

**CAPITAL ASSISTANCE PAPER**

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**Proposal and Recommendation  
For the Review of the  
Development Loan Committee**

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PERU - COMMUNITY DEVELOPMENT AND RECONSTRUCTION

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-970

June 4, 1971

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Peru - Community Development and Reconstruction

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$3,000,000 to the Government of Peru to assist in financing the United States dollar and local currency costs of community development and reconstruction activities of the Borrower in the area affected by the earthquake of May 31, 1970.

Please advise us as soon as possible but in no event later than close of business on Monday, June 14, 1971, if you have a basic policy issue arising out of this proposal.

Rachel R. Agee  
Secretary  
Development Loan Committee

Attachments:

Summary and Recommendations  
Project Analysis  
ANNEXES I-IX

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COMMUNITY DEVELOPMENT AND RECONSTRUCTION LOAN

TABLE OF CONTENTS

|   | <u>Page No</u> |
|---|----------------|
| PART I - SUMMARY AND RECOMMENDATIONS                        | 1              |
| PART II - PROJECT DESCRIPTION                               | 3              |
| SECTION A - BACKGROUND                                      | 5              |
| 1. Earthquake 1970  |                |
| 2. Origin of Loan Proposal                                  |                |
| 3. Prior AID and IDB Community<br>Development loans         |                |
| SECTION B - OBJECTIVES OF THE PROJECT                       | 11             |
| 1. Disaster Relief and Reconstruction                       |                |
| a. Rural  |                |
| b. Urban  |                |
| 2. Community Development Impact                             |                |
| 3. Institution Building - PROCOM                            |                |
| SECTION C - BORROWER AND EXECUTING AGENCY                   | 14             |
| 1. Responsibilities and Experience                          |                |
| 2. Appraisal of PROCOM to Execute Project                   |                |
| 3. PROCOM Technical Assistance and Training<br>Requirements |                |
| SECTION D - PROCOM OPERATION: RURAL PROGRAM                 | 19             |
| 1. Subproject Categories and Allocations                    |                |
| 2. Site Selection   |                |
| 3. Project Promotion  |                |
| 4. Subloan Review Procedure                                 |                |
| 5. Administration of Sub-lending Fund                       |                |
| 6. Criteria Determining Loans from Grants                   |                |
| 7. Procurement  |                |
| 8. Disbursement and Accounting Procedures                   |                |
| 9. Monitoring and Evaluation                                |                |

TABLE OF CONTENTS (continued)

Page No.

|              |  |    |
|--------------|--|----|
|              | a. PROCOM Monitoring System  |    |
|              | b. USAID Monitoring and Evaluation                                     |    |
| SECTION E -  | PROCOM OPERATION: URBAN PROGRAM  | 31 |
|              | 1. General Description   |    |
|              | 2. Specific Elements   |    |
|              | a. Self-help labor   |    |
|              | b. Small industries  |    |
|              | c. Use of Cooperatives   |    |
| SECTION F -  | FINANCIAL ANALYSIS   | 33 |
|              | 1. Project Financial Plan  |    |
|              | 2. Subloan Terms and Criteria  |    |
|              | a. Subloan Terms   |    |
|              | b. Sub-borrower Contributions  |    |
|              | c. Subloan Repayment Prospects   |    |
|              | 3. Repayment of A.I.D. Loan  |    |
| SECTION G -  | SOCIO-ECONOMIC JUSTIFICATION   | 37 |
|              | 1. Place of Project in Country Program                                 |    |
|              | 2. Other Sources of A.I.D. Funding                                     |    |
| SECTION H. - | CONDITIONS AND COVENANTS   | 39 |
| SECTION I -  | IMPLEMENTATION TIMETABLE   | 40 |
| ANNEXES:     |  |    |
| I.           | DRAFT LOAN AUTHORIZATION   |    |
| II.          | DIRECTOR'S CERTIFICATE   |    |
| III.         | STATUTORY CHECKLIST  |    |
| IV.          | GOP LOAN APPLICATION   |    |
| V.           | MAP OF PROPOSED ACTION ZONES   |    |
| VI.          | EXHIBIT A - PROCOM ORGANIZATION CHART                                  |    |
|              | EXHIBIT B - PROCOM BUDGETS   |    |
| VII.         | ILLUSTRATIVE RURAL HOUSING DESIGN                                      |    |
| VIII.        | SUBLOAN DISBURSEMENT SYSTEM  |    |
| IX.          | ILLUSTRATION OF HOW TYPICAL PROJECT WILL BE<br>PLANNED AND IMPLEMENTED |    |

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June 4, 1971

PART I: SUMMARY AND RECOMMENDATIONS

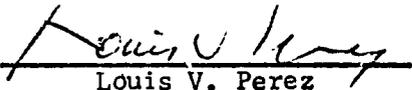
1. BORROWER - The Borrower will be the Government of Peru (GOP). Executing agent will be the Ministry of Housing acting through its Direccion de Promocion Comunal (PROCOM).
2. AMOUNT AND TERMS OF LOAN - The amount of the loan will be \$3,000,000, for foreign exchange and local costs of the Project as defined below. The amortization period will be 40 years with a 10 year grace period. Interest at 2% per annum will be charged during the grace period and 3% interest thereafter.
3. PURPOSE - To finance community development and reconstruction activities on a self-help basis in the rural and urban areas of Peru affected by the earthquake of May 31, 1970.
4. PROJECT DESCRIPTION - Approximately \$2-1/2 million of loan funds would be directed to the rural community reconstruction program of Promocion Comunal for financing, principally through subloans and grants to community groups, equipment, materials, and other construction costs of subprojects for housing, community infrastructure and small industries in rural communities of the earthquake zone. Approximately \$1/2 million of loan funds would be channeled through the urban program of Promocion Comunal to finance similarly costs of pilot self-help urban infrastructure, housing, and small industry projects.  
  
Loan funds would also be available for training and other technical assistance for PROCOM and the Communities as needed to assist in the planning and execution of the project.
5. HOST COUNTRY CONTRIBUTION - Approximately \$1 million, to cover increased operating and personnel costs of PROCOM in carrying out the project, plus community contributions in the form of labor and materials, estimated at approximately 50% of the cost of the projects.
6. OTHER FREE WORLD FINANCING - No other financing is available from other free world lenders on the concessionary terms required for this project. The EXIMBANK reported no interest in participating in the project at the Liaison Group Meeting held March 25, 1971. The IDB expressed no interest in April, 1970.
7. STATUTORY CRITERIA - All statutory criteria have been duly considered. See Annex III.
8. RECOMMENDATIONS - It is recommended that a loan be authorized in the amount of \$3,000,000, for dollar and local costs of the project, on the following terms:

- a. Repayment of loan principal over 40 years, with a 10 year grace period.
- b. Interest on the disbursed balance at the rate of 2% per annum during the grace period and 3% thereafter.

PROJECT COMMITTEE:

|               |   |   |
|---------------|---|---|
| C.A. Buchanan | - | Loan Officer, USAID/Brazil                          |
| E. Butler     | - | Community Development Advisor, USAID/Peru           |
| G. Nadzo      | - | Housing Officer, USAID/Peru                         |
| J.B. Martin   | - | Controller, USAID/Peru                              |
| J.G. Rogers   | - | Disaster Relief Officer, USAID/Peru                 |
| C. Belcher    | - | Program Officer, USAID/Peru                         |
| E. Alarcón    | - | Engineering Office, USAID/Peru                      |
| C.T. Owen     | - | Community Development Advisor, USAID/Peru           |
| D. Bathrick   | - | Community Development Advisor, USAID/Peru           |
| A. Mudge      | - | Assistant Director for Capital Projects, USAID/Peru |
| B. Burnett    | - | Acting Capital Development Officer, USAID/Peru      |

Approved: \_\_\_\_\_

  
Louis V. Perez  
Director

## PART II: PROJECT DESCRIPTION

Funds provided under the Loan will enable PROCOM to undertake an expanded reconstruction and development assistance program for rural and urban communities which have been adversely affected by the May 31, 1971, earthquake. The program will be carried out over a 3-year period from mid-1971 to mid-1974. Communities will participate actively in the planning and execution of housing, community infrastructure, and related production projects with training, technical, and material assistance provided by PROCOM. Approximately 80% of loan funds will be utilized for an expanded PROCOM rural program and the remaining 20% will be utilized for experimental pilot programs in the "pueblos juvenes" of selected urban coastal cities. Technical assistance and training will also be provided to PROCOM under the Loan Agreement and a complementary Grant funded Project Agreement. It is estimated that \$2.5 million of the loan will be used to cover local costs, and the balance of \$0.5 million will be used for purchasing direct imports.

### The Rural Program

The major objective of this program will be to enable residents of selected small towns and surrounding areas to rebuild and/or construct adequate anti-seismic homes at minimum cost utilizing self-help construction and community organization techniques. The program will concentrate on the construction of homes and related community infrastructure such as water, electricity, community centers, etc. in small towns in an effort to stimulate the development of rural population centers by providing common community facilities and services.

Over 3,000 rural homes will be constructed with the individual home owner contributing approximately 50% of the total construction cost in self-help labor and materials. The remaining construction costs will be financed by a small material donation by the GOP and the extension of long term credit which will be made available to legalized community cooperatives and groups who will extend loans to their individual members. Community infrastructure, small industrial endeavors, and agricultural projects will also be undertaken on a selected basis by community groups with PROCOM assistance.

### The Urban Program

The objective of this program will be to undertake pilot projects in the pueblos juvenes of the urban coastal cities affected by the earthquake. PROCOM will make available credit and technical assistance to organized pueblo joven groups in selected areas for the installation of basic infrastructure services (water,

electricity, sewage, etc.) and the construction of low-cost self-help housing. Anti-seismic house designs being developed by PROCOM for the urban coastal areas will be utilized for the first time on a significant scale. The project may also include the development of small industries which will produce low cost housing construction materials and basic furnishings.

The intent of this program is to demonstrate on a small scale new methods which can be utilized by the GOP to provide assistance to the pueblos juvenes in meeting their great needs for adequate housing, basic communal services, and increased sources of income.

#### Technical Assistance

Up to \$100,000 of Loan funds will be available for technical assistance. This will include the short term contracting of specialists in cooperatives, self-help housing, credit administration, evaluation, etc. required to assist PROCOM in subproject planning and implementation. A full time U.S. advisor with expertise in community development and self-help housing will also be hired for two years under a complementary Grant Project Agreement.

#### GOP Contributions

In addition to its already installed offices and personnel capacity of PROCOM in the zones to be affected by this project, the GOP will contribute approximately \$1.0 million to finance the staffing and other operational requirements of this project over the 3-year execution period. It is also estimated that the communities themselves will contribute approximately \$2.0 million in the form labor and materials.

## SECTION A - BACKGROUND

### 1. Earthquake 1970

#### a. Description of the Disaster

In terms of death and destruction, the earthquake which struck Peru on May 31, 1970 was the worst in history, not only in Peru, but in the entire Western Hemisphere. The strength of the earthquake, calculated according to surface waves, was 7.7 degrees on the Richter Scale. Its affects were aggravated by the adobe type of construction prevalent in the area and the steep landslide-prone topography of the Sierra. Within seconds some 70,000 people had lost their lives, 100,000 people injured and 20,000 children orphaned. Over 100,000 houses were completely destroyed and a total of 200,000 buildings reduced to rubble leaving overall 500,000 people homeless. The Government of Peru has estimated total material loss to amount to \$515 million.

#### b. Magnitude of the Disaster

A region of about 83,000 square kilometers was severely affected by the earthquake, largely in the Department of Ancash, but also in the Departments of La Libertad and Lima. See map in Annex V.

Compounding the damage and destruction caused by the severe shaking were the many landslides it triggered in the mountains. The valley of the Callejon de Huaylas suffered by far the largest and most catastrophic avalanche in recorded history when a gigantic 25-50 million cubic meter mass of rock and ice fell away from the north face of Mount Huascaran and within about 3 minutes reached and obliterated the towns of Yungay and Ranrahirca located at a distance of 15 kilometers in the narrow valley below, killing an estimated 20,000 people.

The coastal cities of Chimbote (population 172,000), Casma (population 6,400) and Huarney (population 9,400) were almost entirely destroyed. Loss of life in the cities although appreciable was less than in the sierra area due to lighter construction and wider streets. In the Callejon de Huaylas the major cities of Huaraz and Caraz as well as many smaller towns were reduced to rubble causing a great loss of life.

Within a few hours after the disaster a massive relief campaign was launched. Spearheaded by the Peruvian government the relief effort rapidly gained momentum as public and private donations of food, medicines, clothing and other emergency supplies poured in from around the world. The Peruvian Government allocated the equivalent of \$17.5 million for immediate relief and rehabilitation. Peruvian private donations of clothing, medicines and goods were sent to the Junta de Asistencia Nacional in large quantities and private sources also donated the equivalent of \$5.6 million in cash.

A final tabulation reveals that 66 countries throughout the world responded with emergency relief assistance to Peru. Now, nearly a year after the quake, materials assistance such as prefabricated buildings, foodstuffs, etc. still continues to arrive at Lima's port city of Callao.

c. U.S. Effort

On June 1, the day after the earthquake, the American Ambassador announced a donation of one million soles (\$23,000) for the disaster victims.

A Disaster Assistance and Survey Team (DAST) arrived from Panama on June 2, with three C-130 cargo aircraft loaded with two small helicopters, a civic action team including medical specialists, and tents, cots, parachutes, sleeping bags and other disaster supplies. Funding levels for emergency relief were set up and eventually totaled \$3,150,000. By the end of June over one million pounds of tents, blankets, cots, medicines and other priority items had been delivered by chartered commercial aircraft or on US military planes from the U.S. and Panama. Under the U.S. Food for Peace Program over \$4.5 million in food commodities were donated to the disaster victims.

From June 11 through June 21 the USSGUAM helicopter carrier operated off Chimbote. The GUAM airlifted medical teams composed of Peruvians, Americans and other nationals to villages on the high slopes of the mountains. The teams provided first aid treatment to victims and evacuated the seriously injured to the GUAM or hospitals wherever available.

d. CRYRZA

The Government of Peru in June established a special new agency to coordinate the immense reconstruction and rehabilitation task which it faced in the disaster area. This Commission on Rehabilitation and Reconstruction in the Affected Area ("CRYRZA") was headed by General Villa Pazos who was assigned cabinet rank. The Commission has its own resources and authority to direct and coordinate the reconstruction effort. In general, however the Commission will use government ministries as implementing agencies for specific projects. In addition all foreign assistance for the earthquake area will be coordinated by this Commission.

e. Reconstruction Phase

Within a month of the earthquake, A.I.D. provided a \$7.4 million grant to the Peruvian Government for a variety of projects in the

disaster zone.<sup>1/</sup> The projects covered temporary housing, power generating equipment, construction materials and other equipment for schools and medical centers, agricultural tools and credit, and the repair of damaged irrigation systems. In November A.I.D. authorized a \$28 million Housing Investment Guarantee for the reconstruction of housing and related community facilities in urban areas affected by the disaster.

The Peruvian Government diverted 2% of its 1970 budget for earthquake relief and reconstruction and programmed 3% of the 1971-1972 two-year budget (about \$80 million) for additional reconstruction and development projects in the same area.

Major assistance was also offered by the World Bank and the Inter-American Development Bank. In September of 1970 the World Bank approved a \$30 million loan to finance the construction and repair of roads in the affected zone, particularly in the Callejon de Huaylas. The IDB approved a \$35 million dollar loan in July to rebuild housing and infrastructure damaged by the quake.

At the present time the Mission expects to negotiate a \$5 million PL 480 Title I program with the Government of Peru. The counterpart funds are destined for earthquake reconstruction projects.

## 2. Origin of Loan Proposal

By the end of 1970 it was generally agreed by both the USAID and Peruvian institutions involved in the earthquake reconstruction effort, that PROCOM's performance in this respect, utilizing both A.I.D. and GOP resources, was good. In addition, PROCOM demonstrated, during the last quarter of 1970 an increasing capacity to effectively utilize funds for community projects under A.I.D. Loan No. 527-L-045. Recognizing both the institutional potential for an expanded PROCOM involvement in the quake area and the existing longer term needs of rural communities for reconstruction of housing and community infrastructure, USAID and PROCOM officials began in January, 1971 to explore the possibility of an A.I.D. loan to assist PROCOM in this task. Once confirmed that a loan, primarily to finance small community housing and infrastructure projects, was desirable and feasible, the matter was proposed to the President of CRYRZA and the Minister of Housing at a meeting held January 15. It was decided that PROCOM should develop for USAID and GOP review more detailed proposals regarding use of the loan funds.

