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Fonds: Records of the Office of the President

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THE WORLD BANK

Washington, D.C.

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The World Bank

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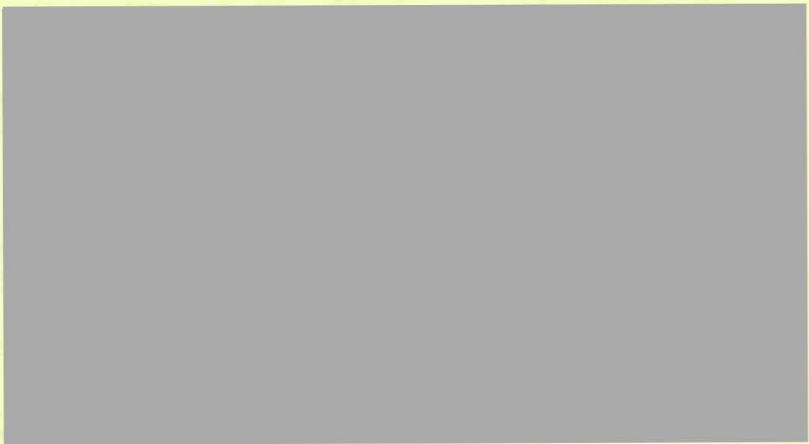
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PERU



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R1992-122 Other #: 18 **1779841** **209589B**
Peru - Country Files - Correspondence - Volume 1

~~1 SS~~
~~2 BBC~~
3 AK

THE WORLD BANK

June 28, 1991

Mr. Husain:

I agree with the steps
proposed in paras. 3(c), (d), and (e).

cc: Mr. Conable
(for information)

MOEEN A. QURESHI
Senior Vice President, Operations

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

910627022

S. SHAHID HUSAIN
Vice President, Latin America and the Caribbean

June 27, 1991

Mr. Qureshi

Agree with the
steps proposed in Paras 3-5
with
6/25
Mr. Conde for info.

Please see the attached memorandum.

Peru has lagged on its current obligations to us. I have informed the support group and the Peruvian authorities that unless the situation is rectified soon, we would stop our work on preparing loans to Peru. Furthermore, I have said that we would reconsider the feasibility of continued attendance of the support group meetings. My understanding is that the Peruvian authorities regard non-payment to the Bank and IDB as a lever on the support group. Unless I hear from you otherwise, I expect to be very firm on this question.

AH

cc: Mr. Stern

OFFICE MEMORANDUM

DATE: June 27, 1991

TO: Mr. S. Shahid Husain, Vice President, LAC

FROM: Armeane M. Choksi, Director, LA1 *AMC*

EXTENSION: 31811

SUBJECT: Peru: Delays in Payments to the Bank

1. As you know, Peru has not remained current on its post-Oct. 1990 payments to the Bank. The outstanding amount is around US\$30 million (depending on the exchange rate). This has been of some concern to us and several discussions between us and senior Government officials on this matter has resulted only in periodic trickles to the Bank. The Government's claim--of which I have some doubt--is that Peru has no money. However, the IMF continues to be paid (but not the IDB).

2. Yesterday, Mr. Papageorgiou and I had a discussion with Messrs. Ted Beza and Martin Hardy of the IMF on this matter. I emphasized that we were taking this matter very seriously and were considering various options, and that unless the situation changed, we could not continue our relationship with Peru in its present manner and form. I also raised with them the matter of equal treatment with the Fund. I wanted to seek their reaction before I formally raised this with the Government.

3. After some discussion, the following points were agreed upon:

- a. The IMF could not go to its Board with the Peru program unless Peru was making full payments to the Fund. If equal treatment with the Bank implied a reduction in payments to the IMF, it would jeopardize Board presentation of the program.
- b. The IMF would not go to its Board with the Peru program unless Peru was fully current (post-Oct. 1990) with the Bank.
- c. If the Peruvian Government gave an assurance that it would be fully current (post-Oct. 1990) with the Bank within a specified time after the IMF program was submitted to the Board, the IMF would not proceed without the explicit agreement of the Bank. I recommend that we do not agree to any such arrangement.
- d. Mr. Hardy who is visiting Peru to update the IMF program next week will convey the messages in items (a) and (b) above to the Peruvian authorities. He will call me after his discussions.

4. Since the Peruvian Government is very keen that the IMF move as rapidly as possible to the Board, item 3(b) above should provide a strong incentive to the Peruvian authorities to resume payments to the Bank. For the moment, I recommend that we hold off any other action. I will keep you informed of the progress.

cc: LA1 Management

OFFICE MEMORANDUM

DATE: April 10, 1991

TO: Files

FROM: S. Shahid Husain

EXTENSION: 39001

SUBJECT: PERU - Support Group

Perm AK
~~SS~~
BBE
↓
co. file /
Peru

1. On the occasion of the Annual Meeting of the Inter-American Development Bank, a meeting on Peru took place in Nagoya, Japan on April 7. Among others, the following were present: President Fujimori of Peru; his Finance Minister and other officials; Mr. Utsumi, Vice Minister of Finance, Japan; David Mulford, Under-Secretary of the U.S. Treasury; Enrique Iglesias of IDB; Ted Beza of the IMF; representatives of Britain, France, Germany, Mexico, Chile, Colombia and Venezuela, and myself on behalf of the Bank.

2. President Fujimori and his Finance Minister explained the reform program, consisting of economic stabilization, reform of policies and institutions, normalization of relationships with international financial institutions and settlement of the debt to the Paris Club. The President said that inflation had been brought down from hyperinflation when the Government took office to lower single-digits per month. Trade had been completely liberalized with a maximum tariff of 20 percent, budget deficit had been eliminated and current debt service to international financial institutions was continuing. He expressed the determination of his Government to continue with deep reforms, including a substantial reduction of the size of Government and the reduction of the web of regulations, so that the changes were not simply transitory. He, however, reiterated that Peru could not go it alone. External financial support in the clearance of arrears and reform was crucial. He urged a quick convening of a support group and the mobilization of financial support.

3. Mr. Utsumi said that Japan was committed to support Peru's reform and would work with the United States to find a solution to Peru's external finance issues.

4. David Mulford said that he was impressed by Peru's economic program and progress. He did not, however, want to raise expectations. There had been contacts with IFIs. Although there had been progress, in the case of one IFI (obviously he meant the Bank), certain things still had to be accomplished. He said that there was broad agreement that IDB's arrears should be cleared first. The U.S. was prepared to play a leadership role; however, the cooperation of the IFIs, Japan and a number of other countries was crucial.

5. Ted Beza said that Peru's financing needs for 91-92 after the clearance of the IFI arrears, were of the order of \$1.3 billion. Of this, payments to bilateral creditors was \$1.15 billion. Hence, the need for a solution of the post-cutoff debt service to the Paris Club.

6. On behalf of the Bank, I said that the Bank was prepared for a new approach to Peru's financing. In the coming months we would prepare two or three adjustment loans focussing on Government administration, taxation system and management, agriculture prices and incentives, public enterprise, trade and financial reform. These loans would provide for quarterly review of agreed actions. We would take them to our Board for approval during the current calendar year. Their effectiveness would be conditional on continued adherence to the stabilization program supported by the IMF, adherence to the structural reform program agreed upon with us in the context of the loans, a financing plan acceptable to the Bank, and the clearance of arrears. If everything went well, we would expect these loans to be effective at the end of 1992, about the same time as the conclusion of the IMF "Rights" Program. We would expect that disbursements on our loans at that time would be close to, but not equal to, the overall arrears to the Bank. I emphasized that this approach was not to be interpreted either as refinancing or rescheduling. Our lending would be about what we would expect to a country of Peru's size and with the sort of program and performance that we would expect of Peru. I also said that the new procedure would permit IDB and bilateral lenders to cofinance with us even before we were ready to disburse our own funds. I underlined that an extraordinary solution to the post-cutoff arrears to the Paris Club was absolutely crucial to the success of the whole enterprise.

7. Other delegations had little to say. David Mulford concluded the meeting by saying that there had been a unanimous endorsement of Peru's program. He accepted that the IFIs were being creative and constructive, but further work was needed before a formal support group could be convened. He said that the U.S. was deeply committed to Peru's reform and recovery and would convene a further meeting of the IFIs and others later in April to nail down the specifics before a formal meeting of the support group.

cc: Messrs. Conable
Qureshi
Shihata
Wood
Choksi

International Bank for Reconstruction and Development

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MAY 15 2023

JOINT AUDIT COMMITTEE

File
Peru

WBG ARCHIVES

JAC91-14

FROM: The Secretary, Joint Audit Committee

April 5, 1991

ADDITIONAL SUPPORT FOR WORK-OUT PROGRAMS IN COUNTRIES WITH PROTRACTED ARREARS

The attached paper entitled "Additional Support for Work-Out Programs in Countries with Protracted Arrears" will be considered in connection with the second agenda item at the next meeting of the Joint Audit Committee on Monday, April 8, 1991 at 2:30 p.m.

Distribution

Committee

Mr. Al-Assaf
Mr. Coady
Mrs. Herfkens
Mr. Landau
Mr. Langley
Mr. Leung
Mr. Lim
Mr. Peretz

For Information

Other Executive Directors and Alternates

President	Mr. Rovani
Mr. Eccles	Mr. Shihata
Mr. Frank	Mr. Silard
Mr. Kopp	Mr. Stern
Mr. Legg	Mr. Thahane
Mr. Picciotto	Mr. Thalwitz
Mr. Qureshi	Mr. Wood
Mr. Roth	

~~CONFIDENTIAL~~

AUG 27 2013

April 5, 1991
WBG ARCHIVES

Additional Support for Work-Out Programs
in Countries with Protracted Arrears

In the "Report on Bank Policies and Practices with Respect to Countries in Arrears," Joint Audit Committee, October 22, 1990, paragraph 28, the Joint Audit Committee urged Management to consider new approaches that would address the limitations inherent in bridge financing arrangements for countries that have a demonstrated record of cooperation with the Bank. Such approaches should be consistent with the Bank's established policy of not disbursing into arrears. The following section describes Management's proposals for dealing with the problem of arrears in countries where the size of the arrears is very large in relation to the normal scale of Bank lending to a strong performing country, and where the country has only recently embarked on a reform program that will allow it to establish a policy track record during a "performance period".

Country Requirements.

To be eligible for the approach described below, four conditions must be met:

- o The country must agree to and implement a structural adjustment program agreed with the Bank, with an appropriate, time-phased action program. Bank staff

AUG 5 2013

WFO ARCHIVES

would monitor compliance with the program's requirements regularly during a pre-clearance "performance period".

- o The country must undertake a Fund-monitored stabilization program, which would be a rights approach program where the country also has significant overdue payments to the IMF.

- o There must be an agreed financing plan which provides adequate support to the country's program during the "performance period" and for the full clearance of arrears to the Bank and other IFIs. This generally will require strong bilateral support.

- o In the context of this financing plan, the country must continue to service Bank debt during the "performance period", on a pari passu basis with the IMF, where there are also arrears to that institution.

Bank Program

If a country meets these requirements, the Bank would be prepared to work closely with the country during the pre-clearance "performance period", consistent with existing Bank policies. The objectives of the "performance

period" would be to establish a track record on adjustment measures. The length of the "performance period" would be established on a case-by-case basis. Where the country is in arrears to both the Bank and the Fund, and parallel clearance is planned, the "performance period" would be the same as the rights accumulation period. If sequential sequence is envisaged the periods may differ.

During the pre-clearance "performance period", the Bank would undertake an intensive policy dialogue with the country, and develop and process loans in the normal way. The volume of such loans would be consistent with Management's judgement as to an appropriate scale of lending, based on the country's size, performance, creditworthiness constraints, and other relevant factors.

The composition of the Bank program would depend on country-specific factors, and would be a mixture of SALs, sector and investment loans. It is likely that in most situations, the bulk of initial disbursements following the clearance of arrears would come from the first two categories.

The Board would be kept informed about the status of negotiations regarding the necessary external support.

During the "performance period", Management would propose to bring loans to the Board representing the implementation of the structural adjustment program and, in the context of the first such loan, present the country strategy and the planned program during the "performance period".

Consistent with existing Bank policies, loan signing, effectiveness and disbursements would not take place until all the arrears had been fully cleared. In addition, loan signing and effectiveness would be conditional on maintaining satisfactory implementation of the adjustment program, compliance with loan-specific covenants, continuation of donor support for the work-out financing plan, including the agreed current servicing of Bank loans.

The amount of disbursements accumulated may be more, less or the same as the arrears. The length of the performance period and consequently the amount of disbursements to be accumulated will take account of the level of assistance from a support group, the capacity of the country to contribute to the reduction of outstanding arrears from its own resources, the appropriate level of Bank commitments for such a country, the composition of the lending program and the country's performance. If arrears are small in relation to a normal Bank program, the amount of accumulated disbursements may exceed them; if the arrears are very large, a portion of the bridge to clear arrears may need to be continued for a short period beyond the clearance of arrears.

Bank staff would monitor compliance with all program and loan conditions on a regular basis, and the Board would be informed regularly of progress under the program, including the performance against agreed tranche conditions.

Peru
~~AIC (7/10)~~
~~SS~~

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

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TO:	Mr. B. Conable (E-1227)	DATE:	4/05/91
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SUBJECT:

Document From: Mr. Kashiwaya (MAQ)
To: bbc
Dated: 4/04/91
Reference No.: EXC910405015
Topic: Assistance to Peru

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ACTION INSTRUCTIONS:	DUE DATE:
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_____ HANDLE
_____ REVIEW AND RECOMMEND
_____XXX_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: _____

=====

Office Memorandum

DATE: April 4, 1991

STRICTLY CONFIDENTIAL

TO: Mr. Barber B. Conable, President

Through: Mr. Moeen A. Qureshi, Senior Vice President, *mq*

FROM: Koji Kashiwaya, Vice President, CFS *kg*

EXT.: 80809

SUBJECT: Assistance to Peru

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WBG ARCHIVES

1. On the occasion of the IADB Annual meeting in Nagoya, the Government of Japan (GOJ) may take the leadership and organize an informal meeting to discuss assistance to Peru in its current financial difficulties. The meeting will take place on April 7 and GOJ has invited President Fujimori and the Minister of Finance of Peru, the U.S. Government (maybe Mr. Mulford, Undersecretary, U.S. Treasury), IADB, the World Bank and IMF. I requested the Ministry of Finance to invite Messrs. Husain and Niehuss to attend this meeting.

2. According to MOF, the U.S. Government has already pressed some IFIs (IADB, the Bank and IMF) to resolve the arrears problems through shadow program-like operations. The U.S. and Japan expect that the IFIs will finance at least some of their own arrears within two years. GOJ sensed that the U.S. Government may not be able to contribute substantially to Peru. GOJ is not ready at this stage to organize or talk about its commitment at a donor meeting, but has asked the Peruvian Government to explain its current economic and financial situation and to try and create an atmosphere of international cohesiveness.

3. In parallel with this meeting GOJ is considering how to help Peru in the future. The arrears to OECF and JExIm amount to almost \$200 million. In principle they will not put new money into a country with arrears. But in the case of Peru, they are now pursuing a shadow plan approach, in parallel with the other donors' contributions, whereby they will first of all use the OECF loan, then later, if the OECF and JExIm's arrears are cleared, will consider JExIm's financing.

4. I conveyed the abovementioned information over the telephone to Mr. Husain on April 4, 1991.

cc: Messrs. Husain, Niehuss, Shilling, Choksi

KKashiwaya:jed

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

4/1
12:15

TO: Mr. B. Conable (E-1227) | DATE: 3/29/91

SUBJECT:

Document From: Mr. Husain (MAQ)

To: bbc

Dated: 3/29/91

Reference No.: EXC910329007

Topic: BRIEFING: meeting with the Finance Minister of Peru -
Dr. Carlos Bolona on Monday, April 1, 1991 at 12:15pm

ACTION INSTRUCTIONS:

DUE DATE:

- _____ HANDLE
- _____ REVIEW AND RECOMMEND
- ___XXX___ FOR YOUR INFORMATION
- _____ DISCUSS WITH _____
- _____ AS WE DISCUSSED
- _____ PREPARE RESPONSE FOR _____ SIGNATURE
- _____ FOR YOUR FILES
- _____ RETURN TO _____
- _____ OTHER: _____

Remarks: copied to ES
cc: AK/SS

OFFICE MEMORANDUM

DATE: March 28, 1991

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi *mq*

FROM: S. Shahid Husain *SH*

EXTENSION: 39001

SUBJECT: PERU - Your Meeting with the Finance Minister

1. Dr. Carlos Boloña, Peru's Minister of Economy and Finance, will call on you on Monday, April 1 at 12:15 p.m. He was appointed as Minister on February 18, 1991. Dr. Boloña, 41, holds economics degrees from the Universidad del Pacifico (Peru) and Oxford University. He has been both a university professor and a successful businessman. The new Minister is also a close collaborator of Hernando De Soto and was formerly Director of the Economics Department of De Soto's think tank, ILD.

Recent Economic Measures

2. On March 11, Minister Boloña announced the principles that will guide his economic policy in the areas of foreign trade, labor legislation, customs and tax administration, public expenditures, public enterprises, public administration, and financial sector. In particular, foreign trade has been further liberalized, with the three-tier tariff system established in last September (50%, 25%, and 15%) being simplified into a two-tier one (25% and 15%). The Minister emphasized his commitment to continuing the economic policy initiated by the Government in August 1990 and accelerating structural reforms. (See Attachment for the announced measures.)

3. After the inflationary upsurge in December-January when the rate shot up to an average of 20 percent per month, price pressures have receded and the inflation rate has come down to 9 percent in February and an estimated 7 percent in March. The economy is still undergoing a recession; interest rates are very high (i.e., lending rates in Inti loans at 15-20 percent per month); the Central Bank now holds about US\$500 million of net international reserves equivalent to about one half of the monetary base.

Bank Approach to the Arrears Problems

4. The department, with participation of FRS and EAS, prepared a position paper on alternative approaches to dealing with Peru's arrears for a discussion at the President's Council. The President's Council met yesterday and adopted a Bank strategy toward Peru's arrears. As a result, we are going ahead with the preparation of three possible adjustment loans.

Debt Service Press Reports

5. There have been repeated press reports concerning statements attributed to the President and the Minister of Economy and Finance on

Peru's possible default on debt service payments to the IFIs, including the Bank. We checked with Lima the validity of this information and confirmed that it is not accurate.

Suggestions for Your Meeting

6. In the above context, you may wish to highlight to the Peruvians the following points:

- (a) It is crucial that a support group with leadership from the U.S. and Japan be organized quickly so that financing for Peru's program and clearance of arrears can be found. Minister Boloña and his Government should do whatever they can to convince the U.S. and the Japanese of the urgent need for it. They would also need to canvas the Europeans, Canadians, Venezuela and Mexico.
- (b) The Bank is ready to work with the support group. We would work on an approach similar to that of the IMF, whereby Bank adjustment loans would be prepared and disbursements would take place subject to continued adherence to an IMF-supported stabilization program and a structural adjustment program agreed with the Bank and if suitable, a financing plan were agreed upon within the support group. You should impress upon Minister Boloña that Peru's debt service to the Paris Club between 1991 and 1992 is fairly large and, in concert with the U.S. and Europeans, they should make a serious effort to obtain concessionary refinancing from the Paris Club.
- (c) The Bank is prepared to help Peru deepen the existing reforms. It has already secured three technical assistance grants for financial sector reform, debt management, and social development (totaling US\$1.5 million). The Bank is also undertaking preparatory work leading to the formulation of possible adjustment loans: a SAL, a Trade Reform Loan, and a Public Sector Reform Loan. In addition, we are accelerating the preparation of investment loans in the areas of human resource development, and mining and infrastructure rehabilitation.

Attachment

cc: Mr. Quijano (LACSA)
LAI Management Team

IOhno/RLago

OFFICE MEMORANDUM

DATE: March 28, 1991

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi *mk*

FROM: S. Shahid Husain *SH*

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Attachment

cc: Mr. Quijano (LACSA)
LAl Management Team

IOhno/RLago

Copied AK
E-xc log 910328021

The World Bank
Washington, D.C. 20433
U.S.A.

ERNEST STERN
Senior Vice President
Finance

March 28, 1991

Mr. Conable

Barber -

PERU

I would hope the matter of our procedures on Peru will be settled today or tomorrow. It is important that, whatever your decision, we be able to give a clear statement to our colleagues in the Fund, IDB and U.S., so that discussions on an arrears clearance approach can be formulated in time for discussion at the IDB Annual Meeting in Japan on April 13.

As I told you, I see no insurmountable problem in taking "shadow" loans to our Board. Indeed, I have never been able to understand how serious discussions about financing arrangements with other institutions and donors, involving close to \$2 billion and complex burdensharing issues, would be feasible in the absence of specific numbers from us on disbursements and the timing of disbursements. And firm disbursement numbers, unlike commitment intentions, are neither feasible nor credible, without prior Board approval. As long ago as July 25, 1990, Joe Wood and I met with you to discuss a note which advocated a "shadow" loan approach. And in many discussions since, my colleagues and I have argued the necessity of such an approach -- not because we think it is desirable but because we see little alternative, given the huge sums involved and the lack of a performance record. It is by far preferable to a single, very large, SAL at the end of the performance testing period; it establishes a firm basis for adjustment actions to be taken by Peru in addition to the Fund program; it allows for explicit, transparent monitoring; and it enables us to develop a mix of loans rather than hook all disbursements to adjustment lending.

Should you decide that we can take loans to the Board during a performance testing period, we will need to initiate consultations with the Executive Directors as soon as possible.

A JAC meeting is scheduled for April 8 and this would provide a good opportunity for a briefing on our intention. This will need to be followed by some bilateral discussion and, subsequently, a note to the Board. But before we can do that, you, Moeen, Ibrahim, and I need to meet to define precisely what we plan to do; the line of explanation we will follow; and how we will handle such matters as prolonged retroactivity for disbursements and the possible need for amendments to loan agreements if circumstances change during the 1-2 year performance testing period. This should be done as soon as possible.

Let me emphasize that agreeing to a program of "shadow" loans is not, nor is it, intended as agreement to the proposition that disbursements from us should equal arrears cleared. The optics involved are important, and I believe, understood by all. They can be handled by a bridge arrangement which will be repaid over a reasonable period after arrears are cleared. A "reasonable period" in this case needs to be considerably longer than the Zambia arrangement where we disbursed IDA. Depending on the final structure, a 3-6 month bridge should be adequate.

Finally, we ought to be quite clear that the present U.S. Treasury approach is unlikely to be successful unless truly exceptional support is available from Japan. If it is not, sequential clearing needs to be explored and/or limiting service payments to the IFIs during the performance testing period to charges (interest) rather than to cover charges plus principal.



Ernest Stern

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

~~AK*~~
SS (o/r)

TO: Mr. B. Conable (E-1227) | DATE: 3/21/91

(o/r)

SUBJECT:

Document From: Mr. Qureshi
To: bbc
Dated: 3/21/91 Reference No.: EXC910321005
Topic: Approaches dealing with Peru's arrears.

ACTION INSTRUCTIONS:

DUE DATE:

HANDLE
XXX REVIEW AND ~~RECOMMEND~~ *Comments **
FOR YOUR INFORMATION
DISCUSS WITH _____
AS WE DISCUSSED
PREPARE RESPONSE FOR _____ SIGNATURE
FOR YOUR FILES
RETURN TO _____
OTHER: _____

Remarks: Urgent -- requesting a PC discussion next week. *on Wed 3/27*

URGENT

The World Bank
Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

March 21, 1991

Mr. Conable:

Attached please find a paper describing alternative approaches to dealing with Peru's arrears. This paper was prepared by a small inter-complex task force. In view of the urgency of the situation I would appreciate a President's Council discussion of the paper next week.



The World Bank
Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

March 21, 1991

Mr. Conable:

Attached please find a paper describing alternative approaches to dealing with Peru's arrears. This paper was prepared by a small inter-complex task force. In view of the urgency of the situation I would appreciate a President's Council discussion of the paper next week.



March 21, 1991

Alternative Approaches to Dealing with Arrears in Peru

Introduction

1. This paper attempts to lay out the financial options faced by the Bank and other multilaterals in approaching the debt workout of Peru with the IFIs. In outlining the advantages and disadvantages of each option, three Bank objectives are considered: (i) enabling the Bank as quickly as possible to make an effective contribution to Peru's growth and future creditworthiness; (ii) achieving an appropriate sharing of the financing burden and risks among creditors; and (iii) protecting the Bank's own position in international financial markets. In addition to these objectives, the alternatives outlined below must be judged in the light of the likelihood of mobilizing support group resources adequate to clear IFI arrears.

2. Peru's debt work-out will be constrained by its current very low ability to pay. Income per capita has fallen by a cumulative 35 percent over the last three years and 40 percent of Peru's population is now classified below the absolute poverty level. Restoring Peru's creditworthiness will require maintaining the current stabilization effort to fight inflation and renewing GDP growth to make the reform program socially and politically feasible.

3. Taken as given in this discussion are the key assumptions and macroeconomic targets of the recently agreed IMF program. This program assumes real GDP growth of 2.8 percent and inflation of 60 percent in 1991. The main target of the IMF program is zero growth of central bank credit to the public sector, which would permit an increase in net international assets of the Central Bank and an expansion of banking system credit to the private sector. The program envisages a small surplus in the non-interest current account (NICA) during 1991-1995. Given the magnitude of the debt overhang, the program assumes that "attainment of balance of payments viability over the medium term will require virtually complete debt reduction on obligations to private creditors and substantial debt/debt service reduction or a large grant element in new financing from bilateral creditors." In the short term, all creditors other than IFIs are expected to reschedule or refinance debt service falling due, with the exception of Post-cutoff-date (PCOD) Paris Club debt.^{1/}

4. Two main conclusions can be drawn from the debt work-out alternatives examined below. First, irrespective of the approach that is eventually followed to clear arrears preparatory work leading to the formulation of one or several contingent policy-based loans should be initiated as soon as possible because disbursements from these loans will be required shortly after

^{1/} The financing program assumes PCOD scheduled debt service and moratorium interest are paid as due and that all PCOD arrears are "deferred" for two years. Therefore, Paris Club debt service to be paid with cash would total: \$257 in 1991 and \$896 in 1992.

the clearance of arrears under all the alternatives. Second, also irrespective of the alternative eventually to be followed, the Bank position vis-a-vis the donors and the IMF should be that only conventional approaches to arrears clearance are being considered, so as to maximize the pressure for donor contributions. On the other hand, the Bank should emphasize to the Peruvian authorities that the composition and size of the Bank's lending program to Peru following clearance of arrears will be related to observed progress in Peru's adjustment program.

5. The three key options to clear arrears examined below are: parallel, sequential, and shadow-SAL (rights approach). An additional option, also examined, is to seek Support Group (SG) financing for the balance of payments (BOP) program while the issue of arrears clearance is being resolved.

6. Table 1 summarizes the main financial implications of each of these options. SG resources required for the debt work-out are assumed to take the form of grants and/or medium-term soft loans. Although the timeframe considered here for evaluating the different options is 1991-92, it must be noted that, unless Peru is granted significant debt/debt service reduction on the debt other than multilateral, SG resources will continue to be needed during the years after 1992.

OPTION I: Parallel Clearance

7. Current Bank policy, agreed between the Bank and Fund, calls for parallel clearance of arrears to both institutions (and to the regional development bank where relevant). Under the Fund's current "rights" approach, if sufficient resources are not available from the donors, the clearance of IMF arrears is facilitated by the accumulation of rights towards a large new disbursement following the clearance of arrears.

8. Prior to the full clearance of arrears to the Fund, Bank and IDB, Peru must continue to make the current debt service payments falling due to the three institutions and to service its PCOD obligations to the Paris Club creditors. Under an early parallel clearance arrears to the three institutions would be cleared after 12 months through resources raised from a SG^{2/} and official or commercial bridge loans to post-clearance IFI disbursements.

Parallel I: IMF Approach

9. The recently negotiated IMF program proposes a two-year Rights Approach Program (RAP) with simultaneous clearance of IFI arrears after approximately one year of rights accumulation, ie. end-1991. (See tables 1 and 2 for details.) The total financing requirements for 1991 are \$2.8 billion. Of

^{2/} The forum for organizing official bilateral assistance (Support Group, Consultative Group, etc.) remains to be determined. For simplicity, the term Support Group is used here.

this, \$0.9 million could be covered by securing a bridge against a similar amount of IFI's disbursements, to be effected immediately after arrears clearance, and \$0.4 billion could come from an already identified medium-term loan from the Andean Reserve Fund. Therefore, financing required from a SG in 1991 would be about \$1.6 billion: \$0.7 billion as "flow" requirements for the program (\$500 million debt service to IFIs; and the remainder for Central Bank reserve accumulation) plus \$0.9 billion to clear arrears. For the two-year period 1991-92, required SG financing totals US\$2 billion (Table 2).

10. The advantages of a conventional early parallel clearance approach are:

- Active role of three IFIs in Peru's current economic reform process;
- New commitments and exposure of three IFI's move ahead in parallel;
- Bank's preferred creditor status is protected;
- Reduction in exposure of all three IFIs.

11. Disadvantages:

- Large--probably unachievable--demands for SG financing;
- Tight timeframe for rebuilding adjustment loan and Bank project pipeline;

12. On the basis of preliminary contacts with potential Support Group members it appears highly unlikely that the amounts needed for parallel clearance could be raised.

Parallel II: Increased IFI Disbursements

13. In the absence of sufficient SG resources, parallel clearance would only be possible if post-clearance IFI disbursements were increased from \$0.9 billion to a theoretical "maximum" amount of \$1.3 billion and if the reserve accumulation target were achieved through Peru's own contribution (higher NICA surplus).^{3/} In this scenario, post-clearance IFI disbursements in 1991 would be increased as follows:

^{3/} The program targets may make external financing of international reserves unnecessary because most likely Peru will run a higher non-interest current account surplus than foreseen in the IMF program.

	1991		
	Parallel I IMF Approach	Parallel II "Increased IFI Disbursements"	Additional IFI Disbursements
	<-----(\$ million)----->		
IMF	440	510 ^{4/}	70
IBRD	300	400 ^{5/}	100
IDB	<u>172</u>	<u>400</u>	<u>228</u>
Total	<u>912</u>	<u>1,310</u>	<u>398</u>

14. Increasing the post-clearance disbursements and eliminating the financing of reserve accumulation would reduce needed SG resources in 1991 from \$1.6 to about \$1 billion. In addition, bridge financing required in 1991 would rise from \$0.9 billion to \$1.3 billion. Total SG requirements for the two-year period 1991-92 would be \$1.2 billion. These figures are considerably lower than those under Parallel I. However, it continues to be unlikely that a SG could raise \$1 billion by December 1991.

15. Parallel Clearance: Early versus delayed. Parallel clearance can take the form of early parallel in 1991 -as illustrated in the two exercises above- or delayed parallel in 1992 or later. Delayed parallel clearance would still require \$537 million of SG financing in 1991 to finance the BOP program (i.e., to ensure financing of debt-service to IFIs and the Paris Club) and will not reduce the gap required to meet the arrears and the BOP program requirements in 1992. The main advantage of delayed over early clearance is that it allows Peru to build up a payments and policy performance track record.

16. A critical question, that cannot be answered a priori, is what level of post clearance IBRD disbursements would be interpreted by the markets as a de facto refinancing of arrears thereby damaging IBRD credit rating. It

^{4/} The IMF program calls for rights accumulation of 95% of quota in 1991, whereas the Rights Approach guidelines allows for total annual accumulation of rights up to 110% of quota, or \$510 million at today's exchange rates.

^{5/} Note that this figure is the maximum possible to be assumed in IBRD internal discussions. However, the official position of IBRD vis a vis the other IFIs and the donors should be that any increase in exposure by IBRD and IMF should be proportional to the stock or arrears owed to each institution as of August 1989, the month in which Peru resumed debt servicing to the IMF. Following the latter criterium, if IMF disbursements in 1991 are assumed at \$510 million, IBRD disbursements should be considered at \$350 million instead of \$400 million in the Table.

should be noted, however, that even in the Parallel II scenario, the level of Bank exposure to Peru declines because at the end of the two years the Bank would have collected arrears (\$905 million) and received current debt service (\$400 million) by disbursing a considerably smaller amount (\$700 million).

OPTION II: Sequential Clearance of Arrears

17. Two variations of sequential clearance are considered here: clearing Bank arrears first, and clearing Fund arrears first. In both cases, it is assumed that the IDB would participate in the initial clearing. The IDB is in a stronger position than the other two institutions to provide a net positive contribution to overall financing in the first or second year, since outstanding arrears are small (\$350 million) relative to those owed to the other two institutions and relative to potential new lending. Moreover, unlike the IMF and IBRD, that institution might be willing to increase its exposure in Peru in exchange for an earlier clearance of arrears.

Sequential I: IBRD-IDB

18. Under this approach, IMF arrears would be cleared in December 1992 after completion of the full two-year RAP. Bank arrears would be cleared in December 1991, simultaneously with IDB arrears, through a combination of SG resources, Peru's contribution and bridge loans to new disbursements from IDB and IBRD. New disbursements by the Bank and IDB in 1991-92 are assumed to be the same as in "Parallel II." Under this approach, the gap to be filled by the SG in 1991 is reduced from about \$1 billion under Parallel II to about \$600 million in 1991 (Tables 1 and 3). This amount is more likely to be raised by a Support Group, particularly through cofinancing by bilaterals of World Bank-IDB policy-based loans. The disbursement schedules of these loans could be devised in such a way that the earlier tranches would be disbursed by IDB and bilateral cofinancing and the later ones by IBRD. This sequencing would permit a reduction of bridging required to clear IBRD's arrears and, taken to the limit, it would eliminate the need for a bridge to clear IBRD arrears. In addition to the SG contribution, bridge financing of \$800 million in 1991 will be required.

19. Advantages:

- Reduced SG financing required;
- Early elimination of arrears to the Bank and reestablishment of Bank lending;
- Bank's preferred creditor status protected to the same extent as in "Parallel II";
- IBRD loans provide vehicles for cofinancing as a way of mobilizing IDB and SG resources.

20. Disadvantages:

- Likely pressure on the Bank to increase its initial contribution beyond a prudent level;
- IMF may not wish to lag behind in arrears clearance and run the risk of interruption of debt service payments if the program goes off-track;
- Tight time frame for rebuilding Bank loan pipeline.

Sequential II: IMF-IDB

21. Under this approach, IDB and IMF arrears would be cleared at end-1991 and IBRD arrears would be cleared at the end of 1992. As in Parallel II, the IMF contribution could be increased to the maximum amount allowed by the RAP guidelines, i.e. \$510 million in 1991. The total contribution of the SG in 1991 would fall from \$1 billion under "Parallel II" to about \$500 million, slightly lower than "Sequential, IBRD First" (Tables 1 and 3). For the whole period 1991-92, the SG Contributions rises from \$1.1 billion under "IBRD First" to \$1.5 billion under "IMF First".

22. It should be noted, that under this scenario the IDB could only be expected to disburse the projected \$400 million in 1991--most of which would consist of policy based lending--with active preparatory and technical assistance by the World Bank, even though the World Bank would not participate in their financing. The reason for this is that the IDB is not authorized to develop its own independent policy-based loans before December 1991 and at present might lack the expertise to do it.

23. Advantages:

- Provides more time to clear IBRD arrears and to prepare the IBRD lending program;
- Track record is established under the Fund program before the Bank Board has to decide on new commitments;
- IBRD exposure declines during interim (because of current debt service payments), which is particularly advantageous if the program goes off track;
- Bank would participate actively in the technical design of policy based lending without committing financial resources to Peru.

24. Disadvantages:

- Capital markets may perceive the Bank as being less "preferred" a creditor than the IMF and IDB;
- The Bank may be perceived as taking a rather passive attitude to Peru's debt work-out and might be singled-out for interruption of debt service payments, particularly if the IMF program goes off-track.

OPTION III: Shadow SAL

25. Under the "Shadow SAL" approach, analogous to the Fund's "rights" approach, the Bank would develop and negotiate loans that would be presented to the Board intermittently during the course of the two-year shadow program, and disbursement claims would accumulate as loan conditions were met. Once arrears were cleared, through a bridge loan, accumulated disbursement claims would be released, contingent only on continued compliance with and commitment to adhere to the agreed overall adjustment program. Committed amounts would lapse if policy conditionality, including maintaining current debt service payments to the Bank, were not maintained. This approach would require prior Board approval because loans would have to be presented to the Board during an extended period before arrears were cleared.

26. There are both practical and policy-linked merits to having Peru establish a track record under Bank Shadow SALs before Bank disbursements are resumed. Early agreement on such lending, which would be completely conditional on the clearance of arrears, would help build Peru's and donor's confidence in the financing plan and provide a vehicle for shaping policies that are likely to be critical to the long-term success of the work-out. This approach would give the Board a formal opportunity to be kept informed and to react to progress under the program.

27. If a shadow SAL approach is adopted, the following elements should be considered:

- The financing commitment of the SG would have been determined to be insufficient to eliminate Bank arrears completely, within a reasonable timeframe.
- New disbursements would not be made before Peru had established a track-record of policy and payments performance;
- Peru would be expected, with assistance from the SG, to remain current on its debt service to the Bank, and to reduce arrears if possible, before the remaining arrears were cleared;
- Peru would agree to a program of policy conditionality, in conjunction with the Fund-monitored stabilization program. The Bank would build up a pipeline of adjustment lending and monitor compliance with conditionality;
- Disbursements under the new adjustment loans would be based primarily on past policy performance.

Shadow I: Three IFIs

28. If IBRD and IDB were to assume the Shadow SAL approach, targeted "rights" to be accumulated in 1991-92 would probably have to be close to current levels of arrears as illustrated in Table 4. The Bank may wish to address less than the full amount of arrears; however, once the Shadow SAL approach is made explicit, there would very likely be pressures on the Bank to address the entire amount of the arrears, unless the Bank articulates eligibility and access guidelines. As indicated in Table 4, SG contributions, limited in this case to the financing of the program, would total \$537 million

in 1991--roughly similar to sequential--and \$1,163 million for the two-year period 1991-92 (Tables 1 and 4). Bridge financing against IFIs post-clearance disbursements in 1992 would be \$2.1 billion.

Shadow II: IBRD-IMF with IDB Sequential

29. A variation of this approach would consist in prior clearance of IDB arrears, as long as that institution is prepared to commit itself to increasing its exposure in Peru (i.e. to provide disbursements sufficiently larger than its arrears). Assuming the same level of IDB disbursements as in Parallel II and Sequential, Table 4 shows that this strategy would reduce required SG resources to \$495 million in 1991 and \$864 million over the two year period. Bridge financing required in 1991 would be \$358 million (equal to IDB's arrears) and in 1992, \$1.8 billion (IBRD's plus IMF's arrears).

30. Advantages of Shadow SAL:

- A track record of stabilization and structural reforms is evidenced before new Bank resources are disbursed;
- Peru would make regular payments to IBRD for two years leading to a significant reduction of exposure, in the meantime;
- Could enhance the credibility of the financing plan and provide a vehicle for shaping policies that are critical to the long-term success of the work-out;
- Might minimize risk that Bank would be singled out for renewed interruption of debt service;
- Avoids "bunching" of Board approvals immediately after Peru regains accrual status.

31. Disadvantages:

- Possible adverse effect on Bank's standing in financial markets because of change of standard practice of not presenting loans to the Board in the presence of arrears and appearance of de facto refinancing.
- May reduce pressure on bilaterals to contribute to arrears clearance, in both Peru's and future cases, once the strategy is revealed. (However, it must be noted that significant SG resources will still be needed to finance current debt service).
- The Bank would have to extend the same option to other member countries in arrears.

Conclusions

32. In view of the size of SG resources and IFI lending requirements needed under all alternatives, one approach would be to defer the discussion on arrears clearance for the time being and focus on the financing of the BOP program by a SG, comprising those donors which were prepared to assist. The IFIs would help Peru not only in mobilizing SG resources but also by providing technical support and assistance. SG needed for the BOP program would total \$537 million in 1991 and \$1533 in the two-year period. The main advantages of this approach would be: (i) to gain time to assess whether the SG can be successfully put together; (ii) Peru would not be saddled with the arrears problem when the priorities are the recovery of the economy and stabilization; and (iii) IBRD would have more time to rebuild the lending pipeline.

33. All alternatives to the debt work-out require disbursements of policy-based loans soon after clearance--differing only in the size and timing of the disbursements. Therefore, preparation of these prospective contingent loans should not await the selection of the specific model for arrears clearance. The latter will determine only the size and timing of the disbursements.

34. Sequential clearance appears to be a more feasible approach than a parallel clearance approach because it reduces the resources required from a Support Group.

35. If a Shadow SAL approach is followed in the case of Peru, it will not be possible to avoid extending this format to other countries in arrears that would qualify under the eligibility guidelines that should be issued. This approach would, nevertheless, give the signal, more explicitly than hitherto, that the Bank is refinancing part or all of the arrears owed to the Bank by these countries. This could lead to possible adverse effects on the Bank's market standing and preferred creditor status.

36. Even if the Shadow SAL approach is followed, the SG will continue to be the key player. As Tables 1 and 4 show the SG's contribution to the financing plan under the Shadow SAL approach would be no lower than US\$864 million, for the two year period 1991-92.

Table 1

ALTERNATIVE APPROACHES TO DEBT WORK-OUT
(US\$ millions)

	Parallel				Sequential				Rights Approach			
	I		II		I		II		I		II	
	IMF Approach 1991	Total 91-92	Increased IFI 1991	Total 91-92	IBRD-IDB 1991	Total 91-92	IMF-IDB 1991	Total 91-92	3 IFIs 1991	Total 91-92	IBRD-IMF 1991	Total 91-92
SUPPORT GROUP CONTRIBUTION	1555	1987	1007	1214	630	1088	502	1514	537	1163	495	884
IFI DISBURSEMENTS	912	1701	1310	2099	800	2245	910	1799	-	2150	400	2449
- IBRD	300	600	400	700	400	700	-	400	-	905	-	905
- IMF	440	672	510	742	-	888	510	742	-	887	-	887
- IDB	172	429	400	657	400	657	400	657	-	358	400	657

Table 2
OPTION 1: PARALLEL CLEARANCE (US\$ millions)

	----- Parallel -----					
	<u>Parallel I</u>			<u>Parallel II</u>		
	<u>IMF Approach</u>			<u>Increased IFI Disbursements</u>		
	1991	1992	Total 91-92	1991	1992	Total 91-92
REQUIREMENTS	<u>2837</u>	<u>1221</u>		<u>2687</u>		
<u>Financing of the Program</u> ^{a/}	<u>687</u> ^{b/}	221		537 ^{b/c}	<u>996</u> ^{c/}	
(of which)						
- Accumulation of International Reserves	150	225		-	-	
- Debt Service of IFIs	500	500		500	500	
- Net required for Paris Club (PCOD)	37	496		37	496	
<u>Clearance of IFI Arrears</u>	<u>2150</u>	-		<u>2150</u>	-	
FINANCING	<u>2837</u>	<u>1221</u>		<u>2687</u>	<u>996</u>	
Andean Reserve Fund	370	-		370	-	
IFI Disbursements to be bridged	912	-		1310	-	
IFI Disbursements		789		-	789	
SUPPORT GROUP CONTRIBUTION	1555	432	<u>1987</u>	1007	207	<u>1214</u>
Memo: New IFI Disbursements	912	789	1701	1310	789	2099
IBRD	300	300	600	400	300	700
IMF	440	232	672	510	232	742
IDB	172	257	429	400	257	657

^{a/} All other BOP items except three listed below have identified or foreseeable financing in the BOP.

^{b/} Differs from the IMF's scenario in that it excludes the US\$113 million of reduction of arrears to IFIs during the IMF program.

^{c/} Differs from the IMF's scenario in that it assumes that the accumulation of international reserves is financed out of Peru's own resources (a larger non-interest current account surplus) rather than from Support Group contribution.

^{d/} Paris Club debt service to be paid with cash would total: \$257 in 1991 and \$896 in 1992. However, amounts in excess of those in the table already have foreseeable financing in the BOP.

Table 3

OPTION 2: SEQUENTIAL CLEARANCE (US\$ millions)

	----- Sequential -----					
	Sequential I			Sequential II		
	IBRD - IDB first			IMF - IDB first		
	1991	1992	Total 91-92	1991	1992	Total 91-92
REQUIREMENTS	<u>1800</u>	<u>1883</u>		<u>1782</u>	<u>1901</u>	
<u>Financing of the Program a/</u> (of which)	<u>537</u> b/c	<u>996</u> c/		<u>537</u> b/c	<u>996</u> c/	
- Accumulation of Reserves	-	-		-	-	
- Debt Service to IFIs	500	500		500	500	
- Net required for Paris Club (PCOD)	37	496		37	496	
<u>Clearance of IFI Arrears</u>	<u>1263</u>	<u>887</u>		<u>1245</u>	<u>905</u>	
FINANCING	<u>1800</u>	<u>1883</u>		<u>1782</u>	<u>1901</u>	
Andean Reserve Fund	370	-		370	-	
IFI Disbursements to be bridged	800	888		910	400	
IFI Disbursements	-	557		-	489	
SUPPORT GROUP CONTRIBUTION	630	438	<u>1068</u>	502	1012	<u>1514</u>
Memo: New IFI Disbursements	800	1445	2245	910	889	1799
IBRD	400	300	700	-	400	400
IMF	-	888	888	510	232	742
IDB	400	257	657	400	257	657

a/ All other BOP items except the three listed below have identified or foreseeable financing in the BOP.

b/ Differs from the IMF's scenario in that it excludes the US\$113 million of reduction of arrears to IFIs during the IMF program.

c/ Differs from the IMF's scenario in that it assumes that the accumulation of international reserves is financed out of Peru's own resources (a larger non-interest current account surplus) rather than from Support Group contribution.

d/ Paris Club debt service to be paid with cash would total: \$257 in 1991 and \$896 in 1992. However, amounts in excess of those in the table already have foreseeable financing in the BOP.

Table 4
 OPTION 3: SHADOW-SAL (US\$ millions)

	Shadow I			Shadow II		
	Rights Approach 3 IFIs			Rights Approach IBRD-IMF IDB Cleared in 1991		
	1991	1992	Total 91-92	1991	1992	Total 91-92
REQUIREMENTS	<u>537</u>	<u>3146</u>		<u>895</u>	<u>2788</u>	
<u>Financing of the Program a/</u> (of which)	<u>537</u> b/c	<u>996</u>		<u>537</u> b/c	<u>996</u> c/	
- Accumulation of Reserves	-	-		-		
- Debt Service to IFIs	500	500		500	500	
- Net required for Paris Club (PCOD)	37	496		37	496	
<u>Clearance of IFI Arrears</u>	-	<u>2150</u>		<u>358</u>	<u>1792</u>	
FINANCING	<u>537</u>	<u>3146</u>		<u>895</u>	<u>2788</u>	
Andean Reserve Fund	-	370		-	370	
IFI Disbursements to be bridged		2150		358	1791	
IFI Disbursements		-		42	257	
SUPPORT GROUP CONTRIBUTION	537	626	<u>1163</u>	495	369	<u>864</u>
Memo: New IFI disbursements	-	2150	2150	400	2049	2449
IBRD	-	905	905	-	905	905
IMF	-	887	887	-	887	887
IDB	-	358	358	400	257	657

a/ All other BOP items except three listed below have identified or foreseeable financing in the BOP.

b/ Differs from the IMF's scenario in that it excludes the US\$113 million of reduction of arrears to IFIs during the IMF program.

c/ Differs from the IMF's scenario in that it assumes that the accumulation of international reserves is financed out of Peru's own resources (a larger non-interest current account surplus) rather than from Support Group contribution.

d/ Paris Club debt service to be paid with cash would total: \$257 in 1991 and \$896 in 1992. However, amounts in excess of those in the table already have foreseeable financing in the BOP.

Peru X

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

March 25, 1991

Dear Mr. Minister:

I have learned of your appointment as Governor for Peru on the Boards of Governors of The World Bank Group. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position to actively participate in the affairs of the Bank Group, as well.

The Executive Directors, Officers and Staff of The World Bank Group believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank Group even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to meeting you in the near future, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

Su Excelencia
Senor Carlos Bolona Behr
Ministro de Economía y Finanzas
Avenida Abancay
Lima 1
Peru

cc: Mr. Camarasa
Mr. Choksi
Mr. Santos

ETSanidad: jlk

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

25 de marzo de 1991

Señor Ministro:

Me ha sido comunicada su designación como Gobernador por Perú en las Juntas de Gobernadores del Grupo del Banco Mundial. Estoy consciente de que este nombramiento es inherente al cargo que desempeña en el Gobierno de su país, pero confío en que podrá estar en condiciones de participar también de forma activa en los asuntos del Grupo del Banco.

Los Directores Ejecutivos, los altos funcionarios y el personal del Grupo del Banco Mundial están firmemente dedicados a la misión de desarrollo de la institución y a la lucha contra la pobreza. Esperamos con sumo interés colaborar con usted en la tarea de hacer que el Grupo del Banco sea aún más eficaz en los años venideros. Permítame que le exprese mis felicitaciones por su designación para ocupar este cargo, así como mi agradecimiento por su disposición a asumir esta responsabilidad adicional.

En espera de verlo en un futuro cercano, le envío mis mejores deseos personales.

Lo saluda muy atentamente,

Excmo. Sr.
Carlos Bolona Behr
Ministro de Economía y Finanzas
Avenida Abancay
Lima 1
Perú



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Resolución Suprema

Nº 096-90-EF/43.40

Lima, 6 de setiembre de 1990

CONSIDERANDO:

Que es necesario designar al Gobernador Titular ante el Banco Mundial en representación de la República del Perú;

Estando a lo acordado;

SE RESUELVE:

ARTÍCULO ÚNICO.— Designar al señor Ministro de Economía y Finanzas como Gobernador Titular ante el Banco Mundial, en representación de la República del Perú.

Regístrese y comuníquese.

MINISTERIO DEL PRESIDENTE
CONSTITUCIONAL DE LA
REPUBLICA

JUAN CARLOS HURTADO MILLER
Presidente del Consejo de Ministros
y Ministro de Economía y Finanzas

Rough Translation

CONSIDERING

THAT it is necessary to appoint the Governor of the World Bank for Peru;

Based on what has been agreed;

IT HAS BEEN RESOLVED

SOLE ARTICLE: to appoint the Minister of Economy and Finance as Governor of the World Bank for Peru.



MINISTERIO DE ECONOMIA Y FINANZAS
DESPACHO MINISTERIAL

Lima, 08 MAR. 1991

SEÑOR
TIMOTHY TAHANE
Secretario Ejecutivo del Banco Mundial
Secretario de AIF
Secretario de CFI
U. S. A.

Es para su conocimiento y efectos a fin de tener de su conocimiento que mediante Resolución Suprema del 06/03/91 PCM de fecha 18 de febrero del presente año el señor Carlos Bolona Behr ha sido nombrado Ministro en el Despacho de Economía y Finanzas.

CARLOS BOLONA
BEHR

En consideración a ello y de conformidad con lo dispuesto en la Resolución Suprema No. 096-90-EF/43.40 de fecha 06 de setiembre de 1990, el señor Carlos Bolona Behr es el Gobernador Titular del Banco en el Banco Mundial, AIF y CFI; el Gobernador Alterno es el señor Alfredo Jalilie Awapara, Vice Ministro de Hacienda.

Alfredo
JALILIE AWAPARA

Atentamente,

VICTOR LARREA VILELA
Secretario General del
Ministerio de Economía y Finanzas

Rough Translation

I am pleased to inform you that per Decree no... dated Feb. 18, 1991 Mr. Carlos Bolona Behr has been appointed Minister of Economy and Finance. Therefore, and in accordance with Decree 096-90-EF/43.40 dated Sept. 6, 1990, Mr. Bolona Behr is the Governor of the Bank, IDA and IFC for Peru. The Alt. Governor is Mr. Alfredo Jalilie Awapara, Vice Minister of Finance.

Peru X

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

March 25, 1991

Dear Mr. Vice Minister:

I have learned of your appointment as Alternate Governor for Peru on the Boards of Governors of The World Bank Group. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position to actively participate in the affairs of the Bank Group, as well.

The Executive Directors, Officers and Staff of The World Bank Group believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank Group even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to meeting you in the near future, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

Senor Alfredo Jalilie Awapara
Vice Ministro de Hacienda
Ministerio de Economia y Finanzas
Avenida Abancay
Lima 1
Peru

cc: Mr. Camarasa
Mr. Choksi
Mr. Santos

ETSanidad:jlk

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

25 de marzo de 1991

Señor Viceministro:

Me ha sido comunicada su designación como Gobernador Suplente por Perú en las Juntas de Gobernadores del Grupo del Banco Mundial. Estoy consciente de que este nombramiento es inherente al cargo que desempeña en el Gobierno de su país, pero confío en que podrá estar en condiciones de participar también de forma activa en los asuntos del Grupo del Banco.

Los Directores Ejecutivos, los altos funcionarios y el personal del Grupo del Banco Mundial están firmemente dedicados a la misión de desarrollo de la institución y a la lucha contra la pobreza. Esperamos con sumo interés colaborar con usted en la tarea de hacer que el Grupo del Banco sea aún más eficaz en los años venideros. Permítame que le exprese mis felicitaciones por su designación para ocupar este cargo, así como mi agradecimiento por su disposición a asumir esta responsabilidad adicional.

En espera de verlo en un futuro cercano, le envío mis mejores deseos personales.

Lo saluda muy atentamente,

Sr. Alfredo Jalilie Awapara
Viceministro de Hacienda
Ministerio de Economía y Finanzas
Avenida Abancay
Lima 1
Perú

The World Bank
Washington, D.C. 20433
U.S.A.

File
Peru

MOEEN A. QURESHI
Senior Vice President, Operations

March 21, 1991

Mr. Conable:

Attached please find a paper describing alternative approaches to dealing with Peru's arrears. This paper was prepared by a small inter-complex task force. In view of the urgency of the situation I would appreciate a President's Council discussion of the paper next week.

Moeen Qureshi

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

② BK
① SS

TO: ③ Mr. B. Conable (E-1227) | DATE: 2/05/91

④ OCP

SUBJECT:

Document From: Mr. Qureshi

To: bbc

Dated: 2/05/91

Reference No.: EXC910205008

Topic: Note -- the support that key donor countries have been willing to extend to Bank/(IMF) re borrowers' arrears.

ACTION INSTRUCTIONS:

| DUE DATE: |

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
___XXX___ DISCUSS WITH ___BBC FOR COMMENTS ___
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: _____

The World Bank

Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

February 5, 1991

To: Mr. Barber Conable

Barber:
1. As you know, the support that key donor countries have been willing to extend to the Bank (and Fund) for the purpose of clearing up borrowers' arrears has, in practice, been weak at best and appears to be dwindling. Faced by budget stringencies and competing claims, the U.S. authorities and those of other G7 countries are now leaning toward the position that the IFIs should take care of their own arrears problems with minimal outside help. Moreover, even where support groups have functioned (e.g., Guyana), little additionality has been achieved, the monies simply being taken from existing aid budgets. Some preference in the use of available resources has been granted the poorest countries, as indicated by the support donors have provided to the Zambia workout, but we are finding it extremely difficult to get anywhere near comparable effort in the case of Peru.

2. These trends suggest that in the months ahead we will be under increasing pressure from several key shareholders to take extraordinary steps to clear our own arrears. The Fund has already taken that step with the introduction of a "rights" accumulation program. Bank and Fund thinking about workout programs and about the relative roles and responsibilities of the two institutions has evolved and will continue to do so, as a growing and more diverse array of cases come to the fore. Thus, there is a need to be flexible and pragmatic in our approach, recognizing different circumstances in terms of, for example, the relative exposures of the two institutions, the absolute size and type of Bank exposure and whether IBRD or IDA is involved. The availability of IDA resources and the relatively greater exposure of the Fund in Zambia has enabled us to show some flexibility in that situation. A similar flexibility on the part of the Fund would be helpful in resolving the large IBRD arrears in Latin America.

3. We must also recognize the fundamental differences in the natures of the the Bank and Fund. While the Fund has normally an intermittent involvement in any one developing country, and is by nature a short-term emergency lender, the Bank's involvement is a continuing and long-term one. In the medium-term following arrears clearance, therefore, it is to be expected that the Bank's exposure would grow, while the Fund's exposure would be reduced and eventually eliminated.

4. Judgment must therefore be exercised on a case-by-case basis. Nevertheless, we must assure that the Bank remains, and is perceived as, responsible to its developmental role and to its own standing in the financial market. Important to the latter is that the Bank not be perceived to be bearing an undue share of the workout burden. It is thus essential that we clarify what we may and may not be willing to do in this area, keeping in mind the market position of the Bank, the overall arrears situation we face, and the fact that whatever we do in one case is likely to create precedents for others. We should also give some consideration to

seeking the Board's endorsement of our approach to counter the tendency of Fund management to cite their Board as a source of rigidity in some of our discussions of burden-sharing.

5. Our approach in a particular situation will necessarily be governed in part by the amounts of resources made available by the bilateral agencies. At the same time, however, we need to keep pressure on the bilaterals to make a significant contribution, and we need to be mindful of the perception of the Bank in the financial markets. The following summarizes the broad approach we have been trying to follow and the likely evolution that may be expected over the coming months.

6. From our point of view, the preferred approach to most workout programs would be an early and parallel clearance of arrears to both institutions (and to the regional development banks, where relevant). When carried out in the context of a Fund "rights" accumulation program, with clearance occurring at the end of, say, 12 months, this approach makes possible the rapid resumption of an active policy dialogue and the establishment of a performance track record without unduly delaying renewed lending, given the need to rebuild the pipeline and agree on needed adjustment measures. Moreover, current service payments are resumed, achieving an initial reduction of overall Bank exposure even before the clearance of arrears. For this approach to be feasible, however, it is necessary to assemble sufficient donor support to meet the country's current financing needs through the initial 12 months, to clear arrears to the Bank, and to clear that portion of arrears to the Fund not refinanced by disbursement of the accumulated "rights". The necessary level of donor financing was available in the case of Guyana, but it now appears quite unlikely to be made available for Peru.

