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AGENCY FOR INTERNATIONAL DEVELOPMENT  
UNITED STATES A.I.D. MISSION TO  
PERU

LOAN COMPLETION REPORT  
OF  
LOAN No. 527-L-052  
FOR  
COMMUNITY DEVELOPMENT AND RECONSTRUCTION

Approved by:



Donald R. Finberg  
Director

LOAN COMPLETION REPORT

USAID, Peru  
April, 1976  
A.I.D. Loan No.527-L-052  
Community Development and  
Reconstruction

I. LOAN INFORMATION

A. Basic Data:

- |                        |   |  |
|------------------------|---|--|
| 1. Borrower            | : | Government of Peru   |
| 2. Implementing Agency | : | Regional Office for the Development of the Earthquake Zone (Organismo Regional para el Desarrollo de la Zona Afectada por el Terremoto - ORDEZA) |
| 3. Date Authorized     | : | June 29, 1971  |
| 4. Date Signed         | : | November 12, 1971  |
| 5. First Disbursement  | : | September 1, 1972  |
| 6. Final Disbursement  | : | December 30, 1975  |

B. Financial Information:

- |                       |   |                |
|-----------------------|---|----------------|
| 1. Amount Authorized  | : | \$3,000,000.00 |
| 2. Amount Disbursed   | : | \$3,000,000.00 |
| 3. Amount Deobligated | : | None           |

4. Application of Funds:

	<u>A.I.D. Loan</u>	<u>Allocated</u>	<u>Disbursed</u>
a. Urban (total)		\$ 500,000.00	\$ 500,000.00
b. Rural		2,075,000.00	2,161,056.78
c. Technical Assistance		100,000.00	23,007.01
d. Equipment		<u>325,000.00</u>	<u>315,936.21*</u>
		\$ 3,000,000.00	\$3,000,000.00
		=====	=====
5. GOP Contribution	:	\$1,160,000.00	

C. Terms and Conditions:

10 years grace period; repayment period of 40 years. 2% interest annually during 10-year grace period, 3% thereafter.

II. BRIEF PROJECT DESCRIPTION

The Project was developed and approved to finance self-help community development and reconstruction activities in the area of Peru affected by the earthquake of May 31, 1970. Funding was channelled through ORDEZA, which established a Rural Development Division (RDD) to implement the rural program, and an Urban Coastal Division (UCD) to administer the urban program. Under the rural program, micro-regional planning teams were created to develop a series of sub-projects which would be suitable for financing through sub-loans to community organizations recognized under Peruvian Law. Under the urban pilot program, the UCD supervised the contracting of services and the construction of infrastructure in the project area and obtained participants in a self-help housing construction program in Chimbote.

Over \$2,161,000 of loan funds were disbursed to finance construction materials, equipment, and other direct and indirect costs incident to the implementation under the rural program of self-help community sub-projects in the areas of housing, small industry, and agriculture. The remaining funds were utilized for: (1) the purchase of equipment and vehicles to be used by ORDEZA in implementing the project (approximately \$316,000); (2) the provision of technical assistance and training

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\* Local Costs: \$ 24,097.18  
U.S. Costs : \$291,839.03

activities related to the project (about \$23,000); and (3) the financing of a pilot self-help housing program in Chimbote, a coastal urban area of the affected zone (\$500,000).

### III. BACKGROUND

Considerable delays occurred from the time of Loan signature in November 1971 to the initiation of sub-project lending. With the integration of the Executing Agency (PROCOM) into the GOP Social Mobilization Agency (SINAMOS) in early 1972, and the inability of that new agency, as reorganized, to undertake this type of project, the GOP (with A.I.D.'s concurrence) assigned Executing Agency responsibilities to CRYRZA (now ORDEZA) in January, 1972. ORDEZA subsequently began hiring project directors for the urban and rural programs and preparing Implementation Plans for each, the Rural Implementation Plan being accepted by A.I.D. in July 1972 and the Urban Implementation Plan in October of 1972.

ORDEZA's RDD was established in May 1972 to implement the rural program. Administrative/executive personnel were hired and micro-regional planning teams established to analyze the development and reconstruction needs of small rural communities within defined micro-regions. Based upon that analysis, a series of feasible sub-projects were developed in housing, industry, agriculture, community infrastructure and small business with the participation of organized community cooperatives and other groups. Through contractual agreements between ORDEZA and community organizations, credit, technical assistance, and training were made available for the implementation of the sub-projects. The first sub-loan was approved in December 1972.