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<sup>1/</sup> By the end of October, 1970, U.S. public and private donations amounted to nearly \$27 million.

During February and March, USAID technicians made field visits to study PROCOM operations in the urban and rural areas of the disaster zone. An IRR was submitted to AID/W in February and approved in March. USAID and GOP began intensive review of this proposal in mid-March.

3. Prior Community Development Programs financed by A.I.D. and IDB

a. A.I.D. Community Development Loan (527-L-045)

In September 1966 A.I.D. signed a \$2.1 million loan agreement with the GOP (Loan No. 527-L-045) to assist in financing the Community Revolving Loan Fund ("FOROCO") of the then Direccion de Cooperacion Popular y Obras Publicas ("COOPOP"). COOPOP was conceived to be the major thrust of the Belaunde government in the rural development field and the A.I.D. loan was signed for the purpose of financing through credit to small communities the purchase of construction materials to be employed in limited-scale infrastructure projects. The loan included \$100,000 for technical assistance for establishment of the program and subsequent evaluation. The remaining \$2 million was to capitalize the loan fund along with \$2 million counterpart to be contributed by the GOP. The GOP encountered immediate difficulties in providing the counterpart funds as the opposition-controlled Congress refused to make necessary appropriations. A.I.D. advanced \$250,000 from the loan to initiate lending operations and thereby field-test the lending criteria and procedures, but the GOP was unable to provide adequate supporting resources in personnel and equipment.

The FOROCO concept was based upon the mobilization of community resources -financial and material- to overcome problems confronting the community. The initial lending operations proved the feasibility of the loan concept as the prospective borrowers readily accepted the additional responsibility entailed in loan financing. The willingness of the communities to accept medium-term loans (3-8 years) caused many of COOPOP personnel to promote actively the lending concept. The existence of grant funding through the BID program (see subsequent section) produced an additional handicap to the FOROCO program. Unfortunately, this success was shortlived. Lacking GOP counterpart appropriation, the limited sub-lending resources were depleted and it was necessary to withdraw progressively from the promotional effort. Following the revolution in October 1968, the matter was brought to the attention of the military government and \$500,000 in counterpart funds for FOROCO were provided in mid-1969. By that time A.I.D. had deobligated \$1,500,000 of the \$1,750,000 undisbursed loan balance. The USAID is currently reviewing a request to disburse

the remaining \$250,000. In addition to the counterpart funding difficulty, FOROCO has adversely affected by other factors. For example, during a nine month period from July 1968 until April 1969, COOPOP had four different directors. Each change in director resulted in periods of inactivity until the new director was able to familiarize himself with the institution's program. Each change also affected the organization's philosophy and created an attitude of uncertainty on the part of the employees.

At the same time there were reorganizations within the GOP which abolished the Ministry of Development (Ministerio de Fomento) of which COOPOP had been a part. COOPOP was shifted into the newly-created Ministry of Housing and joined with the former Junta Nacional de la Vivienda which had responsibilities for executing low-income housing construction programs. The successful reinitiation of FOROCO operations suffered another setback in late 1969 when the government announced that municipal elections would not be held in November 1969 and that the elected mayors and town officials appointed by the Ministry of Interior. Most of the outgoing officials had been informed through promotional campaigns of FOROCO's role and their departure required yet another promotional effort.

FOROCO was also affected by the reassignment of COOPOP personnel (engineers and technicians) to the earthquake zone. Many of these individuals did not return to their normal posts until late 1970. Thus, it was not until the final few months of 1970 that FOROCO's lending operations were without major obstacle. In addition, PROCOM has finally been able to allocate budgetary funds to cover the direct field costs of lending operations. Previously, the local offices had been required to cover all FOROCO related expenses with funds from their annual program budget.

Financial Status of FOROCO Fund

The total capitalization of FOROCO to date according to source of contribution is as follows:

|               |                      |                       |
|---------------|----------------------|-----------------------|
| USAID         | U.S. 250,000 @ 26.80 | or S/6.7 million      |
| USAID*        | U.S. 240,000 @ 43.38 | or S/10.4 million     |
| GOP           | U.S. 500,000 @ 43.38 | or S/21.7 million     |
| <u>TOTAL:</u> | <u>U.S. 990,000</u>  | <u>S/38.8 million</u> |

The total amount disbursed from the FOROCO Fund to date is S/16 million, leaving a balance of S/22.8 million plus subloan repayments of S/1.5 million or approximately U.S. \$540,000. In a report submitted by FOROCO to USAID in May 1971, it was estimated that an additional S/17.2 million in projects are programmed for approval and disbursement during the last two quarters of CY 1971.

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\* Not disbursed to FOROCO as yet; to be disbursed during next 6 months.

b. 1DB \$20 million loan for community development

In 1966 the Inter-American Development Bank signed a loan agreement with the GOP for a U.S.\$20 million to be employed in a multisector community development program. Project funds were directed to rural communities in seven areas of the Sierra called "Zones for Joint Action". The various GOP executing agencies agreed that subprojects plans would be coordinated and that all organizations would collaborate in a joint effort.

Approximately \$8 million was channeled into COOPOP's program (PROCOM's predecessor). These funds were not limited to project construction materials but also included personnel costs, heavy equipment and vehicle acquisition, training, and other components. It was planned originally to make grants with about half of the \$8 million and use the remainder for the capitalization of a sub-lending operation similar to the A.I.D. loan financed FOROCO program. Unfortunately, this sub-lending aspect of the program was never implemented and all BID project funds used by COOPOP were disbursed in the form of grants.

Overall coordination between the implementing agencies was the responsibility of the National Office of Community Development (ONDC) which was established for this specific task. About \$500,000 remains to be disbursed from the PROCOM portion of the loan; it is expected that final disbursements will be made in early 1972.

SECTION B - OBJECTIVES OF THE PROJECT

Summary

The A.I.D. loan would assist in the rebuilding and reorganization of communities in the earthquake zone, and in expanding and improving the services presently being provided by PROCOM to communities in the area. More specifically, loan funds would be used to:

1. Finance self-help housing;
2. Finance community development projects such as irrigation, water and sewage, small industry, etc.;
3. Carry out a program of pilot projects, in selected urban pueblos jovenes.

1. Disaster Relief and/Construction<sup>Re-</sup>

a. Rural

Only a small portion of the much publicized international assistance for permanent reconstruction has trickled to the rural communities of the Callejon de Huaylas. The A.I.D. loan would support the only major program concerned with providing permanent self-help housing to selected rural communities in this area. To complement the housing programs, for the first time attention would be directed to the creation of integrated rural communities capable of supporting basic community institutions and infrastructure services. In addition, the loan would finance small industries and agricultural facilities to restore necessary economic sustenance to the communities.

b. Urban

In view of the staggering needs of the more severely devastated urban areas, this program would employ pilot projects seeking new solutions for the problems of urban reconstruction and economic development. Such pilot projects would emphasize low cost, self-help, and the development of complementary small industries and businesses.

2. Community Development Impact

A primary objective of CRYRZA and the GOP development agencies active in the earthquake zone, and a major goal of the Revolutionary Government on a national level, is to promote the active participation of marginal

rural and urban communities in the planning and execution of local development programs. The need for such participation is particularly acute in the earthquake zone where needs resulting from the destruction far outstrip the GOP resources being provided; community resources (both human and material) must be mobilized to complement this GOP effort.

The proposed loan program will assist in the formation of representative community organizations (cooperatives, associations, block groups, etc.) or the strengthening of existing community organizations through leadership training and community development promotional work, and by subsequently providing needed technical and material assistance to their local development projects. The types of community organizations to be assisted under this Loan, namely the officially recognized Campesino Communities, the Agricultural Societies of Social Interest, community cooperatives and other organized community groups, have been sanctioned by the GOP to promote and support popular participation in development. These organizations will be provided the basic organizational skills and relevant experiences to expand their effectiveness as active participants in development.

### 3. Institution Building - PROCOM

#### a. Rural Programs

1. During the approximately one year period since the earthquake, PROCOM's Rural Division diverted much of its equipment and personnel from other operational zones to the earthquake zone in response to compelling needs for emergency assistance. Some of these resources will be returned to the other zones to rebuild their programs to former levels. This loan together with the GOP counterpart will enable PROCOM to continue and expand upon those activities, particularly in rural housing, repair and reconstruction, which PROCOM has already successfully initiated in the earthquake zone.

2. In the recent restructuring and reorganization of PROCOM, the Revolutionary Government has assigned PROCOM with specific functions in the field of rural housing. PROCOM's rural housing activities to date have been primarily limited to the emergency housing programs financed under the A.I.D. Emergency Grant for the earthquake zone, and small grants provided by care for the same purpose. These programs have generally been executed successfully by PROCOM but have largely been short term emergency efforts.

The proposed loan project will enable PROCOM to expand and strengthen its rural housing programs and orient these activities towards longer term solutions for housing problems in the rural areas of the earthquake zone.

The technical assistance provided to PROCOM, and the experience of planning and executing the proposed housing program will enable PROCOM to firmly establish its role in rural housing -initially focused on reconstruction in the earthquake zone, and, subsequently on rural housing programs for other rural areas of Peru.

b. Urban Programs

While the major role of Urban PROCOM is to plan and execute urbanization and land titling programs for the pueblos jovenes, it also has been assigned functions for providing adequate housing for the pueblos jovenes. PROCOM and other GOP institutions have executed small scale, low cost, self-help housing construction programs but these have only been isolated, short term efforts. The GOP has not as yet mounted a large scale effort to respond to the tremendous need for such low cost housing construction.

The proposed loan project would provide technical and material assistance to PROCOM's Urban Division, enabling it to plan and execute such a program on a pilot basis in selected Pueblos Jovenes. This project may then enable PROCOM to focus a far more significant amount of its resources on low cost self-help housing.

SECTION C - BORROWER AND EXECUTING AGENCY

1. Responsibilities and Experience

The Borrower will be the Peruvian Government represented by the Ministry of Economy and Finance and CRYRZA.

The Executing Agency will be Promocion Comunal (PROCOM), a dependency of the Ministry of Housing. The Ministry itself will provide overall supervision and, subject to the coordinating function of JRYRZA, assist PROCOM in the interministerial coordination necessary during implementation of the project.

one of

PROCOM is/ the most important agency of the GOP charged with community development activities. It has both rural and urban departments, but only in the former is it truly independent in its policy making. The urban department acts more as an executing agency on programs developed and funded by such other GOP entities as CRYRZA and the National Development Office for Pueblos Jovenes. ("ONDEPUJOV").

The rural department was formerly Cooperacion Popular (COOPOP), created by President Belaunde Terry in the early 1960's to develop a program and an administrative network throughout Peru dedicated to community development. A.I.D. collaborated with President Belaunde by making a \$2,100,000 loan to COOPOP in 1966.

The urban department was formerly called the Junta Nacional de Vivienda which had responsibilities for attacking problems of the large urban slum areas, known as "Pueblos Jovenes". (Young Towns).

In late 1968, the revolutionary government effected important structural modifications to the GOP ministerial system. The purpose of this realignment was to group dependencies with similar functions within ministries that would be most responsive to these specific functions. COOPOP, previously a part of the Ministerio de Fomento (Ministry of Development), was shifted to the newly created Ministerio de Vivienda (Ministry of Housing) where it was renamed Direccion General de Cooperacion Popular y Pueblos Jovenes. This latter change in names was occasioned by the transferral of the ex-Junta Nacional de la Vivienda (National Housing Committee) to COOPOP and which greatly increased the institution's capacity to deal with problems in the urban slum centers. The ex-Junta, which specializes in the granting of property titles to squatter home builders and to effecting basic infrastructure improvements (such as street grading, electricity, water and sewage) in the Pueblos Jovenes, became known as the Direccion de Pueblos Jovenes.

A later modification of COOPOP was made in December, 1970, when the organization was renamed Direccion General de Promocion Comunal (General Direction of Community Promotion) which operates through its rural and urban departments. Although these two programs operate in distinct areas, their actions are nonetheless complementary in the solution of the overall problem of the marginal population.

An analysis by PROCOM of the Peruvian rural sector revealed the following principal problem areas:

- a. Absence of physical and socially productive infrastructure.
- b. Prevalence of community relationships based upon exploitation and alienation.
- c. High incidence of unemployment or underemployment.
- d. Poor living conditions.

PROCOM, on the basis of its experience and capacity, is attempting to resolve these problems through the following:

- a. Programming of community development to simultaneously achieve the improvement of the rural population in their economic, technological, and human dimensions.
- b. The development of local leaders and the active participation of the population in the community planning and government.
- c. Mobilization of the rural population in the construction of a productive social infrastructure.

PROCOM's efforts in the urban slum areas (Pueblos Jovenes) are concerned with the following problems:

- a. Uncontrolled settling with little or no concern for urban planning criteria.
- b. Uncertain land ownership.
- c. Lack of adequate urban infrastructure.
- d. Autonomous local governments which bypass established government structure.
- e. A widespread sense of alienation from local and national government on the part of the dwellers.

The GOP is well aware of the importance and urgency of solving these problems and is seeking to find solutions by coordinating the participation of all concerned GOP institutions under the guidance of the National Development Office for Pueblos Jovenes. Active participation of the urban population and the private sector is also contemplated. Within the process, the Direccion de Promocion Comunal is responsible for:

- a. The legalization of the Pueblos Jovenes.
- b. Execution of basic infrastructure projects (water, sewage, electricity).
- c. Technical and financial assistance for the installation of public facilities and the construction of housing.
- d. Preparation of new urban sites to meet housing needs and to permit relocation of certain Pueblos Jovenes.

2. Appraisal of PROCOM to Execute Loan Project

PROCOM was the implementing agency for the \$500,000 CRYRZA emergency shelter program financed under the \$7.4 million grant. USAID and GOP officials were completely satisfied with PROCOM's prompt and efficient execution of this program. A total of 2,800 family units were constructed in sixteen communities with the assistance of the townspeople under the supervision of PROCOM technicians who were responsible for the following functions:

- a. Motivation and organization of the involved communities.
- b. Obtaining the active and organized participation of the local residents.
- c. Formation of committees and sub-committees at the district and village level.
- d. Investigation of the affected families and evaluation of their situation.
- e. Execution of shelter construction by PROCOM technicians and local residents.
- f. Presentation of houses to affected families with signed contracts.

Similar housing programs were undertaken by other entities but none with the same success enjoyed by this shelter program. Especially notable was the acceptance of the shelters by local residents in comparison with the underutilization of shelters evident in other programs. This success of PROCOM can be explained by the institution's ability to develop meaningful dialogue with local residents and to seek active participation of the communities in the planning and implementation phases. The success of this project indicates that PROCOM has the technical and promotional ability to effectively implement the community reconstruction loan program.

The Project Committee has examined PROCOM's staff and its capacity to undertake this loan project. The practices and operational procedures of PROCOM as applicable to this program were also reviewed. The past and present experience of PROCOM with the ID Loan 527-L-045 and the earthquake grant program was considered.

The German Government is donating about \$1.5 million of construction equipment to PROCOM, to be used for road-building projects in the earthquake zone. This activity is complementary to the proposed project.

The conclusions reached by the Committee are that PROCOM is adequately organized and its operational procedures are sufficiently effective for implementation of this loan program. However, additional staff and equipment will be required for the additional work required by this program.

The cost of hiring additional staff for PROCOM's field and home offices would be covered by a counterpart contribution equivalent to about \$1,000,000; and the supporting equipment to carry out the projects would be financed from the A.I.D. loan.

### 3. PROCOM Technical Assistance Requirements

The USAID and GOP consider that PROCOM Rural, based on its 8 years experience in community development work, presently has a satisfactory level of competence to assist communities to plan and carry out a wide variety of subprojects. Assistance will be required, however, in those aspects of this proposed loan program which represent new or expanded activities for PROCOM, and in overall project management; namely in:

- a. Establishing and implementing a systematic approach for providing community organizations with the capability to receive and manage housing credit.

- b. Selecting sites, and social/physical planning for small town reconstruction and development.
- c. Forming and operating economically viable production sub-projects related to housing.
- d. Overall project management and monitoring.

