due to fewer shipments to Venezuela (-45.1%) and the United States (-4.8%). It should be noted that from January to April, the decrease in shipments to Venezuela represented a cumulative drop of 51.7%.

Current and prospective indicators for productive activities show that the growth of the Peruvian economy has currently leveled off close to the long-term sustainable level. According to COES in June, electricity output increased 7.8%, above the May level (7.6%) and the average for the last three months (6.9%). In June, imports of consumer goods grew 2.1% and capital goods imports expanded by 0.4%. At the same time, according to INEI data, domestic cement consumption grew by 12.4%, similar to the average for the three preceding months (13.9%).

“DECADE OF THE DISABLED IN PERU”  
“YEAR OF INVESTMENT FOR RURAL DEVELOPMENT AND FOOD SECURITY”

LUIS MIGUEL CASTILLA RUBIO  
MINISTER

**Letter 1288-2013-EF/10.01**

Lastly, according to the BCRP, in May, credit granted to the private sector grew 13.3%, slightly below the preceding month (13.8%).

The monthly national employment survey (ENVME) by the Ministry of Labor and Employment (MTPE) shows that national urban employment grew 3.8% in March 2013, with the trade (5.4%) and services (5.1%) sectors showing the greatest progress. In May 2013, employment in Metropolitan Lima grew 2.9% as reported by the employment survey (EPE) conducted by the national statistics institute – INEI. Total poverty fell from 27.8% in 2011 to 25.8% in 2012.

**B. Reforms associated with the Agricultural Competitiveness Program II**

The Program aims to improve the competitiveness of small and medium-scale farmers. The reform actions will be implemented under four components in the third programmatic operation.<sup>1</sup>

**a. Implementation of the Competitiveness Reward Program**

This component aims to support implementation of the Competitiveness Reward Program (PCC) intended to increase the competitiveness of small and medium-scale farmers in an environment of more open trade practices.

The PCC was designed in the framework of the Peru-United States Free Trade Agreement to help small and medium-scale farmers establish producer associations and adopt environmentally appropriate agricultural technologies, enabling these farmers to increase productivity and be able to compete on domestic and international markets, thus reaping the benefits from the more open trade practices that will entail technological and institutional changes. The PCC was approved by Legislative Decree 1077. Subsequently, the Government of Peru prepared the PCC regulations, operating manual, and institutional strategic plan in fulfillment of the policy terms of the previous programmatic loans, and adopted additional measures to ensure PCC governance and the requisite operating and management instruments.

With the third programmatic loan, the government seeks to ensure continuation of the PCC, contemplating operational improvements based on experience gained earlier in the program. It will consider: (i) the evaluation of PCC outcomes; (ii) establishment and analysis of the baseline, as well as the agreed upon impact evaluation method; (iii) information on incentives granted by AGROIDEAS in accordance with criteria on forming associations, profitability, and sustainability listed in the agreements entered into with producer organizations; (iv) the evaluation of the PCC strategic plan based on the four pillars of the sector strategic plan relating to

---

<sup>1</sup> The negotiation, amount, and disbursements for this operation will be subject to requirements for unrestricted funds or for balance of payments support.

“DECADE OF THE DISABLED IN PERU”  
“YEAR OF INVESTMENT FOR RURAL DEVELOPMENT AND FOOD SECURITY”

LUIS MIGUEL CASTILLA RUBIO  
MINISTER

**Letter 1288-2013-EF/10.01**

management, competitiveness, inclusion, and sustainability; and (v) preparation of a Bill for the expansion and continuity of the PCC.

**b. Development of agricultural clusters and value chains**

The objective of this component is to promote the competitiveness of agricultural products in priority value chains under MINAGRI authority. This component emphasizes the importance of developing value chains to ensure farmer integration in interactions and processes to not only help improve the quality of their products, but also their standing to negotiate prices for their products, encourage formalization, and facilitate access to lines of credit.