7. In some cases, the amount of donor support that can be raised may be sufficient to permit initial clearance of arrears to only one of the institutions. In that event, the possibility of sequential clearance would have to be considered. For example, arrears to the Bank could be cleared as soon as the necessary donor resources were put together, while "rights" accumulation under a Fund program might have to continue for 24 months until a full refinancing of its arrears was possible. This would have the advantage of an earlier resumption of a normal Bank relationship with the country than otherwise possible, but would also involve significant risks to the Bank. Even though Bank exposure would be immediately reduced by arrears clearance, it would be expected to grow again rapidly in support of the adjustment program and in advance of any actual new lending from the Fund. The alternative possibility of clearing Fund arrears first would allow the Bank to see a track record before making new lending commitments, enjoying a decline in exposure in the meantime, but could also weaken the Bank's voice in the policy dialogue.

8. In some cases, such as Peru, where arrears to both institutions are very large, it will be very difficult to achieve an early clearance of arrears to either institution, much less to both. In these situations, we will be under increasing pressure to clear our own arrears, in parallel with the Fund's "rights" approach, through exceptional forms and amounts of lending. Here we need to tread carefully. I believe that we should resist such pressure and that the Bank should instead be prepared to wait an extended period of time, if necessary, until arrears can be cleared and

normal lending can resume. We should, of course, establish as close and constructive a relationship as possible with countries with large arrears that commit themselves to a workout program. This means, for example, that we should begin work immediately to restore or reconstitute a strong pipeline of projects, to carry out the necessary economic and sector work, and to prepare the necessary adjustment loans. Implicit in this effort and the accompanying policy dialogue would be a promise of substantial financial support for the adjustment program soon after arrears were cleared. The current practice of not bringing loans to the Board for approval, however, until a country is fully current in its payments to the Bank, should be maintained, at least until it becomes necessary to present loans to the Board in the context of an agreed bridge financing arrangement.

9. I believe this approach is preferable to introducing a Bank "rights" approach, in which adjustment loans would be submitted to and approved by the Board prior to arrears clearance. The establishment, in effect, of borrower entitlement to the resources prior to the elimination of arrears and the inevitable calibration of loan amounts to meet the financing requirements of arrears clearance would represent for the Bank a market risk not faced by the Fund and could actually jeopardize the Bank's ability to assist its members in the future. Once the Bank made such a concession, the pressure felt by bilateral donors to provide support to arrears reduction would be relaxed for all future cases as well.

10. The issue of burden-sharing, particularly vis a vis the Fund, arises in all workout exercises. Our primary concern here should be the maintenance of the Bank's preferred creditor status, hence equivalent treatment of the Bank and Fund. Simultaneous clearance of arrears to all IFIs, along with parallel servicing of current obligations, avoids problems in this regard. Whether arrears clearance is early or delayed, we should insist that payments on obligations coming due and to reduce existing arrears, where possible, be shared proportionately by all the IFIs involved. In a sequential clearance process, we must continue to evaluate the respective net cash flows of the Bank and Fund over time. At least until the Fund's arrears have been cleared under the "rights" approach, we should seek equivalence in the present values of cash flows to the two institutions; i.e., recognizing that the uncertainties and risks involved give greater value to near-term net flows in comparison to those projected in the future.

11. Finally, a word on the merits of Bank-led Consultative Groups (CGs) compared to Fund-led Support Groups (SGs) as mobilizers of resources for workout programs. In fact, as implied above, neither medium has proven a very effective vehicle for providing the needed financing. The Treasury departments of donor governments, which tend to be represented in SGs, have not demonstrated any material advantage over the aid agency representation in the CGs. As a practical matter, the choice could perhaps best be made on the basis of which IFI has the greatest exposure in the specific case.

Imman

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

Peru
Mtg. with Camdessus @ 4:00 pm
Feb. 1

2.

TO: Mr. B. Conable (E-1227) DATE: 2/01/91

SUBJECT:

Document From: M. Qureshi
To: bbc
Dated: 1/31/91 Reference No.: EXC910201001
Topic: Re: PERU (follow up discussions with Mr. Camdessus)

ACTION INSTRUCTIONS:

DUE DATE:

- HANDLE
- REVIEW AND RECOMMEND
- FOR YOUR INFORMATION
- DISCUSS WITH _____
- AS WE DISCUSSED
- PREPARE RESPONSE FOR _____ SIGNATURE
- FOR YOUR FILES
- RETURN TO _____
- OTHER: _____

Remarks: cc: Messrs. Sandstrom, Khanna

The World Bank

Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

January 31, 1991

Mr. Conable:

Barber:

Re: Peru

Further to Mr. Husain's note to you dated January 29, I met with Mr. Camdessus to follow up the discussions on Peru at the recent IMF Board Meeting. He asked me if the Bank could increase its initial financial contributions to Peru under possible quick-disbursing loans. I explained to him that while it would probably be possible for the Bank to lend somewhat more than the amount indicated in Mr. Husain's note, the most critical issue is to develop a strategy to mobilize the bilateral resources that are needed to both clear the arrears and provide the support required for the Reform Program.

Moeen

Peru

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

February 15, 1991

Excellency:

Please accept my sincere congratulations on your recent appointment as Minister of Economy and Finance of the Republic of Peru. I would like to reaffirm our continued support for economic and social development in Peru and our desire to collaborate closely with you in your efforts to reintegrate Peru into the international financial community.

Sincerely,

Barber Conable

His Excellency
Dr. Carlos Bolona
Minister of Economy and Finance
Lima
Republic of Peru

Cleared with and cc: Messrs. Weissman (LA1DR); Shepherd (LA1CO)

cc: Messrs./Mmes. Stanton (EXC); Bock (OPNSV); Kashiwaya (CFSVP); Aiyer (LACVP); Selowsky (LACCE); Quijano, Gamarra (LACSA); Segura (LATDR); Bottelier (LA4DR); Choksi o/r, Michaely o/r (LA1DR); Papageorgiou o/r, Lago, Cottani (LA1CO); Pomerantz (LA1AG); Ettinger (LA1EI); Nankani (LA1IN); Amoako, Valdivieso, Cavanaugh, (LA1PH); Bery, Mitra (LA4CO); Moscote (LATIE); del Buono (IENEE); Stoutjesdijk (FRS); Kilby, de Nevers (FRSCR); Kiguel, Webb (CECMG); Flannery, Zachau (CFSFA); Molares (LEGLA); Grothe (LOAEL); Camarasa (EDS08)

R.Lago/mg

OFFICE MEMORANDUM

DATE: February 15, 1991

TO: Mr. Barber B. Conable

THROUGH: Moeen A. Qureshi *MAQ*

FROM: S. Shahid Husain *SH*

EXTENSION: 39001

SUBJECT: PERU: Appointment of New Minister of Finance

1. The resignation of Prime Minister and Finance Minister Hurtado Miller on February 13 was prompted by personal differences with President Fujimori and opposition to Hurtado's trade liberalization policies by protectionist lobbies. The new Minister of Finance of Peru is Mr. Carlos Boloña, a close collaborator of Hernando De Soto and formerly Director of the Economics Department of De Soto's think tank, ILD. He accompanied Mr. De Soto at the meeting he had with you on February 7. A new Prime Minister has not yet been named.

2. Over the last four months, Mr. Boloña has been involved in the preparation of a proposal to create a new ministry and program to fight drugs to be known as AADA (Autonomous Authority for Alternative Development). He accompanied De Soto to Washington last week to negotiate that proposal with the U.S. Government. Mr. Boloña holds economics degrees from the Universidad del Pacifico (Peru) and Oxford University. He has been both a university professor and a successful businessman.

3. The appointment of Mr. Boloña signifies a continuation, and probably strengthening, of the economic policies of Hurtado Miller. Relations with the U.S. Treasury and Administration are expected to improve significantly given De Soto's personal relations with U.S. authorities. This may facilitate U.S. participation in a Support Group to resolve Peru's arrears problem.

4. In the near future, AADA is expected to be created and probably headed by another De Soto appointee. Therefore, the current reshaping of the Cabinet has to be viewed as a strengthening of De Soto's influence in Peru's Government.

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Peru

S. SHAHID HUSAIN
Vice President, Latin America and the Caribbean

January 29, 1991

Mr. Barber B. Conable

Barber,

Attached is a memo which gives very tentative Bank disbursement profile for Peru. The implication is that at the end of the period (1995) there should be no increase of the Bank's exposure in Peru.

We are going to send you a paper on alternative strategies on Peru. You should tell Camdessus that we would wish to have a detailed discussion with him after that.

It is imperative that Camdessus moves ahead with mobilizing bilateral finance for the program the IMF has agreed with Peru. A support group may fail because of the issue of burden-sharing. It is unlikely that the U.S. can put up any significant amount. Camdessus has to take the lead in bilateral mobilization of the Japanese, Spaniards, Italians, Canadians and, possibly, some other Europeans. What neither Peru, the Bank nor the IMF can afford is that Peru's program fails because of inadequate financing. It is certain that in that case payments to multilateral organizations will be suspended.

Shahid

cc: Mr. Qureshi

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

Peru

DECLASSIFIED
STRICTLY CONFIDENTIAL

AUG 27 2013

WBG ARCHIVES

DATE: January 22, 1991
TO: Mr. Moeen A. Qureshi
FROM: S. Shahid Husain *hs*
EXTENSION: 39001
SUBJECT: PERU - Disbursement Projections for 1991-95

I attach a memo which I sent to you last December that describes our tentative plans for gross disbursements to Peru, their rationale and their relation to accumulated arrears and projected amortization payments for this period.

cc: Mr. Choksi (w/o attachment)

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

TO: Mr. B. Conable (E-1227) | DATE: 12/18/90

SUBJECT:

Document From: M. Qureshi

To: bbc

Dated: 12/17/90

Reference No.: EXC901218001

Topic: PERU: Breakfast with Prime Minister and MOF Hurtado Miller,
at the IDB on Wednesday, December 19 @ 7:30 am.

ACTION INSTRUCTIONS:

DUE DATE:

_____ HANDLE
_____ REVIEW AND RECOMMEND
_____ FOR YOUR INFORMATION
_____ DISCUSS WITH _____
_____ AS WE DISCUSSED
_____ PREPARE RESPONSE FOR _____ SIGNATURE
_____ FOR YOUR FILES
_____ RETURN TO _____
_____ OTHER: _____

Remarks: cc: Messrs. Stanton, Sandstrom, Khanna

OFFICE MEMORANDUM

DATE: December 17, 1990

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain

EXTENSION: 39001

SUBJECT: PERU - Breakfast with the Prime Minister and Minister of Finance

Pop. 21m
 GNP per capita \$1,100
 Arrears: IMF \$900m
 Bank \$900m
 IDB \$275m
 > \$2b.

You will join Enrique Iglesias and Michel Camdessus for breakfast with Hurtado Miller, Prime Minister and Finance Minister of Peru, on Wednesday, December 19. I shall also be present. This will be an occasion to hear from the Prime Minister about the progress of Peru's stabilization and adjustment program and the outlook.

Peru continues to implement a firm and orthodox program of stabilization. This includes strict limits on public expenditure, tax reform and increase in taxes, improvement in public utility prices, freeing of interest rates and floating exchange rates. Simultaneously, the Government is implementing a social emergency program which includes feeding the poor. The IMF is negotiating a shadow standby which would not lead to immediate resources but would help Peru to accumulate "rights." These rights will ultimately lead to a refinancing of Peru's debt to the IMF.

The Bank is engaged in large-scale technical assistance to help on structural issues and economic rehabilitation. A substantial mission to Peru has just completed its work. This will be the basis for the adoption of programs by the Peruvian Government in key sectors of the economy.

The Peruvian situation remains delicate. No significant external finance has yet been mobilized, public institutions are weak, there has been a massive decline of per capita GNP, the infrastructure has been severely impaired, and production in key sectors such as petroleum and mining is limited because of years of disinvestment and poor maintenance. In the absence of a concerted effort by external lenders, it is unlikely that Peru's reform and stabilization can be sustained long.

We have had discussions with the U.S. Treasury and the Japanese. The Treasury's suggestion is that the Bank, the IMF and the Peruvians work together on an economic program, arrears clearance strategy and external financing program which could be the basis of discussion with bilateral lenders. Hopefully, the U.S. and Japan could take the leadership in a support group. You should

broach this subject with the Prime Minister. It is also important that the Prime Minister have detailed discussions with the U.S. Treasury. He should convey not only a sense of commitment but also the rationale and details of the program.

A question may arise as to how the Bank is going to approach its arrears. The position I have taken with the U.S. Treasury and Japan is that the Bank arrears cannot be approached separately from bilateral efforts. The Bank arrears are part of the overall financing needs of Peru and, hence, should be considered in that context.

You should encourage the Prime Minister. He has shown strong leadership in the economic program and we are working well with him. You should assure him of our support.

WORLD BANK OFFICE TRACKING SYSTEM
OFFICE OF THE PRESIDENT
Routing and Action Transmittal Sheet

Peru
12/19
7:30 am

TO: Mr. B. Conable (E-1227) DATE: 12/18/90

SUBJECT:

Document From: M. Qureshi
To: bbc
Dated: 12/17/90 Reference No.: EXC901218001

Topic: PERU: Breakfast with Prime Minister and MOF Hurtado Miller,
at the IDB on Wednesday, December 19 @ 7:30 am.

ACTION INSTRUCTIONS:

DUE DATE:

- _____ HANDLE
- _____ REVIEW AND RECOMMEND
- _____ FOR YOUR INFORMATION
- _____ DISCUSS WITH _____
- _____ AS WE DISCUSSED
- _____ PREPARE RESPONSE FOR _____ SIGNATURE
- _____ FOR YOUR FILES
- _____ RETURN TO _____
- _____ OTHER: _____

Remarks: cc: Messrs. Stanton, Sandstrom, Khanna

OFFICE MEMORANDUM

DATE: December 17, 1990

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi *MQ*

FROM: S. Shahid Husain *SH*

EXTENSION: 39001

SUBJECT: PERU - Breakfast with the Prime Minister and Minister of Finance

You will join Enrique Iglesias and Michel Camdessus for breakfast with Hurtado Miller, Prime Minister and Finance Minister of Peru, on Wednesday, December 17. I shall also be present. This will be an occasion to hear from the Prime Minister about the progress of Peru's stabilization and adjustment program and the outlook.

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broach this subject with the Prime Minister. It is also important that the Prime Minister have detailed discussions with the U.S. Treasury. He should convey not only a sense of commitment but also the rationale and details of the program.

A question may arise as to how the Bank is going to approach its arrears. The position I have taken with the U.S. Treasury and Japan is that the Bank arrears cannot be approached separately from bilateral efforts. The Bank arrears are part of the overall financing needs of Peru and, hence, should be considered in that context.

You should encourage the Prime Minister. He has shown strong leadership in the economic program and we are working well with him. You should assure him of our support.

Jennifer

Latest on Peru PM

Sven
12-14

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 14-Dec-1990 03:08pm

TO: See Distribution Below

FROM: Linda Jean McLaughlin, EXC (LINDA JEAN MCLAUGHLIN)

EXT.: 81137

SUBJECT: Wednesday Breakfast

Mr. Iglesias has invited Mr. Conable and Mr. Husain to breakfast in Iglesias Executive Dining Room at the IDB on Wednesday, December 19, at 7:30 a.m.

Attendance: Prime Minister (Peru) Juan Carlos Hurtado Miller
Vice Minister of Finance Jalilie
Messrs. Iglesias and Conrow of IDB
IDB's Exec. Dir. (Peru) Ricardo Palma
Messrs. Camdessus and Besa of IMF
Messrs. Conable and Husain of World Bank

Assuming that OPS will recommend that Mr. Conable accept, I have marked this tentatively on his calendar. I understand Mr. Husain has already accepted, as have the others.

Could Operations please provide the necessary briefing to Mr. Conable by cob Monday, December 17. Thank you.

Linda

DISTRIBUTION:

- | | |
|-------------------------|-------------------------|
| TO: Moeen A. Qureshi | (MOEEN QURESHI) |
| TO: S. Shahid Husain | (S. SHAHID HUSAIN) |
| CC: Sven Sandstrom | (SVEN SANDSTROM) |
| CC: Anupam Khanna | (ANUPAM KHANNA) |
| CC: Ngozi Okonjo-Iweala | (NGOZI OKONJO-IWEALA) |
| CC: Jennifer Anne Volk | (JENNIFER ANNE VOLK) |
| CC: Chitra Perera | (CHITRA PERERA) |

OFFICE MEMORANDUM

Peru

DATE: December 14, 1990

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STRICTLY CONFIDENTIAL

AUG 27 2013

WBG ARCHIVES

TO: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain *SH*

EXTENSION: 39378

SUBJECT: PERU: Disbursement Projections for 1991-1995

1. The IMF has formally asked us to indicate a possible profile of Bank disbursements to Peru during the next five years, assuming that a solution for the arrears problem will be found sometime in the course of 1991. The same request has been made to the IDB. These tentative disbursement profiles would be included in the documentation for a proposed Standby agreement that is now being negotiated. Prime Minister (also Finance Minister) Hurtado Miller is planning to visit Washington next week i.a. to sign a Letter of Intent with the Fund. I understand from the IMF, however, that there are still some important unresolved policy issues.

2. The numbers I authorized to be provided to the IMF are as follows:

Tentative IBRD Gross Disbursements to Peru *(Calendar years)*
(US\$ million)

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Adjustment Loans	300	200)			
		)	250	250	250
Project Loans	<u>0</u>	<u>100</u>)	<u> </u>	<u> </u>	<u> </u>
Totals	<u>300</u>	<u>300</u>	<u>250</u>	<u>250</u>	<u>250</u>

The total for the period 1991-95 is \$1.350 million, or slightly less than the sum of accumulated arrears (including interest arrears) as of December 31, 1990, and projected amortization payments by Peru during the period 1991-95, as follows:

Accumulated arrears as of 12/31/90	\$ 928 million ¹
of which: principal	(557) million ¹
interest	(360) million ¹
late charges	(11) million ¹
Projected amortization payments 1991-95	<u>490 million¹</u>
TOTAL	\$1.418 million

¹ These numbers are approximate and subject to confirmation by the Loan Department.

3. The tentative disbursement profile for Peru indicated to the IMF would accomplish that by the end of 1995 our exposure (including the interest portion of existing arrears) would be about the same (in fact slightly less) as at the end of 1990. Net transfers to Peru would be negative by about \$350 million which is about equal to the projected interest payment by Peru to the Bank during the period. I have asked the IMF to consolidate the projected IBRD and IDB disbursements in their tables. Needless to say, a large program for Peru such as implied by the tentative disbursement profile is conditioned on the implementation by Peru of satisfactory macro and structural reform programs as well as the timely availability of high quality investment projects that we can support.

cc: Messrs. Bottelier, Choksi

PB:cj

OFFICE MEMORANDUM

DATE: October 5, 1990

TO: Files

FROM: Suman K. Bery, Chief, LA4CO



EXTENSION: 30121

SUBJECT: Peru: Delegation Meeting with Mr. Conable, September 28

AK
~~SS~~
JWS
BAC
CF

1. Present at the meeting for Peru were Mr. Juan Carlos Hurtado Miller, President of the Council of Ministers and Minister of Finance and Economy, and Mr. Augusto Bedoya, Chief Debt Negotiator. Messrs. Qureshi, Husain, Wood, Stanton, Bock, Sandstrom, Morales, Bottelier and Bery were also present.

2. The Prime Minister thanked the Bank for its strong staff involvement since his government's assumption of office in July, which he regarded as a sign of the Bank's desire to resume relations with Peru. The Minister then sketched the main lines of the government's program for the next year which had three main components: (i) economic reform and recovery; (ii) reinsertion of Peru into the international community; and (iii) a social support program. The calendar for the economic reform program was driven by the submission of the 1991 Budget to Congress on November 30, by which time the main directions of policy for 1991 would have to be established. The first step in Peru's reinsertion into the international financial community was Peru's presentation of its program at the Annual Meetings and the commitment to resume current payments to the Bank and IDB starting in mid-October. This would be followed by an agreement with the Fund on a Fund monitored program in November, and a meeting with the Paris Club in January. Peru had also begun discussions with bilaterals at the Annual Meetings which in due course could lead to the formation of a support group, perhaps led by Japan and Spain. Finally, in the area of the social sectors the main agenda was to transform the current emergency food supplementation program into a more sustainable productive employment program.

3. The Minister requested the Bank's support, working together with the IDB, to help his government in three areas:

- (a) design of an adjustment program (including policy reform in major areas);
- (b) preparation of a rehabilitation program in infrastructure and the productive sectors; and
- (c) transformation of the social emergency program into a more durable employment program.

4. Mr. Conable indicated that he was extremely encouraged by the first steps taken by Peru, and saw the reinitiation of current payments as an important signal of good faith. The Bank could not make fresh disbursements while arrears were outstanding but it would like to be

helpful in every other way. For that purpose additional staff resources would be committed to Peru. The Bank would work closely with IDB, which had a special role to play in Latin America. Mr. Qureshi said that the Bank would be prepared to play a central role in Peru's program and in donor mobilization although he foresaw difficulties given world attention on the Middle East. He urged Peru to ensure an active role for the US in any support group being organized. Mr. Husain added that he was concerned that donor coordination was occurring in too many forums and that the need was to concentrate on one forum where Peru's needs could be addressed.


Cleared with and cc: Mr. Bottelier (LA4DR)

cc: Messrs./Mmes.: Conable, Sandstrom, Stanton (EXC);
Qureshi, Bock (OPNSV); Wood (FPRVP);
Husain (LACVP); Selowsky (LACCE); Quijano (LACSA);
Rowat, Barandiaran (LA4DR);
Lago, Mitra, Ohno (LA4CO)

SB:lh

OFFICE MEMORANDUM

DATE: September 27, 1990

TO: Mr. Barber B. Conable
Thru: Mr. Moeen A. Qureshi
FROM: S. Shahid Husain 

EXTENSION: 39001

SUBJECT: PERU -- Meeting on Friday, September 28, at 9:15 a.m.

Following my BTOR of September 20, the points noted below will be useful background for your meeting with the Peruvians tomorrow. These points arose in my meeting with Prime Minister Hurtado Miller on September 26, and in subsequent contacts between Regional staff and the Peruvian delegation.

Relations with the Bank. The Prime Minister will inform you of the resumption of current payments to the Bank from the mid-October payment date and to the IDB from November. You may wish to welcome this and express the hope that the authorities will strengthen their fiscal position sufficiently to permit an uninterrupted flow of payments in the months ahead. We have undertaken to (i) step up sector and rehabilitation assistance; (ii) advise on structural reform; and (iii) develop cofinancing possibilities. For this purpose, we intend to conduct a thorough survey of Peru's urgent rehabilitation needs, including social emergency needs, shortly with a view to developing an assistance strategy, and undertaking the required project preparation. In these areas, we shall be collaborating closely with the IDB.

Reforms. The bold stabilization measures taken by Peru in August will need to be followed up by structural reforms to include, in the immediate term, reforms in the key sectors of trade and tariffs, customs and tax administration and public sector restructuring (including privatization).

External Financing. Crucial to the success of the program will be a zero budget cash deficit and adequate external bilateral financing for the 1991 recovery and rehabilitation program and for maintenance of current payments to the multilaterals. Peru expects to go to the Fund Board with a "rights approach" standby in December, and to the Paris Club in January. A Support Group (SG), which the Peruvians hope will be chaired jointly by Japan and Spain, is expected to be assembled by November and a Consultative Group (CG) in spring 1991. The clearance of the arrears stock to the Bank, Fund and IDB could be aimed for at end-1991 or in 1992. At the Annual Meetings, the Peruvians have held separate meetings with all the key potential donors (except so far Japan and the US). A meeting with the U.S. Treasury (Mr. Mulford) has been scheduled for Friday morning. The Peruvians intend to test the willingness of donors to help via informal coordination meetings before the formal SG convenes. The Peruvians believe that they have obtained a very supportive response so far. But this remains to be confirmed; our own indications are that donor mobilization will be an uphill struggle.

Issues for Discussion. You may wish to emphasize the following points:

- (a) The authorities should strengthen their fiscal efforts so as to put the zero fiscal deficit rule on sound foundations. This would require improvements in tax administration, tax reforms and restructuring of public enterprises. We stand ready to assist them in reform planning and execution. Adherence to the 1991 program to be agreed with the Fund would be critical to securing the confidence of bilaterals. In short, the Peruvians have to go beyond immediate stabilization and the mechanics of resolving the issue of arrears.
- (b) Central to any viable strategy will be the support of the bilaterals. In order to maximize bilateral support, Peru should aim for the most liberal Paris Club terms possible (Toronto terms if possible, otherwise the new "Morocco" terms for lower middle-income countries) and should press the SG for adequate financing for the 1991 program as without investment recovery no program would be sustainable.
- (c) We would offer our best efforts in mobilizing donors and in the CG process. We shall design our structural reform and rehabilitation operations in a way that can maximize ease of cofinancing. For example, an early operation we propose is reform and rehabilitation in the key export (oil, copper) and infrastructure (roads, power) sectors with bilateral cofinancing. (Our disbursements would be held over until arrears clearance.) As requested by the Prime Minister, in these operations we shall be operating jointly with the IDB.

cc: Messrs. Kashiwaya (CFSVP); Bock (OPNSV); Grilli (EAS); Quijano, Selowsky (LACVP) and Bottelier (LA4DR)

SMitra/dj

1990 ANNUAL MEETINGS BRIEFName of Country: PeruDate: September 14, 1990

Meeting with: Mr. Juan Carlos Hurtado Miller, Prime Minister and Minister of Economy and Finance, and the World Bank Governor
President of the Central Reserve Bank (yet to be appointed).

Population: 20.7m (1988) Estimated Growth Rate 2.6% (1988)

GNP per capita: US\$1,090 (1989)

	(\$million)		(\$million)
Total Commitments to date: <u>a/</u>	1,404.6	FY90 Commitments:	0.0
of which:		Disbursements:	0.0
Bank (59 operations)	1,404.6	Amortization:	0.0
IDA (0 operations)	0.0		
Total Undisbursed:	192.6		
Lending Program: FY91-92	0.0		
Arrears (as of August 17, 1990)	832.4		

a/ as of June 30, 1990

Summary Data

	<u>Average</u>	<u>1990</u>
	1985-89	Est.
GDP Growth	0.2%	-4%
Export Growth	0.0%	2%
Import Growth	-1.1%	3%
Current Acc. Deficit % GDP	4.5%	5%
Gross Debt-Service Ratio:		
Accrued	74.3%	55%
Paid Debt Service	20.3%	9%
Annual Inflation Rate <u>b/</u>	443.2%	9,000%
<u>b/</u> Inflation rate for 1989 reached 3,000%		

Aid Group Meeting: Cons. Group
Last Meeting: May 1982
IMF Status: IMF declared Peru ineligible on Aug. 15, 1986. (Article IV Consultations in Nov. 1987, Nov. 1988 and June 1990). An IMF mission is expected to be in the field in early September.

Background: President Fujimori, who took office in late July, inherited an economy in crisis, with hyperinflation, high public sector deficit, depleted foreign exchange reserves and large arrears to commercial and official creditors. The economic team has implemented a package of strong emergency stabilization measures and initiated some structural reforms. However, sustainability of the program will critically depend on fiscal balance, management of wage policy and continued implementation of structural reforms.

Issues likely to be raised by delegation:

- Bank Posture on Peru (vis-a-vis the Arrears Problem)
- Scope for Expanded Sector Operations
- IDA Eligibility

Issues to be raised by Bank Management:

- Macroeconomic Program
- Social Emergency Program
- Preparedness for Normalization of Relations

Attachments:

1. Five-year Lending Program: Non-defined due to the suspension.
2. Biographical Information.

BACKGROUND

1. **Political Developments.** Mr. Alberto Fujimori took office on July 28, 1990, defeating FREDEMO-supported Mr. Vargas Llosa in the run-off election by an unexpectedly large margin. He will serve a five-year term. The Fujimori Cabinet represents a wide spectrum of left to center-right economists and politicians, private businessmen, and military officers. The central figure in the Cabinet is Mr. Hurtado Miller, Prime Minister and Minister of Economy and Finance. Mr. Fujimori faces difficulty in controlling the Legislature since he lacks strong support of a coherent political party. His party, Cambio 90, controls only 14 of 60 seats in the Senate and 31 of 180 in the Chamber of Deputies.

2. In the inaugural speech, Mr. Fujimori stressed the importance of reinserting Peru into the international community after long years of isolation under the Alan Garcia Government. In late June, Mr. Fujimori met with leaders of the three multilateral financial institutions (IMF, IDB, and the World Bank) in New York under the auspices of the United Nations, and subsequently visited Tokyo to explore the possibility of reestablishing relations with these institutions.

3. Terrorist activities continue to be extensive and social unrest is intense. More than 18,000 people have been killed in the conflict over the past ten years. Shining Path which now controls about half of Peru's territory challenges the military. Another insurgency, MART (Revolutionary Tupac Amaru Movement), also remains active. In July, just before the presidential inauguration, a MART leader escaped from prison with 47 other members. It is still too early to predict how and to what extent Mr. Fujimori could effectively deal with these terrorist groups.

4. **Economic Developments.** The Fujimori Government inherits an economy in crisis. Inflation reached 3,000 percent in 1989. It exceeded 60 percent in July 1990 and is estimated to reach an annualized rate of 9,000 percent this year. The economy is undergoing a major recession with industry running at around 40 percent of capacity. GDP fell by a cumulative 20 percent in 1988-89, and real wages fell two-thirds. Tax revenues totaled only 4 percent of GDP compared to 14 percent in 1985. Public investment is barely 3 percent of GDP, the lowest level in the last 20 years. There is virtually no international reserves. Furthermore, infrastructure is severely deteriorated as gauged by the daily electricity black-outs, water shortages and a 50 percent drop in petroleum production.

5. The crisis has devastated an already poor country. Social indicators clearly show increasing malnutrition and rising infant mortality which now affects almost 40 percent of the population. About seven million people (one-third of the total population) are now estimated to be below the poverty line, with monthly income of less than US\$30. Two-thirds of Lima's six-million-plus residents live in "pueblos jovenes" (shantytowns), often in roofless cubicles with straw walls. Among them, about 2.5 million are considered to be extremely poor, who can barely satisfy their nutritional needs. The situation is even worse in rural areas due to the

6. On August 8, a package of bold macroeconomic stabilization measures was announced, marking a departure from Mr. Fujimori's electoral commitment to gradualism. The measures included: (i) drastic adjustments to public sector prices and tariffs, elimination of price controls on staple foods, and several emergency tax measures to increase fiscal revenues; (ii) unification of multiple exchange rates and adoption of a floating system; (iii) stringent control on public spending by a "cash management committee;" (iv) replacement of import controls with a maximum 50 percent tariff; (v) temporary wage compensation for all workers in the public and private sectors; and (vi) social emergency assistance. As a result, gasoline prices increased by 3,000 percent, and prices of sugar, bread, and milk rose by 500 percent. Regarding public enterprise reform, Mr. Fujimori has so far ruled out a broad program of privatization and cuts in public sector staff levels as a measure to reduce the fiscal deficit.

7. Recent Discussions with the IMF. In December 1989, Peru reached an agreement with the IMF in an attempt to avoid a declaration of non-cooperation by the IMF. Subsequently, Peru began to meet financial obligations to the IMF falling due since September 1, 1989, and payments totalled US\$125 million by mid-July. Peru's arrears to the IMF amount to US\$830 million as of mid-August, 1990. As required by the "rights approach," the IMF has been assisting the new Government in the design and implementation of a stabilization program since early August in prospect of reaching an agreement on a Shadow Program in early September.

8. Bank Relations. As of mid-August, Peru's arrears to the Bank also totalled US\$830 million. The Bank suspended disbursements to Peru in May 1987, and Peru has been in non-accrual status since August 1987. Although the Bank continued to finance technical assistance through the end of 1987, our lending operations were halted over the last three years. When the IMF reached an agreement with Peru on the arrears problem in late 1989, the Bank also offered to provide technical assistance, conditional on resumption of current debt service payments. However, this offer was not accepted by the previous Government. Under the new Government, a Bank economist participated in the IMF mission and in early August, the Bank sent an introductory mission to Peru to build a base to reinitiate Bank contact with Peru. Subsequently, supervision work for the five projects still not closed, was reactivated.

ISSUES LIKELY TO BE RAISED BY THE DELEGATION

9. Bank Posture on Peru. The delegation is likely to ask the Bank's posture on Peru, particularly possible steps for normalization of relations. You may wish to indicate our official view that the clearance of all the arrears to the Bank is a necessary condition for normalization, including full resumption of disbursements. For the arrears clearance, Peru would need bridge loans from friendly countries. However, in light of Peru's unprecedented arrears problem and deep economic crisis, the Bank is prepared to reinforce technical assistance (which is being provided on a limited scale under UNDP and GTZ grants) if the Government fulfills two conditions: (i) the parity treatment with the IMF in debt service payments; and (ii) implementation of a coherent macroeconomic program. Upon the fulfillment of these conditions, the Bank would support preparation and

design of the social emergency program and Jumbo SAL(s), reformulation of the remaining five projects in the portfolio, and identification of a new project pipeline including infrastructure rehabilitation. The release of funds under these operations should be preceded by the arrears clearance. You may also add a possibility that IFC might resume investment operations even before the arrears clearance. (Peru is current with IFC).

10. **The Scope for Expanded Sector Operations.** The delegation is likely to inquire about the possibility of expanded Bank sector operations including supervisory and sector work during the pre-arrears clearance period. As was explained to the Peruvian authorities in the recent mission, the Bank is resuming supervisory work and plans to assist their efforts in developing sector strategy as the first step toward a possible normalization. The undisbursed balance on these projects totals US\$190 million, and all of them have a strong focus on poverty alleviation and/or infrastructural rehabilitation. These projects could be reformulated in light of the Government's new priorities, with the funds release pending lifting of the general suspension of disbursements. You may also wish to emphasize the importance of Bank assistance in sector strategy development, particularly in view of providing intellectual advice on a policy framework and mobilizing additional financial resources from other donors.

11. **IDA Eligibility.** The delegation might ask whether Peru can be classified as IDA-eligible. According to the Bank statistics, Peru's official GNP per capita for 1989 was US\$1,090. You may wish to explain that this figure will enable Peru to move from a Category III (17-year term IBRD loans only) to a Category II IDA-eligible country (20-year term IBRD loans and limited access to IDA credits) because the threshold of the latter is US\$1,140. However, it is unlikely that Peru would obtain automatic access to IDA credits as in the case of a Category I IDA-eligible country whose GNP per capita is somewhat below US\$600. Nevertheless, you should underscore the importance of Peru being classified as a Category II IDA-eligible country because this raises a probability that Peru could receive more favorable treatment at a Paris Club rescheduling (i.e., Toronto terms) as well as more grants and softer loans from the UNDP and bilateral donors.

ISSUES TO BE RAISED BY BANK MANAGEMENT

12. **Macroeconomic Program and Structural Reforms.** You may wish to ask the Minister to outline the Government's strategy for extending the reform measures announced on August 8, and in particular for the design and implementation of the medium-term program. The obvious priority is to continue to implement a macroeconomic stabilization program supported by the IMF. The program should also encompass the following six measures: (i) foreign trade liberalization; (ii) broad-based tax reform including improved customs administration; (iii) labor market reform; (iv) restructuring and divestiture of public enterprises; (v) financial sector reform; and (vi) deregulation of economic activity and red tape. In parallel, quick action needs to be taken in the areas of social emergency program and infrastructural rehabilitation in the areas of electricity, petroleum, roads, and water and sewerage.

13. Social Emergency Program. On August 7, the Government established a Transitory Coordinating Committee responsible for the social emergency program which aims at providing food aid, nutrition and health intervention, and generation of temporary employment with the most vulnerable groups during the period of August-December. The program is based on the already initiated UNDP assistance, with most of the activities being provided through NGOs and church groups. However, the program has shown only limited progress so far mainly because of insufficient capacity of distribution, considerable financial gap, and fragmented donor support. After the five-month transitory period, the Government plans to integrate the program into its medium-term Social Development Program by establishing an independent foundation. You may wish to ask the Minister about the current status of this program and the need for Bank technical assistance, particularly in the areas of development of a global institutional framework and the information system, as well as administrative support. You could also indicate our interest in supporting the program under a Bank loan once the arrears problem is resolved.

14. Preparedness for Normalization of Relations. Apart from the arrears problem, you may wish to underscore the importance of the Government undertaking necessary steps to clear the other outstanding issues surrounding past Bank-financed loans so that no bottlenecks would exist in securing Board approval of new loans once relations normalize and a Country Program is reactivated. These include: submitting all outstanding project and Special Account audit reports; full justification or refund of all outstanding amounts advanced via Special Accounts; and assurance that Peru's debt-reporting to the Bank will be brought up-to-date.

Attachment II

PERU

BIOGRAPHICAL INFORMATION ON PRINCIPAL DELEGATION MEMBERS

Mr. Hurtado Miller - Prime Minister and Minister of Economy and Finance,
and Bank Governor

Mr. Hurtado Miller was Minister of Agriculture between 1983-85 under the Belaunde Administration. Although he was a member of AP (Popular Action)--one of the three main parties in the center-right FREDEMO, he had to resign his party post in accepting the offer from President Fujimori. Mr. Miller obtained Masters Degrees in Agriculture Economics in Iowa State University as well as in Public Administration in Harvard University (Mason Program).


President of the Central Reserve Bank

[to be completed upon formal appointment]

OFFICE MEMORANDUM

DATE: September 20, 1990

TO: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain 

EXTENSION: 39001

SUBJECT: PERU: Mission's Report

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CONFIDENTIAL
AUG 27 2013
WBG ARCHIVES

1. I headed a mission to Lima between September 13-17, 1990, in order to further Bank relations with the new Government, evaluate the economic program adopted by the authorities, help define the necessary next steps in the adjustment process, discuss the normalization of financial relations with the Bank and the contribution we could make to this end. The mission held discussions with President Fujimori, Prime Minister Hurtado Miller (who also holds the Finance portfolio), the Ministers of Agriculture, Energy and Mines, Education, the Vice Ministers of Health and Transport, Directors of the Central Bank, the Ambassadors of Japan, Spain and the US, and chaired a plenary group of donors. We have consulted with the Fund and IDB missions that were simultaneously in the field. The Fujimori Administration faces a fragmented Congress, which the Government, consisting of representatives of a wide spectrum of political opinion, has so far skillfully managed.

2. Economic Program. The authorities have made a courageous and effective beginning with a stabilization program that has already dampened inflation, helped restore balance in the fiscal accounts, led to a marked fall in nominal interest rates, and eradicated major price distortions, largely through a sharp revision in public sector tariffs to international levels. Inflation is now running at about 3 percent per month. The exchange rate has been unified and floated, and steps in price and administrative deregulation taken. A measure of the improved confidence in economic management is a steep rise in international reserves (capital repatriation) accompanied by a remonetization of the economy. Yet it is clear that the achievements rest on a fragile base: internal and external balances will depend crucially on a zero cash deficit position in public accounts, wage moderation as well as a quick initiation of structural reforms. The authorities have not yet been able to establish secure bases for the first two, partly because of institutional weaknesses in the administration and partly owing to tremendous political pressures. There is an ever present danger of a relapse into hyperinflation.

3. The Next Steps. The major imperatives over the medium-term are to define the role of the state, establish its secure noninflationary financing, and help create the conditions for a sustained investment and export-led recovery. This requires a deep program of structural reform in the key sectors of public management, public enterprises, trade and industry, and the financial sector. In the near term, supply is greatly impeded by bottlenecks that only an urgent program of rehabilitation in essential infrastructure, maintenance, supply of spare parts and working capital can address. Rehabilitation has to be concentrated on the key export sectors of oil and gas, mining, fisheries as well as in infrastructure. Public revenues can be put on a firm footing only with much needed improvements in tax administration and collection that should

follow the anticipated tax reform, and I consider this to be an urgent necessity. The public budget would benefit greatly from restructuring and privatization of various enterprises, particularly the high cost state operations in energy and mines. An additional key next step is to improve the management and the targetting of the social emergency program and to keep its expenditures within the budget amount limitations. Ultimately, the program will need to give way to well defined, economically justified social spending.

4. Financial Relations with the Bank. The authorities have committed themselves to resuming current debt service payments to the Bank with effect from the mid-October payment date. The President and the Prime Minister well recognize the critical importance of an early resumption of payments but the authorities are concerned by the fiscal expenditures (and, to a lesser degree, the balance of payments) implications. I stressed to them that parity treatment could lead to an organized approach to the stock of arrears. I underlined the critical role of bilateral donors.

5. Mobilizing Donor Assistance. A mechanism will have to be found in the coming weeks to mobilize donor support for Peru's current account needs (that programs some recovery in rehabilitation investment and associated imports), current payment obligations to the multilaterals, and eventually for assistance in arrears clearance. The key donors have not yet begun to give considered thought to assistance to Peru (partly in the absence of a documented medium-term strategy of the authorities) and I foresee difficulties and awkwardnesses in coordination. An effort is being mounted by the UN for an October 3 meeting but most donors will be reticent to provide funds via the UN. We are told that the IMF will convene donors at the Annual Meetings and we are collaborating with the Fund to define needs and possible sources. I explained the CG approach (Bank-led) and the Guyana-type approach (industrial country-led) to the authorities and to the US and Japanese Ambassadors. The Peruvian authorities and the US Ambassador have indicated support for a Japan-led SG or failing that a Bank-chaired CG.

6. Operational Issues. As outlined in our earlier strategy note to you, the resumption of current payments to the Bank would lead to a renewal of economic and sector work, particularly a study of structural adjustment and the rehabilitation and social needs of the economy, and to preparation of sector reform-cum-rehabilitation in key areas. We intend to propose donor financing for the early time-slice disbursements of such programs, reserving later maturities (subsequent to arrears clearance) for ourselves. Among areas for consideration are an export reform-cum-rehabilitation operation focusing on energy and mines, and fisheries, and a public enterprise/management reform operation. Tax administration reform and privatization are additional areas for early action.

7. In addition, support to the authorities in drawing up a framework for medium-term adjustment and developing a PFP will remain important. The paucity of strength at the higher cadres of the administrative service, the lack of an effective policy-making focus on medium-term issues and hence the inability of the authorities so far to engage in a focused dialogue on medium-term issues are of great concern to me. We propose to assist the authorities in preparing an adjustment framework paper, which would lead to a strengthening of the hands of the Prime Minister. We are also working on projects of technical assistance with donor financing, but ultimately a high quality permanent staff in the key ministries would be required.

8. In order to initiate work on adjustment and the key sector issues, in preparing rehabilitation operations, coordinating TA, and mobilizing donors, we shall need a much expanded budget for Peru. We are refining our earlier request to you, which will be sent shortly after the Annual Meetings.

9. Summary and Key Concerns. The strategy that my mission findings support is one of providing assistance to Peru in defining the requirements of the medium-term structural adjustment effort, setting in train sector studies and preparations for the essential rehabilitation tasks and key sector reform priorities, and taking the lead, provided that is the consensus, in mobilizing donor support. It hardly needs to be emphasized that the execution of current payments to us from the mid-October payment date is the precondition for this approach. My major concerns stemming from my discussion in Lima are: (i) On the Peruvian side, doubts as to the capacity of the authorities to expeditiously define their priorities and their adjustment strategy and to engage in an early dialogue on sector rehabilitation and project preparation. The TA the donors and we propose would be of help in this area, but only to a limited extent. The ability of the authorities to maintain fiscal balance consistent with uninterrupted debt service payments to us (despite the recent marked strengthening in international reserves) and to withstand domestic pressures for letting up on stabilization are additional worries. (ii) While all recognize the critical role of donors, the task of mobilization and coordination will hardly be plain sailing. Note that we do not yet have the mandate to take the lead. The UN effort is unlikely to be successful and we have to be careful in safeguarding our interests in any Fund-sponsored initiative. So far, I have seen our task as one of educating the donors of the challenge ahead and the envisaged role of the Bank, and I have spoken in frank terms to the US and Japanese Ambassadors and I have it in mind to contact European Ministries of Finance in October and to visit Tokyo in mid-November. But we shall presently require a clarification of our mandate, and the authority to take an active coordinating role. (iii) Internally, we need the budgetary resources to take up the envisaged greatly expanded work efforts and I would request your urgent attention to this question.

10. I would welcome an early meeting with you prior to the Conable-Hurtado Miller meeting to obtain your thoughts on these and related issues.

cc: Messrs. Bock (OPNSV); Grilli (EAS); Bottelier (LA4DR)

Peru

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/09/07 DUE DATE : 00/00/00
LOG NUMBER : 900907026 FROM : Mr. Qureshi
SUBJECT : BRIEFING on Peru -- on Monday, Sept. 10, 1990 at 4:40 pm.

OFFICE ASSIGNED TO FOR ACTION : ~~Mr. B. Conable~~ (E-1227)

ACTION:

- APPROVED
- PLEASE HANDLE
- FOR YOUR INFORMATION
- FOR YOUR REVIEW AND RECOMMENDATION
- FOR THE FILES
- PLEASE DISCUSS WITH _____
- PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
- AS WE DISCUSSED
- RETURN TO _____

COMMENTS :cc: Messrs. Stanton, Sandstrom, Khanna

The World Bank

Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

September 7, 1990

Mr. Conable:

I have serious questions and reservations about the operational strategy on arrears that is set out in the case of Peru by the Region. Whatever we might say, what we do in the case of Peru will become an inescapable precedent for the future. If we do what is advocated in this paper, we can expect to have requests for the Bank to refinance our arrears in a large number of other countries which we shall have no basis to resist. Our approach to the case of Peru therefore must be one that we are prepared to follow in the case of other countries in a similar position.

However, I do want a discussion of this issue to take place since Mr. Husain is due to leave for Peru and he does need some guidance. I have therefore asked that the Region's paper be submitted to you for review and discussion.



cc: Mr. Husain

OFFICE MEMORANDUM

DATE: September 6, 1990

TO: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain

EXTENSION: 39001

SUBJECT: PERU: Operational Strategy Towards ArrearsDECLASSIFIED
CONFIDENTIAL
AUG 27 2013
WBG ARCHIVESI. Introduction and Summary

1. Following my note to you of August 23, 1990, we have been giving further thought to policy on Peru's arrears to the Bank and have examined a number of arrears clearance options, including that proposed by Finance. We have held extensive consultations with the Fund staff working on Peru and Mr. Beza and I had a wide-ranging discussion yesterday in the presence of IDB staff. The Fund is planning to go to its Board in early December 1990 with a Fund-monitored programme initially of about a year's duration under which Peru will accumulate rights at the rate of US\$450 million (100 percent of quota) per year. In this note I shall outline our suggested operational strategy for your consideration.

2. As you are aware, the new Peruvian authorities see the "reinsertion" of Peru into the world economy as one of their central goals, and they have stated to us that they consider the resumption of current debt service payments to all the multilaterals to be the first step in this process. A formal announcement of resumption in payments to the Bank may take place by the Annual Meetings with payments being effective from October 1990. The authorities would then expect a stepping up of Bank technical assistance, supervision and project preparation activities. At the same time, the Bank would have to join in an effort with the Fund and the IDB to devise a strategy towards the resolution of the stock of arrears and the mobilization of the necessary support of bilateral donors.

3. In this note we examine two arrears clearance strategies: (i) an early, parallel clearance of arrears to the three multilaterals and (ii) a sequential clearance with the Bank and IDB being cleared about a year earlier than the Fund; we also examine the implications of the Fund being cleared earlier than us. We take as given the resumption of current payments to the Bank (and IDB) from October 1990. The note first discusses Peru's external financing requirements over the 1991-93 period and identifies the scale of donor assistance that would be required on the assumption arrears were not cleared, and the multilaterals not able to disburse afresh. An economic programme that aimed for a revival in investment, exports and output could require bilateral assistance averaging US\$900 million per year in 1991-93 to support the balance of payments including current debt service to the multilaterals, assuming full rescheduling of Peru's significant Paris Club debt.

4. A parallel upfront clearance of arrears in mid-1991 (the preferred approach of the Fund) is shown to require an extremely large bridge that could be cleared only in small part over the near term. This results in heavy exposure on the part of donors (over and beyond their general balance of payments support). We judge that the size of the donor commitment required exceeds the bounds of feasibility with the attendant risks being insurmountable and the burden sharing between the international financial institutions and the bilaterals would be too heavily skewed towards the latter to be tenable.

Table 1: Arrears Stock and Current Debt Service Payments 1/

	1990	1991	1992	1993
(in millions of US dollars)				
<u>Current payments</u>				
Bank	37	192	190	210
Fund	162	128	112	100
IDB	45	160	170	190
	—	—	—	—
Total	244	480	472	500
<u>Arrears stock at end-September 1990</u>				
Bank	860			
Fund	875			
IDB	295			
Total	2030			

Source: FIN complex and IMF data.

1/ Assumes resumption of payments to Bank and IDB in October 1990 and continuation of payments to the Fund. Payments due in 1990 to the Bank total US\$210 million and to the IDB US\$165 million. Assumes no clearance of arrears stock and no disbursements by the multilaterals through 1993.

5. The approach we recommend for your consideration is one of sequential clearance with arrears to the Bank and IDB being cleared around end-1991 and the Fund at end-1992. Alternatively, a Fund first clearance may also be considered. Sequential schemes of this kind when associated with Bank shadow adjustment operations with disbursements

suspended until arrears clearance eliminate any exposure on the part of contributors to bridge financing. This approach, furthermore, permits the establishment of a solid track record on adjustment by Peru; as a market based development institution we have to be aware that without the associated strengthening of the Peruvian economy and its capacity to service debt, the basis would not exist for transforming arrears to the Bank into performing assets. We envisage that in the fifteen months or so to clearance we shall be engaged in a wide-ranging, intense policy dialogue with the authorities, with stepped-up technical assistance, and will undertake project preparation, both of an adjustment nature and essential rehabilitation in the key sectors of energy (oil and gas), and mining (copper) and transport. An integral element of the adjustment strategy must be the rehabilitation of these key sectors, without which the shift of resources into net exports cannot occur and no supply response from the other productive sectors would be felt. In 1991, upon the adoption of a Bank-monitored adjustment programme, we propose to bring adjustment operations to the Board with the associated disbursements "suspended" so that immediately upon clearance, tranches equivalent to US\$860 million would be available to Peru assuming satisfaction of conditionalities; these operations could be combined with rehabilitation projects.

6. To summarize, in essence the build up of "suspended disbursements" permits us to make a large enough upfront disbursement upon arrears clearance so as to pay off overnight the bridge that was used to clear us. It also permits the latching on of cofinancing by bilaterals as one vehicle for making the donor financing required under the programme. Finally, the shadow operations approach further ensures structural reform and adjustment.

7. Critical to the success of this approach will be the response of donors, and the Bank must exercise leadership in this area. Donor financing would be required to enable Peru to cover its cash balance of payments needs, including the obligation to meet current debt service payments to the multilaterals. Some of the required donor contributions will be extended at the end-1990 Paris Club. But a substantial portion of financing will need to take the form of cofinancing with the Bank, both in adjustment operations and for rehabilitation loans or for the adjustment-cum-rehabilitation loans envisaged. We think it is important to identify cofinancing opportunities at an early stage and obtain commitments prior to clearance at end-1991; our adjustment operations could be cofinanced with disbursements taking place as we "set aside" tranche releases in the course of 1991. We propose to ask donor financing for the initial disbursements of the rehabilitation loans in 1991 and early 1992 and to reserve the later disbursements for ourselves. Ideally, we would like to see a Japan-chaired support group formed; the Japanese may well agree if so requested by the U.S. and Peru. Otherwise, a Bank or Fund or a joint Bank-Fund chaired group, depending on donors' preference, could be set up.

8. The recommended approach would require technical work and project preparation on a greatly expanded level with fairly ambitious

deadlines for Board presentation. I propose to explore the modalities of a restoration of normal financial relations with Peru during my visit to Lima next week along the lines of this note, initially, as an opening position for the sake of collaboration with the Fund, sticking to a parallel approach.

9. You will recall the budgetary issues I raised in my note to you of August 23, 1990. Our requirements are urgent and directly related to the work plan sketched in this note.

II. External Financing Requirements

10. Any strategy towards arrears has to be anchored to Peru's external financing requirements over the near-term, and the key issue is whether adequate support could be found to finance a workout proposal. Our external financial projections (Table 2) tally with those of the Fund. Peru's needs for external finance include support for its economic program and financing of current service payments to multilaterals. Detailed discussions with the Peruvian authorities on their near-term growth and balance of payments goals have yet to occur; equally there are substantial difficulties in predicting the response of the economy to the major shifts in relative prices, and major moves from quantity to price rationing that the Government's recent economic measures have implied. The numbers presented here should be therefore regard as provisional. They do however reflect discussion between Fund and Bank staff, and reflect a basic judgment that in Peru's current severely depressed state, it would be inappropriate to program further compression of the resource balance (balance on goods and nonfactor services).

11. Thus, fundamental judgment underlying the projections is that in the absence of some recovery in economic activity and investment from its present severely depressed level (see Annex Charts), no viable work-out solution can be found. Associated with the upturn in investment will be a recovery in domestic savings, but, in view of the current depressed consumption levels, domestic savings cannot rise commensurate with investment recovery. Hence, greater recourse to foreign savings would be necessary. This implies a cash current account deficit of about 3 - 3.5 percent of GDP in 1991-93. The counterpart to this deficit is a projected recovery in investment from rock-bottom levels in key infrastructure, energy, mining and fisheries; initially, rehabilitation investments. Part of the deficit is accounted for by a cumulative 10 percent deterioration in the terms of trade in 1991-93. The implication of this cash deficit is, of course, that in contrast to most other Latin American economies in an early stabilization phase, Peru would not be making a net transfer to the rest of the world. Our judgment that any feasible, viable program for Peru at this stage has to provide support for investment recovery is one with which the Fund entirely concurs.

Table 2: External Financing Requirements

	1990	1991	1992	1993
	(in millions of US\$)			
Balance on goods	335	233	197	227
Balance on nonfactor services	-498	-536	-547	-547
Interest payments to multilaterals	-154	-247	-265	-310
Other interest payments (trade, short-term)	83	-100	-135	-170
Balance on current account (cash)	-400	-650	-750	-800
Amortization (current) to multilaterals	90	233	207	179
Bank	19	92	86	78
Fund	46	35	34	12
IDB	22	96	77	79
Other	3	10	10	10
Change in reserves	-300	100	100	--
Financing requirement	190	983	1057	978
Andean Reserve Fund	--	350	--	--
Bilaterals	190	633	1057	978

Source: LA4CO estimates based on Fund staff projections.

1/ Main assumptions: (1) Current servicing of multilaterals begins from October 1990 with the stock of arrears frozen through 1992; hence no provision for arrears clearance and no disbursements from multilaterals; (2) no payments of principal or interest on bilateral or commercial medium and long-term debt.

12. The table shows that donor support averaging US\$900 million per year in 1991-93 will be necessary; assuming "normal" bilateral disbursements to run at around US\$300 million p.a. (the levels in the first half of the 1980s), the extraordinary "support group" financing required would be about US\$600 million p.a. It should be noted that the continued participation of bilaterals in Peru's balance of payments financing would be required even beyond the arrears clearance stage as the Bank should not be expected significantly to increase its exposure and the Fund would be making a modest financing contribution. In summary, mobilizing donor financing on the scale needed would constitute a major challenge.

III. Strategies for Arrears Management

A. Parallel, Early (June 1991) Clearance

13. First, we examine the clearance of the stocks of arrears to the three multilaterals upfront in June 1991, the earliest we think feasible from the viewpoints of both assembling the donor support necessary and developing the supporting structural reform program with the Bank. Besides the resumption of current payments to the Bank, the preconditions for this approach are taken to be: (i) development and implementation of a Bank-monitored programme of adjustment and structural reforms (to be articulated in a letter of development policy); and (ii) adherence to a Fund monitored stabilization program; the Fund envisages the provision of "rights" under its approach.

14. Table 3 shows that a large bridge of US\$2,030 million would have to be mobilized in order to effect parallel clearance. (This is in addition to the other claims on bilateral support.) It is equally clear that only a fraction of this bridge could be repaid immediately, the only source of funds being the first six months worth of Fund rights (US\$225 million). Possible sources of disbursements in the remainder of 1991 besides the Fund, are the first tranche of adjustment operations from the Bank, perhaps around US\$300 million and perhaps US\$150 million in IDB cofinancing of the Bank's loans. This would still leave US\$1,130 million of the bridge overhanging into 1992. The clearance of US\$1,130 million in 1992 would require further lending by multilaterals, including another year of access equivalent to 100 percent of quota to the Fund, and fresh adjustment operations by the Bank. But, as noted above, we would not advise any meaningful increase in our exposure.

Table 3: Parallel, June 1991 Clearance - Bridge Financing

(in millions of US\$)

Stock of arrears at June 30, 1991 (Note 1):	2,030
Bridge financing required:	2,030
<u>Repayment of bridge</u>	
(a) Immediate repayment:	
Encashment of Fund "rights" (Note 2)	225
Remaining bridge	1,805
(b) Repayment within six months:	
September and December Fund purchases	225
First tranche under Bank adjustment loans (Note 3)	300
IDB cofinancing of Bank loans	150
Bridge uncleared at end-1991	1,130

Source: LA4CO calculations.

Note 1: Consisting of 860 to the Bank, 875 to the Fund and 295 to the IDB.

Note 2: Equivalent to half of an annual program of US\$450 million (100 percent to quota)

Note 3: Assuming Bank adjustment loans of US\$600 million approved shortly after clearance of arrears.

15. It is clear that this approach is contingent on heavy financing support from bilaterals and multilaterals and also requires a high degree of performance towards stabilization and adjustment from Peru. Donors would be required to support the program in two ways. First, by extending a total of US\$1.7 billion in 1991-92 in long maturities with several years of grace as general balance of payments financing (Table 2). Secondly, by providing a bridge of US\$2 billion in mid-1991, less than half of which will be cleared by end-1991. Thus, donor commitments would total US\$3.7 billion in 1991-92, with net transfers amounting to US\$2.8 billion in 1991-92. The multilaterals would have disbursed a total of US\$900 million, but with servicing of current obligations and clearance of arrears, would have obtained from Peru net transfers of US\$2.1 billion.

