

ANNUAL LOAN REVIEW AND EVALUATION - LOAN 527-L-055.

May 31, 1978

A. BASIC DATA:

Borrower : Housing Bank of Peru  
(Banco de la Vivienda del Peru - BVP)

Guarantor : Government of Peru

Executing Agencies : Regional Office for the Development  
of the Earthquake Zone (ORDEZA)  
The Ministry of Housing and Construction  
of Peru (MOHC)  
The System for Social Mobilization (SINAMOS)  
The Peruvian Electric Company (ElectroPeru)

Loan Amount : \$15,000,000

Counterpart Contribution : \$10,000,000 (equivalent)

Date of Authorization : June 8, 1972 - Amendment: March 8, 1973

Date of Loan Agreement  
Execution : July 25, 1972

Date of Amendment : September 12, 1973

Outstanding Conditions  
Precedent : None

Terminal Dates : Original Current  
Disbursements: Disbursements:  
12/31/77 12/31/78

Percentage of Loan Funds  
Disbursed : 86.33% (\$12,949,589.89)

Implementation Letters  
Issued Since Semi Annual  
Review (October 1977) : I.L. #25 allowing BVP to add  
new projects.

Implementation Officer : David S. Olinger  
Urban Development Officer

Project Committee : Carl H. Leonard, Chief, Office of  
Development Resources  
Pat Palomba, Acting Controller  
Edilberto Alarcón, Chief, Engineer  
Phillip D. Jones, FCH Advisor  
Carlos Yuta, Engineer

B. BRIEF PROJECT DESCRIPTION

The Program is assisting the Government of Peru in its reconstruction and development efforts in the zone affected by the earthquake of May 31, 1970 and the area affected by the floods of February/March 1972. The Banco de la Vivienda del Peru (BVP) is the GOP administrator of the Program and the organismo Regional para el Desarrollo de la Zona Afectada (ORDEZA), in accordance with an operations agreement with the BVP, is the agency responsible for project development and implementation in the earthquake zone. The Program provides financial assistance for housing, utility services, basic infrastructure, and for technical assistance to develop and promote such projects, for lower income families in the aforementioned areas.

C. PROGRESS TO DATE

1. Status of the Program

The Terminal Disbursement Date was extended last year to September 30, 1978 after it became apparent this additional time was needed to complete the projects already under construction. At the time the extension was granted it was also noted that devaluation of the Sol, was happening faster than project cost increases, and eventually would result in large amounts of program funds uncommitted to projects. The BVP estimated these additional funds to be in excess of S/.350 million. In order to take advantage of this situation four new sewer projects and five new water projects were accepted into the Program in January. These projects are expected to utilize about S/.212 million and all have short construction times which should allow them to be completed by December 31, 1978 which date was set as the TDD for these projects.

The addition of the new projects brings to 76 the total number of projects to be financed by the Program. 46 of these are now completed, 23 are in construction, 6 are pending construction after being bid, and 1 is still in the bidding process. 11 of 12 self-help housing projects are now completed. All provision of services projects in Chimbote are completed (except for the newly accepted projects). Two Chimbote Basic Infrastructure projects are complete and the others are nearing completion. The Trujillo High Tension Electric Line is 95% complete, while the low tension projects are behind schedule, only being 60% to 80% completed. Four of the new projects in Chimbote are in construction and contracts have been signed for the other four projects. The new Puerto Supe water project (P.J. "Leticid") is in the final bidding stages.

Table I - Status of Projects

April, 1978

	<u>Construction Completed</u>	<u>In Construction</u>	<u>Pending Construction</u>	<u>Bidding in Progress</u>	<u>Total</u>
I Massive Housing	11	1	0	0	12
I Provision of Services					
a. Electricities	12	8	0	0	20
b. Water	10	4	3	1	18
c. Sewer	11	4	3	0	18
✓ Basic Infrastructure	<u>2</u>	<u>6</u>	<u>0</u>	<u>0</u>	<u>8</u>
	46	23	6	1	76

The eight Trujillo low tension electrification service projects are being constructed in groups by different contractors. Work on the larger projects is further advanced than on the smaller projects, apparently because only larger more competent contractors could bid on and win the larger contracts, while a smaller, less experienced contractor won the other contract. Also, there have been problems in procuring certain materials. The larger contractors have been able to use materials from other jobs, while the smaller contractor has had no other source of supply on an interim basis. Despite these and other similar problems, work is expected to be completed on all these projects in July, 1978.

ElectroPeru is constructing the Trujillo High Tension Line by force account, and is now better than 95% complete. In this project too, a problem has been the supply of materials. ElectroPeru has been able to supply certain items from its stock in other areas of the country, to be replaced when the ordered (but delayed) items arrive. However, certain items have not been available in sufficient quantity making it impossible to complete the Line until they are delivered. The problem is relatively minor since the low tension systems are not ready to be corrected, and ElectroPeru fully expects to take delivery of the remaining materials before the low tension systems are complete.