This technical assistance, which will consist of one full time advisor and a limited number of short term advisors over a two year period, will be funded through a complementary USAID Grant Project Agreement. Much of the work to be done by the Advisor will focus on project monitoring in the field and liaison/communications between USAID and PROCOM; this being the case, and because of likely salary differences between this advisor and PROCOM officials, A.I.D. will use Grant instead of Loan funds to finance this technical assistance.

PROCOM will also have a limited amount of loan funds (up to \$100,000) available for contracting additional technical assistance and training which may be required for subproject implementation. It is anticipated that PROCOM would require specific subproject technical assistance and training in such areas as development, marketing, and production of low-cost housing materials, cooperativism, self-help housing techniques, in-depth evaluations of specific subprojects, etc. A major portion of this technical assistance would be procured locally.

It is contemplated that Peace Corps Volunteers may be utilized in this project on a selective basis particularly in the formation of pre-cooperatives, lending technical assistance to existing cooperatives, and by providing technical assistance to communities in construction projects. Peace Corps presently has in country training programs scheduled this year for arriving volunteers in cooperativism and community infrastructure. USAID and Peace Corps are now discussing the integration of some of these volunteers in the proposed loan project. The use and placement of volunteers, however, is subject to policy determinations to be made by the GOP, particularly the National Planning Institute.

SECTION D - PROCOM OPERATION: RURAL PROGRAM

1. Sub-Project Categories and Estimated Allocations

Table A shows the categories of sub-projects which would be financed by the \$ 2.5 million of AID funding channeled to the rural program, and estimated amounts for each category. As shown, the projects are grouped into the four following categories:

Housing  
Community Infrastructure  
Small Industry  
Agriculture

This breakdown reflects the relative priorities of PROCOM as it sees the reconstruction task as well as the interests of the communities themselves with which PROCOM has worked on the reconstruction effort to date.

a. Housing

Estimates indicate that some 50,000 rural homes were destroyed by the earthquake. Since the major GOP financed reconstruction programs do not contemplate any assistance in the next two year period for rural home construction, this has been set as the principal sub-loan category by PROCOM in its effort to help reconstruct the stricken communities.

Community housing projects would be from 100 to 500 units depending on needs and willingness of inhabitants to group together in, or utilize existing, cooperatives or other legally-based organizations and assume responsibilities for the home financing.

Assuming that approximately \$ 1,450,000 of the \$ 2,500,000 would be used for rural self-help housing having an average unit cost of \$ 1,000 equivalent, of which the loan would provide \$ 450, approximately 3,200 houses would be financed.

In connection with the promotional (and educational) work necessary for these housing projects, the GOP would attempt to stimulate the growth of rural population centers. In many of the remote areas of the disaster zone campesinos live in widely dispersed "communities" in solitary family units, with only infrequent contact with the community nucleus. The GOP has recognized that this situation obstructs efforts to elevate living standards through the provision of common educational, sanitary or organizational facilities. This program is intended to promote closer physical adhesion to community centers both through the promotional effort itself and the attraction of improved housing available on credit terms within the means of the campesino.

TABLE A

TOTAL COST ESTIMATES BY SOURCE OF FUNDING AND TYPE OF EXPENDITURES FOR LIFE OF PROJECT

(In Million of Soles)

|               | SUB-PROJECTS       | HOUSING       | INFRASTRUCTURE | SMALL INDUSTRIES | AGRICULTURE | TOTAL |                                |
|---------------|--------------------|---------------|----------------|------------------|-------------|-------|--------------------------------|
| A.I.D.        | Total A.I.D.       | 74.1          | 10.5           | 19               | 4.9         | 130.2 |                                |
|               | 1. Rural Prg.      |               |                |                  |             |       |                                |
|               | - Credit           | 47.1          | 4              | 18.5             | 4.4         | 74    |                                |
|               | - Donation         | 15            | 4.5            | 0                | 0           | 19.5  |                                |
|               | - Equipment & T.A. | 12            | 2              | 0.5              | 0.5         | 15    |                                |
| 2. Urban Prg. | ----               | ----          | ----           | ---              | (21.7)      |       |                                |
| GOP           | Total GOP          | 102           | 17.4           | 11.4             | 8.4         | 139.2 |                                |
|               | Community          | Sub-Total     | 71             | 10.9             | 5.4         | 5.4   | 92.7                           |
|               |                    | Donation      | 71             | 10.9             | 5.4         | 5.4   | 92.7                           |
|               | GOP Treasury       | Sub-Total     | 31             | 6.5              | 6.0         | 3.0   | 46.5                           |
|               |                    | Personnel     | 21             | 3.5              | 4.5         | 2.0   | 31.0                           |
|               |                    | Operations    | 10             | 3.0              | 1.5         | 1.0   | 15.5                           |
|               |                    | Project Total | 176.1          | 27.9             | 30.4        | 13.3  | 247.7<br>(21.7 urban)<br>269.4 |

As is the case with all of the sub-projects contemplated the self-help construction method will be employed. In addition, materials such as gravel, adobe, and wood needed for construction and found locally, will be called on as a community contribution.

Prototype house designs and plans have already been prepared by PROCOM engineering staff and put into manuals with detailed instructions on construction techniques. (See illustrative design and schedule of materials in Annex VII). These manuals include graphic illustrations of the construction procedure in simplified form for use by the communities. The house designs include two features of special interest. First, space (small corral) is included within the confines of the structure for use in raising small animals or setting up small cottage industries. This feature recognizes traditional habits of the campesino.

A second design feature involves constructing the house to resist future earthquake damage. The cost of the dwelling is increased only slightly. The house designs and construction manuals appear well thought out and satisfactory for use on the project.

b. Infrastructure Sub-Projects

To support the housing projects as well as reconstruct community facilities destroyed by the earthquake, sub-loans would be made for the construction of such projects as small water systems, community centers, community septic tanks, small electrification works, and community markets.

The amount (now estimated at about 10,000,000 soles / \$230,000) <sup>or</sup> allocated by PROCOM from the AID loan would be sufficient to attend to only a few of the community needs, yet the demonstrative effect of the few projects completed would be important and should stimulate the communities to think in favorable terms of the PROCOM program and its possibilities for other projects. Because of the public service nature of some of the sub-project in this category, PROCOM proposes to use about 40% of the allocated amount for project financing on a grant basis. Also about 20% would be provided in the form of equipment needed for the construction.

A community input in labor and materials, approximately equal to the amount of the allocation, would be needed to match the AID loan financing.

c. Small Industry Sub-Projects

In order to expand the productive base of the communities participating in the program, roughly \$ 84,000 of the AID loan would

be allocated to the construction of small local industries, principally those which provide materials needed for the housing projects.

It is the objective of PROCOM to maximize economic impact on the participating communities through employment of community inhabitants in the manufacture of many materials needed for construction. Small brick kilns, for example, will be financed by sub-loans to the community or to the cooperatives to produce the bricks needed either for the project itself or for sale to neighboring communities. Prototype plans and construction manuals showing step by step procedures for building the kilns and other small industries have been prepared by the PROCOM engineering division. (See Annex VII). Such projects would be geared to long term rather than temporary demand.

d. Agriculture Sub-Projects

Since the earning capacity of these communities is based primarily on agriculture some financing would be allocated, on a sub-loan basis only, to these projects. No grants are considered necessary as these projects would be selected on the basis of their capacity to generate income for the communities and, thus, could be expected to service debt. Typical projects in this category would be small irrigation canals, sheep dips, etc.

2. Site Selection

In selecting the areas in the disaster zone which would benefit from the rural program PROCOM, together with the Ministry of Housing, is weighing two major considerations.

One is the desirability of concentrating the program in the 16 communities located in the Callejón de Huaylas which were assisted by AID's emergency shelter program funded under the \$7.4 million grant. The other consideration is the need for PROCOM to attend to more remote areas both within and outside the Callejón de Huaylas which were also damaged by the earthquake but which have received little or no assistance under the relief programs. The former clearly appeals as the more logical and simple means of selecting potential sub-project sites since it would be a follow-up to an activity already supported by AID. The 16 communities are in need of permanent houses to replace the emergency shelter modules and likely sub-borrower groups are already organized. The existence of these groups would obviously facilitate the promotional work needed prior to sub-lending. During the promotional phase for the emergency shelter program these groups, as well as the community as a whole, utilized community development techniques.

Not enough is known at this point about the various communities concerning their willingness and capacity to undertake sub-projects. The matter would be studied in depth by PROCOM following authorization of the loan.

It has been generally agreed, however, with both PROCOM and the Ministry of Housing that the most desirable approach would be to include those of the 16 original communities which are prepared for this program and direct the remainder of the program funds toward more isolated communities outside of the Callejón de Huaylas. The map on page 24 shows the proposed zones of action of the program and a rough tentative apportionment of the funding which would go to each.

Since it appears that a good number of the original 16 communities would be ready and interested in working with this new program roughly 60% of the funding would be provisionally allocated to Zone I on the map (Callejón de Huaylas.) Rough provisional allocations to the other three zones of action are also shown on the map. In the event that all 16 communities should enter the program, the number of permanent houses to be financed (about 3,200) would approximate the number of temporary emergency modules to be replaced.

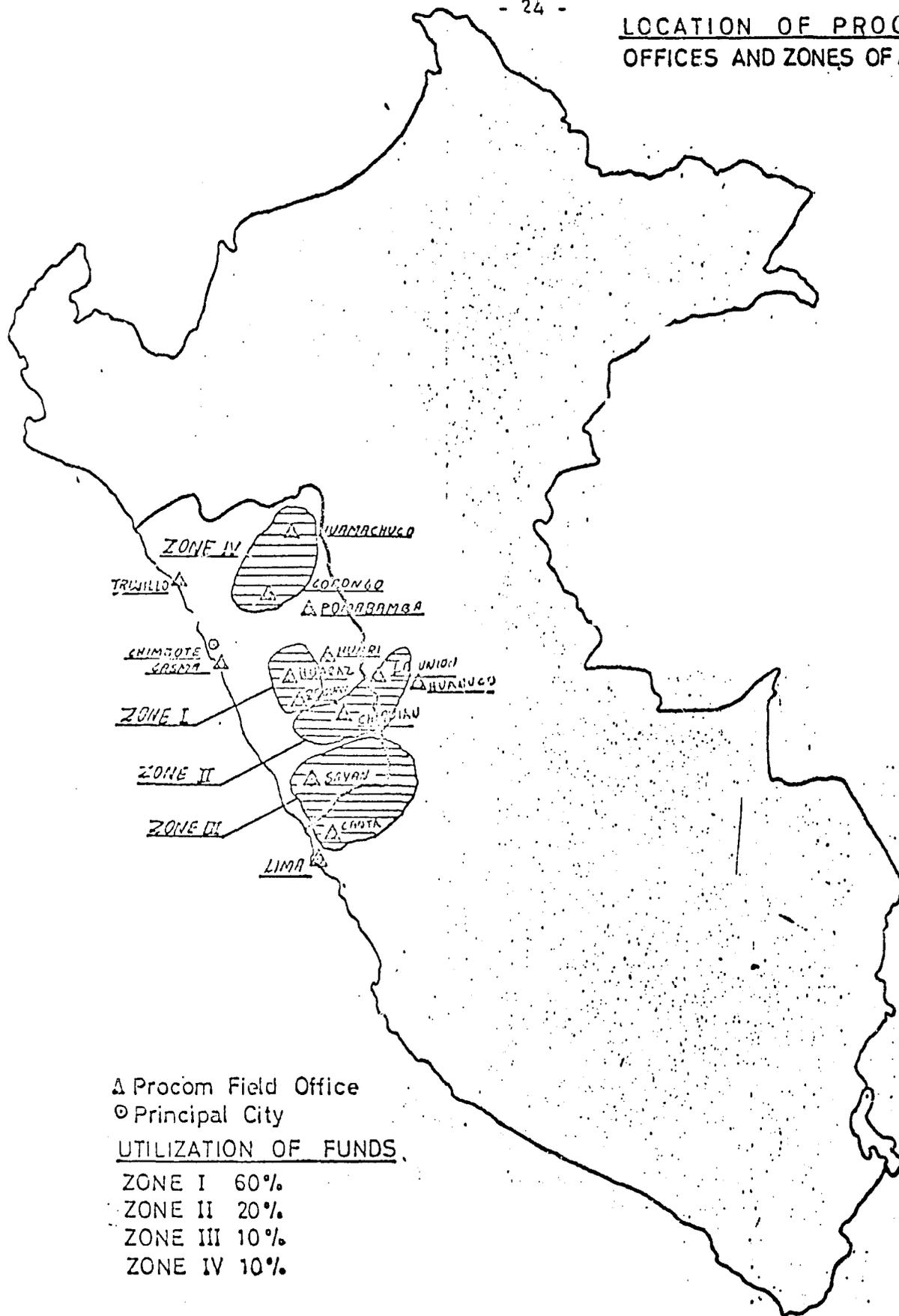
The zones of action shown in the map on page 24 generally are within the official earthquake zone. However, zones II and III extend beyond the official limits. The loan funds which would go into these areas would be insignificant and therefore it is not proposed to circumscribe these 2 zones.

### 3. Project Promotion

Whether a community is interested and prepared to meet the eligibility criteria of this program will depend largely on the extent and quality of promotional work done by PROCOM. This promotion phase usually is the initial contact that PROCOM has with prospective sub-borrowers. The task for PROCOM is one of determining whether sufficient interest exists on the part of the community or a group within the community, whether a viable sub-borrower organization exists or can be formed (e.g. cooperative), and whether the project would have some substantial benefits to the community as a whole. PROCOM's promoter teams would also be responsible to help the community determine relative priorities among potential sub-projects, e.g. whether industry should come ahead of housing.

The leadership of the promotion team is usually in the hands of a qualified PROCOM "promotor" who is experienced in PROCOM methodology and criteria. He is usually assisted by a technician and sociologist. The report prepared by this team is considered by PROCOM prior to providing any technical assistance to the community for developing the project further.

LOCATION OF PROCOM  
OFFICES AND ZONES OF ACTION



The promotional phase may require a number of months to carry out during which the community organizes itself and learns about PROCOM procedures. It is undoubtedly the most important and yet difficult aspect of the project development process. The extent to which it is carried out thoroughly and professionally by the PROCOM staff will determine to a great degree the success of the project and repayment of credits.

For this reason PROCOM is planning to "staff up" with new promoters and other specialists needed for this program. PROCOM will fund all the new staff out of the expected S/. 46,000,000 counterpart contribution of the GOP.

#### 4. Sub-loan Review Procedures

The sub-loan review process commences with the initiation of promotional efforts in the communities. The promotional teams deployed by PROCOM in the field will decide whether a project is feasible from the most general standpoint. The initial report prepared by this team includes the team's findings on the attitudes and interest of the community members, the community's history of self-help projects (PROCOM and/or community-initiated), and in the case of housing the community's initial reaction to the concept of self-help housing financed through long-term credits. This information is discussed with the regional representative of PROCOM and a project committee composed of PROCOM field personnel with experience in the development of community projects. PROCOM appoints a project manager at this initial stage for each potential project who continually reviews and directs the activities of the promotion teams.

The purpose of continuous review is to avoid the possibility of PROCOM being forced to reject a loan request from a community after a promotional campaign has been completed. In addition to conducting this initial review, PROCOM simultaneously coordinates with other institutions involved in similar actions in the same region. Agrarian Reform officials must be consulted in order to verify whether there exist any plans for the application of the agrarian reform process to the community which might result in the relocation of the community or the redistribution of its land. Agrarian Reform officials have already expressed interest in this new program and have offered their collaboration. PROCOM will also consult with the National Office for the Development of Cooperatives which will assist in the organization of the community cooperative, if that is to be the vehicle through which the loan is to be made. CRYRZA must also be contacted to insure that no plans exist for the relocation of the community due to geological or other conditions which endanger the community in the event of other earthquakes.

