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

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

PERU - URBAN RECONSTRUCTION - EARTHQUAKE AREA

AID-DLC/P-1028

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May 26, 1972

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Peru - Urban Reconstruction - Earthquake Area

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$15,000,000 to the Housing Bank of Peru to assist in financing the local currency costs of a program to provide housing, utility services and community facilities for low income families in the area affected by the earthquake of May 31, 1970.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Friday, June 2, 1972.

Rachel R. Agee  
Secretary  
Development Loan Committee

Attachments:

Summary and Recommendations  
Project Analysis  
ANNEXES I-X

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\* Not attached. Copy will be available in official loan file.

SUMMARY AND RECOMMENDATIONS

1. Borrower and Guarantor

The Borrower will be the Housing Bank of Peru ("BVP"), which agency will also be responsible for overall coordination and execution of the Program. The loan will be guaranteed by the Government of Peru (GOP), who will also assume the exchange risk on the dollar repayment.

2. Amount and Terms of the Loan

\$15 million repayable over 40 years, with a 10 year grace period on principal repayments and interest at the rate of 2% per annum during the grace period and 3% thereafter. All of the costs of the program will be local currency costs.

3. Purpose

The purpose of the loan is to support a five year program of the GOP for providing housing, utility services and community facilities to the low income<sup>1/</sup> population in the area devastated by the May 1970 earthquake. The GOP is providing the sol equivalent<sup>2/</sup> of \$10 million to the Program.

4. Description of the Program.

The proposed Program consists of three basic sub-programs:

- A. Construction of large scale housing projects in groups of 50 or more units;
- B. Home Improvement Loans and Utility Service Loans in Pueblos Jovenes (literally "Young Towns"; historically squatter settlements); and
- C. Provision of Community Facilities (schools, health, community and commercial centers).

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<sup>1/</sup> "Low Income" is used in this paper to refer to those income groups with income below \$175/mo, which have the financial capacity to repay a long term home loan or a utility loan, if a subsidy to the market interest rate is provided. See item 6 of this Summary for a profile of the employment and income characteristics of the population to be served.

<sup>2/</sup> U.S.\$1.00 = S/.43.38

Under the Large Scale Housing Sub-Program A, two types of projects will be eligible for financing:

A.1. New Housing Projects

These projects will include urbanization and the construction of new housing for eligible low income buyers. The housing financed will be limited to minimum cost, expandable "core" units available in four different sizes and containing a combination living-dining room, one or two bedrooms, kitchen and bath. The current cost estimates for these units give an average sales price of approximately \$2,700. The upper limit for this type of house would be approximately \$3,000.

A.2. Pueblo Joven Relocation Projects

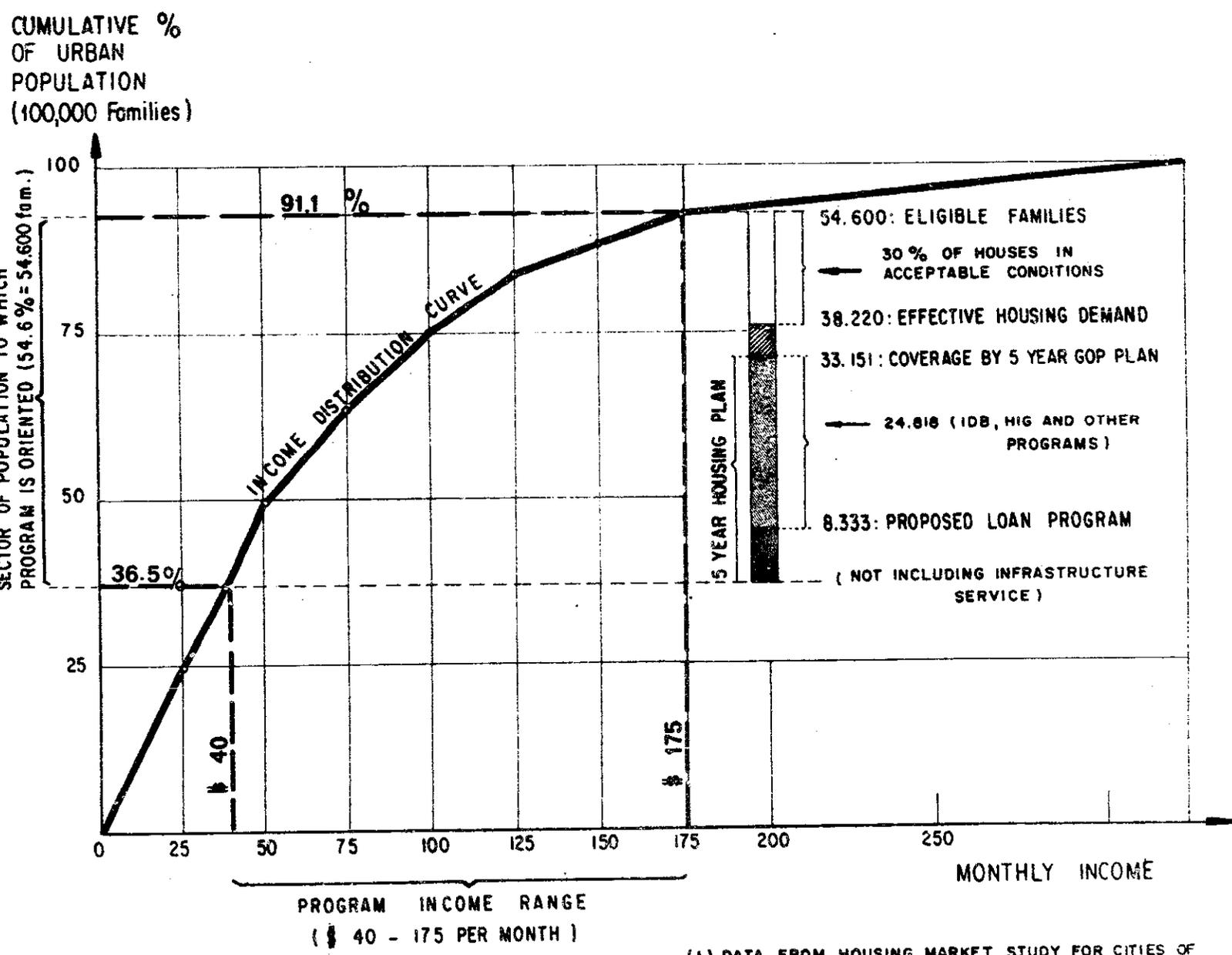
Several of the larger Pueblos Jovenes in the cities in the disaster area, particularly in Chimbote, will have to be relocated due to their present location in hazardous or environmentally unsuitable areas. In Chimbote, the CRYRZA master plan indicates that some 17 out of 44 Pueblos Jovenes, containing over 6,000 families, will have to be relocated in other areas.

Financing of relocation projects would include the costs of urbanization, community facilities, and core house construction. Because these projects will involve existing communities, the potential for self-help housing construction is believed to be high in the relocation projects. A pilot relocation project in Chimbote involving a 500 family cooperative has been included under the 1971 A.I.D. \$3 million Community Reconstruction Loan. The experience gained under this pilot self-help project will be taken into account in developing relocation projects to be financed under the proposed loan. It is currently estimated that the average home loan in relocation projects will be approximately \$2,000.

Under Sub-Program B, for Home Improvement and Utility Service Loans, loans would be available to residents of Pueblos Jovenes which already had acceptable lay outs, lot sizes, and location. The Loans would be for individual home improvements, rehabilitation or expansion of existing housing and for installation of water, sewerage or electric services in the community.

In the case of self-help construction, credits may be extended directly in materials. The average amount for a home improvement loan is estimated at about \$600, and the average loan to a family for water, sewerage or electric service is estimated at approximately \$250. The total cost of the utility services provided would be divided among the families benefited. A large proportion of the Pueblos Jovenes population in the disaster area lack these essential services.

# 5 YEAR URBAN HOUSING RECONSTRUCTION PROGRAM: INCOME DISTRIBUTION CURVE SHOWING EFFECTIVE HOUSING DEMAND AND POPULATION SERVED BY PROPOSED LOAN PROGRAM AND "5 YEAR PLAN"



(1) DATA FROM HOUSING MARKET STUDY FOR CITIES OF CHIMBOTE, TRUJILLO AND HUARAZ

INCOME DISTRIBUTION IN CITIES OF DESASTER AREA (1)		
MONTHLY INCOME (\$)	%	CUMULATIVE %
0 - 25	23.7	23.7
25 - 50	24.2	47.9
50 - 75	14.9	62.8
75 - 100	11.7	74.5
100 - 125	7.7	82.2
125 - 150	4.9	87.1
150 - 175	4.0	91.1
OVER-175	8.9	100.0

figures from the Housing Market Study--that is, to show that total Program funds could be effectively utilized. Within the overall demand constraints for the respective sub-programs, there are numerous feasible alternatives for allocating funds among the sub-programs and the urban areas. The Allocation Plan will be modified over the life of the Program to reflect the actual experience in developing and carrying projects within the sub-program categories and taking into consideration evolving needs and demands for the respective types of sub-programs available.

The actual number of units by sub-program and the number of utility connections which result from the Program will depend on the following factors: (a) The interaction between the program planning carried out by the BVP and the market demand forces as expressed by the various project and program sponsors; (b) The extent to which the rate of inflation in the construction industry in Peru over the next 5 years exceeds the 15% cost escalation reserve; (c) The amount of the average sub-loan by sub-program (that is, whether an average is high or low within the possible price range); and, (d) The alternative trade offs between sub-programs. For example, for each additional mortgage loan for the average "core" house, one would have to reduce by ten, on the average, the number of utility sub-loans. (Such a shift in funds among the sub-programs would be appropriate if over time there was a clearly expressed preference within the market being served for one program over another.)

The distribution of the urban population in the Disaster Area shows that approximately 80%, or 600,000 inhabitants, live in the coastal cities, while only 20%, or 140,000, live in the Sierra towns. Among the cities of the coast, Trujillo and Chimbote show a concentration of nearly two thirds - 400,000 people - of the urban population, a large proportion of which is living in the marginal areas or "Pueblos Jovenes". Program funds will, therefore, be concentrated in these two cities.

## 6. Focus and Size of the Program

The Program proposed is intended basically to address the shelter and essential service problems of the low income residents of the disaster zone; and, in so doing, to provide a significant stimulus to the level of economic activity and employment in the area<sup>2/</sup>. The group which will benefit from the Program consists of those people earning the equivalent of approximately \$40 to \$175 per month, which constitute an estimated 50-55% of the total urban population of the earthquake zone, as shown in Graph 2. The primary sources of employment of the people in this income group include skilled and unskilled laborers, factory workers, drivers, fishermen, public employees, small shopkeepers, and suppliers of services.

Based on the estimates contained in the Preliminary Resource Allocation Plan, approximately 8,300 families will benefit from new or improved housing to be made available over the five year life of the program and some 15,000 families should benefit from the provision of water, sewerage or electricity in the same period.

# Best Available Copy

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<sup>5/</sup> Based on the assumptions stated in Annex VII, the \$25 million Program is projected to create within the disaster area approximately 8,125 man-years of employment over the five year period. On an annual basis, an average of 1,625 man years of employment would be produced at a cost of approximately \$3,077/man year.

It should be recognized that this amount of new and improved housing is not going to "solve" the so called housing "deficit"; as a matter of fact, no country in the world has yet been able to do so, for this "deficit" is ever increasing as new family formations take place and as the existing housing stock gradually deteriorates to the point of being classified sub-standard.<sup>6/</sup> The more relevant measure against which to assess a country's housing efforts is the level of effective demand for housing available on reasonable terms. That is, one should examine the extent to which the public and private sectors supply credit directly or indirectly to meet the effective demand for housing at the various income levels. In the case of the low income Program proposed, the preliminary findings of the Housing Market Study indicate that a substantial proportion of the urban population has the financial capacity to acquire new or improved housing. In Trujillo and Chimbote, which account for nearly two thirds of the urban coastal population, there are some 31,800 families, or 43% of the population, earning between \$50 and \$200 per month. These families and families in the same income bracket in Huaraz and the 8-10 smaller towns in the zone will form the market which the proposed Program (and the existing IDB Loan) will serve. Approximately 4,900 families, or 7% of the population, in Trujillo and Chimbote earn more than \$200. This market will be served by the savings and loan system, the Central Mortgage Bank and, to some extent, the 1971 HIG Program. Taken together, there is potential effective demand in the two largest cities in the zone totaling 36,700 families.

On the supply side, the housing program to be carried out in the zone should provide the following: Assuming that the \$29.4 million available for low and medium low cost housing under the IDB Reconstruction Loan produces approximately 10,750 new units and 3,400 loans for housing reconstruction; that the \$28.3 million HIG Program finances approximately 5,074 new homes, 2,590 loans for housing improvement and 2,890 for provision of services; that the proposed Program produces 8,300 new or improved units and 15,000 loans for provision of services; and that the S&L system and others finance a total of 2,500 units with their own resources, a total of approximately 33,000 units would have been added to the housing stock in the urban areas over the next 5 years.

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<sup>6/</sup> One should not give undue importance to the precise definition of "sub-standard", nor to the absolute number of sub-standard units in the stock of housing; for while these measures have a certain statistical value, they do not indicate the proportion of the population able to afford better housing on reasonable financing terms. (Clearly, if a government proposed to build and give away housing at no cost to the people with little or no income, then "need" would be the relevant measure. However, given the limited resources available to any one country, such an approach is not economically feasible.)

This level of housing production is considered to be a reasonable and adequate response, in view of the projected demand for housing evidenced in the Market Study; the ability of the economy to supply the necessary labor and construction materials; and the competing demand for resources in other sector of the economy. In this connection it should be noted that the Earthquake Zone Reconstruction Commission's ("CRYRZA") projection of 65,000 units which are "needed" in the zone over the next five years is related to need, based on the destruction from the quake, and not to projected effective demand. Within the urban areas in the zone, CRYRZA estimates a "need" for some 40,000 units. Even when evaluated against this "need" for 40,000 units, the 33,000 units to be constructed or improved from all sources in the urban centers of the disaster zone represent a highly significant contribution to improving the living conditions of the families most in need of housing. Moreover, the provision of basic utility services under the proposed Program to an estimated 15,000 families which cannot afford payments for a new house should improve substantially their present living conditions.-

The funds made available under the loan will not be restricted to replacing damaged or destroyed housing but will be available for new home construction and home improvement for any family which has the need and the requisite income. Priority for earthquake victims is manifested in the funds allocated for relocation of Pueblos Jovenes located in hazardous areas and for home improvement loans in Pueblos Jovenes, and in the selection criteria. The portion of the IDB Reconstruction Loan allocated for housing improvement was restricted to homeowners who sustained damage from the quake. An adverse consequence of this limitation was that the relatively large proportion of the population of Trujillo who rented rather than owned their own home were left homeless and without any direct means of acquiring new housing. At the same time, it should also be noted that in many cases the construction of almost any new housing has a kind of "musical chairs" effect on the population affected, as families move up and into the houses vacated by the recipients of the new housing. Because of this effect, even new middle income housing (e.g. the \$28 million HIG Program) can have a positive impact on the quality and quantity of housing available to lower income groups.

In any case, in equity terms, it is not clear that an individual who has suffered damage to his home as a result of the quake has any greater claim to improving the quality of his home than an individual of equal financial capacity who has been and is living in sub-standard housing for lack of long term mortgage financing. For these reasons, the Mission and the BVP believe that the program should be open to all who meet the sub-loan criteria, with priority given to victims of the earthquake.

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7/ See Section 2.0 for the relationship of the AID loan to the GOP Five Year Housing Plan in the Disaster Area.

Subloan repayments would be segregated into a separate fund available only for programs in the lower cost category of housing financed by the BVP. The upper limit of this category is presently set below \$8000.

## 7. Sub-Program Criteria

### A. Selection of Home buyers:

The analysis, classification, and selection of sub-loan applications will take into account the following factors (not in order of priority):

- i) Degree of need for housing (with priority for disaster victims);
- ii) Number of dependents living or going to live in the home;
- iii) Ability to meet monthly payments; and
- iv) Ability to make required down payment or self-help input.

### B. Site Selection for new Housing Construction:

Sites must be as free as reasonably possible from erosion, land slides, pollution, and flooding. All sites shall have water, sewerage and electric services, either from the city system or their own systems. Other factors to be evaluated in choosing sites are the cost of the land, the proximity of public transportation, proximity to sources of employment.