The RDD organization administered all the essential components (i.e. professional technical assistance staff for sub-project promotion, planning and implementation, credit, construction equipment, etc.) required for the development of a variety of rural community projects. Sub-project development was coordinated with but was generally not dependent upon the inputs of other GOP agencies. Staff included approximately 4 executive and administrative personnel, 25 professional staff (i.e. civil engineers, economists, sociologists, industrial engineers, cooperative experts, etc.), and 100 non-professional technicians (agriculture, construction, maintenance, etc.). Construction equipment (i.e. tractors, bulldozers, dump trucks, cement mixers, etc.) was used for the implementation of sub-projects with the self-help inputs of the community.

In December 1974, with the appointment of a new ORDEZA Chief, the administration of the project was reorganized. The formerly self-contained RDD with exclusive responsibility for implementation was disbanded and sub-project development responsibilities were assigned

to ORDEZA's zonal offices coordinated by the ORDEZA Regional Development Director.

#### IV. LOAN EVALUATION\*

##### A. Inputs

##### 1. GOP Program Management

Initiation of the Project was delayed approximately 9 months due to external factors not foreseen in the CAP. The assigned implementing agency, PROCOM, was absorbed into the newly created GOP Social Mobilization Agency (SINAMOS) which did not want to assume implementing agency responsibilities given the major organizational problems confronting SINAMOS at that time. Implementation responsibilities were therefore transferred to ORDEZA, approximately 3 months after Loan signature. Subsequently, ORDEZA geared up rapidly to implement the Loan.

In late 1974, the ORDEZA decision to shift project implementation responsibility from its Rural Development Division to the various Zonal Offices seriously hampered Loan implementation. During a 6 month period of personnel changes and reorganization only minimal support was given to the development of sub-loan projects. Subsequently, sub-project support improved but was still not sufficient to meet expanding program needs. This major reorganization of program management in 1974 was the direct result of a change in top leadership within ORDEZA. The new ORDEZA Chief wanted to integrate Loan implementation with the activities of the ORDEZA Zonal Offices in order to implant the program methodology on a wider scale and to promote greater efficiencies in the use of ORDEZA's technical, administrative, and material resources. This decision is more fully discussed in Section IV - C of this paper.

##### 2. Budget

GOP provided the required financing for operational costs, fully meeting its counterpart financial obligations (\$1.16 million).

##### 3. Disbursements/Commodity Procurement

Once initiated, USAID disbursements to the Borrower were timely and spread relatively evenly over the life of the Project in accordance with sub-project needs. Final disbursement, however, was an

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is Loan Evaluation Section pertains only to the Rural Program financed under the Loan. The Urban Program, which utilized only 1/6 -- total Loan funds, and had program objectives quite distinct from the Rural Program is briefly evaluated in Annex I of this Report.

exception since it was utilized by ORDEZA for procurement and stockpiling construction materials required for unfinished sub-projects.

Regarding procurement, a negative factor was the delay in the request for procurement of heavy construction equipment (due to the shift by the GOP in designating the implementing agency), and the actual procurement was excessively time consuming (over one year). Since the equipment was essential for most sub-projects, this caused delays in sub-project implementation.

#### 4. USAID Advisory and Monitoring Inputs

USAID grant funded a full time contract advisor during the Loan development period and for the initial 2 years of Loan implementation. This service was well utilized by ORDEZA particularly in the design and initial operation of the Project. Subsequently, a USAID local hire community development specialist has worked half time in the field with ORDEZA. Project Manager responsibilities during the entire implementation period have been assigned to a direct hire A.I.D. employee. USAID offices, such as Engineering, have provided significant additional expertise needed in monitoring the Project.

Under another grant project A.I.D., at ORDEZA's request, provided the services of Development Alternatives Incorporated (DAI) to assist ORDEZA in developing an improved sub-project monitoring and evaluation system. The system was jointly developed with ORDEZA but never put into practice because of personnel changes in ORDEZA and changes in program administration. Specific reports prepared by DAI on sub-project accounting and records systems, however, were useful in highlighting for A.I.D. and ORDEZA the needs of sub-borrowers for improved accounting and management skills.

#### 5. ORDEZA Technical Assistance Inputs for Sub-Project Development

It was recognized at the onset that considerable technical assistance would have to be provided to potential sub-borrowers in all phases of sub-project development. It can be concluded that the number and quality of ORDEZA personnel were adequate for the initial two years of the program. With the changes in ORDEZA leadership and program administration in late 1974, a significant amount of T.A. manpower was withdrawn causing serious delays in implementation. Similar delays occurred with respect to construction equipment and vehicle support after the 1974 change in program administration.