## 5. Administration of Sub-Lending Fund

PROCOM has carefully evaluated several institutions for the role of administrator of the sub-lending operation. The three principal institutions considered were the Agricultural Development Bank, EMADI (an agency of the Ministry of Housing responsible for administering GOP housing programs primarily in urban centers) and the FOROCO program partially financed under AID Loan N° 527-L-045. PROCOM has indicated to USAID that FOROCO would be the most logical choice since the involvement of either of the other two institutions would involve the division of authority and responsibility between PROCOM and the fiduciary. FOROCO is an integral part of PROCOM's field operations and would insure that the entire sub-loan process would be conducted solely by PROCOM, thereby effectively preventing division of authority and responsibility. The success of FOROCO operations has demonstrated to PROCOM that FOROCO possesses the necessary capacity to function as administrator of the new sub-lending program.

The advantages of appointing FOROCO as administrator of the new funds are:

1. PROCOM personnel are familiar with FOROCO operations and procedures.
2. The FOROCO system has been thoroughly tested and proven during its nearly five years of operation.
3. FOROCO sub-loan procedure and documents are compatible with the present program.
4. FOROCO promotional material is prepared and available for immediate distribution.
5. FOROCO possesses manuals to illustrate sub-lending procedures to PROCOM personnel.
6. FOROCO's sub-lending regulations are authorized by a presidential decree which would require only minimal modifications to cover the new funds.
7. FOROCO is able to administer the funds more economically than the other institutions, resulting in lower charges to the sub-borrowers.

It is important to note that the FOROCO disbursement and collection procedures are organized so that PROCOM personnel do not handle money. All disbursements are made in the form of purchase orders with the supplier receiving payment from the local office of the National Bank.

Likewise, the sub-borrowers make all amortization payments directly to the National Bank. The FOROCO system includes provisions for transmission of information regarding sub-loans approved, disbursements, project execution, and payment of sub-loan amortization. This information is then tabulated into periodic reports by the FOROCO staff located in PROCOM's national headquarters.

FOROCO's role would be limited to strictly a fiduciary function, as the regular PROCOM staff would be responsible for organization of sub-borrower groups, promotion of the credit program, preparation of projects, execution and evaluation of approved projects. FOROCO would be responsible for sub-loan disbursement and repayment collection plus the compilation of related information and reports. PROCOM is presently reviewing FOROCO staffing and operations in order to make any changes which may be necessary for FOROCO to handle the increased load; it is quite probable that FOROCO would open a branch office in the disaster region to handle the new sub-lending program.

#### 6. Criteria Determining Loans from Grants

Present GOP policy regarding the recuperation of loans made by foreign governments requires that as much of the loan as possible be disbursed by the implementing agency as sub-loans rather than grants. Though the Government's policy prevails, there will be instances in this project when PROCOM will disburse funds on a grant basis. Present estimates are that about 19.5 million soles (\$445,000) under the Project would be provided on a grant basis.

Among the various sub-project categories, i.e. housing, infrastructure, small industry, and agricultural development, no funds will be provided as grants in the latter two project categories. It is reasoned that since the small industry and agricultural development projects will be income producing, their revenues can be utilized to finance loan repayment. These two categories comprise about 20 percent of the total sub-project financing.

Of the roughly 19.5 million soles to be provided on a grant basis two thirds or more would be utilized for housing sub-projects. About 4,500 soles (\$100) per house would be granted to assist the home builder in financing building material for the cement foundation which is deemed essential for a low-cost anti-seismic house. This grant contribution is considered a necessary inducement to stimulate community participation and to ensure that housing construction will be anti-seismic.

For the infrastructure sub-projects, about 4.5 million soles (\$100,000) would be provided on a grant basis to complement an almost amount to be disbursed as credits. This grant/loan mix is intended to stimulate interest in, and development of, necessary community

infrastructure projects. As presently conceived, PROCOM would employ its usual standard of having non-income producing projects, financed on a grant basis, while income producing projects would be financed by credits. For example, materials to a community desirous of constructing a well would be granted, but a market place developed as an income producing project, would be financed by a loan.

PROCOM is presently preparing formal regulations which will specify in more detail the general criteria described above with respect to infrastructure projects. These regulations will be mutually agreed upon by the USAID and PROCOM in the documentation to be submitted in satisfaction of the conditions precedent.

#### 7. Procurement

It is presently envisioned that two distinct purchase procedures will be required under this loan: one for the purchase of off-the-shelf items and another for the acquisition of the equipment (trucks, bulldozers, etc.) The first system would concern the purchase of the materials and goods necessary for the execution of the sub-lending program and include such items as cement, tin roofing, lumber, doors, etc. PROCOM is interested in combining purchases for individual sub-loan borrowers whenever feasible in order to effect more economical purchases. PROCOM would place the large orders for the desired goods and materials and advise the sub-loan borrowers to present the purchase orders to the suppliers and receive the goods. The sub-loan borrower (cooperative, etc.) would be responsible for the subsequent warehousing, distribution, and utilization of the goods and materials and would be required to provide adequate staff and safeguards to insure the successful execution of this phase of the program. It has been proposed that each month PROCOM would advise prospective suppliers of the purchase programmed for the up-coming months and then effect purchase for specific items from the suppliers who offer the most favorable prices and delivery times.

It should also be noted that certain materials will be purchased locally from the small industries which will be established as part of this program. PROCOM plans to develop these small industries to serve other communities involved in this program and therefore intends to scatter the various types of material producing industries throughout the various sub-project locations.

The off-shore purchase of equipment will be subject to normal GOP and USAID procurement regulations and would be purchased in Code 941 countries. It is estimated that local procurement would amount to \$2.6 million. Direct imports are estimated at \$.4 million.

## 8. Disbursement and Accounting Procedures

PROCOM has indicated its intention of nominating FOROCO as financial agent for this program. FOROCO would utilize the same basic procedures and systems developed for the original FOROCO sub-loan program. Disbursements for sub-project expenses (construction materials) would be made with purchase orders authorized by the loan committee of PROCOM and given to the sub-borrowers who would endorse them over to the supplier upon receipt of the materials. The suppliers would then present the endorsed purchase orders to the local office of the National Bank and receive payment either in cash or check. This system has worked quite successfully for FOROCO during the past five years and possesses many of the safeguards that are necessary in a credit program of this nature. Presently PROCOM does not envision any need to modify this disbursement arrangement but further review will ascertain whether any alterations will be required.

The basic purchase order system would be established so as to provide information inputs to the accounting system at the time of issuance of the purchase order. The accounting records and reports would be the responsibility of FOROCO and reports would be prepared monthly to show the movement of funds. (See Annex VIII for graphic illustration of the Sub-Loan Disbursement System).

## 9. Monitoring and Evaluation of Sub-Projects

### a. PROCOM Monitoring System

- a) The system already established by PROCOM for project control and evaluation would be utilized for PROCOM monitoring of the Loan Project. The PROCOM regional office receives monthly reports from the zonal offices responsible for direct project supervision. These reports include information on construction progress and the promotional work effected. The Regional Office then prepares Quarterly Progress Reports to the Division of Evaluation in PROCOM/Lima. Data gathered by the Division would be utilized for the preparation of quarterly reports to AID on Loan Project Progress.
- b) Field inspections by the key PROCOM/Lima backstopping offices (Divisions of Promoción Social, Engineering, and Evaluation) would also be made periodically for project supervision and monitoring.
- c) The PROCOM Evaluation Division would have access to a limited amount of loan funds to contract from local Peruvian sources specialized personnel for more in-depth evaluations of sub-projects or groups of sub-projects.

particularly regarding the community development impact of these projects at the community level.

b. USAID Monitoring and Evaluation

- a) The U.S. Technical Advisor described in Section C-3 would make frequent visits to sub-project sites, and keep the USAID informed of implementation progress and problems. The advisor would spend about 80% of his time in field consultation and monitoring. The USAID Community Development Division would receive monthly reports from this advisor, quarterly reports from PROCOM, make periodic field visits to the PROCOM field operations, and consultas necessary with PROCOM/ Lima staff concerning progress of the project.
- b) The grant funded PRO/AG would also provide for two short term (3-4 weeks each) visits, of an experienced community development evaluation expert to help with two annual joint evaluations of the Project. These evaluations performed at one year intervals after the loan signing would focus on PROCOM organizational effectiveness and the extent to which project objectives were being achieved at the community level. The evaluator would work closely with the Evaluation Division of PROCOM which would be performing the sub-project evaluation functions previously described.

SECTION E - PROCOM OPERATION: URBAN PROGRAM

1. General Description

Although PROCOM's need for additional resources for the rural program substantially exceeds the \$3,000,000 proposed for this loan both the USAID and GOP recognize that the important work of PROCOM's urban department as an executing arm of the GOP working on the problems of pueblos jovenes merits financial support.

From discussions with PROCOM and the Ministry of Housing it appears that there is pressing need at this time for about \$ .5 million to support pilot projects in the pueblos jovenes through the urban department of PROCOM and through other GOP agencies concerned with pueblos jovenes. Such pilot projects would be carried out pursuant to the following preliminary plan, generally paralleling, subject to the exceptions indicated, the implementation procedures previously described for the rural program.

The projects would provide the needed community infrastructure (i.e., water, sewage, and electricity) to pueblos jovenes and integrate this with the construction of low cost self help housing using anti-seismic designs and construction techniques which have been developed in Peru by both PROCOM and other international agencies as a result of the earthquake reconstruction effort. The project would be "pilot" in that the construction of self-help infrastructure and low cost anti-seismic housing would be combined into one project, and that this would be effected in the pueblos jovenes of the Earthquake zone for the first time on a significant "visible" scale. Most if not all of the construction materials will be provided to community residents through long term credits administered by EMADI\* of the Ministry of Housing or FOROCO as an intermediate credit institution. The A.I.D. loan proceeds would be used to fund these credits in a manner similar to that described for the rural program. PROCOM would provide the technical plans and supervision for construction as well as the required skilled labor

It is presently contemplated that loan funds and counterpart resources would be used to develop 2 or 3 low cost self help integrated infrastructure and housing projects in selected pueblo jovenes of the coastal cities of Chimbote and Trujillo.

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\* EMADI (Empresa Publica de Administracion de Immueblas) is a public entity within the Ministry of Housing with responsibility for the maintenance of ministry properties and for the ministry's lending and collection activities for publicly financed housing.

Program Elements

a. Self-help labor input

Self-help labor would be used for the construction phase of a pilot project as is customary, but could go well beyond the usual practice by having home owners produce their own materials through a process called "auto-manufacture". This technique has been used very successfully in Chile and a Chilean consulting firm called QUASAR, whose principals were responsible for devising the technique, is discussing with the Ministry of Housing its applicability for Peru.

b. Small Industries in Pueblos Jovenes

Among the factors to be taken into account in developing sub-projects will be the availability of employment for the inhabitants. To the extent that outside opportunities are not available small businesses and industries could be created to complement the housing and urbanization effort.

c. Coordination with other Ministries

This project will be closely coordinated with the National Office for the Development of Pueblos Jovenes (ONDEPJOV) with whom PROCOM is presently working in other cities of Peru. ONDEPJOV will assist PROCOM particularly in the selection of Pueblos Jovenes for project implementation as well as the promotional efforts required to organize the communities for participation in the project.

d. Extension of Credit

PROCOM has indicated a preference to utilize EMADI of the Ministry of Housing as the credit institution to administer this project, since it is presently being utilized by the Ministry in this capacity with its other housing programs in the urban areas. EMADI would assist PROCOM in the review of loan applications of PJ residents, make the loan contract with the borrower, and assume responsibility for loan collection. Loans would have a maximum repayment period of 20 years with a small interest charge primarily to cover administrative expenses.

The loan agreement conditions precedent will provide that no funds will be made available for the urban projects until a detailed implementation plan, acceptable to the USAID, is in hand. To the extent that the estimated \$0.5 million is not required for the urban program the balance would be utilized in the rural program.

SECTION F - FINANCIAL ANALYSIS

1. Project Financial Plan

The overall financing for the project is set forth below in terms of foreign exchange and local currency needs.

Most of the loan would be used for local currency costs and a remainder of probably not more than \$400,000 would be used for foreign exchange costs. These costs would be in the form of imported equipment (estimated to be about half of the total equipment procured by PROCOM with loan funds) and \$50,000 for technical assistance to PROCOM from outside Peru during the implementation of the project.

FINANCIAL PLAN (in US\$ equivalent)

|           | <u>US\$</u>    | <u>Soles</u>     | <u>Total</u>     |
|-----------|----------------|------------------|------------------|
| AID       | 400,000        | 2,600,000        | 3,000,000        |
| PROCOM    |                | 1,000,000        | 1,000,000        |
| COMMUNITY |                | 2,100,000        | 2,100,000        |
| TOTAL     | <u>400,000</u> | <u>5,700,000</u> | <u>6,100,000</u> |

2. Subloan Terms and Criteria

a. Subloan Terms

The terms proposed by PROCOM for subloans under the rural program reflect PROCOM's recognition of the basically social orientation of the credit program. In setting the terms PROCOM gave primary importance to the fact that the individuals contracting the credits have little income and limited earning capability and can support only a minimal monthly amortization payment. At the same time, it should be remembered that PROCOM, through this loan program, hopes to organize, educate and provide small industrial facilities to these marginal communities so that their inhabitants are increasingly better equipped to take advantage of profit making opportunities.

A maximum amortization period of 20 years will be available for all categories of subprojects, yet PROCOM intends to study the feasibility of setting considerably shorter amortization periods in the case of the revenue producing subprojects such as are included in the small industry and agriculture categories. An analysis of this question will be made as part of the information gathered to meet conditions precedent.

In the case of housing subprojects, subloans will all probably require 20 year repayment periods. PROCOM's staff investigated the debt servicing and repayment capacity of campesinos in sample rural communities. An annual payment burden, including principal repayment, interest and service charge, of 1200 soles (about \$30) was thought to be about the maximum permissible for these individuals. This amount is adequate to repay a 20 year loan and was arrived at in the following way. The dwellings to be constructed are designed to cost about 45,000 soles, or roughly \$1000. Of this value 15,000 soles will be the average amount of credit extended by PROCOM to the campesino using AID loan funds for the purchase of construction materials. Roughly 22,000 soles is the estimated value of the self-help labor provided by the campesino in building the dwelling. An average amount of 4500 soles will be donated by PROCOM from the AID loan (See Section D 1. f. for discussion). The cost of the technical supervision estimated at 3000 soles per unit will be absorbed by PROCOM from counterpart funds.

The 15,000 sole credit will be paid through the community organization over the 20 years in 20 equal installments, or 5% (750 soles) of the loan principal each year. In addition, a small service charge for administering the subloans will be made by the community organization receiving the loan. This charge which will be determined by PROCOM in the conditions precedent, when added to the 750 soles amortization payment, will not exceed the approximate 1200 soles monthly repayment thought to be the maximum permissible for individual sub-borrowers.

Because this program has an important social development function and is aimed at more marginal rural communities, PROCOM does not intend to charge any interest on the subloans. A minimal service charge will be made by the sub-borrower entity (coop, association, etc.) to cover expenses incurred by that organization in collecting from its members.

Infrastructure subloans relating to the housing, and those for community infrastructure (e.g., markets and access roads) will probably bear the same 20 year amortization term. As stated above, small industry and agriculture projects which are intended to generate revenue will have shorter amortization periods.

All subloans will carry a suitable grace period. The terms recommended by PROCOM are based on the preliminary analyses and studies already made. More detailed investigations of the appropriateness of these terms will be required as a condition precedent in the loan agreement.

The additional studies done following loan authorization should also indicate the extent to which communities or sub-borrower organizations participating in the program could and would contract the credits on shorter repayment periods.

b. Sub-borrower Contributions

At the community level, sub-borrowers will be expected to provide their own unskilled labor during the construction phase and any materials (e.g., clay, gravel, wood) available in the locale. No requirement will be made for communities to provide any monetary contribution.

In the case of housing projects, individuals will contribute about 50% of the cost of the 45,000 sole house, or about 22,500 soles (\$500) in labor and materials.

For infrastructure projects a gross value of self-help labor and materials of about 11,000,000 soles (\$250,000) has been projected by PROCOM, which would match the 10,500,000 soles amount of the AID loan expected to be invested in this category of subproject.

Projects for small industry will have a smaller proportion of unskilled labor input, the value of which is estimated at about 5,400,000 soles (\$125,000). PROCOM projects the use of about 19,000,000 soles (\$435,000) in AID loan funds for this category.

A high content of unskilled labor and local materials is involved in the agriculture subprojects. Accordingly, for the 4,900,000 soles from the AID loan tentatively allocated for investment in this category, 5,400,000 soles is the estimated gross value of self-help input required of the communities.