16. The discussion above indicates that the contribution required from the donors may well prove to be beyond the bounds of feasibility. This aspect could prove to be the major weakness of this approach. The strategy also faces further risks, the greatest of which is, perhaps,

performance risk of Peru. Drawings of rights and disbursements from the Bank and the Fund would be contingent on economic performance. In the event of policy slippage, multilateral disbursements (and cofinancing by bilaterals) would be suspended, leaving large external gaps. An associated risk is exposure by the bilaterals to bridge financing, with only a portion of the bridge being cleared upon disbursement and the remainder over the next eighteen months. A third concern arises out of the skewed burden sharing between the bilaterals and the multilaterals. Over the 1991-92 period (and even beyond 1991-95), net transfers from the bilaterals would be enormous consisting of a highly concessional Paris Club relief that would involve practically no servicing of interest or amortization and new money of about US\$2.8 billion in 1991-92 alone. In contrast, the multilateral stock of arrears would be cleared, and fresh disbursements by multilaterals could not, on prudential grounds, be high enough to avert a negative net transfer in 1991-92.

17. An additional weakness of this strategy arises from its lack of robustness. Both bilateral and multilateral support would be stretched to the limit in support of a strong adjustment effort by Peru. In the event of an adverse external shock (terms of trade) or of a shortfall in external financing, Peru would have to either curtail its investment-led recovery thereby jeopardizing the viability of the adjustment plan and possibly putting at risk bank quick disbursing assistance or to run arrears to the multilaterals again.

**B. Sequential Clearance with Bank "Suspended Disbursements,"
Bank Cleared End-1991, Fund at End-1992**

18. The second approach examined in this note is one of sequential clearance that relies upon the Fund's established policy of two to three years of rights accumulation and which requires a similar approach by the Bank, but with the Bank being cleared first. (The implications of the Fund being cleared first will be examined at a later stage.) The size of the "shadow" adjustment operations envisaged during 1991 is such that Peru would be in a position to clear its arrears to the Bank at end-1991. By end-1992, Peru would have accumulated enough rights under its Fund program to clear arrears to the Fund. Hence, the bridge required would have the duration of overnight with no exposure by providers of funds.

19. This approach differs from that considered earlier in two key aspects (i) it is sequential and (ii) "suspended disbursements" are envisaged. The former aspect reduces the amount of the bridge needed at one time for clearance. The latter aspect permits the Bank to make a large enough upfront disbursement upon clearance of arrears to immediately pay off the bridge and enforces adjustment conditionality on Peru during the phase to clearance. Under this approach, it is envisaged that, over the next few months, Peru and the Bank would be engaged in an intensive dialogue on the medium-term adjustment needs of the economy and in drawing up the structural reform framework, concentrating on the key sectors as well as preparing rehabilitation projects in the export-oriented sectors of energy and mining. As a

result, Peru would qualify for one or two adjustment or adjustment-cum-rehabilitation loans in 1991, the first tranches of which would be released in the form of "suspended" disbursements upon effectiveness by mid-year and the second by end-year. The IDB could cofinance these operations in an amount sufficient to provide for Peru's arrears to it. Bilateral cofinancing of these operations is also envisaged; discussed in detail in Section IV.

20. We are fully conscious that what is proposed here entails a departure for the Bank and will, therefore, have to be closely examined in terms of precedent and its global acceptability. But we think the arguments for an approach of the type of suspended disbursements to be compelling in Peru's circumstance of very large arrears, an initial bold stabilization effort but one fraught with risks given the fragility of the economy and the tightly limited room for maneuver, and the determination of the new authorities to normalize relations with the Bank. We should naturally be prepared to assist the authorities, but should do so with deliberation, bearing in mind that the transformation of arrears into performing assets can ultimately only be justified upon a sufficiently deep structural reform of the economy that leads to a strengthening of the capacity of the country to service debt. An approach involving suspended disbursements, while preserving our principle of not lending into arrears, provides Peru with all the incentives to adjust and it limits our risks: should tranche release conditionality not be met, no disbursements would be set aside.

21. Such an approach makes possible Bank engagement and "shadow lending" in support of Peru's structural reform process (that is urgently needed to reinforce the initial stabilization effort) over the next year, during which the Bank and others would be mobilizing donors. In particular, it offers donors one important vehicle for lending to Peru, cofinancing of the Bank's operations. It also permits flexibility of response. Should it be the case that unforeseen difficulties delay adjustment and tranche releases, the Bank would continue to be engaged in Peru's reform process with suspended disbursements being reinstated upon the program being brought back on track. This is a stabilizing element of this approach. A Bank suspended disbursements approach ensures parallelism with the Fund: the Bank could be at a disadvantage at time of clearance if the Fund (under rights approach) had ensured an amount of disbursements to be issued effectively for self-clearance but the Bank had not done the same.

22. The principal advantages of the sequential approach lie in: (i) the elimination of bridge financing with uncovered exposure of lenders, (ii) the establishment of a sound track record by Peru in adjustment over a period of 12-18 months, and (iii) more even burden sharing, with the bilaterals being responsible for Peru's balance of payments needs and the multilaterals for arrears clearance, and subsequently, for fresh financing. The sequence of payments is shown below:

Table 4: Sequential Clearance - Multilateral Disbursements

(in millions of US\$)

Bank

Stock of arrears:	860
1991 adjustment operations	
First tranche disbursement in suspense until end-1991	430
Second tranche release upon clearance (end-1991)	<u>430</u>
Total	860

Clearance at end-1991

IDB

Stock of arrears:	295
1991 adjustment operations	
Rights/tranche in suspense released upon clearance	300

Clearance at end-1991

Fund

Stock of arrears:	875
1991 rights accumulation:	450
1992 rights accumulation:	<u>450</u>
Total	900

Clearance at end-1992

Source: LA4C0 calculations.

23. The cash flow implications for the three multilaterals, on the assumption of some further adjustment lending by the Bank, in the period to 1993 is illustrated below:

Table 5: Sequential Clearance - Obligations to Multilaterals

	1990	1991	1992	1993
<u>(in millions of US\$)</u>				
<u>Bank</u>				
Arrears stock (end of period)	860	--	--	--
Debt service due	210	192	270	290
Debt service paid	37	192	270	290
Adjustment loans	--	860	--	--
Project related disbursements	--	--	100	170
Memo: Net disbursements	-19	-92	14	92
<u>Fund</u>				
Arrears stock (end of period)	875	--	--	--
Debt service due	162	128	112	100
Debt service paid	162	128	112	100
Purchases	--	--	25	225
Memo: Net disbursements	-64	-49	-22	208
<u>IDB</u>				
Arrears stock (end of per	295	--	--	--
Debt service due	165	160	195	215
Debt service paid	45	160	195	215
Adjustment loans	--	300	--	--
Project related disbursements	--	--	50	80
Memo: Net disbursements	-20	-91	-27	80
<u>Total Multilaterals</u>				
Arrears stock (end of period)	2030	875	--	--
Debt service due	537	480	577	635
Debt service paid	244	480	577	635
Disbursements	--	1160 <u>1/</u>	1075 <u>1/</u>	475
Memo: Net disbursements	-103	-232	-35	380

Source: LA4CO calculations based on FIN and IMF data.

1/ Reflects clearance of stock of arrears.

With sequential clearance a more even profile of net flows vis-a-vis the multilaterals is obtained. Over 1991-93, net disbursements from to the Bank are close to nil. Net disbursements from the Fund are around US\$130 million assuming a Fund standby program. Net disbursements from all three multilaterals total about US\$100 million. In terms of exposure to the Bank:

Table 6: Sequential Clearance - Bank Exposure

	1990	1991	1992	1993
(end of period, in percent)				
Exposure to IBRD (US\$ million)	1420	1328	1342	1434
IBRD exposure/total public debt	7.9	6.9	6.4	6.3
Debt service to IBRD/exports of goods and nonfactor services	5.1	4.4	6.6	5.4

Source: LA4CO calculations.

24. The impact on the external financing requirement to 1993 and hence on the extent of bilateral financing required can be seen from the modification below of Table 2, the original external financing table:

Table 7: Sequential Clearance - External Financing

	1990	1991	1992	1993
(in millions of US\$)				
Financing requirement (Table 2)	190	983	1057	978
Multilaterals new gross disbursements <u>1/</u>	--	5	175	475
Andean Reserve Fund	--	350	--	--
Bilaterals	190	628	882	503

Source: LA4CO calculations.

1/ Project lending by the Bank (Table 5), the IDB and an assumed Fund standby in 1993.

25. As indicated above, the capacity of the multilaterals to resume disbursements to Peru following a sequential arrears clearance lessens the burden on bilaterals. The required bilateral support is projected at US\$2 billion in 1991-93 or at US\$675 million per year.

26. Finally, consider the case where in the sequential scheme the Fund is cleared first at end-1991, and the clearance to the Bank is put at end-1992. Under maximum access to "rights" under the Fund's current policy, Peru would have accumulated rights worth US\$450 million (100 percent of quota) by end-1991. Given the need to clear arrears to the Fund of US\$875 million, an uncovered bridge of US\$425 million will remain overhanging into 1992. Subsequently, further disbursements by the Fund equivalent to nearly 100 percent of quota during 1992 would be required to pay off the uncovered amount of the original bridge. Thus, in the scheme involving clearance of the Fund first, bilaterals would be exposed in the amount of US\$425 million over 1992.

IV. Operational Considerations

27. It is widely recognized that Peru's early stabilization effort is wide ranging and bold but fraught with risks, given the tenuous fiscal position, the scale of external support required and the administrative and political weaknesses. In order to win the support of donors, Peru will have to establish an early track record of stabilization and of implementation of measures of fundamental reform. The contribution of the Bank could be of decisive importance. Measures already announced in trade and tariff and exchange rate areas are far reaching, but need to be buttressed by reform of the customs system and restructuring of the tax system and of tax administration. Other key areas of necessary reform are the financial sector (capitalization of banks, supervision and monetary control, the role of development banks), supervision and monetary control, the role of development banks), the restructuring of public enterprises (divestiture, privatization) and the reformulation of the public sector wage and staffing structure. Urgent rehabilitation investments in the oil and gas sectors, in electric power and in copper mining are required to strengthen net exports and create the conditions for a supply response from the other productive sectors.

28. The discussion in earlier sections makes plain the critical role of bilateral donors in Peru's recovery program. The support of the donors would be required at the Paris Club at end-1990 to deal with arrears to bilaterals and debt servicing in 1991 and beyond on essentially Toronto terms and to provide fresh financing. Over and above this, support will be required by way of extraordinary financing, averaging about US\$675 million per year in 1991-93, to meet a significant part of current payments to multilaterals (about one-third) in 1991-93, and finance the cash current account deficit. In 1991, when the capacity of multilaterals to make new gross disbursements would not have been established, the donors would be financing all current payments to the multilaterals. Thus, in the early stages, in 1991, the burden will fall disproportionately on donors, with a reversal taking place after 1991.

29. The form of donor financing is another issue of importance. We would look for cofinancing of our adjustment operations as perhaps the principal vehicle for effecting the disbursements necessary in 1991 and 1992, followed possibly by Japanese parallel financing with the Fund in 1992 and 1993. Equally important will be the engagement of donors in the key energy, mining and infrastructure rehabilitation projects, where we would envisage upfront donor disbursements, project-related, in 1991 and 1992, with later disbursements to be made by the Bank.

30. Staff contacts so far have revealed great reluctance on the part of donors to make any early commitments, despite recognition of the stabilization measures undertaken. It appears that an early convening of donors to explain

the strategy, the likely financing requirements and the work program with Peru would be desirable. It is proposed that the Bank and the Fund make a joint presentation to donors at the Annual Meetings. Such a presentation could be the occasion for obtaining an early judgement as to the feasibility of the strategy. At a later stage, subsequent to agreement on a letter of development policy or a PFP (if considered appropriate for a middle-income country) and to satisfactory progress on loan preparation, donor commitments will be sought. Ideally, we should try to obtain a Japan-led support group, or failing that for a Bank-led group (or jointly led with the Fund) on the pattern of that of Honduras.

31. A key underlying theme of this note has been that an early "upfront" arrears clearance to the Bank is not necessarily optimal or desirable, but rather that it is only on the basis of solid structural reforms and hence an established track record, not least for purposes of donor mobilization, that the Bank should be prepared to, in effect, lend to convert arrears into performing loans. During this process of reform implementation, Peru would need to be supported not only by donor financing but also with our technical assistance, active advice on reform priorities and design, and loan preparations.

32. The clearance strategy under consideration would require the early development of one or two quick disbursing loans, whether SALs or SECALs, with processing to the Board stage by June 1991. This represents, by any standards, a tight timetable with loan preparations having to commence shortly after Annual Meetings. Several issues arise in the decision as to whether to aim for a jumbo SAL or for two smaller operations. A SAL route would represent a more comprehensive approach with greater attention to the overall orientation of the economy, and would involve drawing up a framework for an economy-wide structural reform effort. Disadvantages might lie in the scale of demands it would make on the new economic establishment, particularly given its wide ranging scope, and, within the tight timetable envisaged, a SAL may be able to accomplish little beyond that programmed in the Fund EFF arrangement anyway. Two sector adjustment loans, perhaps in trade reform and in public management/tax administration, in contrast, could be more specifically targeted to Peru's needs and could complement better the stabilization program. Thus, country needs might be better satisfied by tightly focussed sector loans. A presentational advantage could lie in the fact that the total loan amount would be divided between two loans. This issue would have to be revisited carefully at a later stage.

33. In summary, the proposed strategy is likely to aid country dialogue and enhance the effectiveness of the Bank. First, the clear prospect of "set aside" disbursements in 1991 and the associated clearance of arrears and return to normal relations with the Bank are all powerful incentives to country performance. Secondly, the Bank would play a crucial role in the external financing process. Thirdly, the Peruvian authorities are conscious of the need for structural adjustment in the key sectors of the economy and would greatly welcome technical assistance and lending; indeed, they consider

the participation of the Bank to be indispensable. Questions arise, however, as to the ability of the authorities to gear up for preparation of the quick disbursing loans and for appraisal, particularly in view of the tight timetable involved. The TA we have extended in the past will assist project preparation. Peru's ability to satisfy Board presentation conditions and tranche release conditions would also have to be closely examined.

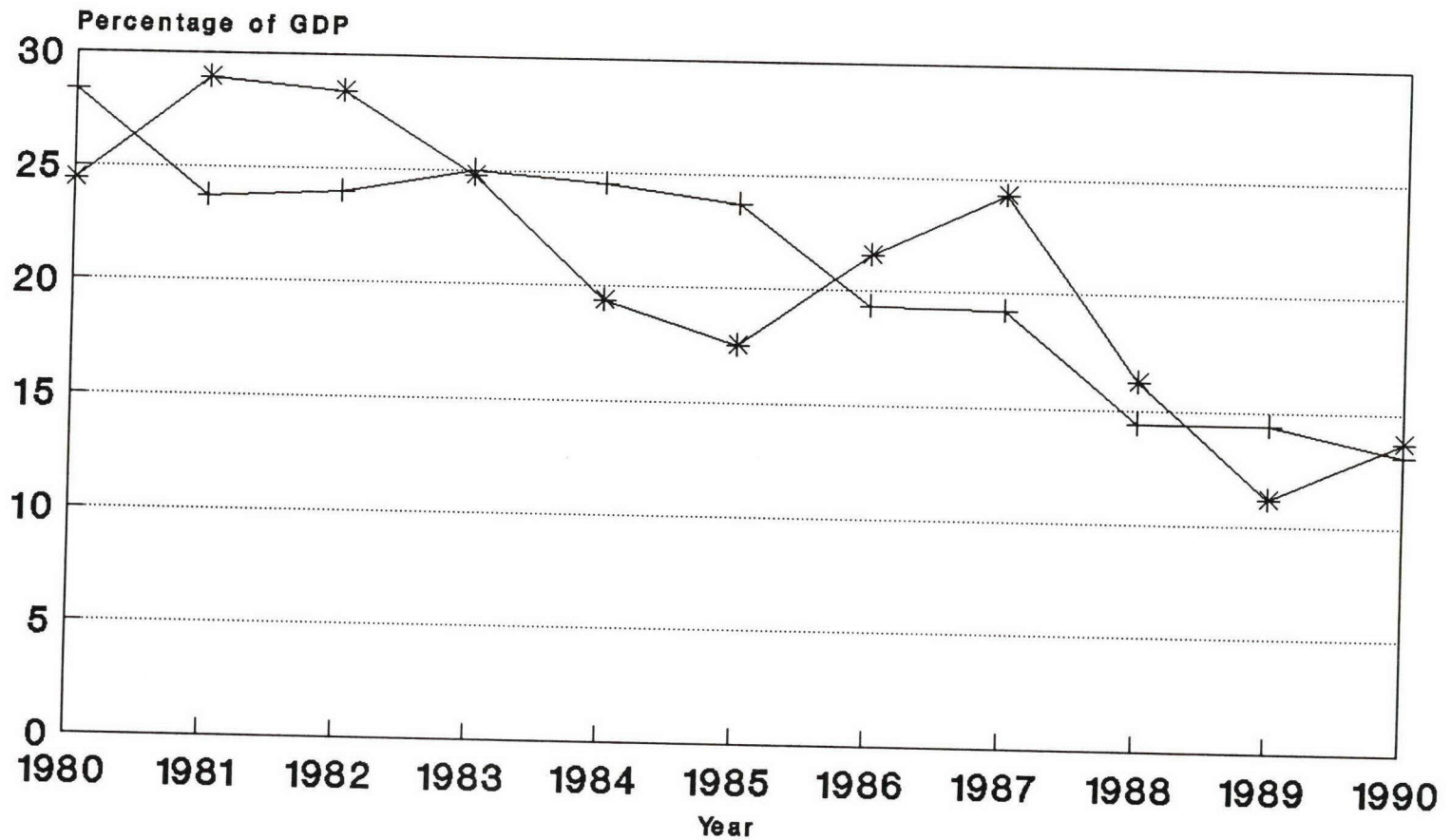
Attachment

cc: Messrs. Bock (OPNSV); Grilli (EAS); Selowsky (LACCE); Quijano (LACSA);
Aiyer (LACVP); Bottelier, Rowat (LA4DR); Bery (LA4CO)

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EXPORTS AND IMPORTS: 1980-1990

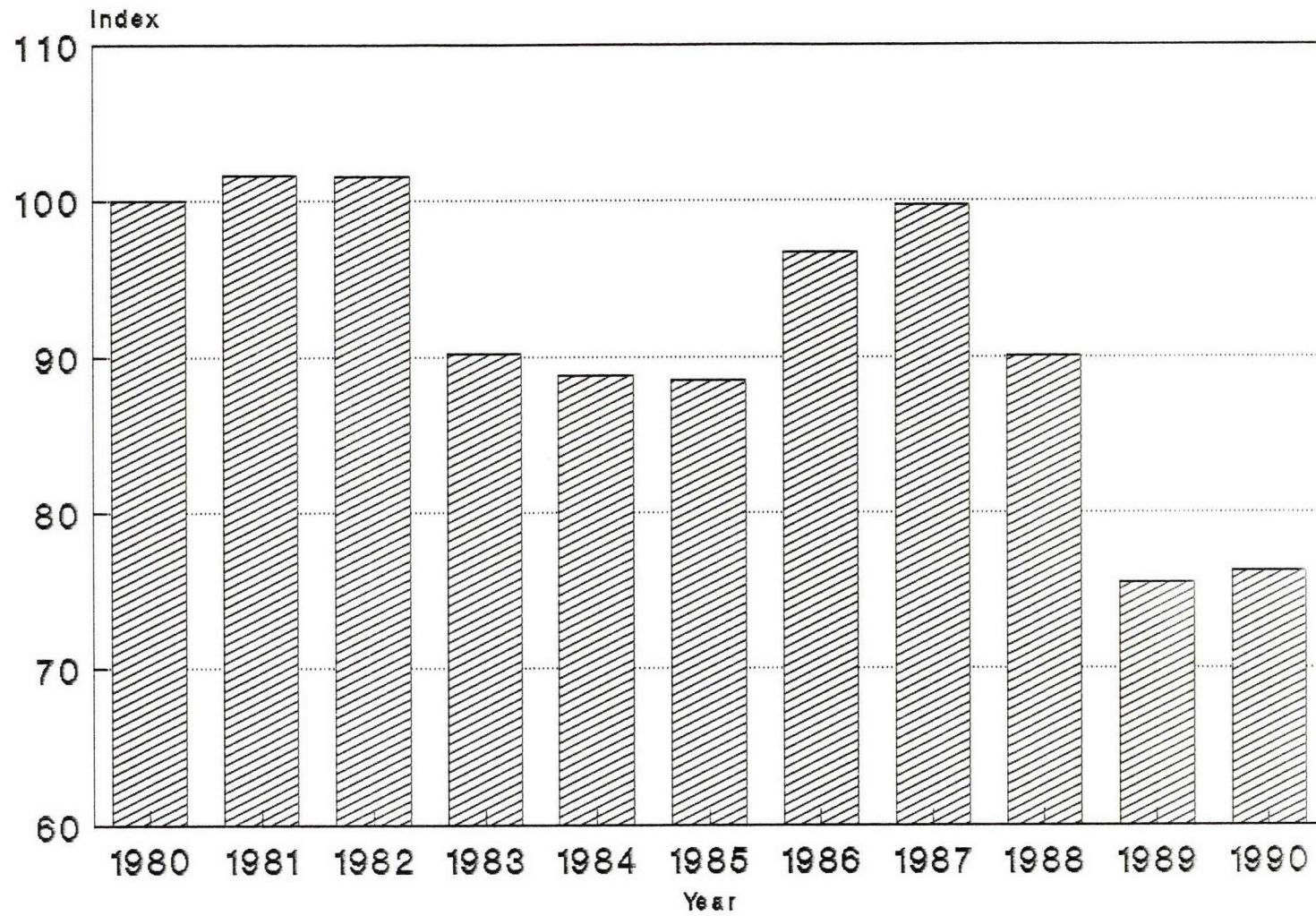
(Percentage of GDP)



+ Exports * Imports

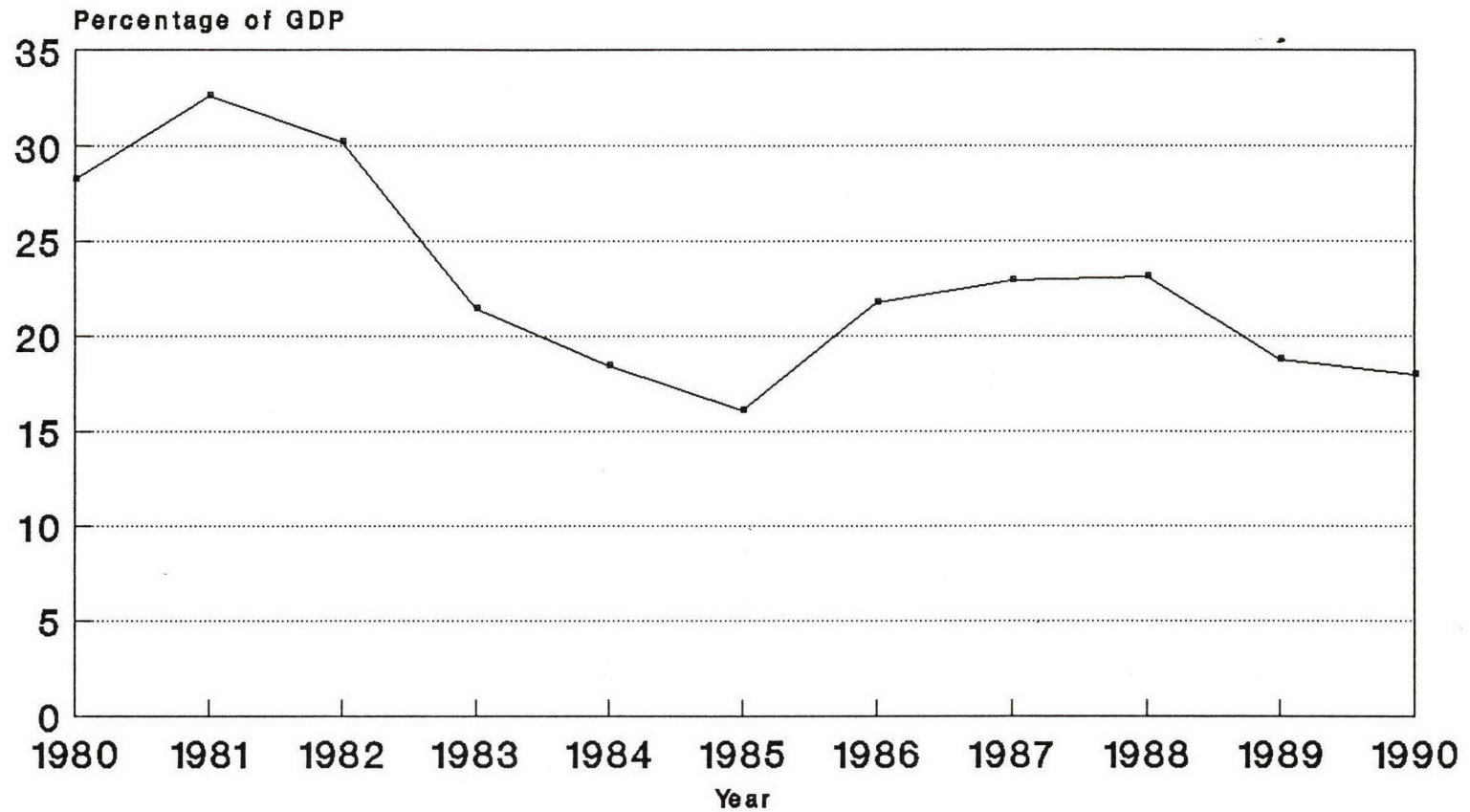
CONSUMPTION PER CAPITA: 1980-1990

(1980 = 100)



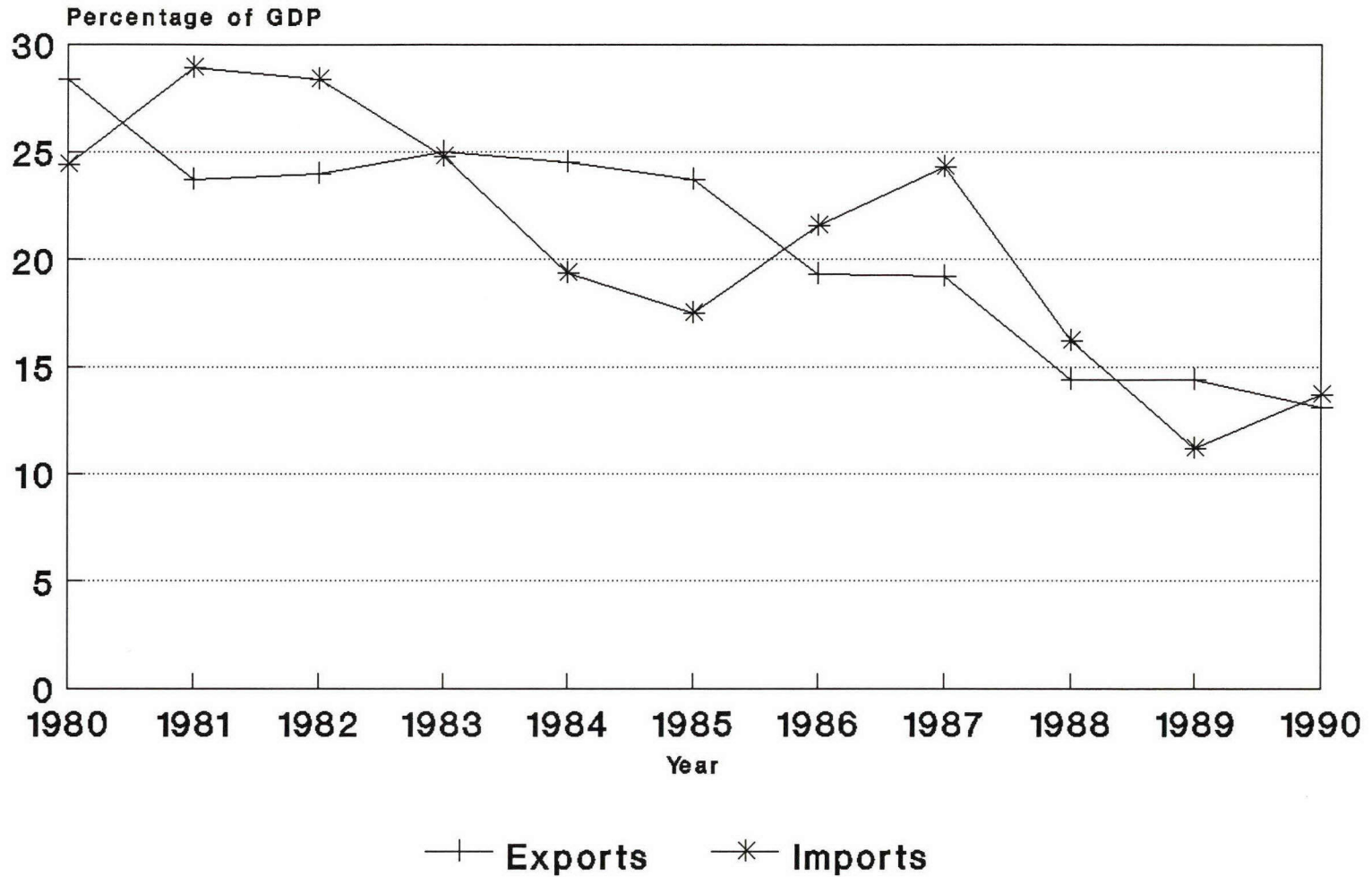
INVESTMENT: 1980-1990

(Percentage of GDP)



EXPORTS AND IMPORTS: 1980-1990

(Percentage of GDP)



SS

PERU: Sequential Clearing - Cash Flow Implications

(in millions of US\$)

A. Bank and IDB cleared at end-1991; Fund at end-1992

Resource needs in 1991:

Arrears to the Bank	860
Arrears to the IDB	<u>295</u>
Total	1155

Resource availabilities in 1991:

Bank 1991 adjustment/rehabilitation operations:		
First tranche disbursement "set aside" until end-1991	430	
Second tranche release upon clearance		<u>430</u>
	Total	860
IDB 1991 co-financing of IBRD operations		<u>300</u>
	Grand Total	1160

Implications:

(1) No need for exposed bridge financing by creditors, i.e. the bridge can be of overnight maturity; (2) Bilateral donor financing could be devoted entirely to the balance of payments (cash current account deficit and current amortization to multilaterals); (3) Net cash flows:

	<u>Net disbursements:</u>	<u>Net transfers</u>
Bank	-92	-192
Fund	-49	-128
IDB	<u>-91</u>	<u>-160</u>
	-232	-480

Resource needs in 1992:

Arrears to the Fund 875

Resource availabilities in 1992:

Fund 1991 and 1992 buildup of rights,
disbursed upon clearance 900

Implications:

(1) No need for exposed bridge financing; (2) Donor financing could be devoted entirely to the balance of payments; (3) Assuming project related disbursements (partly out of existing pipelines) of US\$100 by the Bank and US\$50 by IDB:

	<u>Net disbursements</u>	<u>Net transfers</u>
Bank	14	-170
Fund	-22	-87
IDB	<u>-27</u>	<u>-145</u>
	-35	-402

B. Fund cleared at end-1991; Bank and IDB at end-1992

Resource needs in 1991:

Arrears to the Fund: 875

Resource availabilities in 1991:

Fund: 1991 build up of rights at maximum
access (100 percent of quota): 450

Financing gap 425

Implications:

(1) Exposed bridge by bilaterals of US\$425 necessary into 1992; (2) To the extent bilateral donor financing is diverted to bridge financing, the balance of payments will suffer a gap; (3) Net cash flows

	<u>Net disbursements</u>	<u>Net transfers</u>
Bank	-92	-192
Fund	-474	-553
IDB	<u>-91</u>	<u>-160</u>
	-657	-905

Resource needs in 1992:

Arrears to the Bank 860
Arrears to the IDB 295
Exposed bridge clearance 425
Total 1580

Resource availabilities in 1992:

Bank disbursements under adjustment/
rehabilitation operations: 860
IDB Cofinancing of Bank operations 300
Fund standby (100 percent of quota) 450
1610

Implications:

(1) The bridge will be cleared gradually over 1992; (2) Assuming project related disbursements of US\$100 million by the Bank and US\$50 million by IDB:

	<u>Net disbursements</u>	<u>Net transfers</u>
Bank	14	-70
Fund	403	338
IDB	<u>-27</u>	<u>-115</u>
Total	<u>390</u>	<u>153</u>

Source: LA4CO calculations.

SMitra
September 7, 1990

OFFICE MEMORANDUM**DECLASSIFIED**

CONFIDENTIAL

AUG 27 2013

WBG ARCHIVES

DATE: July 19, 1990

TO: Mr. Barber B. Conable

FROM: Ernest Stern *ES*

EXTENSION: 82004

SUBJECT: **PERU: A Suggested Approach for Handling the Arrears Problem**

1. In the wake of your meeting with Mr. Fujimori, I understand from Pieter Bottelier that there is a substantial movement to put together an economic program for Peru. Since Mr. Fujimori has stated that achieving Peru's "reinsertion" into the international economy is a high priority, we must assume that this may lead to an early effort to clear arrears to the IFIs. In this context I want to raise several issues concerning the strategy for clearing Bank arrears.

2. We have consulted with Fund staff and understand that they plan to launch a Fund-Monitored Program which would lead eventually to the parallel clearance of all multilateral arrears. During the FMP debt service payments falling due to the IMF, the Bank (and presumably IDB) would need to be paid as a condition of the program. The timing of the parallel clearance would depend on the scale of bilateral support and the contribution Peru could make from its own resources. Depending on the amounts of such finance, this could mean that Peru would need to undertake a Fund Monitored Program (FMP) for up to three to four years to be able to accumulate sufficient rights to a disbursement that would be large enough to refinance its existing IMF arrears. The question for the Bank is what position to take regarding the clearance of Bank arrears in view of the Fund's approach.

3. Clearly an opening position--and one we should firmly adopt in initial discussions both with the Peruvian authorities and donors, including the IMF--is to follow the same track as the Fund, that is, parallel clearance of arrears and Peru would be expected to remain fully current on the debt service payments falling due to the Bank during an extended pre-clearance period. The question is whether either Peru or bilateral donors would be able or willing to provide the resources necessary to service the Bank and Fund; our estimates are that between now and 1994 these payments would amount to about \$1,130 million (\$670 million to the Bank and \$460 million to the Fund). Servicing IDB debt would require a further roughly \$500 million.

4. While the parallel clearance approach would be preferred from a risk management standpoint, it seems unlikely that we could sustain this position. The Peruvian economy is moribund and it seems unlikely that Peru and the donors would be willing to finance the large negative net flows implied during the FMP.¹ In the absence of an alternative strategy, there is a risk that Peru would

¹ Peru would have access to \$325 million in resources, with five years maturity and one year grace, from the Fondo Andino de Reservas. The remaining amounts would need to be financed directly by Peru and donors.

accumulate additional arrears to the Bank and the Fund prior to full clearance. I believe this would be most unwelcome since it would increase the scale of the arrears problem, lengthen the rights approach period even further and reduce donor participation in the interim period. I also believe that it is important for our credibility in financial markets that we develop a mechanism for ensuring that debt service payments to the Bank are resumed during the first phase of the workout.

5. In the end, the charges falling due to the Bank prior to arrears clearance will need to be financed, and there will be tremendous pressure on the Bank to contribute to this. We have signalled already that we propose to examine ways to use a portion of unallocated FY90 net income to assist with workouts in countries that would not be eligible for an allocation of IDA resources.² My suggestions for such an approach are briefly outlined below.

6. Timing. Given the present circumstances, it would be inappropriate to aim for immediate clearance of Bank arrears. It is important for Peru to establish a track record on stabilization; it will take some time to develop a reasonable lending program; the security situation is quite volatile; and it would be unreasonable to disburse immediately up to \$800 million in IBRD funds in order to repay a bridge loan to clear arrears, even in the unlikely event that such a large bridge loan could be arranged. Therefore, we should aim for clearance of Bank arrears about two years into the Fund-Monitored program, based on Peru's performance in stabilizing the economy. Early sequential clearance of Bank arrears, prior to clearance of IMF arrears, is desirable so that we can get a Bank/donor-supported rehabilitation program started soon and to reduce the risk that the FMP might go off track.³

7. Interim Financing. We need an imaginative financial response to help Peru meet its IBRD debt service during the FMP period. We have begun to examine mechanisms to apply a portion of FY90 unallocated net income to this end. We are still working on the modalities of such an approach, and clearly we would need to consult closely with Legal on the accounting and legal implications. Any scheme to use IBRD net income to catalyze donor support for financing debt service to the Bank prior to arrears clearance poses a number of difficult policy issues which would need to be raised directly with shareholders. We also need to be careful from a negotiating standpoint in raising this possibility, in order

² The Region's assessment of Peru's per capita income indicates that Peru will probably fall below the IDA eligibility threshold, but will be well above the operational cut-off.

³ Ideally, arrears to all multilateral institutions would be cleared simultaneously. Where this is not possible, "sequential clearance" applies to clearance of Bank arrears before clearing IMF arrears. In the case of IDB, since outstanding arrears are relatively small and IDB has a large project pipeline and could make a large net contribution to the financing plan, clearing IDB arrears before Bank arrears may be desirable if it formed part of an overall financing plan which would eventually clear arrears to all IFIs.

to limit the risk that we would be called on to make an excessive contribution to the workout relative to other creditors and donors.

8. Operational Strategy. Assuming some solution can be found to the interim debt service financing problem, we also need an operational strategy that would facilitate donor involvement in the workout and help ease Peru's external financing problems. In order to provide some early net financing to Peru, key rehabilitation and social sector projects could be started jointly with donors before arrears are cleared, with early investments financed by donors and later project costs covered under a Bank loan following the arrears clearance. In addition, one or two "shadow SALs" could be presented to the Board as normal operations (with disbursements held) based on Peru taking adjustment measures during the interim period. The release of funds under the loans would then be triggered by the clearance of arrears to the Bank. These shadow SAL disbursements could be used to refinance any bridge financing used to clear arrears. The use of "shadow SALs" would ensure ongoing donor and Board involvement in Peru's adjustment program. Progress in meeting policy conditions under "shadow tranches", including agreement on a FMP, could be reviewed by the Board during the course of the "shadow SALs". The use of "shadow SALs" would provide the Peruvian government with assurances of future financing, and would avoid the need to make a large disbursement under a regular SAL with forward-looking conditionality, once arrears are cleared. Preparation of a project pipeline and "shadow SALs" would require an increase in staffing for the Peru program. Consequently, preparation of "shadow SALs" would be conditioned on Peru remaining current on debt service falling due during the FMP.

9. I believe that the approach outlined above--sequential clearance after two years of strong policy performance, during which time Bank net income is used to catalyze financing for debt service payments and a pipeline of investment projects and "shadow SALs" is developed--would form a reasonable basis for supporting Peru's return to borrowing on market-based IBRD terms while minimizing the risks to the Bank. Since this approach entails a number of delicate operational, legal, accounting and staffing issues, I suggest that a restricted PC (Messrs. Qureshi and Shihata, plus Mr. Husain) discussion of the approach outlined above might be helpful.

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 27, 1990

Dear Mr. Minister:

I have learned of your appointment as Governor for Peru on the Boards of Governors of The World Bank Group. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position to actively participate in the affairs of the Bank Group, as well.

The Executive Directors, Officers and Staff of The World Bank Group believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank Group even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to seeing you here in Washington at the time of the Annual Meetings, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

Su Excelencia
Senor Juan Carlos Hurtado Miller
Presidente del Consejo de Ministros
y Ministro de Economía y Finanzas
Ministerio de Economía y Finanzas
Avenida Abancay
Lima 1, Peru

cc: Mr. Morales
Mr. Bottelier
Mr. Santos

ETSanidad:jlk

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

27 de agosto de 1990

Señor Ministro:

Me ha sido comunicada su designación como Gobernador por el Perú en las Juntas de Gobernadores del Grupo del Banco Mundial. Estoy consciente de que este nombramiento es inherente al cargo que desempeña en el Gobierno de su país, pero confío en que podrá estar en condiciones de participar también de forma activa en los asuntos del Grupo del Banco.

Los Directores Ejecutivos, los altos funcionarios y el personal del Grupo del Banco Mundial están firmemente dedicados a la misión de desarrollo de la institución y a la lucha contra la pobreza. Esperamos con sumo interés colaborar con usted en la tarea de hacer que el Grupo del Banco sea aún más eficaz en los años venideros. Permítame que le exprese mis felicitaciones por su designación para ocupar este cargo, así como mi agradecimiento por su disposición a asumir esta responsabilidad adicional.

En espera de verlo en Washington con ocasión de las Reuniones Anuales, le envío mis mejores deseos personales.

Lo saluda muy atentamente,

Excmo. Sr.
Juan Carlos Hurtado Miller
Presidente del Consejo de Ministros
y Ministro de Economía y Finanzas
Avenida Abancay
Lima 1, Perú



Record Removal Notice

File Title Peru - Country Files - Correspondence - Volume 1		Barcode No. 1779841		
Document Date 10-Aug-1990	Document Type Memorandum			
Correspondents / Participants To: Estela Sanidad From: Raymundo Morales, EDS08				
Subject / Title PERU - Governor				
Exception(s)				
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group. <table border="1"><tr><td>Withdrawn by Shiri Alon</td><td>Date January 26, 2024</td></tr></table>	Withdrawn by Shiri Alon	Date January 26, 2024
Withdrawn by Shiri Alon	Date January 26, 2024			

WDIAL
.LA4CO
OINFO

-SUBJECT: PERU: INAUGURATION OF PRESIDENT ALBERTO FUJIMORI
-DRAFTED BY: IZUMI OHNO EXT: 30056
-FILENAME: TX-ATALA
-AUTHORIZED BY: BARBER CONABLE *Barber*
-CW AND CC: MESSRS. ROWAT (LA4DR); CHOKSI (LACVP);
-KARAOSMANOGLU (ASIVP)
-CC: MR. SEGURA (LATDR); BERY (O/R), MOREAU, LAGO-GALLEGO (LA4CO); MORALES (EDS)

197675 =
-HIS EXCELLENCY
-AMBASSADOR CESAR G. ATALA
-EMBASSY OF PERU
-WASHINGTON, D.C.

BT
WASHINGTON, DC - 07-24-90
EXPRESS

THANK YOU SO MUCH FOR EXTENDING PRESIDENT-ELECT ALBERTO FUJIMORI'S GRACIOUS INVITATION TO PARTICIPATE IN HIS INAUGURATION. SINCE I AM UNABLE TO ATTEND, I HAVE ASKED MR. EDILBERTO L. SEGURA, DIRECTOR OF THE TECHNICAL DEPARTMENT, LATIN AMERICA AND THE CARIBBEAN REGION, TO REPRESENT THE WORLD BANK AT THE CEREMONIES. PLEASE CONVEY MY ASSURANCE OF RESPECT AND MY DESIRE FOR FRUITFUL FUTURE RELATIONS WITH YOUR GOVERNMENT TO ING. FUJIMORI. BEST REGARDS, BARBER B. CONABLE, INTBAFRAD.

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

85
AK

CORRESPONDENCE DATE : 90/07/17 DUE DATE : 90/07/25
LOG NUMBER : 900719008 FROM : Amb. Atala
SUBJECT : Embassy of Peru: invitation to attend the Inauguration of
President Alberto Fujimori in Lima on July 28, 1990.
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

- APPROVED
- PLEASE HANDLE
- FOR YOUR INFORMATION
- FOR YOUR REVIEW AND RECOMMENDATION
- FOR THE FILES
- PLEASE DISCUSS WITH _____
- PLEASE PREPARE RESPONSE FOR BBC's SIGNATURE (H/x.)
- AS WE DISCUSSED
- RETURN TO _____

COMMENTS :note -- also enclosed is the official program.

EXPEDITE

EMBASSY OF PERU

WASHINGTON, D. C. 20036

July 17, 1990

Excellency:

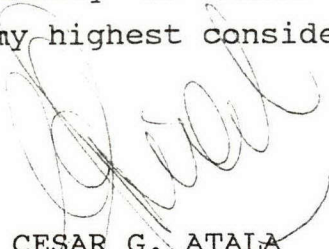
I have the honor to address your Excellency and inform that the Government of Peru will be pleased to welcome your attendance at the Inauguration of President Alberto Fujimori, that shall take place in Lima on July 28th., 1990.

In this regard, the Government of Peru would appreciate being informed of your participation at your earliest convenience.

Please find attached the program and information about the Inauguration ceremonies and other events scheduled for said occasion.

I take this opportunity to renew to your Excellency the assurances of my highest consideration.




CESAR G. ATALA
Ambassador

His Excellency
Barber B. Conable
President
World Bank
Washington, D.C.

OFFICE MEMORANDUM

DATE: July 19, 1990

TO: Mr. Barber B. Conable

FROM: Ernest Stern *ES*

EXTENSION: 82004

SUBJECT: **PERU: A Suggested Approach for Handling the Arrears Problem**2/21
~~CONFIDENTIAL~~ Peru

AUG 27 2013

WBG ARCHIVES
file
Peru

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① Answer ② File / Peru

OFFICE MEMORANDUM

DECLASSIFIED

CONFIDENTIAL

AUG 27 2013

WBG ARCHIVES

DATE: July 3, 1990

TO: Memorandum for the Record

FROM: Pieter Bottelier, Director, LA4DR

P.B.

EXTENSION:39378

SUBJECT: PERU: Mr. Conable's Meeting with President-elect Fujimori

Yesterday Mr. Conable informed me of the results of his working luncheon with Mr. Fujimori in New York at U.N. Headquarters on Friday afternoon, June 29. The luncheon, hosted by Secretary General Javier Perez de Cuellar, was also attended by Mr. Camdessus, Mr. Iglesias and several Fujimori advisors. From the conversation it appeared that Mr. Fujimori was intending to follow generally conservative economic policies with structural adjustment. He wanted to "re insert" Peru into the international financial community as rapidly as possible. The conversation remained at a general level, however, and it was Mr. Conable's impression that Mr. Fujimori would need some more time to prepare himself for dealing with the critical economic situation facing Peru. Mr. Conable advised Mr. Fujimori to make the early appointment of a high quality economic team a top priority. Mr. Fujimori mentioned that he had asked former Peruvian Finance Minister Carlos Rodriguez Pastor to advise him on possible candidates for key economic posts in his government.

Towards the end of the luncheon Mr. Conable raised the question of Peru's nearly US\$2 billion arrears to the international agencies pointing out that, although the IMF might be in a somewhat different position, a solution would have to be found for the World Bank (and IDB) arrears before new lending could be considered. Unfortunately, Mr. Fujimori appeared not to have been briefed on this important subject and the discussion did not go far. At a press conference after the luncheon (not attended by either Mr. Conable or Mr. Camdessus) Mr. Fujimori announced the appointment of a temporary high level international advisory team that would include Ms. Margaret J. Anstee, Director General, United Nations; Hernando de Soto, President, Freedom and Democracy Institute; Adolfo Figueroa, Peruvian Economist; Carlos Rodriguez Pastor, Consultant, IDB; and Jesus Silva Herzog, President, Latin America Monetary Studies Think Tank. This team would advise Mr. Fujimori on the following topics: reintegration of Peru in the international financial system; international assistance for urgently needed social programs; financial stabilization; structural reforms; and technical and professional support needed.

Mr. Conable also mentioned that he had been surprised by a front page article in the New York Times of Sunday, July 1, which erroneously reported that an agreement had been worked out between Mr. Fujimori and the heads of the three international agencies attending the Friday luncheon on the arrears problem. Mr. Conable wished to find out the source of the article but I had no information or clue.

cc: Messrs. Qureshi (o/r); Husain (o/r); Sandstrom; Stoutjesdijk; Bery (o/r); Lago; Ms. Ohno

DECLARATION OF THE PRESIDENT-ELECT OF PERU,
MR. ALBERTO FUJIMORI

I have just had a meeting with the Secretary-General of the United Nations, which was also attended by, among others, Mr. Barber Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, and Mr. Enrique Iglesias, President of the Inter-American Development Bank, at which we discussed the economic and financial situation of Peru.

In this connection, I am pleased to inform you that ~~we~~ together with the Secretary-General we have decided to set up an informal temporary working group with the purpose of assisting Peru in the economic and financial fields.

The object of the group will be to provide immediate support for the preparatory economic policy measures adopted by the new Peruvian government with a view to:

- The reintegration of Peru into the international financial system;
- Calling on the international community to help alleviate the situation of the most needy;
- Financial stabilization;
- Structural reforms, and
- Organization of the required professional and technical assistance.

The following persons have been initially designated to form this working group:

- Margaret J. Anstee, ^{Assistant}~~Deputy~~ Secretary-General of the United Nations;
- Hernando de Soto, President of the Instituto Libertad y Democracia (ILD);
- Adolfo Figueroa, member of the Cambio 90 economic team;
- Carlos Rodriguez Pastor, Consultant to the Inter-American Development Bank,
and
- Jesús Silva Herzog, President of the Latin American Center for Monetary Studies (CEMLA).

File /
Peru

2

PRESIDENT-ELECT OF PERU ANNOUNCES STABILIZATION, STRUCTURAL REFORM,
ECONOMIC REACTIVATION AND REINTEGRATION INTO THE INTERNATIONAL FINANCIAL
COMMUNITY

The President-Elect of Peru, Mr. Alberto Fujimori, met today with the top executives of the International Monetary Fund (Michel Camdessus), the World Bank (Barber Conable), the Inter-American Development Bank (Enrique Iglesias) and the United Nations (Javier Perez de Cuellar). This was an appropriate occasion for the President-Elect to make various comments about the deep crisis besetting the country and to describe the economic policy that the new government will follow.

Mr. Fujimori noted that financial stability and resumption of growth in ^{productive} ~~economic~~ and commercial activities formed the foundation for true social progress. He stated that these would, therefore, be central goals of the government that will take office on July 28 next.

The President-Elect added that these stabilization and reactivation measures will be applied in a highly hostile environment that is characterized by the following factors:

- unbridled inflation which has exceeded a million and a half percent over the past five years;
- the collapse of public revenues, which today do not amount to 4% of the Gross Domestic Product;
- a fall in incomes to the levels of ^{twenty years} ~~two decades~~ ago;
- the lack of adequate employment for three fourths of the active population;
- rapid deterioration of all social indicators;
- marked inefficiencies at microeconomic level, due to factors such as the frequent interruption of electric power service, which disrupt economic activity and erode productivity;
- exhaustion of the country's international reserves;
- mounting ~~delays in~~ external debt ^{arrears} ~~payments~~, nearing US\$2 billion just counting the multilateral institutions whose assistance is sought in the urgent process of national reorganization, and
- the absolute lack of credibility of the institution of the State both in and outside the country.

Mr. Fujimori pointed out, however, that the people, realizing the urgent need for change, had entrusted the ^{daunting} ~~bold~~ but ^{stirring} ~~exciting~~ task of surmounting the present ~~bleak~~ situation to men ^{new to} ~~not previously involved in~~ national policy. He added that this ^{-making}

undertaking would only be possible if based on the old-time ^{values} ~~practice~~ of hard work and honesty in conjunction with application of present-day technology in all areas, including the economy and finances.

Mr. Fujimori affirmed that he was convinced that the key to overcoming the present deep crisis ^{did} ~~was~~ not lie in external financial assistance, but in a ^{well-conceived} ~~sound~~ economic domestic strategy that includes sound stabilization measures and the necessary structural changes, a sort of Peruvian "perestroika", that will function as a support for sustained reactivation of national production.

He further observed that the reintegration process requires creation of domestic conditions that will make it possible to negotiate the support of the multilateral financial institutions and of the friendly industrial countries ^{for the} ~~an~~ all-out effort to curb inflation ^{and bring about} institutional reform and economic expansion and social development that the country will undertake in the coming five ~~years~~ years under the government elected democratically just 19 days ago.

The President-Elect also referred particularly to agriculture and explained that the new Government proposed to rescue it from the discrimination it had suffered for so long since, to a large extent, the growth of the economy over the coming five ~~years~~ years will be based on expansion of agriculture and agroindustry. The subsidies for food imports will be eliminated right away, while a fundamental reform will be undertaken that will return full rights of ownership to farmers, so that they will be able not only to transfer their land but also to bequeath it to their heirs, rent it out or use it as security for new financing for investment and production purposes.

Mr. Fujimori told his hearers that inflation represented an intolerable situation with regressive effects that held production down and thus seriously impacted the people's interests. He also said that inflation--the immediate and chief cause of the serious economic crisis afflicting the nation--was largely the outcome of the country's own actions and would therefore be most likely to respond to correction if all Peruvians--~~Government~~ ^{Government} and people--were to act ~~responsibly~~ responsibly but above all with integrity.

He emphasized, finally, that Peru was not faced with a new situation, but with a phenomenon that had its roots in deficient management of public affairs by successive governments. In its virulent form, ~~inflation~~ inflation had been part of Peruvian life for at least fifteen years, although it had acquired uncontrollable and overwhelming momentum in the last three.

Mr. Fujimori stated that, working with realism and not seeking quick but short-lived and counterproductive results, but aiming at the medium term and bearing in mind

the need to lay the foundations for a sound development of the national economy, the new governmentⁿ, fully aware of the political risks entailed, would focus resolutely and firmly on the struggle against inflation, for which it trusted it would be able to count on the understanding and support of the multilateral institutions represented at the meeting.

The President-Elect also noted that it would be vital to adopt a social development program, the object being not just to achieve economic stability but also social stability as a solid base for long-term development. In view of the severe social constraint under which the stabilization program will be executed, the social program will have an emergency nature. Efforts will be made to ^{preserve} ~~protect~~ real wages, employment and the quality of ^{essential} ~~public~~ public services.

The social program will at the same time endeavor to establish the foundations for a process of growth with equity, which is the development goal of the new government. This program will have as its central components support for urban small businesses and small farmers, while special attention will be paid to setting up a national child welfare program. The human resources that Peru needs will ~~be~~ thus be developed in a comprehensive and sustained manner.

He also observed that the decapitalization taking place made participation of foreign investment in the national development process essential. The government that will take office in July will, he said, create conditions favorable for this risk capital, especially in the primary sectors such as gas, oil and mining, in which it can produce returns in a relatively short time.

Mr. Fujimori underscored that notwithstanding its present difficult economic and social circumstances, Peru desired to correct the policy ~~errors~~ errors of the past and eliminate inflation. He declared he was aware that real economic reactivation, a prerequisite for true social progress, required that the crisis be tackled in a responsible, consistent and businesslike manner, with his full commitment to the Peruvian people to take, swiftly and efficiently, the necessary stabilization and reform measures that will provide the basis for a process of balanced growth.

He added, however, that he intended to ensure that the cost of stabilization was shared equally among the different sectors, and to mitigate any adverse effects the process might have on the poorest segments of the population, noting that this was a manifest political obligation but above all an unavoidable moral duty.

The President-Elect referred to four institutional reforms that he considered to be of special importance.

The first will seek to provide citizens with formal channels through which they can make their ~~views~~ opinions known regarding administrative decisions of the government, and also express objections to them if they feel such decisions are unfair or mistaken.

The second will be designed to remove the barriers that presently block access to the various economic activities, and also to right of ownership. There cannot be a market economy, noted Mr. Fujimori, if the majority of Peruvians are excluded from the legal system on which it is based. The aim will therefore be to ~~open up access~~ *make possible the establishment* of legal business enterprises *cannot do so* for the majority groups that currently ~~lack such access~~, for which purpose it will be necessary to create instruments that will favor ~~such~~ *this* ~~development~~ *development* ~~access~~ *(the factors that prevent)* and eliminate the majority of Peruvians from establishing legitimate enterprises and oblige them to remain in the informal sector.

A third reform will strengthen the regionalization process, in such a way as to enable the rural areas, which have been largely ignored by the central government, to make their viewpoints known regarding the economic policies adopted by the country.

Finally, the fourth reform will promote an efficient justice system covering all Peruvians and which, ~~by~~ ^{while} respecting the autonomy of the judicial branch, will affirm parallel mechanisms for the resolution of conflicts.

The market economy, like democracy, observed Mr. Fujimori, makes it possible to compete, to combine efforts and to seek consensus in an orderly and stable manner. The stabilization and economic reactivation measures will, therefore, be inseparable from certain institutional reforms that will further political democracy.

Referring to the purpose of the meeting, the President-Elect stated that the reintegration of Peru into the international financial community would provide the country with access in the immediate future to certain external official sources of credit, from which it had been barred on account of the disruptions characteristic of the present economic situation which make it difficult for Peru to attract investment or obtain credit, together with the ~~large~~ considerable arrears on the part of the public sector in meeting debt service obligations to the various multilateral and bilateral creditors, as well as banks and ^psuppliers.

In conclusion, Mr. Fujimori said that the opening of a substantive dialogue with the multilateral financial institutions of which Peru was a member will be the first step taken by the new government toward normalization of relations with the external community. Clearly, he noted, the agreement of these multilateral institutions with the policies underlying the new government's stabilization plan, and their

possible financial backing for that plan, will facilitate the securing of the support that Peru needs to obtain from the other external official credit sources.

The President-Elect commented favorably on the initiative announced by the President of the United States regarding the policy that country will follow with Latin America on debt, trade and investment. The economic recovery effort to be ~~made on debt, trade~~ undertaken by the Peruvian government would definitely be benefited by the new framework represented by this announcement.

Mr. Fujimori closed by expressing his gratification at the favorable reception given his remarks by the international authorities on this first occasion that he had spoken outside Peru.

This promising initial contact, stated the President-Elect, constituted the first step ~~in~~ in an effort to mobilize financial resources, an effort which, sustained by the resolute steps to be taken by the Peruvian people to bring about stabilization and reform, will enable the country to fully regain its position in the international economy.

DECLARACION DEL PRESIDENTE ELECTO DEL PERU,
ING. ALBERTO FUJIMORI

TRANSLATED
INTO ENGLISH
JUL 3 - 1990
CONTROL No.
LB.R.D.
91E0041

Vengo de sostener una reunión con el Secretario General de las Naciones Unidas, en la que participaron, entre otros, el Sr. Barber Conable, Presidente del Banco Mundial, el Sr. Michel Camdessus, Director Ejecutivo del Fondo Monetario Internacional, y el Sr. Enrique Iglesias, Presidente del Banco Interamericano de Desarrollo, en la que hemos hablado acerca de la situación económica y financiera del Perú.

Sobre este particular, me complace informarles que con el Secretario General hemos decidido constituir un grupo de trabajo informal de carácter transitorio con el objeto de asistir al Perú en materia económico-financiera.

El objetivo del grupo será apoyar, inmediatamente, las acciones preparatorias de política económica que adopte el nuevo gobierno peruano con miras a lograr:

- La reinserción del Perú en el sistema financiero internacional,
- La convocatoria de la comunidad internacional para que contribuya a aliviar la situación de los más necesitados,
- La estabilización financiera,
- Las reformas estructurales, y
- El aporte profesional y técnico requerido.