During the entire implementation period insufficient personnel were devoted to training and technical assistance directed toward improving management and accounting practices of sub-borrowers. Anticipated assistance from SINAMOS in this area was not forthcoming.

Loan T.A. funds were only used for this purpose during the latter part of 1975.

## 6. Community Contribution

Unskilled labor was provided by the sub-borrower organizations for the construction phase of all sub-projects, this labor input was valued at approximately 20-25% of the amount of each sub-loan. The amount and quality of this contribution were in most cases related directly to the frequency and quality of ORDEZA technical supervision. In many cases construction schedules were delayed because of over-optimistic assessments of the communities' capacity to contribute unskilled labor; labor was often not available for construction because of higher priority agricultural work. Communities also contributed significantly more labor to income producing projects rather than housing projects.

### B. Outputs

Credits averaging approximately \$60,000 each were provided to develop 35 sub-projects. Twenty (20) community organizations, primarily cooperatives and recognized Indian communities, received sub-loans. (See Annex 2 for sub-project list.) Agriculture sub-projects included installation of pig and other small animal production facilities, an animal feed plant, improvement of sheep breeding and production, milk production and storage facilities. Industrial activities included marble quarrying and processing, plaster production and brick ovens. Commercial activities were limited to small restaurants and artisan shops, and vehicle gasoline/service stations. Many projects included self-help housing components and complementary income production activities (communal restaurants, small animal production, other communal services). Comments relative to more specific outputs are indicated below:

#### 1. Sub-project Identification and Planning

An innovative, multi-disciplinary, methodology was utilized for sub-project planning. New or underutilized community resources (i.e. marble, lime deposits, corn production for hogs, etc.) were identified and exploited in most of the sub-projects. The quality of sub-project feasibility studies was generally good; in many cases the studies were perhaps too complete, providing more than the essential information needed for sub-project approval. There was a lack of consistency, however, in the amount and quality of data gathered in the different feasibility studies. DAI has recommended that uniform methods and reports be utilized at this stage to reduce the gathering of unnecessary data and provide a more uniform baseline upon which sub-project results could be measured.

## 2. Construction of Facilities

Construction schedules were generally not met because of logistical problems (i.e. delays in purchase and delivery of materials, delays in obtaining ORDEZA's heavy equipment), and problems in obtaining needed community labor. While such delays are probably inherent in such self-help endeavours in isolated rural communities, the problems were aggravated by inconsistent technical supervision and administrative support by ORDEZA. The quality of sub-project construction was generally good, considering that unskilled community labor was utilized throughout.

## 3. Training of Sub-Borrowers

The quality and quantity of training provided was less than anticipated in the program design. Rudimentary training in production skills specific to each sub-project was provided in most cases. For example in each swine production project 5 to 6 community members were given on-site training in swine production, usually under the guidance of an ORDEZA specialist or by on-the-job training in other production facilities already in operation. Skills in construction techniques were also acquired by community participants in the self-help components of the projects. The amount and quality of construction training, however, depended more upon the extent to which individual ORDEZA foreman tried to do this, rather than a systematic training program.

Approximately 56 members of the sub-borrower organizations received formal training (at least 2 months) in rudimentary accounting and management. However, these courses, sponsored by ORDEZA, were held only during the last four months of Loan implementation. About 16 of the persons trained are now directly involved in sub-project administration. While it is still too early to evaluate the results of the training, it is likely that more intensive training will be required for successful sub-project operation.

A form of informal training, periodic consultation with sub-borrowers on bookkeeping and management, has recently been initiated. Approximately 20% of the cooperatives have received this assistance to date.

## 4. Job Creation

An ancillary objective of the program has been the creation of direct employment opportunities and supplemental sources of income through shared profits to members of the sub-borrower organizations. Excluding the housing projects, the program has created approximately 200 direct jobs at an approximate cost of \$9,000 per

job (excluding subsidized ORDEZA costs). Increases in personnel income due to profit sharing cannot be measured at this time since most sub-projects have just initiated operations. There is also insufficient data to estimate indirect income and other benefits resultant from the program. Indirect benefits appear to be significant, however, particularly in the swine and fowl production projects which have created increased demand for locally produced corn and other feeds.

### C. Achievement of Project Purpose

The Project as originally conceived did not identify specific indicators for measurement of achievement of Project purpose. It was anticipated, however, at the time when ORDEZA assumed implementing agency responsibilities, that the impact of the Project would be focused on (1) reconstruction of housing and other facilities in small rural communities affected by the 1970 Earthquake, (2) the creation of economically viable enterprises in rural communities, and (3) the creation of a technical assistance and credit delivery system in ORDEZA to accomplish these tasks.