### C. Anti-seismic Design

All housing units to be built under the program must meet acceptable anti-seismic criteria. Within limits of economic feasibility, for low cost housing the structural-design of the houses will provide for resistance to horizontal earthquake forces, and construction materials and techniques shall be selected consistent with the high risk seismic characteristics of the program area.

### D. Sub-Loan Terms and Conditions by Sub-Program:

(See Graph 3 on following page).

SUMMARY OF PROPOSED SUB-LOAN TERMS AND CONDITIONS

I t e m	TYPE OF PROGRAM			
	Large Scale Housing Programs (Core Housing)	Relocation of Pueblos Jovenes	Provision of Services for Pueblos Jovenes (Water, Electricity, Sewers)	Individual Home Improvement Loans in Pueblos Jovenes
Maximum cost or sales price <sup>1/</sup>	\$ 3,000	\$ 2,500	\$ 400	\$ 1,000
Est. Minimum Cost House	\$ 2,200	\$ 1,800	--	--
Average sub-loan	\$ 2,500	\$ 2,000	\$ 250	\$ 600
Minimum down payment	5%	0 - 5% <sup>2/</sup>	-0-	-0-
Effective interest rate	6%	6%	6%	6%
Maximum term	20 yrs.	20 yrs.	8 yrs.	10 yrs.
Eligible income range <sup>1/</sup>	approx. \$60 <sup>3/</sup> to \$175	approx. \$50 to \$175	approx. \$40 to \$175	approx. \$45 to \$175
Maximum % of monthly income for payments	25%	25%	5%	20%
Average monthly family income	\$ 130	\$ 120	\$ 80	\$ 90
Average monthly payment on average subloan	\$ 17.90	\$ 14.30	\$ 3.30	\$ 7.90

1/ At May 1972 prices

2/ No down payment in the self help projects.

3/ Based on **lowest** possible income which could amortize a loan of \$2,090 using 25% of income for payments.

8. Other Sources of Funding:

The EXIMBANK, IBRD, and IDB have all stated that they are not interested in financing this Program. The IDB is already financing a similar low to medium cost housing program in the disaster area. The IDB has requested that the term on sub-loans under the AID Program be consistent with the IDB sub-loan terms to avoid any undesirable competition when the two programs are dealing with the same cost housing. The sub-loan terms proposed herein are consistent with the IDB terms.

Due to the need for long-term concessional financing needed for this Program, no other U.S. or free world financing is available.

9. Statutory Criteria:

All Statutory Criteria have been duly considered. See Annex X.

10. Views of the Country Team:

Humanitarian assistance in relief and rehabilitation of the Earthquake Area is high among USG and GOP priorities.

This housing and urban reconstruction project will not only go far toward meeting the needs of the disaster stricken families for shelter, water, sewage and electricity, but also significantly benefit the economy of the Area by large-scale creation of employment opportunities in construction and construction related industries. By thus improving the opportunities and living conditions in the disaster area the program will additionally benefit Peru by reducing migration from the Disaster Area toward the already over crowded Lima/Callao area.

11. Issue: Should the BVP be Borrower and Implementing Agency?

The GOP has deliberately selected the BVP to be both Borrower and Program Implementation Agency. In view of its good record with middle and lower income housing projects, its proven ability to work with other public and private agencies, its capacity as an autonomous agency for relatively quick response, its good working relationships with A.I.D., and for other reasons indicated in Section 4.2.6, the USAID recommends that AID accept the GOP's selection of the BVP.

12. Recommendations:

Based on the conclusions of the Capital Assistance Committee that the Program is technically, economically and financially justified it is recommended that a loan to the Housing Bank of Peru for an amount not to exceed \$15 million be authorized on the following terms and conditions:

a. Conditions precedent to disbursement:

(1) Prior to the first disbursement, the BVP shall submit an overall Program Implementation Plan, to include inter alia: (a) a satisfactory Allocation of Program Funds based on the final report of the Housing Market Study; (b) detailed definition of the roles of the various project implementation agencies; (c) detailed description and scheduling of sub-program activities during first year, together with summary forecast for subsequent four years; (d) detailed statement of the terms, conditions, and other criteria which shall govern the use of Program funds under each of the respective sub-programs; and (e) detailed description of collection procedures to be used by project administrators.

(2) Prior to disbursement for each subsequent year of the Program the Program Implementation Plan shall be satisfactorily up-dated.

(3) Prior to the first disbursement of the 10% of Program funds reserved for self-help housing, and, in any event, within one year from the date of the Loan Agreement, the BVP shall submit a Plan for developing and carrying out the self-help housing and community improvement aspects of the Program. Relative to self-help housing, the Plan should indicate the agency or agencies responsible; availability of necessary staff; procedures to be followed; and size, location, and nature of projects proposed for the 12 months following preparation of the Plan.

b. Covenants:

(1) The GOP shall agree to provide the sol equivalent of \$10 million to the Program as a capital contribution to the BVP pursuant to the schedule agreed upon with the BVP.

(2) The BVP shall agree to advance for the Program from its own resources, at no charge to the Program, sufficient funds to cover any difference between the amount of GOP funds needed to cover its pro-rata share of periodic disbursement requirements, and the amount of GOP funds actually received by the BVP.

(3) The GOP shall agree to coordinate its infrastructure investments in the Zone, particularly in the areas of transport, power, and sanitation, so as to complement the projects to be carried out under the subject Program.

May 26, 1972

## PART I. BACKGROUND

## SECTION 1.0 DESTRUCTION RESULTING FROM THE EARTHQUAKE OF MAY 31, 1970

In terms of death and destruction, the earthquake which struck Peru on May 31, 1970, was the most devastating natural disaster in Peru's history, and probably the worst disaster of its kind in the Western Hemisphere. Over 32,000 square miles of territory with an estimated population of 1,700,000 people (13% of the country's total population) were significantly affected by the quake and subsequent avalanches. Over 50,000 people were killed and approximately 100,000 people were injured. The GOP estimated the damage in excess of U.S.\$500 million.

The affected area includes two of Peru's major cities, Chimbote and Trujillo, and many smaller cities, towns, and rural communities, a number of which were completely destroyed. Of 38 cities in the area, 15 cities suffered destruction of at least 80% of the housing stock. Water and sewerage systems were destroyed in 18 cities (total estimated population 59,400). A total of 6,730 classrooms were destroyed. The electric generating capacity of Ancash and La Libertad states was reduced to 10% of its original capacity. Irrigation systems covering 275,000 acres were destroyed. 77% of roads in Ancash and La Libertad were blocked; 40% of roads in Chancay and Cajatambo states were also blocked. Also the area's commerce and industry suffered heavy losses and was severely impaired.

The housing affected by the earthquake totalled over 160,000 units, of which approximately 100,000 were destroyed and the balance severely damaged, with an estimated replacement cost of over \$200 million exclusive of the cost of related community facilities and services. To date, the needs of the affected population for temporary housing and emergency shelter have been met, but for the most part, the tremendous task of permanent housing reconstruction has still to be accomplished.

1.1      GOP 5 Year Reconstruction Plan for the Disaster Area

Concurrently with the immediate relief in the Disaster Area, the GOP started planning the more difficult and costly task of long range social and economic rehabilitation. In June 1970, a new agency, "Commission for Reconstruction and Rehabilitation of the Disaster Area" (CRYRZA), was established, to program and coordinate the immense task of rehabilitation and reconstruction. The GOP Plans for the disaster area are extensive and go beyond the physical reconstruction of the existing structures; the GOP intends to develop the disaster area into an area of greater economic potential and to promote the social development of its people.

The overall 5 year GOP Reconstruction Program is quite ambitious and includes projects in practically all areas, such as agriculture, industries, mines, fishing, tourism, education, health, housing, transportation, energy, construction and commerce.

The CRYRZA budget for the period 1971-1972 totals \$63.5 million. Of the \$59.9 million allocated for investments, approximately 51% will be contributed by the GOP, 38% will come from external loans, and 11% from external grants. As reflected in the allocation of CRYRZA funds, highest priority is being given to housing, water and sewerage (34% of total investment funds) and transportation and communication (21.6%) - (See Section 4.5.3 for the further breakdown of the CRYRZA Operating and Investment Budgets). A basic priority which CRYRZA has established is the creation of new jobs, particularly in the industrial sector, to combat the relatively high rate of unemployment in the disaster area. Financing for new industrial investment will be primarily a responsibility of the private sector.

## 1.2 Status of the Reconstruction Program

Earthquake reconstruction is a long term program for Peru. It is doubtful if the entire program will be completed within the next five years; the effects of the earthquake will probably be evident in the area for many years to come. Even so, much progress has been made in the area. The immediate assistance given to earthquake victims was carried out swiftly and efficiently. The first task undertaken was a many faceted project to provide temporary housing to the thousands of homeless families, especially the ones in the Sierra, soon to be subjected to the inclement weather of the rainy season. With the assistance of several national and international agencies, every homeless family was provided with either some type of temporary housing or roofing materials for self-help housing.

Sixty eight nations and international organizations provided in the form of grants, commodities and other assistance, \$44,268,436 for immediate relief. It is significant to note that the U.S. Government and U.S. Voluntary Agencies contributed about 60% of this amount or an amount of \$26,796,446.

In addition to the 2% of the GOP 1970 Budget diverted for immediate relief and reconstruction, the GOP programmed 2.5% of the 1971-1972 biannual budget for reconstruction and development projects in the area. The sources and uses of CRYRZA's fund are shown in Section 4.5.3.

International loans which have been granted for use by CRYRZA include: An IDE \$35 million loan matched by a \$17.5 million GOP counterpart contribution for projects in transportation and communication, agriculture, electric energy, housing, water supply and education; a World Bank \$30 million loan plus \$12.7 million GOP contribution for road construction; the A.I.D. \$3 million loan for community reconstruction; and the \$28.3 million HIG loan for housing.

Reconstruction activities are in progress in all sectors. CRYRZA has completed master plans for eight of the main cities of the area and has already 3,150 houses in construction in Chimbote and over 700 individual loans for housing reconstruction throughout the disaster area.

Approximately 20 new large education centers have been completed or are in construction in the area and many more have been repaired and rehabilitated in the rural areas and in the cities; 531 prefab classrooms have been erected; and procurement of furniture and equipment for the new schools is in process.

Significant progress has also been made in the area of Health. Six prefab hospitals have been completed and five health centers are in construction; three large hospitals and several health centers and first aid posts have been rehabilitated; latrines have been provided and water system repaired in a large number of towns throughout the disaster area.

Through A.I.D. grant monies, an agricultural credit project has been established. To date, 619 loans have been made to small farmers through a well organized agricultural lending bank. Farm tools and equipment have also been made available to the communities; some irrigation canals have been rehabilitated and studies have been undertaken for construction and rehabilitation of several irrigation projects. Concurrently, land redistribution through the agrarian reform process has continued throughout the area. Currently under review in AID/W is a \$5 million AID loan for credit for small farmers in the zone.

Effective progress has been made in the installation and repair of power facilities. The 100 MW Huallanca Hydroelectric Plant and its transmission line along the Callejón de Huaylas was repaired at a cost of approximately \$1 million. Two 15 MW thermal generators have been installed in Chimbote and Trujillo and ten diesel generators, totalling 2,450 KW were purchased and installed in eight different locations.

In the transportation sector, clearance rehabilitation of roads was done rapidly. A new road was open from Huallanca to Chimbote using the abandoned railway platform; sections of the Pan-American Highway and the Huarí-San Luis road have been improved. Studies have been undertaken to upgrade to first class highways the Pativilca-Huaraz, Casma-Huaraz and Huallanca-Chimbote roads, which construction will be financed with the IBRD \$30 million loan. Construction of the Anta Airport is at present well advanced. A contract has been awarded for the installation of a communications microwave system connecting the cities of Callejón de Huaylas, Callejón de Conchucos and the northern coast.

In the area of small industry and commerce, an AID loan of \$2.5 million is currently under review in AID/W.

## SECTION 2.0 - OVERALL HOUSING RECONSTRUCTION PROGRAM FOR DISASTER AREA

### 2.1 Demographic Data

The present population of the Disaster Area is estimated at 1,600,000. Approximately 55% of the population or 900,000 live in the coastal region, while some 700,000 live in the "Sierra" area. The population in the coast is predominantly urban - about two thirds or 600,000 people - By contrast, only 20% or 140,000 of the people of the sierra live in the urban centers.

	<u>Urban Pop.</u>	<u>Rural Pop.</u>	<u>Total</u>
Coast	600,000	300,000	900,000
Sierra	<u>140,000</u>	<u>560,000</u>	<u>700,000</u>
Totals	740,000	860,000	1,600,000

Graph 4 shows a list with the population of the main cities of the Disaster Area. Approximately 400,000 people live in the two largest cities of the coast: Trujillo and Chimbote. The Sierra does not present any large demographic concentration. With the exception of Huaraz, population 30,000, no other sierra town reaches the 10,000 mark in population. It is also interesting to note that the average annual rate of urban population growth during the period 1940-1961 was 4.8% for the coastal cities and only 1.2% for the Sierra urban centers.

### 2.2 Housing Needs

It is estimated that 160,000 housing units were destroyed or severely damaged by the May 1970 earthquake. If we add to this figure, the number of families not included in that count, but who are living in sub-standard conditions, we may conclude that the needs for housing construction and rehabilitation in the area are on the order of 180,000. Assuming an average family size of 6, this comprises approximately two thirds of the total number of families in the area, broken down as follows:

Urban Centers:	85,000
Rural Areas:	95,000

A significant portion of the urban population lives in the marginal areas in squatter settlements, or "Pueblos Jovenes". Conservative estimates indicate that the population in the "Pueblos Jovenes" of Chimbote and Trujillo are in the order of 125,000 and 121,000 respectively, which makes a total of 41,000 families in just these two cities.

URBAN POPULATION OF EARTHQUAKE AREA LIST OF MAIN CITIES AND TOWNS			
COAST		SIERRA	
City	Population	City	Population
Trujillo	226,000	Huaraz	30,000
Chimbote	160,000	Caraz	8,000
Huacho	30,000	Huamachuco	9,000
Barranca	16,000	Otuzco	5,000
Huarmey	10,000	Stgo. Chuco	5,000
Casma	7,500	Carhuaz	3,000
Chancay	7,000	Recuay	3,000
Pativilca	6,500	Yungay	2,000
Supe	6,000	Aija	2,000
Santa	5,000	Anta	2,000
<u>Agro-Industrial Centers:</u>		Chiquian	2,000
Casagrande	21,500	Corongo	2,000
Paramonga	18,000	Huari	2,000
Laredo	15,500	Piscobamba	2,000
Cartavio	15,000	Pomabamba	2,000
		Sihuas	2,000

Most of these "Pueblos Jovenes" lack in elementary services such as water, sewerage and electricity, many of them (17 towns with 6000 families in Chimbote alone) will have to be relocated due to their present inadequate environmental conditions.

### 2.3 The GOP Five Year Housing Program

The GOP through the National Planning Institute and CRYRZA has prepared a 5-year Program for housing construction and rehabilitation in the Disaster Area. This Program comprises the construction and improvement of a minimum of 33,000 houses and the provision of basic infrastructure services to an additional 18,000 families of the urban areas. This program will cover approximately 86% of the effective housing demand in the urban centers of the Disaster Area as shown in the Income Distribution Graph No.2. Graph No.5 shows the number of families attended by the 5-year Program broken down by type of project and sources of finance, while Graph 6 and Graph 7 indicate the sources and amount of financing for each of the Sub-programs.

The main characteristic of the 5-Year Housing Program is its orientation towards the lower income sector of the population. This, in certain cases will require some forms of subsidy by the GOP which will help the most needy families without substantially altering the auto-financing feature of the Program. It is expected that the private investment and the families themselves, will help to cover the needs of the middle income and more affluent sections of the population.

In the rural areas, specially in the sierra region, the poor economic conditions and the lack of repayment capability of the families, prevent large GOP investments in housing. It is important to note that the housing deficit in the Disaster Area represents only 11.0% of the total housing deficit in Peru which in 1971 was estimated at 1,637,200 units. This is a very important limiting factor, however, the GOP has plans for large programs of technical assistance for a more intensive use of self help and for a more adequate use of low or no-cost indigeneous materials. Furthermore, it is expected that through the implementation of the overall development plan for the region and the multiplying effect of the housing program investments, the general economic conditions will improve and there will be a larger number of families who can afford the cost of a new or rehabilitated home.