Las siguientes personas han sido inicialmente designadas para conformar este grupo de trabajo:

- Margaret J. Anstee, Secretaria General Adjunta de las Naciones Unidas,
- Hernando de Soto, Presidente del Instituto Libertad y Democracia (ILD)
- Adolfo Figueroa, Integrante del Equipo Económico de Cambio 90,
- Carlos Rodríguez Pastor, Consultor del Banco Interamericano de Desarrollo, y
- Jesús Silva Herzog, Presidente del Centro de Estudios Monetarios Latinoamericanos (CEMLA).

PRESIDENTE ELECTO DEL PERU ANUNCIA ESTABILIZACION, REFORMA ESTRUCTURAL, REACTIVACION ECONOMICA Y REINSERCION EN LA COMUNIDAD FINANCIERA INTERNACIONAL.

EL PRESIDENTE ELECTO DEL PERU, INGENIERO ALBERTO FUJIMORI FUJIMORI, SE REUNIO EN LA FECHA CON LOS MAS ALTOS FUNCIONARIOS EJECUTIVOS DEL FONDO MONETARIO INTERNACIONAL (MICHEL CAMDESSUS), BANCO MUNDIAL (BARBER CONABLE), BANCO INTERAMERICANO DE DESARROLLO (ENRIQUE IGLESIAS), Y DE LAS NACIONES UNIDAS (JAVIER PEREZ DE CUELLAR). LA OCASION FUE PROPICIA PARA QUE EL PRESIDENTE ELECTO HICIERA DIVERSOS COMENTARIOS SOBRE LA PROFUNDA CRISIS QUE AQUEJA AL PAIS, Y DESCRIBIERA LA ORIENTACION QUE DARA EL NUEVO GOBIERNO A LA POLITICA ECONOMICA.

SEÑALO EL INGENIERO FUJIMORI QUE LA ESTABILIDAD FINANCIERA Y LA REANUDACION DEL CRECIMIENTO DE LAS ACTIVIDADES PRODUCTIVAS Y COMERCIALES CONSTITUYEN EL SUSTENTO DEL VERDADERO PROGRESO SOCIAL. POR LO TANTO, DIJO, ESOS SERAN LOS OBJETIVOS CENTRALES DE LA ACCION DEL REGIMEN QUE INICIA SUS FUNCIONES EL 28 DE JULIO PROXIMO.

AÑADIO QUE LAS MEDIDAS DE ESTABILIZACION Y REACTIVACION SERAN APLICADAS EN UN ENTORNO SUMAMENTE HOSTIL QUE SE CARACTERIZA POR LOS FACTORES SIGUIENTES:

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- LA INFLACION DESENFRENADA QUE EN LOS ULTIMOS CINCO AÑOS HA ALCANZADO MAS DE UN MILLON Y MEDIO POR CIENTO;
- EL COLAPSO DE LAS RENTAS FISCALES QUE HOY NO LLEGAN AL CUATRO POR CIENTO DEL PRODUCTO BRUTO INTERNO;
- LA DECLINACION DEL INGRESO A NIVELES DE HACE DOS DECADAS;
- LA FALTA DE EMPLEO ADECUADO PARA TRES CUARTAS PARTES DE LA POBLACION ACTIVA;
- EL RAPIDO DETERIORO DE TODOS LOS INDICADORES SOCIALES;
- MARCADAS INEFICIENCIAS A NIVEL MICROECONOMICO, A CAUSA DE FACTORES DISTORSIONANTES --TALES COMO LA FRECUENTE INTERRUPCION DEL SERVICIO ELECTRICO-- QUE INTERFIEREN CON LA ACTIVIDAD ECONOMICA Y EROSIONAN LA PRODUCTIVIDAD;
- EL AGOTAMIENTO DE LAS RESERVAS INTERNACIONALES;
- LA ACUMULACION DE ATRASOS EN EL PAGO DE LA DEUDA EXTERNA, QUE BORDEA LOS DOS MIL MILLONES SOLO CON LAS PROPIAS INSTITUCIONES MULTILATERALES LLAMADAS A COOPERAR EN EL URGENTE PROCESO DE REORGANIZACION NACIONAL; Y,
- LA ABSOLUTA FALTA DE CREDIBILIDAD DE LA INSTITUCION DEL ESTADO DENTRO Y FUERA DEL PAIS.

INDICO EL MANDATARIO PERUANO QUE, SIN EMBARGO, EL PUEBLO, COMPRENDIENDO LA URGENCIA DEL CAMBIO, HABIA PUESTO EN MANOS DE HOMBRES NUEVOS EN LA POLITICA NACIONAL LA EMPRESA, AUDAZ PERO EXALTANTE, DE SUPERAR LA SOMBRIA REALIDAD ACTUAL. AGREGO QUE ELLO SOLO SERA POSIBLE A BASE DE LOS VALORES ANCESTRALES DEL TRABAJO Y LA HONESTIDAD, Y LA APLICACION DE

LAS HERRAMIENTAS MODERNAS QUE APORTA LA TECNOLOGIA EN TODAS LAS AREAS, INCLUSIVE LA ECONOMIA Y LAS FINANZAS.

EL INGENIERO FUJIMORI AFIRMO SU CONVENCIMIENTO QUE LA CLAVE PARA SALIR DE LA PROFUNDA CRISIS QUE VIVE EL PAIS NO ES LA AYUDA FINANCIERA DEL EXTERIOR, SINO UNA BUENA ESTRATEGIA ECONOMICA INTERNA QUE INCORPORE SANAS MEDIDAS DE ESTABILIZACION Y LOS NECESARIOS CAMBIOS DE ESTRUCTURA, UNA SUERTE DE "PERESTROIKA" PERUANA, COMO SUSTENTO DE LA REACTIVACION DURADERA DE LA PRODUCCION NACIONAL.

OBSERVO, ASIMISMO, QUE EL PROCESO DE REINSERCIÓN EXIGE CREAR CONDICIONES INTERNAS QUE PERMITAN NEGOCIAR EL APOYO DE LAS INSTITUCIONES FINANCIERAS MULTILATERALES Y DE LAS NACIONES INDUSTRIALES AMIGAS, AL VIGOROSO ESFUERZO ANTIINFLACIONARIO, DE REFORMA INSTITUCIONAL, Y DE EXPANSION ECONOMICA Y DESARROLLO SOCIAL QUE EL PAIS EMPRENDERÁ EN EL PROXIMO QUINQUENIO BAJO EL GOBIERNO UNGIDO DEMOCRATICAMENTE HACE APENAS 19 DIAS.

SE REFIRIO TAMBIEN EL PRESIDENTE ELECTO DE MANERA ESPECIAL A LA AGRICULTURA Y EXPLICO QUE EL NUEVO GOBIERNO SE PROPONE RESCATARLA DE LA DISCRIMINACION A QUE ESTA SUJETA DESDE HACE TANTO TIEMPO YA QUE, EN BUENA MEDIDA, EL CRECIMIENTO DE LA ECONOMIA EN EL PROXIMO QUINQUENIO SE SUSTENTARA EN LA EXPANSION AGRICOLA Y AGROINDUSTRIAL. DESDE UN COMIENZO, ACOTO, SERAN ELIMINADOS LOS SUBSIDIOS A LA IMPORTACION DE

ALIMENTOS. ASIMISMO, ASEGURO QUE SE EMPRENDERIA UNA REFORMA FUNDAMENTAL QUE DEVUELVA AL CAMPESINO LA PLENITUD DE SU DERECHO DE PROPIEDAD, DE SUERTE QUE ESTÉ EN CAPACIDAD NO SOLO DE TRANSFERIRLA SINO DE TRANSMITIRLA A SUS HEREDEROS, ARRENDARLA, O UTILIZARLA COMO GARANTIA DEL NUEVO FINANCIAMIENTO QUE OBTENGA PARA INVERTIR Y PRODUCIR.

EL MANDATARIO EXPRESO A LOS DIGNATARIOS DE LAS INSTITUCIONES FINANCIERAS MULTILATERALES QUE LA INFLACION REPRESENTA UNA SITUACION INTOLERABLE, DE EFECTOS REGRESIVOS, QUE REDUCE LA PRODUCCION Y EN CONSECUENCIA ATENTA DURAMENTE CONTRA LOS INTERESES POPULARES. DIJO, TAMBIEN, QUE LA INFLACION --CAUSA INMEDIATA Y PRINCIPAL DE LA GRAVE CRISIS ECONOMICA QUE AFLIGE A LA NACION-- ES CONSECUENCIA EN GRAN MEDIDA DE LOS ACTOS DEL PROPIO PAIS Y, POR TANTO, MAS SUSCEPTIBLE DE CORRECCION SI LOS PERUANOS --GOBERNANTES Y GOBERNADOS-- ACTUAMOS CON TINO PERO SOBRE TODO CON ENTEREZA,

APUNTO, POR ULTIMO, QUE NO ESTAMOS FRENTE A UNA SITUACION NUEVA. SE TRATA, DIJO, DE UN FENOMENO QUE HALLA SUS RAICES EN EL MANEJO INADECUADO DE LOS ASUNTOS PUBLICOS DURANTE SUCESIVOS GOBIERNOS. EN SU FORMA VIRULENTE, AÑADIO, LA INFLACION NOS ACOMPAÑA DESDE HACE POR LO MENOS QUINCE AÑOS, SI BIEN HA ADQUIRIDO UN IMPETU INCONTENIBLE Y AGOBIANTE EN LOS ULTIMOS TRES.

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EL INGENIERO FUJIMORI SOSTUVO QUE TRABAJANDO CON REALISMO, NO EN BUSQUEDA DE LOS RESULTADOS INMEDIATOS PERO EFIMEROS Y CONTRAPRODUCENTES, SINO PENSANDO EN EL MEDIANO PLAZO Y EN LA NECESIDAD DE SENTAR LAS BASES PARA UN DESARROLLO SANO DE LA ECONOMIA NACIONAL. LA NUEVA ADMINISTRACION, PLENAMENTE CONCIENTE DE LOS RIESGOS POLITICOS QUE ASUME, DIRIGIRIA SU ACCION DECIDIDA Y FIRMA HACIA LA LUCHA ANTIINFLACIONARIA, Y PARA ELLO ESPERABA CONTAR CON LA COMPRESION Y EL RESPALDO DE LAS INSTITUCIONES MULTILATERALES CON LAS QUE SE HABIA REUNIDO.

MENCIONO EL PRESIDENTE ELECTO QUE SE TORNA, ASIMISMO, INDISPENSABLE LA ADOPCION DE UN PROGRAMA DE DESARROLLO SOCIAL. SE TRATA DE LOGRAR NO SOLO LA ESTABILIDAD ECONOMICA SINO TAMBIEN LA SOCIAL COMO BASE SOLIDA PARA EL DESARROLLO DE LARGO PLAZO. DADA LA SEVERA RESTRICCIÓN SOCIAL BAJO LA CUAL SE EJECUTARA EL PROGRAMA DE ESTABILIZACION, EL PROGRAMA SOCIAL TENDRA UN CARACTER DE EMERGENCIA. SE BUSCARA PROTEGER LOS SALARIOS REALES, EL EMPLEO Y LA CALIDAD DE LOS SERVICIOS PUBLICOS ESENCIALES.

EL PROGRAMA SOCIAL BUSCARA AL MISMO TIEMPO ESTABLECER LAS BASES PARA UN PROCESO DE CRECIMIENTO CON EQUIDAD, QUE ES EL OBJETIVO DE DESARROLLO DE LARGO PLAZO DEL NUEVO GOBIERNO. ESTE PROGRAMA TIENE COMO ELEMENTOS CENTRALES: EL APOYO A LA PEQUEÑA EMPRESA URBANA, A LA AGRICULTURA CAMPESINA Y DE MANERA ESPECIAL SE PONDRÁ EN MARCHA UN PROGRAMA NACIONAL DE

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BIENESTAR INFANTIL. LOS RECURSOS HUMANOS QUE EL PERU NECESITA SERAN ASI DESARROLLADOS DE UNA MANERA INTEGRAL Y SOSTENIDA.

IGUALMENTE SE REFIRIO A QUE LA DESCAPITALIZACION QUE AFECTA AL PAIS HACIA PERENTORIA LA PARTICIPACION DE LA INVERSION EXTRANJERA EN EL PROCESO DE DESARROLLO NACIONAL. EL GOBIERNO QUE INICIA FUNCIONES EL MES PROXIMO CREARA, DIJO, CONDICIONES FAVORABLES A ESA INVERSION DE RIESGO, EN ESPECIAL EN LOS SECTORES PRIMARIOS COMO EL GAS, EL PETROLEO Y LA MINERIA, A LOS QUE ELLA PUEDA ACUDIR EN PLAZOS RELATIVAMENTE CORTOS.

ASEGURO EL INGENIERO FUJIMORI QUE EL PERU, NO OBSTANTE LAS PRECARIAS CONDICIONES ECONOMICAS Y SOCIALES EN QUE SE ENCUENTRA, REQUIERE ENMENDAR LOS ERRORES DE POLITICA DEL PASADO Y ACABAR CON LA INFLACION. ESTOY CONCIENTE, INDICO, QUE UNA EFECTIVA REACTIVACION ECONOMICA, PREREQUISITO DEL VERDADERO PROGRESO SOCIAL, REQUIERE ENCARAR LA CRISIS EN FORMA RESPONSABLE, COHERENTE Y SERIA, Y SU COMPROMISO CABAL CON EL PUEBLO PERUANO DE ADOPTAR, CON PRONTITUD Y EFICACIA, LAS MEDIDAS NECESARIAS DE ESTABILIZACION Y REFORMA QUE SERA LA BASE PARA UN PROCESO DE CRECIMIENTO EQUILIBRADO DE LA SOCIEDAD.

MANIFESTO QUE, SIN EMBARGO, ERA TAMBIEN TERMINANTE SU PROPOSITO DE VIGILAR QUE LAS CARGAS DEL ESFUERZO DE ESTABILIZACION FUERAN EQUITATIVAMENTE COMPARTIDAS ENTRE LOS DIFERENTES SECTORES, Y DE MITIGAR LOS EFECTOS ADVERSOS QUE ESE ESFUERZO TUVIERA SOBRE LOS SEGMENTOS MAS POBRES DE LA POBLACION. AGREGO QUE ESA ES UNA EVIDENTE OBLIGACION POLITICA PERO, SOBRE TODO, UN INSOSLAYABLE DEBER MORAL.

SE REFIRIO EL PRESIDENTE ELECTO A CUATRO REFORMAS INSTITUCIONALES QUE CONSIDERA DE SINGULAR TRASCENDENCIA.

LA PRIMERA BUSCARA OFRECER A LOS CIUDADANOS LOS CANALES FORMALES QUE LES PERMITAN OPINAR, PRIMERO, ACERCA DE LAS DECISIONES ADMINISTRATIVAS DEL GOBIERNO, Y LUEGO OBJETARLAS EN CASO QUE CONSIDEREN TALES DECISIONES INJUSTAS O DESACERTADAS.

LA SEGUNDA REFORMA ESTARA ORIENTADA A REMOVER LAS BARRERAS QUE HOY IMPIDEN EL ACCESO A LAS DIVERSAS ACTIVIDADES ECONOMICAS, LO MISMO QUE AL DERECHO DE PROPIEDAD. NO PUEDE HABER ECONOMIA DE MERCADO, ACOTO, SI LA MAYORIA DE LOS PERUANOS ESTAN EXCLUIDOS DEL SISTEMA LEGAL QUE LA HACE OPERATIVA. SE PERMITIRA, POR ELLO, EL ACCESO A LA EMPRESA LEGAL A LAS MAYORIAS QUE HOY NO LO TIENEN. PARA ELLO SERA PRECISO CREAR INSTRUMENTOS QUE FAVOREZCAN TAL ACCESO Y ELIMINAR LOS FACTORES QUE MARGINAN A LA MAYORIA DE LOS PERUANOS Y SUSTENTAN LA INFORMALIDAD.

UNA TERCERA REFORMA FORTALECERA EL PROCESO DE REGIONALIZACION DE MODO QUE SE ASEGURE LA OPORTUNIDAD DE QUE LAS ZONAS RURALES, LARGAMENTE IGNORADAS POR EL GOBIERNO CENTRAL, PUEDAN HACER VALER SUS PUNTOS DE VISTA RESPECTO A LAS POLITICAS ECONOMICAS QUE ADOPTA EL PAIS.

FINALMENTE, LA CUARTA REFORMA PROMOVERA UNA ADMINISTRACION DE JUSTICIA EFICIENTE QUE ALCANCE A TODOS LOS PERUANOS Y, RESPETANDO LA AUTONOMIA DEL PODER JUDICIAL, AFIRME MECANISMOS PARALELOS PARA LA RESOLUCION DE CONFLICTOS.

LA ECONOMIA DE MERCADO, COMO LA DEMOCRACIA, SEÑALO EL INGENIERO FUJIMORI, PERMITE COMPETIR, CONCERTAR Y BUSCAR CONSENSO DE MANERA ORDENADA Y ESTABLE. ES POR ESO, AÑADIO, QUE LAS MEDIDAS DE ESTABILIZACION Y REACTIVACION ECONOMICA SERAN INDESLEGIBLES DE CIERTAS REFORMAS INSTITUCIONALES QUE PROFUNDICEN LA DEMOCRACIA POLITICA.

REFIRIENDOSE AL SENTIDO DE SU REUNION DE HOY, EL PRESIDENTE ELECTO EXPRESO QUE LA REINSERCIÓN DEL PERU EN LA COMUNIDAD FINANCIERA INTERNACIONAL HARA POSIBLE QUE EL PAIS ACCEDA EN EL FUTURO INMEDIATO, A CIERTAS FUENTES DE CREDITO OFICIAL DEL EXTERIOR DE LAS QUE ESTA EXCLUIDO, DE UN LADO, POR LOS SERIOS DESAJUSTES CARACTERISTICOS DEL ACTUAL CUADRO ECONOMICO QUE HACEN DIFICIL LA OBTENCION DE INVERSIONES Y CREDITOS PARA EL PERU; Y, DE OTRO, POR LOS FUERTES ATRASOS

EN QUE HA INCURRIDO EL SECTOR PUBLICO EN EL PAGO DE SUS OBLIGACIONES EXTERNAS, POR PRINCIPAL E INTERESES CON LOS RESPECTIVOS ACREEDORES OFICIALES, MULTILATERALES Y BILATERALES, ASI COMO CON BANCOS Y PROVEEDORES.

DIJO, FINALMENTE, QUE LA APERTURA DE UN DIALOGO SUSTANTIVO CON LAS INSTITUCIONES FINANCIERAS MULTILATERALES DE LAS QUE EL PERU ES MIEMBRO CONSTITUIRA LA PRIMERA ACCION DEL GOBIERNO ENTRANTE EN LA RUTA DE LA NORMALIZACION DE LAS RELACIONES ENTRE EL PAIS Y LA COMUNIDAD EXTERNA. ES EVIDENTE, ANOTO, QUE EL ACUERDO DE ESAS INSTITUCIONES MULTILATERALES CON LAS POLITICAS QUE CONFORMAN EL PLAN DE ESTABILIZACION DEL NUEVO GOBIERNO, Y SU EVENTUAL RESPALDO FINANCIERO AL MISMO, HARAN POSIBLE EL APOYO QUE EL PERU NECESITA OBTENER DE LOS DEMAS PROVEEDORES OFICIALES DE RECURSOS CREDITICIOS EXTERNOS.

EL PRESIDENTE ELECTO COMENTO FAVORABLEMENTE LA INICIATIVA ANUNCIADA POR EL PRESIDENTE DE LOS ESTADOS UNIDOS SOBRE LA POLITICA QUE SEGUIRA ESE PAIS CON LATINOAMERICA EN MATERIA DE DEUDA, COMERCIO E INVERSIONES. EL ESFUERZO DE RECUPERACION ECONOMICA QUE EMPRENDERA EL GOBIERNO PERUANO SE VERA VIGORIZADO, SENALO, POR EL NUEVO MARCO QUE ESE ANUNCIO REPRESENTA.

EL INGENIERO FUJIMORI CONCLUYO CON PALABRAS DE SATISFACCION POR LA FAVORABLE ACOGIDA DE LAS AUTORIDADES INTERNACIONALES A SU EXPOSICION, LA PRIMERA QUE FORMULABA FUERA DEL TERRITORIO DEL PAIS.

ESTE ALENTADOR CONTACTO INICIAL CONSTITUYE, SEGUN MANIFESTACION DEL PRESIDENTE ELECTO, EL PRIMER PASO DE UN ESFUERZO DE MOVILIZACION DE RECURSOS FINANCIEROS QUE, SUSTENTADO EN LA DECIDIDA ACCION ESTABILIZADORA Y REFORMADORA QUE EMPRENDEREMOS LOS PERUANOS, PERMITIRA AL PAIS REINCORPORARSE PLENAMENTE A LA ECONOMIA INTERNACIONAL.

OFFICE MEMORANDUM

DATE: June 29, 1990

TO: Mr. Alexander Shakow, Director

FROM: David Loos, Special Representative

EXTENSION: 7-2265

SUBJECT: Press Conference by the President-Elect
of Peru, Eng. Alberto Fujimori

1. I have faxed to you copies of the Statement by the President-Elect and a Declaration which was issued after the briefing. The latter is an amended version of the draft I sent earlier. Although I have little Spanish, it appears that the revised version makes it clear that the working group was being established by the President-Elect with the support of the Secretary-General, and not on the basis of a decision taken at the luncheon attended by Mr. Conable.

2. Many of the questions asked at the Press Conference related to Peru's relationship with the Bank and Fund.

3. Mr. Fujimori asserted that Peru needs to have a program of austerity, a policy of stabilization, a system of collecting taxes, of overcoming grave fiscal deficits and of making adjustments in certain sectors. There was also the need to rectify differential exchange rates, and subsidized rates for some imports will be eliminated.

4. In response to a question on whether the new government will observe the agreement of December 11, 1989, with the Fund, he said the government will follow this path. On the question of the arrears of debts still pending, he said that this will be the subject of negotiations in the future.

5. He was asked whether the matter of the lawsuits by private banks had been referred to in the discussion at lunch with Messrs. Conable and Camdessus, to which he responded that it had not, but that these problems will be overcome through negotiation.

6. In response to a supplementary question on how he could explain the fact that the problem with the commercial banks had not been discussed with the Heads of the multilateral institutions in view of the desire to integrate Peru into the international financial and economic system, he maintained that the first problem was to develop the relationship with the multilateral institutions.

7. One of the journalists suggested that the policy of the new government was one of swimming against the stream (tide) in not privatizing all industries. Mr. Fujimori asserted that what was necessary was to strengthen markets, since 60 percent of the population was not benefitting from the market system and were marginalized. Peru also needed the creation of markets - one of the banners of their

campaign.

8. As far as privatization was concerned, the primary sectors - gas, water, fuel and fisheries, for example - would remain in the public sector. But steps would be taken to enhance their efficiency.

9. Concerning the effect of the rightist group which had proposed their economic program, and the subversion by the leftists, he said a consensus was necessary and that a union of sentiment was required to combat these problems, and the large majority in the country sought such unity.

10. As far as the right-wing was concerned, the composition of the economic team he had brought with him was indicative of the fact that his advisers covered various hues.

11. Subversion by the leftists was a thorny problem - there had been reprehensible acts over the last ten years. The armed forces and police will act not only strategically - respecting human rights - but also through development activities.

12. Reference was made to his impending visit to Japan and what he expected from it. He said, with some heat, that although he was slant-eyed, he was 100 percent Peruvian. His program included visits to the Emperor, the Minister of Trade and Industry, and the Minister of Foreign Affairs. He would take advantage of these high-powered meetings, and also of the goodwill of the Japanese people to obtain support and cooperation.

13. Finally, Mr. Fujimori was asked why, since he needed economic assistance from the United States and Europe, he was not visiting Washington on this visit. He said he had been invited by President Bush and hoped to be able to do so as soon as possible, and certainly before the end of this year.

FORM NO. 75
(8-83)

THE WORLD BANK/IFC

ROUTING SLIP		DATE: 6/29/90
NAME		ROOM NO.
Mr. Sven Sandstrom		E-1229
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
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INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS:		
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FROM: Daniel Low	ROOM NO.: 740	EXTENSION: 72265

DECLARACION DEL PRESIDENTE ELECTO DEL PERU,ING. ALBERTO FUJIMORI

Vengo de sostener una reunión con el Secretario General de las Naciones Unidas, en la que participaron, entre otros, el Sr. Barber Conable, Presidente del Banco Mundial, el Sr. Michel Camdessus, Director Ejecutivo del Fondo Monetario Internacional, y el Sr. Enrique Iglesias, Presidente del Banco Interamericano de Desarrollo, en la que hemos hablado acerca de la situación económica y financiera del Perú.

Sobre este particular, me complace informarles que con el Secretario General hemos decidido constituir un grupo de trabajo informal de carácter transitorio con el objeto de ayudar al Perú en materia económico-financiera.

El objetivo del grupo será apoyar, inmediatamente, las acciones preparatorias de política económica que adopte el nuevo gobierno peruano con miras a lograr:

- La reinserción del Perú en el sistema financiero internacional,
- La convocatoria de la comunidad internacional para que contribuya a aliviar la situación de los más necesitados,
- La estabilización financiera,
- Las reformas estructurales, y
- El aporte profesional y técnico requerido.

Las siguientes personas han sido inicialmente designadas para conformar este grupo de trabajo:

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- Hernando de Soto, Presidente del Instituto Libertad y Democracia (ILD)
- Adolfo Figueroa, Integrante del Equipo Económico de Cambio 90,
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PRESIDENTE ELECTO DEL PERU ANUNCIA ESTABILIZACION, REFORMA ESTRUCTURAL, REACTIVACION ECONOMICA Y REINSERCIÓN EN LA COMUNIDAD FINANCIERA INTERNACIONAL.

EL PRESIDENTE ELECTO DEL PERU, INGENIERO ALBERTO FUJIMORI FUJIMORI, SE REUNIO EN LA FECHA CON LOS MAS ALTOS FUNCIONARIOS EJECUTIVOS DEL FONDO MONETARIO INTERNACIONAL (MICHEL CAMDESSUS), BANCO MUNDIAL (BARBER CONABLE), BANCO INTERAMERICANO DE DESARROLLO (ENRIQUE IGLESIAS), Y DE LAS NACIONES UNIDAS (JAVIER PEREZ DE CUELLAR). LA OCASION FUE PROPICIA PARA QUE EL PRESIDENTE ELECTO HICIERA DIVERSOS COMENTARIOS SOBRE LA PROFUNDA CRISIS QUE AQUEJA AL PAIS, Y DESCRIBIERA LA ORIENTACION QUE DARA EL NUEVO GOBIERNO A LA POLITICA ECONOMICA.

SEÑALO EL INGENIERO FUJIMORI QUE LA ESTABILIDAD FINANCIERA Y LA REANUDACION DEL CRECIMIENTO DE LAS ACTIVIDADES PRODUCTIVAS Y COMERCIALES CONSTITUYEN EL SUSTENTO DEL VERDADERO PROGRESO SOCIAL. POR LO TANTO, DIJO, ESOS SERAN LOS OBJETIVOS CENTRALES DE LA ACCION DEL REGIMEN QUE INICIA SUS FUNCIONES EL 28 DE JULIO PROXIMO.

AÑADIO QUE LAS MEDIDAS DE ESTABILIZACION Y REACTIVACION SERAN APLICADAS EN UN ENTORNO SUMAMENTE HOSTIL QUE SE CARACTERIZA POR LOS FACTORES SIGUIENTES:

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- LA INFLACION DESENFRENADA QUE EN LOS ULTIMOS CINCO AÑOS HA ALCANZADO MAS DE UN MILLON Y MEDIO POR CIENTO;
- EL COLAPSO DE LAS RENTAS FISCALES QUE HOY NO LLEGAN AL CUATRO POR CIENTO DEL PRODUCTO BRUTO INTERNO;
- LA DECLINACION DEL INGRESO A NIVELES DE HACE DOS DECADAS;
- LA FALTA DE EMPLEO ADECUADO PARA TRES CUARTAS PARTES DE LA POBLACION ACTIVA;
- EL RAPIDO DETERIORO DE TODOS LOS INDICADORES SOCIALES;
- MARCADAS INEFICIENCIAS A NIVEL MICROECONOMICO, A CAUSA DE FACTORES DISTORSIONANTES --TALES COMO LA FRECUENTE INTERRUPTCION DEL SERVICIO ELECTRICO-- QUE INTERFIEREN CON LA ACTIVIDAD ECONOMICA Y EROSIONAN LA PRODUCTIVIDAD;
- EL AGOTAMIENTO DE LAS RESERVAS INTERNACIONALES;
- LA ACUMULACION DE ATRASOS EN EL PAGO DE LA DEUDA EXTERNA, QUE BORDEA LOS DOS MIL MILLONES SOLO CON LAS PROPIAS INSTITUCIONES MULTILATERALES LLAMADAS A COOPERAR EN EL URGENTE PROCESO DE REORGANIZACION NACIONAL; Y,
- LA ABSOLUTA FALTA DE CREDIBILIDAD DE LA INSTITUCION DEL ESTADO DENTRO Y FUERA DEL PAIS.

INDICO EL MANDATARIO PERUANO QUE, SIN EMBARGO, EL PUEBLO, COMPRENDIENDO LA URGENCIA DEL CAMBIO, HABIA PUESTO EN MANOS DE HOMBRES NUEVOS EN LA POLITICA NACIONAL LA EMPRESA, AUDAZ PERO EXALTANTE, DE SUPERAR LA SOMBRIA REALIDAD ACTUAL. AGREGO QUE ELLO SOLO SERA POSIBLE A BASE DE LOS VALORES ANCESTRALES DEL TRABAJO Y LA HONESTIDAD, Y LA APLICACION DE

LAS HERRAMIENTAS MODERNAS QUE APORTA LA TECNOLOGIA EN TODAS LAS AREAS, INCLUSIVE LA ECONOMIA Y LAS FINANZAS.

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OBSERVO, ASIMISMO, QUE EL PROCESO DE REINSERCIÓN EXIGE CREAR CONDICIONES INTERNAS QUE PERMITAN NEGOCIAR EL APOYO DE LAS INSTITUCIONES FINANCIERAS MULTILATERALES Y DE LAS NACIONES INDUSTRIALES AMIGAS, AL VIGOROSO ESFUERZO ANTIINFLACIONARIO, DE REFORMA INSTITUCIONAL, Y DE EXPANSION ECONOMICA Y DESARROLLO SOCIAL QUE EL PAIS EMPRENDERÁ EN EL PROXIMO QUINQUENIO BAJO EL GOBIERNO UNGIDO DEMOCRATICAMENTE HACE APENAS 19 DIAS.

SE REFIRIO TAMBIEN EL PRESIDENTE ELECTO DE MANERA ESPECIAL A LA AGRICULTURA Y EXPLICÓ QUE EL NUEVO GOBIERNO SE PROPONE RESCATARLA DE LA DISCRIMINACION A QUE ESTA SUJETA DESDE HACE TANTO TIEMPO YA QUE, EN BUENA MEDIDA, EL CRECIMIENTO DE LA ECONOMIA EN EL PROXIMO QUINQUENIO SE SUSTENTARA EN LA EXPANSION AGRICOLA Y AGROINDUSTRIAL. DESDE UN COMIENZO, ACOTO, SERAN ELIMINADOS LOS SUBSIDIOS A LA IMPORTACION DE

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ALIMENTOS, ASIMISMO, ASEGURO QUE SE EMPRENDERIA UNA REFORMA FUNDAMENTAL QUE DEVUELVA AL CAMPESINO LA PLENITUD DE SU DERECHO DE PROPIEDAD, DE SUERTE QUE ESTÉ EN CAPACIDAD NO SOLO DE TRANSFERIRLA SINÓ DE TRANSMITIRLA A SUS HEREDEROS, ARRENDARLA, O UTILIZARLA COMO GARANTIA DEL NUEVO FINANCIAMIENTO QUE OBTENGA PARA INVERTIR Y PRODUCIR.

EL MANDATARIO EXPRESO A LOS DIGNATARIOS DE LAS INSTITUCIONES FINANCIERAS MULTILATERALES QUE LA INFLACION REPRESENTA UNA SITUACION INTOLERABLE, DE EFECTOS REGRESIVOS, QUE REDUCE LA PRODUCCION Y EN CONSECUENCIA ATENTA DURAMENTE CONTRA LOS INTERESES POPULARES. DIJO, TAMBIEN, QUE LA INFLACION --CAUSA INMEDIATA Y PRINCIPAL DE LA GRAVE CRISIS ECONOMICA QUE AFLIGE A LA NACION-- ES CONSECUENCIA EN GRAN MEDIDA DE LOS ACTOS DEL PROPIO PAIS Y, POR TANTO, MAS SUSCEPTIBLE DE CORRECCION SI LOS PERUANOS --GOBERNANTES Y GOBERNADOS-- ACTUAMOS CON TINO PERO SOBRE TODO CON ENTEREZA.

APUNTO, POR ULTIMO, QUE NO ESTAMOS FRENTE A UNA SITUACION NUEVA. SE TRATA, DIJO, DE UN FENOMENO QUE HALLA SUS RAICES EN EL MANEJO INADECUADO DE LOS ASUNTOS PUBLICOS DURANTE SUCESIVOS GOBIERNOS. EN SU FORMA VIRULENTE, AÑADIO, LA INFLACION NOS ACOMPAÑA DESDE HACE POR LO MENOS QUINCE AÑOS, SI BIEN HA ADQUIRIDO UN IMPETU INCONTENIBLE Y AGOBIANTE EN LOS ULTIMOS TRES.

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EL INGENIERO FUJIMORI SOSTUVO QUE TRABAJANDO CON REALISMO, NO EN BUSQUEDA DE LOS RESULTADOS INMEDIATOS PERO EFIMEROS Y CONTRAPRODUCENTES, SINO PENSANDO EN EL MEDIANO PLAZO Y EN LA NECESIDAD DE SENTAR LAS BASES PARA UN DESARROLLO SANO DE LA ECONOMIA NACIONAL, LA NUEVA ADMINISTRACION, PLENAMENTE CONCIENTE DE LOS RIESGOS POLITICOS QUE ASUME, DIRIGIRIA SU ACCION DECIDIDA Y FIRMA HACIA LA LUCHA ANTIINFLACIONARIA, Y PARA ELLO ESPERABA CONTAR CON LA COMPRESION Y EL RESPALDO DE LAS INSTITUCIONES MULTILATERALES CON LAS QUE SE HABIA REUNIDO.

MENCIONO EL PRESIDENTE ELECTO QUE SE TORNA, ASIMISMO, INDISPENSABLE LA ADOPCION DE UN PROGRAMA DE DESARROLLO SOCIAL, SE TRATA DE LOGRAR NO SOLO LA ESTABILIDAD ECONOMICA SINO TAMBIEN LA SOCIAL COMO BASE SOLIDA PARA EL DESARROLLO DE LARGO PLAZO, DADA LA SEVERA RESTRICCION SOCIAL BAJO LA CUAL SE EJECUTARA EL PROGRAMA DE ESTABILIZACION, EL PROGRAMA SOCIAL TENDRA UN CARACTER DE EMERGENCIA, SE BUSCARA PROTEGER LOS SALARIOS REALES, EL EMPLEO Y LA CALIDAD DE LOS SERVICIOS PUBLICOS ESENCIALES.

EL PROGRAMA SOCIAL BUSCARA AL MISMO TIEMPO ESTABLECER LAS BASES PARA UN PROCESO DE CRECIMIENTO CON EQUIDAD, QUE ES EL OBJETIVO DE DESARROLLO DE LARGO PLAZO DEL NUEVO GOBIERNO, ESTE PROGRAMA TIENE COMO ELEMENTOS CENTRALES: EL APOYO A LA PEQUENA EMPRESA URBANA, A LA AGRICULTURA CAMPESINA Y DE MANERA ESPECIAL SE PONDRÁ EN MARCHA UN PROGRAMA NACIONAL DE

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BIENESTAR INFANTIL. LOS RECURSOS HUMANOS QUE EL PERU NECESITA SERAN ASI DESARROLLADOS DE UNA MANERA INTEGRAL Y SOSTENIDA.

IGUALMENTE SE REFIRIO A QUE LA DESCAPITALIZACION QUE AFECTA AL PAIS HACIA PERENTORIA LA PARTICIPACION DE LA INVERSION EXTRANJERA EN EL PROCESO DE DESARROLLO NACIONAL. EL GOBIERNO QUE INICIA FUNCIONES EL MES PROXIMO CREARA, DIJO, CONDICIONES FAVORABLES A ESA INVERSION DE RIESGO, EN ESPECIAL EN LOS SECTORES PRIMARIOS COMO EL GAS, EL PETROLEO Y LA MINERIA, A LOS QUE ELLA PUEDA ACUDIR EN PLAZOS RELATIVAMENTE CORTOS.

ASEGURO EL INGENIERO FUJIMORI QUE EL PERU, NO OBSTANTE LAS PRECARIAS CONDICIONES ECONOMICAS Y SOCIALES EN QUE SE ENCUENTRA, REQUIERE ENMENDAR LOS ERRORES DE POLITICA DEL PASADO Y ACABAR CON LA INFLACION. ESTOY CONCIENTE, INDICO, QUE UNA EFECTIVA REACTIVACION ECONOMICA, PREREQUISITO DEL VERDADERO PROGRESO SOCIAL, REQUIERE ENCARAR LA CRISIS EN FORMA RESPONSABLE, COHERENTE Y SERIA, Y SU COMPROMISO CABAL CON EL PUEBLO PERUANO DE ADOPTAR, CON PRONTITUD Y EFICACIA, LAS MEDIDAS NECESARIAS DE ESTABILIZACION Y REFORMA QUE SERA LA BASE PARA UN PROCESO DE CRECIMIENTO EQUILIBRADO DE LA SOCIEDAD.

MANIFESTO QUE, SIN EMBARGO, ERA TAMBIEN TERMINANTE SU PROPOSITO DE VIGILAR QUE LAS CARGAS DEL ESFUERZO DE ESTABILIZACION FUERAN EQUITATIVAMENTE COMPARTIDAS ENTRE LOS DIFERENTES SECTORES, Y DE MITIGAR LOS EFECTOS ADVERSOS QUE ESE ESFUERZO TUVIERA SOBRE LOS SEGMENTOS MAS POBRES DE LA POBLACION. AGREGO QUE ESA ES UNA EVIDENTE OBLIGACION POLITICA PERO, SOBRE TODO, UN INSOSLAYABLE DEBER MORAL.

SE REFIRIO EL PRESIDENTE ELECTO A CUATRO REFORMAS INSTITUCIONALES QUE CONSIDERA DE SINGULAR TRASCENDENCIA.

LA PRIMERA BUSCARA OFRECER A LOS CIUDADANOS LOS CANALES FORMALES QUE LES PERMITAN OPINAR, PRIMERO, ACERCA DE LAS DECISIONES ADMINISTRATIVAS DEL GOBIERNO, Y LUEGO OBJETARLAS EN CASO QUE CONSIDEREN TALES DECISIONES INJUSTAS O DESACERTADAS.

LA SEGUNDA REFORMA ESTARA ORIENTADA A REMOVER LAS BARRERAS QUE HOY IMPIDEN EL ACCESO A LAS DIVERSAS ACTIVIDADES ECONOMICAS, LO MISMO QUE AL DERECHO DE PROPIEDAD. NO PUEDE HABER ECONOMIA DE MERCADO, ACOTO, SI LA MAYORIA DE LOS PERUANOS ESTAN EXCLUIDOS DEL SISTEMA LEGAL QUE LA HACE OPERATIVA. SE PERMITIRA, POR ELLO, EL ACCESO A LA EMPRESA LEGAL A LAS MAYORIAS QUE HOY NO LO TIENEN. PARA ELLO SERA PRECISO CREAR INSTRUMENTOS QUE FAVOREZCAN TAL ACCESO Y ELIMINAR LOS FACTORES QUE MARGINAN A LA MAYORIA DE LOS PERUANOS Y SUSTENTAN LA INFORMALIDAD.

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UNA TERCERA REFORMA FORTALECERA EL PROCESO DE REGIONALIZACION DE MODO QUE SE ASEGURE LA OPORTUNIDAD DE QUE LAS ZONAS RURALES, LARGAMENTE IGNORADAS POR EL GOBIERNO CENTRAL, PUEDAN HACER VALER SUS PUNTOS DE VISTA RESPECTO A LAS POLITICAS ECONOMICAS QUE ADOPTE EL PAIS.

FINALMENTE, LA CUARTA REFORMA PROMOVERA UNA ADMINISTRACION DE JUSTICIA EFICIENTE QUE ALCANCE A TODOS LOS PERUANOS Y, RESPETANDO LA AUTONOMIA DEL PODER JUDICIAL, AFIRME MECANISMOS PARALELOS PARA LA RESOLUCION DE CONFLICTOS.

LA ECONOMIA DE MERCADO, COMO LA DEMOCRACIA, SEÑALO EL INGENIERO FUJIMORI, PERMITE COMPETIR, CONCERTAR Y BUSCAR CONSENSO DE MANERA ORDENADA Y ESTABLE. ES POR ESO, AÑADIO, QUE LAS MEDIDAS DE ESTABILIZACION Y REACTIVACION ECONOMICA SERAN INDESLIGABLES DE CIERTAS REFORMAS INSTITUCIONALES QUE PROFUNDICEN LA DEMOCRACIA POLITICA.

REFIRIENDOSE AL SENTIDO DE SU REUNION DE HOY, EL PRESIDENTE ELECTO EXPRESO QUE LA REINSERCIÓN DEL PERU EN LA COMUNIDAD FINANCIERA INTERNACIONAL HARA POSIBLE QUE EL PAIS ACCEDA EN EL FUTURO INMEDIATO, A CIERTAS FUENTES DE CREDITO OFICIAL DEL EXTERIOR DE LAS QUE ESTA EXCLUIDO, DE UN LADO, POR LOS SERIOS DESAJUSTES CARACTERISTICOS DEL ACTUAL CUADRO ECONOMICO QUE HACEN DIFICIL LA OBTENCION DE INVERSIONES Y CREDITOS PARA EL PERU; Y, DE OTRO, POR LOS FUERTES ATRASOS

EN QUE HA INCURRIDO EL SECTOR PUBLICO EN EL PAGO DE SUS OBLIGACIONES EXTERNAS, POR PRINCIPAL E INTERESES CON LOS RESPECTIVOS ACREEDORES OFICIALES, MULTILATERALES Y BILATERALES, ASI COMO CON BANCOS Y PROVEEDORES.

DIJO, FINALMENTE, QUE LA APERTURA DE UN DIALOGO SUSTANTIVO CON LAS INSTITUCIONES FINANCIERAS MULTILATERALES DE LAS QUE EL PERU ES MIEMBRO CONSTITUIRA LA PRIMERA ACCION DEL GOBIERNO ENTRANTE EN LA RUTA DE LA NORMALIZACION DE LAS RELACIONES ENTRE EL PAIS Y LA COMUNIDAD EXTERNA. ES EVIDENTE, ANOTO, QUE EL ACUERDO DE ESAS INSTITUCIONES MULTILATERALES CON LAS POLITICAS QUE CONFORMAN EL PLAN DE ESTABILIZACION DEL NUEVO GOBIERNO, Y SU EVENTUAL RESPALDO FINANCIERO AL MISMO, HARAN POSIBLE EL APOYO QUE EL PERU NECESITA OBTENER DE LOS DEMAS PROVEEDORES OFICIALES DE RECURSOS CREDITICIOS EXTERNOS.

EL PRESIDENTE ELECTO COMENTO FAVORABLEMENTE LA INICIATIVA ANUNCIADA POR EL PRESIDENTE DE LOS ESTADOS UNIDOS SOBRE LA POLITICA QUE SEGUIRA ESE PAIS CON LATINOAMERICA EN MATERIA DE DEUDA, COMERCIO E INVERSIONES. EL ESFUERZO DE RECUPERACION ECONOMICA QUE EMPRENDERA EL GOBIERNO PERUANO SE VERA VIGORIZADO, SENALO, POR EL NUEVO MARCO QUE ESE ANUNCIO REPRESENTA.

EL INGENIERO FUJIMORI CONCLUYO CON PALABRAS DE SATISFACCION POR LA FAVORABLE ACOGIDA DE LAS AUTORIDADES INTERNACIONALES A SU EXPOSICION, LA PRIMERA QUE FORMULABA FUERA DEL TERRITORIO DEL PAIS.

ESTE CONTACTO INICIAL CONSTITUYE, SEGUN MANIFESTACION DEL PRESIDENTE ELECTO, EL PRIMER PASO DE UN CUERPO DE MOVILIZACION DE RECURSOS FINANCIEROS QUE, SUSTENTADO EN LA DECIDIDA ACCION ESTABILIZADORA Y REFORMADORA QUE EMPRENDEREMOS LOS PERUANOS, PERMITIRA AL PAIS REINCORPORARSE PLENAMENTE A LA ECONOMIA INTERNACIONAL.

DECLARACION DEL PRESIDENTE ELECTO DEL PERU,

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Vengo de sostener una reunión con el Secretario General de las Naciones Unidas, en la que participaron, entre otros, el Sr. Barber Conable, Presidente del Banco Mundial, el Sr. Michel Camdessus, Director Ejecutivo del Fondo Monetario Internacional, y el Sr. Enrique Iglesias, Presidente del Banco Interamericano de Desarrollo, en la que hemos hablado acerca de la situación económica y financiera del Perú.

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ALIMENTOS, ASIMISMO, ASEGURO QUE SE EMPRENDERIA UNA REFORMA FUNDAMENTAL QUE DEVUELVA AL CAMPESINO LA PLENITUD DE SU DERECHO DE PROPIEDAD, DE SUERTE QUE ESTÉ EN CAPACIDAD NO SOLO DE TRANSFERIRLA SINO DE TRANSMITIRLA A SUS HEREDEROS, ARRENDARLA, O UTILIZARLA COMO GARANTIA DEL NUEVO FINANCIAMIENTO QUE OBTENGA PARA INVERTIR Y PRODUCIR.

EL MANDATARIO EXPRESO A LOS DIGNATARIOS DE LAS INSTITUCIONES FINANCIERAS MULTILATERALES QUE LA INFLACION REPRESENTA UNA SITUACION INTOLERABLE, DE EFECTOS REGRESIVOS, QUE REDUCE LA PRODUCCION Y EN CONSECUENCIA ATENTA DURAMENTE CONTRA LOS INTERESES POPULARES. DIJO, TAMBIEN, QUE LA INFLACION --CAUSA INMEDIATA Y PRINCIPAL DE LA GRAVE CRISIS ECONOMICA QUE AFLIGE A LA NACION-- ES CONSECUENCIA EN GRAN MEDIDA DE LOS ACTOS DEL PROPIO PAIS Y, POR TANTO, MAS SUSCEPTIBLE DE CORRECCION SI LOS PERUANOS --GOBERNANTES Y GOBERNADOS-- ACTUAMOS CON TINO PERO SOBRE TODO CON ENTEREZA.

APUNTO, POR ULTIMO, QUE NO ESTAMOS FRENTE A UNA SITUACION NUEVA. SE TRATA, DIJO, DE UN FENOMENO QUE HALLA SUS RAICES EN EL MANEJO INADECUADO DE LOS ASUNTOS PUBLICOS DURANTE SUCESIVOS GOBIERNOS. EN SU FORMA VIRULENTE, AÑADIO, LA INFLACION NOS ACOMPAÑA DESDE HACE POR LO MENOS QUINCE AÑOS, SI BIEN HA ADQUIRIDO UN IMPETU INCONTENIBLE Y AGOBIANTE EN LOS ULTIMOS TRES.

5

EL INGENIERO FUJIMORI SOSTUVO QUE TRABAJANDO CON REALISMO, NO EN BUSQUEDA DE LOS RESULTADOS INMEDIATOS PERO EFIMEROS Y CONTRAPRODUCENTES, SINO PENSANDO EN EL MEDIANO PLAZO Y EN LA NECESIDAD DE SENTAR LAS BASES PARA UN DESARROLLO SANO DE LA ECONOMIA NACIONAL. LA NUEVA ADMINISTRACION, PLENAMENTE CONCIENTE DE LOS RIESGOS POLITICOS QUE ASUME, DIRIGIRIA SU ACCION DECIDIDA Y FIRMA HACIA LA LUCHA ANTIINFLACIONARIA, Y PARA ELLO ESPERABA CONTAR CON LA COMPRESION Y EL RESPALDO DE LAS INSTITUCIONES MULTILATERALES CON LAS QUE SE HABIA REUNIDO.

MENCIONO EL PRESIDENTE ELECTO QUE SE TORNA, ASIMISMO, INDISPENSABLE LA ADOPCION DE UN PROGRAMA DE DESARROLLO SOCIAL. SE TRATA DE LOGRAR NO SOLO LA ESTABILIDAD ECONOMICA SINO TAMBIEN LA SOCIAL COMO BASE SOLIDA PARA EL DESARROLLO DE LARGO PLAZO. DADA LA SEVERA RESTRICCION SOCIAL BAJO LA CUAL SE EJECUTARA EL PROGRAMA DE ESTABILIZACION, EL PROGRAMA SOCIAL TENDRA UN CARACTER DE EMERGENCIA. SE BUSCARA PROTEGER LOS SALARIOS REALES, EL EMPLEO Y LA CALIDAD DE LOS SERVICIOS PUBLICOS ESENCIALES.

EL PROGRAMA SOCIAL BUSCARA AL MISMO TIEMPO ESTABLECER LAS BASES PARA UN PROCESO DE CRECIMIENTO CON EOUIDAD, QUE ES EL OBJETIVO DE DESARROLLO DE LARGO PLAZO DEL NUEVO GOBIERNO. ESTE PROGRAMA TIENE COMO ELEMENTOS CENTRALES: EL APOYO A LA PEQUENA EMPRESA URBANA, A LA AGRICULTURA CAMPESINA Y DE MANERA ESPECIAL SE PONDRÁ EN MARCHA UN PROGRAMA NACIONAL DE

6

BIENESTAR INFANTIL. LOS RECURSOS HUMANOS QUE EL PERU NECESITA SERAN ASI DESARROLLADOS DE UNA MANERA INTEGRAL Y SOSTENIDA.

IGUALMENTE SE REFIRIO A QUE LA DESCAPITALIZACION QUE AFECTA AL PAIS HACIA PERENTORIA LA PARTICIPACION DE LA INVERSION EXTRANJERA EN EL PROCESO DE DESARROLLO NACIONAL. EL GOBIERNO QUE INICIA FUNCIONES EL MES PROXIMO CREARA, DIJO, CONDICIONES FAVORABLES A ESA INVERSION DE RIESGO, EN ESPECIAL EN LOS SECTORES PRIMARIOS COMO EL GAS, EL PETROLEO Y LA MINERIA, A LOS QUE ELLA PUEDA ACUDIR EN PLAZOS RELATIVAMENTE CORTOS.

ASEGURO EL INGENIERO FUJIMORI QUE EL PERU, NO OBSTANTE LAS PRECARIAS CONDICIONES ECONOMICAS Y SOCIALES EN QUE SE ENCUENTRA, REQUIERE ENMENDAR LOS ERRORES DE POLITICA DEL PASADO Y ACABAR CON LA INFLACION. ESTOY CONCIENTE, INDICO, QUE UNA EFECTIVA REACTIVACION ECONOMICA, PREREQUISITO DEL VERDADERO PROGRESO SOCIAL, REQUIERE ENCARAR LA CRISIS EN FORMA RESPONSABLE, COHERENTE Y SERIA, Y SU COMPROMISO CABAL CON EL PUEBLO PERUANO DE ADOPTAR, CON PRONTITUD Y EFICACIA, LAS MEDIDAS NECESARIAS DE ESTABILIZACION Y REFORMA QUE SERA LA BASE PARA UN PROCESO DE CRECIMIENTO EQUILIBRADO DE LA SOCIEDAD.

MANIFESTO QUE, SIN EMBARGO, ERA TAMBIEN TERMINANTE SU PROPOSITO DE VIGILAR QUE LAS CARGAS DEL ESFUERZO DE ESTABILIZACION FUERAN EQUITATIVAMENTE COMPARTIDAS ENTRE LOS DIFERENTES SECTORES, Y DE MITIGAR LOS EFECTOS ADVERSOS QUE ESE ESFUERZO TUVIERA SOBRE LOS SEGMENTOS MAS POBRES DE LA POBLACION. AGREGO QUE ESA ES UNA EVIDENTE OBLIGACION POLITICA PERO, SOBRE TODO, UN INSOSLAYABLE DEBER MORAL.

SE REFIRIO EL PRESIDENTE ELECTO A CUATRO REFORMAS INSTITUCIONALES QUE CONSIDERA DE SINGULAR TRASCENDENCIA.

LA PRIMERA BUSCARA OFRECER A LOS CIUDADANOS LOS CANALES FORMALES QUE LES PERMITAN OPINAR, PRIMERO, ACERCA DE LAS DECISIONES ADMINISTRATIVAS DEL GOBIERNO, Y LUEGO OBJETARLAS EN CASO QUE CONSIDEREN TALES DECISIONES INJUSTAS O DESACERTADAS.

LA SEGUNDA REFORMA ESTARA ORIENTADA A REMOVER LAS BARRERAS QUE HOY IMPIDEN EL ACCESO A LAS DIVERSAS ACTIVIDADES ECONOMICAS, LO MISMO QUE AL DERECHO DE PROPIEDAD. NO PUEDE HABER ECONOMIA DE MERCADO, ACOTO, SI LA MAYORIA DE LOS PERUANOS ESTAN EXCLUIDOS DEL SISTEMA LEGAL QUE LA HACE OPERATIVA. SE PERMITIRA, POR ELLO, EL ACCESO A LA EMPRESA LEGAL A LAS MAYORIAS QUE HOY NO LO TIENEN. PARA ELLO SERA PRECISO CREAR INSTRUMENTOS QUE FAVOREZCAN TAL ACCESO Y ELIMINAR LOS FACTORES QUE MARGINAN A LA MAYORIA DE LOS PERUANOS Y SUSTENTAN LA INFORMALIDAD.

8

UNA TERCERA REFORMA FORTALECERA EL PROCESO DE REGIONALIZACION DE MODO QUE SE ASEGURE LA OPORTUNIDAD DE QUE LAS ZONAS RURALES, LARGAMENTE IGNORADAS POR EL GOBIERNO CENTRAL, PUEDAN HACER VALER SUS PUNTOS DE VISTA RESPECTO A LAS POLITICAS ECONOMICAS QUE ADOPTE EL PAIS.

FINALMENTE, LA CUARTA REFORMA PROMOVERA UNA ADMINISTRACION DE JUSTICIA EFICIENTE QUE ALCANCE A TODOS LOS PERUANOS Y, RESPETANDO LA AUTONOMIA DEL PODER JUDICIAL, AFIRME MECANISMOS PARALELOS PARA LA RESOLUCION DE CONFLICTOS.

LA ECONOMIA DE MERCADO, COMO LA DEMOCRACIA, SEÑALO EL INGENIERO FUJIMORI, PERMITE COMPETIR, CONCERTAR Y BUSCAR CONSENSO DE MANERA ORDENADA Y ESTABLE. ES POR ESO, AÑADIO, QUE LAS MEDIDAS DE ESTABILIZACION Y REACTIVACION ECONOMICA SERAN INDESLIGABLES DE CIERTAS REFORMAS INSTITUCIONALES QUE PROFUNDICEN LA DEMOCRACIA POLITICA.

REFIRIENDOSE AL SENTIDO DE SU REUNION DE HOY, EL PRESIDENTE ELECTO EXPRESO QUE LA REINSERCIÓN DEL PERU EN LA COMUNIDAD FINANCIERA INTERNACIONAL HARA POSIBLE QUE EL PAIS ACCEDA EN EL FUTURO INMEDIATO, A CIERTAS FUENTES DE CREDITO OFICIAL DEL EXTERIOR DE LAS QUE ESTA EXCLUIDO, DE UN LADO, POR LOS SERIOS DESAJUSTES CARACTERISTICOS DEL ACTUAL CUADRO ECONOMICO QUE HACEN DIFICIL LA OBTENCION DE INVERSIONES Y CREDITOS PARA EL PERU; Y, DE OTRO, POR LOS FUERTES ATRASOS

EN QUE HA INCURRIDO EL SECTOR PUBLICO EN EL PAGO DE SUS OBLIGACIONES EXTERNAS, POR PRINCIPAL E INTERESES CON LOS RESPECTIVOS ACREEDORES OFICIALES, MULTILATERALES Y BILATERALES, ASI COMO CON BANCOS Y PROVEEDORES.

DIJO, FINALMENTE, QUE LA APERTURA DE UN DIALOGO SUSTANTIVO CON LAS INSTITUCIONES FINANCIERAS MULTILATERALES DE LAS QUE EL PERU ES MIEMBRO CONSTITUIRA LA PRIMERA ACCION DEL GOBIERNO ENTRANTE EN LA RUTA DE LA NORMALIZACION DE LAS RELACIONES ENTRE EL PAIS Y LA COMUNIDAD EXTERNA. ES EVIDENTE, ANOTO, QUE EL ACUERDO DE ESAS INSTITUCIONES MULTILATERALES CON LAS POLITICAS QUE CONFORMAN EL PLAN DE ESTABILIZACION DEL NUEVO GOBIERNO, Y SU EVENTUAL RESPALDO FINANCIERO AL MISMO, HARAN POSIBLE EL APOYO QUE EL PERU NECESITA OBTENER DE LOS DEMAS PROVEEDORES OFICIALES DE RECURSOS CREDITICIOS EXTERNOS.

EL PRESIDENTE ELECTO COMENTO FAVORABLEMENTE LA INICIATIVA ANUNCIADA POR EL PRESIDENTE DE LOS ESTADOS UNIDOS SOBRE LA POLITICA QUE SEGUIRA ESE PAIS CON LATINOAMERICA EN MATERIA DE DEUDA, COMERCIO E INVERSIONES. EL ESFUERZO DE RECUPERACION ECONOMICA QUE EMPRENDERA EL GOBIERNO PERUANO SE VERA VIGORIZADO, SENALO, POR EL NUEVO MARCO QUE ESE ANUNCIO REPRESENTA.