Naturally these values are simply estimates and the contributions of individuals, cooperatives, or communities will vary with specific projects. Nevertheless, the emphasis is quite clearly on the self-help nature of the subprojects so sub-borrower contributions should be high. (See Table A for additional details related to funding sources and purposes.)

c. Subloan Repayment Prospects

Prospects for repayment of subloans are considered reasonably good yet both the USAID and PROCOM recognize that the kind of rural community credit program envisaged is one of the most challenging

types. If the promotional and preparatory work is done properly by PROCOM at the community level, repayment prospects should be good. The especially lenient subloan terms proposed by PROCOM were selected to make the repayment of subloans a realistic expectation.

By their own cultural code, the sierra campesino or "serrano" fulfills obligations; as a result, he has earned a reputation as a good credit risk so PROCOM does not anticipate serious repayment problems.

### 3. Repayment of AID Loan

As Borrower of the AID loan the Government of Peru will assume full repayment obligation to AID and will make all interest payments.

However, the GOP has recently adopted a policy of looking to the individual GOP entity for assistance in repayment of external credits when such are obtained for projects.

In this case PROCOM **intends to pursue** this policy to the extent possible but recognizes that no strict tying of subloan repayments to AID loan repayments can be established. In any case, PROCOM will not be in a position to assume the full burden of repayment to AID because of (1) exchange devaluations and (2) the fact that some AID loan funds will be disbursed as grants and not recovered. According to Table A on Page 20, FOROCO will administer the estimated S/74,000,000 (approximately U.S. \$1,680,000) to be made available as credits under the rural program. Of the U.S. 500,000 allocated to the urban program, it estimated that up to \$500,000 would also be made available as credit for sub-project implementation. PROCOM would therefore have up to approximately \$2.17 million available for repayment of the USAID loan.

The AID loan, once disbursed for relief in the disaster area, will have served its principal objective and the desirability of subsequent relending of the AID funds for PROCOM activities should be weighed and decided upon by the GOP in light of its debt servicing and balance of payments obligations. The loan agreement would permit repayments of subloans to be used for either (1) relending by PROCOM for similar activities or (2) paying interest or principal of the AID loan.

SECTION G - SOCIO-ECONOMIC JUSTIFICATION

1. Place of Project in the Country Program

Under present U.S. policy all new major capital assistance activities of A.I.D. in Peru will be directed at relief and reconstruction of the zone damaged by the May, 1970 earthquake.

The need for the U.S. to assist the GOP in the aftermath of that disaster was compelling. A.I.D. responded to that need with a \$10,000,000 grant for immediate relief of the victims in the form of temporary shelter construction programs, road opening and debris clearance, etc. The grant funds have been entirely committed but there is continuing need for assistance in reconstruction of the infrastructure of cities and rural communities of the zone.

For the cities, where the largest numbers of people have been affected by the earthquake, the GOP has already allocated substantial resources, including half of the \$35 million IDB earthquake reconstruction loan and all of the \$28.5 million AID guaranteed housing reconstruction loans. The remainder of the IDB loan is destined for major projects in education at the university level, transportation, communications, and agricultural infrastructure projects. Also, the IBRD has made a \$30 million loan for highway reconstruction in the affected zone. The United States is extending a \$10 million PL-480 agricultural commodity credit under which about \$9 million of counterpart will become available for earthquake projects principally agricultural credit and loans to small businesses. As counterpart for the IDB, IBRD and AID guaranteed loans and for other regional infrastructure and urban programs, the CRYRZA has programmed most of the S/3,467,000,000 (\$79.7 million) of GOP revenues budgeted for the earthquake reconstruction program during 1971-72.

While reconstruction assistance has been primarily focused on the urban disaster areas of greatest population concentration, the GOP is also firmly committed to improving the social and economic condition of the rural inhabitants. In support of this objective, the proposed \$3 million loan with matching GOP counterpart would help the GOP extend its reconstruction program directly into the rural communities. In so doing it would supplement the \$7.4 million AID grant described on pages 6 and 7 which includes over \$2 million for temporary shelter and hand tools for the rural areas. It will also serve social impact priorities of the GOP by assisting the rural poor to organize for community action to meet their own needs with their own resources. The proposed program for these rural communities is designed primarily as a social impact program. As this will be the first A.I.D. loan to Peru since the 1968 Revolution emphasizing social reforms, it is important and appropriate that a social impact program be the object of the loan.

As for the urban part of the loan program the problem of growing urban slums and the aggravation caused by dislocations of people after the disaster is being given top priority by the GOP. Again, the social implications of resolving some of the housing inadequacies in these slums through imaginative projects are substantial. A.I.D. support for developing pilot programs in urban disaster areas would, as in the case of the rural program, support a principal A.I.D. goal of assisting the GOP with its social reforms.

The loan will also strengthen the GOP agency, PROCOM, charged with important responsibilities in the area of community development. The GOP programs and social goals in this area are ambitious. A principal interest of A.I.D. in its country program is to seek ways in which GOP institutions can be strengthened to meet this challenge.

## 2. Other Sources of A.I.D. Financing

As indicated below, the USAID has considered other possible sources of A.I.D. financing to accomplish the purposes of this community reconstruction program but none is seen to be feasible considering the need to move rapidly.

It is planned to provide about \$5,000,000 worth of PL 480 Title I commodities to PERU before the end of FY 1972, the local currency proceeds of which will be used to help rehabilitate the disaster area. Consideration was given to utilizing some of these proceeds for this project in lieu of a dollar loan but general agreement has already been reached with CRYRZA to use these funds on more sizeable projects for small business and agricultural credit and for infrastructure related to permanent housing.

The A.I.D. housing guaranty program contemplated for FY 1971 amounts to some \$28,000,000 which will be used to finance housing and related infrastructure projects in the major urban centers of the disaster zone. The relatively high factor of subsidy in this socially oriented program for small rural communities requires that the external financing be provided on the most concessional terms. This consideration precludes the use of relatively high cost housing guaranty financing.

Funds from the \$7,400,000 A.I.D. grant are entirely committed to specific purposes.

SECTION H - CONDITIONS AND COVENANTS

The loan agreement for the proposed loan would include, in addition to standard provisions, the following special conditions precedent and covenants.

1. Conditions Precedent

a. Prior to disbursement of any loan funds for the Project, Borrower to submit satisfactory evidence (1) that sufficient budgetary funds will be furnished PROCOM in addition to the loan proceeds to provide for additional personnel and operating costs estimated at \$1 million for execution of the Project, (2) that Borrower will review salary schedules of PROCOM, and make such adjustments as necessary to make them reasonably competitive with those of other Borrower agencies for comparable work.

b. Prior to disbursement of any loan funds for the rural portion of the project, Borrower to submit a satisfactory detailed time phased implementation plan therefor.

c. Prior to disbursement of any loan funds for an urban portion of the Project, Borrower to submit a satisfactory detailed time phased implementation plan therefor.

SECTION I - IMPLEMENTATION PLAN

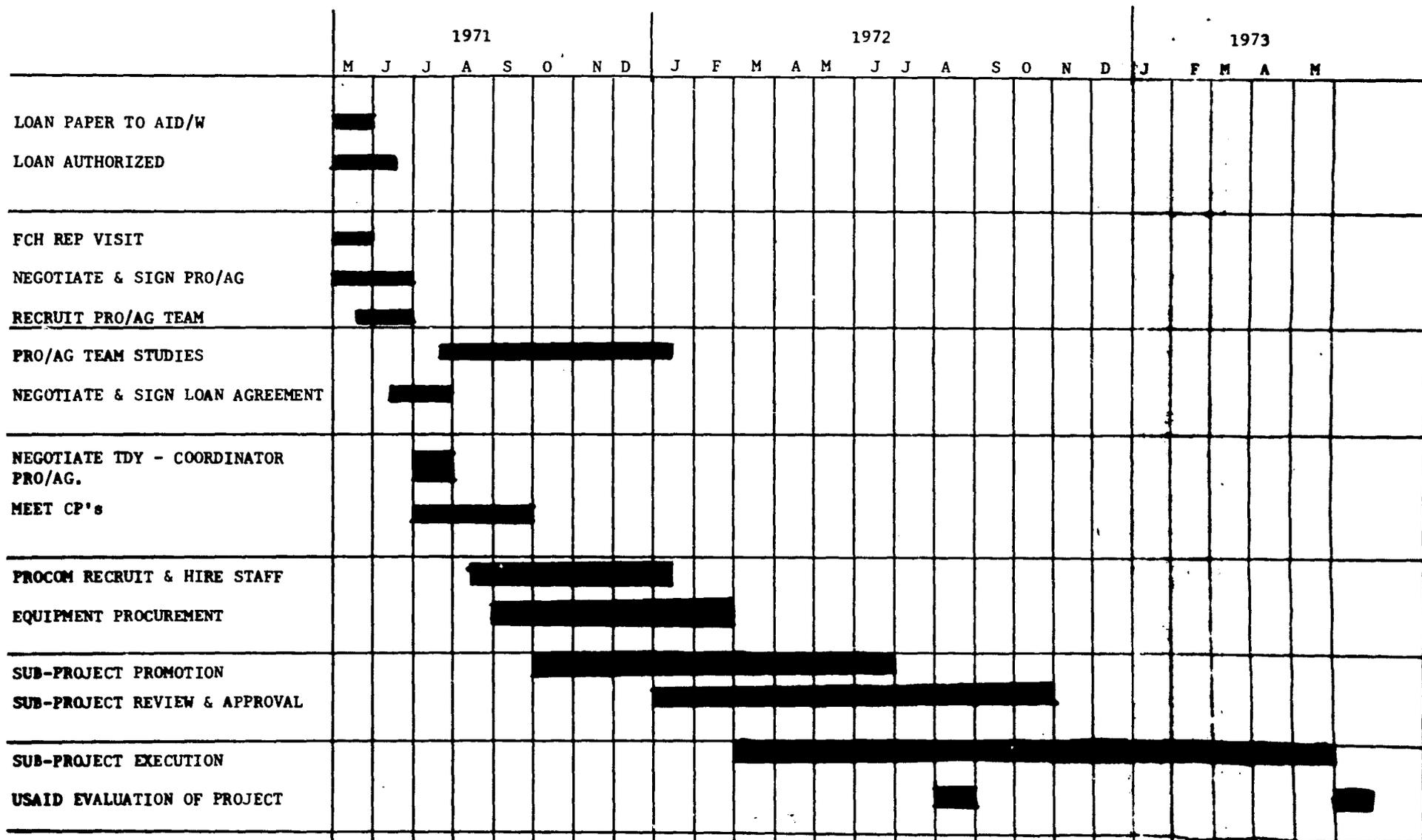
Since the A.I.D. assistance proposed herein is designed to help reconstruct communities damaged by the earthquake, it is most important that the program begin as soon as possible. In view of this, some aspects of the program by necessity have been described in more general terms in this paper and left to be defined in detail following loan authorization. Furthermore, the use of USAID grant funding for technical assistance to support the loan program is specifically designed to meet the need for funding while negotiation of the loan agreement is underway.

The bar chart on the following page identifies the events which are to occur in connection with implementing the program and the time sequence of each.

The USAID hopes to have the loan authorized in May and the loan agreement under negotiation by the end of June. The USAID will press to have conditions precedent met by mid-August which will permit the program to be initiated prior to the end of 1971.

The PROAG-financed team will be recruited by the time the loan is authorized and with the immediate availability of grant funds the team can begin work in June, or, at least, July. This same team will help PROCOM meet the conditions precedent which call for detailed implementation and operational plans for the program.

LOAN PROGRAM IMPLEMENTATION



DRAFT  
LOAN AUTHORIZATION

Provided from: Alliance for Progress Funds  
PERU: Community Development and Reconstruction

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan"), pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Government of Peru ("Borrower") of not to exceed three million United States dollars (\$3,000,000) to assist in financing the United States dollar and local currency costs of community development and reconstruction activities of the Borrower in the area affected by the earthquake of May 31, 1970 ("Project"). The Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment.

Borrower shall repay the Loan to A.I.D. in United States dollars within forty (40) years from the date of the first disbursement under the Loan, including a grace period not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the Loan interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Other Terms and Conditions.

(a) Except for marine insurance and ocean shipping, goods and services financed under the Loan shall have their source and origin in Peru and countries included in A.I.D. Geographic Code 941. Marine insurance financed under the Loan shall have its source and origin in Peru or any country included in A.I.D. Geographic Code 941, provided, however, that such insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in A.I.D. Geographic Code 941.

(b) United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.

(c) Prior to any disbursement of loan funds or the issuance of a Letter of Commitment under the Loan Borrower shall submit evidence in form and substance satisfactory to A.I.D. that:

(i) sufficient budgetary funds will be furnished the implementing agency of Borrower in addition to the loan proceeds to provide for additional personnel and operating costs, (estimated at \$1,000,000), necessary for execution of the Project, and

(ii) Borrower will review salary schedules of such implementing agency and make such adjustments as necessary to make them reasonably competitive with those of other Borrower agencies.

(d) Prior to any disbursement of loan funds or the issuance of a Letter of Commitment for the rural portion of the Project, Borrower shall submit a detailed time-phased implementation plan in form and substance satisfactory to A.I.D.

(e) Prior to disbursement of loan funds or the issuance of a Letter of Commitment for the urban portion of the Project, Borrower shall submit a detailed time-phased implementation plan satisfactory in form and substance to A.I.D.

(f) This loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

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Deputy U.S. Coordinator

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Date

M E M O R A N D U M

TO: : Mr. Louis V. Perez  
Director

FROM : Arthur Mudge *for BSB*  
Assistant Director for Capital Project  
for

SUBJECT: Section 611(e) Certification/Proposed Community  
Reconstruction Loan

PROBLEM:

Section 611(e) of the Foreign Assistance Act requires that before development loans are made for any capital assistance project estimated to cost in excess of \$1,000,000, the Administrator of A.I.D. must have received and taken into consideration a certification from the principal officer of such agency with the country in which the project is located as to the capability of the country (both financial and human resources) to effectively maintain and utilize the project taking into account among other things the maintenance and utilization of projects in such country previously financed or assisted by the United States.

DISCUSSION:

The loan paper attached at Annex A reviews favorably the past performance and present capability of the proposed executing agency. See Sections A.3, C.1 and C.2. The loan paper at Sections D and E also indicates the adequacy of the resources to be committed and procedures to be adopted by the Borrower and the implementing agency in carrying out the project.

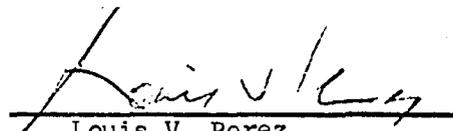
RECOMMENDATION:

On the basis of the information contained in the loan paper I recommend that you sign the certificate attached at Annex II(B).

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE FOREIGN  
ASSISTANCE ACT OF 1961, AS AMENDED.

I, Louis V. Perez, the principal officer of the Agency for International Development in Peru, having taken into account among other factors the maintenance and utilization of projects in Peru previously financed or assisted by the United States, do hereby certify that in my judgement Peru has both the financial capability and human resources capability to effectively maintain and utilize the capital assistance project:  
COMMUNITY DEVELOPMENT AND RECONSTRUCTION LOAN.

This certification is based inter alia on the Government's and PROCOM's performance in the execution of a comparable community development project financed by A.I.D. Loan 527-L-045 and an emergency relief and reconstruction project financed by A.I.D. Grant No.527N601.

  
\_\_\_\_\_  
Louis V. Perez  
Director USAID/Peru

AID 1240-2 (1-71)

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amend.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1961

MMA - Merchant Marine Act of 1936, as amended

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

The GOP has an active agricultural credit program for both large and small farmers. A top priority activity of the GOP is the Agrarian Reform program which is designed to bring new lands under cultivation.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

In the context of its industrial reform program (Industrial Law) and its balance of payments management, the GOP is actively seeking foreign and domestic private investments in areas identified as being essential to growth.

*(3) Increasing the public's role in the developmental process.*

Newly decreed programs in Industry (Industrial Law), fishing (Fishing Law), and Agrarian Reform are specifically designed to achieve this objective.

*(4) (a) Allocating available budgetary resources to development.*

Sizeable portions of the GOP national budget are being allocated to the top priority programs of educational, agricultural and industrial reform.