In the following sections there is a description of the main component sub-programs.

NUMBER OF FAMILIES ATTENDED BY 5 YEAR HOUSING RECONSTRUCTION PROGRAM

PROGRAM	Number of Families per Type of Project			Total No. of Families
	New Housing Construction	Housing Repair and Improvements	Provision of Services	
IDB - CRYRZA	10,750	3,400	-	14,150
AID-BVP/71 (HIG)	5,074	2,594	2,890	10,588
AID CDLoan (Urban)	500	-	-	500
Proposed Loan	6,250	2,083	15,000	23,333
Other	2,500	-	-	2,500
TOTAL	25,074	8,077	17,890	51,071

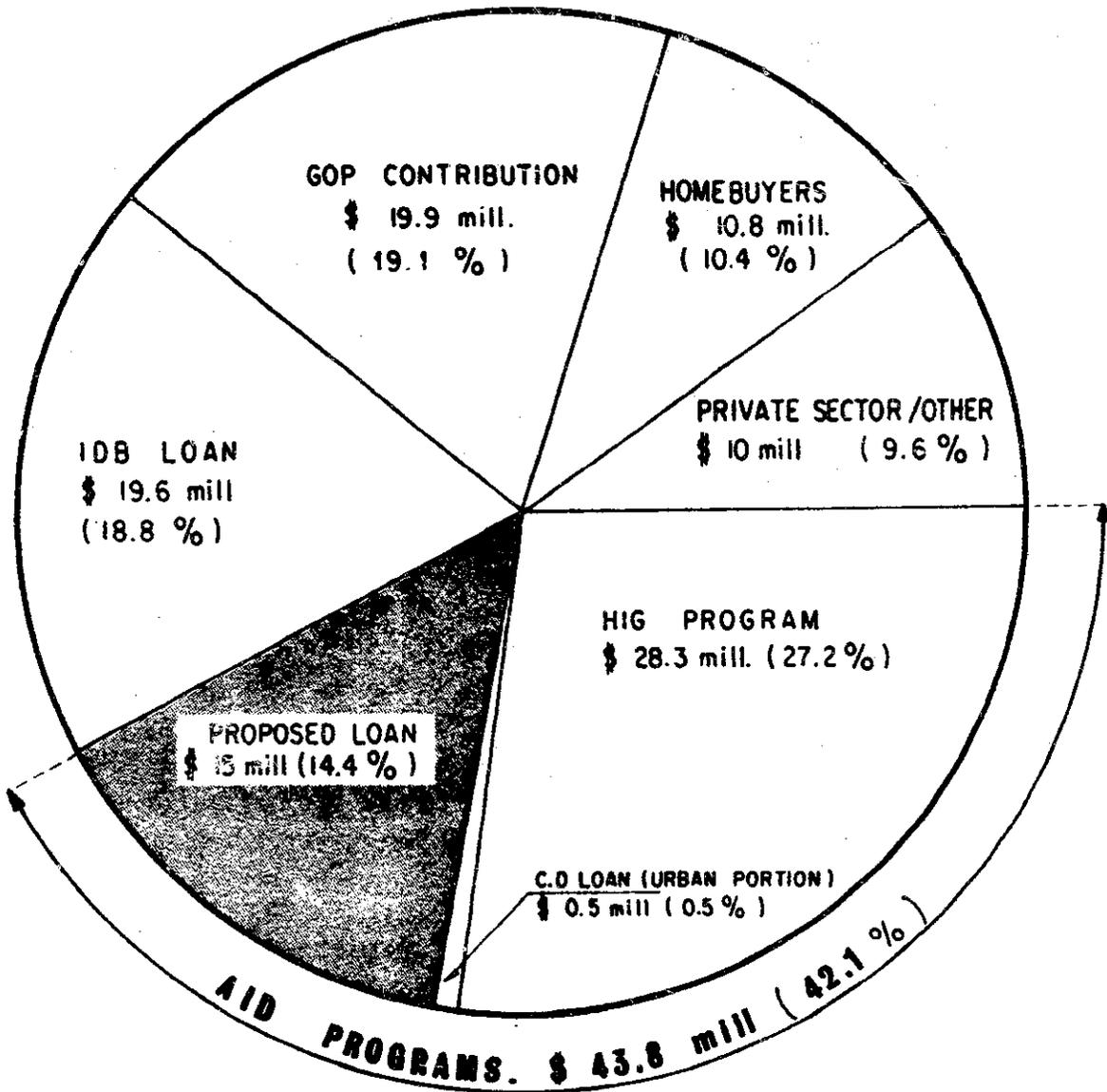
GRAPH 6

5 YEAR URBAN HOUSING RECONSTRUCTION PROGRAM: BREAKDOWN OF FINANCING SOURCES

FINANCING SOURCE	FINANCING PER PROGRAM (\$ million)					TOTAL (\$ million)
	IDB-CRYRZA	AID-BVP/71 (HIG)	AID CDLOAN (Urban)	PROPOSED LOAN	OTHER	
A.I.D.	-	28.3	0.5	15.0	-	43.8
I.D.B.	19.6	-	-	-	-	19.6
GOP	9.8	-	0.1	10.0	-	19.9
Homebuyers	2.9	2.8	0.1	2.5	2.5	10.8
Private Sector/Other	-	-	-	-	10.0	10.0
TOTAL	32.3	31.1	0.7	27.5	12.5	104.1

1  
6  
1

# URBAN HOUSING RECONSTRUCTION: 5 YEAR PLAN FINANCING SOURCES



### 2.3.1 The IDB-CRYRZA Program

A total of U.S. \$29,400,000 from the IDB-CRYRZA Program have been allocated to housing and urban development in the disaster area. \$19.6 million are derived from the IDB Loan N° 266-SF-PE, and there is a GOP contribution of \$9.8 million dollar.

Basically, this Program comprises the development and construction of housing projects in seven cities of the Disaster Area with a total of 8,334 core houses with approximate sales prices of \$1,800, and 2,420 two bedroom houses at approximately \$3,000 each. The Program also includes funds for 3,400 individual sub-loans of \$1,300 average, for housing reconstruction and improvement in 8 cities of the Disaster Area.

As of the date of this paper, there are already under construction 3,150 housing units in Chimbote and bids have been called for projects in Huaraz and Barranca. Approximately 700 sub-loans for housing reconstruction have already been processed.

Funds from the IDB-CRYRZA Program are also being used for the provision of certain community facilities and infrastructure services for the projects, and in some cases for the cities' general infrastructure. For example, in the case of water and sewerage systems, funds from the Program will be used to finance the overall construction and rehabilitation of the systems for Casma, Huarmey, Caraz, Recuay, and possibly Carhuaz and Yungay. They will also finance improvements in the sub-systems which will serve the loan projects in Chimbote. Funds from the IDB-CRYRZA Program will also be used to finance electric distribution lines in Huaraz, Casma, Huarmey, and Caraz and some community facilities such as markets, commercial centers, municipality buildings, etc., in several of the cities where the projects are located.

### 2.3.2 The AID Community Development Loan

This loan signed on November 12, 1971 will provide the GOP with \$3 million dollar for community reconstruction in the Disaster Area, with special emphasis on housing. The loan funds will be complemented with approximately \$1 million GOP counterpart and with an estimated contribution of \$2 million in labor and materials by the benefitted communities. The Program will comprise the following two sub-projects:

- a) An urban pilot self-help construction project with an investment of \$500,000 in loan funds for the relocation of 500 families of Pueblos Jovenes of Chimbote, including credits for land development, services and housing construction.
- b) A Rural Program with an investment of loan funds of \$2,500,000 for the self-help construction of approximately 3,200 homes and related community infrastructure facilities and for the development of small industries and structural facilities to restore necessary economic sustenance to the communities.

### 2.3.3 The A.I.D. HIG Program

This Program to be implemented by the "Banco de la Vivienda del Peru", will utilize an A.I.D. and GOP guaranteed investment of U.S. \$28,281,000 for the financing of housing and certain related community facilities in several cities of the Earthquake Area. The Program will comprise the following four sub-programs.

- a) Large scale projects with a total of 4,788 housing units.
- b) Individual loans for housing construction, rehabilitation or improvements: total estimated number: 1,022.
- c) Provision of essential services for approximately 2,890 families.<sup>1/</sup> in Pueblos Jóvenes and credits for housing construction and improvement for approximately 1,858 of these families.
- d) Community facilities related to the residential construction financed under the Program.

With the exception of the Sub-Program for Pueblos Jovenes (for which only 10% of the total program funds are assigned), the HIG Program is mainly oriented towards the middle and lower middle class sectors of the population, with monthly income above S/.5,000 (\$125). This is mainly due to the high cost of the money 8.5%, which requires a minimum 10.5% interest rate to the homebuyers, including the administrative costs. The average loan amount under the large scale housing projects (involving 75% of the Program Funds), is U.S. \$4,400.<sup>1/</sup>

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<sup>1/</sup>

It is anticipated that this sub-program will be eliminated from the HIG Program if the Proposed Loan Program is implemented.

#### 2.3.4 Other Programs

The GOP through CRYRZA, the Ministry of Housing and SINAMOS, the new organization for social organization and development, is conducting active programs of technical assistance in the rural areas, in order to create favorable conditions for the social and economic development of the area. An important component of this program is the technical assistance towards a more intensive use of self-help construction and the development of low cost construction materials and techniques.

The Ministry of Housing has started a Program for the improvement of the stabilized earth block construction. This Program, financed by AID, has the participation of Banco de la Vivienda and the National Engineering University. Technical assistance services are being provided by the International Institute of Housing Technology of the Fresno State College and the "Building Research Division" of the U.S. National Bureau of Standards. The new techniques for "adobe" construction derived from research, investigation and the development of two pilot projects, located in the two geographical regions of the Disaster Area will widely be promoted and incorporated into large scale lower cost housing programs. Stabilized Adobe Construction will then be insurable and eligible for mortgages.

Two pilot housing projects in rural areas, Catac and Casma, are also being implemented with financial and technical assistance of the United Nations through their PREVI project.

Finally, it is important to point out that in addition to all the previously described housing programs directly financed by the GOP, the Earthquake Area will also be receiving the financial input of the private sector, mainly from the S&L system, and the Central Mortgage Bank which will serve primarily the middle income market.

#### 2.3.5 Proposed Loan Program

The proposed Loan Program will utilize the \$15 million dollar loan plus a \$10 million GOP counterpart to finance housing and related community facilities to complement the previously described programs within the framework of the overall 5 year Housing Program for the Disaster Area.

The proposed loan program will be directed primarily towards the lower income sectors of the population, and, together with the \$28.3 million program, will provide assistance to both the middle and the low income sectors of the population of the area.

## 2.4 Urban Infrastructure

In addition to the building construction, the GOP 5-Year Housing Program also includes the provision of basic infrastructure services and community facilities for the projects of the Program and in general, for most of the cities of the Disaster Area. The objective of the GOP Program is to include in all the housing projects the basic elements required for attaining adequate living conditions for the families, and social and economic development for the communities.

The IDB-CRYRZA program as described in 2.3.1, includes financing for construction and rehabilitation of water and sewage systems for Casma, Huarney, Huaraz and other cities of the Callejón. A former IDB loan (No. 141) provides financing for the city systems for Trujillo and Chimbote. Construction of the Trujillo system is approaching completion and final plans for the Chimbote system are being developed.

Two 20,000 Kw. power generation units have been recently installed in Trujillo and Chimbote increasing considerably the existing capacity. The transmission line from the Cañon del Pato Hydroelectric Plant to the Callejon de Huaylas has been rehabilitated, assuring sufficient power for Huaraz and all the Callejon towns.

CRYRZA's Rehabilitation Program is also attending the needs of the Disaster Area in the sectors of health and education. Large scale programs are at present under way, for the construction and rehabilitation of hospitals, medical centers and schools throughout the whole earthquake area. These programs complement the economic development programs for the region, and create the essential framework and conditions for the successful implementation of the overall Housing Reconstruction Program.

## 2.5 Prior A.I.D. Housing Assistance

This loan will complement other earlier United States assistance to Peru in support of Peru's efforts to achieve enduring solutions for the country's severe housing problem. Such United States assistance to date includes a \$7.5 million seed capital loan to support the creation of the Banco de la Vivienda del Peru (BVP) in 1962, to contribute to its initial capitalization and to help develop an expanded Peruvian savings and loans industry; a \$6 million loan to finance construction and purchase of over 2,200 lower cost housing units for members of housing cooperatives and a total of over \$20 million in A.I.D. guaranteed private investments in 6 completed projects with 3,500 units, under the A.I.D. Housing Investment Guaranty (HIG) Program. In addition, two new loans were signed with the Government of Peru in November, 1971, for financing programs in the area affected by the May 31, 1970 earthquake: a 3 million dollar A.I.D. direct loan for community reconstruction with a special emphasis in housing construction, and a \$28,251 million dollar loan to the BVP, under the HIG Program, for the financing of housing and related community facilities for approximately 8,700 families in the disaster area.

Within a month of the earthquake, A.I.D. provided a \$10,550,000 grant to the Government of Peru. \$3,150,000 were immediately used for emergency relief, while the remaining \$7,400,000, were subdivided in a variety of sub-projects, including temporary housing, power generating equipment, schools, medical centers, construction equipment, agricultural credits and tools and repair of irrigation systems.

The temporary housing projects financed by the grant funds included the following:

- Construction 2,800 prefab temporary housing modules with a total investment of \$500,000.
- Provision of 241,000 aluminum roofing sheets for emergency shelter of approximately 20,000 families at a cost of \$700,000.
- Through the Organization of American States (OAS): Provision of roofing sheets for 14,438 families and construction of shelters for 1,350 families with a total investment of \$500,000 of grant funds.

## 2.6 Origin of Loan Proposal

During the negotiations for the HIG \$28.3 million program, the USAID's Director in letter dated April 23, 1971 advised the GOP

Minister of Finance that A.I.D. would be willing to consider a direct dollar loan to the GOP, on most favorable terms given by A.I.D., to complement the programs financed by the HIG loans and to address the problems of the lower income groups.

The Minister of Finance in a letter of June 3, 1971, expressed the interest of the GOP in the proposed direct loan, and advised USAID that the Ministry had authorized Banco de la Vivienda del Peru to initiate negotiations in relation with this loan. The President of Banco de la Vivienda in letter of June 9, 1971, advised USAID that the BVP was interested in obtaining the proposed A.I.D. loan.

During the subsequent months, USAID, in coordination with the BVP, prepared the Intensive Review Request for the Loan, which was presented to AID/Washington on December 8, 1971. On February 3, 1972, the BVP in a letter to USAID re-emphasized its interest in the loan and requested information on the status of the proposed loan. On February 23, 1972, USAID informed BVP that AID/W was prepared to consider an application for a \$15 million loan, subject to the preparation and submission by USAID of a Loan Paper with sufficient and adequate data to support and justify the requested loan. Since that date the BVP has cooperated with USAID in obtaining and preparing the information presented in this Loan Paper.

## 2.7 Authorization of Intensive Review

In December 1971, the CAEC authorized intensive review of a loan in support of a housing and community facilities program which met the criteria set forth in the 12/29/71 cable to USAID/Peru (See STATE 232896). The Program proposed herein is responsive to the form and content of the analysis prescribed in the above cable.

## SECTION 3.0 - PROJECT DESCRIPTION

### 3.1 Objective

The proposed A.I.D. \$15 million dollar loan and the \$10 million GOP contribution will be used by the BVP, in coordination with CRYRZA and other appropriate GOP agencies, for the financing of low cost housing, utilities and related community facilities in the area affected by the May 31, 1970 earthquake, within the framework of the overall 5 year GOP Housing Reconstruction Program for the area.

The Loan Program will be directed towards the low income sectors of the population which have a minimum payment capacity, with special emphasis on the large numbers living in squatter settlements or "Pueblos Jovenes", who will benefit from the reduced interest rate on program sub-loans.