EL INGENIERO FUJIMORI CONCLUYO CON PALABRAS DE SATISFACCION POR LA FAVORABLE ACOGIDA DE LAS AUTORIDADES INTERNACIONALES A SU EXPOSICION, LA PRIMERA QUE FORMULABA FUERA DEL TERRITORIO DEL PAIS.

ESTE ALENTADOR CONTACTO INICIAL CONSTITUYE, SEGUN MANIFESTACION DEL PRESIDENTE ELECTO, EL PRIMER PASO DE UN ESFUERZO DE MOVILIZACION DE RECURSOS FINANCIEROS QUE, SUSTENTADO EN LA DECIDIDA ACCION ESTABILIZADORA Y REFORMADORA QUE EMPRENDEREMOS LOS PERUANOS, PERMITIRA AL PAIS REINCORPORARSE PLENAMENTE A LA ECONOMIA INTERNACIONAL.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION/MULTILATERAL INVESTMENT GUARANTEE AGENCY

OFFICE MEMORANDUM

~~SS~~
~~A/c~~

DATE June 28, 1990

TO Mr. Sven Sandstrom, EXC

FROM Alexander Shakow, SPRDR

EXTENSION 34697

SUBJECT Peru

Attached is the translation of a statement which apparently is to be issued by President Elect Fujimori following the UN meeting tomorrow. David Loos was given this text for information. Also attached is the Financial Times article on the meeting.

Attachments

cc: Mr. Bottelier

Not approved
BL

Translation of the note:

"GRUPO DE TRABAJO INFORMAL DE CARACTER TRANSITORIO"

INFORMAL WORKING GROUP OF TRANSITORY CHARACTER

A working session was held in the United Nations on Friday, June 29th, 1990, by President Elect of Peru, Engineer Alberto Fujimori Fujimori and the Secretary General of the United Nations, Dr. Javier Pérez de Cuéllar. Mr. Barber Conable, President of the World Bank, Dr. Enrique Iglesias, President of the Inter-American Development Bank, and Mr. Michael Camdessus, Executive Director of the International Monetary Fund, were also present. ~~It~~ During the meeting, it was decided that an informal working group of transitory character will be established to assist Peru in financial and economic matters.

*Or:
The
President-
Elect
has
decided
that*

The objective of the group will be to support, immediately, the preparatory measures to be adopted by the government in order to achieve:

- the reinsertion of Peru in the international financial system;
- the participation of the international community in contributing to alleviate the situation of the neediest in Peru;
- the financial stabilization of Peru;
- the adoption of structural reforms; and
- the provision of the required professional and technical assistance.

by whom?

The following persons have been called preliminarily to form the informal working group:

- Margaret J. Anstee, Assistant Secretary General, United Nations;
- Hernando de Soto, President of the Liberty and Democracy Institute (ILD);
- Adolfo Figueroa, member of the economic team of "Cambio 90" (President Elect Fujimori's political group);
- Carlos Rodriguez Pastor, personal representative of the President of the Inter-American Development Bank; and
- Jesús Silva Herzog, President of the Center for Latin American Monetary Studies (CEMLA).

Finance leaders to meet Peru President-elect

By Robert Graham in London

LEADERS of the international financial community will meet Mr Alberto Fujimori, President-elect of Peru, in New York tomorrow to hammer out an emergency aid plan for the debt-ridden South American country.

Those attending the meeting, under the aegis of Mr Javier Pérez de Cuéllar, UN Secretary-General, include Mr Michel Camdessus, managing director of the International Monetary Fund, Mr Barber Conable, World Bank president and Mr Enrique Iglesias, head of the Inter-American Development Bank.

This is the first time such key financial figures have met a president-elect to seek both emergency assistance and broad macro-economic strategy. However, the Sec-

retary-General, a Peruvian, is understood to consider his country's plight so dramatic that early agreement with Mr Fujimori is essential if the country's relations with international financial community are to be normalised.

Peru owes \$800m in arrears to the IMF out of total arrears to the international financial institutions (IFIs) of nearly \$2bn. The outgoing administration of President Alan García has allowed relations with the IMF to deteriorate almost to the point of expulsion from the Fund.

Peru is also being sued in New York by commercial banks for immediate payment of \$2bn in arrears on total foreign debt of \$20bn.

Mr Fujimori, 51, an agronomist, has given no indication of

what might be needed. He is to take office on July 28.

It is unclear how much the international institutions and foreign governments are prepared to give. But at least \$2bn would be necessary in debt write-downs, interest relief and debt rescheduling - apart from food aid for some 7m people now regarded as in extreme poverty, in an economy with 2,200 per cent annual inflation.

Serious drought in the south of the country prompted Mr Pérez de Cuéllar to launch an \$85m UN-sponsored emergency fund on June 8.

Mr Pérez de Cuéllar and Mr Iglesias have been making soundings for some time on ways to mount an international financial aid package for Peru. These foundered because of the reluctance of most

industrialised governments to deal with the García Administration whom they regard as responsible for serious economic mismanagement. Following Mr Fujimori's election on a commitment to give high priority to restoring relations with the IFIs, the atmosphere has reportedly changed among potential donors.

To co-ordinate the meeting, Ms Margaret Anstee, director-general of the UN Office in Vienna, was sent last weekend to Lima for talks with Mr Fujimori. A major problem is Mr Fujimori's infant economic team and their continued lack of detailed economic plans. They also have yet to gain proper access to the country's data.

Bush offers Latin American economic plan, Page 5

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/06/27

DUE DATE : 00/00/00

LOG NUMBER : 900627027

FROM : Mr. Jaycox

SUBJECT : BRIEFING: mtg. with President-elect Alberto Fujimori, Peru - on

Friday, June 29 ~~Thursday, June 28, 1990 at 12:00n~~

OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

- _____ APPROVED
- _____ PLEASE HANDLE
- _____ FOR YOUR INFORMATION
- _____ FOR YOUR REVIEW AND RECOMMENDATION
- _____ FOR THE FILES
- _____ PLEASE DISCUSS WITH _____
- _____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
- _____ AS WE DISCUSSED
- _____ RETURN TO _____

COMMENTS :cc: SS, AK


CG?

File /
Peru (SS)

OFFICE MEMORANDUM

DATE: June 27, 1990

TO: Mr. Barber B. Conable

FROM: Edward V.K. Jaycox 

EXTENSION: 34000

SUBJECT: PERU - Your Meeting with President-Elect Alberto Fujimori in New York

1. Mr. Alberto Fujimori, 51, won the recent run-off presidential election by a 20 percent margin. An agricultural engineer with a graduate degree from the University of Wisconsin, Mr. Fujimori was until recently rector of Peru's National Agrarian University.

2. Mr. Fujimori is likely to be accompanied by Mr. Hernando De Soto--author of the best seller on the informal sector, The Other Path and brother of Alvaro De Soto who is one of Mr. Perez de Cuellar deputies--in the capacity of independent adviser; Mr. Javier Abugattas (a orthodox-minded economist with a longstanding good relation with the World Bank) in the capacity of independent adviser; and Mr. Jesus Silva-Herzog (ex-Minister of Finance of Mexico) in the capacity of adviser; Ambassador Rivero, a prestigious Peruvian career diplomat.

Political and Economic Situation

3. A positive aspect of Mr. Fujimori's electoral success is the climate of relative social relaxation that Peru is enjoying since the elections of June 10. It appears that the rhetoric of the Vargas Llosa campaign had unintentionally created additional social tension and racial confrontation. According to press reports, it seems that one of Peru's two terrorist movements, the Cuban-style MRTA, may grant Mr. Fujimori a good faith moratorium of terrorist activities.

4. The new Government inherits a devastated economy: inflation reached 3,000 percent in 1989, and the economy is undergoing a major recession (GDP fell by a cumulative 20 percent in 1988-89, and real wages fell two-thirds). All indications are that the outgoing Government is going to leave no international reserves in the vault. The deteriorated state of infrastructure can be gauged by the daily electricity black-outs, water shortages and a 50 percent drop in petroleum production. More worrisome indicators are increasing malnutrition of the poor and rising infant mortality. About 7 million (one-third of the total population) are now estimated to be below the poverty line, with monthly income of less than US\$30. (Basic data are contained in Attachment 1.)

Arrears Problem

5. As of mid-June 1990, Peru's arrears to the three Washington-based multilaterals totalled US\$1.8 billion; US\$747 million to IBRD,

US\$810 million to the IMF and US\$250 million to the IDB. Peru has been in non-accrual status with the IBRD since August 1987.

6. Since Peru's suspension of debt service payments to the Bank in January 1987 (essentially for political reasons), we have continuously tried to restore constructive relations with Peru. In early 1987 then Regional Vice-President David Knox tried, in a visit to Lima, to persuade President Garcia not to interrupt debt service to the Bank. In spite of a written promise that Peru would pay, we never received a penny. After the suspension of disbursements from the Bank to Peru (in May 1987), we continued certain disbursements for technical assistance (a total of about US\$40 million), through the end of 1987 as a token of good faith. Since then we have on several occasions worked closely with successive Peruvian economic teams in the design of a sustainable economic program that could have served as a basis to raise bilateral bridge financing for the arrears so as to normalize our relations with Peru. However, all these efforts were systematically frustrated by President Alan Garcia.

7. In September 1989, the IMF Board threatened to expel Peru from the institution unless the Government resumed payments on obligations to the Fund falling due from then on (while temporarily freezing arrears outstanding at that time). Mr. Salinas, President Garcia's debt adviser, reached an agreement with the Fund in December 1989, after which Peru has kept current with the IMF. We tried to negotiate a parallel agreement on debt service for the Bank and offered to resume technical assistance and selective project preparation activities in exchange. This effort failed. We did not have the negative leverage (expulsion threat) that the IMF had or any other leverage with the Garcia Government.

Project Portfolio

8. When the Bank suspended disbursements, there were 19 active projects with undisbursed balances totaling about US\$400 million. Due to the non-cooperative approach of the Government, we had to close most of the projects as they reached their closing dates. As a result, when the new Government takes power in July 1990 only four Bank projects will remain in our portfolio. These are: the Primary Health Project, Primary Education Project, Lima Metropolitan Project, and Chanchamayo Rural Development Project, all of which have a strong poverty focus. Their combined undisbursed balance is about US\$140 million.

Suggestions for the Meeting

9. Mr. Fujimori has stated that his first priority is to reinsert Peru in the international financial community, which requires finding a solution for the unprecedented volume of arrears. Because of its history and magnitude, the arrears problem has an important political dimension and can only be solved with the active cooperation of our major shareholders. With the help of a UNDP grant and US\$100,000 additional budgetary support provided from the President's contingency fund, we have recently started some limited analytical work in the areas of energy, agriculture, public enterprise restructuring, poverty

alleviation, trade, mining, fisheries, and labor market. However, our staff budget for Peru is now of the barest minimum (two staff-years), far short of the resources required to prepare for a possible breakthrough.

10. Suggestions for the meeting are as follows:

- (a) The key point is to size up Mr. Fujimori and to listen to his views on economic adjustment policies and on the arrears owed to the Bank, even though he may not yet have a well-defined position for lack of an integrated economic team and program. We expect that Mr. Fujimori will similarly wish to listen to your views on these matters.
- (b) You should stress that the solution to Peru's economic problems depends critically on the implementation of a comprehensive, solid economic plan, starting immediately with a decisive stabilization program. Mr. Fujimori cannot afford to waste any time. Failure to act immediately and decisively could lead to a critical loss of credibility and continued economic paralysis. The arrears problem can only be solved in the context of a sound economic program.
- (c) You should distinguish between the stock of arrears existing as of the first day of the new Government and future obligations falling due thereafter. Regarding the latter, we recommend that parity treatment to that given to the IMF (described in para. 7) be considered a condition for active Bank support for an international rescue effort. However, for resumed lending to Peru, a solution to the stock of arrears would have to be found first, presumably with the help of the Bank's major shareholders.
- (d) After his trip to New York, Mr. Fujimori is travelling to Tokyo where, according to the Japanese Ambassador in Lima, the President-elect will be actively soliciting financial help and advice. It is important that you underline the possibility that Japan contribute with significant bridge financing to clear the arrears owed to the Bank.
- (e) Once arrears have been cleared, the Bank would tentatively provide lending in the areas of structural adjustment, infrastructure rehabilitation, social emergency, and agricultural policy.

Attachment

cc: Messrs. Qureshi, o/r (OPNVP); Husain, o/r, Selowsky (LACVP);
Fleisig (LACCE); Bottelier, Rowat, Tyler (LA4DR); Bery,
o/r, Nissenbaum, Mitra (LA4CO)

RLago/IOhno:dj

PERU: Basic Data

	1985	1986	1987	1988	1989
GDP Growth	2.4%	10%	7%	-9%	-11%
Inflation Rate	158%	63%	115%	1.722%	2.800%
Tax Revenues/GDP	13%	11%	9%	7%	4%
Parastatal Revenues/GDP	26%	18%	14%	12%	10%
Public Deficit/GDP	6.1%	9.6%	11.9%	13.5%	11.1%
External Debt (US\$ billion)	14	15	16.3	18	20
Money + Near Money/GDP	22%	17%	18%	10.4%	7%
Real Effective Exchange Rate ^{a/}	100	89	90	91	50

a/ End of year. Increase means depreciation of the real exchange rate.

SHORT BACKGROUND NOTE ON MR. FUJIMORI

1. Mr. Fujimori has a reputation for being rather authoritarian, keeping tight control of decisions and not delegating power easily. When Mr. Fujimori was its rector, the National Agrarian University had direct responsibility for carrying out a Bank-supported Higher Agricultural Education Project. Project implementation left much to be desired. Supervision missions blamed the problems on poor management by the University. Unfortunately, the Project Completion Report describing the project's shortcomings was leaked during the presidential campaign and used by the opposition to criticize Mr. Fujimori.

2. Mr. Fujimori experienced a surprising ascension to the political spotlight in early April. From a virtual unknown in politics he finished second in the first round of the presidential elections. In fact, he headed the list for the Senate of his newly formed movement Cambio 90 and signed for the presidential ballot just to gain visibility and thus to increase his chances for the Senate. He had neither an economic team nor an economic program.

3. He campaigned for the second round on a rather populist economic platform, opposing Vargas Llosa's stated economic policies of "shock" fiscal and monetary treatment to forestall hyperinflation, privatization of public enterprises, lay-off of public employees and termination of subsidies. Mr. Fujimori gathered a number of "independent" economists around him that attempted to rationalize his non-adjustment policies without defining, at least so far, a coherent and convincing economic adjustment plan. Indeed, the selection of a high quality economic advisory team should be one of Mr. Fujimori's top priorities. Because the economic program has yet to be defined, Bank advice could be critical at this stage.

4. A difficult issue for policy making will be the fragmented Congress and Senate. A natural alliance for Mr. Fujimori's center-right Cambio 90 would have been Vargas Llosa's FREDEMO four-party coalition. However, only one party of the coalition, the Christian Democratic PPC, has so far made a move to reach an agreement. If this is reached, Cambio 90 and PPC could obtain a workable majority.

LA4
6/27/90

The World Bank

Washington, D.C. 20433
U.S.A.

MOEEN A. QURESHI
Senior Vice President, Operations

June 22, 1990

Mr. Bottelier

GNP Per Capita for IDA Eligibility

I see no prospect of Peru becoming IDA eligible. You should continue your planning for an eventual resumption of lending to Peru --subject, of course, to clearance of arrears and a supportable program --that it will be an IBRD-only country.

97/102

cc: Messrs. Husain (LACVP) (o/r); Wood (FPRVP); Fischer (DECVP); Bery, Mitra, Ohno (LA4CO); Rao (IECDR); Rowat, Tyler (LA4DR); Selowsky, Fleisig (LACCE)

OFFICE MEMORANDUM

905618002

DATE: June 12, 1990

TO: Mr. S. Shahid Husain

FROM: Pieter Bottelier, Director, LA4

P13

EXTENSION: 39378

SUBJECT: GNP Per Capita for IDA Eligibility

1. This is to alert you about the possibility of Peru becoming an IDA-eligible (Category II) country in the 1990 World Bank Atlas classification. This will also imply access to 20-year maturity IBRD financing, instead of 17 years.
2. As you know the threshold GNP per capita is now US\$1,070 (to be increased to about US\$1,150 in this year's Atlas). The official GNP per capita of Peru as reported by the Atlas in 1989 was US\$1,442. This calculation was done at the official exchange rate, which is seriously overvalued and did not take into account Peru's multiple exchange rates. We have performed calculations of the adequate weighted average of all the exchange rates and thus, reached a GNP per capita of US\$1,036. This estimate is now being considered by PRE for inclusion in this year's Atlas.
3. In the event that Peru is indeed classified as IDA-eligible, it is unclear whether the GNP range to which Peru belongs would give it actual access to IDA funds. The country with the highest GNP per capita that has access to IDA funds is now Cape Verde (US\$910). However, regardless of the issue of access to IDA funds, Peru's classification as IDA-eligible is in itself important because: (i) it may command better terms at Paris Club rescheduling (possibly Toronto terms); and (ii) it will be eligible for more grants and softer loans from the UNDP and bilaterals.

cc: Messrs./Mme.: Qureshi (OPNSV); Wood (FPRVP); Fischer (DECVP);
Bery, Mitra, Ohno (LA4CO); Rao (IECDR); Rowat,
Tyler (LA4DR); Selowsky, Fleisig (LACCE);

RLago/jf

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

co. file
chron: w/cm

BARBER B. CONABLE
President

19 de Junio de 1990

Excelentísimo Sr. Presidente Electo:

Es para mi un honor hacerle llegar mi más cordial enhorabuena por su reciente elección como Presidente de la República del Perú.

Me permito además desearle muchos éxitos en su gestión presidencial durante el período 1990-95. Al mismo tiempo hago votos por la reanudación de una relación constructiva y fructífera entre el nuevo Gobierno del Perú y el Banco Mundial.

Atentamente,



Excelentísimo
Sr. Ingeniero Alberto Fujimori
Presidente Electo del Perú
Lima, Perú

OFFICE MEMORANDUM

DATE: March 6, 1990

TO: Mr. S. Shahid Husain

FROM: Pieter Bottelier, Director, LA4

EXTENSION: 39378

SUBJECT: PERU: Conclusions of Mini-Retreat

1. As I reported to you in my memo of March 2, I convened a Peru mini-retreat to discuss the issues involved in a prospective resumption of financial relations with Peru as well as the operational implications. We met on February 28 for a three-hour session with participants from the Region, FRS and EAS. The issues covered were (i) debt work-out and settlement of arrears; (ii) Social Emergency Program preparation; (iii) Rehabilitation of Infrastructure preparation; and (iv) operational implications.

2. The main conclusion of the meeting was that the likelihood of an early settlement of arrears under a new Government will critically depend on the early preparation by Bank and Fund of a comprehensive contingent approach to the Peruvian problem. Necessary donor participation for a work-out (bridge financing, Social Emergency grants, and Paris Club rescheduling) will, to a very large extent, depend on the Bank's preparedness to exercise a leadership role; more so given the fact that the prospective incoming Government plans to hold a donor conference in Lima as early as September 1990.

3. Regarding the debt work-out with the Bank, the view shared by participants was that, given projected arrears due to IBRD by August 1, 1990 (about US\$750 million), the most plausible solution for clearance, without rescheduling, appears to be a Jumbo-SAL (with IDB and perhaps Japanese cofinancing) against which bridge financing could be raised from bilaterals, BIS, or even commercial sources once strict prior conditions had been met by Peru.

4. Action Plan. The staffing requirements to pursue the discussed strategy would be the following:

(a) establishment of three task forces:

- task force on arrears and debt work-out
- task force on Jumbo-SAL
- task force on Social Emergency Program

(b) Allocating to Peru's work program the following staff:

- country economist and task manager for Jumbo-SAL (Lago-already in situ)
- task manager for Debt Work-out (Mitra-already in situ)
- task manager for Social Emergency Program (to be identified--no slot available at present)

(c) After the election of a new Government, given the main conclusion of our mini-retreat as summed up in para. 2, we should soon also start preparing several infrastructure rehabilitation projects, for which a number of additional slots (task managers) and other CAM resources would be needed. At that time we will also need a full time country manager.

5. I submit this action plan for your consideration and your guidance.

cc: Messrs/Mmes: Selowsky, o/r, Gregory, Quijano, Fleisig; Tyler (LA4DR); Bery, Nissenbaum, Mitra (LA4CO); Thys, Sierra (LA4IE); Scherer (LA4TF); Joyce (LA4AR); Maas (LA4HR); Rao, de Nevers (FRS); Grilli (EAS)

RLago/dj

NEW PERU LEADER IN ACCORD ON DEBT

His Economic Plan Will Allow Resumption of World Aid

By PAUL LEWIS
Special to The New York Times

UNITED NATIONS, June 30 — Peru's President-elect, Alberto Fujimori, has reached an outline agreement with the International Monetary Fund and other development agencies on a plan to stabilize his country's tottering economy, resume payment on at least some of its external debts and reintegrate Peru into the international financial system.

The agreement was hammered out here on Friday in a series of meetings between Mr. Fujimori and the managing director of the International Monetary Fund, Michel Camdessus; the president of the World Bank, Barber B. Conable, and the president of the Inter-American Development Bank, Enrique Iglesias. The meetings were organized by the Secretary General of the United Nations, Javier Pérez de Cuéllar, who is a Peruvian.

"Peru is going to rejoin the world economy," Mr. Fujimori said in an interview afterward.

Repayments Had Been Stopped

During the five-year term of President Alan García, Peru imposed limits on debt repayment, then stopped them altogether. The action was hailed in other debtor nations as a reassertion of sovereignty eroded by the international lending agencies and the biggest commercial banks, but it left Peru cut off from virtually all outside economic assistance as it struggled to deal with a 2,000 percent annual inflation rate, an

Continued on Page 13, Column 1

...to the Government of President Mikhail S. Gorbachev.

No Comment From Moscow

After months of confrontation, the end of the embargo was announced in a brief telephone call to Vilnius from the Ministry of Petroleum and Gas Industry in Moscow and then in an engineer's telegram to Lithuania's refinery in Mazeikiai.

There was no immediate comment from Moscow on the resumption of oil supplies nor any further word from Vilnius on other supplies. Those involved mainly raw materials for industry.

[President Bush, told of the Lithuanian developments while playing golf near his vacation home in Kennebunkport, Me., said, "I am very encouraged by that, very."]

Something for Both Sides

Moscow and Vilnius reached the compromise after a 16-week standoff in which Lithuania managed to withstand an array of economic sanctions.

Tens of thousands of workers were laid off and numerous factories were closed. But the determination for independence did not wane and the Lithuanians coped by relying on black-market oil supplies and local farm produce.

In the standoff, President Gorbachev had to endure the Lithuanian rebellion as the cutting edge of a wave of separatist politics sweeping the the Soviet Union and shadowing his busy agenda in world affairs.

In the compromise, Mr. Gorbachev achieved the moratorium he sought on the overall declaration of independence, while the Lithuanian Government could tell its predominantly pro-independence people that a series of laws enacted since independence declaration remained in effect.

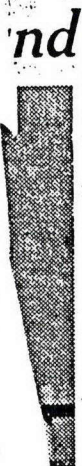
These include measures laying claim to federal property in the republic, sparing Lithuanian men from the Soviet military draft and setting citizenship conditions that alarmed Russians who live in Lithuania.

The Soviet leader's strategy fluctuated from outright denunciation of the declaration of independence as an unconstitutional affront, dramatic midnight tank movements through the streets of Vilnius and rough arrests of

Continued on Page 8, Column 1

Defiance of Kremlin's Control

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New Peru Leader Reaches Accord With the I.M.F.

Continued From Page 1

empty treasury, 60 percent unemployment, a growing leftist insurgency and an increase in the cultivation of coca leaves, the raw material of cocaine.

In agreeing to come back to the international fold, Mr. Fujimori removed the most visible symbol of debtor nations' defiance of the international financial community. But the practical effect of the accord on other debtor countries is unclear, since the political and economic conditions in each country differ.

Mr. Fujimori's plan includes a 300

percent tax increase and other measures that constitute the kind of drastic changes that the I.M.F. and banks want from Peru and other debtor nations. I.M.F. officials confirmed the broad outlines of the plan.

In Washington, a Treasury Department spokesman said it had not seen enough details of the plan to know whether it would make Peru eligible for write-offs of existing debt to the United States under a Latin American assistance plan announced by President Bush on Wednesday. In the interview, Mr. Fujimori welcomed Mr. Bush's plan, which also includes a pro-

posal for a hemispheric free-trade zone.

Mr. Fujimori, the son of Japanese immigrants, was elected on June 10 over Mario Vargas Llosa, the novelist, who campaigned with a detailed program of economic austerity.

Mr. Fujimori courted the poor peasantry in the countryside and urban slum dwellers who would suffer most under austerity, and refrained from making detailed economic prescriptions. But he said during the campaign that he would seek to resume debt payments, and he made clear in the interview that he is now committed to enacting a tough economic austerity.

S E M I - A

TIONAL SUNDAY, JULY 1, 1990

13

program under I.M.F. supervision after he succeeds Mr. García on July 28, his 52d birthday.

"We will enact a vigorous anti-inflation campaign and program of institutional reforms," he said.

The agreement reached Friday seeks both to stabilize Peru's economy and allow the nation to resume borrowing from international development agencies. Peru has been ineligible for assistance from these institutions since 1987 because it cannot repay the roughly \$ 1.7 billion it already owes them. Peru's total external debt, to foreign governments and commercial banks as well as international lending agencies, is estimated at \$17 billion.

Plan Ready in Three Months

Mr. Fujimori said he had told Mr. Lamdessus of the I.M.F. that he was

ready to work out a new package of austerity measures and other economic reforms in cooperation with the Monetary Fund. He said the package could be brought into effect in two or three months.

Mr. Fujimori said the centerpiece of the plan would be a 300 percent rise in taxes, customs revenues and charges for state-owned services, intended to increase the Government's revenues from the current 4 percent of the country's gross national product to 12 percent.

The principal utilities, such as telephone service, water and electricity, will remain nationalized, he said. But about 250 smaller state-owned companies will be sold to private investors, and utility rates will be raised enough to make these businesses profitable again, although Mr. Fujimori said the

Government would continue to provide services at preferential rates to poor and distant regions of the country.

Peru's complex system of multiple exchange rates will be abolished, and its currency, the inti, will be given a single, more realistic value against the American dollar, Mr. Fujimori said.

Monetary Fund officials said that once this economic stabilization package has been drawn up and approved by the Fund, Peru will become the first country in the world to qualify for assistance under a new I.M.F. program, approved in May.

The idea is that in return for adopting stricter economic policies, the I.M.F. will in effect convert the roughly \$800 million Peru owes it into a new loan, giving the nation the right to start borrowing again.

M N I I A |

OFFICE MEMORANDUM

DATE: December 12, 1989

TO: LAC Information

FROM: S. Shahid Husain *ht*

EXTENSION: 39001

SUBJECT: PERU: Meeting with Mr. Salinas Regarding Peru's Overdue Payments to the Bank

1. On Monday, December 11, I held a meeting with Mr. Salinas, Debt Adviser to President Garcia. The meeting was also attended by Messrs. Morales, Peruvian ED, and two advisers to Mr. Salinas.
2. Mr. Salinas explained the reasons why the Peruvian Government has reached a tentative agreement with the IMF and is effecting a US\$43 million up-front payment to that institution. He said that the resumption of negotiations with, and payments to, the IMF is the critical political issue inside Peru regarding relations with multilaterals. He added that, after seeking advice from ranking officials of the Governments of the United States and France and also from Peru's opposition political parties, the Government had decided to follow the road of negotiating first with the IMF. Moreover, he mentioned that recent changes in the approach of the IMF to stabilization, in the wake of the Brady Plan and the Mexico debt reduction package, together with the Fund's new concerns on social problems, made the negotiation politically feasible. He said that the present agreement with the IMF is, in the view of Peru, the first step to resumption of relations with the other multilaterals. As far as the negotiating proposal put forth by the World Bank on Thursday is concerned (comprising technical assistance for a Social Emergency project, a new IFC operation, and preparatory work for a contingent lending program in exchange for resumption of payments of current debt service), Mr. Salinas said that, in any event, any new projects and lending by the Bank will fall into the term of a new Government and, thus, this Government could not compromise the international reserves at the end of this Administration in exchange for actions that will affect a new Government.
3. I responded to Mr. Salinas by expressing my concern over the discriminatory treatment given to the Bank, more so in view of the fact that we had been partners in development for a long time, and, even during the present Government--when the Fund was not dealing with Peru--the Bank provided technical assistance in the design of several stabilization attempts (including at the time when Mr. Salinas was Minister of Finance, September-November 1988). I mentioned that less than parallel treatment with the Fund on the question of debt service payments is unacceptable to the Bank as it would give us inferior financial status relative to that of the Fund. I added that there is an agreement between the IMF and the Bank whereby the IMF cannot advance payments to a country that is in arrears to the Bank.

4. Mr. Salinas mentioned that the Peruvian Government expects the Bank to take an active part, along with the IMF, in both the search for resources to clear arrears and also the design of a macroeconomic program. I responded that the Bank could not actively participate in such an exercise in the absence of parallel treatment on debt servicing to that agreed with the Fund. Mr. Salinas added that his terms of reference and degrees of freedom in the negotiation were restricted and that the payment to the IMF is symbolic and politically motivated, concluding that, in no way, is there, in the view of Peru, a subordinate treatment of the Bank. Further, Mr. Salinas concluded by saying that the Bank's key role is developmental and long-term and that the Government hopes that the Bank will participate, in the future, in the Camisea Gas project, roads rehabilitation, etc. He added that we should continue to explore possible ways to solve our problems.

5. I attach a copy of the agreement between Peru and the IMF as well as the press release.

Attachments

cc: Messrs. Qureshi; Stern; Quijano; Selowsky (LACVP)
Bottelier (LA4DR); Bery (LA4CO)

RLago/dj

INTERNATIONAL MONETARY FUND

PRESS RELEASE NO. 89/57

FOR IMMEDIATE RELEASE
December 11, 1989

The External Debt Negotiator of Peru and the Managing Director of the International Monetary Fund, taking into account the collaborative approach of the Fund and as a result of the dialogue that has been established, have agreed on a working document containing a framework to develop an Economic Program for Peru and to obtain resources for its financing as well as for the normalization of Peru's relations with the multilateral organizations and its official creditors.

"COMUNICADO"

El Negociador de la Deuda Externa del Perú y el Director Gerente del Fondo Monetario Internacional, teniendo presente el enfoque colaborativo del FMI y como resultado del diálogo establecido, han acordado un documento de trabajo que contiene los lineamientos dentro de los cuales se desarrollará tanto la elaboración del Programa Económico del Perú, así como la obtención de recursos para su financiamiento y los destinados a la normalización de las relaciones del Perú con los organismos multilaterales y sus acreedores oficiales.



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

The External Debt Negotiator of Peru and the Managing Director of the International Monetary Fund, taking into account the collaborative approach of the Fund and as a result of the dialogue that has been established, have agreed on the following:

1. In accordance with Article IV of the Articles of Agreement, the Fund will send a mission to Lima to develop together with Peruvian official economic policy guidelines which will provide the basis for designing a medium-term economic program acceptable to Peru. The objective of this program will be the improvement of the welfare of the people through policies that assure per capita GDP growth and increase the percentage of economically active population adequately employed and real wages.

The program will also envisage and contain economic measures aimed at avoiding the negative effects that the adoption of certain measures might entail on the low-income urban and rural population, or if that were the case, incorporating measures for their due protection.

In addition, the program will promote the reactivation of sectors that generate foreign exchange and fiscal revenue, especially in manufacturing, agriculture, and mining, and will create the conditions that foster inflows of external financing, promote both domestic and foreign investment, and discourage capital flight, in order to improve in favor of Peru the net transfer of resources and achieve balance of payments viability.

Existing conditions in Peru require taking account of the high economic and social costs arising from the existence of armed subversive groups, drug trafficking, unemployment, and the low income level of part of the population, all of which undermine and erode democracy.

2. While the program is being formulated and during its implementation, the Fund undertakes to seek to obtain the resources needed to settle Peru's arrears to multilateral organizations and to seek to obtain and make available the resources needed to support the medium-term economic program. Also, with Fund support, Peru will seek to normalize its financial relations with official creditors.

3. The financing package should contain amounts, maturities, interest rates, and/or concessional terms suited to Peru's actual ability to pay and should permit the growth envisaged in the program.

4. For its part, Peru undertakes to begin, as from this date, the payment of its future obligations to the Fund.

December 8, 1989

OFFICE MEMORANDUM

DATE: December 7, 1989

TO: Mr. Armeane Choksi, Acting RVP, LAC

FROM: Pieter P. Bottelier, LA4DR **T.B**

EXTENSION: 39378

SUBJECT: Peru: Negotiations on Payments of Arrears to Bank

DECLASSIFIED
~~CONFIDENTIAL~~
AUG 27 2013
WBG ARCHIVES

1. I met yesterday with Mr. Abel Salinas, special advisor to President Garcia on debt. He is, as you know, in Washington this week to work out details of an agreement with the IMF that would inter alia include resumption by Peru of debt service payments to the Fund falling due as from a current date. In accordance with instructions from Mr. Husain, I am seeking to obtain a parallel arrangement for the Bank. The discussions yesterday (which were also attended by Messrs. Bery, Lago, Mitra, Peru's ED on our Board, Mr. Morales and two advisors to Mr. Salinas from Lima) left me with the impression that a parallel agreement has low probability. It seems to us that Peru's interest in pursuing an interim agreement with the Fund is primarily driven by President Garcia's political need to remove the expulsion issue from the domestic political agenda.

2. Mr. Salinas explained that Peru is unable to resume full debt service payments to the Bank now because of the significant negative cash flow that would result at least through the end of the present Government (July 1990). To underline this point, he referred to the sharp income drop in Peru since 1986 (46% by his estimate), the need to conserve modest reserves and the fear that payments to the World Bank would inevitably also entail payments to the IDB with which institution Peru is also in arrears. Throughout the debate with Peru during the past several years, the issue of negative cash flow has always been stressed by the Peruvians as a critical aspect of their relationship with the Bank. Mr. Salinas thought that, as a gesture of goodwill towards the Bank, the most Peru could do would be a "symbolic payment". Such a payment should then be followed by Bank efforts to find a solution for the arrears problem, project preparation work and the resumption of technical assistance. I expressed no interest in a symbolic payment and explained why, for a number of important economic, financial and political reasons, it would be in Peru's interest to give the Bank full parallel treatment in the payment of arrears.

3. At the end of the meeting, we agreed to continue the discussion on Friday, after an exchange of written proposals ad referendum on both sides. I attach the English language translation of the proposal I submitted to Mr. Salinas today. I will let you have a copy of Peru's proposal when I receive it. If I perceive of a possibility to negotiate a bridge of the two positions, which I rather doubt, I will seek appropriate counsel. Meanwhile, I have kept Mr. Stern informed. He is willing to receive Mr. Salinas but at yesterday's meeting, Mr. Salinas expressed his concern that such a meeting might be premature and that it would be better to fully explore positions at the technical level first. After the meeting, Mr. Salinas indicated to me privately that he would be willing to extend his stay in Washington if there were to be a real possibility of reaching an agreement with the Bank.

Attachment

cc: Messrs. Stern, Husain (o/r), Bery

1. In the context of the present Peruvian economic crisis, the main concern is the development of the country and the improvement in the standard of living of its population, particularly of the poorest sectors, on the basis of a sustainable medium-term economic program.
2. Based on an agreement on a program for sustainable economic development, on the resumption of debt service payments to the Bank as of this date, and with the perspective of a complete normalization of our financial and institutional relations, the Bank is willing to:
 - (a) Advance immediately the processing of a new operation of the International Finance Corporation;
 - (b) Initiate immediately the preparation of a Social Emergency Project similar to the one in Bolivia (1986); the Bank will provide the necessary technical assistance and it will also make all its effort to mobilize the assistance of bilateral sources and development agencies for its financing, even before an agreement is reached on the issue of arrears to the Bank. Once a solution to the arrears has been found and based on a satisfactory implementation of the agreed economic program, the Bank would provide a loan to support such Emergency Fund.
 - (c) Initiate the preparatory work for a series of investment projects to rehabilitate the infrastructure of roads, water supply and power. At the same time, the Bank is willing to activate the preparatory work of an oil and gas development project, along with the Government and foreign investors. The actual implementation of these projects and its financing by the Bank, would start once a solution to the arrears has been found and in the context of a satisfactory implementation of the agreed economic program.
 - (d) Initiate the analysis of one or two fast-disbursing projects to support the implementation of structural economic policies. The actual implementation of these projects would also start once a solution on the arrears has been found and in the context of a satisfactory execution of the agreed economic program.
 - (e) Reactivate immediately the four Bank projects in Peru (all of them focussed on the welfare of low income groups) ¹ now under suspension of disbursements, once a solution to the arrears has been found.
3. During the design and implementation of the economic program, the Bank will commit itself to seek, together with the Fund, required resources to settle the outstanding stock of arrears to multilateral agencies and to support the medium-term economic program.

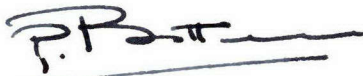
1/ These are Lima Metropolitana, Chanchamayo-Satipo Rural Development, Primary Education and Primary Health. The total balance to be disbursed is US\$140 million.

October 26, 1989

Mr. Conable:

PERU

Peru has been in non-accrual status since August 1987. Accumulated arrears to Bank amount to \$594.4 million as of October 17, 1989. Arrears to the IMF amount to over \$800 million.

A handwritten signature in black ink, appearing to read 'P. Bottelier', written over a horizontal line.

Pieter P. Bottelier

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

Mtg. 10/25
2:00 pm

CORRESPONDENCE DATE : 89/10/24 DUE DATE : 00/00/00
LOG NUMBER : 891025001 FROM : P. Bottelier
SUBJECT : PERU: Mtg. with Senator Javier Silva Rueda on Wednesday,
October 25 at 2:00 pm.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

- _____ APPROVED
- _____ PLEASE HANDLE
- _____ FOR YOUR INFORMATION
- _____ FOR YOUR REVIEW AND RECOMMENDATION
- _____ FOR THE FILES
- _____ PLEASE DISCUSS WITH _____
- _____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
- _____ AS WE DISCUSSED
- _____ RETURN TO _____

COMMENTS :M. Haug, J. Volk (FF)

***IMPORTANT**

OFFICE MEMORANDUM

DATE: October 24, 1989

TO: Mr. Barber Conable

FROM: Pieter Bottelier, Director, LA4

EXTENSION: 39378

SUBJECT: **PERU: Visit of Senator Javier Silva Ruete, October 25, 1989 - Briefing Note**

1. Because of the short notice we had to prepare for this meeting and the absence from Washington of both Messrs. Qureshi and Husain, I am sending this note directly to you. Senator Javier Silva Ruete has requested a meeting with you tomorrow to review the overall Bank/country situation. He also will be meeting this week with Messrs. Camdessus and Iglesias. Senator Silva Ruete is a highly respected economist and politician in his mid-60s. A close personal friend of Mario Vargas Llosa, he is viewed both within and outside Peru as the most likely candidate for Prime Minister under a future Vargas Llosa Administration. Hence, assuming that the FREDEMO coalition were to win, as currently is expected, Senator Silva Ruete would become the principal interlocutor with the Bank.

2. Senator Silva Ruete already has had a distinguished public career. He entered the civil service at the age of 28 with his appointment as Minister of Agriculture under the first Belaunde Government. He subsequently served as Minister of Economy under the military government of Morales Bermudez, in which capacity he personally designed and managed what is widely conceded to be among the most successful economic programs which Peru has executed in this century. Notably, at the time he assumed office, Peru was in a deep recession, with US\$1 billion negative reserves. As Minister, Mr. Silva Ruete launched an extensive adjustment program, successfully fulfilling all conditions of a Stand-by Agreement with the Fund (the only Stand-by to have done so), refinanced Peruvian debt with the Paris Club and commercial banks, and reduced the fiscal deficit to zero. By the time he left office, the economy had been bolstered significantly, and Peru had US\$1.5 billion in reserves.

3. He is a longstanding member, and currently President, of a small, center-left party, Solidaridad y Democracia, popularly known as SODE, which is comprised of many prominent Peruvian professionals, including technocrats, economists and lawyers. SODE joined the APRA-led coalition which brought President Garcia to power in 1985, and helped Mr. Ruete Silva to gain his Senate seat in that year. However, with President Garcia's July 1987 announcement of the nationalization of the banks, SODE broke its ties with the APRA Party. Since then, Senator Silva Ruete has become one of the most outspoken critics of the current Government's economic policies. Concomitantly, he has built strong political ties to the opposition FREDEMO coalition led by Vargas Llosa. He is known as a natural leader, and is expected to attract a very strong team of professionals to the new Government, in particular many technocrats from SODE who have had extensive prior public sector experience.

cc: Ms. Haug; Messrs.: Jaycox, Qureshi (o/r); Choksi, Husain (o/r); Quijano (LACVP); Bery, Tyler, Lago (LA4CO)

Klashman:kl/lh

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

~~file~~
file Peru

CORRESPONDENCE DATE : 89/10/12 DUE DATE : 00/00/00
LOG NUMBER : 891016008 FROM : Mr. M. Camdessus
SUBJECT : RE letter of Sept. 28, 1989 - general situation of overdue
obligations about Peru. Next steps.
OFFICE ASSIGNED TO FOR ACTION : Mr. E. Stern (E-1227)

ACTION:

- APPROVED
- PLEASE HANDLE
- FOR YOUR INFORMATION
- FOR YOUR REVIEW AND RECOMMENDATION
- FOR THE FILES
- PLEASE DISCUSS WITH _____
- PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
- AS WE DISCUSSED
- RETURN TO _____

COMMENTS :cc for info: Messrs. Qureshi, Shihata



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

October 12, 1989

Dear Barber:

Thank you for your letter of September 28, 1989, and your assurances of shared concern about Peru's failure to cooperate with us and about the general situation of overdue obligations. We appreciate the points you raised. Both our institutions are confronting a sensitive and important issue on which we and the membership must remain appropriately firm.

I would like to inform you of our next steps as regards Peru. The Fund's Executive Board will review the matter of Peru's overdue obligations again not later than February 23, 1990. At that time, and in accordance with procedures recently decided by the Executive Board, it will consider adopting a declaration of noncooperation concerning Peru. This declaration, which would be published, would, inter alia, remind Peru that members that persist in breach of their obligations may be subject to the procedures under Section 22 of the By-Laws leading to compulsory withdrawal.

Consideration of compulsory withdrawal does not, however, automatically follow a declaration of noncooperation. Such a step would be considered only in the absence of a clear indication from the Peruvian Government of its willingness to address the problem of its arrears to the Fund and after full consideration of all the implications of this action both for Peru and the Fund.

It is essential that the Fund's step by step response to the problem of overdue obligations should not be taken by Peru and others in a broadly similar position as indicating any hesitation by the Fund to consider applying further measures that have been agreed by the Executive Board. The membership at large is resolved to deal firmly with the problem of overdue obligations to the Fund, and I believe our procedures reflect that resolve.

The Bank and the Fund must continue to work closely to meet the common objective of eliminating overdue obligations to our two institutions. To this end, we shall continue to keep you and your staff closely informed of any developments in this area.

Yours sincerely,

Mr. Barber Conable
President, IBRD
Washington, D.C. 20433

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

September 28, 1989

Dear Michel:

Thank you for sending me a copy of your message on Peru.

I share your concerns with the general problem of arrears, and understand your sense of frustration with Peru's persistent failure to cooperate. However, there is one aspect of the handling of the arrears issue which is of great importance to us. The next step might be consideration of compulsory withdrawal from the Fund. It also may be possible that Peru would not wait for the end of the formal process but would voluntarily withdraw from membership. If Peru's membership in the Fund were to terminate, its membership in the Bank also is likely to be terminated. While our Board -- by a 75 percent majority -- could allow Peru to remain a member under such circumstances, I consider it unlikely that there would be support for such a step.

Peru is in arrears to the Bank too; it has an outstanding loan balance of \$1.3 billion. This is only partially provisioned against. Our provisioning policy is based on the proposition that as long as the country is a member, it will pay its debts eventually. However, should Peru leave the Bank, we would have to write-off immediately an amount approximately equal to the full outstanding balance. This is more than our annual net income and would constitute a major blow to the Bank's financial standing.

While I understand that actual expulsion requires an 85 percent majority of the total voting power in the Board of Governors of the Fund, which may be difficult to achieve, even active discussions relating to expulsion may have adverse implications for the Bank. For instance, it might force us to substantially accelerate our provisioning for all countries in arrears, with the attendant consequences for our net income and our position in the market.

Although consideration of compulsory withdrawal in the Fund is still in the future and may not materialize, I would appreciate it if you could keep me well informed about developments and your staff could work closely with Ernie Stern on this general subject.

Sincerely,

Barber Conable

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

April 17, 1989.

Subject: Luncheon with Hernando De Soto

1. Background. Mr. De Soto's two main points in Peru's economic debate are:

- a. Arbitrary bureaucratic regulations and red tape established by the mercantilist state" have prompted an increasing degree of informalization in Latin America. In his book "El Otro Sendero" he calculated that it takes 289 days in red tape, at a cost of 32 minimum wages, to open a formal business in Peru.
- b. Informals, however, are at a disadvantage because, inter alia: they are cannot be subjects of credit; they cannot engage in and/or enforce in contractual obligations; and they do not have access to subsidies and incentives provided by the mercantilist state.

2. De Soto's three main legislative proposals during the last two years have been:

- a. "The Popular Mortgage Law" which proposes giving land-titling to precarious urban settlers so that they can gain access to credit and thus improve their housing.
- b. "The Administrative Simplification Initiative" which proposes the elimination of most unnecessary administrative steps and red-tape for businesses.
- c. "Democratization of Law Making." De Soto claims that only 1 percent of the laws and decrees are issued by the genuine institution created for this purpose, the Parliament, while the remaining 99 percent are decrees issued by the executive power. De Soto proposes a more active role of both Parliament and affected groups in the law making process.

3. De Soto has offered his collaboration to any Peruvian administration that would wish to enact his initiatives into law. In this connection he has advised the Garcia Administration with the three aforementioned initiatives.

4. Although De Soto was formerly very close to Mario Vargas Llosa-- who wrote the foreword of "El Otro Sendero"--two years ago they broke their political partnership, even publically, on the issue of political alliances for Vargas Llosa's presidential bid. De Soto wanted Vargas Llosa to run as an independent, while Vargas Llosa wanted an alliance with Belaunde and Bedoya. FREDEMO was born from this alliance.

5. There are reports that De Soto has a working relationship with Messrs. San Roman and Bustamante (elected senators and also candidates for first and second vice president in Mr. Fujimori's ticket). Both

gentlemen are small-scale businessmen, formerly informal ones. Mr. San Roman is the president of the National Federation of Small Scale Industrialists, which has collaborated with De Soto's think tank, Instituto Libertad y Democracia, and somewhat opposes CONFIEP the organization of formal sector large-scale industrialists. This connection has been viewed by analysts in Lima as a link between Fujimori and De Soto.

6. Diagnosis of Peru's Economic Situation. The theme is "there has been adjustment, but without stabilization." Indeed, wages have fallen two-thirds and GDP has 23 percent over the last two years (see Chart 1 and Table 1), while infant mortality has increased 50 percent in Lima's Pueblos govenes, but inflation continues to be 30-plus percent per month (2,800 percent in 1989). Adjustment came about in late 1987 when the economy had to confront its budget constraint after having depleted Central Bank reserves. However, economic policy has been an incoherent process of price, exchange rate and wage adjustments. Today tax revenues total 4 percent of GDP (compared to 22 percent in 1985). In turn, public investment is barely 4 percent of GDP, the lowest level in the last 20 years.

7. Macroeconomic Stabilization. Our thinking on stabilization in Peru is as follow. The key of the process is to balance the budget. There are no degrees of freedom in the Peruvian situation, mistakes have been paramount and hence credibility is very low. Therefore the budget needs to be balanced out by the day as it was done in Bolivia in 1985. Balancing the budget will ensure that Government does not resort to Central Bank domestic credit expansion and this , in turn, means that a floating exchange rate will stabilize. A sustainable stabilization of the nominal exchange rate will stabilize the price level, more so now that inflationary inertia is miminal because high inflation has reduced indexation lags to very short intervals. In sum, the primary anchor should be stable Central Bank domestic credit (derived from a balanced budget), and the induced or secondary anchor will be the nominal exchange rate.

- a. Budget. How will the budget be balanced? Expenditures are low, public real wages are one-third of normal levels and investment is minimum; the problem is low revenues. But fiscal measures will not produce results in the short run, apart from the Tanzi effect, because Peru lacks the required tax administration. The solution is, therefore, public enterprise revenues. It can be seen in Table 2 that most public prices and tariffs in real terms are less than one-fifth of the level they had in 1985 (gasoline is 19 percent, telephone 5 percent and electricity 6 percent). Moreover, as can be seen in Table 3, most subsidies through low prices and tariff do not benefit the poor. Our proposal is to adjust in one shot public prices and tariffs on average to the dollar level they had in July 1985 on the basis of an exchange rate similar in real terms to that prevailing at that time. Extra revenues to public enterprises would then be taxed transitorily at a rate of, say, 40 percent, thereby providing quick revenues for the Government's budget. To guarantee a balance budget a "cash Committee" could be established by the

Treasury and Central Bank to allocate daily revenues to "ranked" daily expenditures. Least priority expenditures would be placed as temporary arrears if revenues are insufficient. A tax reform should be phased in as soon as possible so as to phase out the tax on public enterprises. The new tax structure should rely on few and simple taxes based primarily on deterrents and less so on fiscalization.

- b. Exchange Rate. Immediately after prices and tariffs have been adjusted, the exchange market should be unified, capital controls removed, and the rate be allowed to float. The exercise is that the exchange rate settles somewhere near the level at which public sector prices and tariffs have been calibrated. Therefore initially it might be necessary that the Central Bank buy foreign exchange to effect this process. After that level has been achieved the float should be free.
- c. Wages. The Government should withdraw completely from private sector wage setting. Regarding Government wages the only promise should be that they will be set on the basis of Government revenue possibilities. Therefore, there would be no heterodox wage pact on which everything will depend.
- d. Interest Rates. Unlike in Argentina, Peru has not developed an internal debt overhang because interest rates on public financial liabilities (i.e., reserve requirements) have been regulated at low levels relative to inflation. However, this problem could arise after stabilization if interest rates are freed and settle at high levels (nominal, real and in dollar terms). Therefore, after the initial inflationary turmoil, created by the price and tariff adjustment, a maximum, transparently charged, interest rate for Bank lending could be established at a reasonably high level. Banks would be able to compete for deposits at the rates they wish given the maximum lending rate. The Central Bank would pay for reserve requirements, the average cost of funds to banks. Marginal reserve requirements (i.e., on incremental deposits) would be set equal to zero, so that banks can compete with informal intermediaries. The establishment of a maximum interest rate for lending will not endanger the stabilization of the exchange rate as long as the Central Bank does not provide domestic credit to the Government or any other economic agent.

8. Debt Work-out and Structural Reforms

a. Social Emergency Program

b. Debt Work-out

- IMF arrears following rights approach
- Bank and IDB arrears equal to roughly US\$1 billion in August, as follows:

- o US\$350 million Fondo Andino de Reserves at five years two-year grace
- o US\$650 million with bridge financing against front-loaded first tranche of US\$1 billion SAL (US\$300 IBRD, US\$300 IDB" US\$400 cofinancing)
- c. Foreign-Trade Reform. Two tariff positions at 30 percent and 10 percent for two initial years and a uniform tariff at 10 percent thereafter. Elimination of export subsidy (i.e., CERTEX) and strengthening of temporary admission system. Signing by Peru of subsidy and anti-dumping agreements of GATT. (Memorandum. De Solo worked two years as an economist at GATT).
- d. Industrial and Commercial Administrative Reform. Introduction of De Solo's initiatives for deregulation.
- e. Labor Market Reform. Probation period from 3 months to 3 years (as it was before Garcia) and broader interpretation of conditions for lay-off (i.e., low productivity, business cycle, firm's crises); now it is only possible under "falta grave."
- f. State Enterprise Restructuring and Divestiture. Divestiture of State commercial and industrial firms under transparent procedure of public subscription of bids and/or sequential auctioning in the Stock exchange Introduction of 2-year deadline, whereby if list identified for sale is not completed remaining firms would be divested automatically by giving away one-third of the negotiable share to workers individually, one-third of the shares to low income taxpayers by lottery, and one-third of the shares sold-off in Stock Exchange. Regarding Public Utilities and PETROPERU broad-scale restructuring.
- g. Financial Sector Reform.
 - Amendments to Central Bank Charter (in particular, establishment of a 100 percent back-up of incremental monetary liabilities with international reserves)
 - Establishment of a zero (or technical) legal reserve requirement for incremental deposits.
 - Gradual liberalization of interest rates after first year of stabilization.
 - Abolition of nationalization law and divestiture of commercial banks previously owned by the State.
 - Closure of Mining Bank, Industrial Bank and Mortgage Bank. Reduction of scale and scope of Agrarian Bank.

h. Infrastructural Rehabilitation

- Electricity
- Petroleum: fields and refineries
- Roads
- Water and Sewerage

April 13, 1989

Dear Mr. Minister:

I have learned of your appointment as Governor for Peru on the Board of Governors of The World Bank. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position actively to participate in the affairs of the Bank, as well.

The Executive Directors, Officers and Staff of The World Bank believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to meeting you in the near future, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Su Excelencia
Senor Carlos Rivas Davila
Ministro de Economia y Finanzas
Avenida Abancay 5a., Cuadra
Lima 1, Peru

cc: Mr. Morales
Mr. Bottelier
Mr. Santos

ETSanidad: jlk

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

13 de abril de 1989

Señor Ministro:

Me he enterado de su nombramiento para ocupar el cargo de Gobernador por el Perú en la Junta de Gobernadores del Banco Mundial. Estoy consciente de que el mismo es inherente al cargo que ocupa en su propio Gobierno, pero confío en que también pueda estar en condiciones de participar activamente en los asuntos del Banco.

Los Directores Ejecutivos, los altos funcionarios y el personal del Banco Mundial están firmemente dedicados a la misión de desarrollo de la institución y a la lucha contra la pobreza. Esperamos con gran interés colaborar con usted a fin de hacer que el Banco sea aún más eficaz en los años venideros. Reciba mis felicitaciones por su nombramiento, así como mi agradecimiento por su disposición a asumir esta responsabilidad adicional.

Espero tener la oportunidad de conocerlo próximamente, y mientras tanto le expreso mis mejores deseos.

Lo saluda muy atentamente,

Excmo. Sr.
Carlos Rivas Dávila
Ministro de Economía y Finanzas
Avenida Abancay 5a. Cuadra
Lima 1, Perú



Record Removal Notice

File Title Peru - Country Files - Correspondence - Volume 1		Barcode No. 1779841	
Document Date 4-Apr-1989	Document Type Memorandum		
Correspondents / Participants To: Estela Sanidad From: Susana Hughes, EDSO8			
Subject / Title PERU - Governor			
Exception(s)			
Additional Comments Declassification review of this record may be initiated upon request.		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.	
		Withdrawn by Shiri Alon	Date January 26, 2024

ROUTING SLIP		DATE: Jan. 18/89	
NAME		ROOM NO.	
Ms. Marianne Haug		E=1229	
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
CLEARANCE		PER OUR CONVERSATION	
COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
REMARKS:			
<p>Per your request. For meeting of Mr. Conable with the Peruvian's at 5:00 today.</p> <p>I'll join you.</p> <p><u>NB</u> INTERPRETATION HAS BEEN REQUESTED.</p>			
FROM: Pieter Bottelier		ROOM NO.: I6059	EXTENSION: 39378

OFFICE MEMORANDUM

C.F.

Peru

DATE: January 13, 1989

TO: Mr. Moeen A. Qureshi

FROM: Pieter Bottelier, Director, LA4 *P.B.*

EXTENSION: 39378

SUBJECT: PERU: Forthcoming Visit of Peru DelegationBackground

1. Bank disbursements to Peru were suspended on May 5, 1987, and it was placed in non-accrual status in August 1987. Since then periods of intensive economic policy dialogue at the ministerial level have been disrupted by changes in the economic team (with four successive Ministers of Economy and Finance since the suspension); and by lack of commitment of President Alan Garcia to adopt necessary economic reforms.
2. Bank staff have attempted to achieve a rapid normalization of relations. The Bank has executed a UNDP financed technical assistance project to help the Government to analyze the present economic situation and to formulate a viable medium-term economic program to halt hyperinflation and initiate economic recovery. This assessment is reflected in a recently issued Gray Cover Country Economic Memorandum. The Peru Country Team has sustained strong collegial ties with the Economic Team as well as executing agencies of projects.
3. To facilitate a debt workout with Peru, staff have maintained close contact with all major creditors, and shared extensive economic and financial data. Over the last year, we actively built support within the Economic Team to reopen country relations with the Fund, culminating in November 1988 in the Fund's first formal Article IV consultations in three years with which mission the Bank collaborated closely. We also provided detailed country briefings to IDB President Enrique Iglesias for his May 1988 meeting with President Garcia, to the Andean Reserve Fund and most recently to Argun Sengupta, for his December 1988 meeting with Garcia as special emissary of Fund Director M. Camdessus. Periodic meetings with key bilaterals have been held to identify potential financiers for a workout.
4. The December 1988 Sengupta visit appears to have catalyzed a key move toward rapprochement. President Garcia reportedly agreed to explore the political feasibility of a shadow program with the Fund and Bank and the concomitant creation of a support group to raise bridge financing to clear arrears to our institutions and to support implementation of the program. Subsequently a Fund mission was requested for late January.

Current Country Relations

5. While staff have held numerous phone conversations with the Economic Team since the November mission, the requested meeting next week with you is the first official visit with Minister Carlos Rivas Davila since he assumed office November 28, 1988. This visit reportedly is: (i) to request our participation in a joint Fund/Bank/IDB mission the second half of January to evaluate recent economic measures and to identify steps

required for a workout; and (ii) to discuss the specifics of a reactivated Bank program, including mobilization of bridge financing and likely levels of commitments over the next few years in support of a Program.

Political and Economic Overview

6. Though past hopes of a rapid workout consistently have been frustrated, the rapidly deteriorating economic situation, coupled with intensive political pressure on the President from all sides for resumption of relations with the Bank and Fund, suggest increased potential now for normalizing relations. The President's arch political rival, Luis Alva Castro, was elected Secretary General of the APRA Party in December. Under his leadership, the APRA Party has taken increasingly strident stances against Garcia's Administration, recently threatening to withdraw political support unless an accommodation soon were reached with the Bank and Fund, and indicating non-endorsement of the January economic measures.