MINAGRI has therefore proposed to move forward in the following areas: (i) incorporation of the value chain approach in the work of the Bureau of Agricultural Competitiveness (DGCA), as established in the Multiyear Strategic Plan 2012-2016, approved by MINAGRI; (ii) prioritizing value chains and the preparation of a plan of action to increase the competitiveness of prioritized value chains; (iii) signing of cooperation agreements with some regions and MINAGRI to facilitate implementation of the plan of action for the prioritized value chains; and (iv) inclusion of resources in the budget allocations to support the development of the prioritized value chains.

**c. Modernization of the National System for Agrarian Innovation**

The objective of this component is to support implementation of the National System for Agrarian Innovation (SNIA), building its strategic research and management capacities, and coordination between public and private actors.

The current government will continue carrying out actions to promote production-related research and development, a key factor in the pursuit of market competitiveness. Recognizing the importance of advancing agrarian innovation as a prerequisite to increase our competitiveness, not only by offering new products but also ensuring their safety (two essential factors for external markets), the Government of Peru approved Legislative Decree 1060 in 2008 providing for the modernization of the National Institute for Agrarian Innovation. The INIA will become the lead agency of the System, with the authority to delegate functions in order to better target interventions, including delegating to regional and local governments in a context of decentralization.

Presently, the government is deepening effective measures to implement Legislative Decree 1060, including approval of a profile for a public investment program to strengthen and consolidate the SNIA so as to build public and private capacities to generate, transfer, and adopt knowledge about prioritized strategic products; build private sector capacity to generate, transfer, adopt, and use agricultural innovations; develop specialized human resources; and develop modern infrastructure and specialized equipment.

“DECADE OF THE DISABLED IN PERU”  
“YEAR OF INVESTMENT FOR RURAL DEVELOPMENT AND FOOD SECURITY”

LUIS MIGUEL CASTILLA RUBIO  
MINISTER

**Letter 1288-2013-EF/10.01**

With respect to the National Commission for Agrarian Innovation and Training (CONICA), the government has decided to move forward to begin the process to strengthen CONICA and to submit to CONICA the proposed National Policy for Agrarian Innovation and the proposed National Agrarian Innovation Plan.

Other important measures adopted by the government include continuing the preinvestment process for a public investment project for the National Center for Biotechnology in Agriculture and Forestry (CNBAF); proposing a design for the SNIA information, control, and monitoring system; an evaluation of the INIA delegation of authority to other system actors with respect to seeds; and a capacity-building plan for the INIA.

**d. Strengthening the Agricultural Statistics Information System**

The objective of this component is to strengthen the Integrated Agricultural Statistics System to facilitate gathering and disseminating statistical data pursuant to approval by the Government of Peru of Legislative Decree 1082 creating the Integrated Agricultural Statistics System (SIEA) to provide an effective and timely service to agricultural economic agents. The SIEA was created under the legislative powers conferred by the Congress to the Executive Branch to facilitate implementation of the Peru-United States Trade Promotion Agreement and will use available modern techniques and tools, such as satellite and communication networks to gather and disseminate data.

The Peruvian government has made progress in this area with the approval by the SIEA Technical Committee of the strategic plan for the Integrated Agricultural Statistics System seeking to improve the governance and quality of statistical information. Also, results of application of the probabilistic method to collect statistical information were evaluated for the regions of Arequipa, Ica, and Lima. The government is also preparing a public investment program at the profile level whose action lines include generating statistical information and disseminating information for rural development. Lastly, the sector has completed the IV Agricultural Census and is in the process of publishing the preliminary results for the primary structural variables.

**C. Conclusion**

As follows from the above, the Government of Peru is and will continue undertaking major actions to improve the competitiveness of small and medium-scale farmers.

The government pledges to pursue these efforts, for which it will require the continued support of the Inter-American Development Bank in the areas described.



PERU

Ministry of Finance

Office of the Minister

“DECADE OF THE DISABLED IN PERU”  
“YEAR OF INVESTMENT FOR RURAL DEVELOPMENT AND FOOD SECURITY”

*LUIS MIGUEL CASTILLA RUBIO*  
*MINISTER*

**Letter 1288-2013-EF/10.01**

Accordingly, the Government of Peru hereby requests the approval of the  
“Agricultural Competitiveness Program III” in the amount of US\$25 million.

I take this opportunity to reiterate the expression of my highest consideration.

Sincerely,