*(b) Diverting such resources for unnecessary military expenditure (see also Item No. 16) and intervention in affairs of other free and independent nations. (See also Item No. 14)*

GOP Military expenditures for the years 1971 and 1972 are \$ 433 million or 16% of the total two-year budget. No known intention in affairs of other nations.

*(5) Willing to contribute funds to the project or program.*

The GOP commitment of \$ 1 million to the project is considered ample and demonstrative of interest.

AID 1240-2

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

While freedom of press and <sup>of</sup> expression has been <sup>somewhat</sup> curtailed in recent years tax collections have improved, laws are enforced and land reform has been given high priority.

(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

Sound monetary and fiscal policies leading to real growth in GNP, stable prices, and a balance of payments surplus, coupled with significant economic and social reforms designed to restructure the Peruvian society along more equitable lines, clearly indicate Peru's compliance with Alliance for Progress goals.

(8) Attempting to repatriate capital invested in other countries by its own citizens.

Recent decrees requiring full repatriation of foreign capital of Peruvians have had an important impact on the balance of payments and make available resources for investments in Peru.

(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

The GOP appears to be responding to the economic, political and social concerns of its people, particularly the poor, and has taken strength self-help measures as indicated above.

B. Are above factors taken into account in the furnishing of the subject assistance? Yes.

Treatment of U.S. Citizens

2. FIA § 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

No known recent instance.

3. FAA § 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

In 1968 the GOP expropriated the holdings of IPC, a company beneficially owned by U.S. citizens. It has been determined that appropriate steps to discharge its obligations have been taken by the GOP, within the meaning of the statute.

AID 1240-2

4. FAA § 320(e); Fisherman's Protective Act, U.S. If country has acted, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,

a. has any deduction required by Fisherman's Protective Act been made?

No claim has been made and therefore no deduction is required by the Fisherman's Protective Act.

b. has complete denial of assistance been considered by A.I.D. Administrator?

As requested by the statute, the Administrator shall consider the recent seizure of a U.S. fishing vessel by the GOP in determining whether or not to furnish this assistance.

Relations with U.S. Government and Other Nations

5. FAA § 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

No such enterprises to be assisted.

6. FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?

No known recent instance.

7. FAA § 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance such government for this reason? Yes.
8. FAA § 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country? No.
9. FAA § 620(t). Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
10. FAA § 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrears taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget? As of July 1, 1970, Peru's arrearages to the U.N. totalled \$317,809 including \$166,000 for UNEF and UNOC. GOP Foreign Officer reported that Peru paid its 1969 budget dues in September 1970. Since the latest figures available to AID/W do not reflect that payment, an accurate figure for Peru's current status is impossible. However, the GOP has stated its intention to liquidate delinquent obligations. Peru's arrearages were considered in determining the current OYB.
11. FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba? No known assistance to Cuba or carriage of cargoes to or from Cuba by Peruvian flag ships.

12. FAA § 680(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the International Communist movement? Yes.
13. FAA § 680(f). Is recipient country a Communist country? No.
14. FAA § 680(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? No.
15. FAA § 680(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam? No known instances.

Military Expenditures

16. FAA § 680(o). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points to be coordinated with PPC/MAS)
- In 1970, Peru's defense expenditures represented 18.7% of central governments expenditures. Of the two-year 1971-72 budget, 16% is earmarked for military expenditures.
- In 1969 (the latest year for which data is available), the GOP spent \$249 million in foreign exchange on military imports.
- With respect to sophisticated weapons systems, Peru purchased 16 mirage type aircraft, plus spare parts, for a total of \$28 million in 1968, repayable over 8 years beginning as of 1970.
- As requested by the statute, the Administrator shall take these matters into account in determining whether or not to furnish this assistance.

CONDITIONS OF THE LOANGeneral Soundness

17. FAA § 201(d). *Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.*

The Sub-loan terms for this project are proposed by the GOP and considered reasonable and legal in all respects, See Section F.2.a.

18. FAA § 251(b)(2); §.251(e). *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?*

The project is economically and technically sound. (See Sections C & G ). An application has been received and is included as an annex in this paper.

AID 1240-2

19. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
- Foreign exchange reserves of GOP at close of 1970 highest ever. Peru's long term foreign debt appears manageable.
20. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
- Yes.
21. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?
- No special legislation actions believed to be required.
22. FAA § 611(e). If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
- See Annex II
23. FAA § 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
- See page 35 of loan paper.

AID 1240-2

Loan's Relationship to Achievement  
of Country and Regional Goals

24. FAA § 202; § 251(a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.

25. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

- a) Community sub-loans will be administered by local cooperatives or governments.
- b) The program emphasizes restoration of ag. communities by the communities themselves.
- c) Communities participating in the program will receive instruction in building a structurally superior house.
- d-e) Cooperatives, local governments, and other representative groups will be strengthened by planning and administering appropriate uses of the loan funds.

No.

26. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

The proposed program will improve rural living conditions and thereby reduce migration to urban centers. This complements the GOP's agrarian reform program and efforts to directly involve the people in development programs.

AID 1240-2

27. FAA § 251(b)(7). *Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.* Not significantly. Loan is designed largely to rebuild physical properties of subsistence farmers.
28. FAA § 251(a). *Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.* Cooperatives, by their very nature, are private and democratic. This type of institution will be strengthened by the loan.
29. FAA § 291(b). *Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.* Program contemplates a significant self-help input at the community level to satisfy needs of the highest priority in the disaster zone. By promoting a cooperative effort, the program strengthens democratic processes at the grass-roots level.

AID 1240-2

30. FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
- a) not significantly; ;  
 b) yes - in part, loan will help to restore the economic life of several communities.  
 c) yes - see 33 below.  
 d) not applicable.  
 e) Yes, by assisting communities with the reconstruction of ag. and commercial pursuits.  
 f) No.
31. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?
- Peru not newly independent.
32. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.
- The recent CIAP review of Peru emphasized the justifiable need of international financial assistance to Peru's development programs. In addition, CIAP endorsed the need for strengthening campesino groups and organizations to better cope with their development problems.
33. FAA § 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.
- Sub-loans will generally be made to local cooperatives, thus enhancing the cooperative movement in Latin America.

AID 1240-2

34. FAA § 209; § 251(b)(8).  
*Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.*

Not directed toward regional development.

Loan's Effect on U.S. and A.I.D Program

35. FAA § 251(b)(4); § 102.  
*Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.*

Apart from possible purchase of some U.S. goods and services, loan is for local costs with negligible effect on U.S. economy, slight adverse effect on U.S. balance of payments.

36. FAA § 601(b). *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*

See item 35.

AID 1240-2

37. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?
- U.S. contractors will be able to compete for furnishing of consultant and personal services.
38. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.
- Loan agreement will so specify
39. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?
- Loan agreement will specifically provide against such eventuality.
40. FAA § 621. If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.
- It is contemplated that technical assistance will be provided by private industry on a contract basis.

AID 1240-2

41. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

It is contemplated that all loan funds will be used to finance procurement from private sources, with much of it going through an intermediate credit institution.

Loan's Compliance with Specific Requirements

42. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes.

43. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

Loan agreement will so specify.

44. FAA § 604(a). Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?

Procurement will be from Code 941 countries as permitted by Presidential determination

45. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?
- Loan agreement and implementation letters shall so provide.
46. FAA § 604(d). If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?
- Loan agreement will so specify.
47. FAA § 604(e). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?
- No financing of such procurement is contemplated.
48. FAA § 611(b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?
- No large scale water or water related land resource construction project or program will be financed.
49. FAA § 611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?
- Loan agreement will so specify.

AID 1240-2

50. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
- Loans proceeds will not be used for procurement of land.- Loan agreement will so specify.
51. FAA § 610(h); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.
- GOP is contributing \$ 1,000,000 in counterpart local currency to project. No U.S. owned foreign currencies available.
52. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel?
- No.

53. App. § 106. *If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?* Loan Agreement will so specify.
54. App. § 108. *Will any loan funds be used to pay U.N. assessments?* No.
55. App. § 109. *Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).* Loan Agreement and implementation letters will provide for applicator of Regulation 7
56. FAA § 636(i). *Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?* No.
57. App. § 401. *Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?* No.

58. FAA § 620(F). If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million? No.
59. FAA § 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release? No.
60. MMA § 901.b. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. Loan Agreement will so specify.

58. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million? No.
59. FAA § 612(d). Does the U.S. own excess foreign currency and, if so what arrangements have been made for its release? No.
60. MEA § 901.b. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. Loan Agreement will so specify.

TRANSLATION

Mr. John Hannah  
Director, USAID  
Washington, D.C.

I am pleased to write you for the purpose of requesting from A.I.D. financial assistance for the projects "Project for the Construction and Rehabilitation of Rural Towns on the Area Affected by the Earthquake" and "Program for the Urban Rehabilitation of 2,000 lots and construction of 324 Houses in Trujillo and Huacho", which have been prepared by the Directorate General for Community Promotion of the Ministry of Housing in coordination with the Commission for the Reconstruction and Rehabilitation of the zone affected by the earthquake of May 30, 1970 (CRERZA).

The referenced programs will require financial assistance of up to S/100,000,000.00 (approximately U.S. \$2.3 million) and S/30,000,000 (approximately U.S. \$0.7 million) respectively, for a total of S/130,000,000 (U.S. 3.0 million).

The Government of Peru grants its highest priority to these referenced programs, taking into consideration their socio-economic importance for the zone devastated by the May 31, 1970 earthquake.

For this reason my Government will be extremely pleased with AID's cooperation which would permit the implementation of the referenced projects to commence as soon as possible.

Very truly yours,

General de Bugada E.P.  
Francesco Morales Bermudez C.  
Minister of Economy and Finance



MINISTERIO DE ECONOMIA Y FINANZAS

Lima, 18 de Mayo de 1971

Of. N° 296-71-EF/75-DGC

Señor  
John A. Hannah  
Director de la Agencia para el  
Desarrollo Internacional (AID)  
Washington D.C.  
U.S.A.



Me es grato dirigirme a Usted; con la finalidad de solicitar de la Institución de su digna Dirección, apoyo financiero para los Programas denominados: "Proyecto de Construcción y Rehabilitación de Centros Poblados en el Area Rural de la Zona Afectada" y "Programa para la Habilidadación Urbana de 2,000 Lotes y Habilidadación de 324 Viviendas en Trujillo y Huacho", estructurados por la Dirección General de Promoción Comunal del Ministerio de Vivienda, en coordinación con la Comisión de Reconstrucción y Rehabilitación de la Zona Afectada por el Sismo del 31 de Mayo de 1970 --- (CRYRZA).

Los Programas en referencia requieren apoyo financiero hasta por un monto equivalente a S/. 100'000,000.00 y a S/. 30'000,000.00 respectivamente, lo que hace un total requerido del equivalente a S/. 130'000,000.00.

El Gobierno del Perú otorga a los mencionados Programas la más alta prioridad, teniendo en consideración la importancia socio-económica de los mismos, por su aplicación en la zona devastada por el sismo acaecido el 31 de Mayo del año 1970.

Es por ello que mi Gobierno verá con sumo agrado la cooperación del AID, de tal manera que se viabilice al más breve plazo, la ejecución de los Programas antes citados.



MINISTERIO DE ECONOMIA Y FINANZAS

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Con este motivo, aprovecho la oportunidad para reiterar a Ud. los sentimientos de mi especial consideración.

Dios guarde a Ud.



General de Brigada E. P.  
Francisco Morales Bermúdez C.  
Ministro de Economía y Finanzas





AGENCY FOR INTERNATIONAL DEVELOPMENT  
UNITED STATES AID MISSION TO PERU  
C/O AMERICAN EMBASSY  
LIMA, 1  
PERU

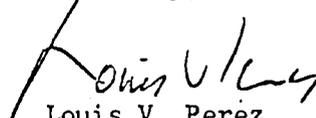
May 19, 1971

Dear Mr. Minister:

Thank you for your Of. N° 296-71-EF/75-DGCP of May 18, 1971 to Mr. John Hannah, Director of the U.S. Agency for International Development in which you request AID loan financing of approximately US\$3 million for a Community Reconstruction Program in the area affected by the May 31, 1970 Earthquake. It is our understanding that the Government of Peru is disposed to undertake and finance the program with AID assistance in the manner described in the project documents "Proyecto de Reconstrucción y Rehabilitación de Centros Poblados en el Area Rural de la Zona Afectada" y "Programa de la Habilidadación Urbana de 2,000 Lotes y Habilidadación de 324 Viviendas en Trujillo y Huacho", which you enclosed with your letter.

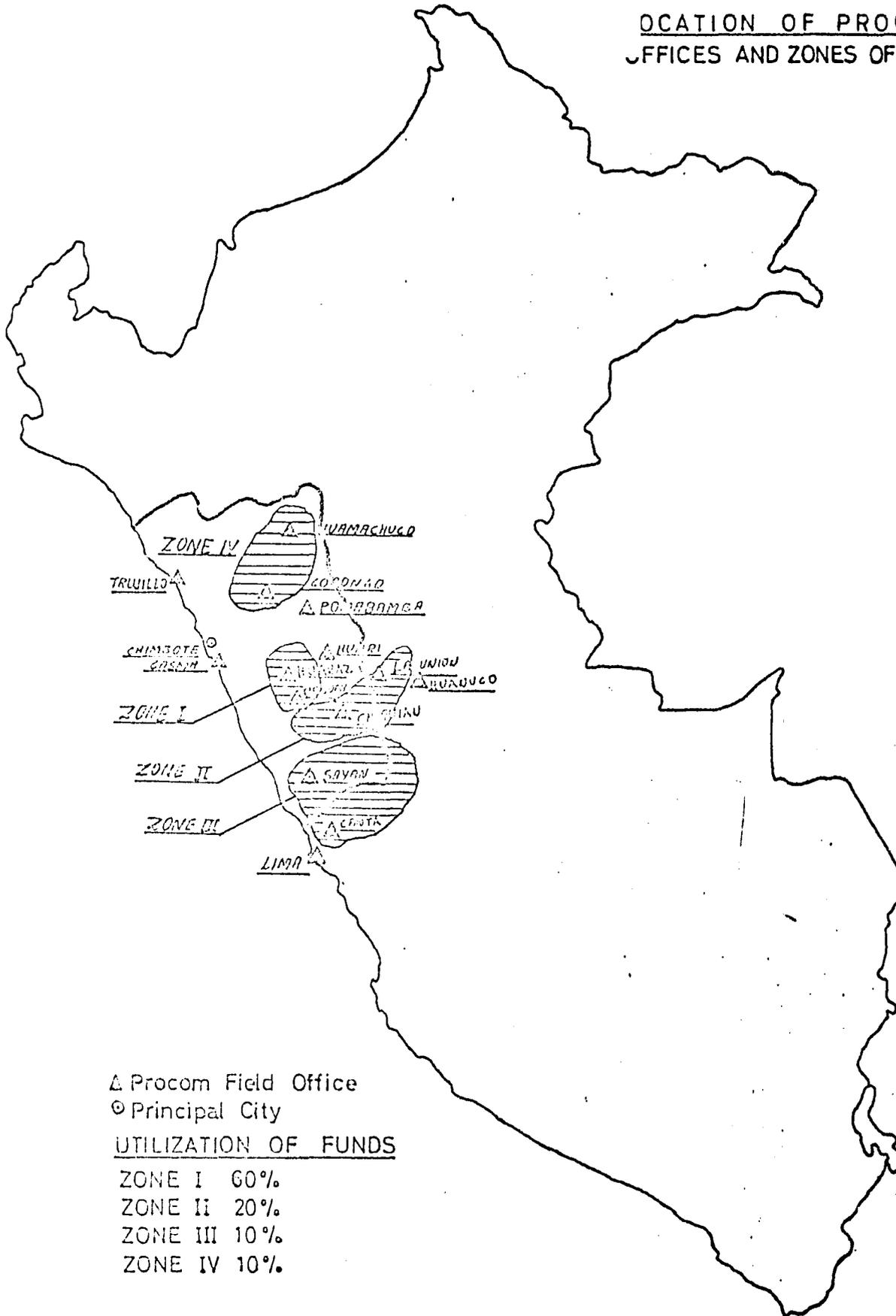
Your loan project request will be formally reviewed in Washington during the next two weeks, and we shall inform you soon thereafter of the decisions and recommendations made resulting from this review.