7. The country firmly is caught in the vicious circle of hyper-inflation (with an annualized rate of inflation of 1,700 percent from December 1987 to December 1988). The preferred "gradualistic" economic policy of the President is to introduce increasingly frequent, partial economic measures including augments in wages and key commodity prices, and successive devaluations of the Inti, fueling inflation without closing perilously high budgetary and balance of payments gaps. Though the Central Bank has sustained a stringent credit policy since September 1988, despite open criticism from the President, monetary discipline soon will break without revenue-raising measures and ex-ante nominal wage restraints.

Bank Posture

8. Even were an agreement reached with the Fund and Bank on a sustainable program, mobilizing the finances required for a workout will be a major, inherently slow process. Some US\$1.2 billion is needed merely to clear current arrears with our institutions. Thus, while reaffirming our commitment to a workout, it is recommended that the Delegation be informed of the realistic timing, and key conditions (beyond clearance of arrears) for resumption of disbursements under existing loan commitments (US\$361 million undisbursed) and initiation of new lending operations, namely: (i) agreement with the Bank and Fund on a shadow program; (ii) provision of updated debt reporting; and (iii) compliance with key covenants of existing loans, for which we might suggest a Special Task Force of the Ministry be appointed to work with the Bank.

cw with and cc: Messrs. Bery, Lago (LA4CO)
cc: Messrs. Husain, o/r; Steckhan, Acting LACVP
Mrs. M. Haug, EXC

KLashman/dj

Argentina
(from Sr. Brady)

~~World Bank Management Report~~

(staff) give the Board an oral

the economy

World Bank management will ~~prepare~~ report on the state of
~~Argentina~~ ^{in connection} ~~with the~~ ^{concerns relating to} ~~conditions of~~ the Banking Sector
loan.

2

-- This report would include due attention to the quality and status of Argentine macro-economic adjustment efforts as they affect this particular loan.

to the extent we are informed of it, of

-- This should, inter alia, take into account the status of Argentine relations with the IMF and the status of negotiations with its commercial bank creditors.

-- This report would be provided to the members of the Executive Board well in advance of any disbursements under the proposed loan.

~~I told [unclear] that it will be oral. He did not object~~

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

October 27, 1988

Dear Mr. President:

Just a note to say thank you for the book on "Culturas Precolombinas" which you presented to me during the recent Annual Meetings in West Berlin. It will be a useful reference for the Bank, and I will share it with others here who will find it of interest.

Best personal regards.

Sincerely,

Barber B. Conable

Señor Ramon Remolina Serrano
Presidente
Camara de Comercio de Lima
Gregorio Escobedo 398
Lima 27, Peru

Congratulations for
your presentation at
opening session. I am
using it for my Sunday
commentary in *El Comercio*.

Ramón Remolina

Chief of Lima. A copy I
will send you to Washington.
Love -

Banco de Crédito del Perú

Gerente - Asesor

Eduardo Villa Luna

Gerente General
Banco de Crédito del Perú



RAMON REMOLINA SERRANO
PRESIDENTE

**CAMARA DE COMERCIO
DE LIMA**

GREGORIO ESCOBEDO 398
JESUS MARIA
TELEFONO 63 34 34

August 22, 1988

Dear Governor

I have learned of your appointment as Alternate Governor for Peru on the Board of Governors of The World Bank. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position actively to participate in the affairs of the Bank, as well.

The Executive Directors, Officers and Staff of The World Bank believe very strongly in its development mission and its importance in the battle against poverty, and we look forward to working with you during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to meeting you in the near future, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

Barber E. Conable

Senor Julio Alba Bravo
Vice Ministro de Economia
Ministerio de Economia y Finanzas
Avenida Abancay 5a., Cuadra
Lima 1, Peru

cc: Mr. Camarasa
Mr. Bottelier
Mr. Santos

ETSanidad:sc

The World Bank/International Finance Corporation
OFFICE MEMORANDUM

DATE: 11-Aug-1988 11:40am

TO: Timothy Thahane (TIMOTHY THAHANE)

FROM: Felix Alberto Camarasa, EDS08 (FELIX ALBERTO CAMARASA)

EXT.: 72235

SUBJECT: Peru - Alternate Governor

We have been informed by our Peruvian authorities that Mr. Julio Alba Bravo, Vice Minister of Economy, has been appointed Alternate Governor Bank.

DISTRIBUTION

TO- Executive Director
Country Director, Bank
Investments Director, IFC
File Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 1, 1988

Dear Mr. Minister:

It is indeed good to know that you have been appointed Governor for Peru on the Board of Governors of The World Bank. Congratulations!

The Executive Directors, Officers and Staff join me in extending to you a warm welcome. We look forward to your participation in the affairs of the Bank.

On a personal note, I hope to have the opportunity of greeting you in Berlin at the time of the Annual Meetings.

Sincerely,



Su Excelencia
Senor Dr. Cesar Robles
Ministro de Economia y Finanzas
Avenida Abancay 5a., Cuadra
Lima 1, Peru

OFFICE MEMORANDUM

Circulate:

~~Ardo~~ 8/3/87
~~Carla~~
~~...~~ 8/31/8

DATE: July 30, 1987

TO: Mr. Barber B. Conable

THROUGH: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain *S. for*

EXTENSION: 72283

SUBJECT: PERU - Placement in Non-Accrual Status

1. As you are aware, because of the status of Peru's overdue service payments to the Bank, disbursements on all Bank loans to, or guaranteed by, Peru were suspended on May 5, 1987. Since then, Peru's arrears to the Bank have increased to US\$91.5 million and are expected to total US\$99.6 million on August 1, 1987, of which US\$5.7 million will be overdue by six months.
2. The Government's decision to stop servicing Bank debt was based on the recent emergence of negative net transfers, reflecting Peru's lack of creditworthiness and the cessation of Bank lending. The Government's debt service posture, and the mix of policies it has adopted to deal with the difficult economic social, political and economic security conditions it inherited, reflects its perception that price prospects for traditional exports were bleak, that future debt service obligations would almost indefinitely exceed external capital inflows, and that policies of domestic restraint could exacerbate social and political unrest. The Government opted for policies which would stimulate a quick recovery via a consumption-led reactivation of idle capacity, financed partly through non-payment to creditors. The policies being followed are, however, not sustainable in the medium term and there is growing debate in Peru regarding the direction of the economic program.
3. Early this month, Peru's new Prime Minister Larco Cox informally indicated his willingness to seek a solution to the arrears problem with the Bank, and to formulate an economic program which would avoid an otherwise inevitable economic crisis and allow Peru to attain sustained economic growth. On July 16-20, an unofficial representative of the Prime Minister visited the Bank to discuss options for solving the impasse. We presented a three-step plan comprising: (i) a timetable for resuming payments and disbursements, associated with a reformulation of the projects under implementation; (ii) reinitiation of economic work and policy dialogue to assist Peru in designing and implementing an appropriate economic program; and (iii) based on that economic program, restoration of creditworthiness and Bank lending.
4. We have not heard from the Government since the Prime Minister's representative returned to Lima. Peru's ambassador in Washington, with whom we have worked closely, has also been unable to elicit any response from his capital to our suggestions. It is evident that, in the face of growing economic difficulty, there is considerable controversy within the Government and the governing party about economic policies and relations with external financing agencies. The Prime Minister is said to advocate a

change of course and accommodation. The Finance Minister is said to oppose these vehemently. The President has just announced the nationalization of banks and has reiterated that external lenders would not be paid more than 10 percent of exports. I do not expect that the arrears to the Bank would be paid soon. We will, however, continue to monitor the situation and try to open a dialogue with the Government, through eminent Latin Americans, if feasible.

5. I recommend that if at least the US\$5.7 million equivalent due on February 1, 1987 is not received by August 1, 1987, all Bank loans to or guaranteed by Peru should be placed in non-accrual status with effect from August 1, 1987. Attached for your approval are copies of the notification to the Executive Directors and a draft telex to the Government of Peru which would be sent on Monday, August 3, 1987.

KSierra:tw

cleared with and cc: Messrs. Eigen (LA4CO); Hoopengardner (ACTFC);
Siegelbaum (LEGVP); Collell/Cucullu (LEG);
Mayer (LOA); Akingbade (CSH)

cc: Messrs. Stern (SVPFI); Shihata/Goldberg/Asser (o/r) (LEGVP);
Bottelier (o/r) (LA4DR); Lee (COD); Selowsky/Quijano (LACVP);
Tyler/White (LA4CO); Jennings, Del Gigante (LOA)
Mmes. Blackhurst/Yarrington (LA4CO)

SecM87-

FROM: Vice President and Secretary

August 3, 1987

PERU

NON-ACCRUAL STATUS

In view of the non-payment of outstanding debt service obligations, Peru's loans were placed in "non-accrual" status as of August 1, 1987. This means that interest and charges on Peru's loans will be included in the Bank's income only when received in cash, and that interest and charges accrued but not yet paid will be deducted from the Bank's net income for the current quarter. As of August 1, 1987, US\$99.6 million equivalent was overdue, consisting of US\$51.5 million equivalent of principal and US\$48.1 million equivalent of interest and charges. Accrued interest and charges as of that date were US\$60.5 million equivalent, including US\$48.1 million billed and overdue and US\$12.4 million not yet billed.

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

TEXTNAME: t-nonaccrual (R)P: 01
WDIAL

.LA4CO

OINFO

-PERU: NON-ACCRUAL STATUS

-DRAFTED BY: KSIERRA:AB

-AUTHORIZED BY: S. SHAHID HUSAIN (LACVP)

-CLEARED W/CC: MESSRS. SIEGELBAUM (LEGVP), COLLELL, CUCULLU

-(LEG), EIGEN (LA4CO), HOOPENGARDNER (ACTFC), AKINGBADE (CSHRP),

-CC: MESSRS. QURESHI (SVPOP), STERN (SVPFI), SHIHATA/GOLDBERG,

-ASSER (O/R) (LEGVP) SELOWSKY (LACVP), BOTTELIER, O/R (LA4DR)

-JENNINGS, MAYER, DEL GIGANTE, GROTHE (LOA), LEE (COD)

-CC: MR. CAMARASA (EDS)

394 289989 =

-ING. GUILLERMO LARCO COX

-PRIME MINISTER AND MINISTER OF THE PRESIDENCY

-LIMA, PERU

394 20187 =

-ING. GUSTAVO SABERBEIN

-MINISTER OF ECONOMY AND FINANCE

-MINISTRY OF ECONOMY AND FINANCE

-LIMA, PERU

TEXTNAME: t-nonaccrual (R)P: 02
-394 20169 =

-MR. MARIO CAPUNAY

-ACTING PRESIDENT

-CENTRAL RESERVE BANK OF PERU

-AVE. MIRO QUESADA 441

-LIMA, PERU

IBRDLIM

-MRS. YVONNE TRENEMAN

-INTBAFRAD

-LIMA, PERU

BT

WASHINGTON, DC - 03-AUG-87

FOR PRIME MINISTER LARCO COX AND MINISTER OF ECONOMY SABERBEIN.

COPY MR. CAPUNAY, ACTING PRESIDENT, CENTRAL BANK.

AAA. I AM SORRY TO INFORM YOU THAT SINCE THE IBRD HAS NOT RECEIVED PAYMENTS OF US DOLLARS 5,739,067 FROM PERU DUE ON FEBRUARY 1, 1987 ON LOANS 1025, 2219, S-11, AND 933, THE IBRD HAS BEEN OBLIGED TO PLACE THE BANK'S LOANS TO OR GUARANTEED BY PERU IN NON-ACCRUAL STATUS AND SO INFORM ITS EXECUTIVE DIRECTORS, UNDERWRITERS AND RATING AGENCIES.

BBB. IN ACCORDANCE WITH OUR POLICY TO STOP ACCRUING INTEREST

TEXTNAME: t-nonaccrual (R)P: 03

AND CHARGES ON ALL LOANS TO OR GUARANTEED BY A BORROWER WHEN TWO CONSECUTIVE PAYMENTS ARE MISSED, THE IBRD'S FINANCIAL STATEMENTS WILL REFLECT INTEREST AND CHARGES ON LOANS TO OR GUARANTEED BY PERU ONLY TO THE EXTENT THAT SUCH INTEREST AND CHARGES HAVE BEEN RECEIVED IN CASH. WHEN PERU BECOMES CURRENT BY CLEARING OVERDUE SERVICE PAYMENTS, THE IBRD'S FINANCIAL STATEMENTS WILL ONCE AGAIN REFLECT INTEREST AND CHARGES ON AN ACCRUAL BASIS. OF COURSE, WHILE PERU IS IN NON-ACCRUAL STATUS, THE IBRD WILL CONTINUE TO CALCULATE AND BILL INTEREST AND CHARGES TO PERU AS USUAL.

CCC. UNTIL PERU CLEARS ITS ARREARS ON ITS LOAN PORTFOLIO, IT WILL BE NECESSARY THAT THE BANK'S FINANCIAL STATEMENTS DISCLOSE THAT PERU IS IN NON-ACCRUAL STATUS. IN ORDER FOR IBRD TO RESUME ACCRUING INTEREST AND CHARGES ON LOANS TO OR GUARANTEED BY PERU, IT WOULD BE NECESSARY FOR PERU TO CLEAR ALL ARREARS ON IBRD LOANS WHICH AS OF AUGUST 1, 1987, TOTALLED US DOLLARS 99,564,107 EQUIVALENT.

DDD. UNFORTUNATELY, AS YOU ARE AWARE, BANK GROUP ASSISTED PROJECTS IN PERU ARE BEING SERIOUSLY AFFECTED BY OUR HAVING TO SUSPEND DISBURSEMENTS SINCE MAY ON EXISTING LOANS.

TEXTNAME: t-nonaccrual (R)P: 04

WE AT THE BANK ARE AS ANXIOUS AS YOU TO BE ABLE TO RESUME
DISBURSEMENTS ON THESE LOANS AND CONTINUE WORKING ACTIVELY WITH
YOU ON PERU'S ECONOMIC DEVELOPMENT. WE TRUST, THEREFORE, THAT
YOUR GOVERNMENT WILL MAKE EVERY EFFORT TO ADDRESS THE ARREARS
SITUATION AS SOON AS POSSIBLE AND ESPECIALLY TO REMOVE PERU FROM
NON-ACCCRUAL STATUS. KIND REGARDS, S. SHAHID HUSAIN, VICE
PRESIDENT, LATIN AMERICA AND THE CARIBBEAN REGION, INTBAFRAD

1
A4
7/22

Mr. Bottelier

LCNVP MAIL

Log No. 001/07/22/87

Dead line, Tues, July 28

Date of Correspondence: 07/21/87

Date Received: 07/22/87

Sender's Name: Mr. Stern

Date Forwarded for Action: 07/22/87

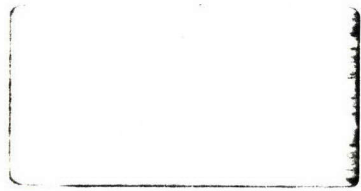
Subject: Peru: Overdue Payments.

Due Date: c.o.b. July 28, 1987

ACTION NEEDED

- Please prepare reply for Mr. Husain's signature.
- Please reply on Mr. Husain's behalf.
- For appropriate disposition.
- For information.
- For discussion with Mr. Husain.
- For discussion at Directors' meeting scheduled for _____.
- For discussion at Senior Staff meeting scheduled for _____.
- PLEASE PREPARE MEMO TO MR. CONABLE FROM MR. HUSAIN.

MC



07/22

Hand copy to
Mother's unit

July 21, 1987

Mr. Qureshi

Moeen -

Subject: Peru

As you know, on August 1, overdues by Peru will reach 180 days. Under our existing procedures, the President should receive from the Regional Vice President a confirmation that, under the Bank's existing policy, loans from Peru should be placed in non-accrual status, and that there are no circumstances which would warrant an extension.

I recognize that discussions are ongoing, but, in past cases, we have not considered that as a basis for postponing the non-accrual decision.

I suggest that the paper be submitted to the President by July 29, so that any action can be taken promptly on August 1. Obviously, this in no way affects the position should Peru pay by August 1; if indeed payment should be received anytime thereafter, we would of course reverse the non-accrual.



Ernest Stern

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

1) MH
file

CORRESPONDANCE DATE : 87/07/16 DUE DATE : 00/00/00
LOG NUMBER : 870721018 FROM : Mr. Husain
SUBJECT : Peru: Status of Dialogue on
Resumption of Service Payments.
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

3)

2) SWS ✓

- _____ APPROVED
- _____ PLEASE HANDLE
- _____ FOR YOUR INFORMATION
- _____ FOR YOUR REVIEW AND RECOMMENDATION
- _____ FOR THE FILES
- _____ PLEASE DISCUSS WITH _____
- _____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
- _____ AS WE DISCUSSED
- _____ RETURN TO _____

COMMENTS : Copy of this memo sent to: Mr. Bottelier, Mrs. Jones-Carroll,
Messrs. Tyler, Eigen and White. Copy sent to BBC for his info.

MH
What's happened on Peru?
BBC
OK
Hj

THE WORLD BANK

ROUTING SLIP	DATE 7/20/87
---------------------	-----------------

OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS

NAME	ROOM NO.
Mr. Conable	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
X	Information		Signature
	Initial		Send On

REMARKS

FROM
Moen A. Qureshi E-1241 X73665

OFFICE MEMORANDUM

Plan and a copy to
to the President of the
his info: 07/16
①

DECLASSIFIED
CONFIDENTIAL cc TB and
AUG 27 2013
WBG ARCHIVES

DATE: July 16, 1987

TO: Mr. Moeen A. Qureshi

FROM: S. Shahid Husain

EXTENSION: 72283

SUBJECT: PERU - Status of Dialogue on Resumption of Service Payments

1. My proposed mission to Peru to meet with the Prime Minister in an effort to solve the arrears issue has, at the request of the Government, been postponed. Instead, we have agreed that an advisor to the Prime Minister, Mr. Javier Abugattas, will first visit the Bank. The purpose of his visit will be to clarify the facts as a basis towards discussions between the Government and the Bank on resumption of debt service and Bank disbursements.

2. According to Ambassador Atala, with whom I met on Tuesday, the Prime Minister, after going public in Lima and in the foreign press on his plan to reach agreement with the Bank and pay arrears, encountered more political resistance than he had anticipated, and as a result he became concerned that events were moving too quickly. He does not want to take the political risks involved in "official" negotiations with the Bank unless he can be reasonably assured that he will find the Bank position acceptable. Hence, the preliminary visit by an advisor on what is being called a "fact-finding" trip.

3. Mr. Abugattas is well known and respected by the Bank and is very familiar with Bank policy with respect to service payments, and with the portfolio of ongoing Bank projects. He was former Director General of Public Credit, resigning after the Government stopped servicing Bank debt because he believed that the decision had not been taken as a result of a strategy but instead on an ad hoc basis, without analysis of the consequences. He has not returned to public service and has been asked to take on this assignment as "unofficial" representative. We expect to begin discussions with him today, and I shall follow these closely.

4. Through the Ambassador I have suggested to the Prime Minister that Peru should immediately pay about US\$20 million so that the decision on "non-accrual" can be postponed to about September 1. This would give us time for discussions and hopefully to arrive at a mutually satisfactory arrangement. I would pursue the objectives outlined in my memorandum of July 2, 1987, i.e., an agreed phased reduction of Peru's arrears and resumption of disbursements so that net disbursements would not be negative. We have already reviewed ongoing projects to see how they can be modified for this purpose. I shall keep you informed of the progress of discussions.

5. Under normal circumstance, a memo for your approval would be transmitted today making a recommendation regarding placing Peru on non-accrual status as of August 1, 1987. Given the timing of Mr. Abugattas's visit, we propose postponing that recommendation for at least one week to July 22.

KSierra/SSHusain:tw

Cleared with and cc: Mr. Bottelier (LA4DR);
Mrs. Jones-Carroll (LA4CO)

cc: Messrs. Tyler; Eigen o/r, White o/r (LA4CO)

(Modified -- 1/85)

TEXTNAME: P'sTelex

PAGE 1 OF 2

START
HERE

WDIAL

.LCIPA

OINFO

-SUBJECT: PERU - SHARES SUBSCRIPTION

-DRAFTED BY: K. SIERRA:TW

75924

-AUTHORIZED BY: BARBER B. CONABLE

-CLEARED WITH AND CC: MR. EIGEN, (LCIPA)

394 20187 =

-PRIME MINISTER LUIS ALVA CASTRO

-PRESIDENT OF COUNCIL OF MINISTERS AND

-MINISTER OF ECONOMY AND FINANCE

-MINISTRY OF ECONOMY AND FINANCE

-LIMA, PERU

IBRD LIM

-INTBAFRAD

-LIMA, PERU

-ATTN: MRS. TRENEMAN

END
OF
TEXT

SIGNATURES:

DRAFTED BY: K. Sierra *KS*

AUTHORIZED BY: Barber B. Conable *Barber B. Conable*

READY FOR

TRANSMISSION: tw
(Inputter's Initials)

TRANSMITTED BY: _____

DATE: _____

DELIVERY NOTICES RECEIVED? _____

*logged out
6/12/87*

(dated -- 1/85)

TEXTNAME: P'sTelex

PAGE 2 OF 2

START
HERE

BT

WASHINGTON, DC JUNE-8-87

THANK YOU FOR YOUR TELEX OF JUNE 1, 1987 IN WHICH YOU STATE YOUR GOVERNMENT'S INTENTIONS TO SUBSCRIBE TO 1,921 ADDITIONAL SHARES OF WORLD BANK CAPITAL UNDER VARIOUS RESOLUTIONS. WE WELCOME PERU'S AFFIRMATION, THROUGH THIS ACTION, OF ITS CONFIDENCE IN THE WORLD BANK. WE HOPE THAT WE CAN STRENGTHEN OUR DIALOGUE WITH YOUR GOVERNMENT ON WAYS IN WHICH THE WORLD BANK CAN WORK WITH PERU TO PROMOTE YOUR COUNTRY'S ECONOMIC AND SOCIAL DEVELOPMENT.

THE SECRETARY'S DEPARTMENT WILL COMMUNICATE WITH YOU DIRECTLY REGARDING THE DETAILS OF THE CAPITAL SUBSCRIPTION.

REGARDS, BARBER B. CONABLE, PRESIDENT, THE WORLD BANK,
INTBAFRAD.

END
OF
TEXT

SIGNATURES:

DRAFTED BY: _____

AUTHORIZED BY: _____

READY FOR

TRANSMISSION: _____
(Inputter's Initials)

TRANSMITTED BY: _____

DATE: _____

DELIVERY NOTICES RECEIVED? _____

(Modified -- 1/85)

TEXTNAME: P'sTelex

PAGE 3 OF 4

START
HERE

WDIAL

.LCIPA

OINFO

-SUBJECT: PERU - SHARES SUBSCRIPTION

-DRAFTED BY: K. SIERRA:TW

75924

-AUTHORIZED BY: BARBER B. CONABLE

-CLEARED WITH AND CC: MR. EIGEN, (LCIPA)

394 20187 =

-PRIMER MINISTRO LUIS ALVA CASTRO

-PRESIDENTE DEL CONSEJO DE MINISTROS Y

-MINISTRO DE ECONOMIA Y FINANZAS

-LIMA, PERU

IBRDLIM

-INTBAFRAD

-LIMA, PERU

-ATTN: MRS. TRENEMAN

BT

WASHINGTON, DC JUNE-8-87

END
OF
TEXT

SIGNATURES:

DRAFTED BY: K. Sierra *KS*

AUTHORIZED BY: Barber B. Conable

READY FOR

TRANSMISSION: tw
(Inputter's Initials)

TRANSMITTED BY: _____

DATE: _____

DELIVERY NOTICES RECEIVED? _____

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex

INT - PLEASE READ INSTRUCTIONS BELOW BEFORE TI FORM

TEXTNAME: P'sTelex

PAGE 4 OF 4

START
HERE

TENGO EL AGRADO DE ACUSAR RECIBO DE SU TELEX FECHADO JUNIO 1, 1987 EN EL CUAL NOS MANIFIESTA LAS INTENCIONES DE SU GOBIERNO DE SUSCRIBIR 1,921 ACCIONES ADICIONALES DEL CAPITAL DEL BANCO MUNDIAL BAJO VARIAS RESOLUCIONES. NOS SENTIMOS HONRADOS POR LA DEMOSTRACION DE CONFIANZA QUE A TRAVES DE ESTA ACCION PERU HA MOSTRADO AL BANCO MUNDIAL. ESPERAMOS PODER FORTALECER CON EL GOBIERNO PERUANO NUESTRA DIALOGO DE TAL FORMA QUE EL PERU Y EL BANCO PUEDAN TRABAJAR CONJUNTAMENTE EN LA PROMOCION DEL DESARROLLO ECONOMICO Y SOCIAL.

EL DEPARTAMENTO DE SECRETARIA SE COMUNICARA DIRECTAMENTE CON USTED EN CUANTO A LOS DETALLES CONCERNIENTE AL CAPITAL DE SUSCRIPCION.

END
OF
TEXT

SIGNATURES:
DRAFTED BY: _____
AUTHORIZED BY: _____

READY FOR TRANSMISSION: _____
(Inputter's Initials)

TRANSMITTED BY: _____
DATE: _____

DELIVERY NOTICES RECEIVED? _____

TRANSLATION OF INCOMING TELEX DATED JUNE 1, 1987

Mr. B. Conable
World Bank President
Washington, D. C.

Copies: Mr. D. Knox
World Bank Vice-President

Treasury Department

I AM PLEASED TO ADDRESS YOU REGARDING THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD) CAPITAL INCREASE APPROVED BY IBRD EXECUTIVE DIRECTORS IN RESOLUTIONS NO. 346 DATED JANUARY 4, 1980; NO. 347, DATED JANUARY 4, 1980; NO. 380 DATED APRIL 13, 1982; AND NO. 383, DATED JULY 8, 1982.

IN THIS REGARD, I AM PLEASED TO INFORM YOU THAT THE PERUVIAN GOVERNMENT HAS AGREED TO SUBSCRIBE 1,921 SHARES FROM THE IBRD CAPITAL OF WHICH 1,269 MUST BE PAID IN US DOLLARS OR IN 0.75 PERCENT IN GOLD OR 6.75 PERCENT IN NATIONAL CURRENCY (SIC), OR COULD BE REPRESENTED IN CERTIFICATES TO BE KEPT UNDER CUSTODY OF THE CENTRAL BANK OF RESERVE OF PERU, AVAILABLE TO THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD); AND 201 SHARES WHICH MUST BE PAID IN US DOLLARS, OR 2 PERCENT IN GOLD AND 18 PERCENT IN NATIONAL CURRENCY, WHICH COULD BE REPRESENTED IN CERTIFICATES TO BE KEPT UNDER THE CUSTODY OF THE CENTRAL BANK OF RESERVE OF PERU, AVAILABLE TO IBRD.

THE SUBSCRIPTION OF THE AUTHORIZED SHARES WILL TAKE PLACE WITHIN THE TIME SCHEDULED AND COMPLIANCE OF CONDITIONS ESTABLISHED BY THE CONCERNED RESOLUTIONS APPROVED BY IBRD AND SUBJECT TO THE RULES ESTABLISHED IN LAW NO.10640.

I ALSO WISH TO INFORM YOU THAT THIS PERUVIAN GOVERNMENT DECISION HAS ALREADY BEEN APPROVED BY THE REPUBLIC CONGRESS THROUGH LAW NO.24679.

LUIS ALVA CASTRO
PRESIDENT, MINISTERS COUNCIL AND
MINISTER OF ECONOMY AND FINANCES

DRSTRONG
06/09/87

April 30, 1987

Mr. Conable

Barber -

You remember that Mr. Knox visited Peru last week to discuss with President Garcia the payment of the amounts overdue to us. As we reported to you, the meeting seemed successful, since we received a cable the following day from the Prime Minister informing us that payment would be made in three working days.

Mr. Knox's efforts were supported by Argentina.

Nonetheless, nothing has happened since. Telephone calls found no instructions in the Central Bank to pay us. Relevant senior officials are said to be out-of-town. Two days ago, I authorized a cable by Mr. Knox to the Prime Minister reminding him of the promise to pay within three working days and of our policy on suspension. There has been no response to this message.

In view of the actions by the Government of Peru, the absence of any forthcoming repayment, and the fact that the overdues are now well beyond the 75-day limit, we will issue a suspension notice at close of business Monday, May 4, unless you instruct otherwise. We would advise the Government of Peru accordingly this evening.



Ernest Stern

cc: Mr. Qureshi

OFFICE MEMORANDUM

NBB
② IS
③ CP

DATE: April 20, 1987

TO: Files

FROM: Peter Eigen, Chief, LC1PA

RE: PERU: Meeting of Mr. Conable with Prime Minister

1. On April 14, Prime Minister Luis Alva Castro met with Mr. Conable (list of attendees in Annex 1). The Peruvian authorities had requested this meeting on the occasion of the Prime Minister's visit to Washington to sign an IDB loan, to preside over a CIESS meeting and to assume the Southern Cone seat on the Development Committee to which Peru had just been elected.
2. Mr. Conable stated that he welcomed the opportunity to discuss how the World Bank could be more useful to Peru, and congratulated the Prime Minister on his new role on the Development Committee. The Prime Minister said he had come to discuss with the World Bank how the very good working relations that existed between the Bank and the Government could be maintained. His Government felt that it was very important to preserve these relations. It had received significant operational support and policy advice from the Bank, to which they were most receptive. He stressed that it would be helpful for continued effective cooperation if the World Bank would soon nominate a Resident Representative to replace Mr. Thumm who left Lima in October 1986. The World Bank, as opposed to the IMF, was very well liked in Peru. Even the recent leak of the Bank's Public Expenditure Review, which had been widely discussed in the Peruvian press, had done little damage to the good Bank-country relations--partly because it had been dealt with by the March mission to Lima.
3. However, as the Prime Minister had discussed earlier with Mr. Knox, the debt service limitation imposed by the Government was a key element in its economic policy. Because of the important work done by the IDB and the World Bank, the Government had made an extraordinary effort to pay them fully. Peru had paid to these two institutions 58 percent of its limited debt service payments, even though their exposure accounted for only 20 percent of total debt. However, now Peru had reached the point where it would be more difficult to accommodate IDB/World Bank debt service within the 10 percent limit, particularly in view of the fact that net transfers were gradually turning negative. He wondered, therefore, whether the funds in our overall portfolio could not be re-allocated to fast disbursing projects, in order to maintain a neutral net transfer for a while. The Government hoped to avoid a conflict with the World Bank over debt service payments such as had developed with the Fund, resulting in Peru's being declared ineligible for assistance. Even in this case, Peru was planning to reopen the dialogue: it had just created a National Debt Council, which would have offices in Lima, Washington and Paris, with a mandate to discuss a solution to Peru's international debt in the context of a clearly defined policy framework. Peru would soon make proposals to the financial community that were realistic and viable and that could form the basis for a positive solution.
4. Mr. Conable responded that no institution could promise a positive net transfer to a borrowing country at all times, and that it was more important to look at the benefits of Bank-financed projects than at the balance of financial

flows at a given point in time. He stressed that the Bank valued its good relationship with Peru, which was an important member of the Bank. He therefore was concerned that this relationship might be disrupted. He noted that the World Bank, as a cooperative development institution, had to carefully protect its own rules. These rules required that, even in the case of modest non-payment of debt service, the Bank send notice after 60 days. This rule had to be uniformly applied to all member countries. He reminded the Prime Minister that, in the case of Peru, an amount of over \$5 million had been outstanding about 70 days and that another amount of over \$13 million would be 60 days overdue on April 16. He stressed that he wanted to avoid sending this notice to Peru; that, to the contrary, we were ready to lift the suspension on two loans (power and water supply), and had just completed restructuring of a health project; this would allow for the disbursement of about \$100 million during the implementation of these projects. Mr. Knox added that during a recent Bank mission the Government had agreed that the portfolio of projects under execution was very valuable for the development of Peru. The Bank would be willing to seek ways to accelerate disbursement of the approximately half a billion dollars committed to these projects by considering modifications, where necessary, to make them more suitable.

5. Mr. Alva Castro agreed that the Bank's program would make a valuable contribution during the next few years; however, Peru needed important new capital transfers very soon. He was aware that the Bank did not agree with some of the Government's economic policies, although the latter had proved, during the about 20 months it had been in office, that it could successfully manage the economy. On its side, the World Bank had been proven wrong in some of its earlier advice--for instance, it had projected about five years ago a 6 percent annual GDP growth rate that clearly had not been attained. The Prime Minister conceded that the World Bank's policy prescriptions were not entirely responsible for this bad performance, because the previous Government had accepted only part of its "expert advice." On the other hand, he was happy that the World Bank had not spent the enormous amounts that would have been spent if the Government had fully complied with its conditions.

5. With regard to its overdue payments, the Prime Minister promised that the Government would make a very reasonable proposal to the Bank. Mr. Conable responded that the Bank had to follow the rules about these late payments and therefore we could not give Peru much time to bring them up-to-date. This had nothing to do with the Bank's views concerning the Government's economic policies, or, more particularly, with regard to the sustainability of Peru's economic expansion. The Bank simply could not continue to disburse to Peru if its debt service was not up-to-date. The Prime Minister avoided a direct commitment, pointing to the political, social and security problems of Peru, but repeated his intention to submit a proposal for early debt service that would satisfy the Bank.

PEigen/brw

Attachment

cc: Messrs. Conable; Stern, SVPOP; Knox, LCNVP; Steckhan (LC1DR-o/r);
Tyler, White (LC1PA)

Ms. Sierra (LC1PA)

Annex 1

List of Persons Attending Meeting

Peru

Dr. Luis Alva Castro, Prime Minister, President of the Council of Ministers,
Minister of Economy and Finance and Bank Governor
Ambassador Cesar Atala, Ambassador to the US
Ambassador Gonzalez Posado, Ambassador to the OAS
Mr. Javier Abuggattas, Director of Credito Publico
Mr. Palemino, Special Assistant to the Prime Minister
Mr. Felix Alberto Camarasa, Executive Director

World Bank

Mr. Barber Conable, President
Mr. A. David Knox, Vice President, LCN
Mr. I. Sam, Special Assistant to the President
Mr. Peter Eigen, Division Chief, LC1PA
Ms. Carmen Venturini, Interpreter, GSDLS

OFFICE MEMORANDUM

DATE: April 14, 1987

TO: Mr. Barber B. Conable

THROUGH: A. David Knox *AK*

FROM: Peter Eigen, Acting Director, LC1

RE: PERU: Your Meeting with Prime Minister

1. Today at 4:30 p.m. you will meet with Dr. Luis Alva Castro, Prime Minister and Minister of Economy and Finance, Peru (biographical sketch attached). He is visiting Washington to sign an IDB Power loan and to meet with Mr. McPherson, USAID, and with the OAS. Mr. Cesar Atala, Ambassador to the US, will also attend. Mr. Knox and I will join the meeting. During the meeting you should congratulate Dr. Alva Castro for Peru's recent selection as representative of the Southern Cone Countries in the Development Committee. You should also point out the dangers to Peru if it ceases to service Bank debt and the Bank suspends disbursements, while informing him of the good progress recently achieved in resolving issues related to projects in the power, water supply and primary health sectors.

Background

2. Relations with the Bank are at a critical juncture: President Garcia announced on April 3 that the World Bank would fall under Peru's debt payment limits. While this was later downplayed by the Government, Peru is 72 days overdue on Bank service payments totalling US\$5.1 million, and on April 16 another US\$13.6 million will be over 60 day overdue. Because of confusion in Peru resulting from an attempted coup d'etat, and over the President's April 3 speech, the standard 60-day warning notice was not sent. If sent today, it would require Peru to make service payments totalling US\$50 million within 15 days in order to avoid suspension of disbursements.

3. Our already fragile relations were placed under increased stress when loans in the power and water supply sectors were suspended in November 1986, and in the agricultural credit sector in March 1987, and when our highly critical draft Public Expenditure Review was leaked to the press. These events, coupled with President Garcia's continued stridency regarding the servicing of Peru's external debt, his apparent rejection of internal advice to modify domestic policies in the face of growing signs of crisis, and the accelerating trend toward negative net flows from the Bank, could well mean that Peru is prepared to default on its World Bank debt. The Garcia Government has stated at earlier occasions that it would service debt only to those institutions from which Peru received positive net transfers. Bank net transfers became negative in late 1986, and for FY87, we are projecting net disbursements of US\$42 million and net transfers of -US\$40 million. That default would be serious given Peru's position as a member of the Development Committee, and the high level of Bank exposure in Peru which, as of December 31, 1986, totaled US\$763 million (loan face value equivalent, and US\$950 million including exchange adjustments).

4. The Bank has fundamental differences with the Peruvian Government with respect to economic policy. We believe that the policies that produced Peru's 1986 economic boom (GDP grew by 8.5 percent) are not sustainable. Indeed, several signs of difficulty have already appeared. The most optimistic estimates outside Government are that an inflation-cum-balance of payment crisis can be put off until 1988; most see a crunch in 1987, with some placing it only months away.

Issues To Be Raised

5. In your discussions with Dr. Alva Castro, you should point out the dangers to Peru of a break with the Bank:

- (a) The implementation of 19 projects, with an undisbursed balance of about US\$465 million, would be jeopardized, and long-standing relations at the project level would be broken. The soundness of these projects was ratified by the Government during the recent Country Implementation Review.
- (b) Peru's move to demonstrate leadership in the Development Committee would be undermined.
- (c) The Bank's economic and sector work would cease, reducing our ability to respond quickly if the Government requested important levels of assistance.

6. You can mention to Dr. Alva Castro several recent developments in our cooperation:

- (a) Sixth Power Project. The Bank is prepared to lift suspension of disbursements (US\$61 million undisbursed balance).
- (b) Lima Water Supply and Sewerage Project. Once the Government draft financial strengthening plan for the sector is signed, and the first tariff increase included in that plan implemented, suspension of disbursements can be lifted. These actions are expected shortly (US\$14.6 million undisbursed balance).
- (c) Primary Health Project. We are ready to present a proposed project reformulation to the Board. (US\$29 million undisbursed balance).

KSierra:tw/gpch

cc: Messrs. Stern (SVPOP-o/r); Qureshi, (SVPFI); Steckhan o/r (LC1DR); Picciotto (LCPDR); Tyler, White (LC1PA)

BIOGRAPHICAL SKETCH

Prime Minister Luis Alva Castro, President of the Council of Ministers,
Minister of Economy and Finance, and Bank Governor

Dr. Luis Alva Castro is in his mid-forties. He has been trained in economics, having studied at a Peruvian regional university (Trujillo). He is a close associate of the President and was elected as a delegate to the National Assembly in 1980, where he served on the joint Budget Committee and was elected a delegate again in 1985. He headed CONAPLAN, the powerful APRA group that formed positions and shaped APRA policy in the period leading up to the April 1985 election. Although Dr. Alva Castro has been a close associate of the President, his reported strong ambitions to succeed to the presidency have contributed to growing tensions between him and President Garcia over the last year. As a result, there has been strong speculation over the possibility of Dr. Alva Castro's resignation of his ministerial posts, probably in July 1987, and his assumption of a leadership role in the Congress. Dr. Alva Castro speaks little English.

January 27, 1987

Dear Mr. Ikanan:

I very much enjoyed meeting with you, as well as with Messrs. Jose Narciso Jamiroy of Colombia, and Mr. Jose Uranavi of Bolivia on December 17, 1986. As I said on that occasion, I welcome the exchange of views which we had and feel that it contributes to the improved communication which is our mutual aim.

At our meeting, you handed me a letter in which you asked about World Bank policy regarding indigenous populations in Bank-supported projects. The Bank policy in this respect is clear. We provide assistance to development projects in areas being used or occupied by indigenous people only (i) if these projects include adequate measures to safeguard the integrity and well-being of the indigenous people concerned; and (ii) if we are satisfied that the borrowing government or agency supports and can implement these measures effectively. The various considerations that we take into account in assessing whether proposed projects meet these criteria are described in the attached Bank publication entitled, "Tribal Peoples and Economic Development: Human Ecologic Considerations" (Spanish version).

To carry out the above policy, the Bank has adopted certain guidelines for processing projects to ensure that the special requirements and wishes of affected indigenous groups are taken into account at various stages of the project cycle, starting with the identification and design of a project and continuing through its implementation.

The policy which I outline above is being consistently followed in four of the five projects mentioned in your letter; in the fifth case, Madre de Dios in Peru, the World Bank is not involved. More specifically, with regard to the Polonoeste and Carajas Iron Ore projects in Brazil, the Bank is providing financing for the purpose of demarcating indian lands and to improve living conditions for tribal peoples by furnishing them with better health care and other social services. And the Bank is closely following implementation of these projects to insure that the components which benefit Amerindians are properly executed. Indeed, when difficulties --including problems with demarcation of indian reserves--arose in the case of the Polonoeste projects, disbursements were interrupted until these were satisfactorily resolved.

In the case of the Chanchamayo-Satipo and Alto Mayo rural development projects in Peru, the Bank also went to considerable lengths to safeguard the interests of native peoples in the projects' areas. Each

operation contains design features which benefit Amerindians by, inter alia, supporting land titling for indigenous people and by providing them with other economic and social assistance (e.g., access to agricultural credit, health and educational facilities). Both projects are regularly supervised with the help of anthropologists and their Amerindian components are, to the best of our knowledge, proceeding satisfactorily.

Turning to another point in your letter, I share your view that indigenous groups, through their representatives, should participate in the design and execution of Bank-assisted projects which affect their welfare. And while Bank staff are open to the views of native people, may I remind you that the best way to insure that these are duly considered is to strengthen the direct dialogue between your indigenous organizations and the Governments of your respective countries. These are our official counterparts in project identification, preparation and implementation.

As our staff suggested to you during your working-level meeting with them on December 17, the Bank's Resident Offices in your respective countries could serve as the first point of contact between your Organizations and the Bank. These Resident Offices would also be able to provide you with information on planned and ongoing Bank-supported projects in areas with an indigenous population.

In closing, I thank you again for the opportunity to meet with you and your colleagues, and I wish you the very best for the new year.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable
President

Attachment

Mr. Evaristo Nugkuag Ikanan
President
Coordinadora de las Organizaciones
Indigenas de la Cuenca Amazonica
Los Mogaburos 245 - Oficina 201
Lima 11, Peru

*logged with
1/87
CS*

cc: Mr. Fernando Mendoza (World Bank Resident Representative, Peru)
Mr. Laurens Hoppenbrouwer (World Bank Resident Representative,
Colombia
World Bank Resident Mission, Peru

cleared in substance with and cc: Mr. Robert Goodland (PPDES)
Ms. Katherine Sierra (LC1PA)

cleared with and cc: Messrs. Collell (LEG)
Gamarra (IPAPA)
Mrs. Koch-Weser (LCPAB)

cc: Messrs. Knox
Gue
Picciotto (o/r)
Steckhan
Eigen (o/r)
Gonzalez-Cofino (o/r)

JAS
FAguirre-Sacasa/RRuivivar:mb

DATE: 11/5

~~BBC~~

JWS

Judith

Isaac

Vivek

Linda

Myra

Jenny

REMARKS

I agree with Mr. Stern.

Isaac

11/06

ROUTING SLIP

DATE

11/4

OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS

NAME

ROOM NO.

MR. Conable

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

For your information.
It may have repercussions.



FROM

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

November 3, 1986

11/4/86
Mr. Alfredo Jhibellini
ELECTROLIMA S.A.
Conde de Superunda 261
Lima, Peru

Re: Loan 2179-PE (Sixth Power Project)
Suspension of Disbursements

This is in reference to the Loan Agreement for the Sixth Power Project between the International Bank for Reconstruction and Development (the Bank) and ELECTROLIMA (the Borrower) dated September 17, 1982, as amended (the Loan Agreement). We acknowledge the efforts which have been made by the Ministry of Energy and Mines, ELECTROPERU and ELECTROLIMA to prepare a Plan of Action to improve Power Sector finances. Such Plan, however, has not yet been finalized nor has it received approval by the Ministry of Economy and Finance.

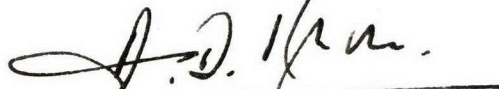
In the absence of receiving the evidence requested in our telex dated August 26, 1986, and specifically confirmation of approval by the Ministry of Economy and Finance of a Plan of Action, satisfactory to the Bank, to improve Power Sector finances, we regret to inform you that the Bank, pursuant to Section 6.02 of the General Conditions applicable to Loan and Guarantee Agreements, hereby suspends, as of 12:00 midnight November 3, 1986, the right of the Borrower to make any further withdrawals under the Loan Agreement.

The suspension is subject to the following exceptions: (a) withdrawal applications received on or before December 2, 1986 covering payments pursuant to contractual arrangements approved by the Bank for supply of goods shipped, or delivered or for works performed or for any other expenditures made on or before November 3, 1986; and (b) requests for reimbursements to commercial banks holding qualified or irrevocable agreements to reimburse issued by the Bank on or before the date of this suspension.

This suspension will be in effect until the Bank receives the evidence referred to above. If, by January 30, 1987, the Bank has not received the evidence requested in our telex of August 26, 1986 the Bank will cancel the then outstanding balance of the Loan. Please acknowledge receipt of this letter.

Copies of this letter are being sent to the Ministry of Finance and Economy, Empresa de Electricidad del Peru, Hidrandina, S.A. and COFIDE.

Sincerely,



A. David Knox

Vice President

Latin America and the Caribbean
Regional Office

cc: Dr. Luis Alva Castro
Minister of Economy and Finance
Ministry of Economy and Finance
Avda. Abancay 5a Cuadra
Lima, Peru

Mr. Roberto Vijil
Hidrandina
Avda. Central 717, 8vo, Piso B
Lima 27, Peru

Mr. Jorge Ramos Ronceros
ELECTROPERU
Paseo de la Republica 144
Lima, Peru

Dr. Jose Salaverry
COFIDE
Camino Real 390
Lima 27, Peru

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WBG ARCHIVES

DATE: September 26, 1986

TO: Memorandum for the Record

FROM: Peter Eigen, Chief, LC1PA

RE: PERU: Meeting of Prime Minister Alva Castro
with Mr. Conable

1. Today, Mr. Luis Alva Castro, Prime Minister and Minister of Economy and Finance, Mr. Leonel Figueroa, President of the Central Bank, and Mr. Hector Neyra, General Manager of the Central Bank, met with Mr. Conable. Messrs. Stern, Steckhan, Sam and Eigen were also present.
2. The Prime Minister opened the meeting by praising the excellent cooperation that Peru had received from the World Bank. The large lending program of about \$860 million (sic) was very useful for the economy, although he saw certain disbursement problems that were in part customary in countries like Peru because of administrative weaknesses, but which were also due to the nature of the program. Peru wanted to take a fresh look at these projects with the objective of adjusting and redesigning them in cooperation with the Bank. This would, on the one hand, speed up disbursements and, on the other, liberate funds that could be utilized in accordance with the new priorities of the Government. Also, some of the ongoing operations had covenants that were no longer fully appropriate and should be made more flexible.
3. However, the fundamental purpose of his visit was to demonstrate strongly that Peru wanted to remain within the international financial system. The President of Peru had himself stressed how vital it was for Peru to receive the World Bank's help. Since the Government came to power 14 months ago, it had succeeded in bringing down inflation to one-third of previous levels, in stimulating GDP growth, which was expected to reach 6 percent in 1986 (4.8 percent had already been attained by September), and in bringing down the fiscal deficit from 9-10 percent to only 0.8 percent for the Central Government (public enterprises would be streamlined by pruning and privatization). Still, there was a lot to be done (drugs, terrorism, regional peace and disarmament), and all this in a democratic society aiming towards modernization, for which external capital and technology were needed. He hoped that the World Bank would continue to play an important role in meeting these needs.
4. Mr. Conable expressed his appreciation of the Prime Minister's perception of Peru's good relationship with the Bank. He pointed out, however, that the Bank was concerned about the threat to this effective cooperation that sprang from two sources--firstly, reduced creditworthiness arising out of Peru's problems, including difficulties with other institutions and sources of capital whose support was needed for further growth and stability, and, secondly, problems in implementing ongoing projects in accordance with the conditions and circumstances under which they had been financed. Mr. Conable said he knew how difficult it was to fulfill some of these covenants, such as the levels of electricity rates. He acknowledged that the Government knew best what was

politically feasible in the country. However, these covenants were preconditions for the effectiveness of these projects. Without these circumstances being right the projects could not succeed, and therefore should not go ahead. He emphasized how important it was that we should be clear about what could politically be done, so that both the Government and the Bank knew what could be expected. This was true for new lending as well as for continued disbursement.

5. Mr. Alva Castro agreed with the fundamental importance of defining clearly what was politically feasible. Under the present circumstances, it would be necessary to carefully review the whole portfolio in order to make sure that each operation reflected present needs and priorities. In the meantime, however, it was important to make sure that the net transfer of resources from the Bank to Peru did not become negative. Lately it had hovered around a small positive margin. Any changes in the program could tip the balance. Mr. Stern pointed out that, at this point, the net transfer was a detail. Much more important for our relationship was the question of what the overall economic plans of the Government were, particularly with respect to other sources of capital. Even in the best of circumstances, the World Bank could only provide a small portion of the resources needed for financing an economic growth and recovery program. The Bank would, therefore, be interested to know the Government's intentions vis-a-vis the Steering Committee, other creditors and other international institutions.

6. Mr. Alva Castro responded, first with respect to the World Bank's own program, that unless we worked very quickly together in readjusting existing projects and in preparing new projects, the net transfer would soon become negative. Secondly, with respect to other creditors, Peru had paid to the extent to which it was able. This was not considered enough by the Fund, who had declared Peru ineligible in August. Referring to Mr. Conable's sensitivity to what was politically feasible in Peru, he pointed out that the people of his country knew that past economic policies were wrong. They were perhaps dictated by good intentions, particularly as far as the staff of the international institutions were concerned, but the results had been clearly catastrophic. Even some Bank technicians had admitted that not all of the funds provided by international institutions had always been well used. Nevertheless, Peru wanted to remain a member of the Fund, and it would continue to pay the Fund what it could. During this visit he wanted to make the world understand that the limitation on debt service was not capricious or arrogant, but dictated by circumstances.

7. With respect to the banks, Mr. Alva Castro pointed out that a meeting of the Steering Committee was going on at that very moment. He had, up to a few hours prior to the meeting, spent considerable time with the Peru delegation, discussing interesting new proposals (e.g., payments in kind). Some banks were looking at these proposals favorably. The delegation was also considering "broadening" the category of short-term loans, which had been fully serviced--as opposed to medium- and long-term loans. Peru had also fully paid some bilateral creditors, such as USAID, and was hoping to meet with the Paris Club shortly.

8. Mr. Conable concluded by restating how anxious the Bank was to continue a supportive relationship with Peru. He said that the Bank was aware of Peru's problems and wanted to remain relevant to their solution, and offered staff assistance in exploring all possibilities for effective help. However it was vital that the Government adopt an economic policy conducive to stability and growth, including a workout with international creditors. He felt it would be very difficult for Peru if the Steering Committee of banks were to be dissolved, thereby permitting the banks individually to seek available remedies to recover their loans. In the face of this frightening possibility the Government and the Bank needed to work together in order to help the Government translate its domestic political success into an economic success.

9. During the meeting the staff passed to the delegation a written notice that a late payment of \$4.6 million would fall overdue by more than 60 days on September 30.

PEigen:brw

cw and cc: Messrs. Stern, SVPOP; Sam, EXC; Steckhan, LC1DR

cc: Ms. Sierra, LC1PA

Mr. White, LC1PA

OFFICE MEMORANDUM

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AUG 27 2013

WBG ARCHIVES

DATE: March 11, 1986

TO: Files

FROM: Peter Eigen, Chief, LC1PA

RE: PERU: Dinner with Prime Minister

1. Messrs. Clausen and Knox were invited by the Peruvian Ambassador, Mr. Atala, to dine on February 12, 1986 with Prime Minister Alva Castro, Foreign Minister Wagner, the Secretary General in the Prime Minister's office, Garcia Salvatacci, and a few other high officials in the residence of the Ambassador. Messrs. de Larosiere and Wiesner (IMF) and Ortiz Mena and Curtin (IDB) also attended. The Ambassador was seriously ill and the Prime Minister was late; but the atmosphere was described as friendly and the discussions as substantive.

2. Mr. Knox called me early on February 13 to convey his impressions prior to his departure for Japan. He felt that the Prime Minister had made a very good presentation of the political problems which led to the Government's actions: the extremely difficult situation inherited by APRA when it took power and the need to take decisive measures in order to give some hope and confidence to the people. These measures were thus not designed to alienate the international community, but were intended for domestic political consumption. He hinted, but very vaguely, that once the phase of political consolidation was completed, which was estimated to be at the end of the 12 month period announced by the President at his inauguration, the Government might seek accommodation with its international partners.

3. The other participants also responded positively to this conciliatory tone. Mr. Knox described the attitude of Mr. de Larosiere as equally conciliatory--the Fund was at the disposition of its members and it was Peru, not the Fund, who had refused to cooperate; he was very glad that now the Article IV consultation mission was going ahead. This would present the opportunity for beginning a direct dialogue with the staff. Mr. Ortiz Mena stressed the importance of keeping an open and supportive dialogue.

4. Mr. Knox reported that Mr. Clausen made a more substantive statement at the dinner table. While he understood the need for political consolidation at home, he would have preferred that this not be done through speeches in Seoul in front of the leaders of the international financial community. This raised doubts about the Government's serious intention to devise a medium-term strategy to improve creditworthiness. Mr. Clausen was glad to hear that the debt service limitation might last only one year, but he was afraid that it would become increasingly difficult to find a settlement for the arrears. Also, recent policy measures went in a direction that made him fear that the Government might lose what it had gained through its early stabilization program; in fact, the recent measures were such that they might threaten the success of some of our ongoing operations. This, in turn, might force the Bank to suspend the most seriously affected projects; he referred to the budgetary and inflationary impact of the economic policy package, which had been announced over the previous weekend. He was therefore disturbed that the Prime Minister had not found the time for a working meeting with the staff of the Bank during his visit to Washington.

5. The Prime Minister pointed out that his program during this short visit to the US had been very tight. He was convinced that the recent policy package was needed to bring idle capacity back into production. A reduction of interest rates was an important incentive (Mr. Salvatacci said to Mr. Knox, after dinner, that the budgetary impact of the measures had been offset by a number of other measures, such as reduced military expenditures and closing of a money-losing, State-owned fertilizer plant in the North, and that in his judgement the deficit would rise from about 1 percent of GDP to perhaps 4 percent, i.e., nearly 10 points below our estimate).

6. The Prime Minister felt he had a very good working relationship with the staff of the Bank; he had asked us to produce a debt study and to support the Government in putting together a strategy to deal with its debt and other economic problems. He requested that we continue this work; he found the possibility of drawing on our objective advice, particularly the frequent and frank advice of our Resident Mission, very useful. This would help the Government to prepare, before the 12 month period of political consolidation expires, a realistic program including proposals to the international creditors, which would eventually lead to a solution of Peru's economic problems.

7. Mr. Ortiz Mena strongly endorsed the support by the Bank in the design of a medium-term workout plan, which he considered a valuable opportunity. Mr. Clausen mentioned that in case of a mutually acceptable workout program the World Bank would be ready to significantly increase its new commitments, both in the form of a continued sectoral, traditional lending, and in the form of policy based, fast disbursing operations up to the annual amounts which we had reached earlier (about \$400 million).

8. All-in-all, the discussions were perceived as conciliatory. Mr. Clausen, who also called me on February 13, 1986 to convey his impressions, felt that the meeting had been positive and offered some hope that Peru will find a way out of its present crisis. He shared, however, the feeling which Mr. Knox had also expressed that there are serious problems including firm differences of opinion on essential elements of economic policy (e.g., the Prime Minister admitted in a discussion with Mr. Knox after dinner that he firmly disagreed with us on the issue of opening up the economy externally; in his opinion this was exactly what the Belaunde government had done as advised by the IMF and the Bank with disastrous results for Peruvian industry. The joint argument of Messrs. Knox and Wiesner that the previous government had failed to apply an essential element of the recommended open economy, a realistic exchange rate, did not convince him). In spite of the relatively small likelihood of a successful workout program in the immediate future, Mr. Knox suggested that, based on the outcome of this meeting, it might be useful to reactivate the preparation of the Peru Medium-Term Growth Strategy Paper, as long as we receive encouraging feedback from the Government.

PEigen/brw

cc: Messrs. Clausen; Stern; Knox; Steckhan (LC1DR)

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

February 13, 1986

Dear Mr. Ambassador:

All of us attending the dinner in honor of your distinguished guests from Peru were extremely sorry to learn that you were hospitalized. However, we are pleased that you are on the road to a complete recovery.

The evening was a constructive one and I appreciated the opportunity to meet with Prime Minister Alva and Minister of Foreign Affairs, Dr. Wagner. I believe all of us present are now better informed of the circumstances of Peru and its plans for the future.

Thank you for your hospitality and my best wishes for a quick return to good health.

Sincerely,



His Excellency
Cesar Atala
Ambassador of Peru
Embassy of Peru
1700 Massachusetts Avenue, N.W.
Washington, D. C. 20036



The Ambassador of Peru
requests the pleasure of the company of
Mr. A. W. Clausen
at a dinner
on Wednesday, February Twelfth
at eight o'clock

To remind.

P. S. v. p.

833-9860

3001 Garrison Street, N. W.

To meet with the Prime Minister and Minister of Economy and Finance of Peru, Dr. Luis Alva, and the Minister of Foreign Affairs of Peru, Dr. Allan Wagner.