### 3.2 Program Description

The proposed program will consist of three basic sub-programs:

A. Construction of large scale housing projects in groups of 50 or more units;

B. Home Improvement Loans and Utility Service Loans in Pueblos Jovenes (literally "Young Towns"; historically squatter settlements); and

C. Provision of Community Facilities (schools, health, community and commercial centers).

Under the Large Scale Housing Sub-Program A, two types of projects will be eligible for financing:

#### A.1. New Housing Projects

These projects will include urbanization and the construction of new housing for eligible low income buyers. The housing financed will be limited to minimum costs, expandable "core" units available in four different sizes and containing a combination living-dining room, one or two bedrooms, kitchen and bath. The current cost estimates for these units give an average sales price of approximately \$2,700. The upper limit for this type of house would be approximately \$3,000 (See Annex VII for preliminary plans of the types of housing contemplated.)

#### A.2. Pueblo Joven Relocation Projects

Several of the larger Pueblos Jovenes in the cities in the disaster area, particularly in Chimbote, will have to be relocated due

to their present location in hazardous or environmentally unsuitable areas. In Chimbote, the CRYRZA master plan indicates that some 17 out of 44 Pueblos Jovenes, containing over 6,000 families, will have to be relocated in other areas.

Financing of relocation projects would include the costs of urbanization, community facilities, and core house construction. Because these projects will involve existing communities, the potential for self-help housing construction is believed to be high in the relocation projects. A pilot relocation project in Chimbote involving a 500 family cooperative has been included under the 1971 A.I.D. \$3 million Community Reconstruction Loan. The experience gained under this pilot self-help project will be taken into account in developing relocation projects to be financed under the proposed loan. It is currently estimated that the average home loan in relocation projects will be approximately \$2,000.

All large scale new housing construction projects, including the Pueblo Joven relocation projects, will include land development, construction of streets, and construction of water, sewerage and electricity distribution systems which will be connected to the city systems.

Under Sub-Program B, for Home Improvement and Utility Service Loans, loans would be available to residents of Pueblos Jovenes which already had acceptable lay outs, lot sizes, and location. The Loans would be for individual home improvements, rehabilitation or expansion of existing housing, and for installation of water, sewerage or electric services in the community.

In the case of self-help construction, credits may be extended directly in materials. The average amount for a home improvement loan is estimated at about \$600, and the average loan to a family for water, sewerage or electric service is estimated at approximately \$250. The total cost of the utility services provided would be divided among the families benefitted. A large proportion of the Pueblos Jovenes population in the disaster area lack these essential services.

Five percent of program funds will be reserved for Community Facilities Sub-program C, which will be utilized to finance the construction of such facilities as schools, health, community and commercial centers for housing projects financed under the proposed Program and for 1971 Housing Investment Guarantee (HIG) projects, where such facilities do not exist or financing for their construction has not been provided from other sources.

Special care will be taken to assure the provision of essential community facilities for all the projects under the Program. In some cities the financing and construction of community facilities have already been obtained and programmed by the GOP. These will be complemented by the facilities to be financed and constructed under sub-program C. The cost of certain community facilities will be shared by the families benefited, but in most of the cases it will be borne by the GOP, if a public facility, or by private enterprise, in the case of commercial centers.

### Self-Help Housing and Community Development

A minimum of 10% of program funds, or \$2.5 million, will be reserved for self-help housing programs. As a vehicle for organizing such projects, the participation of housing cooperatives will be sought to the highest degree possible. In addition, the promotion and establishment of small industry and production coops will be sought among the lower income participating groups, to promote the manufacture and production of cement block and other construction materials which may be used in the self-help programs, and to form a basis for creation of employment.

The creation of homeowner's associations will also be promoted, particularly in the large scale housing projects. Their activities will be concerned primarily with maintenance and improvement of the community.

### 3.3 Total Cost of the Program and Preliminary Resource

#### Allocation Plan

The total amount of funds to be made available under the program is the equivalent of \$25 million, with AID contributing \$15 million and the GOP \$10 million<sup>3/</sup>.

The strategy adopted for the Program is a modified intermediate credit institution (ICI) approach. It is an ICI program in that the BVP will provide financing for housing and utility service sub-projects which meet the respective eligibility criteria of the Sub-programs described in the

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<sup>3/</sup> In addition to the direct \$10 million contribution, the GOP will also be contributing land at nominal cost for many of the large scale and Pueblo Joven relocation housing projects; absorbing a large portion of the self-help housing and community improvement costs from the budgets of the agencies responsible for those areas; and bearing the exchange risk on the AID loan without requiring a reserve from the interest spread, thereby allowing a lower rate of interest to the low income home buyer.

previous section. However, inasmuch as the overall purpose of this loan is to provide disaster reconstruction assistance to the low income urban population in the earthquake disaster zone, it was considered necessary to agree with the BVP on a preliminary allocation of Program funds among the several Sub-programs taking into account the nature and magnitude of the relative needs of the low income urban population affected as well as the estimated effective demand for the types of projects proposed.

Based on the preliminary findings of the Housing Market Study conducted in Trujillo, Chimbote, and Huaraz, the three largest urban centers in the disaster area, the allocation of program funds shown in graph 1 on the following page has been agreed upon. This preliminary Allocation Plan will be revised as necessary by the BVP based on the final report of the Market Study,<sup>4/</sup> due to be completed at the end of October 1972, and will become the final Plan for the Allocation of Program Funds. Agreement on this plan between AID and BVP will be a condition precedent to loan disbursement.

It is important to recognize that the purpose of the Allocation Plan is not to program uniquely the amounts of funds for each program category by location, but rather to establish planning targets against which to measure Program progress. The purpose of the preliminary Allocation Plan is to evidence a feasible configuration of Program funds based on the demand figures from the Housing Market Study--that is, to show how total Program funds could be effectively utilized. Within the overall demand constraints for the respective sub-programs, there are numerous feasible alternatives for allocating funds among the sub-programs and the urban areas. The Allocation Plan will be modified over the life of the Program to reflect the actual experience in developing and carrying projects within the sub-program categories and taking into consideration evolving needs and demands for the respective types of sub-programs available.

The actual number of units by sub-program and the number of utility connections which result from the Program will depend on the following factors:

- (a) The interaction between the program planning carried out by the BVP and the market demand forces as expressed by the various project and program sponsors;
- (b) The extent to which the rate of inflation in the construction industry in Peru over the next 5 years exceeds the 15% cost escalation reserve;

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<sup>4/</sup> See Section 7.3.2 for a summary of the preliminary findings of the study and the rationale for the allocation of Program funds. Section 7.3.1 contains a full description of the information to be made available by the Final Report of the Study.

## PRELIMINARY PLAN FOR THE ALLOCATION OF PROGRAM FUNDS

	TRUJILLO		CHIMBOTE		HUARAZ AND 8-10 SMALLER TOWNS		TOTAL		
	Units	\$ (thousands)	Units	\$ (thousands)	Units	\$ (thousands)	Units	\$ (thousands)	%
<b>A. Large Scale Projects</b>									
A-1 New Housing Projects (Av. Loan: \$2,500)	2,200	5,500	1,000	2,500	1,800	4,500	5,000	12,500	50
A-2 Relocation Projects (Av. Loan: \$2,000)	-	-	1,250	2,500	-	-	1,250	2,500	10
<b>B. Pueblos Jovenes</b>									
B-1 Provision of Services (Av. Loan: \$250)	8,000	2,000	5,000	1,250	2,000	500	15,000	3,750	15
E- sing Improve- ments (Av. Loan: \$600)	833	500	417	250	833	500	2,083	1,250	5
<b>SUBTOTALS</b>	11,033	\$8,000 (40%)	7,667	\$6,500 (32.5%)	4,633	\$5,500 (27.5%)	23,333	\$20,000	80
<b>C. Community Facilities</b>								1,250	5
<u>Cost Escalation Reserve (15%)</u>								3,750	15
<b>TOTAL</b>								\$25,000	100%

\* This reserve is considered prudent considering the trend in prices in the construction industry during the last three years. For the period 1969 through 1971, a combined index of labor and construction material prices showed an increase of approximately 16%. (In 1968, construction costs rose by almost 19%. In 1971, construction costs increased approximately 5%). Source: National Department of Statistics and Census, BVP Statistical Bull., Jan. 1972.

- (c) The amount of the average sub-loan by sub-program (that is, whether an average is high or low within the possible price range); and,
- (d) The alternative trade offs between sub-programs. For example, for each additional mortgage loan for the average "core" house, one would have to reduce by ten, on the average, the number of utility sub-loans. (Such a shift in funds among the sub-programs would be appropriate if over time there was a clearly expressed preference within the market being served for one program over another.)

The distribution of the urban population in the Disaster Area shows that approximately 80%, or 600,000 inhabitants, live in the coastal cities, while only 20%, or 140,000, live in the Sierra towns. Among the cities of the coast, Trujillo and Chimbote show a concentration of nearly two thirds - 400,000 people - of the urban population, a large proportion of which is living in the marginal areas or "Pueblos Jovenes". Program funds will, therefore, be concentrated in these two cities.

#### 3.4 Focus of the Program

The Program proposed is intended basically to address the shelter and essential service problems of the low income residents of the disaster zone; and, in so doing, to provide a significant stimulus to the level of economic activity and employment in the area<sup>5/</sup>. The group which will benefit from the Program consists of those people earning the equivalent of approximately \$40 to \$175 per month, which constitute an estimated 50-55% of the total urban population of the earthquake zone. The primary sources of employment of the people in this income group include skilled and unskilled laborers, factory workers, drivers, fishermen, public employees, small shopkeepers, and suppliers of services.

Based on the estimates contained in the Preliminary Resource Allocation Plan, approximately 8,300 families will benefit from new or improved housing to be made available over the five year life of the program and some 15,000 families should benefit from the provision of water, sewerage or electricity in the same period.

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<sup>5/</sup> Based on the assumptions stated in Annex VIII, the \$25 million Program is projected to create within the disaster area approximately 8,125 man-years of employment over the five year period. On an annual basis, an average of 1,625 man years of employment would be produced at a cost of approximately \$3,077/man year.

### 3.5 Sub-Program Criteria

#### A. Selection of Home buyers

The analysis, classification, and selection of sub-loan applications will take into account the following factors (not in order of priority):

- i) Degree of need for housing (with priority for disaster victims);
- ii) Number of dependents living or going to live in the home;
- iii) Ability to meet monthly payments; and
- iv) Ability to make required down-payment or self-help input.

#### B. Site Selection for new Housing Construction:

Sites must be as free as reasonably possible from erosion, land slides, pollution, and flooding. All sites shall have water, sewerage and electric services, either from the city system or their own systems. Other factors to be evaluated in choosing sites are the cost of the land, the proximity of public transportation and proximity to sources of employment.

#### C. Anti-Seismic Design

All housing units to be built under the Program must meet acceptable anti-seismic criteria. Within limits of economic feasibility for low cost housing, the structural design of the houses will provide for resistance to horizontal earthquake forces, and construction materials and techniques shall also be selected consistent with the high risk seismic characteristics of the Program area.

#### D. Sub-Loan Terms and Conditions by Sub-Program:

(See Graph 3 on the following page).

### 3.6 Use of Loan Repayments

Subloan repayments would be segregated into a separate fund available only for programs in the lower cost category of housing financed by the BVP. The upper limit of this category is presently set below \$8000.

SUMMARY OF PROPOSED SUB-LOAN TERMS AND CONDITIONS

I t e m	TYPE OF PROGRAM			
	Large Scale Housing Programs (Core Housing)	Relocation of Pueblos Jovenes	Provision of Services for Pueblos Jovenes (Water, Electricity, Sewers)	Individual Home Improvement Loans in Pueblos Jovenes
Maximum cost or sales price <sup>1/</sup>	\$ 3,000	\$ 2,500	\$ 400	\$ 1,000
Est. Minimum Cost House	\$ 2,200	\$ 1,800	--	--
Average sub-loan	\$ 2,500	\$ 2,000	\$ 250	\$ 600
Minimum down payment	5%	0 - 5% <sup>2/</sup>	-0-	-0-
Effective interest rate	6%	6%	6%	6%
Maximum term	20 yrs.	20 yrs.	8 yrs.	10 yrs.
Eligible income range <sup>1/</sup>	approx. \$60 <sup>3/</sup> to \$175	approx. \$50 to \$175	approx. \$40 to \$175	approx. \$45 to \$175
Maximum % of monthly income for payments	25%	25%	5%	20%
Average monthly family income	\$ 130	\$ 120	\$ 80	\$ 90
Average monthly payment on average subloan	\$ 17.90	\$ 14.30	\$ 3.30	\$ 7.90

1/ At May 1972 prices

2/ No down payment in the self help projects.

3/ Based on lowest possible income which could amortize a loan of \$2,090 using 25% of income for payments.

## SECTION 4. ANALYSIS OF THE IMPLEMENTING AGENCIES

### 4.1 Roles and Responsibilities

#### 1) Primary Implementing Agency

The Banco de la Vivienda del Peru (BVP) will be responsible for overall implementation of the Program. The BVP may delegate or contract with other public and private agencies the implementation of selected aspects of project development and implementation under the various sub-programs.

#### 2) Subsidiary Implementing Agencies

a) The Ministry of Housing (MOH). The BVP may contract with the MOH activities related to technical implementation aspects of the projects, such as bidding, contracting and supervision of construction etc., as outlined in Section 5.0.

b) The (public) Real Estate Administration Company (EMADI). The BVP would contract with EMADI the administration of projects in areas where the savings and loan system is not operating, where the BVP has not established branch offices, or for projects in which the S&L's are not interested in administering. Such administration function would include: credit analysis and selection of homebuyers, subscription of sales and loan contracts, collection of down payments and loan amortization, administration and maintenance of houses not sold, inspection and control of houses sold to assure adequate maintenance, and sub-loan mortgage servicing, including legal action in the case of arrears and non-payment.

c) The Savings and Loan (S&L) system will also be involved in administration of project built under the Program. The S&L's (also called Mutuales) would be contracted by the BVP to act as project administrators in the cities where such associations are established and operative.

d) The Sistema de Movilización Social (SINAMOS) would participate in the Pueblos Jóvenes sub-programs through the Oficina Nacional de Pueblos Jóvenes (ONDEJOV). This office would prepare, promote and supervise the utility system projects to be financed under the Program. Also SINAMOS would perform a promotion role in self-help housing projects.

e) CRYRZA, the Earthquake Reconstruction Commission, will be involved in the overall planning and coordination of the Program with the BVP, and will be directly involved in the development and execution of the self-help housing projects.

The above listed institutions are analyzed in greater detail in the sections that follow.

#### 4.2 The Housing Bank of Peru, or Banco de la Vivienda del Peru (BVP).

##### 4.2.1 Objectives of the BVP

The BVP is a decentralized agency of the GOP created in 1962 by Decree Law #14241. BVP functions as an official state bank for development of housing programs throughout the country. The BVP has full juridical and administrative autonomy, and is responsible to the Minister of Finance.

The main objectives of the BVP are:

- i) Promotion of public and private national and foreign investments for the development of housing in Peru,
- ii) Increase its own resources and capacity for housing finance, by receiving savings deposits, contracting loans, issuing bonds, and incurring other types of obligations.
- iii) Concession of loans to promote home ownership.
- iv) Promotion, creation and development of savings and loan institutions for housing. These institutions will be under the direct and permanent control of the BVP. The BVP will regulate the operation of said institutions.