In Chimbote, the low tension provision of electrical services projects have all been completed. However, delays in completing the Derivations from the High Tension lines has not allowed all of these projects to be placed into service. The remaining projects are being connected according to a schedule agreed upon between ORDEZA and the Chimbote Electric Company. This company has been in charge of doing the work on the 8th High Tension Line and the Derivations, and has consistently allowed long delays to take place in its operations. The BVP and ORDEZA have shown very little success in getting the Electric Company to speed up its work. Even so, if progress continues at the present pace, all projects should be connected up by July or August, 1978.

The Main Sewer and Beach Defenses are almost complete in Chimbote. These projects, while taking longer than planned, have proceeded quite well and should be completed in July. One problem which has come up serves to point out the types of difficulties encountered. The Main Sewer was designed to receive the affluent from the individual sewer systems in all the pueblos juvenes in the northern section of Chimbote. Now that these systems and the Main Sewer are nearing completion it has been discovered that ORDEZA had deleted the connections between the local projects and the main sewer from earlier contracts in order to avoid making the contractors wait until the systems could be completed. In order to complete the work, ORDEZA now proposes to do the actual hooking up to the Main Sewer by force account, using the workers it has in Chimbote, who are now idled by ORDEZA's general budget cut-backs. This will involve a total expenditure of only about S/.1.5 million, which can be included as an addition to ORDEZA's existing contract with the DGOS.

The Chimbote Main Water project is now almost complete. The three reservoirs are all finished, as are the main pressure lines connecting them. However, the production of the two completed wells is only about a third of that which was expected. This problem has resulted in a re-thinking of the water supply system of Chimbote. DGOS feels there is no shortage of water in the aquifer and that the production capacity of the ten existing wells can be improved to compensate for the low volume of the new wells. Therefore, DGOS proposes to use the S/.46 million remaining in its contract with the BVP, to undertake a general improvement of the Chimbote water system. The amount of work to be done is relatively small, and both USAID and BVP agree that the DGOS should proceed.

All but one of the self-help housing projects are now completed according to project plans. However, several projects are not fully occupied, due to delays in completing non-project financed water and electrical connections. The last project (Moche) is now being finished up and ORDEZA hopes to solve the remaining problems in order to achieve final financial liquidation and complete occupancy by August.

The problem of final project liquidation has become much more acute as construction on more projects is completed. The BVP and ORDEZA have been taking an inordinate amount of time to do these final liquidations. The BVP is now taking steps to achieve the final accounting on more timely basis.

## 2. Disbursements and Counterpart

Total AID disbursements now amount to \$12.9 million. Two disbursements, of \$1,157,000 in December and \$1.6 million in May, have been made since the semi-annual review last October. The counterpart problem of last year has been resolved temporarily, with the BVP providing the counterpart equivalent by taking out loans from the Central Reserve Bank. Even so, there was a slight counterpart deficiency in May, which the BVP had promised to rectify prior to the next disbursement. The Central Bank loans are

intended to be made up by a capital contribution to the BVP after the end of the Program.

The BVP has calculated that there are about S/.138 million in program funds yet uncommitted. It is expected that a portion of this amount will go into existing projects in the form of payments to contractors for increased costs. However, the expected continuing devaluation of the sol may result in uncommitted funds at the end of the Program. USAID has informed the BVP that no new projects can be accepted this late in the Program, since their construction would extend project completion well into 1979.

Disbursements to date, by Sub-Program

a. Disbursements in Soles:

Sub-Program

Massive Housing	S/. 67,442,600
Provision of Services	675,968,700
Basic Infrastructure	<u>370,981,200</u>
	<u>S/.1,114,392,500</u>

b. Soles converted to U.S. Dollars:

S/. 58,103,100	at \$1.00 = S/. 43.58 =	\$1,339,398.34
150,264,182	at \$1.00 = S/. 45.00 =	3,339,204.05
77,808,744	at \$1.00 = S/. 65.00 =	1,197,057.60
85,251,916	at \$1.00 = S/. 67.49 =	1,263,178.48
90,970,430	at \$1.00 = S/. 78.55 =	1,158,121.33
151,989,689	at \$1.00 = S/. 80.88 =	1,879,199.91
150,469,370	at \$1.00 = S/.130.00 =	1,157,456.69
<u>349,535,065</u>	at \$1.00 = S/.216.30 =	<u>1,615,973.49</u>
<u>S/.1,114,392,496</u>		<u>\$12,949,589.89</u>

D. PROJECTED PROGRESS

1. BVP-ORDEZA Projections

In March 1978 the BVP submitted its work plan for 1978 which included detailed disbursement and construction schedules for the remainder of the Program. Unfortunately these schedules were based on a stable situation which has certainly not been the case in Peru this year, and they were soon very inaccurate in their projects. In order to determine construction completion times, USAID then examined each of the remaining 30 projects and divided them into three groups, according to their progress to date and the quarter in which they should be completed. Table 3 shows the result to this project-by-project analysis.