With respect to reconstruction activities, program assistance has been limited to the construction of 208 housing units under 7 sub-projects in 7 communities. In many cases this involved the relocation of all or portions of the community to more suitable, nearby sites. In many cases housing sub-projects were linked to income generation projects in the same community. Progress in completing house construction has not been satisfactory, as some 375 units were originally planned. In most projects the number of houses to be constructed have had to be reduced, primarily due to lack of effective community participation; communities (and ORDEZA) generally have given higher priority to terminating the income production projects. Additionally, since most houses damaged by the Earthquake had been repaired in one form or another, the participants probably did not perceive improved housing as a high priority need.

At the present time, there is not sufficient experience to evaluate the extent to which the sub-projects are economically viable and self-sufficient. Of the 28 income production sub-projects only 23 have their production facilities now in operation; most of these have been in operation for less than one year. Those not in operation should be completed by May, 1976. A brief evaluation of those projects in operation revealed deficiencies in bookkeeping, accounting, and management practices making it very difficult to determine if profits were actually being made. ORDEZA is now providing assistance to the sub-borrowers in this area and the situation should improve. It was the judgment of the USAID evaluation team, however, that all of the sub-projects were economically viable activities and that performance should improve as each community gains additional experience. Continued assistance from ORDEZA appears essential.

It is evident that significant economic activities have been created by the Program. With few exceptions the sub-borrower organizations have moved from a loosely knit group of subsistence farmers to a production, commercial, or service enterprise with a considerable impact on the local economy. Sub-projects have generally been geared to regional demand and some vertical integration has been achieved among sub-projects. While it is apparent that these enterprises will require continued assistance from ORDEZA or other Government development agencies if they are to succeed in the longer term, the sub-borrower organizations should be much more capable of obtaining and utilizing resources for productive purposes as a result of the program.

Considering the third element of the project's purpose, the institutional system set up within ORDEZA to manage the program has passed through several stages. Within one year ORDEZA had established and made operational an effective and innovative system for identifying and planning sub-projects, and providing credit and T.A. for construction of facilities. The utilization of multi-disciplinary teams, often residing at the sub-project site for extended periods of time, helped to achieve sound planning and good community participation in all phases of sub-project development. Insufficient attention however, was given to training and community organization components of the program. This system was subsequently seriously disrupted by internal changes in ORDEZA resulting in reductions of personnel and logistical support to sub-projects during a one year period. However, during the latter part of 1975, support and technical assistance to the sub-projects were increased leading to improved performance. It can be concluded that a viable institutional system had been developed for sub-project identification and construction but that systematic institutional approaches to training of participants and follow-up technical assistance have not as yet been established. Another top level change in ORDEZA which occurred in late 1975 has seriously delayed the development of new sub-projects to be financed under A.I.D. follow-up Loan 527-W-057. This pattern of significant and periodic changes in personnel and program administration continues to threaten the longer-term institutionalization of the program.

The longer term prospects for the program will also be affected by the GOP regionalization effort on a nationwide basis scheduled for initiation in 1976. ORDEZA, with its current special mandate as a regional development agency created in response to the Earthquake Disaster has the authority to mobilize the resources of other GOP sectorial agencies in the region and a considerable amount of its own resources to directly implement projects. There are some indications that ORDEZA's special status and authority may be diminished under the new regionalization plan. The Regionalization Law which may be issued by mid-1976 should clarify this situation.

D. Other Comments

1. USAID Technical Assistance Inputs

It has been necessary for USAID to provide a significant technical assistance and monitoring contribution to the Project, both through direct hire staff and contractors financed under Project Agreements with ORDEZA. Given the pattern of institutional instability and the complex task of developing feasible income production projects with marginal subsistence farmers, USAID is convinced that such a role was essential. For example, the transition of Loan implementation responsibilities from one agency to another and the subsequent institutional "gearing up" was done effectively with considerable assistance provided by a full-time, A.I.D. grant-financed contractor stationed in Huaraz. For future projects of this nature it is recommended that USAID either negotiate loan financed T.A. as a condition of the Loan or be prepared, as in this case, to use grant funds for this purpose.