Sincerely,

  
Louis V. Perez  
Director

General  
Francisco Morales Bermúdez C.  
Minister of Economy and Finance  
LIMA

LOCATION OF PROCOM  
OFFICES AND ZONES OF ACTION



△ Procom Field Office  
⊙ Principal City

UTILIZATION OF FUNDS

- ZONE I 60%
- ZONE II 20%
- ZONE III 10%
- ZONE IV 10%

PROCOM ORGANIZATION

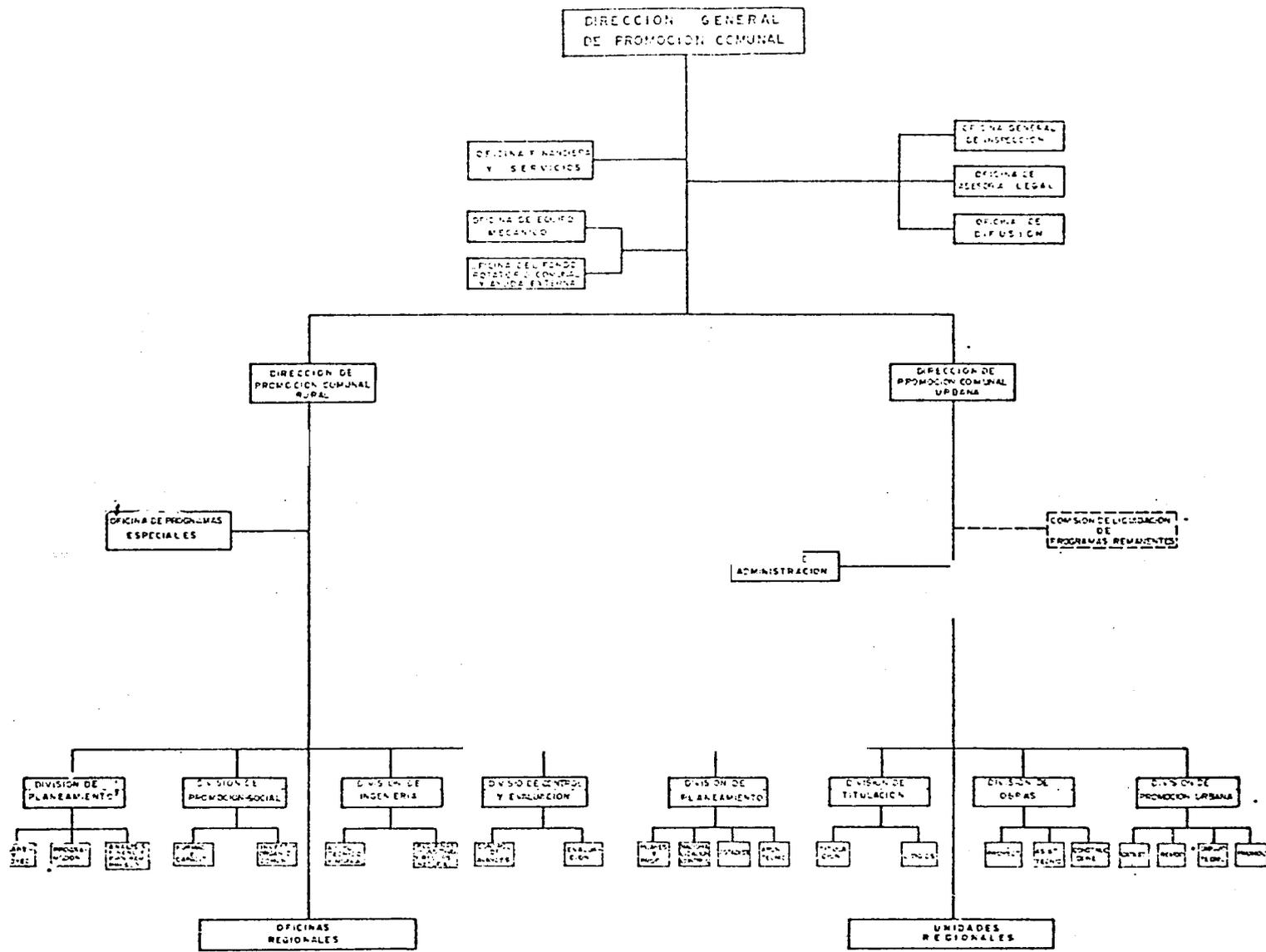


TABLE I

Cronological Composition of Annual Budgets of PROCOM  
(Millions of Soles) (43.5 Soles = U.S. \$1)

|   | 1967    | 1968    | 1969    | 1970    | 1971-72 <sup>1/</sup> |
|---|---------|---------|---------|---------|-----------------------|
| 1. Wages and Salaries                   | \$,28.8 | \$,21.9 | \$,42.6 | \$,79.6 | \$,144.6              |
| 2. Expenditures in Goods and Services   | 27.8    | 15.2    | 26.6    | 42.6    | 36.3                  |
| 3. Works by Contract and Administration | 191.7   | 207.7   | 7.3     | 188.0   | 220.0                 |
| 4. Financial Payments                   | -       | -       | -       | 20.8    | -                     |
| 5. Transfers                            | 2.9     | 2.1     | 4.3     | 6.5     | 11.3                  |
|   | 251.2   | 246.9   | 80.8    | 337.5   | 412.2                 |

<sup>1/</sup> Biennial budget for 1971-72. Not included in this budget is loan and grant assistance (totalling approximately s/204,000,000 for 1971-72) being provided to PROCOM by International and External Assistance agencies.

The 1969-70 budgets do include administrative support costs and other counterpart requirements for prior AID and IDB loans.

TABLE II

Analytical Budget of the Dirección General de Promoción Comunal for 1971-1972

(figures in millions of soles) (43.5 Soles = U.S. \$1)

|  | <u>Total</u> | A L L O C A T I O N <sup>2/</sup> |                                |                                 |                         |               |             |                |               |
|--|--------------|-----------------------------------|--------------------------------|---------------------------------|-------------------------|---------------|-------------|----------------|---------------|
|  |              | <u>Dirección General</u>          | <u>Promoción Comunal Rural</u> | <u>Promoción Comunal Urbana</u> | <u>Regional Offices</u> |               |             |                |               |
|  |              |                                   |                                |                                 | <u>Trujillo</u>         | <u>Huaraz</u> | <u>Lima</u> | <u>Huánuco</u> | <u>Others</u> |
| 1. Wages and Salaries                          | 144.6        | 44.9                              | 12.1                           | 56.8                            | 2.8                     | 4.0           | 4.3         | 2.6            | 17.1          |
| 2. Expenditures in Goods and Services          | 36.3         | 10.5                              | 0.9                            |                                 | 2.1                     | 2.9           | 1.9         | 2.3            | 15.7          |
| 3. Transfers                                   | 11.3         | 4.4                               | 0.9                            | 3.6                             | 0.2                     | 0.3           | 0.3         | 0.2            | 1.4           |
|  | 192.2        | 59.8                              | 13.9                           | 60.4                            | 5.1                     | 7.2           | 6.5         | 5.1            | 34.2          |
| 4. <u>Investment Projects</u>                  |              |                                   |                                |                                 |                         |               |             |                |               |
| 4.1 <u>Studies by Administration; Projects</u> |              |                                   |                                |                                 |                         |               |             |                |               |
| -Rural Infrastructure                          | 8.0          |                                   |                                |                                 | 1.6                     |               | 2.1         |                | 4.3           |
| -Rural Housing                                 | 3.0          |                                   |                                |                                 |                         | 1.0           |             |                | 2.0           |
| -Micro-planning                                | 10.5         |                                   |                                |                                 |                         |               |             | 1.9            | 8.6           |
|  | 21.5         |                                   |                                |                                 | 1.6                     | 1.0           | 2.1         | 1.9            | 14.9          |
| 4.2 <u>Works by Administration</u>             |              |                                   |                                |                                 |                         |               |             |                |               |
| -Rural Infrastructure                          | 134.0        |                                   |                                |                                 | 9.8                     | 3.3           | 16.8        | 12.9           | 91.2          |
| -Remodeling of lots                            | 9.0          |                                   |                                | 9.0                             |                         |               |             |                |               |
| -GOP Counterpart <sup>1/</sup>                 | 55.5         | 55.5                              |                                |                                 |                         |               |             |                |               |
|  | 198.5        | 55.5                              |                                | 9.0                             | 9.8                     | 3.3           | 16.8        | 12.9           | 91.2          |
| Total (4.1) + (4.2)                            | 220.0        | 55.5                              |                                | 9.0                             | 11.4                    | 4.3           | 18.9        | 14.8           | 106.1         |
| Grand Total                                    | 412.2        | 115.3                             | 13.9                           | 69.4                            | 16.5                    | 11.5          | 25.4        | 19.9           | 140.3         |

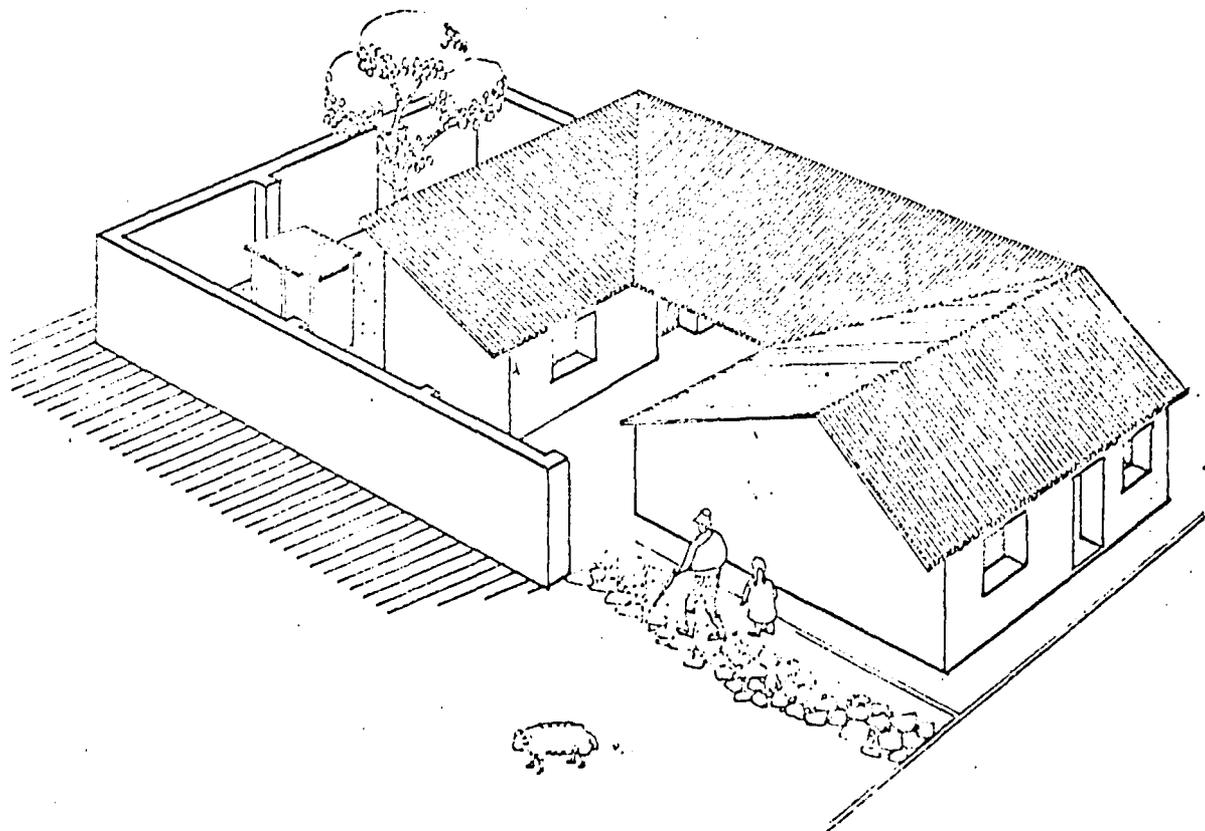
<sup>1/</sup> GOP counterpart for miscellaneous agreements.<sup>2/</sup> Does not include resources made available under external assistance agreements.

Annex N° VII

The attached proto-type sketches are examples of the detailed work done by the ProCom Engineering Department intended to portray specifically and graphically the procedures necessary in the construction of an adobe house (Diagram #1 and #2) and a brick oven (Diagram # 3). These are mere extracts of a detailed step-by-step operation from folders they have prepared. Other proto-type folders include three other models for adobe housing, and others for small industry type projects.

# MINISTERIO DE VIVIENDA

DIRECCION GENERAL DE COOPERACION POPULAR Y  
PUEBLOS JOVENES

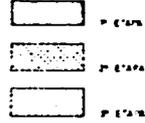
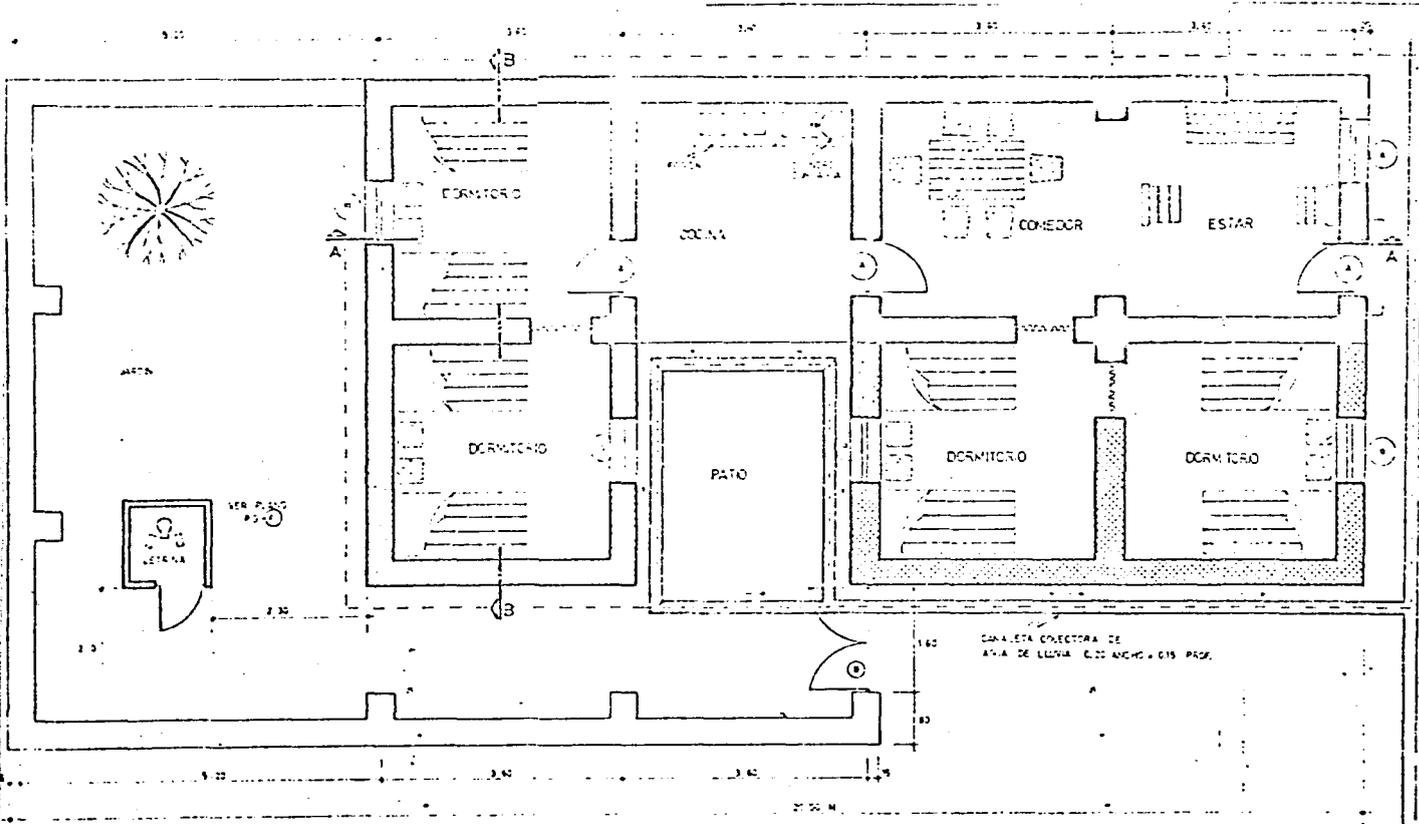


MANUAL DE CONSTRUCCIONES  
RURALES - VIVIENDA TIPO -

004

DIVISION  
DE OBRAS

LIMA PERU 1970



**CUADRO DE VANOS**

| VANOS       | N    | S    | OT   | TOTAL |
|-------------|------|------|------|-------|
| A           | 1.23 | 2.10 | -    | 3     |
| B           | 1.62 | 2.10 | 0.75 | 4     |
| TOTAL       | 1.00 | 1.28 | 0.75 | 3     |
| UNIDAD AREA | 1.82 | 2.10 | 0    | 3     |

ESTE DISEÑO CONSTITUYE UNA SOLUCION AL PROBLEMA DE HABITACION PARA LAS MASAS QUE ATENDE A LOS ESTUDIOS DE ESTE TIPO DE CONSTRUCCIONES EN LAS ZONAS URBANAS DE ESTE PROYECTO EN TENDENCIA AL MEJORAMIENTO DE LA TECNICA EMPLEADA.