##### 4.2.2 Operations

In accordance with statutory regulations and provisions as set out by Law and Chart of Incorporation, the BVP may:

- i) Make loans guaranteed by mortgages or by other type of guaranty to finance the purchase, construction or improvement of housing and urbanizations,
- ii) Promote urbanization and/or housing projects through the Bank itself or with the participation of the public sector and national or foreign private companies.
- iii) Make loans to public sector institutions that are dedicated to the promotion and development of low-cost housing.
- iv) Make loans to housing cooperatives duly established in the country, in accordance with provision of Law #15260.

v) Provide mortgage secured loans, time deposits, and lines of credit to the Savings and Loan Associations, in support of their activities to generate savings and finance housing construction. When special justification exists, the BVP may also extend unsecured loans for special purposes, with the approval of the BVP Board of Directors, in accordance with Law # 14241.

vi) Provide guaranties in support of projects and programs related to the objectives of the BVP.

vii) Act as the agent, representative, or trust agent of national, foreign or international entities, and act as administrator of capital of third parties in programs or projects meeting BVP's objectives; the S&Ls may participate in these type of operations.

viii) Contribute with provision of technical and economic assistance to the development of the construction activity and industry.

ix) Purchase, stockpile and sell construction material to be used in the BVP's programs, acting as appropriate, to maintain the market price of building materials.

x) Provide technical assistance to the S&Ls and housing coops, and to other institutions, as determined by the Board of Directors,

xi) Promote the establishment of a national postal savings system,

xii) Provide insurance coverage of the S&L's deposits, and accounts, mortgage insurance and other type of risk insurance for low-cost housing programs, including life and fire, directly through the BVP or through other agencies as determined by the Board of Directors.

xiii) Promote a secondary mortgage market to increase the sources of financing available for construction of low-cost housing.

xiv) Make capital contributions, in association with the private sector, towards the formation of entities for the promotion of programs in accordance with the BVP objectives, acting in a permanent or temporary capacity,

xv) Purchase, lease, rent or build facilities for the use of the BVP, the S&Ls, the postal savings system, or others as set out in the Chart of Incorporation or as determined by the Board of Directors,

xvi) Receive time deposits, term deposits and savings,

xvii) Borrow monies from national or external sources through loan contracts of lines of credit, and increase the BVP's resources in other feasible manners,

xviii) Issue bonds, certificates or other types of debentures payable to the bearer or nominal in national or foreign currency, in accordance with regulatory provisions under the law.

Relative to such borrowing the Government may guarantee the obligations of the BVP through the Ministry of Economy and Finance, and assume the devaluation risk in the case of foreign currency obligations; and:

xix) Make use of the lines of credit and of discount and rediscount facilities as available in the Central Reserve Bank of Peru.

#### 4.2.3 BVP Capital and Reserves

On December 31, 1971 the BVP had an authorized capital of 800 million soles (\$18.6 million) represented in 800,000 shares of 1,000 soles each, subscribed and wholly owned by the GOP. The Bank received a loan from AID in February 15, 1965 for \$6.0 million complemented by a GOP contribution equivalent to \$4 million. As of December 31, 1971 both the loan funds and the GOP counterpart had been fully disbursed.

All proceeds from the BVP operations resulting in capital gains are incorporated into the Bank's general reserve fund. The balance of such fund amounted in December 31, 1971 to S/.99,432,492 (U.S. \$2.3 million). The profit corresponding to fiscal year 1971 amounted to S/.47,411,280 (U.S. \$1.1 million). The total reserve fund amounted to S/.146,846,772 (U.S. \$3.4 million).

#### 4.2.4 BVP branch offices

BVP is authorized by law to establish branch offices in such sections of the country where savings and loan associations have not been formed by the private sector. The BVP branch offices will in turn be converted into savings and loan associations once they reach an adequate level of development. On December 31, 1971 the BVP had the following operative branch offices: Huaraz, Cajamarca, Puno, Juliaca and Huanuco.

In the last few years the BVP has enlarged its scope of operations from the savings and loan area to also include active participation in low cost housing programs, urban renewal and provision of utility services in Pueblos Jóvenes. Under an agreement between the UNDP and the GOP, the BVP is participating in the development of pilot projects in Lima in the areas of urban renewal, sites and services and low cost housing design.

SUMMARY OF BVP PROGRAMS

Program	N° of units or families benefited.	Average Loan U.S.\$	Cost of Program U.S.\$	Financing Sources	Status
AID Housing Investment Guaranty 1965-1970	2,372	6,500	15'429,902	U.S. Investors	Completed
IDB Loan-BVP counterpart 1969-1973	4,650	4,630	21'523,016	IDB,BVP	2,393 units comp. 2,257 under cons.
AID Housing Investment Guaranty 1972-1976	8,700	3,250	28'281,000	AID	Under construction
Cooperative Housing AID 1965-1970	2,242	4,460	10'000,000	AID,BVP	Completed
Large scale housing 1971-1972	1,620	5,850	9'480,620	BVP	1,134 units comp. 486 under const.
Urban renewal, El Provenir 1972-1974	3,313	2,680	8'863,049	BVP	Under construction
Utility services, Pueblos Jóvenes 1972-1973	50,000	230/water 115/elec.	5'943,152	BVP	14,291 fam. benef. 35,709 under cons.
Large scale housing, Los Proceres 1972-1976	<u>10,000</u> <u>82,897</u>	4,950	<u>49'534,883</u> <u>149'055,622</u>	BVP	Under construction
Savings & Loan Programs 1962-1972	<u>41,509</u> <u>124,406</u>	5,320	<u>221'110,050</u> <u>\$370,165,672</u>	BVP,Savings	

#### 4.2.6 Evaluation of BVP as Primary Implementing Agency

It is now ten years since the BVP was established as Peru's National Housing Bank to develop a nation-wide Savings and Loan (S&L) System and to otherwise support Peruvian housing development. During this decade its increasingly effective performance has been a key factor in achieving an outstanding growth in the S&L System from only two Lima S&L Associations with 7,711 depositors and \$1.5 million in deposits in 1962, to 23 Associations with 74 branch offices throughout the country, 525,000 depositors, and \$158 million (cumulative) in savings. The System has become a major factor in Peruvian housing finance and urban development, and the BVP and related S&L System are today generally acknowledged to be the most successful such institutions in Latin America.

As shown in Graph 8, the BVP already has successfully executed various types of programs in the housing field totalling \$25 million, financed in part with earlier direct AID loans, and has successfully administered AID Housing Guaranty projects, totalling \$17 m with 3,600 dwelling units. For all projects the record of mortgage repayments has been good.

Presently the BVP is implementing a large housing program totalling over \$21.5 million for 4,650 dwelling units throughout the country, which is scheduled to be completed within 1972; it has recently completed a moderate cost housing project in Lima for 1,800 dwelling units, promoted by the BVP itself, and financed partly with its own resources and IDB loan funds and partly by five S&L Associations; and it has just initiated the construction of 1,000 dwelling units.

In the course of the foregoing projects the BVP not only has become familiar with AID procedures and developed good working relationships with the USAID, but also has developed good working relationships and gained the confidence of the Government, and particularly those agencies such as CRYRZA and the Ministry of Housing which will be most involved in the execution of the subject Program.

The current level of BVP personnel is adequate in number and specialization for present operations. In developing as an organization to handle its increasing responsibilities and work load, the BVP has grown from 7 employees in 1962 to a total of 172 employees, including 88 professional staff, in 1972. As a financial self-sustaining autonomous agency the BVP enjoys flexibility in responding to changing requirements. The BVP is establishing a separate office to handle the subject program. The office is expected to include four professionals, of which the office chief is already hired and on the job. The BVP has assured the Mission that it is prepared to further increase its personnel as necessary to meet particular requirements of the proposed Program (See Annex IV, and Graph 8 for breakdown of BVP organization and programs, respectively).

On the basis of the BVP's demonstrated performance, the Capital Assistance Committee considers that it has the experience, organizations, motivation, professional competence, and drive to complete the proposed Program satisfactorily.

## 4.3 The Ministry of Housing (MOH)

### 4.3.1 Objectives and Functions

The Ministry of Housing was created by Law #17271 of December, 1968 and started to function on April 1, 1969. According to that Law, the Ministry of Housing was given the responsibility for developing and improving the housing sector, implementing urban planning and renewal programs, and carrying out studies to develop the construction activity in the country and providing support to the community programs. At a later date, SINAMOS was created and given responsibility for community development programs.

The specific functions assigned by Law to the Ministry of Housing include:

- 1) Establishment of urban development standards, in accordance with technical criteria and in coordination with socio-economic development programs.
- 2) Design, revision, and approval of urban development programs, and control of the urbanization process,
- 3) Design, implementation and promotion of urban renewal programs and rehabilitation programs, for improving and eradicating slum areas,
- 4) Promotion, design and implementation of urban facilities programs,
- 5) Formulation of measures to lower the price of urbanized land and of construction,
- 6) Promotion and construction of infrastructure programs,
- 7) Promotion and implementation of technical and sociological research programs,
- 8) Implementation of social and community development programs , and
- 9) Provision of consulting services to programs and individuals engaged in housing activities.

#### 4.3.2 Structure and Organization

The Ministry of Housing is in charge of all activities concerned with the formulation of housing policies and with the implementation of projects and programs in the housing sector. The Ministry operates through:

-Consulting offices, such as the Consulting Council for Housing and Urban Development, the Commission for Regulation of Construction Prices, and the Council for Public Bidding and Contracts.

-Support offices, such as the Document Processing Office, the Data Processing Office and the General Administration Division.

-Advisory offices, such as the Office of Planning, the Office of Legal Counsel, Office of Organization and Methods, Office of Public Relations and the General Inspection Office.

-Implementing offices, such as the General Division of Urban Development, the General Division of Building Construction, and the General Division of Sanitary Works.

-Local and regional supporting and implementing agencies, such as EMADI, the sanitary offices for Arequipa, and Lima, the park services, etc.

The inter-relation of this agencies and offices is shown in Annex IV, Exhibit 3.

#### 4.3.3 Programs Implemented by MOH

Since its creation in 1969, the Ministry of Housing is playing an active role in the implementation of Peru's housing programs, either as a direct sponsor or as an implementing agency for other GOP agencies. The cost of the housing programs being implemented by the MOH during the period 1971-1972 totals \$196.7 million. From this amount, \$31.3 correspond to work completed before 1971, \$86.9 million to works in execution during the 1971-1972 period, and \$78.5 million, to the portion of the current programs to be completed after the year 1972.

The 1971-1972 MOH Housing Program includes the following types of Sub-Programs:

a) Urban Planning Projects.- Consisting of urban development plans and studies for a large number of cities and towns throughout the country. They include urban studies in 10 major cities, master plans for 47 cities and towns, urban renewal projects in 10 cities, expansion studies for 16 cities, general research, and technical assistance to local governments. Investments of this program total \$1,455,000.

b) Water Supply and Sewerage.- This Sub-Program includes the following main projects: (1) provision of water and sewerage to 72 cities with populations between 3,000 and 30,000. This \$12 million project is practically completed. (2) Provision of water and sewerage systems to 11 cities with populations above 30,000, at a total cost of \$29.2 million (3) Complementary water and sewerage programs in Callao and several other cities at a cost of \$4.1 million. (4) Rehabilitation of water and sewerage systems in 12 provinces of the Earthquake Area at a cost of \$4.2 million.

c) Land Development Projects.- They include the development of 11,143 new lots, and the provision of infrastructure services for 11,260 lots already occupied in 13 cities throughout the country. The total cost of this sub-Program is \$12.1 million.

d) Housing Construction Programs.- This is the largest sub-program being carried out by the MOH at a total investment of \$128.8 million. The active projects during the 1971-1972 period comprise a total of 33,841 units, including 12,184 basic cores and 1,020 remodelled houses. The different projects in execution include construction of "core houses" in Lima, Trujillo and Arequipa at a cost of \$1.3 million of Ministry's own funds, projects financed by the BVP, the IDB Loan 179 Project at a total cost of \$108.9 million; and projects under the IDB-CRYRZA program for \$18.6 million.

Sub-Program Investments through the end of 1971 totalled \$23.7 million; \$41.2 have been programmed for 1972, and \$63.9 for completion of the projects during the period 1973-1975.

e) Community Service Projects.- The investment programmed for these projects is \$4.8 million. The sub-programs include the construction of different community facilities such as: civic centers, markets, stadiums, custom offices and commercial centers. Also included are national parks and river defense works for the city of Iquitos.

Graph # 9 shows the allocation of financial resources for all the programs implemented by the MOH.

## CURRENT HOUSING AND URBAN DEVELOPMENT PROGRAMS IMPLEMENTED BY MOH: INVESTMENT CHART

(In thousands of dollars)

PROGRAMS	Total Cost	Investment through 1970	P R O G R A M M E D		
			1971	1972	1973-19
I URBAN PLANNING PROGRAMS	1,455	--	420	1,005	30
a) MOH Programs	1,169		212	927	30
b) Implemented by MOH for other agencies	286		208	78	--
II WATER SUPPLY AND SEWERAGE PROGRAMS	49,520	19,267	5,793	12,510	11,950
a) MOH Programs	40,361	17,847	4,716	8,808	8,990
b) Implemented by MOH for other agencies	9,159	1,420	1,077	3,702	2,960
III LAND DEVELOPMENT PROGRAMS	12,100	55	930	9,949	1,166
a) MOH Programs	874	55	77	521	221
b) Implemented by MOH for other agencies	11,226	--	853	9,428	945
IV HOUSING CONSTRUCTION PROGRAMS	128,837	11,019	12,658	41,249	63,911
a) MOH Programs	1,291	--	233	632	426
b) Implemented by MOH for other agencies	127,546	11,019	12,425	40,617	63,485
V COMMUNITY SERVICES PROGRAMS	4,796	988	945	1,420	1,443
a) MOH Programs	3,298	988	945	475	890
b) Implemented by MOH for other agencies	1,498	--	--	945	553
TOTAL COST OF PROGRAMS	196,709	31,329	20,746	66,134	78,500
a) MOH Programs	46,994	18,890	6,183	11,364	10,557
b) Implemented by MOH for other agencies	149,715	12,439	14,563	54,770	67,943

#### 4.3.4 Evaluation of Ministry of Housing as Sub-Implementing Agency

The Ministry of Housing (MOH) has been in existence a little over three years. In this relatively short time, its performance record has been increasingly impressive, both in the development and application of long needed advanced housing policies and legislation and in the number, kind and scope of the construction programs it has implemented. (See Section 4.3.3 and Graph 9 for breakdown and description of the different programs) As a result, MOH is generally considered to be among the most effective of the GOP Agencies.

The programs for which MOH is responsible are financed both from the national budget and from various private sources, such as Peruvian Savings and Loan Associations, housing cooperatives, etc.

Recently, the GOP turned over to MOH the additional responsibility for construction of schools and other educational facilities.

MOH operates through its central Ministry headquarters in Lima and through regional and local offices throughout the country. Its present professional and other personnel numbers 2,500. In the earthquake disaster area, MOH has a well established Regional Office, working closely with CRYRZA and other Agencies participating in the reconstruction effort.

AID has worked closely with MOH from its beginning in a number of programs and activities, including the completed temporary housing and self-help shelter projects under the \$7.4 million earthquake relief grant, the current Improved Adobe Construction Program, the initial stages of the \$3 million Community Reconstruction and Development Loan Program, the development of housing policy and legislation, and, in coordination with the Banco de la Vivienda del Peru, the strengthening of the Peruvian Savings and Loan System. The working relationship between the Mission and MOH has consistently been exceptionally good.

On the basis of MOH's demonstrated performance, the Capital Assistance Committee considers that MOH has the experience and organization to serve satisfactorily as a major Sub-Implementing Agency.

#### 4.4 EMADI (Public Company for Real Estate Administration)

##### 4.4.1 Background

The Empresa de Administración de Inmuebles EMADI-PERU was created on March 21, 1969 by Decree Law 17528. It became operative on July 1, 1969 taking over most of the previous projects and responsibilities of the old Junta Nacional de la Vivienda. EMADI's primary function is concerned with the administration and management of public land, housing and related facilities built by the Ministry of Housing. By law the return on the investments made by the Public Sector in housing and related infrastructure must be reinvested in low-cost housing programs, community services programs and others as determined by the appropriate ministerial agency.

##### 4.4.2 Volume of operations

In 1970, EMADI received 202.6 million soles from collection of programs under its administration. Of this amount a profit of S/.20.6 million was obtained after deducting the amounts corresponding to cost of operations. Over 70,000 units are being administered by EMADI throughout the country, as follows:

IDB Program (Lima & provinces)	47,201 units
EMADI/PERU Program (Lima)	17,676
EMADI/PERU Program (provinces)	<u>5,261</u>
	70,138

These amounts correspond to operations in 1970. The volume of operations of EMADI has grown considerably in 1971/1972.

EMADI has ongoing programs in Lima, Iquitos, Chiclayo, Trujillo, Arequipa, Huancayo and Cuzco. Lots and services projects are among the types of operations sponsored by EMADI.

##### 4.4.3 Projected Operations

Automated electronic data processing systems were installed by EMADI in 1970 to modernize its collection methods. The system has proved invaluable in that it allows the agency to administer efficiently its rapidly growing number of accounts. In 1970 the computer worked an average 3,147 machine/hours with an input of 5,986 man/hours.