2. Slow Program Initiation

The first rural sub-loan was approved in December, 1972, over one year after Loan signature. By November 1973 and November 1974 only 19% and 44% of Loan funds were disbursed, respectively. By December 31, 1975, the Loan Terminal Disbursement Date (as extended by six months), all funds were disbursed. The program demonstrated that under certain circumstances a rapid "catch up" in Loan disbursement is possible after serious initial delays. USAID had the flexibility to balance institutional needs and the complexities of program initiation with the need for demonstrating disbursement progress.

3. Community Participation

The program design required the participation of the community in all phases of sub-project development. A relatively directed approach, however, was utilized throughout with a high degree of ORDEZA involvement in sub-project development. The ORDEZA field teams living in the communities achieved good interaction with the community participants but also became very identified with the success or failure of sub-projects. A somewhat paternalistic pattern was noted by both A.I.D. and ORDEZA, particularly as sub-projects entered the production stage. ORDEZA technicians in many cases were, in effect, managing sub-projects in their initial operation. This heavy involvement was one of the factors influencing the program management changes made by ORDEZA's new leadership in 1974. The subsequent reductions in ORDEZA technical assistance and logistical support to communities proved to be impractical causing numerous construction delays and sub-project operating problems. As a result, ORDEZA soon had to increase its technical and other support to sub-borrowers.

The purpose of this brief discussion of community participation is not to reach a definitive conclusion about a "right or wrong" mix of community participation and outside intervention but rather to highlight the difficulty of achieving reasonable sub-project construction progress and subsequent economic viability without creating an excessively dependent relationship between the sub-borrower and the external assistance agency. It is probable, however, that this type of program aimed at subsistence farmers, highly skeptical of government assistance, could not have been successfully initiated without considerable direction and supervision from ORDEZA.

#### 4. Capital vs Labor Intensive Sub-Projects

It could be argued that sub-projects produced relatively few jobs for the amount invested (i.e. average of \$9,000 per job - see Section IV-B-4), and that many were too ambitious considering the low educational and skills levels of the participants. Again it is difficult to judge at this time whether a more labor intensive approach utilizing simpler technology would have been feasible and produced better results. The project selection and design, however, did evolve as a result of conscious effort to maximize the use of local resources and achieve a level of technology economically competitive with similar activities in the Zone. Consideration should also be given to the indirect benefits (such as the increased demand for locally produced feeds for meat production) which compensated to some extent for the low direct job creation factor. Additionally, the distribution of profits derived from the enterprises among cooperative members should be considered as an additional benefit.

### V. FUTURE A.I.D. MONITORING

#### A. Covenants to be Eliminated Upon Sub-Project Completion

As noted above, a number of sub-projects have not yet been fully completed. USAID will continue to monitor construction of these sub-projects until termination which is now scheduled by May 1976. At that time, certain Loan Agreement covenants will no longer be necessary and will be eliminated from USAID's monitoring scope. These are:

1. Under Article IV General Covenants and Warranties, the following sections:

- a. Section 4.01 Execution of the Project;
- b. Section 4.02 Funds and Other Resources to be provided by Borrower;
- c. Section 4.05 Utilization of Goods and Services;

- d. Section 4.07 Commissions, Fees, and Other Payments; and
- e. Section 4.09 Reports.

- 2. Under Article V Special Covenants and Warranties, all sections.
- 3. Under Article VI Procurement, all sections.

B. Retained Covenants

The following covenants from Article IV will be retained and monitored by the Mission.

- 1. Section 4.03 Continuing Consultation. It is maintained for any future discussions we may wish to have with the Borrower in regard to the results of the Project.
- 2. Section 4.04 Taxation. Monitoring will be limited to a check by the Office of the Controller that no taxes or fees have been applied.
- 3. Section 4.06 Disclosure of Material Facts and Circumstances. Reports generated in response to the covenant will be monitored when received by the Mission.
- 4. Section 4.08 Maintenance and Audit of Records. Will be retained for five years following the last Loan disbursement (December, 1975).
- 5. Section 4.10 Inspections. Will be utilized on an as needed basis to permit on-site visits and inspections of books and records.

## Annex I

The urban project under the Loan was administered by the ORDEZA Urban Coastal División (UCD) in Chimbote and subsequently transferred to the Chimbote Zonal Office of ORDEZA. The intent of the project was to provide sites, services, and self-help housing units for 500 families being relocated as a result of the May 1970 Earthquake. The Urban Development Plan for Chimbote called for the relocation of all residents from squatter areas previously established in the city to an area to the South of Chimbote designated for residential development. The Loan financed project was to be the first such large scale relocation effort.