OFFICE MEMORANDUM

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 AUG 27 2013

WBG ARCHIVES

*Tom
 see p. 3.
 A firm line on
 this is essential. (C)*

DATE: February 5, 1986

TO: Mr. A. W. Clausen

THROUGH: Mr. Ernest Stern *ms*

FROM: S. M. L. van der Meer, Acting RVP

EXTENSION: 75906

SUBJECT: PERU - Briefing Note

Purpose

1. This Briefing Note has been prepared in connection with the dinner you have been invited to attend at the Peruvian Embassy on February 12. The dinner is being held by the Ambassador, Mr. Cesar Atala, on the occasion of the visit of a high ranking Peruvian delegation to the United States. The delegation is headed by Mr. Luis Alva Castro, who serves as the Prime Minister, Minister of Economy, and Second Vice-President, and includes Mr. Alan Wagner Tizon, Minister of Foreign Affairs, and Dr. Javier Tantalean, Director of the National Planning Institute. Biographical information on each of the men is attached.
2. The delegation will be meeting earlier in the day with Bank staff and is scheduled to meet with high level US officials--Vice-President Bush and Secretaries Baker and Schultz--during their stay in Washington. The visit also coincides with important meetings regarding Peru's payment arrears that are being held in the IMF and the Steering Committee. The IMF meeting is scheduled for February 10 and will consider whether Peru should be declared "Ineligible" for receiving Fund financial aid. The Steering Committee's meeting is scheduled for February 12.

Political and Economic Background

3. On July 28, 1985, a newly elected Government, headed by a 36-year-old President, Alan Garcia, assumed office. President Garcia's APRA party, which is in power for the first time in its 60 year existence, has generally favored state planning and regulation of the economy. Most of its top economic and political leadership has had no previous experience in governing and relatively little experience in international financial matters. President Garcia's popularity has increased after his first few months in office mainly due to his decisive actions on an economic stabilization program, his fight against corruption and drug trafficking, and his lead in suggesting radical solutions to the Latin American debt crisis. Currently, he enjoys broad popular support, which could erode if there are no economic improvements.

4. The new Government inherited in mid-1985 an extremely difficult economic and social situation: Peru's real per capita income had fallen to the level of the early sixties; two-thirds of the population was either unemployed or underemployed; real wages were about half their 1973 levels; a bloated and inefficient public sector spent half the GDP and contributed to a sizeable (7 percent of GDP) public sector deficit; annualized inflation based on the first seven months of the year was 250 percent; the external debt was about 75 percent of GDP with interest arrears of about US\$750 million; over half the money supply was in dollar-denominated deposits; and a terrorist movement had been effective in causing millions of dollars worth of damage to infrastructure, a death toll measured in the thousands, and widespread insecurity. In addition, external prospects looked bleak with low projected prices for minerals which account for half of Peru's exports, declining prices and volumes of Peru's largest export, petroleum, and little hope of obtaining access to external capital markets for new money.

The Debt

5. President Garcia reacted to the difficult debt situation by announcing his intentions to limit Peru's external payments to 10 percent of its export income and urging other Latin American debtor countries to take similar measures. While other countries have not heeded President Garcia's call, Peru has stuck to its announced intentions and only continued to pay the World Bank and IDB, from whom they have a positive net capital inflow, and some countries from whom they receive concessional bilateral loans. The Government has been in arrears to the IMF since September 1985, and has made several statements against IMF policies, expressing its intentions to negotiate Peru's debt directly with foreign banks without first coming to an agreement with the IMF. In a recent IMF Board of Directors meeting to consider Peru's eligibility to participate in Fund programs, the Peru representative took a more conciliatory tone, stating Peru's intention to make partial payment on its arrears to the Fund and its willingness to receive an Article IV consultation mission in February or March. Subsequent to the meeting, the Government paid the IMF SDR 1.7 million on its arrears, leaving US\$72.3 still unpaid. The commercial banks have received no payment on their medium and long term debt. As a result US banking authorities classified Peru's debt as "value impaired" in October 1985 and required banks to provide loss reserves of 15 percent on medium and long-term debt. It is anticipated that Peru may offer to make some token payments to the commercial banks before, or at, the scheduled February 12 Steering Committee meeting.

Recent Economic Developments

6. The Government adopted a stabilization program in August 1985 which has been successful in reducing inflation from an annual rate of 250 percent in the first half of 1985 to an annual rate of 40 percent in the

last quarter of 1985. The Government also stated its interest in and took some initial actions to reduce the public sector deficit, increase real utility tariffs and maintain positive interest rates, a competitive exchange rate and a liberal trade policy. More recent actions have created some doubts about the Government's medium and longer term commitment to these policies. There is also concern that the price control, exchange rate and trade protection measures that were initially taken as part of the stabilization program may be extended beyond the point at which the benefits from lowering inflation and inflationary expectations exceed the costs of distorting relative prices.

Bank Lending

7. The Bank has approved 60 loans to Peru for a total amount of US\$1,685.4 million. There are about US\$636 million of undisbursed funds in 23 loans. In addition, there are two loans totalling US\$17.5 million that have been authorized and still not signed. (Signature has been delayed awaiting completion of the Government's review of the projects which were negotiated with the previous Government).

estimated
CY
disbursements
are
\$140 million.

There is, at the moment, no serious delay in payments.

8. The new Government has been slow in expressing interest in receiving new Bank loans. It has only recently requested consideration of loans for railway technical assistance, irrigation rehabilitation and secondary petroleum development. Proceeding with these and other possible loans will depend on the resolution of the creditworthiness issue. If arrears are not settled with the IMF it is unlikely that there will be any new lending to Peru. The Bank may also not wish to go beyond a small lending program for technical assistance and socially oriented projects if there is no debt service to bilateral lenders and the commercial banks. On the other hand, if Peru wishes to reach an accommodation on its debt and adopts satisfactory economic and sectoral development policies, the Bank may be able to play a key role and significantly expand its lending program. In the meantime, a small economic and sector work program is planned so that the Bank may be ready for such a key role if the opportunity arises; a public expenditure mission is in the field--as requested by the Government. A Bank strategy paper on options for Bank operations in Peru is under preparation.

We surely would not lead until there is agreement with the banks, at least in principle. No further loans are planned for FY 1986.

Topics for Discussion

9. The Prime Minister may wish to tell you about, and you may wish to inquire about, the outcome of the meetings that have been held with the commercial banks, the IMF and the US during his visit. Peru's relations with the IMF and the commercial banks, and the manner in which it proposes to meet its debt service obligations, are the most important policy matters we have to discuss with the country at this time. Peru's handling of these issues will determine whether or not the Bank will be able to arrive at positive judgments of creditworthiness and the type of role it will be able to play.

RKanchuger/drs

Attachments

cc & cw: Messrs. Meo, Eigen (LC1)

cc: Messrs. Knox, (o/r); Quijano (LCNVP); Steckhan (LC1DR-o/r),
Bottelier (Acting Director, LC1)

Bibliographical Information

Mr. Luis Alva Castro
(World Bank Governor)

Mr. Luis Alva Castro (39) holds three posts--~~Prime Minister~~, Second Vice-President and Minister of Economy and Finance. He has been trained in economics, having studied at a Peruvian regional university (Trujillo). He is a close associate of the President and was elected as a delegate to the National Assembly in 1980, where he served on the joint Budget Committee and was elected a delegate again in 1985. Prior to holding his present positions, he had very little experience outside of Peru and speaks little, or no English.

Mr. Alan Wagner Tizon

Mr. Wagner has been the ~~Minister of Foreign Affairs~~ since July 28, 1985. Prior to that he served seventeen years in Peru's foreign service and was posted to the Embassy in Washington in the years immediately prior to his appointment as Minister. He was the number two person in Washington and was for some time the Acting Ambassador. He is a graduate in Economics from the Catholic University in Lima. Mr. Wagner speaks excellent English.

Dr. Javier Tantalean

He is head of the National Planning Institute and in his late 30s. An economist, with work experience with the Andean Group, he is known to favor an expanded role or state economic planning. Dr. Tantalean speaks little English.

Ambassador Cesar Atala

Ambassador Atala (68) is a long standing member of APRA. President Garcia appointed him Minister of Industry, Commerce, Tourism and Integration upon assuming office last July. Prior to that ~~Ambassador Atala~~ had worked for many years with the IDB. While serving as Minister of Commerce, he briefly was responsible for dealing with the commercial banks on the external debt issue. He is known as a moderate. Ambassador Atala speaks excellent English. He was appointed Ambassador to Washington in January 2, 1986.

LATIN AMERICA AND THE CARIBBEAN REGION

COUNTRY: PERU
 OPERATIONS PROGRAM: FY86-90
 AS OF END DECEMBER 1985

SECTOR			FY86	FY87	FY88	FY89	FY90	TOTAL
AGRICULTURE	PA063-IRRIG REHAB III-D	L	.	40.0	.	.	.	40.0
	PA066-AGRICULTURAL CREDIT	L	.	.	.	90.0	.	90.0
	PA067-RURAL DEVT IV	L	.	.	.	.	40.0	40.0
	PA101-AGRIC CREDIT	L	.	.	.	.	90.0	90.0
*TOTAL SECTOR AGRICULTURE			.0	40.0	.0	90.0	130.0	260.0
ENERGY + POWER	PA084-POWER ENG II-A	L	13.5	.	.	.	.	13.5
	PA064-POWER VIII-D	S	.	.	.	.	100.0	100.0
*TOTAL SECTOR ENERGY + POWER			13.5	.0	.0	.0	100.0	113.5
INDUSTRY + IDF	PA073-BAYOUAR II-PHOS FERT	L	.	.	.	60.0	.	60.0
	PA070-SMALL SCALE ENT II	S	.	.	.	40.0	.	40.0
	PA100-INDUS SECTOR	S	.	.	.	.	100.0	100.0
*TOTAL SECTOR INDUSTRY + IDF			.0	.0	.0	100.0	100.0	200.0
INFRASTRUCTURE	PA065-ROAD REHAB-D	L	.	.	70.0	.	.	70.0
	PA095-MARITIME DEVT.	L	.	.	.	15.0	.	15.0
	PA099-RAILWAY DEVT.	L	.	.	.	.	50.0	50.0
*TOTAL SECTOR INFRASTRUCTURE			.0	.0	70.0	15.0	50.0	135.0
NON-PROJECT	PA062-PUB SECTOR MGMT I-D	M	15.0	.	.	.	.	15.0
	PA091-RAILWAY TA-C	M	.	9.7	.	.	.	9.7
*TOTAL SECTOR NON-PROJECT			15.0	9.7	.0	.0	.0	24.7
*TOTAL COUNTRYNAME PERU			28.5	49.7	70.0	205.0	380.0	733.2

MMCDARTHY, LCNPC
 01/09/86

1982 - 432.9
 1983 130
 1984 40
 1985 586.1
 1986 109.5
 28.5

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WBG ARCHIVES

① Disappointed with the talk
 ② Budget deficit has increased.
 ③ Program is not going in right direction
 ④ Status of implementation

DATE: February 11, 1986
 TO: Mr. A.W. Clausen
 THROUGH: Mr. Ernest Stern
 FROM: A. David Knox
 RE: PERU: Arrears

1. Yesterday's IMF Board meeting went badly for Peru. The Directors expressed disappointment with the small payment made so far (only SDR 1.7 million) and requested that the Managing Director indicate his "firm expectation" that Peru will be declared ineligible to use Fund resources if it is not current by April 16, 1986. The Article IV Consultation Mission is scheduled to go to Lima on March 3, 1986; it will not have the mandate to discuss a delayed payment schedule for the arrears, as the Peruvians had requested.

2. The meeting of the Steering Committee of commercial banks has been postponed to February 26, 1986. The banks strongly insist that the Government appoint a spokesman with clear authority to negotiate seriously on its behalf. They also feel that a "token payment" of interest on medium-term debt would go a long way to counter the growing impatience of the more than 300 banks.

3. On February 7, 1986, President Garcia pronounced a number of reactivation measures, including salary increases, and reduction of taxes, interest rates, power tariffs and diesel fuel prices; and a continued freezing of the exchange rate. He also promised full labor stability and certain subsidies and support actions in agriculture and industry. We are still evaluating these measures, but generally it can be said that most point in the wrong direction, are inconsistent with our CEM and would make an eventual transition to a more open, growth oriented strategy more difficult.

PEigen/bw
 cc: Mr. Steckhan (o/r), Meo (LC1DR)

Richard Wells
 former Hd of Central Bank

IMF Gives Peru Deadline To Pay \$75 Million Arrears

By James L. Rowe Jr.
Washington Post Staff Writer

The International Monetary Fund told Peru yesterday that if it does not clear up \$75 million in past-due loan payments by mid-April, the country will be declared "ineligible" to borrow from the multinational agency.

The action by the IMF's executive board was harsher than the recommendation from the agency's staff, which suggested that the board merely schedule another review of Peru's arrears in 90 days and at that time, if the country has not brought itself up to date, set a date on which Peru would become ineligible.

Agency sources said the directors, who represent the 149 nations that make up the IMF, were upset both because Peruvian President Alan Garcia has refused to negotiate a new loan agreement with the international agency and because Peru, with about \$1.5 billion in foreign exchange reserves, can afford to keep current its IMF debts.

About \$200 million of Peru's \$14 billion in foreign debt is with the IMF.

The IMF staff, including managing director Jacques de Larosiere, believed they detected a change in attitude on the part of Garcia, who last September stopped making any repayments to the IMF. In recent weeks Peru made tiny payments both to the IMF and to commercial banks. Peru owes commercial banks about \$6 billion and is in arrears on principal and interest to its bank lenders by about \$2.2 billion.

Monetary sources said that Peru had been expected to make another token payment to the IMF yesterday to show its good faith, but that the country refused to do so. Apparently the failure to make any further payments convinced the executive board to turn down the staff recommendation and adopt a stiffer approach.

A declaration of ineligibility is more a diplomatic than real sanction, since Peru is not able to borrow more money from the IMF both because it has no economic and loan agreements with the IMF and because it is in arrears on its repayment schedule.

Garcia, who took office last July, said he will limit Peru's yearly debt payments to 10 percent of its \$3 billion in export revenue and that agencies from which Peru does expect to receive future loans will be the last to be repaid.

Peru refuses to negotiate a loan agreement with the IMF, and commercial banks generally decline to make new loans to debtor countries that are out of compliance with the IMF. As a result, banks and the IMF are at the end of the line for Peru's payments. Peru accumulated its IMF debt for several years, before it fell out of compliance with the economic program it had agreed to undertake.

Although Peru has paid its bank lenders only sporadically during the last several years, the country had remained current on its IMF payments until September.

A handful of countries, including Sudan and Liberia, have been declared ineligible by the IMF. Ineligibility does not mean a country is suspended from membership or that it cannot continue to try to negotiate a new loan agreement and economic program.

In Sudan's case, for example, the fund and the country are trying to develop a new economic program that would make Sudan eligible again to borrow.

The Peru that Garcia inherited in July was reeling from mismanagement, a heavy debt load, declining markets for its exports and heavy inflation.

Garcia immediately instituted a wage and price freeze to slow inflation, promised to cut federal spending and streamline the government.

But Garcia declined to negotiate with the IMF, alleging that the types of austerity programs the agency generally recommends would not be good for Peru. Generally, the IMF wants countries to slow their money growth and cut government spending to slow down inflation and reduce their need to borrow from abroad.

It also generally recommends that countries devalue their currencies to make their exports more competitive and their imports more expensive. Although the initial impact of a devaluation is inflationary, it permits countries to earn more

dollars to meet their foreign obligations.

Some international observers are bewildered by Garcia's actions, especially since he instituted on his own many of the kinds of measures that might have won an IMF loan agreement and easier repayment terms and new money from bank lenders. Fresh outside loans generally allow a country to institute austerity measures more slowly than they otherwise would have to.

Garcia, for example, under heavy political pressure, announced a relaxation in the anti-inflation policy. He cut taxes and raised the minimum wage for non-union and state employees by 25 percent. The action, however, will make it difficult to bring the nation's budget into balance.

Peru relied on Argentina as a model for much of its anti-inflation program. But unlike Argentina, which made peace with the IMF last June, Garcia took tough measures but declined to deal with the IMF or the international banking community. Peruvian observers said that confronting the banks and the IMF plays well in highly nationalistic Peru.

Peru, like other debtors, has suffered from the decline in commodity prices in recent years. But Peru, with limited exports, has been harder hit than many and failed to share in the general boom that most Latin American countries experienced in the late 1970s and early 1980s.

Peru also has had to cope with an increasingly dangerous guerilla movement, the Shining Path. The guerillas for years confined their activities to rural Peru, but in recent months have made terrorist strikes in the capital, Lima.

Last Friday, a subdued Garcia announced in a television address that, because of increased terrorism in the capital city, Lima was being placed under a state of siege.

Many analysts think Peru's exchange rate is overvalued. That helps keep down the price of imported goods, but impedes Peru's ability to export.

LATIN AMERICA AND THE CARIBBEAN REGIONAL OFFICE
 FY86 OPERATIONS PROGRAM
 BOARD SCHEDULE

COMMENTS	BANK (\$)	IDA (SDR)	QTR 1	QTR 2	JAN.	FEB.	MAR.	QTR 4
UYANA								
AUXITE TA-C	.0	6.4						04/08
SUB-TOTAL		6.4						
HAITI								
TRANSPORT VII-B	.0	24.0						05/20
SUB-TOTAL		24.0						
HONDURAS								
	.0	.0						
JAMAICA								
	.0	.0						
MEXICO								
HOUSING DEVT-A	150.0	.0	08/27A					
AGR. CREDIT-A	180.0	.0	07/23A				03/18	
INDUS. RECOVERY-A	150.0	.0					03/18	
PRODERITH II-A	114.0	.0					03/25	
EMERGENCY RECONST.-A	400.0	.0						04/08
SOLID WASTE PILOT-B	25.0	.0						
SUB-TOTAL	1,019.0							
*MUNICIPAL DEVT-B	40.0	.0						04/08
*TRADE DPL-C	300.0	.0						05/20
NICARAGUA								
	.0	.0						
PANAMA								
	.0	.0						
PARAGUAY								
	.0	.0						
PERU								
POWER ENG II-A	13.5	.0	07/02A					06/00
PUB SECTOR MGMT I-D	15.0	.0						

OFFICE MEMORANDUM

DATE: December 17, 1985

TO: Mr. A. David Knox

THROUGH: Rainer B. Steckhan, Director, LC1

FROM: Peter Eigen, Division Chief, LC1PA

EXTENSION: 75791

SUBJECT: PERU - Reply to Letter to Mr. Clausen from Minister Alva Castro
Re. Amendments of Amortization Schedules

1. I have attached for your signature a proposed letter to Minister Alva Castro regarding his request to amend the amortization schedules for Bank loans to Peru.
2. In accordance with your handwritten note we have explored the matter carefully with Legal and with Mr. Stern's office. Mr. Clements discussed the proposed reply letter with Mr. Stern and has given his informal approval to our issuing the letter. (Mr. Stern wanted to make sure that there were precedents for what we were proposing and that there would be loans that could be candidates for meeting Bank conditions for a proposed revision of amortization schedules, if the Peruvian still wished to go ahead with such action after receiving our reply.)
3. The Bank policy for extending grace periods beyond a country's standard terms is described in OMS No. 120, paragraph 12. In August 1985, the Board approved an extension of the grace period for a loan to Argentina which follows the OMS guideline.
4. For your information, we have attached the incoming letter and its translation.

RKanchuger:drs

Attachments(2)

cc: Messrs./Mesdames: Southworth, EXC
Clements, SVPOP
Grothe, Markham, LOALE
Molares, LEGLC
Rios, LCPT2
de Franco, Moscote, LCPEN
Khoury-Haddad, EGYD2
Thumm, Res. Rep.

OK
WS
12-24-85

December 17, 1985

His Excellency
Luis Alva Castro
Minister of Economy and Finance
Ministry of Economy and Finance
Av. Abancay 5a. Cuadra
Lima, Peru

Dear Mr. Minister:

Mr. Clausen has referred your letter to him of November 5, 1985 to me for reply. Your letter asks that the Bank's Executive Directors amend the payment schedule of World Bank loans to Peru so that the first amortization payment will become due six months after the last loan disbursement.

The World Bank has a policy of fixed grace periods and final maturities for loans based on country per capita GNP. Peru currently falls into the category of countries which qualify for loans of 17 years, including four years of grace. There are only very limited exceptions to this policy that are considered on a project-by-project basis. In addition, if the grace period is extended in individual loans, the Bank requires that the period for the final maturity of the loan must be reduced by one year for each six month increase in the grace period. Thus, if we were to extend the grace period in a loan to Peru from four to five years, the maturity of the loan would be reduced from 17 to 15 years.

The Bank would be prepared to consider extending the grace period for loans to Peru under the following circumstances:

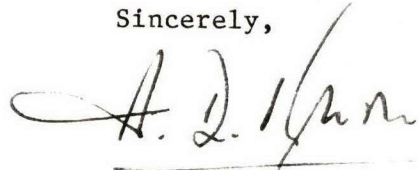
- a) The loan is one to a revenue generating entity;
- b) the entity's financial projections justify the granting of the extension; and
- c) the extension of the grace period would be for a fixed period and would probably not exceed two years, since a longer extension would likely result in an undesirable ballooning of amortization payments.

We have briefly reviewed the Peru loans and believe that the three most likely candidates that could be considered for extension of grace periods are the Sixth Power Project (Loan 2179-PE), the Petroleum Product Enhancement Loan (Loan 2195-PE) and the Aviation Project (Loan

1963-PE). If you would like the Bank to consider an extension of grace periods subject to the conditions I have described, please advise us of which loans you wish to have so considered, along with supporting financial projections and any special conditions that you may wish to have considered.

You may direct your staff working on this matter to deal directly with our Resident Representative in Lima, Mr. Ulrich Thumm, or the Bank's Loan Officer for Peru, in Washington, Robert Kanchuger.

Sincerely,

A handwritten signature in cursive script, appearing to read "A. D. Knox".

A. David Knox
Regional Vice President
Latin America and the Caribbean

TRANSLATION OF MINISTER ALVA CASTRO'S LETTER
TO MR. CLAUSEN DATED NOVEMBER 5, 1985

Lima, 5 de noviembre de 1985

Mr. Clausen:

I refer to the outstanding debt of my country on projects that are being financed by the World Bank.

As you know, the Government of Peru has advised the international financial community that Peru would service its debt realistically, establishing a payments limit equal to 10 percent of export revenues and that the payments to international organizations will have priority. However, the critical fiscal situation of the country demands that we seek better means of utilizing available resources which would allow us to both continue with investments under execution and to meet our commitments to the international organizations.

In this regard, it is important to note that there have been delays in project execution and disbursement, which have resulted in our beginning amortization payments before disbursements have been completed. This situation causes a double effort as far as the financial resources that will be required to cover the needs of the projects and the payment of the debt before having first received the financial returns or benefits of projects.

In my capacity as Governor for Peru and on behalf of my Government, I request that the Board of Directors of the Bank amend the payment schedules of World Bank loans in such a way so that the first amortization payment will become due six months after the last disbursement.

Kindest regards,

Luis Alva Castro
Minister of Economy and Finance



MINISTERIO DE ECONOMIA Y FINANZAS

OFICIO Nº 1820 -85-EF/15.-

Lima, 05 de noviembre de 1985

Señor
Alden W. Clausen
Presidente del Banco Mundial
1818-H Street
N.W.
Washington D.C. 20433

Tengo el agrado de dirigirme a usted, en relación de los adeudos generados por los préstamos que se vienen ejecutando en mi país con la asistencia financiera del Banco Mundial.

Como es de su conocimiento, el gobierno del Perú ha planteado a la Comunidad Financiera Internacional atender el servicio de deuda en una posición realista fijándose un límite del 10% de las exportaciones, dando prioridad para atender los pagos a los Organismos Internacionales. Sin embargo, la delicada situación fiscal por la que atraviesa nuestro país exige buscar los mejores mecanismos que permitan adecuar nuestra disponibilidad de recursos a las necesidades propias de continuar con nuestras inversiones que se encuentran en ejecución, así como cumplir con el cometido prioritario de atender los pagos adeudados provenientes de los organismos internacionales.

Al respecto, debo mencionarle que algunos proyectos se encuentran con atrasos en la ejecución con importantes montos por desembolsar mientras que por otro lado, se debe atender los repagos del principal. Esta situación ocasiona un doble esfuerzo de liquidez para atender las necesidades de los proyectos y el pago de deuda sin haber obtenido los retornos o beneficios esperados.

En tal sentido, en mi calidad de Gobernador del Perú y en nombre de mi gobierno solicito a su digna Presidencia someter a su directorio - que se autorice para el Perú la modificación en los calendarios de amortización de tal manera que en todos los casos la primera cuota

/.



MINISTERIO DE ECONOMIA Y FINANZAS

|| de amortización sea reembolsada después de 6 meses del último desembolso.

Aprovecho la oportunidad para reiterarle los sentimientos de mi especial consideración y estima personal.

Atentamente,

[Faint, illegible text, possibly a name or title]

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex
IMPORTANT — PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM

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ABBREVIATION

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START
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MR. ULRICH THUMM, RESIDENT REPRESENTATIVE, LIMA PERU

TELEX PARA

DR. ALAN GARCIA PEREZ

PRESIDENTE ELECTO DE LA REPUBLICA

EN NOMBRE DE MIS COLEGAS EN EL BANCO MUNDIAL Y EN EL MIO PROPIO

TENGO EL HONOR DE ENVIARLE NUESTRAS EFUSIVAS FELICITACIONES

EN OCASION DE SU ELECCION COMO PRESIDENTE DE LA REPUBLICA DEL

PERU. HAGO PROPICIA ESTA OPORTUNIDAD PARA MANIFESTARLE

NUESTROS DESEOS DE COLABORAR CON SU GOBIERNO EN SUS ESFUERZOS

EN DESARROLLAR LA ECONOMIA DE SU PAIS. AL ENVIARLE SENOR

PRESIDENTE NUESTROS MEJORES VOTOS DE EXITO EN EL DESEMPEÑO

DE SUS NUEVAS FUNCIONES, ME ES GRATO MANIFESTARLE LAS

EXPRESIONES DE NUESTRA ALTA CONSIDERACION. A. W. CLAUSEN.

PRESIDENTE, BANCO MUNDIAL. INTBAFRAD

END
OF
TEXT

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INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE:	TELEX NO.: 25391	DATE:
SUBJECT: PERU - General	DRAFTED BY: <i>BKanchuger</i> BKanchuger	EXTENSION: 75921
CLEARANCES AND COPY DISTRIBUTION: cc. Messrs. Stern, Knox, Steckhan, LC1	AUTHORIZED BY (Name and Signature): A. W. Clausen <i>A. W. Clausen</i>	
	DEPARTMENT:	
SECTION BELOW FOR USE OF CABLE SECTION		
CHECKED FOR DISPATCH		

TRANSLATION OF CONGLATURATORY TELEX FOR
MR. CLAUSEN'S SIGNATURE TO PERU'S PRESIDENT ELECT

MY COLLEAGUES AND I AT THE WORLD BANK WISH TO
CONGRATULATE YOU ON YOUR ELECTION. WE LOOK
FORWARD TO WORKING WITH YOUR GOVERNMENT IN ITS
EFFORTS TO FURTHER THE ECONOMIC DEVELOPMENT OF
YOUR COUNTRY. PLEASE ACCEPT OUR VERY BEST WISHES
FOR A MOST SUCCESSFUL PRESIDENCY. REGARDS. CLAUSEN.

A handwritten signature in dark ink, appearing to be the name 'CLAUSEN', written in a stylized, cursive-like font.

June 3, 1985

OFFICE MEMORANDUM

*file*95
DATE: March 25, 1985

TO: Rainer B. Stockhan, Director LC1

FROM: Peter Eigen, Division Chief LC1PA

EXTENSION: 75924

SUBJECT: PERU - Visit of Agriculture Minister Hurtado Miller

1. On March 21, Peruvian Agriculture Minister Juan Carlos Hurtado Miller met with me and LAC staff members Adrian Otten and Alfredo Guzman (LCPA) and Charlotte Jones-Carroll (LC1PA) to discuss the Bank's recent cable (of February 28, 1985) regarding his proposed "ahorre pagando" scheme for the Agriculture Bank (BAP). He stated that the cable had responded negatively to the proposal, which Peru had invested considerable funds in developing, without adequately detailing our objections. He also complained that he did not know the person who had signed the cable.

2. We pointed out, in reply, that the cable had referred to our two previous responses (letter of October 22 and cable of January 4) in which we had spelled out the reasons we could not support application of the World Bank loan funds to the proposed scheme. Thus we had not felt it necessary again to detail our objections. We also explained that the signer of the cable was the new Agriculture Projects Deputy Division Chief and apologized that our cables to the project agencies announcing his arrival had not reached the Minister. Additionally, I described to the Minister the Bank's deep interest in supporting Peru, even in this critical period, expressing our concern that macro and sector policies be appropriate so that Bank resources would be well used, rather than simply further indebting the country.

3. Minister Hurtado, and his companions, consultants Manuel Aguirre and Miguel Del Solar, once again presented their technical arguments in favor of the scheme (which essentially asks borrowers to advance pay interest equal to 10% of the loan amount, which BAP would invest in dollar lending). Bank staff once again provided technical rebuttals to the proposal. We also noted that the Central Bank had opted for a different strategy (indexing of principal) and that successful discussions were underway with BAP management to apply methods other than "ahorre pagando" to improve their financial returns. (Neither Central Bank nor BAP agree with the Minister's scheme and both refused to join his trip.)

4. After offering to meet separately to continue the working level discussions, we noted that nothing would stop the Government from initiating a pilot test of the scheme with non-Bank funds, should they want to do that. They agreed to meet with us once again following a visit to the IDB (IDB does not support the Minister's scheme either).

5. We are sending a copy of this memo to Mr. Clausen's office. The Minister had arranged, with the help of former Senator Hartke from Indiana, a meeting with Mr. Clausen to discuss our cable of February 28, 1985.

cc: Messrs. Clausen
Otten, LCPA
Guzman, LCPA
Kanchuger, LC1PA
Thumm, Res. Mission Lima
Adams, IFC

CJones-Carroll:jaf

OFFICE OF THE PRESIDENT

1985 MAR 27 AM 9:50

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WORLD BANK OUTGOING MESSAGE FORM Cable, Telex
IMPORTANT—PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM

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Box!

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(FOR CASHIER'S USE ONLY)

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SENATOR MANUEL ULLOA, PRESIDENT OF THE SENATE, LIMA, PERU.
DEAR SENATOR, MR. CLAUSEN IS PRESENTLY TRAVELING AND WILL
UNFORTUNATELY NOT BE AVAILABLE ON THE SUGGESTED DATES. I WOULD
BE VERY PLEASED TO SEE YOU AND MR. JAVIER ALVA ORLANDINI ON
EITHER MARCH 6 AT 11:30 IN THE MORNING OR AT 2:30 IN THE
AFTERNOON. I WOULD ALSO BE AVAILABLE ON FRIDAY, MARCH 8 AT 10:30
OR 11:00 A.M. REGARDS A. DAVID KNOX, VICE PRESIDENT, LATIN
AMERICA AND THE CARIBBEAN, INTBAFRAD.

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INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: TELEX	TELEX NO.: 2000 PE	DATE: Feb. 28/85
SUBJECT: PERU - GENERAL	DRAFTED BY: RKANEHUGER:drs	EXTENSION: 75921
CLEARANCES AND COPY DISTRIBUTION: cc and Cleared with: Mr. Steckhan, LC1DR	AUTHORIZED BY (Name and Signature): A. David Knox	
cc: Messrs.: Clausen, Stern.	DEPARTMENT: LCNVP	
SECTION BELOW FOR USE OF CABLE SECTION		
CHECKED FOR DISPATCH		

2/25 Have asked Knox office
for recommendation

EXC

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RCA FEB 25 1256
248423 WORLDBK

FEBRUARY 25, 1985

MR. ALDEN CLAUSEN
PRESIDENT
WORLD BANK

I AM ARRIVING IN WASHINGTON, D.C. WITH JAVIER ALVA ORLANDINI, SECOND VICE-PRESIDENT OF PERU AND CANDIDATE OF MY PARTY TO THE PRESIDENCY OF THE REPUBLIC IN THE 1985 ELECTIONS.

YOU MAY ALSO KNOW THAT I AM CANDIDATE FOR THE FIRST VICE-PRESIDENCY AND HEADING THE LIST OF SENATORS FOR THE SAME ELECTIONS. WE ARE PLANNING TO BE IN WASHINGTON, D.C. ANY TIME AT YOUR CONVENIENCE BETWEEN THE 6 AND 10 OF MARCH AND BOTH ALVA AND MYSELF WOULD LIKE VERY MUCH TO HAVE THE OPPORTUNITY TO MEET WITH YOU TO DISCUSS NATIONAL AND REGIONAL PROBLEMS OF MUTUAL INTEREST.

IT WILL BE GREATLY APPRECIATED IF YOU COULD TELEX ME YOUR ANSWER TO OUR REQUEST.

BEST REGARDS,

MANUEL ULLOA
PRESIDENT OF
THE SENATE

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248423 WORLDBK
20002PE SEN REP

EXC

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RCA FEB 25 1256P
248423 WORLDBK

FEBRUARY 25, 1985

MR. ALDEN CLAUSEN
PRESIDENT
WORLD BANK

I AM ARRIVING IN WASHINGTON, D.C. WITH JAVIER ALVA ORLANDINI, SECOND VICE-PRESIDENT OF PERU AND CANDIDATE OF MY PARTY TO THE PRESIDENCY OF THE REPUBLIC IN THE 1985 ELECTIONS.

YOU MAY ALSO KNOW THAT I AM CANDIDATE FOR THE FIRST VICE-PRESIDENCY AND HEADING THE LIST OF SENATORS FOR THE SAME ELECTIONS. WE ARE PLANNING TO BE IN WASHINGTON, D.C. ANY TIME AT YOUR CONVENIENCE BETWEEN THE 6 AND 10 OF MARCH AND BOTH ALVA AND MYSELF WOULD LIKE VERY MUCH TO HAVE THE OPPORTUNITY TO MEET WITH YOU TO DISCUSS NATIONAL AND REGIONAL PROBLEMS OF MUTUAL INTEREST.

IT WILL BE GREATLY APPRECIATED IF YOU COULD TELEX ME YOUR ANSWER TO OUR REQUEST.

BEST REGARDS,

MANUEL ULLOA
PRESIDENT OF
THE SENATE

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248423 WORLDBK
20002PE SEN REP

OFFICE MEMORANDUM

DATE: September 25, 1984

TO: Mr. A. W. Clausen

FROM: A. David Knox 

EXTENSION: 75901

SUBJECT: PERU - Meeting with President Fernando Belaunde Terry

1. You are scheduled to meet with President Belaunde at 7:45 P.M. on Wednesday, September 26, at the Peruvian Embassy, 3001 Garrison Street, N.W.
2. Mr. Belaunde will very likely wish to discuss with you Peru's pressing fiscal and debt problems and seek your assistance in dealing with them. These problems have been described in the Annual Meeting Brief that was previously submitted to you.
3. We understand that the Peruvian Minister of Economy proposed some adjustment measures to President Belaunde before departing for Washington, which would have increased taxes and reduced expenditures on several projects. The most important measure would have been a major gasoline price increase. The President reportedly rejected the Minister's proposal. As a result, the Minister felt that he had nothing to offer the IMF and cancelled the meeting that was supposed to have been held with Mr. de Larosiere on Friday, September 21. (The Minister also cancelled the meeting that was to be held with the LAC region on September 25.) The Fund-Peruvian discussions on the standby have, therefore, come to a halt. The Government has meanwhile been unsuccessful in its attempt to tap the Central Bank for additional credit. As a result it is becoming increasingly difficult for it to meet its domestic financial commitments and its external debt service requirements. The press has reported that Peru is now more than 90 days overdue on its interest payments to commercial banks, forcing the banks to report some of their loans to Peru as non-accruing for the current quarter. Although the Bank has received about US\$7 million in payments from Peru on September 25, there are still about US\$2.8 million in overdue payments outstanding. The Peruvian authorities appear to be making a sincere effort to clear up all of the late payments to the Bank.
4. It is possible that President Belaunde may ask the Bank for immediate non-project financial assistance. It is also possible that he may ask you to intercede on Peru's behalf with the U.S. or the Fund.
5. Peru--as explained in the Annual Meeting Brief--has not pursued sound economic policies. Under the circumstances there is little that the Bank can do other than to advise the President that the country will have to come to terms with the IMF and take major adjustment measures.

Mr. Clausen

- 2 -


September 25, 1984

6. I have attached biographical data on President Belaunde for your information.

Attachment

Cleared with and cc: Messrs. Eigen, LC1PA
White, LC1PA
Thumm, Res. Rep.

cc: Messrs. Steckhan, LC1
Pfeffermann, LCNVP
Quijano, LCNVP
Thobani, LC1PA
White, LC1PA

 RKanchuger:lt

President Fernando Belaunde Terry
Biographical Data

President Fernando Belaunde Terry was born in Lima on October 7, 1912. He has twice served as President. He was elected President in 1963 and served until he was overthrown by a military coupe in 1968. From 1968 to 1978 he taught at Harvard, Colombia, Johns Hopkins, American and George Washington Universities.

A great-grandson of a 19th century Peruvian President, President Belaunde is an architect by profession. He received a degree in architecture from the University of Texas, and was the first dean of the faculty of architecture at Peru's National Engineering University. His professional interest in architecture has carried over into his political life, where he has been the proponent of a vast road scheme linking the Peruvian jungle, large housing programs and extensive irrigation and land reclamation works. President Belaunde's term expires in April 1985 and he is not seeking re-election.

September 24, 1984
RKanchuger:dr

A. W. CLAUSEN
President

September 18, 1984

Dear Eduardo:

Just a note to let you know that I'll be here in the office the week of October 1 and would be pleased to meet with the President of Peru at the Embassy. Please let my office know when he is available and we'll make the necessary arrangements.

Warm regards.

Sincerely,

(Signed) A. W. Clausen

Mr. Eduardo Zalduendo
Executive Director
Room E-1145

BC: Mr. Ernest Stern (w/incoming)
Mr. David Knox "

VRS: sbp: hh

(Log #1069)

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Executive Director

September 14, 1984

1069

Mr. A.W. Clausen
President
The World Bank
Washington, D.C.

Dear Mr. Clausen:

The Ambassador of Peru to the United States, H.E. Luis Marchand, has advised us that possibly the President of Peru, H.E. Fernando Belaunde Terry, may come to Washington, D.C. during the week of October 1st.

In the event this visit materializes they enquire whether you would be available for conversations with the President which would take place at the Embassy of Peru.

As soon as we have a definite information on the date of his arrival we will inform your office accordingly.

Sincerely yours,



Eduardo A. Zalduendo

Ray has seen 5/31

OFFICE MEMORANDUM

DATE May 29, 1984

TO Operations Policy Sub-Committee

FROM Luis de Azcarate, Director, CPD

EXTENSION 60063

SUBJECT PERU CPP: OPSC Review Meeting

1. Attached is an agenda and comments on major policy issues identified by CPD and PBD for consideration by the Sub-Committee. The suggested agenda items are:

- i) creditworthiness;
- ii) lending strategy; and
- iii) aid coordination, cost sharing and timing of an updating note.

2. The Review Meeting will be held on Thursday, May 31, 1984 at 3:30 p.m. in Room E-1208.

Attachment

cc: Messrs. Wuttke
Jansen

Region Office: Messrs. Lerdau
Steckhan
van der Meer
Eigen
Pfeffermann
Meo

PERU CPP

Topics for Discussion

In the late seventies, Peru's economic and political situation began to improve as dirigiste policies gave way to market liberalism. The change was facilitated by a surge in proceeds from petroleum exports, the end of 12 years of military rule, and the advent to government in 1980 of a democratically elected president who assembled a competent economic team friendly to the Bank and bent on pursuing market-oriented policies. Despite a host of structural problems, including a weak public administration and a highly skewed income distribution, expectations were high of accelerated development. The five-year Bank lending programs for Peru were progressively expanded from \$1,095 million for FY81-85 to \$1,755 million (in 1983) for FY84-88. The latter included allowance for structural adjustment, and a SAL was in fact being prepared for FY84. Actual lending rose from an average of \$128 million in FY79-81 to nearly \$300 million annually in FY82-83 before it was cut back sharply to \$122.5 million in FY84. A combination of external and internal factors (world recession and declining terms of trade, natural disasters and erosion of political support) weakened the government's resolve and let loose inflationary pressures and fiscal deficits. The Government's refusal to accept an exchange rate change led to the abandonment of the EFF and the SAL under preparation and much of their attendant policies. The original economic team also disbanded. The Government has been able to agree to a Standby with the Fund, but there is some doubt whether it will be able to adhere to the agreement which requires considerable austerity in the context of a program of demand management.

Given the present uncertainties, the CPP proposes consideration of two lending programs. The first of \$902 million for FY85-89 (Program A) is based on the assumption that Peru will be able to implement the current Standby program, but not to adopt a medium-term recovery program including a large step devaluation. The larger program of \$1,647 million (Program B) assumes that Peru will be able to carry out, in addition to successful stabilization, a broad based recovery program and that structural adjustment lending will become feasible by 1987.

In the light of the above, the following topics are suggested for discussion.

1. Under what conditions should Peru be considered creditworthy for Bank Lending?

The projections in the CPP assume moderately favorable external conditions and the implementation of the current stabilization program -- that is a set of domestic policies consistent with those underlying Lending Program A. Under this scenario, per capita consumption is projected to resume growth in 1985 after a second successive decline in 1984. However, recovery to the 1982 level is expected only by the early 1990s. Externally, a substantial decline is projected in the country's future current account deficits and net external financial requirements. This reflects continued

restraint in imports, combined with a recovery of manufactured exports to an eight percent growth rate, negligible growth in the volume of mineral exports but a significant recovery in their real price level. The country's debt and debt service indicators are correspondingly projected to improve significantly compared with the critical levels reached in 1983 and 1984 when rescheduling took place. While Peru is likely to remain highly vulnerable to debt servicing difficulties over the next several years because of its large debt overhang and trade dependence on a few price-volatile export commodities, it does have a cushion of foreign exchange reserves equal to around five months imports. On balance we would agree, therefore, that under the assumptions of the CPP's economic scenario, Peru is creditworthy for continued Bank lending.

There are, however, serious downside risks to this scenario. Even if the stabilization program is successfully implemented, there is a question whether manufactured exports could achieve an eight percent growth rate in the absence of a step devaluation. More importantly the ability of the Belaunde Government to implement the stabilization program in the period preceding the March 1985 elections is doubtful. If agreement with the IMF breaks down, it would put into serious question the country's ability to refinance in an orderly fashion the \$1.8 billion amortization falling due in 1985, much less to mobilize additional private capital inflow. If the country were willing to use most of its foreign exchange reserves for debt service, it could possibly meet its obligations through 1985 without help from the IMF. But this would postpone the crisis at best for only a year. There is, therefore, a strong presumption that compliance with the IMF Standby agreement should be a necessary condition for IBRD lending. In the event of a breakdown in the IMF agreement, it is likely that Peru's rating for Bank portfolio analysis would be reduced from the present IIIA to IIIB.

2. Options for Bank Lending Strategy

There is clearly a wide range of options for Bank lending strategy, depending on the evolution of Peru's policy performance. Some clarification with respect to the main options would be useful.

- a) In the event of a breakdown in the IMF Standby agreement, the above analysis suggests that the Bank should stop lending altogether. However, there may be a case for a token program focusing on the social sectors in order to maintain a presence.
- b) At the other extreme, there should in principle be no difficulty endorsing Lending Program B on the assumption that the Standby agreement is implemented, that a step devaluation takes place and that a medium term recovery program is initiated. While it now appears very unlikely that these conditions will be realized in the coming year, it would be important for our dialogue with the new Government to identify more clearly the priority policy measures that should be included in the medium-term recovery program.
- c) The CPP proposes as the "base case" adoption of lending Program A on the assumption that the Standby is implemented but that a recovery program is not adopted and that backsliding in sectoral policies takes place (para. 53). The question arises of whether,

under these conditions, Peru's longer term prospects would improve sufficiently to warrant Bank lending of \$900 million during FY85-89. To the extent that some projects in Lending Program A are themselves conditional on good performance in selected areas (e.g., DFC project in FY86 on interest rate and trade policy, power and petroleum projects on pricing policy), Lending Program A could be considerably lower than proposed in the CPP if in fact the linked policy improvements do not materialize. However, it would be useful if the Region could (a) clarify the proposed policy conditionality and (b) confirm that it proposes no substitution of other lending if the recommended conditionality is not met.

- d) Given the uncertainties about the medium term outlook, the CPP proposes approval of only the FY85-86 lending programs at this time (para. 89). However, for this period, the range is from \$212 million in option A to \$502 million in option B. For present planning purposes the former seems to be by far the more realistic alternative.

3. Other Issues

- a) In view of the different economic situation and the importance for all concerned of seeing Peru through its current debt servicing problems, are we doing enough by way of aid coordination among lenders including the commercial banks?
- b) Are the proposed project cost sharing arrangements appropriate? At the 1981 CPP review, the Region was authorized to finance up to 50% of total costs in operations with low foreign exchange components such as social sector projects. In October 1982, an increase in the project cost sharing ratio to 60% was approved by the acting SVPO for social sector projects and the 50% limit was retained for other projects. The CPP proposes to continue these current cost sharing arrangements. Given that these are more generous terms than those approved for other countries in broadly comparable economic situations (e.g., Ecuador, where the approved ratios are 50% for social sector projects and 35% for others), should they not be conditional on satisfactory performance under the IMF Standby arrangement?
- c) We support the Region's proposal that an updating note on the CPP be prepared shortly after the advent of the new administration, say around mid-1985.

Annex I compares the IBRD proposed lending program with those previously approved.

Annex II shows selected comparative country indicators.

Annex III shows some relevant indicators of external debt and its service.

PERU

Annex 1

	Actual		Current	Program					Five-Year Totals		
	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY82-86	FY84-88	FY85-89
<u>Operations Program (No.)</u>											
Approved, February 1981	8	7	7	5	3	..	..	..	30	..	..
Proposed, May 1984											
Lending Program A	6	6	2	2	3	7	5	4	19	19	21
Lending Program B	6	6	2	7	6	7	6	6	27	28	32
<u>Lending Program (No.)</u>											
Approved, February 1981	5	5	4	3	3	..	..	..	20	..	..
Rev. Std. Table IVa, Feb. 1984	6	6	2	5	6	4	4	..	25	21	..
Proposed, May 1984											
Lending Program A	6	6	2	2	3	3	4	3	19	14	15
Lending Program B	6	6	2	4	5	5	5	5	23	21	24
<u>Lending Program (Cur.\$m)</u>											
Approved, February 1981	235.0	250.0	250.0	215.0	250.0	..	..	..	1200.0	..	..
Rev. Std. Table IVa, Feb. 1984	286.7	302.2	125.0	317.0	375.0	475.0	355.0	..	1405.9	1647.0	..
Proposed, May 1984											
Lending Program A	286.7	302.2	122.5	47.0	165.0	210.0	200.0	280.0	923.4	744.5	902.0
Lending Program B	286.7	302.2	122.5	292.0	210.0	360.0	335.0	450.0	1213.4	1319.5	1647.0
<u>Lending Program (Const. FY84 \$m)</u>											
Approved, February 1981	268.6	268.8	250.0	199.1	215.0	..	..	..	1201.5	..	..
Rev. Std. Table IVa, Feb. 1984	327.7	324.9	125.0	293.5	322.4	381.2	267.3	..	1393.5	1389.4	..
Proposed, May 1984											
Lending Program A	327.7	324.9	122.5	43.5	141.9	168.5	150.6	198.4	960.5	627.0	702.9
Lending Program B	327.7	324.9	122.5	270.4	180.6	288.9	252.3	318.9	1226.1	1114.7	1311.1
Commitment Deflator (FY84 = 100)	87.5	93.0	100.0	108.0	116.3	124.6	132.8	141.1			

Note: November 1983 Review Group Decisions: FY84-85: IBRD \$765 million
 FY86-88: IBRD \$990 million.

PBD/CP
 5/21/84

COMPARATIVE COUNTRY ANALYSIS

Peru experienced moderate growth in GDP in the past decade (below that of the comparator countries). However, export growth was above average. The debt service ratio jumped in 1981 to over 50 percent and is expected to remain high over the next few years. Social indicators are about the norm for countries at the same level of per capita income.

	<u>PERU</u>	<u>COLOMBIA</u>	<u>TUNISIA</u>	<u>ECUADOR</u>				
<u>Economic Structure</u>								
Population 1982 (millions) <u>b/</u>	17.4 <u>a/</u>	27.0	6.7	8.0				
GNP Per Capita 1982 \$US <u>b/</u>	1250.0 <u>a/</u>	1460.0	1390.0	1350.0				
% Agriculture in GDP 1982 <u>b/</u>	8.3 <u>a/</u>	26.0	15.0	11.0				
% Industry in GDP 1982 <u>b/</u>	39.0 <u>a/</u>	31.0	36.0	40.0				
% Services in GDP 1982 <u>b/</u>	52.1 <u>a/</u>	42.0	49.0	49.0				
Debt Service Ratio 1982 <u>b/</u>	51.5 <u>a/</u>	18.3	15.4	30.8				
<u>Economic Performance</u>								
Real GDP Growth Rate, 1970-82 <u>b/</u>	3.0	5.4	7.0	8.1				
Real Merchandise Exports Growth Rate, 1970-82 <u>b/</u>	4.8	2.2	-0.1	-1.3				
Investment/GDP 1982 <u>c/</u>	17.1 <u>a/</u>	34.3 <u>e/</u>	35.0	32.4				
Exports GNFS/GDP, 1982 <u>c/</u>	18.7 <u>a/</u>	15.3 <u>e/</u>	42.9	27.7				
Resource Balance/GDP, 1982 <u>c/</u>	-2.9 <u>a/</u>	-5.1 <u>e/</u>	-11.3	-1.2				
Current Account Balance/GDP, 1982 <u>b/</u>	-7.6 <u>a/</u>	-6.5	-9.3	-8.1				
Gross Domestic Savings/GDP, 1982	14.2 <u>a/</u>	29.2 <u>e/</u>	23.7	-31.2				
Government Revenue/GDP, 1981 <u>c/</u>	45.7 <u>a/&f/</u>	9.8 <u>d/</u>	35.3	12.8				
<u>Recent Social Indicators g/</u>								
Population Growth Rate	2.2 <u>a/</u>	2.0	2.2 <u>h/</u>	3.3				
% Change in Crude Birth Rate (1960-82) <u>b/</u>	-27.2	-38.3	-27.0	-19.5				
% Change in Crude Death Rate (1960-82) <u>b/</u>	-41.4	-58.8	-51.9	-52.9				
Infant Mortality Rate (per 1,000)	85.4	55.1	87.6	79.8				
Life Expectancy (years)	57.9	63.3	60.6	61.7				
Adjusted Education Enrollment								
- Primary	112.0	128.0	103.0	107.0				
- Secondary	56.0	46.0	27.0	40.0				
Adult Literacy Rate	80.0	81.0	62.0	81.0				
<u>Lending Program</u>								
	<u>FY79-83</u>	<u>FY84-88</u>	<u>FY79-83</u>	<u>FY84-88</u>	<u>FY79-83</u>	<u>FY84-88</u>	<u>FY79-83</u>	<u>FY84-88</u>
Nominal IBRD \$USM	971.7	735.0 <u>i/</u>	1749.2	3000.0	731.9	741.0	453.3	415.0
p.c.p.a. Lending \$US	11.1	8.4	13.0	22.3	21.9	22.1	10.2	9.4
p.c.p.a. Grant Equivalent \$US	2.8	1.9	3.2	5.6	5.5	5.5	2.6	2.3
p.c.p.a. in Constant \$US 1983	12.1	7.0	14.8	18.5	24.4	18.4	11.4	7.8

a/ Peru CPP.

b/ World Development Indicators, May 1984.

c/ International Financial Statistics, IMF, May 1984.

d/ 1979 data.

e/ 1981 data.

f/ 1982 data.

g/ Social Data Indicator Sheets, EPD, June 1983.

h/ Due to emigration, the population growth rate is lower than the rate of natural increase.

i/ Proposed by the Region, representing a cut of 60 percent.

PERU: INDICATORS OF EXTERNAL DEBT BURDEN

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>Change</u> <u>1979-83</u>
	----- Billion US \$ -----					-----
						----- % -----
<u>Debt Outstanding and Disbursed</u>						
MLT Debt <u>a/</u>	7.1	7.4	7.4	8.4	10.5 <u>b/</u>	47
Short-term Debt	1.5	2.0	2.3	2.8	2.6	75
Debt Owed to IMF	0.5	0.5	0.4	0.6	0.7	42
Total	<u>9.1</u>	<u>9.9</u>	<u>10.1</u>	<u>11.8</u>	<u>13.8</u>	<u>52</u>
<u>Debt w/ Variable Interest Rates</u>	4.4	4.7	5.3	6.5	6.9	58
<u>Total Debt Service c/</u>	1.5	1.9	2.5	2.3	2.7 <u>d/</u>	85
of which: interest <u>e/</u>	(0.6)	(0.7)	(0.9)	(1.0)	(1.2)	95
<u>Exports of Goods and Services</u>	4.1	4.9	4.2	4.2	3.7	-12
	----- P e r c e n t -----					
<u>Debt to Exports Ratio</u>	219.5	203.3	238.8	282.8	376.5	72
<u>Total Debt Service Ratio c/</u>	35.3	40.1	58.8	55.2	73.8 <u>d/</u>	109
Excluding debt service on short-term and IMF debt	(32.7)	(36.8)	(52.4)	(48.1)	(61.7) <u>d/</u>	89
<u>Interest to Exports Ratio</u>	14.5	14.6	21.2	24.2	31.9	120

- a/ The corresponding CPP estimates are as follows: \$5.9 billion, 1979; \$6.2 billion, 1980; \$8.4 billion, 1981; \$9.3 billion, 1982; and \$10.1 billion, 1983. As noted in the CPP, the estimates for 1979-80 exclude private non-guaranteed debt.
- b/ This estimate includes \$8.8 billion of public and publicly-guaranteed MLT debt, as recently estimated by Peru's Ministry of Finance.
- c/ Includes IMF repurchases and charges and, for 1981-83, interest payments on short-term debt. Data on the latter are from the CPP RMSM run dated 2/23/84.
- d/ Debt service due. Debt service actually paid in 1983 was much lower because of debt rescheduling.
- e/ Interest payments on short-term debt are included in the 1981-83 figures but not in the 1979-80 figures.

Sources: Public and Publicly Guaranteed MLT Debt
1979-82: 1983-84 World Debt Tables
1983: EPD (based on recent Ministry of Finance estimates)

Private Non-Guaranteed MLT Debt
1979-82: EPD Data Bank
1983: EPD Estimates as of 3/24/84

Short-Term Debt
1979-82: BIS Data.
1983: EPD Estimates as of 3/24/84

Debt Owed to IMF
1979-83: EPD

PBD/CP
5/29/84

May 22, 1984

Dear Mr. Minister:

I appreciated very much the opportunity to meet you personally on the occasion of your visit to the Bank last week. I especially want to thank you for the book of photographs on Peru which you so kindly presented to me. It was most interesting for me to hear first hand about Peru's stabilization efforts and your optimism regarding the future. I look forward to hearing that the domestic interest rate issue we discussed has been satisfactorily resolved so that the Bank can continue to support recovery in your country's agricultural and industrial sectors.

I also look forward with pleasure to seeing you again at the Annual Bank-Fund Meetings this September.

Warm regards.

Sincerely,

A handwritten signature in black ink, consisting of a stylized 'A' followed by a horizontal line extending to the right.

A. W. Clausen

His Excellency
Ing. José Benavides Muñoz
Minister of Economy, Finance
and Commerce
Av. Abancay Qta. Cuadra
Lima, Peru

Cleared with Mr. Eigen, LAC1D

CJones-Carroll:lt

OFFICE MEMORANDUM

DATE: May 16, 1984

TO: Mr. A. W. Clausen

(Through Mr. W. Baum, Acting SVPO)

FROM: S.M.L. van der Meer, Acting RVP, LAC

EXTENSION: 75901

SUBJECT: PERU - Briefing for your Meeting with Mr. Jose Benavides,
Minister of Economy, Finance and Commerce

1. You are scheduled to meet with Mr. Jose Benavides Munoz, Peru's Minister of Economy, Finance and Commerce at 11:30 A.M. Friday, May 18, 1984. Mr. Benavides, a civil engineer, has held a number of cabinet positions in the current Peruvian Administration, including Education, Energy and Mines and, since March 1984, Minister of Economy, Finance and Commerce. He has had continuing contact with Bank staff and has been very open to Bank concerns and recommendations. Mr. Benavides speaks only a little English, so an interpreter will assist at your meeting.

2. The stated purpose of the Minister's visit is to get acquainted with officials of U.S. and international agencies. He will also be visiting the IMF, State Department and, in New York, commercial banks. He will probably take advantage of his visit with you to discuss Peru's stabilization program and their interest in assistance leading to economic recovery. He may also extend an invitation from President Belaunde to you to visit Peru; since presidential elections are less than a year away (March 1985), such a visit by you would be construed to be political and we suggest you avoid committing yourself at this time.

Economic Developments and Bank-Country Relations

3. From 1980 until early this year, Bank relations with Peru were very close. We engaged in constant dialogue, opened an office in Lima and provided technical assistance through a public sector management loan. This helped the Government to define a program of trade liberalization, reduced subsidies and private sector initiative. We also increased lending: average annual Bank commitments during 1981-83 were \$245 million compared to \$115 million during 1979-80. By 1983, however, Peru's overall performance worsened, partly because of the deteriorating international environment (low mineral prices, high interest rates) but also because the public sector continued expansionary fiscal policies at a time when austerity was vital. As a consequence, economic growth stalled and the public sector deficit grew. Natural disasters (flooding, drought) compounded their difficulties. By late 1983, the Government had violated the targets of a Fund EFF for the second year in a row, yet President Belaunde refused to consider a single step devaluation of around 30 percent, which the IMF and the Bank thought essential to economic recovery.

4. These factors, together with our recognition that this Government was unlikely to be able to sustain a structural adjustment program, led us to postpone indefinitely a \$200 million SAL which had been negotiated. We also

drastically reduced our proposed lending program (attached). We have remained on good terms with the Peruvian economic team, which continues to seek our views regarding alternative economic strategies. Within the confines of the austerity program, we are continuing to try to assure that public sector investments are for productive or high priority social projects only, while working to avoid backsliding in economic policies and encouraging the policy steps essential to recovery.

5. Some progress has been made since late 1983. Peru reached agreement with the IMF in April 1984 on a Standby arrangement which should clear the way for consolidating the 1984 commercial bank and Paris Club debt re-scheduling. Furthermore, after considering some particularly protectionist measures, such as a 40 percent import tariff surcharge and general import licensing, the Government discarded these options for now and continued an economic program not out of line with the IMF Standby. Nevertheless, we believe it will be difficult for Peru to comply with the Standby program, which is even more austere than an EFF continuation because step devaluation is excluded.