According to the 1970 Balance, EMADI has programmed the following activities for 1970-1972:

1.	Investments	1970-1972 (million soles)
1.1	Termination of housing programs initiated by the Dirección General de Vivienda, including:	
	Core housing	90 units
	Low-cost houses	573
	Iquitos Low cost houses	572
	Community services	<u>748</u>
	1,983 units	111.18
1.2	Lots and services	10,500 units 552.00
1.3	Low cost apartments	<u>148 units</u> <u>45.02</u>
	Total	12,631 678.20
2.	Proposed financing	
2.1	Recuperation of Portfolio	243.30
2.2	Expansion of cities bonds Decree Law 17803	41.50
2.3	Loans from state banks (lots & service)	<u>393.40</u> 678.20

#### 4.4.4 Type of Projects handled by EMADI

EMADI is open to all types of administrative and financial arrangements for projects. For example, EMADI may be responsible for the entire project from initiation to termination. On the other hand, it may only collect sub-loans for a project being built by a private contractor. Regardless of the arrangements, EMADI's fees are always passed on to the borrower or home buyer.

EMADI charges a variable fee for the administration of projects to the various agencies of the public and private sector to which it serves as administrator and agent. In the case of the housing portion of the IDB Earthquake Loan, EMADI is charging 1% per year on the original value of the loan.

In terms of housing price levels, in about 25% of the projects administered by EMADI the price of a house ranges between

\$1150 to \$2300.  
\$2300.

The price range for the remaining 75% are above

The following is a list of low-cost projects currently being sponsored by EMADI:

- Villa El Salvador, Lima Pueblo Jóven construction of housing	1,240 units
- El Porvenir, Lima sites & services, rehabilitation	1,200
- Los Sauces, sites & services	300
- Villa Jardin, sites & services	582
- Micaela Bastidas, sites & services	<u>3,900</u>
Total:	7,222 units

The goal of EMADI during 1971-1972 is to make available 5,000 lots and services in the Lima area and 10,500 in the rest of the country. EMADI has more experience with the concept of lots and services than any other government organization currently concerned with social interest housing.

#### 4.4.5 EMADI in the area affected by the May 1970 Earthquake

EMADI currently has two major branch offices in the area affected by the May 1970 earthquake - one in Huaraz and one in Chimbote with smaller branches in Casma, Barranca, Trujillo, and Caraz. Total EMADI personnel in the area is 22 persons.

The structure of the branch offices consists of three sections: an administrative section, composed of controllers, accountants, supervisors, and administrators; a technical section composed of engineers; and a social section composed of a sociologist who collects and analyzes socio-economic data and assists with other social problems, and a lawyer who assists with any legal problem.

EMADI is administering the BID/BVP Loan #179 signed September 23, 1970. Much of this program is in the area affected by the May 1970 earthquake and consists of lots and services, direct construction, and urban housing renovation. In actual construction are 239 houses in Trujillo and 77 houses in Piura.

In addition, EMADI is involved in the administration of the \$35 million BID loan signed August 13, 1970. EMADI will both supervise and administer 3,400 loans (with each loan averaging \$1,300) totalling \$4.4 million in the major cities of the zone affected by the earthquake. EMADI is also acting as administrator for the large scale projects being supervised by Ministry of Housing under the same BID loan, which include 10,750 units at a cost of \$25 million.

#### 4.4.6 EMADI, CRYRZA and the AID Community Reconstruction Loan

A new contract is currently being negotiated between CRYRZA and EMADI to cover the urban section of the \$3 million AID Community Development Loan. According to the draft of this contract, EMADI will have responsibility for taking applications, qualifying, and selecting borrowers for loans under the program as well as making plans for construction, supervising construction and collection of the monthly installments from the borrowers. The CRYRZA/EMADI agreement for the urban section of the \$3 million AID Community Development Loan should help make possible the successful completion of the project in an expeditious manner.

#### 4.4.7 Appraisal of the Agency

During the 2-1/2 years since EMADI became operative, it has established a good record in the areas of project administration (mortgage servicing). EMADI inherited a number of old projects from the Junta de la Vivienda which had poor payment records. EMADI has adopted a vigorous and business-like policy with regard to collections and has demonstrated that it is prepared to evict persons who will not pay. It is believed that EMADI has the necessary staff and experience and the appropriate operating philosophy and policies to enable it to act as an effective administrator of projects financed under the Program.

#### 4.5 Disaster Zone Reconstruction Commission (CRYRZA)

The magnitude of the damage caused by the earthquake required the creation of a special agency to assume the responsibility of planning and coordinating the rehabilitation and reconstruction of the affected area. For this purpose the GOP created the Comisión de Reconstrucción de la Zona Afectada por el Terremoto del 31 de Mayo de 1970 (CRYRZA) to act at the planning, decision and implementing levels.

In its creation CRYRZA was defined as a multisectorial agency in charge of promoting and coordinating the recovery activities of all sectors in the zone, and CRYRZA was given the institutional capacity needed to mobilize and coordinate the human and economic resources available. CRYRZA has its own budget and operates at a ministerial level. The President of CRYRZA has a place and vote in the Ministerial Council.

##### 4.5.1 Objectives of CRYRZA

The following are the principal objectives of CRYRZA:

- 1) Formulation of objectives, policies and strategies to achieve the proposed reconstruction and development goals;
- 2) Implementation of reconstruction programs through the action of the respective public and private agencies and sectors, or through the action of CRYRZA itself;
- 3) Supervision and control of all efforts regarding promotion of programs, reconstruction and rehabilitation in the zone;
- 4) Administration of resources from public funds as allocated by the GOP or as available from external sources;
- 5) Programming of technical and economic resources;  
and
- 6) Preparation of appropriate legislation to meet program needs and implement its own special programs.

The task of rehabilitation and development has required three stages of implementation:

1) Emergency action, including evacuation of casualties, first aid, provision of food and temporary shelters;

2) Immediate implementation of the necessary programs to reactivate the areas paralyzed by the earthquake. CRYRZA has undertaken this activity and to date most of the damaged infrastructure has been repaired. Housing construction and provision of urban equipment programs are under way at this time;

3) Planning of the reconstruction and development programs in accordance with national policies and objectives. This activity resulted in the formulation of the five year development plan.

#### 4.5.2 CRYRZA Structure

CRYRZA operates through a high level directorate composed of a twelve member commission. It also has the support of advisory agencies and implementation agencies. CRYRZA acts as the national coordinator of all reconstruction work in the affected zone.

CRYRZA has zonal offices in Trujillo, Chimbote, Casma, Huarney, Barranca, Caraz, Huaraz and Recuay-Aija. The main office has recently being moved to Huaraz.

CRYRZA may undertake the implementation of any of its programs working through its zonal offices, or it may choose to contract the work with the appropriate public or private agency.

The following chart illustrates the type of programs being developed by CRYRZA during 1971 and 1972 by sectors and sources of financing, in the disaster area:

CRYRZA

Biannual 1971-1972 Adjusted Budget \*

OPERATIONAL

	<u>Salaries</u>	<u>Goods &amp; Services</u>	<u>Purchase of Fixed Asset</u>	<u>Others</u>	<u>Total</u>
Adjusted Budget US\$	1,936	836	114	696	3,582
%	54.1	23.3	3.2	19.4	100%

INVESTMENT

	<u>Services</u>	<u>Studies for Investment or Development</u>	<u>Works</u>	<u>Purchase of Fixed Assets</u>	<u>Others</u>	<u>Total</u>	<u>%</u>
CRYRZA		1,322	5,898			7,220	12.
Agriculture	121	304	2,695		725	3,845	6.
Fishing		22	260			282	0.
Industry & Commerce			323			323	0.
Power		322	5,721			6,043	10.
Transportation and Communication		2,247	10,442	253		12,942	21.
Housing, Water, Sewerage		557	18,287	406	1,153	20,403	34.
Education		99	5,239	1,100		6,438	10.
Health		23	2,314	10		2,347	3.
Onernl/		92				92	0.
TOTAL U.S. \$	121	4,988	51,179	1,769	1,878	59,935	100
%	0.2	8.3	85.4	2.9	3.2	100%	

SOURCE OF FINANCING

	<u>U.S. \$</u>	<u>%</u>
1. Operational		
Treasury	2,792	77.9
Loans	790	22.1
	<u>\$3,582</u>	100.0
2. Investment		
Treasury	26,372	44.0
Own Source of Income	4,091	6.8
Foreign Debt	22,914	38.2
Foreign Donations	6,558	11.0
	<u>\$59,935</u>	100.0

**Best Available Copy**

BUDGET SUMMARY

	<u>Thousand \$</u>
Operating	3,582
Investment	59,935
TOTAL	63,517

\* All figures in thousands of Dollars  
1/ Office of Evaluation of Natural Resources

#### 4.6 Government Agency for Support of Social Mobilization (SINAMOS)

SINAMOS was created by Decree Law in June 1971, as the official agency in charge of institutionalizing the new social development policies of the Government of Peru. The agency was officially inaugurated in April 1972.

All functions previously handled by numerous national and regional agencies were integrated into a new organizational structure under new management. To date many of the functions of the new sub-agencies have not been clearly defined. However, SINAMOS will be responsible for the following areas:

- 1) General promotion and direction of all Pueblos Jovenes programs and infrastructure support projects,
- 2) General direction of institutions dealing with social interest and community development programs affecting low income groups; and
- 3) General direction of social and economic development institutions operating in the rural areas.

The above areas were previously the responsibility of several of the organizations now absorbed within SINAMOS.

SINAMOS will have an operating capability at the national, regional, and local levels through its various offices. The senior staff for the new system has been designated by the Director of SINAMOS. The SINAMOS budget approved on March 28, 1972, by Decree Law 19336 was \$43.5 million.

In view of its recent birth, there is little basis for evaluating SINAMOS as a project implementing agency in the proposed Program. Folded into SINAMOS have been certain organizations such as ONDEPJOV (National Office for Development of Pueblos Jovenes), PROCOM (Promocion Comunal), ONDC (National Office for Community Development), and ONDECOOP (National Cooperative Development Office) which had achieved varying degrees of success in the type of community-cooperative promotion and organization activities to be assigned to SINAMOS under the proposed Program. During the unfortunately extended period leading up to SINAMOS birth, these organizations tended to stagnate and atrophy, with consequent loss of good personnel. However, SINAMOS is a creature of the Revolutionary Government, entrusted with a major role in mobilizing the people to carry out the ideals of the Revolution. As such it should enjoy strong support from the Government in developing the capability for good execution of projects.

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SECTION 5. PROGRAM IMPLEMENTATION

5.0 General Aspects

The implementation of the Program will be the responsibility of the BVP in as far as its general, technical, administrative and social aspects are concerned.

As indicated in Section 4.0, the BVP will contract the services of organizations in the public and private sectors to carry out parts of the Program, as it deems necessary. To this effect, the following organizations may be considered as implementing agencies:

Ministry of Housing (MOH)  
Real Estate Administration Company (EMADI)  
Mutual Savings and Loan Associations (S&L's)  
System for the Promotion of Social Mobilization (SINAMOS)  
Commission for the Reconstruction of the Area Affected by the Earthquake of May 1970 (CRYRZA)

The BVP may also choose to implement the program directly through its own agencies or branches in those towns in which it considers it convenient.

The implementing agencies will report to the BVP regarding the development of the various phases of the projects for which they are given responsibility, in accordance with the agreement between the BVP and the agency in question. Copies of all such agreements will be provided to AID. The BVP, in turn, will report to AID on the development of the program in general, pursuant to the reporting requirements set forth in Section 5.1.8 below.

The BVP will have responsibility for the following general aspects of program development: announcement and promotion of the program; signing of contracts and implementation; coordination of programs with AID and the participating agencies; selection of cities, towns and types of programs to be implemented; approval of projects; reporting to AID; and evaluation of the Program.

With respect to Technical Aspects of Program Implementation, the following activities must be carried out: final selection of sites for construction of projects; studies of the development of community facilities and utilities to be constructed; preparation of technical documents, such as plans, specifications, budgets; review of proposals for execution of the projects; selection of contractors; drafting of contracts, payment of contractors; supervision of construction work; and technical reports. These activities will be carried out by the corresponding implementing agency under contract with the BVP (Ministry of Housing, Mutuales)

Project Development and Administration activities will be the responsibility of administrators under contract with BVP. (EMADI and the Mutuales). These activities will include Program promotion, analysis and selection of buyers, drafting of loan documents, preparation of administrative reports, and mortgage servicing.

Socio-Economic Activities will include the introduction of the self-help construction system and activities pertaining to the implementation of such system, and the preparation, organization and technical assistance in the introduction and establishment of coops and owners associations in the selected projects. These activities will be under the coordination of SINAMOS and/or CRYRZA, under contract with the BVP.

## 5.1 Technical Aspects

### 5.1.1 Criteria for selection of localities and project sites.

#### 5.1.1.1 Selection of localities

a) Preliminary Selection.- The preliminary selection of cities located in the disaster zone where projects will be built has been made taking into account the following data:

i) The preliminary findings of the Housing Market Study,

ii) The information provided in the Master Plans concerning income levels, capacity to pay and the financial conditions of the population,

iii) The statistics concerning the population and the growth rate of the urban centers,

iv) The reports concerning the magnitude of the damage, the number of buildings destroyed and the housing shortage, and

v) The plans being carried out by GOP agencies for the repair and construction of the urban infrastructure with the corresponding public utilities.

b) Final Selection.- The BVP will make a final selection of the cities, and will decide the types of projects most suited for each locality based upon:

i) An evaluation of the results and data derived from the Housing Market Study contracted March 30, 1972, and

ii) An analysis of the experience and the results of housing programs which other entities are undertaking in the Disaster Area, (CRYRZA, IDB, MOH). Furthermore, the condition and progress being made in the construction of infrastructure programs being carried out by other agencies in the disaster zone will also be taken into account.

BVP and AID shall agree on the final selection of cities and types of projects.

#### 5.1.1.2 Selection of sites for the development and construction of specific projects

The implementing agency will study the available sites in the cities and will select the most appropriate for construction of projects, taking into consideration the following factors:

Physical characteristics of the terrain, access roads, topography of the land and vegetation, surrounding properties, area of land, sub-soil conditions.

The land should be free from erosion, danger of landslides, and boulders. The sites should be located away from pollution sources and should not be subject to flooding.

Other conditions that should also be considered include: price of the land and terms for purchase; proximity of public transportation; proximity to schools, markets, and commercial and health center; proximity of the sources of employment; and proximity of the site to recreation areas and playgrounds.

In the process of site selection special consideration will be given to the recommendations and regulations contained in the official Development Plans for the city and region in question, and to the capacity of public utility systems (water, sewers, and electricity) of the selected cities to provide service to the project in question.

#### 5.1.2 Provision of community facilities and public utilities

##### 5.1.2.1 Community Facilities

The construction and development of specific projects should also include the provision of community facilities for the benefit of all the residents. The size and type of such facilities will be determined by the implementing agency according to the

magnitude of the project and the number of families living in it. In general, facilities for education, cooperatives, health, recreation and community activities will be provided.

#### 5.1.2.2 Determination of the type of Community Facilities

The Banco de la Vivienda or the implementing agency in charge of project planning will determine the type and kind of community facilities that are to be part of a project to be constructed under the Loan. The implementing agency will examine the condition and capacity of existing facilities and utilities which could serve the project in question. Additional facilities and utilities will then be identified according to project needs, the size of the project, funds available, and recommendations included in the official Master Plans for the region.

The following guidelines for the provision of Community facilities are proposed:

- i) Educational,  
Primary schools, 3 to 4 classrooms per 100 families.  
Nursery schools, one per each 100 families.
- ii) Recreational,  
Playgrounds, sports and play area in connection with the primary school.  
Parks, 10-15% of developed area
- iii) Medical, one health post per each 250 families.
- iv) Community center, one community center per 500 families.

All projects should have electricity, water, sewerage and street illumination. Provisions should be made for fire protection and eventual extension of telephone lines to the project.

#### Preliminary design and cost estimates

Once the type and size of the facilities and services have been determined for each specific project, the implementing agency or the sponsoring organization should then proceed to prepare the preliminary design and cost estimates. The cost estimate is of particular

importance in determining the amount that will be charged to the selling price of the houses to distribute the cost of the facilities and services among the benefited population.