The project was initiated in mid 1972; lots and services (water, sewage, electricity, streets) for 500 lots and 63 self-help housing units were completed by 1975. Construction of the project was seriously delayed throughout due to a combination of factors; principal among these were:

1. Lack of effective demand for housing. ORDEZA and other responsible GOP agencies reversed their decision to relocate residents of pueblos juvenes to the southern part of the city. Most pueblos juvenes residents began reconstruction of their damaged houses soon after the Earthquake and, in the absence of a firm government policy to relocate, they chose to stay in their current location. The Government subsequently provided credit for infrastructure improvements in these same areas.
2. In addition to the units provided under this Program, by 1974 there existed an excess of newly urbanized lots and low cost housing units in the southern area of the city. Many potential participants for the AID/ORDEZA Program took advantage of other low cost housing alternatives available for those willing to relocate.
3. Inability of ORDEZA to effectively administer the Project. If the infrastructure work had been completed on schedule (by end of 1972), there would have been a reasonable market for self-help housing - the competing programs in the southern part of the city were only completed in 1974. Personnel changes within ORDEZA and other administrative inefficiencies, however, seriously delayed construction, resulting in a high drop-out rate of those participants originally committed to relocate.
4. During the self-help housing construction stage, there were initial delays caused by the inability of participants to devote sufficient time to make their unskilled labor inputs. This was later remedied by allowing participants to hire day laborers when they could not make this contribution directly because of their own employment commitments. This practice is now being followed on other AID financed self-help housing projects.

By the time the program was completed the AID allocation of funds was only sufficient for construction of 63 units instead of the 180 originally planned, primarily due to construction cost escalation. Funds, however, were available from other sources for additional units but were not utilized

because of lack of effective demand. There is a current oversupply of low cost housing units and urbanized lots in the newly developed residential areas in the southern part of the city. The Government policy is to allocate these units (including those financed by the Loan Project) on easy credit terms to those willing to relocate in that area. There is evidence that residential occupancy in the southern part of Chimbote is increasing.

LOAN N°527-L-052: Sub-Projects

<u>Borrowing Organization</u>	<u>Sub-project Activity</u>	<u>No. of Full-time Jobs Created</u>	<u>Sub-Loan Amount</u>	<u>Total Amount for Ex Borrowing Organizat</u>
1. CAS Señor de Mayo de Pariacoto	a. Housing: 20 units		S/ 1'068,248.37	S/
	b. Pig Farm: capacity 300 animals	8	2,509,556.00	
	c. Balanced Feed Mix Plant	4	1'136,659.00	4'714,463.37
2. Coop. Artesanos Unidos Chavín	a. Restaurant	6	609,849.00	
	b. Housing: 30 units		2'681,410.19	3'291,259.19
3. Empresa Comunal Catac	a. Improved Sheep production	8	7'238,663.00	
	b. Gas Station	4	2'787,539.00	10'026,202.00
4. Comunidad Campesina Raquia	a. Housing: 84 units		3'467,595.41	
	b. Chicken Farm: ca- pacity 6,000 anim.	4	1'847,505.00	5'315,100.41
5. Comunidad Campesina Pira	a. Marble Plant	20	5'741,550.00	5'741,550.00
6. Comunidad Campesina Utcuyacu	a. Housing: 15 units		1'465,000.00	1'465,000.00
7. Comunidad Campesina Colcabamba	a. Turkey Farm: capac- ity 2,500 anim.	6	1'846,496.00	1'846,496.00
8. Comunidad Campesina Chacchan	a. Housing: 18 units		2'212,647.22	2'212,647.22
9. Comunidad Campesina Rurashca	a. Housing: 5 units		400,000.00	400,000.00

<u>Borrowing Organization</u>	<u>Sub-project Activity</u>	<u>No. of Full-time Jobs Created</u>	<u>Sub-Loan Amount</u>	<u>Total Amount for Each Borrowing Organization</u>
10. Comunidad Campesina San Jacinto de Mita	a. Pig Farm: capacity 600 animals	8	S/ 3'472,715.82	S/ 5'513,869.23
	b. Chicken Farm: capacity 5,000 anim.	4	2'041,153.41	
11. Comunidad Campesina Huasta	a. Vegetable production	6	418,379.00	5'172,840.80
	b. Chicken Farm: capacity 5,000 anim.	6	1'023,816.42	
	c. Housing: 36 units		3'730,645.38	
12. Comunidad Campesina Shumay	a. Chicken Farm: capacity 5,000 anim.	4	1'136,350.00	7'513,066.80
	b. Pig Farm: capacity 600 animals	6	3'798,105.40	
	c. Meat Smoking Plant	6	2'578,611.40	
13. Coop. Producción La Fortaleza de Anta	a. Pig Farm: capacity 400 animals	5	2'810,824.41	2'810,824.41
14. Coop. Producción y Trabajo de Masín	a. Plaster Plant	16	1'143,400.00	1'143,400.00
15. CAP Otopongo	a. Milk production/stable	8	5'347,506.10	8'045,838.21
	b. Chicken Farm: capacity 5,000 anim.	6	2'698,332.11	
16. Coop. Servicios Yungay	a. Restaurant	8	2'000,368.00	7'464,075.00
	b. Pig Farm: capacity 400 animals	6	3'963,836.00	
	c. Chicken Farm: capacity 5,000 anim.	6	1'499,871.00	