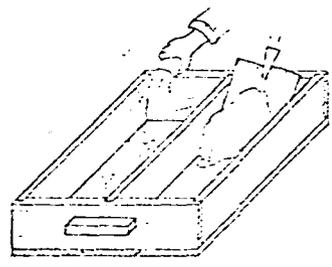
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|------------------------|---------------|---|-----------|
| MINISTERIO DE VIVIENDA |               | DIRECCION GENERAL DE COOPERACION POPULAR Y P. |           |
| PROYECTO               | VIVIENDA TIPO | DIVISION DE OBRAS                             |           |
| PLANO                  | PLANTA        | ENCARGADO                                     | ENCARGADO |
|                        |               | FECHA   | FECHA     |

# PROCESO DE ELABORACION DEL LADRILLO

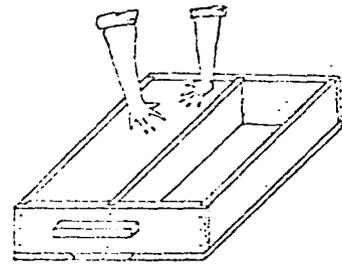
PREPARACION DEL BARRO  
 1. CLASIFICACION  
 2. TRATAMIENTO



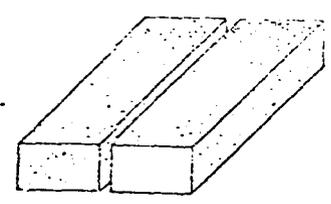
PARA PODER QUITAR  
 LOS LADRILLOS  
 SIN DAÑARLOS  
 SE DEBE  
 MOJAR EL  
 FONDO DEL  
 MOLDE EN EL  
 SECA-  
 POCO



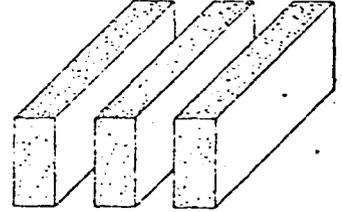
SE MOJA Y SE RELENA  
 CON EL BARRO



SE MOLDEA EL LADRILLO  
 SE INVIERTA EL MOLDE

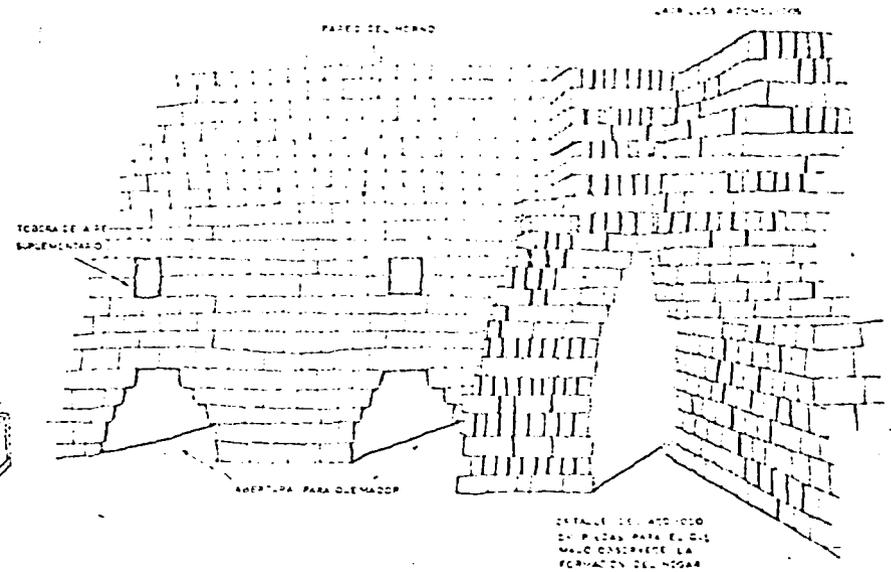


DEJANDOSE DE PLANO



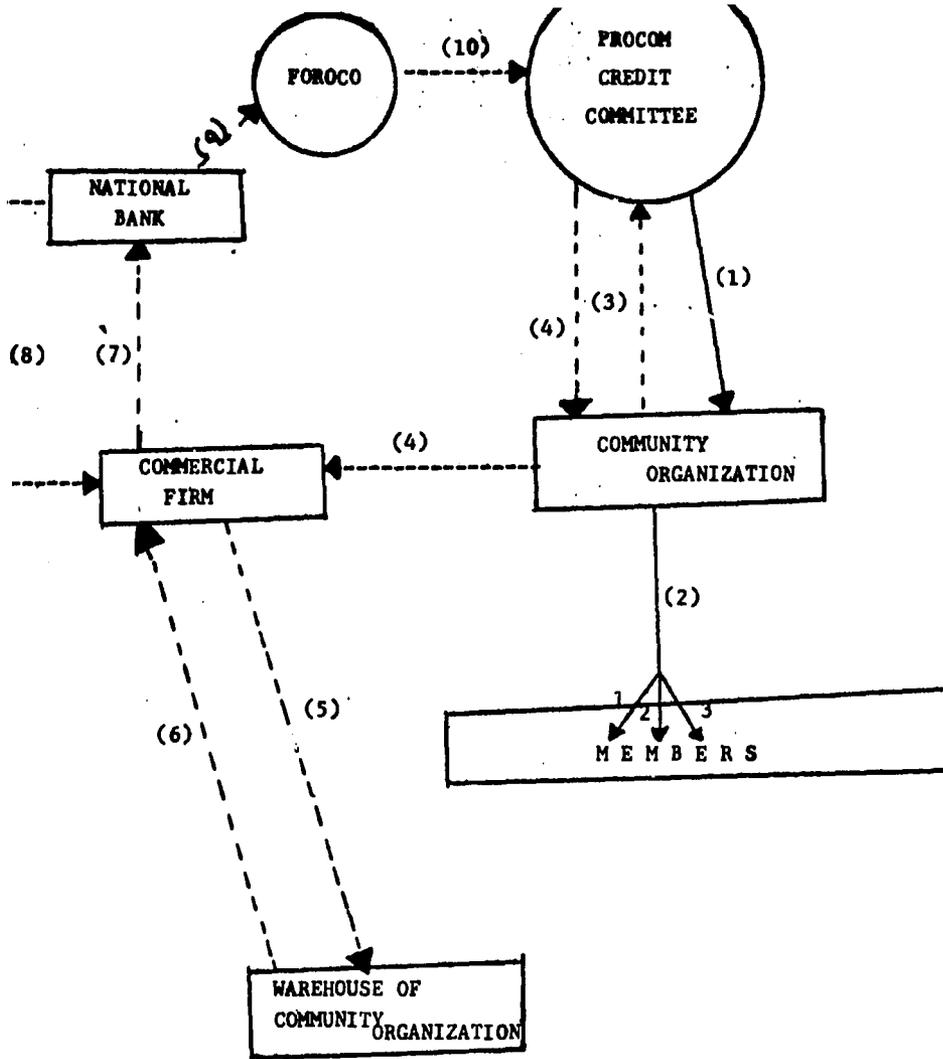
SECANDOSE DE CANTO

# DISPOSICION Y ACOMODO DENTRO DEL HORNO

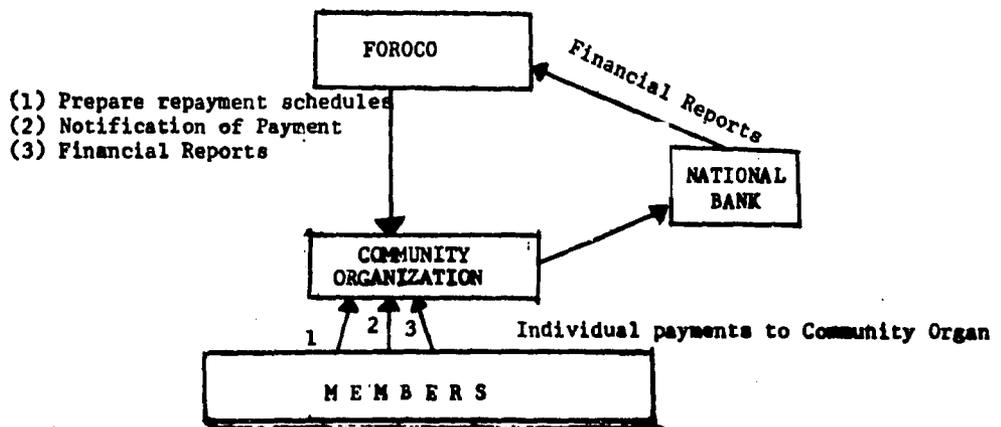


|                        |  |  |              |
|------------------------|--|--|--------------|
| MINISTERIO DE VIVIENDA |  | DIRECCION GENERAL DE COOPERACION POPULAR Y R. J. |              |
| PROYECTO               |  | DIVISION DE OBRAS                                |              |
| NOMBRE DE LADRILLOS    |  | ESTADO   | SECRETARIA   |
| PLANO                  |  | INSTRUMENTO A. P. P. C. P. 3727                  | FECHA        |
| ELABORACION DEL DISEÑO |  | ING. H. ASAYU, INE                               | FECHA FINITE |
|                        |  | APROB. LINDA ROBERTO MART                        | ESCALA       |
|                        |  |  | 7            |

LOAN DISBURSEMENT SYSTEM



COLLECTIONS



SUB-LOAN DISBURSEMENT SYSTEM

- 1) The Credit Committee approves the sub-loan package submitted by the Community Organization.
- 2) The Community Organization communicates to its members the approval of their respective sub-loans.
- 3) The Community Organization requests issuance of purchase order to the credit committee. The purchase order will also function as (1) "receiving document" and (2) "order of payment."
- 4) The Credit Committee issues a "purchase order" to the Community Organization designating supplier (original and copies). The Community Organization purchases materials in volume to realize economies of scale.
- 5) Commercial firm delivers materials to warehouse of the Community Organization and the latter acknowledges receipt by signing in the space of the purchase order (original) provided for that purpose.
- 6)-7) The Commercial firm attaches to the "purchase order" the bills of the sale and presents them to the Bank for payment.
- 8)-9) The Bank makes payment to the commercial firm and reports to the FOROCO.
- 10) FOROCO reports to the Committee.

ILLUSTRATION OF HOW TYPICAL PROJECT WILL BE PLANNED AND  
IMPLEMENTED

I. Pre-Selection of Communities to be studied for possible  
sub-project Implementation:

Selection will be made at the Regional Office level of PROCOM based upon previous PROCOM and other GOP Agency field experience and contacts with small rural communities at the zone level. Selection will be based upon such factors as the size of town, its importance as a social/economic focal point for the surrounding areas, present and anticipated housing and infrastructure demand, and the individual and organization capacity within the community to undertake self-help credit programs.

II. Pre-Feasibility Study

A PROCOM interdisciplinary planning team will make a more in-depth field study on those factors previously described above in order to determine project pre-feasibility.

- a) Existing community and cooperative organizations will be contacted; development priorities, particularly focused on housing, community infrastructure, and agricultural production will be explored by these organizations with the assistance of the team; organizational strength and weaknesses will be identified.
- b) Surveys of agriculture, housing, and community infrastructure conditions will be conducted and analyzed. Relevant data from other studies and GOP agency sources will be collated.
- c) Basic findings will be discussed with community groups and with relevant other GOP agencies (i.e. Reforma Agraria, ONDECOOP, CRYRZA, etc.) Project priorities will be determined by community with assistance of PROCOM.
- d) Determination by PROCOM if community needs and resources are appropriate for more detailed project planning focused on one or more specific sub-project categories (i.e. housing, infrastructure, production credit, agricultural credit).

### III. Project Planning

Project Planning, which will be focused on the priority activity identified in the pre-feasibility phase, may also include more than one kind of category of sub-project activity; for example ancillary activities in infrastructure construction and production of housing materials might be included in the basic housing project. However, since the major portion of total loan resources will be devoted to housing, this activity will be illustrated in further detail. Project planning for housing will include the following:

- a) Detailed engineering and community plans - including numbers, types, locations, etc. of housing and infrastructure (if applicable) to be constructed, construction method and implementation schedule, source of construction materials and their delivery schedule, etc.
- b) Formation of cooperatives or other appropriate legalized groups 1/ for housing construction:  
In the case where such a C.O. already exists in the community, the C.O. will be required to demonstrate its financial, administrative/management, and legal status to PROCOM, and will be required to receive further training in management and accounting, particularly regarding the sub-lending system to be employed in the housing project. In the case where no C.O. exists in the community, PROCOM will assist the community to  
1) receive training in cooperatives and community organization, 2) form promotional/organization committees, 3) promote initial savings, 4) elect officers, 5) obtain legal status, and 6) receive management/accounting training particularly regarding the system to be employed in the proposed housing project.
- c) Review of housing loan applications by C.O.:  
Applications will be prepared by individual C.O. members and will be reviewed by the C.O. to insure that the applicant 1) is in good standing, 2) has capacity to repay loan without depriving himself of other essentials, 3) is guaranteed by two other members, 4) has prescribed amount already saved (usually 5-10% of loan applied for), 5) agrees to sign promisory notes for amount being borrowed, specifying repayment terms. All applications are tentatively approved or disapproved by the C.O. credit committee.

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1/ Recipients of loans will be those categories of groups previously described in the Loan Paper. These categories will be collectively called community organizations (C.O.).

d) **Loan Application by the C.O.:**

The C.O. with the assistance of PROCOM will fill out a standard loan application form: application will include summary of basic data gathered in project planning stages previously described. Accompanying the application will be more detailed reports prepared by PROCOM on project planning and implementation, and the member loan applications tentatively approved by the C.O.

**IV. Approval of Loan**

A. A PROCOM Loan Committee will review the loan application and accompanying documents. This will be essentially a check off type of operation since promotional work and project planning has been supervised by PROCOM prior to submission of the loan application. Essential criteria which must be met are:

1. Legal - To confirm a) that C.O. is legally recognized by GOP or in process of legalization - its titles, charters, other documents are in order, and b) that land rights necessary for construction have been obtained.
2. Accounting/Administrative Capacity of the Community Organization -
  - review financial statement/conditions of the C.O.
  - ensure that minimum required training for the loan has been received by the organization.
3. Technical Plans -  
To ensure that engineering plans are technically sound and feasible.

B. Preparation and signing of loan contract between the C.O. and PROCOM (or Fiduciary agent assigned by PROCOM).

C. Signing of contracts or promisory notes between the C.O. and individual members.

**V. Project Implementation**

Implementation will follow the project plan prepared prior to loan approval; it will essentially consist of phased construction steps with phased purchasing and delivery of materials. PROCOM training of selected C.O. members in construction techniques to be utilized will take place prior to initiation of construction, and

on-site supervision and training will be supplied by PROCOM construction foremen during construction.

VI. Project Completion and Follow-Up

- A. Upon completion of all construction, PROCOM will prepare a completion of project report which include data on the quality and quantity of construction, the effectiveness of community participation, problems encountered, etc.
- B. C.O. members will begin monthly loan repayments after stipulated grace period. The C.O. will begin periodic (period to be determined) loan repayments to PROCOM or the assigned fiduciary agent.
- C. PROCOM (or fiduciary agent) will prepare quarterly reports on status of loan repayments.
- D. PROCOM promoters or other technical assistance staff will make periodic follow-up visits to the community in order to assist them either on other development projects to be undertaken by the C.O. or to assist in resolving problems which may arise concerning the completed housing project.