All project plans should include complete plans, calculations, and cost estimates for construction of the community facilities and utility systems. Such documentation will be submitted to the BVP as part of the total project package at the time of the preliminary review of the project.

#### 5.1.2.3 Public Services

All the projects will include the provision of public utilities such as water, sewers, electricity and street illumination. The installation of fire hydrants and the extension of telephone lines will also be examined. The initiation of projects will not be permitted without prior assurance of availability of public utilities.

#### 5.1.3 Preparation, presentation and studies of proposals; and approval of projects.

Two types of projects are considered under the Program:

- (1) Projects sponsored by an implementing agency (which may include the BVP) and built by a contractor, which are subject to competitive bidding; and
- (2) Projects submitted by private sponsors to the implementing agency, as in the case of a cooperative or builder-sponsor. These projects may be built by the sponsor or sub-contracted by the sponsor with a private builder.

#### Selection of Sponsors

One of the Program's objectives is to strengthen the development of local and regional credit institutions and the housing cooperatives in the region. The strengthening of the construction industry is also considered as an important objective of the program as well as the participation of the human and economic resources of the region.

The projects to be constructed may be sponsored by:

- The Savings and Loan Association (S&L's)
- Housing Cooperatives
- The private housing construction firm (in association with the Savings and Loan Institutions or Cooperatives)
- Special organizations such as Builders Associations.

In general, the approval of a project will involve the following steps:

i) Announcement of the Program

The implementing agency will publicly announce the opening of the Program, indicating the conditions, terms and dates for the presentation of the proposals in the case of projects which will be sponsored by private companies and other organizations (cooperatives, savings and loan associations, etc.).

ii) Preparation of the preliminary documents

The sponsor will have the main responsibility for the collection, analysis and total preparation of the data and pertinent information which is necessary for the initial presentation of the proposal to the implementing agency. The documents which must be submitted with the proposal include: feasibility studies, technical documentation (preliminary architectural plans), legal documentation (title to the land), brief description of the project, financial documentation (cost estimates, conditions for sub loans), and socio-economic documentation (marketing, socio-economic data).

The implementing agency will be responsible for preparation of projects which they sponsor directly.

iii) Preliminary study of the proposals

The implementing agency will review the preliminary documentation as submitted by the sponsors and will notify the sponsors in writing of its intent to consider the project, and advising of the recommendations, studies and changes that should be incorporated into the final submission within 30 days following the submission of the proposal.

The sponsor will be responsible for preparing the final documentation required by the implementing agency for final review and approval of the project. This documentation will include all the changes and recommendations noted by the implementing agency in the preliminary study and will be re-submitted to the implementing agency.

iv) Study and review of the final proposals

The implementing agency will perform the final review of the documents submitted by the sponsor and will approve the project if it meets the criteria established by the implementing agency. Information copies of the documentation will be sent by the implementing agency to BVP and to AID. AID's approval will be required for projects whose total cost is \$200,000 or more.

Written notice will be given to the sponsor concerning the results of the final study by the implementing agency.

#### 5.1.4 Preparation of Contracts, Initiation of Work and Payments

##### 5.1.4.1 Drafting of Contracts

Once the project has been approved, the implementing agency will proceed with the preparation of the contract documents for the development and execution of the project in accordance with the regulations of the BVP. The sponsor will submit at this time the bonds and guaranties as required. These guaranties will cover the following aspects:

- i) Compliance with contract obligations
- ii) Management of the advance payments in cash or kind,
- iii) Payments to suppliers, and sub-contractors including labor, and
- iv) Stability of construction

##### 5.1.4.2 Initiation of Work

The implementing agency will give written notice to the sponsor or to the contractor to proceed with the initiation of the project, in accordance with the contract documents. Construction advances may be made to the sponsors once the contracts have been signed and the corresponding guarantees and bonds have been approved.

##### 5.1.4.3 Payments to contractors and sponsors.

The contractors or sponsors of projects being financed through the Program shall request payment for construction advances or for work completed through the implementing agencies to the BVP.

The payment requests shall include a certification by the implementing agency verifying the amount of the funds to be advanced for construction financing, and a certification of the amount and value of satisfactory work performed for payments due to contractor or sponsor during the construction of the project.

In some cases the implementing agency may request that the construction advance be made in kind (construction materials). In this event the payment request will include the invoices for the value of materials supplied to the contractor or sponsor, as well as certification of receipt of said materials by the constructor or sponsor. The BVP will make the corresponding disbursement from the Program funds 5 days after receiving the payment request certified by the implementing agency.

The BVP shall retain from the payment requests the amounts due for amortization of construction advances, materials and guaranty retainers for performance and quality of construction. The BVP shall also demand from the sponsor or contractor the required guarantees as a condition precedent to disbursement of funds. Upon joint certification of the implementing agency and the BVP, the amount retained to guaranty the construction soundness of the completed project, shall be returned to the builder.

#### 5.1.5 Bidding Procedures

Construction Projects in excess of \$200,000 contracted for GOP implementing agencies will be generally subject to the AID Capital Assistance Guidelines. BVP and AID shall agree upon a set of standard bid procedures and documents, including the construction contract. The BVP shall certify to AID that these standard procedures and documents were used on projects sponsored by implementing agencies and financed from Program Funds. Deviations from these procedures and documents shall require AID approval.

On Projects below \$200,000 it is proposed that the Peruvian government implementing agencies be permitted to operate under standard GOP contracting procedures. The principal variations of such procedures from those required under the AID Capital Assistance Guidelines are as follows:

- a) Bidding: GOP awards contracts by a "double averaging" system which operates to reject low and high bids in selecting among bids clustered around the engineers' estimate.
- b) Advances: GOP allows advances of up to 33-1/3% of contract price to provide working capital for contractors.
- c) Bonding and Retention: GOP requires no payment bond, a nominal 2% performance bond, a 5% bid bond, a bond to cover the full amount of the advance referred to in (b) above, and a retention percentage of only 5%.

#### 5.1.6 Construction Supervision and Inspection

The implementing agency will have the responsibility for the supervision and inspection of the work according to contract provisions. The actual supervision and inspection of the construction will be carried out by qualified professional personnel with the necessary staff support. The implementing agency will have the responsibility of inspecting the work completed, approving change orders, approving requisitions and invoices for payment, etc. The individual selected as supervisor will be

presented by the implementing agency to the BVP for approval. The supervisor of the project will also be responsible for preparing and presenting progress reports through the implementing agency to the BVP. The BVP will in turn report to A.I.D. as set forth in article 5.1.8.

#### 5.1.7 Provision of Utility Services in Pueblos Jovenes

In the case of water, sewerage or electricity systems for Pueblos Jovenes, the sponsorship and/or promotion of such projects will be the responsibility of SINAMOS, acting through its Pueblo Joven office (ONDEPJOV). The socio-economic survey of the community to verify the capacity to pay for such systems will be conducted by SINAMOS at no cost to the Program. The technical feasibility study of the installation of the systems will be done by the appropriate local utility company or agency. The contracting for and supervision of actual construction will be the responsibility of the utility company in coordination with CRYRZA and ONDEPJOV.

The utility company will collect the monthly payments from the beneficiaries of the systems and will remit to the BVP the portion corresponding to the amortization of the loan.

### 5.1.8 Reporting Requirements

During the implementation of the Program, BVP will provide the following reports to AID:

#### A. Report on Program Implementation

##### a) Monthly Program Status or Progress Report.

Scope of report: A general review of the status of the projects being developed under the Loan including; 1) List of projects under review: identification of projects (location, sponsoring organization), number of units, cost; 2) Projects under construction: percentage of work accomplished, total cost, value of work accomplished (cumulative), units terminated; 3) Projects terminated: identification of project, date of initiation, date of termination, units contemplated originally, units terminated, initial cost, final cost, population benefitted, institutional accomplishments (coops, homeowners associations, etc.)

b) Loan Disbursements.- (See Disbursement Section 8.1).

#### B. Reports on Program Administration

Frequency: monthly report from Project Administrator to BVP, copy to A.I.D.  
Scope of report: A general report on the activity of sub-loans made under projects being constructed, including: 1) Sales report, project identification, number of applications received, applications approved, sales contracts signed, titling; 2) Collections report, identification of project, accounts outstanding, arrears, legal activity (evictions, recuperations); 3) Repayment of loan, amounts collected, amounts sent to BVP, repayment of Loan to AID.

#### C. Evaluation of Program

Frequency: Annual BVP report to AID.

Scope of report: An evaluation of the Program's progress for the year and an evaluation of projects accomplished to date

### 5.2 Program Promotion

The BVP will be in charge of promoting the program. To this effect the BVP shall prepare and execute a plan for publicity and promotion of the Program through the most effective means. The implementing agencies will execute the publicity plan as provided for by the BVP.

The major objective of the promotion plan is to assure the participation of the public and private sectors in the program. The plan will be designed to provide the interested parties with complete information concerning the type of housing to be constructed, conditions, prices,

and location and type of projects. Also, the prospective buyers and promoters would be given orientation which would explain the advantages provided by the program. The publicity program will emphasize the participation of the Savings and Loan System and Housing Cooperatives.

#### 5.2.1 Selection of Home Buyers and Review of Loan Requests

The Bank may delegate the function of receipt and processing of loan requests submitted by prospective home buyers wishing to obtain sub-loans under the various types of sub-programs, regardless of whether these programs are directly under the auspices of the implementing agencies or private sponsors. The BVP together with the administering agency will prepare the application form which the prospective home buyers must fill out as the basis for the evaluation of his eligibility.

This form shall also require the presentation of supporting documents if the reviewing agency should deem this necessary. The application is in the nature of a sworn statement and as such, subject to all legal provisions governing sworn statements. The loan will not be approved if it is found that the request form contain false information.

#### 5.2.2 Execution of Sub-Loans

The individual sub-loans will be executed through the signature of the various sales contracts and mortgage loan contracts. These contracts will provide for the following: sales price and amount of sub-loan, terms for amortization, type of interest, commissions and insurance, amount of down payment, number and amount of monthly installments, various obligations and prohibitions, and causes for rescission of contract.

#### 5.2.3 Administration Agreement

The description detailing each of the activities of administration of the sub-loans as described above will be included in the Administration Agreement which the BVP and the administering agency will sign. This Agreement will prescribe the obligations of the parties, the fees, commissions, duration, causes for rescission, etc. The Standard Administration Agreement will be submitted to AID for review and approval.

The administrator shall charge a service fee, with the amount and formula to be negotiated relative to costs and incentives appropriate for the particular project, but in general not to exceed 1.25% per annum. The corresponding amount will be incorporated into the monthly repayment of the sub-loan.

#### 5.2.4 Sub-Loan Collection Procedures

The BVP shall contract through an administration agreement with an implementing agency the collection of monthly payments corresponding to amortization of the sub-loans and other charges. The implementing agency will undertake the necessary measures to insure prompt collection of payments and will report to the BVP monthly on the status of collections.

The implementing agency may use a variety of systems to expedite and improve collections, such as use of mobile collection units, payroll withholding, incentives for timely payments, etc. The creditors may request a deferral of payment in special cases such as sickness, physical incapacity, unemployment or other justifiable reasons. The implementing agency will study each case and act according to the regulations established by the BVP for such eventualities.

In the case of arrears in excess of two months, the implementing agency will send a series of written notices weekly to late accounts, with copies to the BVP. The creditors will have then thirty days to make payments, after which the implementing agency shall proceed to foreclose the account and start eviction procedures according to the established legislation.

The implementing agency shall remit the amounts collected to the BVP on the 25th day of the month. The agency may deduct from such remittance the amount corresponding to its own fee, as set out in the administration agreement between the agency and the BVP.

As a condition precedent to disbursement of the A.I.D. Loan, the BVP shall provide A.I.D. with a plan covering the procedures and techniques to be utilized by administrators to insure prompt and efficient collection of monthly payments.

The diagram on the following page depicts major phases of development for the various projects and the relationships among the participating agencies.

**BORROWER/COORDINATION**

Housing Bank (BVP)  
Implementation Agreement  
(BVP, AID, COP)

**IMPLEMENTING AGENCY**

**TECHNICAL ASPECTS**  
Ministry of Housing,  
Mutuals  
Implementing Agreement  
(BVP, Implementing Agency)

**PRIVATE SPONSORS**

Cooperatives, Associations,  
Private builders, developers.  
Project Contracts  
(BVP, Implementing Agency,  
Sponsor)

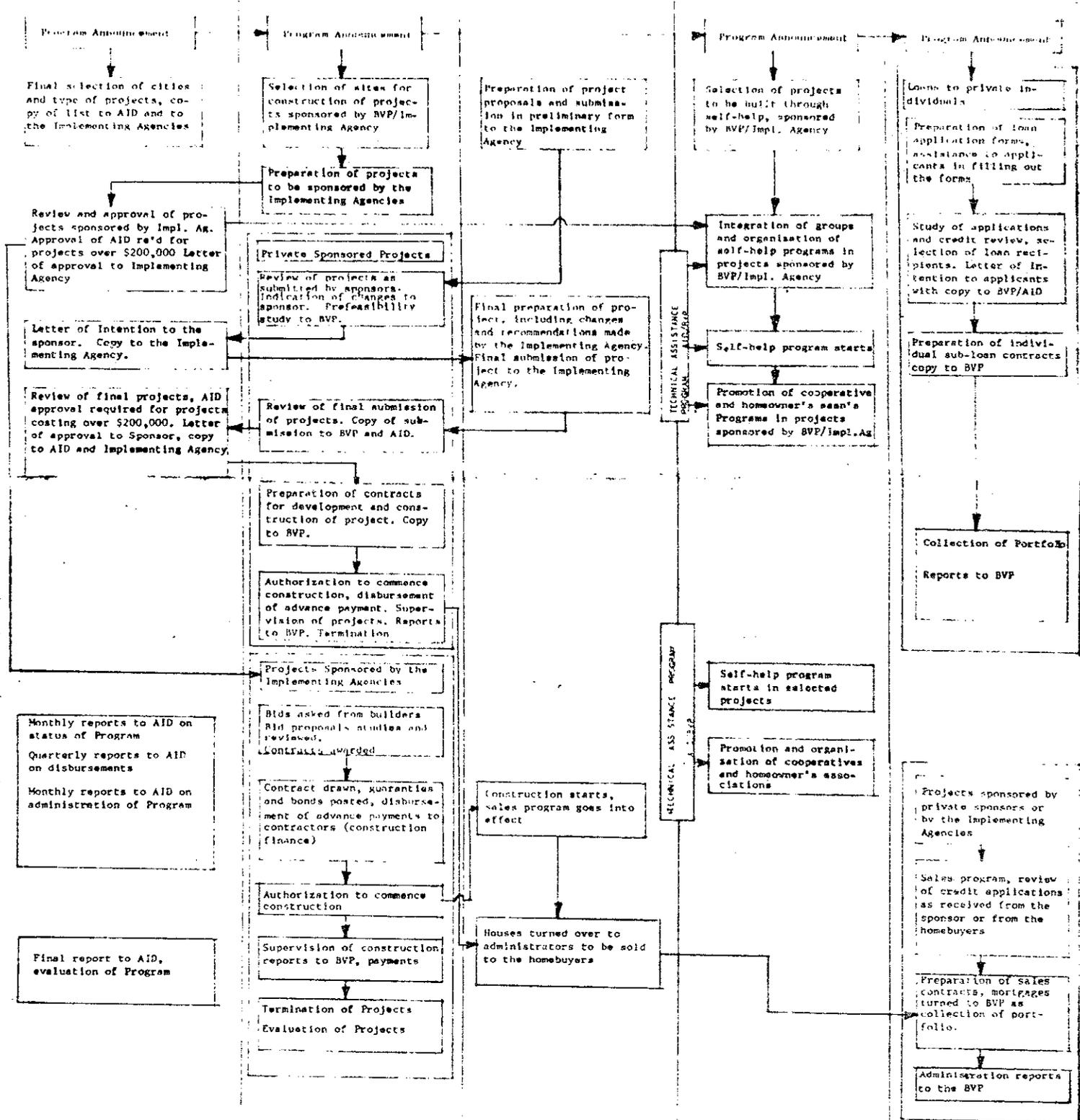
**IMPLEMENTING AGENCY**

**SOCIAL ASPECTS**  
SINAMOS, CRYRZA, ONDEPJOV,  
ONDECOOP, PROCOM  
Social Program Agreement  
(BVP, Implementing Agency)

**IMPLEMENTING AGENCY**

**ADMINISTRATIVE ASPECTS**  
Mutuals, EMADI, BVP  
Administration Agreement  
(BVP, Implementing Agency)

**PROJECT DEVELOPMENT FLOW CHART**



### 5.3 Community Development and Self-Help Housing

The basic objectives of the community development and self-help housing program are threefold:

i) Reduction of construction costs by using local self-help labor available from future project residents or community members.

ii) Improved maintenance of the houses, community facilities and community areas, through the establishment and operation of residents' association and similar organizations, where possible.

iii) Improvement in the socio-economic conditions of community residents through the organization of coops (housing, production, credit, etc.) and other types of similar institutions, thus providing a framework for carrying out community projects.