<u>Borrowing Organization</u>	<u>Sub-project Activity</u>	<u>No. of Full-time Jobs Created</u>	<u>Sub-Loan Amount</u>	<u>Total Amount for Each Borrowing Organization</u>
17. Comunidad Campesina San Mateo de Choque	a. Pig Farm: capacity 400 animals	8	S/ 3'742,318.36	
	b. Chicken Farm: capacity 5,000 anim.	5	2'077,030.11	S/ 5'819,348.47
18. Comunidad Campesina Calpo	a. Pig Farm: capacity 1,000 animals	14	7'427,120.00	7'427,120.00
19. Comunidad Campesina Kiman Ayllu	a. Turkey Farm: capacity 2,500 anim.	6	2'730,548.00	
	b. Chicken Farm: capacity 5,000 anim.	6	1'781,996.00	4'512,544.00
20. Comunidad Campesina Huaricanga	a. Turkey Farm: capacity 2,500 anim.	6	3'115,443.92	3'115,443.92
Totals: 20 ==	35 ==	200 ===	S/93'551,089.03 (\$ 2,078,913.00)*	S/ 93'551,089.03 (\$ 2,078,913.00)*

\* Exchange rate: S/45.00 = \$1.00.



AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES AID MISSION TO PERU

C/O AMERICAN EMBASSY

LIMA, 1 PERU

*Mr. Morris*

*LA/DP*

*(ACTION: LA/DA  
cc: LA/CI)*

TELEPHONE: 286200

CABLE: USAID/LIMA

June 24, 1976

Mr. Herman Kleine  
Assistant Administrator  
for Latin America and  
Deputy U.S. Coordinator  
Agency for International Development  
Department of State  
Washington, D. C. 20523

<del>GS</del>	
EG	
CW	
--	
ACTION	---
FILE	✓
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*[Handwritten signatures and initials]*

Dear Herman:

We have recently concluded a Loan Completion Report on Loan 527-L-052, which was an earthquake reconstruction loan designed to finance small rural industries in the affected zone. While the authorization of this loan pre-dates the Congressional Mandate, the project embodied the spirit and intent of the mandate. It involved the identification, development and financing of new, small projects by a newly formed government agency for the direct benefit of and ownership by highly disadvantaged campesino groups. We believe that the experience gained from this project might have applicability and relevance to new programs to be considered by AID and, therefore, would like to pass on to you some of our major observations and conclusions.

1. High Administrative Cost

The USAID has made a significant technical assistance and management contribution to this project, both through direct hire staff and by contracts financed under separate Project agreements with ORDEZA.

Given (1) the pattern of institutional instability not uncommon in LDC's, especially when new public institutions are established to perform new tasks, and (2) the complex job of developing feasible income producing projects with marginal farmers, we are convinced that an active USAID role in the management of this project was necessary, particularly since GOP administration of the loan was transferred from one agency to another. As a result, we stationed a full time AID financed contractor in the field (Huaraz).

Since ORDEZA was unwilling to utilize the technical assistance allocation of the Loan, (primarily for nationalistic reasons and a desire to use a large number of local technicians of varying capabilities) complementary grant financing was necessary. In any case, it should be kept in mind that a program of small loans to marginal or inexperienced borrowers for new projects involves a substantial concomitant administrative cost. To the maximum extent possible it should be provided for by the host country or under the loan, although there is a strong tendency, at least in Peru, to not utilize adequately loan funded TA.

## 2. Slow Program Start-up

The first rural sub-loan was approved in December, 1972, over one year after Loan signature. By November 1973 and November 1974 only 19% and 44% of Loan funds were disbursed, respectively.