Table III - Status of Projects

A. Completed Projects (46)

Buenos Aires	Self-Help Housing	Dos de Junio	Water & Sewer
Casma 2da. Etapa	" " "	Miraflores Bajo	" "
El Olivar	" " "	Miraflores 3ra. Zona	" "
Exp.Urbana No. 2 Caraz	" " "	Miramar Bajo	" "
Javier Heraud	" " "	Dos de Mayo	" "
Nepeña	" " "	Miraflores Alto	" "
Nicrupampa	" " "	Miraflores 2da.Zona	" "
Puquio Aurora	" " "	San Juan	" "
Santa ler. Agrup.	" " "	S.U.51/61 Zona A.	" "
Soledad Alta	" " "	El Porvenir	" "
Yungay Norte	" " "	José Olaya	Sewer only
Florida Alta	Electrification	Villa María	Electrification
Pensacola	"	Primero de Mayo	"
Miraflores Zona Reub.	"	Tres de Octubre	"
Dos de Mayo	"	San Juan	"
La Victoria	"	Dos de Junio	"
Ramón Castilla	"	7th Line High Tension	"
La Unión	"	Deriv. Bella Mar	

B. Projects in Construction (21)

a. To be completed 2nd. Quarter 1978 (10)

Moche - Self-Help Housing  
 Florida Alta-Baja-Miraflores 1ra. Zona - Water & Sewer  
 Nueva Esperanza - Water & Sewer  
 Consuelo Velazco - Water & Sewer  
 Trujillo H.T. Line  
 Main Sewer Chimbote  
 Chimbote Beach Defenses

b. To be completed 3rd. Quarter 1978 (11)

El Bosque	Electrification	Tupac Amaru	Electrification
El Porvenir	"	Juan Velazco	"
Florencia de Mora	"	Vista Alegre	"
La Esperanza	"	Derivations 7th & 8th Lines	
Miguel Grau	"	8th H.T. Line	
		Chimbote Water	

c. To be completed 4th Quarter 1978 (2)

San Pedro-La Esperanza - Water & Sewer

C. Projects pending construction (7)

To be completed 4th Quarter 1978

12 de Octubre	}	Water & Sewer
San Isidro		
Magdalena	}	Water & Sewer
San Francisco de Asis		
Miramar Alta	}	Water & Sewer
Pueblo Libre		
Leticia		Water only

2. Disbursements

It is expected that the entire \$2 million of remaining Loan Funds will be disbursed in 1978. The timing of the disbursements will depend on the progress made on the new projects, and the completion of the project now in construction. Another important factor is the future relationship between the sol and the dollar. The December 1977 disbursement was made at the rate of \$1.00 = S/.130.00, but by May the exchange rate was better than 216 soles to the dollar. The rate has since gone down to about 195 to the dollar, and is expected to stabilize at about 180 to the dollar during 1978. With this stabilization the balance of the funds will be required to complete the program. However, should the sol remain at its present high rate, the additional available soles will not be required to complete the projects. Two more disbursements are planned; the next to take place in September for about \$1.4 million, and the last in December for the remaining \$600,000. This schedule takes into account the expected 4th quarter completion of the new water and sewer projects in Chimbote, the first of which are well into construction.

USAID Evaluation

Summary and Recommendation

60% of the projects to be funded are now completed, and 86% of the Loan funds have been disbursed to the BVP. All projects are expected to be completed by December 31, 1978, and the remaining \$2 million of Loan funds are expected to be disbursed by that date also. The feeling at USAID is that the major obstacles to a successful conclusion of the Program have been overcome, and that the additional time granted the Program has been well used by the BVP and ORDEZA in carrying out the objectives of the Loan. There still remain several problems, the solution of which will continue to require the close supervision of USAID. Nevertheless, the final stages of the program have been reached and USAID anticipates completion of all construction by December 31, 1978.

As the program nears its end USAID has recommended to the BVP that final financial liquidation of completed projects should be accelerated so that projects can enter into service sooner. However, the cumbersome nature of the valorization process is likely to continue to delay the final accounting

of most projects. Despite the apparent slowness, BVP has improved the liquidation process and it is now a bit faster than that experienced previously.

USAID sees no major issues to be resolved in the Program, and concludes that it will be completed within the current limits of time and funding levels.