Bank Operations in Peru

6. After initially postponing consideration of all new projects for reasons of austerity, the Government subsequently requested that we reactivate three social projects. Our Board approved a \$40 million rural development project in March, an \$82.5 urban development project has just been negotiated and a \$27 million primary education project is at the Loan Committee stage. However, other projects in the pipeline (power, water supply, petroleum) are affected by tariff policies. Although utility tariffs and petroleum product prices are being raised monthly, the increase in real terms in most cases is not adequate to restore financial soundness to the agencies involved.

7. Within the modest levels we propose for new commitments, a third industrial credit project is of particular importance. The \$100 million Bank loan under preparation would stress assistance to viable enterprises that may have serious liquidity problems at this time but which could be helped to correct these and restore production levels mainly with medium term loans for permanent working capital. A key condition which must be associated with such an operation (to avoid speculative misuse of financial resources) is the establishment of interest rates which are not less than the deposit rates for the dollar accounts. The latter make up nearly 40 percent of Peruvian bank deposits. The interest rate adjustment needed before we can agree to the proposed Bank loan should be achieved through an increase in effective after-tax interest rates for sol-denominated loans. Were the Peruvian Government willing to correct its exchange rate through a single step devaluation, the required nominal interest rate increase would not be inordinately high. However, without such a devaluation, which appears unlikely at the moment, equalizing the soles lending rate and the dollar deposit rates, necessary to reduce speculation, would result in excessive sol rates in real terms, and discourage productive investment.

8. Mr. Benavides has discussed this conditionality with the recent Bank industrial preparation mission. However, earlier this month, when the Central Bank of Peru announced an increase in the nominal interest rate from 60 to 68 percent (or, in effective terms, to 116 percent in line with inflation) both Mr. Benavides and Prime Minister Mariategui took a public stance which did not support that increase. We view this as a concession, possibly interim, to the pressures of influential private sector industrialists, but a definite setback to the need to maintain real interest rates to mobilize domestic resources and avoid flight to dollar accounts in Peru or abroad. Furthermore, ongoing Bank projects are also negatively affected by this setback. Our Sixth Agricultural Credit project includes a tough requirement for regular agricultural interest rate adjustments. The Agrarian Bank has just proposed postponing the March interest adjustment to September, citing last year's natural disasters and ongoing economic difficulties in the agricultural sector. This may force the Region to propose suspension of disbursements under the loan.

9. You may wish to inquire about Mr. Benavides' views on when the pending nominal interest rate adjustment will be formalized as well as to reiterate our concern about a proper policy environment for the continuing disbursement of the Agricultural Credit Loan and the preparation of the proposed industrial finance loan.

Attachment

Cleared with: Messrs. Eigen, LAC1D; Sharma, LCP; Renger, LCP; Meo, LAC1

CJones-Carroll:lt

PERU: CURRENT APPROVED AND PROPOSED LENDING PROGRAMS
 FY85-89
 (US\$ millions)

	85		86		87		88		89	
	C	P	C	P	C	P	C	P	C	P
DFC III	100	-	-	100	-	-				
Primary Education	27	27								
Hydrocarbon Dev't	25	-								
Power VII	140	-	-	-	-	100				
National Water	25	20								
Petroleum III			50	-	-	-	-	100		
Pub. Sector Mgt.III			10	15						
Power VIII			100	-						
Roads IX			90	50						
Small Scale Ent. II					-		-	50		
SAL I					200	-				
Irrig. Rehab. III					50	60				
Sugar Rehabilit.					-	50				
DFC IV					100	-	-	-	-	150
Power IX					125	-				
Rur. Dev. IV							75	25		
Agric. Res.& Ext.							100	25		
Health II							40	-	-	30
Agric. Credit VII							175	-	-	
SAL II									100	-
Phosphate									75	100
TOTAL	<u>317</u>	<u>47</u>	<u>250</u>	<u>165</u>	<u>475</u>	<u>210</u>	<u>390</u>	<u>200</u>	<u>175</u>	<u>280</u>

C= Current Approved (FY85-89 total \$1607 millions)
 P= Proposed in CPP (FY85-89 total \$902 millions)

March 28, 1984

Excelentísimo
Ing. Jose Benavides Munoz
Ministero de Energia y Minas
Ministerio de Energía y Minas
Avenida las Artes, San Borja
Lima, Peru

Dear Mr. Minister,

Re: Dr. Fernando Zuniga-Rivero

I have been asked by Mr. A.W. Clausen to respond to your request for the services of Dr. Zuniga. We have examined all possible avenues to consider your request favorably. I am pleased to inform you we have agreed to release Dr. Zuniga to serve in PETROPERU as it would undoubtedly be of benefit to all parties concerned. However, there are some technical points which must be understood and accepted by Dr. Zuniga.

In accordance with Bank policy Dr. Zuniga will be required to resign from the Bank to accept the managerial position in PETROPERU. This is mandatory as PETROPERU is a public entity and its activities are funded by the Bank. Although a firm commitment is not possible, we will give every consideration to Dr. Zuniga should he wish to return to the service of the Bank.

Dr. Zuniga, who is aware of the Bank's Conflict of Interest Policy, has been fully briefed on this matter and will inform you directly regarding his decision.

Please do not hesitate to contact me if I can be of further assistance to you.

Sincerely yours,

Martijn J.W.M. Paijmans
Vice President
Personnel and Administration

cc: Mr. Clausen ✓
Mr. Zalduendo
JLopez:ak


March 9, 1984

Dear Mr. Minister:

Thank you for your letter concerning the changes at PETROPERU. As you probably know, Juan Casabonne was an associate in my Bank of America days and is a close friend. I am sorry to hear of his resignation.

Regarding Fernando Zúñiga, it was my hope to have an answer for you before leaving on a trip to Europe and Africa. Unfortunately, our consultations on this matter have not quite finished. However, I expect an answer shortly and Martijn Paijmans, our Vice President for Personnel, will soon be in touch with our response to your request.

Sincerely,


A. W. Clausen

Excelentísimo
Ing. José Benavides Muñoz
Ministerio de Energía y Minas
Avenida las Artes, San Borja
Lima, Perú

✓ cc: Mr. Martijn Paijmans
Mr. Joseph Lopez

VRS:sb
(Log # 142) ✓

ROUTING SLIP		DATE: 03/08/84
NAME		ROOM NO.
Mr. Roy Soutworth		E-1227
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS: As discussed, could you please send an interim reply to the Minister of Energy & Mines of Peru. A meeting is being convened to discuss the Conflict of Interest issue. Will revert to you by 12 March, 1984. Thanks		
FROM: Joseph Lopez, PMD	ROOM NO.: I-3-220	EXTENSION: 69114

THE WORLD BANK

ROUTING SLIP		Date March 2, 1984
OFFICE OF THE PRESIDENT		
Name		Room No.
Mr. Paijmans		A-1236
<input type="checkbox"/>	To Handle	Note and File
<input type="checkbox"/>	Appropriate Disposition	Note and Return
<input checked="" type="checkbox"/>	Approval	Prepare Reply
<input type="checkbox"/>	Comment	Per Our Conversation
<input type="checkbox"/>	Full Report	Recommendation
<input type="checkbox"/>	Information	Signature
<input type="checkbox"/>	Initial	Send On
Remarks		
<p>Would you please prepare a reply for Mr. Clausen's signature by March 8?</p> <p>Roy Southworth</p>		
From		

142
REPUBLICA PERUANA

Ministerio de Energia y Minas
SP-011-84-EM

Lima, February 21, 1984

Mr. A.W. Clausen
President
World Bank
Washington D.C.

Dear Mr. Clausen:

Much to our regret Mr. Juan F. Casabonne, due to personal reasons has resigned from PETROPERU S.A. To replace him as Chairman of the Board and Chief Executive Officer (Presidente Ejecutivo), our Government has invited Dr. Fernando Zúñiga who is now with the Petroleum Division of your bank. As you may know, Dr. Zúñiga was a carrier officer of PETROPERU, having reached the high position of General Manager before he joined the bank. For that reason he fully qualifies for this important post.

Dr. Zúñiga has accepted our invitation on the condition that you approve our request to allow him a leave of absence. On behalf of our Government, therefore, I kindly request your cooperation in approving a leave of absence for Dr. Zúñiga, for a period of up to two years. If possible we would like Dr. Zúñiga to assume this assignment effective April 1, 1984.

On behalf of our Government I thank you in advance for your cooperation on the above.

Kindest regards.

Sincerely,



[Handwritten signature]
OSCAR DELAVIDA MUÑOZ
Ministro de Energía y Minas

OFFICE MEMORANDUM

file

please

86

DECLASSIFIED
CONFIDENTIAL
AUG 27 2013
WBG ARCHIVES

DATE: March 20, 1984

TO: Files

FROM: Stephen J. Weissman, LAC1D

SUBJECT: Mr. Ulloa's Meeting with Mr. Clausen

1. On March 6, Mr. Manuel Ulloa, head of a special committee on financing and trade for OAS' Interamerican Economic and Social Council, accompanied by Mr. Robert Dagnino, his assistant, and Mr. Drago Kisic, technical assistant to the Executive Director for Peru, met with Mr. Clausen. Mr. Clausen was joined by Mr. Pfeffermann and myself.
2. Mr. Ulloa outlined to Mr. Clausen his draft proposals for helping to ease the current difficult financial situation of the Latin American countries. These proposals included the following:
 - (a) to exclude World Bank and IDB disbursements from IMF fiscal limits;
 - (b) to make World Bank, IDB, and IMF conditionality more flexible to take into account the difficulties now faced by Latin America (Mr. Ulloa gave no examples of what he meant);
 - (c) that the World Bank and the IDB consider the provision of supplemental loans for projects which were stalled for lack of financing, including projects not originally financed by these institutions (Mr. Ulloa understood that this might cause problems with our procurement regulations, but he felt that governments might be willing to rebid works where feasible);
 - (d) that the Paris Club agree to improved terms and lower costs as part of the rescheduling of export credits;
 - (e) that Paris Club meeting be enlarged to include the World Bank, IDB, and IMF as direct participants who would, together with the member countries of the Paris Club, and the debtor country, review that country's overall economic situation and agree upon a strategy for recovery that might then be accepted by the international financial community (Mr. Ulloa understands that this would in no way imply rescheduling obligations to international institutions); and
 - (f) that the World Bank and IDB increase their financing of export development projects.

3. Mr. Clausen agreed that, by and large, the proposed list of actions merited consideration. Mr. Clausen then suggested that it might be worthwhile to add two additional points to the list. He proposed that the Latin American countries should provide strong support for the request for additional resources for IMF, IDB, and World Bank programs. Further, he noted that multilateral investment insurance might be very helpful in stimulating the flow of investment resources, which Latin America badly needed. In this regard, Mr. Clausen asked why the proposal for multilateral investment insurance had not found support among the Latin American countries. Mr. Ulloa and his associates agreed that it was likely that the benefits of the scheme were not fully understood and this, together with strong nationalism, had produced opposition.

4. Finally, Mr. Ulloa pointed out that a major problem for Latin American was the high level of military expenditures, which he viewed as totally unjustified. Mr. Clausen fully concurred and pointed out that this was a worldwide problem, with military expenditures exceeding development expenditures fivefold.

Cleared with and cc: Mr. G. Pfeffermann, Chief Economist, LCNVP

cc: Messrs. A.W. Clausen, President ✓
E. Stern, SVPOP
E. Lerdau, Acting Vice President, LAC
R. Steckhan, Director, LACI
P. Eigen, Division Chief, LACID
P.M. Meo, Senior Economist, LACID
L. Landau, Senior Economist, LACID
C. Quijano, LCNVP

SWeissman:amu

March 9, 1984

Dear Mr. Minister:

Thank you for your letter concerning the changes at PETROPERU. As you probably know, Juan Casabonne was an associate in my Bank of America days and is a close friend. I am sorry to hear of his resignation.

Regarding Fernando Zúñiga, it was my hope to have an answer for you before leaving on a trip to Europe and Africa. Unfortunately, our consultations on this matter have not quite finished. However, I expect an answer shortly and Martijn Paijmans, our Vice President for Personnel, will soon be in touch with our response to your request.

Sincerely,



A. W. Clausen

Excelentísimo
Ing. José Benavides Muñoz
Ministro de Energía y Minas
Ministerio de Energía y Minas
Avenida las Artes, San Borja
Lima, Perú

✓ cc: Mr. Martijn Paijmans
Mr. Joseph Lopez

VRS:sb
(Log # 172) ✓

ROUTING SLIP		DATE: 03/08/84	
NAME		ROOM NO.	
Mr. Roy Soutworth		E-1227	
APPROPRIATE DISPOSITION		NOTE AND RETURN	
APPROVAL		NOTE AND SEND ON	
CLEARANCE		PER OUR CONVERSATION	
COMMENT		PER YOUR REQUEST	
FOR ACTION		PREPARE REPLY	
INFORMATION		RECOMMENDATION	
INITIAL		SIGNATURE	
NOTE AND FILE		URGENT	
<p>REMARKS:</p> <p>As discussed, could you please send an interim reply to the Minister of Energy & Mines of Peru. A meeting is being convened to discuss the Conflict of Interest issue. Will revert to you by 12 March, 1984.</p> <p style="text-align: center;">Thanks</p>			
FROM: Joseph Lopez, PMD		ROOM NO.: I-3-220	EXTENSION: 69114

Joseph Lopez

142
REPUBLICA PERUANA

Ministerio de Energia y Minas
SP-011-84-EM

Lima, February 21, 1984

Mr. A.W. Clausen
President
World Bank
Washington D.C.

Dear Mr. Clausen:

Much to our regret Mr. Juan F. Casabonne, due to personal reasons has resigned from PETROPERU S.A. To replace him as Chairman of the Board and Chief Executive Officer (Presidente Ejecutivo), our Government has invited Dr. Fernando Zúñiga who is now with the Petroleum Division of your bank. As you may know, Dr. Zúñiga was a carrier officer of PETROPERU, having reached the high position of General Manager before he joined the bank. For that reason he fully qualifies for this important post.

Dr. Zúñiga has accepted our invitation on the condition that you approve our request to allow him a leave of absence. On behalf of our Government, therefore, I kindly request your cooperation in approving a leave of absence for Dr. Zúñiga, for a period of up to two years. If possible we would like Dr. Zúñiga to assume this assignment effective April 1, 1984.

On behalf of our Government I thank you in advance for your cooperation on the above.

Kindest regards.

Sincerely,



B. Benavides M.
CES BENAVIDES MUNOZ
Ministro de Energia y Minas

5.45 - 10 day. 3/6

OFFICE MEMORANDUM

DATE: March 6, 1984

TO: Mr. A. W. Clausen (through Mr. Ernest Stern) *ES*

FROM: *ERL* Enrique Lerda

SUBJECT: Visit of Mr. Ulloa

As indicated in our memorandum dated February 13, 1984, Mr. Ulloa is the chairman of the Inter-American Special Committee of Financing and Trade (CIES) of the Organization of American States. Mr. Ulloa is in Washington to review and discuss the first report of a Technical Advisory Group to the Committee. Before meeting with you, Mr. Ulloa has already met with Mr. Beryl Sprinkel at the US Treasury, and with Mr. Antonio Ortiz Mena at the IDB.

We have learned that the report presented by the Advisory Group calls for an emergency program for the period 1984-86. In summary, the report calls for a substantial increase in official capital flows to Latin American countries. The report also calls for some emergency debt relief. The report does not specify which form the debt relief should take. The Advisory Group restricted itself to summarizing the various publicly known schemes leaving the decision to such scheme to be adopted to a higher political level. The report also calls for substantial trade liberalization from the US in order to increase the region's exports. Not surprisingly, the United States delegation in the Committee has objected, indicating that although the situation is difficult, the existing mechanisms are working and that the Latin American countries must continue to strengthen their economic management in order to adjust their economies to the world economic situation.

We understand that the purpose of Mr. Ulloa's visit is to inform you about the workings and plans of the Committee and to ask you about the role of the Bank in assisting the Latin American countries to go through this difficult period.

We recommend that in commenting on the Bank's assistance to LAC you put particular emphasis on our policy dialogue and the Special Action Program, and that you ask for his support for the Selective Capital Increase and, over the longer run, for a general increase of the World Bank Group resources. Mr. Pfeffermann will be at the meeting to answer questions on the Latin American economic situation and Mr. Weissman, Acting Division Chief, on Peru in case Mr. Ulloa asks about our lending program.

cc: Messrs. Steckhan
Pfeffermann
Weissman

CQuijano:jp/ts

3/5

Manuel Ulloa (who you were supposed to meet a few weeks ago & then he never left Lima!) is in town and wants to meet with you. The region understands the constraints on your schedule, but have asked us to accommodate him if at all possible. So we have given him an appointment at 5:45 tomorrow.

Roy

3-6-84
X

OFFICE MEMORANDUM

Ulloa did not come!

DECLASSIFIED

~~CONFIDENTIAL~~

WBG ARCHIVES

DATE: February 13, 1984

TO: Mr. A. W. Clausen
(Through Mr. E. Stern and Mr. E. Lerdau, Acting RVP)

FROM: Rainer B. Steckhan, Director, LACI

RS
Stekhan

X

EXTENSION: 74621

SUBJECT: Briefing Note for Visit of Manuel Ulloa

MARCH 6, 1984

1. On ~~February 14~~, Manuel Ulloa, head of a Special Committee on Financing and Trade of the Inter American Economic and Social Council (CIES), of the Organization of American States, will meet with you to discuss issues related to the debt problems of Latin American countries. Mr. Ulloa was until January 1983 the Prime Minister and Minister of Economy and Finance of Peru, and is currently a Senator. He may, therefore, raise issues related to Peru-Bank relations, although this is not the stated purpose of his visit.

Latin American Regional Issues

2. Over the past few years, a series of meetings have been held by Latin American Governments to discuss ways of dealing with their economic situation. During the OAS-sponsored Special Conference on External Financing held in Caracas in September 1983, a Special Committee of CIES was established to deal principally with the areas of debt, trade and external financing; Mr. Ulloa was appointed as its Chairman.

3. As you know (see Mr. Barletta's memo of February 7 to you), the most recent of the Latin American meetings took place in Quito in the first half of January 1984. Despite talk of a "Debtor Club" in the press at the time, the results of the Quito Conference reflected the conservative views of representatives from the major debtors of the Region, i.e., Mexico, Brazil, Colombia and Peru. The meeting called for improved conditions for debt renegotiations (e.g., longer repayment periods, lower interest rates, and reduced spreads), and the removal of protectionist barriers. It also pleaded for increases in the general resources of the IMF (but also for a revision of IMF conditionality) and the World Bank Group. In addition, it called for a higher share of IBRD resources for Latin America, a continuation of the Special Action Program, and more cofinancing.

4. The Committee which Mr. Ulloa heads, is scheduled to present its report on March 31, 1984 to be discussed at the next annual meeting of CIES in July/August. The U.S. Government has agreed to participate in the work of the Committee.

attached

5. Mr. Ulloa has always played a constructive role and he has taken upon himself the task of conciliating the views of the LDCs and the industrialized countries. If he requests staff support for his present efforts, as we expect he will, we suggest you indicate our willingness to provide him and his advisors with our technical views, assumptions and projections about the likely directions of the world economy for the next 2-3 years. However, it would be difficult to devote substantial staff time to the Committee. But you could restate the priority we give in our own work to support the Region through our Special Action Program, increased cofinancing and Structural Adjustment Lending.

Peru-Bank Relations

6. Mr. Ulloa is also likely to be a candidate in next year's Peruvian Presidential elections, and may bring up our role in Peru. The Bank had originally been prepared to process a \$765 million lending program for Peru in FY84-85, including a \$200 million SAL, for which negotiations had been completed. However, Peru's economy deteriorated significantly during 1983 (affected by natural disasters, low world prices for the country's principal commodities and Government delays in implementing needed adjustments including the exchange rate). As a result, the country fell short of targets for an ongoing IMF Extended Fund Facility (EFF). In January 1984, the Peruvians and the IMF agreed to suspend the EFF--mostly because President Belaunde adamantly refused a major devaluation--and to proceed instead with a Stand-by Agreement. The Bank had considered continuation of the EFF program as a basic pre-condition of the SAL, and was seeking further actions to induce economic recovery and improve policies in key sectors (energy, agriculture). After suspension of the EFF program, we concluded we would be unable to continue preparing the SAL and so advised the Peruvians.

7. At the same time, owing to its very tight fiscal situation, the Peruvian Government determined not to proceed with new investment projects in 1984. An exception was made for a Bank loan for the high priority Third Rural Development Project which was recently negotiated (\$40 m). However, education and hydroelectric projects were tentatively postponed at Government request from the Bank's FY 84 lending program and a Lima Urban Project is under review.

8. The IMF Stand-by program includes several actions to be taken by Peru prior to its presentation to the IMF Board, scheduled for mid-April. These actions include tax and price raises. These measures do not enjoy general support among Peru's economic team, some of whom are concerned about the recessionary impact of the program. Furthermore, current Minister of Economy and Finance Rodriguez Pastor, who is chief architect of the agreement with the Fund, is expected to leave office within a few months. Thus, Peru's compliance with the new Stand-by targets is by no means assured.

9.. Just last week Peru reached agreement with commercial banks on a debt rescheduling for 1984 which includes no "fresh" money. The rescheduling includes lower interest rates and more generous repayment terms on \$2.6 billion of outstanding loans and short-term credit.

Cleared with and cc: Messrs. Pfeffermann, LCNVP
Eigen, LACID
Meo, LACI

cc: Messrs. van der Meer, LCP
Burki, IRDDR
Weissman, LACID
Thumm, Res. Rep. Peru

CQuijano/CJones-Carroll:mw

OFFICE MEMORANDUM

DATE February 7, 1984

TO Mr. A. W. Clausen (Through: Mr. Ernest Stern)

FROM Nicolás Ardito Barletta ~~IX~~

EXTENSION 75901

SUBJECT Latin American Economic Conference

I enclose a copy of a memorandum on the recent Latin American Economic Conference. As you can see, the view which prevails in much of Latin America is that the current financial difficulties is creating a very disruptive economic and social crisis. The delegates at the Conference did not seem to be very impressed by the recent improved prospects of the world economy. Nevertheless, as indicated in the memorandum, the more radical view did not prevail this time; however, it is clear that the political danger of more radical rhetoric and drastic action must be taken seriously. Moreover, unless world trade conditions improve the danger of another period of intensive and inefficient import substitution would appear likely. If this direction of trade policy materializes the negative long-term impact on the future development of the Latin American countries would be difficult to reverse.

Enclosure

cc: Messrs. M. Qureshi, SVPFI
M. Benjenk, VPE
Mrs. A. Krueger, VPERS

OFFICE MEMORANDUM

DATE February 7, 1984

TO Mr. Nicolás Ardito Barletta

FROM C. N. Quijano

EXTENSION 72337

SUBJECT Latin American Economic Conference

Per your instructions I attended the Latin American Economic Conference in Quito on January 9 through 14. This conference was the last in a series that began in February 1983 when President Hurtado of Ecuador sent a letter to Enrique Iglesias, Secretary General of ECLA and Carlos Alzamora, Secretary General of SELA. President Hurtado asked them to explore ways in which jointly the Latin American governments could deal with their economic crisis and ease the pressures of renegotiating its foreign debt.

Although a debtor club was never under consideration a few aggressive government officials from some smaller countries and several technocrats at SELA have, during the course of the year, called for drastic actions: joint renegotiations, long-term bonds in replacement of the existing outstanding debts. The press has given prominence to these radical draft clauses, and has implied that these might be an indication of the possible results of the conference. The final results and conclusions, however, reflected the conservative views of the representatives from the major debtors of the region, particularly those from Mexico, Brazil, Colombia and Peru. The meeting ended with the issuing of a Political Declaration and a Plan of Action which did not contain any direct threats. The tone of both documents is canciliatory. They do, however, include a call for improved conditions for renegotiations and for removal of protectionist barriers. The specific proposals in the Plan of Action are concentrated on recommendations to stimulate regional trade and development. It contains some guidelines regarding better terms for debt repayments and calls for an exchange of information and technical assistance. It also contains specific petitions for increases of the general resources of the IMF, the IDB and the World Bank Group. The report does contain some criticism of IMF conditionality.

The following is a summary of some of the important attitudes and views expressed in the final document:

1. External Debt and Trade

- the need for longer repayments period, lower interest rates and reduced spreads,
- in renegotiating the external debt, export earning and income should not be committed beyond reasonable percentages consistent with the maintenance of adequate levels of internal productive activity, taking into account the characteristics of the economies of each country,

- the maintenance of an increasing positive net flow of new public and private financial resources,
- greater access for Latin American and Caribbean exports to world markets,
- exchange of information and technical assistance for the refinancing and rescheduling of debt.

2. International Economic Institutions

- increase of IMF resources, revise IMF conditionality. The IMF should effectively perform the function of monitoring the economic policies of the industrialized countries to ensure that the adjustment process is equitable,
- increase the resources of the IDB and the World Bank Group. The World Bank Group should increase the proportion of resources it channels to LAC; Special Action Programs should be continued; increase program lending; increase co-financing.

In short, the language in the document dealing with international financial relations and institutions could not be considered a radical declaration. It could be said that the conservative school of thought prevailed; however, the discussions at the meeting also revealed that if the economic situation does not improve over the near future and more important, if the perception of the moderates were to change in thinking that there are no answers for a solution of their crisis, the radicals might strengthen their position very rapidly.

Some five Heads of State and several Vice Presidents attended the meeting and addressed the conference in its final days. During their presentations most of them referred to the need to increase the resources of the World Bank Group, the IMF and the IDB. Several of them referred rather negatively to their respective government negotiations with the IMF, particularly Costa Rica and the Dominican Republic. All of them referred to the need to eliminate protectionism and to what they referred as the asymmetry of adjustment, meaning the rapid and drastic decline in imports and production in Latin America. Some of them referred to the paradox of underdeveloped country transferring real resources to the developed countries and pointed out that this could only be a temporary situation. Prime Minister Seaga of Jamaica mentioned the World Bank Group and the IMF as institutions that not only provide resources but also sound guidance and policy advice.

The personal representative of the Head of State for Trinidad and Tobago, although mentioning that the World Bank needs more resources, also made explicit criticism of our graduation policy. The only harsh words

pronounced by the Heads of State in referring to the World Bank were those of President Jorge Blanco of the Dominican Republic. He referred to IMF conditionality as being too rigid and said that World Bank conditionality is emerging with even greater strength. He expressed the view that such conditionality gives limited time for implementation and that it has a dangerous impact on the social and political stability of the whole region.

In summary, the prediction for radical declarations did not materialize. The final document emerging from the conference could be considered as a moderate document. The informal conversations, some of the speeches and some of the language of the final declaration, however, indicate that Latin America may be headed for a more inward oriented development strategy. Perhaps the bad signals could be summarized by the words of the Minister of Foreign Relations of Argentina who said during his speech that while the crisis of the 1930s made us turn inward as a nation, it is possible that the present crisis will make us turn inward as a region. This declaration by the delegate from Argentina should not be taken lightly. World trade conditions may have created a situation in Latin America conducive to a prolonged period of import substitution of the type which took place in the 1930s and 50s.

Attachments: Draft Declaration of Quito and
Plan of Action

cc: Messrs. Lerdau ✓
Steckhan
van der Meer
Pfeffermann

LATIN AMERICAN CONFERENCE
(Quito, 9-13 January 1984)

DRAFT
DECLARATION OF QUITO
AND
PLAN OF ACTION

PLENARY ROOM
12 January 1984

DRAFT DECLARATION OF QUITO

The Heads of State or Government and the Personal Representatives of the Heads of State or Government of Latin America and the Caribbean, meeting in the city of Quito, on 12 and 13 January 1984 at the Latin American Economic Conference convened at the initiative of the Constitutional President of Ecuador, Dr. Osvaldo Hurtado - an initiative which all the Governments of the region welcomed enthusiastically - in accordance with the provisions of the Undertaking of Santo Domingo to prepare a Latin American and Caribbean response to the economic crisis affecting the region, hereby agree to the following:

DECLARATION OF QUITO

1. We reaffirm the brotherhood and solidarity of our peoples and their aspiration to live within the framework of democratic principles, and we reaffirm our unity in diversity and respect for the sovereign right of all the nations of Latin America and the Caribbean to follow in peace and freedom and relieved of all forms of foreign intervention, their own economic, social, and political paths, rejecting discriminatory or coercive economic measures for political reasons and ensuring the full exercise of human rights and the benefits of progress for all their inhabitants in an environment free of external pressures, threats and aggression.
2. We reiterate our commitment to eliminate once and for all any recourse to the threat or the use of force in the solution of international conflicts. We once again call for disarmament that will make it possible to reallocate the resources squandered on the arms race and armaments towards objectives which contribute to strengthening the development

of all the peoples of the world. There is an essential link between the problems of peace and of development, since without peace, development will be unattainable, and without development, peace will always be precarious.

3. We express our concern over the worsening of the tensions overshadowing international relations and already engulfing many areas of the planet, thereby constituting a serious threat to world peace. Latin America and the Caribbean do not resign themselves to being the arena of alien confrontation and firmly believe that the region's problems should and can be resolved in our own sphere, thereby ensuring that the Latin America area will be a zone of peace.

4. We reject the interventionism which has recently manifested itself dramatically in the region, and we stress the need to find a negotiated solution to the problems of Central America which arise from the economic, social, and political conditions prevailing in that area, to which end we lend full political support to the Contadora Group.

We are aware that at the present time the Central American countries are suffering more acutely the economic problems which are affecting Latin America and the Caribbean. Consequently, we wish to offer our support to the Action Committee for the Support of Economic and Social Development in Central America (CADESCA), a Latin American regional mechanism recently established in SELA to assist, inter alia, in mobilizing resources for economic and social development aimed at solving the major problems of the Central American people.

5. Latin America and the Caribbean are facing the most serious and intense economic and social crisis of this century, one which is characterized by unique and unprecedented features.

6. Concerned by the economic and social setbacks of recent years which this crisis has brought about, we expound before international public opinion our profound anxiety over the conditions prevailing in the world economy which are seriously affecting the region's development and stability.

7. The crisis demands urgent solutions by means of joint actions founded on regional co-operation and on the forging of a common position aimed at strengthening the region's capacity for response. This response should be directed most immediately towards the most critical situations and at the same time form part of a medium- and long-term perspective in order also to deal with the structural causes of the crisis, thereby increasing international co-operation and making it more effective for development under conditions in keeping with the scope and seriousness of the present-day economic crisis.

8. This crisis originated in internal and external factors, and our success in surmounting it is largely dependent on the latter, which are beyond the control of our countries and place serious constraints upon the options open to us for overcoming it. The economic policies of some industrialized countries have severely affected the developing countries and, in particular, those of the region, owing to the vulnerability and dependence of our economies and their increasing participation in international economic relations. These policies have brought about the constant deterioration of the terms of trade, diminishing trade, an inordinate increase in interest rates and the sharp contraction of capital flows. The overwhelming burden of our external indebtedness forms part of this picture.

9. The most harmful social effects of this situation take the form of an increase in unemployment figures unprecedented in our history, of a substantial reduction of real personal incomes and of living standards, with serious and growing consequences for the political and social stability of our peoples, the persistence of which will, in time, result in further deterioration of our economies.

10. In order to make the region more autonomous, we are ready to mobilize the human and material resources potential of Latin America and the Caribbean to formulate a joint response to the crisis affecting us, giving impetus to and co-ordinating the endeavours of regional institutions, for which purpose we pledge all our political will.

11. Adjustments which cause prolonged declines in production, employment and living standards are not compatible with the objectives which we pursue. Consequently, the international community must take concerted action that will enable the countries of the region to continue their development without further delay.

12. The Latin American and Caribbean response to the crisis is based on the need to complement the efforts of each country and those made at the subregional level by strengthening regional co-operation and integration.

13. This response calls for the firm and resolute participation of all the national sectors of our countries, and it will achieve its goals only if the benefits deriving therefrom are fully and effectively extended to the rural and urban underprivileged, who must remain completely integrated in the development process in order to enjoy a dignified life. In this context, the resolve to support, inter alia, actions aimed at achieving and maintaining regional food security assumes particular importance.

14. However, the region's efforts alone are not sufficient for surmounting the crisis. It is essential that they be complemented and reinforced by significant external support, principally in the areas of trade and financing.

15. There is a close and inseparable link between foreign trade and international finance. Only the joint handling of the two elements which, among other effects, will enhance our countries' ability to pay - and to which ability the debt service must ~~necessarily~~ be adjusted - will contribute to a positive solution of the external debt problem.

16. The attitude of the Latin American and Caribbean governments in recognizing and assuming their obligations calls for an attitude of shared responsibility by the governments of the creditor countries, the international financing organizations and the international private banks in the solution of the external debt problem, bearing in mind, furthermore, its political and social implications. Therefore, flexible and realistic criteria are required in the renegotiation of the debt, including repayment periods, grace period, and interest rates compatible with the recovery of economic growth. Only in this way can continuity be assured in the fulfilment of the debt service.

17. We caution that it is neither fair nor rational that the countries of the region have become net capital exporters, thereby compounding their precarious economic situation which will finally prove to be contrary to the interests of the industrialized countries themselves and those of the world community.

18. Furthermore, we point out that the maladjustment between the fiscal and monetary policies of certain industrialized countries is the cause of the rise in real interest rates which has persisted despite the fact that inflation has been diminished, thereby very seriously exacerbating the present situation. We therefore ask that the international community make the adjustments necessary to eliminate the causes of this distortion.

19. We reaffirm the urgent need to take measures designed to reform the international monetary and financial system.

20. In addition to the worsening of financial problems, we are witnessing the stagnation and even the decline of world trade levels. World trade has recently ceased to play its role in stimulating the economy and has drastically reduced its contribution towards the availability of foreign exchange for the developing countries. The reduction of imports from the developing countries, imposed by the crisis, lowered trade levels to an even greater extent and has brought about a contraction of their economies.

21. We view with great alarm the increase in the protectionist measures of the industrialized countries, which to a great extent closed their markets to exports from our countries, despite the fact that the volumes exported in no way caused internal problems in the markets of those countries. We once more urge the industrialized countries to abstain from imposing new protectionist barriers and to proceed to dismantle the existing ones.

22. We maintain that actions which restrict access to markets and limit the scope of the General System of Preferences through the application of limiting and discriminatory criteria, such as ranking, quotas, and reciprocity requirements, should be abolished.

23. The prices of export commodities dropped to extremely low levels, bringing about continuous deterioration in the terms of trade in the region. In this light, we propose to adopt and strengthen

multilateral actions necessary in order to stabilize prices dynamically, thereby increasing the levels of income from our exports.

24. We formally call the attention of the leaders of the industrialized countries to the seriousness of the region's economic situation, its high social cost and the need to participate urgently in measures to confront the crisis, directly through their governments and through the international organizations.

25. The energy sector is of special importance to the social and economic development of our peoples. The region will step up its efforts to achieve and maintain a high level of self-sufficiency in energy, with technological autonomy. It is consequently important to support the Latin American Energy Organization (OLADE) in attaining its objectives and in implementing the Latin American Energy Co-operation Programme (PLACE).

26. We bring to the attention of the international community our conviction that should Latin America and the Caribbean again resume their economic development, they would once again become a dynamic element in the necessary and sound recovery of the world economy.

27. Finally, in the spirit of the Buenos Aires Platform, we express our will to strengthen the unity of the developing countries and to promote a joint strategy for the revitalization and development of the world economy.

We believe that this solemn occasion is proof of the permanent resolve of our countries, despite all obstacles, to maintain the regional unity which is an essential requisite for our development.

We have agreed upon a response that includes challenges and promises. Its implementation is obviously dependent upon the efficiency of our negotiating capacity and on the diligence with which the regional and subregional institutions and organizations carry out the tasks we have entrusted them here.

Consequently, we respectfully request His Excellency, the President of Ecuador, Dr. Osvaldo Hurtado Larrea, that the Declaration and Plan of Action adopted here be formally transmitted to the Heads of State or Government of developing countries which are members of the Group of 77 and the Heads of State or Government of the industrialized countries as well as to the appropriate regional and international institutions and organizations.

We request the appropriate regional and subregional organizations to prepare reports on the progress achieved in implementing the actions and tasks which have been entrusted to them and to forward them to the Regular Meeting of the Latin American Council of SELA in order that a study and evaluation of the progress of the Plan of Action be made.

We wish to thank the people and Government of Ecuador for their magnificent hospitality and the city of Quito for having been the historical setting for this Conference.

PLAN OF ACTION

I. FINANCING

1. External Debt

a) Basic criteria

Responsibility for the external debt problem must be shared by the debtor and the developed countries, the international private banking system and the multilateral finance organizations.

The Latin American and Caribbean countries have already assumed their responsibility by making extraordinary adjustments in their economies and enormous efforts to meet their international obligations, despite the high social, political and economic cost involved.

Because of these circumstances and the need to maintain adequate levels of development in Latin America and the Caribbean and to avoid greater crises in the international economic and financial system, it is to the mutual benefit of those concerned that an urgent solution be found to the problem of the region's external debt.

Furthermore, the close relationship between trade and financing also requires any solution of the payments problem to take both into consideration and be of a permanent nature.

The adjustment process should operate in the future through an increase in the volume and price of exports and a decrease in real interest rates, and not by additional restrictions of imports vital to the internal economic recovery.

The magnitude of the regional economic recession and the persistence of adverse external factors make it imperative that any external debt arrangements and negotiations, which our countries enter into individually in the future, should harmonize the requirements of debt servicing with the development needs and objectives of each country, by minimizing the social cost of the adjustment processes already under way.

Based on these considerations, we adopt the following basic criteria:

- i) In renegotiating the external debt, export earnings income should not be committed beyond reasonable percentages consistent with the maintenance of adequate levels of internal productive activity, taking into account the characteristics of the economies of each country;
- ii) Formulas should be devised to reduce debt service payments, by drastically reducing interests, commissions and spreads which substantially increase refinancing costs. Moreover, mechanisms should be explored to stabilize over time the amount of resources annually allocated to debt servicing in accordance with the payments profile of each country;
- iii) Terms and maturities must be substantially longer than at the present time, and grace periods must be broadened; and the possibility of converting a part of the accumulated debt into long-term obligations should be urgently explored, which will require the co-operation of the governments of developed countries and of international finance agencies;
- iv) The maintenance of a net, adequate and increasing flow of new public and private financial resources for all the countries of the region as an essential component of external debt renegotiations and as a guarantee of social and economic development, should be assured by granting additional commercial and financial credits;
- v) Likewise, in order to enhance our countries' ability to pay, debt renegotiation should be accompanied by commercial measures essential to improving the terms of access for exports from Latin America and the Caribbean in world markets and eliminating increasing protectionism by the developed countries.

b) Exchange of information and technical assistance.

We consider it necessary for Ministries of Finance or Economy and for Central Banks to carry out efficient, direct and confidential exchanges of information on the terms for refinancing and rescheduling the external debt of the countries of the region.

We also recommend that whenever so requested by any country or countries of the region, the appropriate international organizations, such as SELA, CEMLA, CEPAL, UNCTAD and UNDP, as well as the governments of the region, should provide technical assistance in renegotiating the external debt by drawing upon available capacity and experience with the timeliness and urgency required.

Finally, we recommend that Ministers of Finance or Economy and Central Bank Presidents of Latin America and the Caribbean should meet when circumstances so warrant, or include specific consideration of external debt problems and the exchange of information regarding the external debt on the agendas of meetings they hold.

2. Support Mechanisms for the Expansion of Intraregional Trade

a) Strengthening of clearing mechanisms

We agree that it is essential to improve and expand the coverage of the present systems for reciprocal payments and credits in the region by drawing on the experience of the regional clearing and the transitory financial support systems. It will therefore be advisable to expand forms of intervention in order to improve financial co-operation among the countries of the region.

It is hoped that these systems will be instrumental in achieving the following basic objectives:

- i) To decrease further the use of convertible currencies in transactions of goods and services in the region;
- ii) To design and implement financial mechanisms aimed at increasing trade in the area; and
- iii) To develop viable mechanisms which may serve to attract extraregional resources.

Importance should be given to the relationship between multilateral payment clearing mechanisms and commercial negotiations, as well as to the establishment of the means for attracting resources from outside the region to complement the promotion of trade among our countries.

We agree to strengthen and lend the greatest possible support to the financial clearing and monetary cooperation mechanisms serving the countries of the region.

Furthermore, in studying the possibilities of incorporating other Central Banks which are not members of the existing subregional schemes, we recommend consideration of the following general objectives:

- i) Multilateral clearing of payments covering transactions carried out through the system;
- ii) Financing of certain cases of international lack of liquidity by granting qualified credits, issuing international monetary instruments and attracting financial resources;
- iii) Development of regional economic integration to facilitate commercial and financial exchanges; and

- iv) Readjustment procedures for the imbalances created by regional trade by means of expanded trade commitments and specific finance mechanisms.

These objectives will be considered within the framework of maintaining and strengthening transitory subregional support mechanisms for the deficits produced by interregional trade, which will assist in providing liquidity to goods and services transactions among the countries of the area.

We recommend that ALADI, in co-ordination with other regional financial organizations, submit a study as soon as possible on the possibility of establishing a reserve fund to finance balance of trade imbalances.

We recommend to the member countries of the Agreement on Reciprocal Payments and Credits of ALADI and the Santo Domingo Agreement that they complete the study of formulas that will make it possible for other Central Banks of the region to subscribe to them, and we recommend to the latter that they study the possibility of completing the respective process of arranging bilateral credit lines.

b) Financial Support Mechanisms for Intraregional Trade

In line with the objective of expanding our trade at the regional level, we consider it necessary to strengthen and develop export financing mechanisms and for this purpose request SELA, CEPAL, ALADI and CEMLA, together with BLADDEX and the subregional financial organizations, to carry out a study to identify and broaden the scope of existing financing mechanisms and identify new intraregional instruments to promote exports within the region and to third countries.

This study will be considered at a technical meeting of government officials responsible for foreign trade financing in accordance with Decision N° 174 of the Latin American Council of SELA.

3. International Economic Relations

The serious difficulties currently faced by the Latin American and Caribbean countries are closely linked to the structural deficiencies of the international economic relations system in the monetary, finance, and trade areas. In that context, we reaffirm our support for the proposals of the Group of 24 regarding the urgent need to reform the international monetary and financial system to achieve a more balanced world-wide institutional framework which would facilitate orderly development of the world economy. We likewise reaffirm our support for the proposals agreed upon at regional and interregional levels, successively proposed by the Latin American and Caribbean countries in various international fora and also dealt with in the Buenos Aires Platform resolutions and at the Cartagena Ministerial Meeting for Latin American Co-ordination.

Under the present circumstances it is especially important to adopt the following measures in the monetary and financial fields of trade and development financing:

a) Monetary and Financial System

- i) To increase International Monetary Fund resources in line with the financial assistance requirements of developing countries; and to urge the IMF to participate temporarily in international finance markets to attract additional resources;
- ii) To issue new Special Drawing Rights in amounts that will satisfy international liquidity requirements and solve the payment difficulties of developing countries as well as making SDR the main reserve assets;
- iii) To revise IMF conditionality criteria - which, under present circumstances can endanger our stability and development - so as to give greater importance to the expansion of production and employment and to bear fully in mind the countries' development priorities and their political and social limitations so that they may realistically cope with the internal adjustment needs imposed by the present worldwide economic recession;

iv) To make access to IMF resources greater and more flexible, especially by increasing drawing capacity as a percentage of quotas;

v) We shall also propose to the IMF that it effectively perform the function of monitoring the economic policies of the industrialized countries to better co-ordinate those policies so as to ensure that the adjustment process is equitable.

b) Trade

The expansion of Latin American and Caribbean exports towards the markets of industrialized countries is essential, not only to strengthen our countries' payment capacity but also to ensure the sustained, stable development of the region.

We therefore urge the developed countries to eliminate their increasing protectionist measures, which hinder and restrict world trade.

Another measure which must be eliminated is the financial and trade ranking applied to the region in various international markets and economic organizations and in certain bilateral relations because it is unjust and incompatible with our countries' development requirements and limits their payment capacity.

c) Development Financing

It is necessary to substantially increase the resources of the Inter-American Development Bank and of the World Bank group, recommending that the latter increase the proportion of the resources it channels into

Latin America and the Caribbean. The policies of these organizations regarding the granting of credit must be flexible enough to adapt to national policies and to the development priorities of member countries. Within this context we recommend:

- i) The measures taken by the Inter-American Development Bank and the World Bank in establishing Special Action Programs have benefited the region. However, both institutions should reinforce these actions with a view to accelerating disbursements, thereby reducing local counterpart fund requirements;
- ii) That the financial institutions which channel their resources into the region incorporate into their operational policies the principle of significantly increasing Programme Loans. Furthermore, these institutions should substantially increase the financial resources that support multinational development projects;
- iii) That the IDB play a greater role in strengthening regional co-operation and integration mechanisms. Consequently, provision should be made for an increase in financing for development projects or programmes related to the expansion of exports and those programmes that strengthen regional financial and monetary mechanisms;
- iv) In view of the existing financial gap in Latin America and the Caribbean, the resources agreed upon under the VI Resource Replenishment of the Inter-American Development Bank are considered to be insufficient and should therefore be promptly increased.

It is also important to increase the resources of the financial co-operation mechanisms of the United Nations system and to ensure

greater flows of concessionary resources to Latin American and Caribbean countries from these mechanisms.

We likewise recommend with regard to subregional financial organizations and national development banking:

- i) To promote an increase in the flow of additional external resources into investment projects by means of co-financing arrangements agreed upon by multilateral institutions and Latin American subregional development financing mechanisms with international private banks;
- ii) To make possible, by means of suitable legal instruments, the shared contribution of Latin American resources to projects of shared interests in the form of both capital and technology through the mechanism of co-investment with the participation of national or subregional financial institutions and of regional and/or extraregional entrepreneurs or investors.

We therefore consider it of special interest to lend the necessary support to the actions being taken to promote the establishment of intraregional co-investment mechanisms as a means of contributing to Latin American regional integration.

II. TRADE

1. Commitment on non-tariff restrictions to intra-Latin American Trade

We take on a commitment not to introduce from this date on any new non-tariff restrictions on imports from Latin America and the Caribbean and to eliminate or reduce progressively existing restrictions through negotiations whose deadlines, criteria and procedures we are committed to adopt within this year. The fulfillment of this commitment will not in any way signify any modification of the obligations we have acquired under multilateral or bilateral trade agreements. We will consult each other whenever emergency situations arise that could impede fulfillment of these commitments.

For the purposes of this agreement, we will not consider as additional restrictions on trade any changes in the non-tariff protection structure that any of our countries may be forced to adopt with the purpose of using rationally its foreign currency reserves or adjusting the protection required by its industries in the face of the changing international economic situation, taking into account that such modifications will be of a circumstantial and temporary nature, provided that such measures are consistent with its obligations within the framework of regional integration agreements, whenever appropriate.

At its tenth Regular Meeting, the Latin American Council of SELA will decide upon the negotiations referred to in this section and on the procedures to evaluate their results, with the participation of the Secretariats of the Latin American and Caribbean integration schemes.

2. Increase in the exchange of goods and services among the Latin American and Caribbean countries

a) Latin American regional tariff preference

We agree on the need for countries of the region to benefit their reciprocal trade, bearing in mind the diversity of the levels of development in the countries of the region, by establishing a tariff preference of such a magnitude that it will divert and create trade currents towards Latin America and the Caribbean, taking into account the diversity of development levels of the countries of the region.

Consequently, we urge the member countries of ALADI to bring to fruition negotiations for establishing regional tariff preferences during 1984, as stipulated in Article 5 of the Treaty of Montevideo of 1980, in accordance with Resolution 5 of the Council of Ministers, through an Agreement of Regional Scope, open for membership to those Latin American and Caribbean countries which are not members of ALADI.

For this purpose, ALADI will hold consultations with the other Latin American and Caribbean countries and with sub-regional integration organizations so as to report on any progress made in those negotiations.

The Latin American and Caribbean countries which are not members of ALADI could negotiate their participation in this Agreement to implement the Latin American Tariff Preference mentioned in Article 24 of the Treaty of Montevideo of 1980.

Until this is accomplished, we agree that each country establish, without necessarily entailing a negotiation, a list of products for which it would be willing to apply a significant

preference applicable to all the countries of the region in accordance with the production possibilities of each country and their different levels of development.

The preferences granted shall be reviewed in the light of the progress achieved in the negotiations involving the enforcement of the Latin American Tariff Preference.

The preferences mentioned in the preceding paragraph shall not imply consolidation of duties nor prevent the participating countries from reforming their tariff structures to reflect general economic policy decisions.

The Latin American and Caribbean countries should take the measures necessary to grant these preferences in conformity with the multilateral, bilateral, or subregional agreements to which they have subscribed.

b) Trade Negotiations

We agree to intensify bilateral or multilateral trade negotiations among our countries for the purpose of achieving an accelerated increase of intraregional trade. We therefore urge the countries of the region to apply Article 25 of the Treaty of Montevideo of 1980.

c) Government Procurement

We agree to promote, through bilateral or multilateral agreements and within the framework of the integration systems, operational mechanisms that will make it possible to take advantage

of government procurement capacity by seeking to import from regional suppliers of our imports. To that end, and as soon as possible, the integration systems should carry out the consultations necessary to implement the operational mechanisms with the participation of those countries not included in any integration process.

We agree in the need to apply, when the purchase of goods and services is done through public tender, a regional preference in favour of Latin American and Caribbean suppliers and corporations. For this purpose, all necessary studies shall be performed to apply such preference, in the measure that current national legislations and international agreements of each country allow it.

Such studies, which will be performed by the Permanent Secretary of SELA with the collaboration of the relevant regional and interregional organisms, shall be submitted for a decision by the Latin American Council of SELA and shall encompass, among others, the following criteria:

- i) The possibility of establishing, in the bidding terms and conditions, that when the bids are the same, the purchasing entity shall grant the Regional Preference to offers from Latin American and Caribbean enterprises;
- ii) The possibility of establishing, in the bidding terms and conditions, that the purchasing entity retain the right to ask any Latin American firm whose offer takes second place, to match the terms of the first, in which case it will be awarded the tender;
- iii) Bidding terms and conditions may contain other differential clauses in favour of Latin American firms.

d) Making use of the regional demand and supply of goods

i) We agree to take advantage of the regional supply and demand for goods for the following purposes:

- To facilitate the purchases and sales of the region within the region itself as well as outside the region;
- Intensifying Latin American industrialization;
- Encouraging the greatest possible participation by regional firms in the supply of the equipment needed by the countries of Latin America and the Caribbean.

In that context, and considering that the demand for capital goods in the electricity generation sector is appropriate for initiating joint actions, according to CEPAL studies, we instruct the Secretariat of that organization and of OLADE to adopt during 1984 all necessary measures in order to define and gradually implement the appropriate mechanisms for making use of regional demand for goods in that sector.

- ii) Likewise, we shall encourage the creation of new Latin American multinational marketing enterprises and the strengthening of existing ones in order to make maximum use of the bargaining power deriving from joint demand and supply of goods;
- iii) To avoid duplication of efforts and to achieve the most adequate use of resources in the field of information, we require from all regional and subregional organizations that deal in trade information to co-ordinate effectively their efforts and programmes for the purpose of providing the region with an efficient system of trade information within the framework of SELA.

e) Protectionist and discriminatory measures applied to Latin American imports

We entrust the Latin American Council of SELA with granting further consideration at its Tenth Regular Meeting to the actions that Latin America and the Caribbean should adopt to counteract the protectionist and discriminatory measures applied by industrialized countries and which affect Latin American exports. These actions shall be based on the studies prepared in this regard by UNCTAD and CEPAL.

In that context, and within the spirit of Decisions 112 and 113 of the Latin American Council of SELA, it shall consider all economic coercive measures applied against any country in Latin America or the Caribbean.

f) Compensated trade and economic complementarity agreements

We request the General Secretariat of ALADI to carry out, in collaboration with CEPAL and UNCTAD and in consultation with the technical bodies of the subregional integration systems, a study of the opportunities that exist for compensated trade transactions with the participation of all Latin American and Caribbean countries, and to report to the respective governments through the Permanent Secretariat of SELA.

Similarly, the greatest possible amount of economic complementarity should be promoted among all the countries of the region, taking into special account the possibilities contained in Articles 11 and 25 of the Treaty of Montevideo of 1980.

3. Actions to promote intraregional trade

We request the appropriate organizations of the regional and subregional integration systems, in co-ordination with SELA, to examine the instrumentation of the actions mentioned in this chapter, to adopt the corresponding operational decisions and to promote other initiatives that will broaden intraregional trade.

We request the Permanent Secretariat of SELA, within its institutional framework and bearing in mind Decisions 125 and 174 of the Latin American Council, to hold periodic consultations with the officials responsible for foreign trade in the Latin American and Caribbean countries to promote other initiatives to expand intraregional trade, such as collaboration agreements between the production and trade sectors in the region.

Finally, the Latin American Council of SELA, at its tenth Regular Meeting, will study the possibility of convening a conference especially devoted to foreign trade.

III. REGIONAL FOOD SECURITY

1. We believe it necessary that all Latin American and Caribbean nations should belong to the Committee for Action on Regional Food Security (CASAR) of SELA to establish and support the Regional Food Security System.

2. In order to avoid duplication of efforts and make the best possible use of resources so as to achieve this most important objective, we appeal to all regional and subregional international organizations in charge of food supplies and production in Latin America to co-ordinate their efforts and programmes in the framework of this Committee and the Regional Food Security System. This appeal is particularly important for the purpose

of providing the region with an effective information system on food and agriculture and a plan for co-operation among national agencies concerned with the marketing of food.

3. As support for the integration and consolidation of the Regional Food Support System, the need is underscored for each of our countries to formulate national food plans to promote the production of basic foodstuffs and to improve their distribution and consumption. In order to facilitate achievement of this objective we consider it very important to exchange national experiences within the framework of CASA.

4. We also recognize that the effectiveness of a regional system will also depend on the efforts made at the subregional level. We therefore stress the need for such a regional system to support and complement existing subregional projects and programmes.

5. In order to achieve greater regional self-sufficiency in basic foodstuffs we decided to give priority to the exchange of food in all actions considered by the Conference with regard to the promotion of intraregional trade, including transportation, the elimination of barriers, the establishment of the Regional Tariff Preference and, if required, financing.

6. We hope that all the States of Latin America and the Caribbean which have not yet done so to join the Latin American Multinational Fertilizer Marketing Enterprise (MULTIFERT S.A.) and to make full use of its services. We also hope that those States will join the Latin American Fisheries Development Organization (OLDEPESCA) in order for its constitutional charter to enter into force and enable it to initiate its activities as soon and possible.

IV. ENERGY CO-OPERATION

We agree on the need to intensify energy co-operation in order to achieve regional self-sufficiency in energy and technological autonomy. For this purpose the region's capacity to increase and diversify the production of energy and rationalize its consumption should be strengthened in order to support its economic development, reduce its dependence on a limited number of energy sources, overcome its vulnerability with regard to extraregional markets and increase the coefficient of technology and capital goods originating in Latin America and the Caribbean in the processes of production, transformation and distribution.

In order to achieve these objectives the following actions will be undertaken:

- i) Strengthen the energy planning system as an instrument to consolidate the economic development of the region. Although the essential effort is the responsibility of each individual country, co-operation and the exchange of experience is nonetheless of particular significance.
- ii) Increase the exchange of information in the field of energy, for which purpose it will be necessary for OLADE to accelerate establishment of the project for the Latin American Energy Information System (SIELA).
- iii) Expand and improve the supply of energy in the region with the aim of achieving optimum levels of regional supply, and promoting the negotiation of agreements regarding reciprocal payments and credits, expanding them to include inter-regional transactions in energy and petrochemical products.

- iv) Promote new energy co-operation agreements and identify multinational energy projects that will promote integration among the countries of the region. In the field of hydrocarbons an attempt will be made to increase storage capacity and to improve refineries in the countries of the region. For this purpose funds deriving from such agreements will be utilized, inter alia, in addition to engineering and construction firms and industrial inputs of the region.

These new agreements must be stable and permanent in order to facilitate planning of both energy development and intraregional trade.

- v) Promote the establishment of multinational Latin American petroleum fleets that will incorporate the region's shipping resources.
- vi) Promote agreements among the State-owned corporations of the region that deal with energy to strengthen their technological capacity and supply of capital goods so as to take advantage of the progress already achieved in the region.
- vii) Promote the channeling of international financial resources particularly towards the development and use of new and renewable sources of energy - to expand and diversify the energy base of the countries of the region.

- viii) Strengthen OLADE in the accomplishment of its objectives and particularly for the execution of the Inter-American Energy Co-operation Programme (PLACE) in order to carry out the new tasks associated with the actions decided upon by this Conference.

- ix) Commission the Permanent Secretariat of OLADE to present a report for the consideration of the Committee of Ministers at its next meeting in March in order to enable that Committee to follow up on the actions taken in the field of energy.

V. SERVICES

Aware of the growing importance of the service sector for the economic development of the countries of the region and recognizing the need for adopting joint and co-ordinated positions in international organizations truly competent to deal with this subject, we believe it necessary to:

- i) Reaffirm the need to adopt a joint regional position with regard to the topic of the international trade of services, for which purpose a Latin American Co-ordination Meeting has been called under Decision 153 of the Latin American Council of SELA;

- ii) Co-ordinate the position of the Latin American and Caribbean countries with respect to initiatives or actions which can bring about true development of indigenous technologies in the region in accordance with the national interests of our countries, particularly with regard to the most advanced technologies;

- iii) Undertake joint efforts to define and implement appropriate mechanisms for the dissemination and transfer of new technologies to direct users in the different fields of production;
- iv) Carry out consultations among our countries and with regional and subregional organizations in order to identify specific areas for the promotion of regional and subregional co-operation plans with respect to services, especially in the transportation, insurance and reinsurance sectors;
- v) Grant, in the implementation of national or multinational projects, preferential treatment to Latin America and Caribbean firms that provide national services, particularly with regard to consulting and engineering firms;
- vi) Request the Inter-American Development Bank to take the necessary steps to establish systems to reduce the cost of insurance and reinsurance in the region, taking into account systems included in carrying out projects financed by that Bank.

In any consultations and actions undertaken to comply with the provisions of this chapter, account will be taken of the diversity of national legislation in some of the areas related to services.