By December 31, 1975, the Final Loan Disbursement Date (as extended by six months), all funds were disbursed. This Program demonstrated that under certain circumstances a rapid "catchup" in loan disbursement is possible after serious initial delays. Conversely, it also demonstrated that when working in areas where little prior institutional experience exists, long project initiation lead times probably will be required.

Under 052 the USAID had the flexibility to balance institutional/administrative realities with the need to demonstrate disbursement progress. Insistence on a planned disbursement schedule may have been possible but would have probably had negative effects on program design and implementation and caused us to prematurely deobligate funds. I fear that an 052 type project subject to PBAR/PPT would be in for some rough going in the implementation phase with red flags going up all over the place. It is possible of course, although improbable that because current project design is based on more thorough analysis most delays and lags would be anticipated and provided for in the implementation plan. However, in the unlikely event that AID could anticipate a two-year delay prior to first disbursement, I doubt that the loan proposal would be authorized.

## 3. Community Experience and Leadership

052 demonstrated the desirability of selecting projects with which the beneficiary already has considerable experience, i.e., instead of choosing rural enterprises such as hog farming and processing which involves some "imported" food grains, treatment

of strange new diseases and new technologies, the second loan to ORDEZA will focus on the dairy industry which has its base in the past economy and experience of the area, although adding relatively simple cheese making to increase value added.

A related point is the great importance of the quality of local leadership. Some communities, with dynamic leadership, are doing very well, while projects in other communities will learn the hard way or have projects fail. Although I am not sure there is a direct relationship, I fear that the poorer communities are apt to be more traditional and less adaptable to carrying out this type of relatively innovative project. In any event, I am quite sure that the quality of local leadership and community cohesion are very important in the success of these "little man" projects.

4. Institutional and Financial Viability and Replicability of 052 Type Programs

052 was earthquake related and, therefore, had limited objectives which were for the most part accomplished. However, the fact remains that ORDEZA will not likely continue programs of this type with their own funds, although we hope the Industrial Bank will do so. Some of the reasons are suggested below.

Our evaluation of the loan raises questions regarding the costs and feasibility of adopting a rigid interpretation of the Congressional Mandate and directing programs exclusively at the most impoverished groups. We all acknowledge that Peru is just as concerned with the "little man" as AID and the U.S. Congress. The question is--given the high cost, complexity, and long pay out of these "direct to the little man" programs--does a country like Peru have the substantial financial, human and institutional resources which are required to sustain a real effort in this sector. How can we expect Peru to proceed with programs of this nature when it is primarily occupied; indeed, until recently, obsessed with just meeting the daily payroll and packaging large projects of infrastructure and/or balance of payments impact (i.e. copper, oil, etc.)

The above poses a major issue for us. Given lack of assurance that certain AID proposals, no matter how creative and innovative, can be replicated and institutionalized to any significant degree in the near-term, should AID be financing these programs with development loan money? If these programs are innovative and experimental attempting to institutionalize new approaches to incorporate the "little man" into society and the economy, but stand little chance of being replicated at least in the near term,

Mr. Herman Kleine

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it would appear to make more sense to finance these projects via capital assistance/technical assistance grants. If grant money is scarce and development loan funds must be used, the programs should be kept small reflecting their experimental nature. Relatively large development loans (i.e. \$5-10 million or more) should be made only in instances where the host country is also prepared to devote substantial resources and there is reasonable assurance that the program will be replicated and continue to represent a high investment priority in the borrower's budget.

Our recently submitted PID for a Central Bank Loan, which is based on re-lending guidelines developed in accordance with a detailed profile of the poor would seem to meet this criteria. This loan, while not geared to assist the bottom 10/20 percent of the poor majority, will certainly aid those small producers and farm groups not now able to obtain credits and clearly result in substantially greater efficiencies, permanent institutional benefits, and replicability.

One could ramble on forever on this subject and its ramifications for A.I.D. I just want to emphasize that 052 did bring into question in my own mind just how relevant the development loan is as an instrument to promote "poorest of the poor" project innovations in countries where financial, human resource and institutional constraints seem to indicate that an acceptable level of replicability is not likely in the near-term.

In this general context, I was delighted to read AIDTO CIRCULAR A-286 of May 20 which contains revised DAP guidance. In its guidelines for developing a description of the "poor majority" it states that "selection of an appropriate strategy should not be based simply on a determination of those in greatest need, the analysis should identify that segment of the country's poor which A.I.D., with its current knowledge and resources, can most effectively help."

I hope you are well and look forward to seeing you sometime soon.

Sincerely,



Leonard Yaeger  
Assistant Director