As indicated in Section 3.0, a minimum of 10% of total Program Funds, or \$2.5 million, will be reserved for aided self-help housing. Sub-programs 1.2., Relocation of Pueblos Jovenes, and 2.2, Home Improvement and Expansion Loans in Pueblos Jovenes are most suitable for the introduction of self-help construction and for other community organization activities.

The aided self-help projects will utilize the participation of the members of the community as a mean of reducing the cost of construction and as a means of promoting the social and economic organization and integration of the community.

#### 5.3.1 Program Implementation

The BVP will be responsible for developing the overall self-help housing and community improvement program in conjunction with those Peruvian agencies operating in this area, namely the new agency SINAMOS (and its constituent sub-agencies, PROCOM, ONDEPJOV, ONDECOOP, etc.) and CRYRZA.

By recent law, SINAMOS (The National Social Mobilization Support Agency) has taken over all of the existing agencies and organizations responsible for social and community organization and development. SINAMOS will have responsibility for the promotion of self-help housing projects and community improvement programs as well as for motivating community integration and participation. Implementation of projects developed by SINAMOS would be the responsibility of CRYRZA, acting directly

or through contract. Under the \$3 million AID Community Development Loan, CRYRZA has developed a pilot self-help project consisting of 500 units in Chimbote. CRYRZA is currently engaged in a training program in self-help techniques specially designed to prepare its personnel for future projects and has also already introduced self-help concepts into ongoing projects in Chimbote.

Under an existing Task Order with the Foundation for Cooperative Housing, and also possibly under arrangements with other contractors, AID will provide technical assistance in the development of this program.

It is proposed that the main portion if not all of the costs of technical assistance, community organization and overhead of the executing agencies not be charged to the project but rather be funded from the general budget of the implementing agency (SINAMOS, CRYRZA, or BVP, as appropriate). These costs are estimated at 7-10% of the total cost of an individual self-help housing project, depending on the efficiency of the particular group and the amount of assistance needed. It is recognized that this will constitute an additional subsidy; however, the purpose of the self-help technique is to allow families or limited income to acquire housing they could not otherwise afford (as well as to promote community identity and cohesion). The 10-15% estimated costs savings to be realized through the self-help labor would be largely nullified if all direct and indirect project development and organization costs were charged to the cost of the individual houses.

The BVP will be responsible for preparing a final plan for the development and implementation of the self-help and community improvement program as a condition precedent for disbursement under the AID Loan for this program. This plan will identify these projects, organized groups, cooperatives, etc. which lend themselves to the self-help or to community organization through housing cooperatives or home-owners' associations, etc. The Plan will also indicate the agency responsible for carrying out the activities. As indicated in Section 7.3, the Final Report of the Housing Market Study will contain a list of the cooperatives, pueblos juvenes associations and other groups with potential for carrying out self-help housing projects.

### 5.3.2 Self-Help Housing

Using the pilot self-help project in Chimbote as a model, the development of self-help projects will generally include the following phases:

Phase i) Socio-economic survey of the participating community. Such survey will be made by a team of sociologists or social workers with the help of complementary personnel as required. The survey

will provide the following information: Number of families which are able to participate in the program; distribution by age and sex; skills which can be utilized in the project (masons, carpenters, plumbers, etc.); availability of natural resources; materials which can be produced in the area; and a feasibility study of the project.

Phase ii) Analysis of the survey and preparation of a preliminary organization plan of the community, whereby the composition of the groups can be determined and a plan of action outlined. This phase will be carried out by an inter-disciplinary work team.

Phase iii) Providing information about the project among the homebuyers, through direct contact with community leaders, local association leaders and local authorities. In this manner the objectives of the project as well as its scope and organization and benefits that the project will bring to the community are explained. In summary, this phase is intended to motivate the homebuyers to participate in the project. This phase will be under the responsibility of the director of the project.

Phase iv) Preparation and training of the working groups, through the work of a team acting under the director of the project. In this phase the working groups will be formally organized, work assignments made, chronograms and schedules prepared, and work policies established. Once the work groups are formed, a group of skilled workers will be assigned to them under the direction of a construction supervisor who will be responsible for the training and direction of the participants.

Phase v) Establishment of a material pool. As a complement to construction activities there will be organized and established a production center for construction materials to be utilized in the building of the homes, with participation of the community. The organization of this pool will be made by the project director. In addition there will be a warehouse keeper, dispatcher and accountant. The hours worked and production will also be controlled by the project director.

In general terms a self-help construction program should be staffed as follows:

Program Level

- 1 Director of Program
- 1 Engineer-architect
- 1 Sociologist
- 1 Accountant
- 3 Secretaries

Project level

- 1 Social worker per 100 units
- 1 Construction supervisor per 100 units
- 1 Warehouse keeper per 500 units
- 1 Administrative assistant per 500 units

The project staff should receive technical temporary support from the implementing agency as required.

Agency support

- 1 Economist
- 1 Advisor; coop-self-help techniques

5.3.3 Community Improvement Projects

Where possible, attempts will be made to organize the community into well organized groups in order to implement projects which are of common interest and benefit to all. The creation of housing coops and resident associations will assist the improvement of socio-economic and living conditions of the residents. The following benefits may be anticipated from such undertakings: mobilization of the residents to improve their homes, assistance to the Administrator in collecting monthly payments, improved maintenance and care of property, control of land use, construction of community facilities, etc.

## SECTION 6.0 FINANCIAL ANALYSIS

### 6.1 Financial Soundness

The proposed Program is designed to operate in a financially self-supporting manner. There will be a careful credit analysis of all applicants and only those with the requisite family income (of which the husband and wife's income must account for at least 70%) will be approved as eligible sub-borrowers. Mortgage servicing will be the responsibility of either a savings and loan association or EMADI. As indicated in Section 5.2.4, collection techniques adapted to the needs and habits of the lower income residents will be utilized to insure prompt and regular payments. As an illustration of the effectiveness of the mortgage servicing performed by the savings and loan system, there has been foreclosure (and subsequent auction) of only one home loan out of the more than 29,000 mortgage loans made by the system.

The costs of administering the Program by the participating agencies have been estimated, and the provisions to cover these costs are discussed in the following sections. As indicated below, the interest spread to the BVP is believed to be more than adequate to cover all costs and still provide a reserve for losses. Any costs incurred in the first year of the Program in excess of funds generated from the interest spread will be financed temporarily by the BVP from their own resources until the volume of lending is sufficient to cover these costs. By the end of the second year of the Program, the volume of sub-loans is projected to be more than sufficient to enable the BVP to cover all Program-related expenses.

In order to promote participation by the savings and loan system without risk of undue loss to individual S & Ls, it has been decided that the BVP itself should bear the credit risks of pioneering with the lower income families, with the S & Ls serving as administrators of the BVP's money. It is believed that there will remain adequate incentive for conscientious administration by the S & Ls, not only because of their continuing dependence upon the BVP in other respects, but also because of the likely adverse effects upon the S & Ls own portfolio, should loan delinquency become accepted practice in the community served by the S & L.

## 6.2 Interest Spread and Estimated Administration Costs

The \$15 million AID loan at 3% interest p.a. and the \$10 million GOP capital contribution will result in an average interest cost to the BVP on the total \$25 million of about 1.8% p.a.<sup>1/</sup>

With program sub-loans yielding 5% interest, plus approximately 1% to cover mortgage life insurance and all risk hazard insurance, the use of the interest spread would be as follows:

		%
Average Cost of Funds to BVP		1.80
Provision for BVP administrative expenses (0.25-0.75)		.75
Provision for Project Administrators' costs (0.75-1.25)		1.25
Reserve for possible bad debts		1.20
		<hr/> 5.00
Plus Mortgage Life Insurance	0.75	
Hazard Insurance	0.14	
Provision for rate increase	0.11	
	<hr/> 1.00	1.00
		<hr/> 6.00%

### 6.2.1 Rationale for the Interest Rate Subsidy Proposed

The 6% interest rate proposed on housing loans will give the homebuyer a subsidy of 6% from the 12% rate charged by the Savings and Loan system on long term (20 years) mortgage loans for lower middle and middle income housing. In the last 10 years, this system has made over 29,000 long-term mortgage loans for a total of approximately \$140 million. The rationale for the proposed subsidy is based on the humanitarian consideration that the 12% market interest rate on home loans is not an equitable rate to charge to low income earthquake disaster victims, and on the financial consideration that such a subsidy is necessary to provide decent housing to the lower income groups in the disaster area. The effect of raising the interest rate from 6% to 12% on a 20 year \$2,000 loan, for example, would be to increase the minimum monthly income requirement from \$57 to \$88<sup>2/</sup> - an increase of 54%! The effect on the Program would be to exclude a large number of families at the lower end of the income scale from benefiting from the new and improved housing.

<sup>1/</sup> In order to simplify computation the complicating factor of the 2% grace period interest rate is purposely ignored. In reducing the average cost of funds it provides an additional safety factor.

<sup>2/</sup> Taking 25% of monthly income as the maximum which could be devoted to loan amortization.

The 6% lending rate was chosen basically for two reasons: (a) it will provide sufficient spread over the 3% AID money and the no-cost GOP contribution to enable the BVP to operate the Program in a financially self-supporting manner; and (b) 6% is the effective interest rate on low cost housing loans financed from the \$29 million housing portion of the IDB-GOP Reconstruction Program. Since both the IDB and AID Programs will be financing approximately the same type and cost of housing in the disaster zone, it is important that the terms and conditions of the sub-loans be consistent so as to avoid any undesirable competition between the programs.

When the 6% interest rate on sub-loans is viewed in terms of the cost of attracting savings for long term mortgage financing, the subsidy does not appear to be as great, for the rate on S & L passbook savings is also 6% p.a. The primary reason the S & L are not lending at this 6% cost of capital plus a reasonable spread of perhaps 3% (or a total of 9%) is that 44% of their total deposits are in longer term time deposits which yield the investor (and cost the S & L) up to 10% p.a.

#### 6.2.2 Costs of Program Administration

a. Credit Analysis and Selection of eligible Homebuyers: The BVP has estimated that these costs will average approximately 1% of the cost of house. This cost will be paid by the homebuyer at the time he makes his down payment. For the Sub-program involving only provision of water, sewerage, and/or electricity, the credit examination costs will be borne directly by the Office of Pueblos Jovenes of SINAMOS.

#### b. Project Administration Costs:

A provision of 0.75 to 1.25% is reserved for administration costs. EMADI is charging 1% p.a. on the original value of the loan under the IDB housing loan in the Disaster Zone. The BVP has indicated that the S & Ls are willing to act as project administrators for approximately 1% p.a. This formula will be subject to negotiation based on analysis of costs incurred relative to appropriate incentives for collection.

#### c. BVP Administration:

The BVP was prepared to accept 0.25% p.a. to cover its costs. However, in view of the amount of work which will be involved in developing the various sub-programs and projects, and assuring their prompt and efficient implementation, USAID proposed to increase the amount up to 0.75% p.a. to cover costs incurred by the BVP.

## SECTION 6.3 -- CASH FLOW PROJECTION: TOTAL PROGRAM

<u>Source of Funds</u>	1972	1973	1974	1975	1976	1977	Total
Balance Available from Previous Year	--	225	375	275	275	250	
AID Disbursements (60%)	475	4,050	3,720	3,120	1,860	1,800	15,000
GOP Disbursements <sup>1/</sup> (40%)	275	2,700	2,480	2,080	1,240	1,200	10,000
Total funds available:	750	6,975	6,575	5,475	3,375	3,250	
<u>Use of Funds</u>							
A. Large Scale Housing							<u>15,000</u>
1. New Projects	500	3,250	2,750	2,500	1,500	2,000	12,500
2. Relocation Projects	--	1,250	750	500	--	--	2,500
B. Pueblos Jovenes							<u>5,000</u>
1. Utility Services	--	1,050	1,200	800	500	200	3,750
2. Home Improvement Loans	--	300	350	200	200	200	1,250
C. Community Facilities							<u>1,250</u>
	--	150	400	300	300	100	1,250
	500	6,000	5,450	4,300	2,500	2,500	21,250
15% Reserve for price escalation	25	600	850	900	625	750	<u>3,750</u>
<u>Total Uses</u>	525	6,600	6,300	5,200	3,125	3,250	<u>25,000</u>
Balance Available at end of year	1,475	375	275	275	150	--	

<sup>1/</sup> BVP will advance its own funds to the Program as necessary from time to time to cover the periods until the quarterly GOP contributions to BVP are received.

## Section 6.4 Summary of Financial Status of BVP

The following analysis is based on the BVP's financial statements as of December 31, 1971, attached hereto as Annex V.

The authorized capital of the Bank amounts to 800.0 million soles (\$18.4 million). As of December 1971, the paid-in capital amounted to S/.727.9 million of which 57% or S/.418.1 millions was contributed by the GOP from AID loan sources and the remaining 43% or S/.309.8 million was contributed from GOP budgetary sources.

Exhibit 1 of Annex V shows the comparative balance sheets of the Bank for 1971 and 1970. Exhibit 2 shows the Profit and Loss statements for the same period; and Exhibit 3 shows the solvency, liquidity and earning power ratios for the years 1971-1970.

Within the framework of the many banking and decree laws which restrict, direct and control the management of the Bank's assets, investments, deposits, etc., it appears the management of the Bank has been able to substantially increase earnings and at the same time maintain a solvent institution with sufficient liquidity of assets to meet working capital needs and demands of depositors. See Exhibit 3. Government action to date has, for the most part, assisted the Bank in its growth; but it must be remembered that the Bank is subject to manipulation in support of overall government policy and future Government action taken could be directed more to social purposes than to the benefit of the Bank as a financial institution.

The relatively large amount of capital in comparison with total assets and deposits provides a solid cushion for the protection of depositors and other creditors. Cash liquidity while on the low side is probably sufficient considering the stability of deposits which are derived in large part from mandatory time deposits required from Savings and Loan Associations. The better than 1 to 1 ratio of Cash and Short Term Securities to Deposits indicates that cash and short-term investments which can be converted to cash are sufficient to meet working capital needs and depositor's demands. Earnings in 1971 are up both in real terms and percentage of return on capital and generally the Financial Statements, as presented indicate that the Housing Bank is a healthy and solvent institution as of December 31, 1971.

It is notable that for both 1970 and 1971 the BVP's non-housing investments are higher than would normally be expected for a housing development bank. It is believed that this situation reflects a temporary surge of deposits resulting from the GOP laws of May 1970 requiring repatriation of private Peruvian capital invested abroad. The BVP and its member S&Ls have required some time to digest these deposits into new housing investments. The substantial 1971 increases in loan portfolio and housing program indicate a strong effort; however, since these deposits command relatively high interest rates (from 6 to 10%) they would not be available to finance housing for low income families under the subject Program.

## 6.5 Prospects for Loan Repayment

### GOP's Monetary Policy and Balance of Payments Position

Peru's current economic policy is one of providing moderate stimulus to the economy through its monetary and fiscal policies without generating excessive inflationary pressures, while at the same time inducing considerable structural change in the economy so as to maximize employment opportunities and to more equally distribute income. To this end, the GOP has planned a massive public investment program for the next five years which will provide considerable push to the economy.

Peru's balance of payments showed a large surplus in 1970 (\$320 million) and a moderate deficit in 1971 (\$75 million), with trade balance surpluses of \$429 million and \$140 million respectively in the two years. At the end of 1971, Peru's net international reserves stood at approximately \$345 million, or 45% of 1971 imports.

Assuming Peru fulfills its National Development Plans for 1972-1975, its projected balance of payments deficit for the period will total \$731 million, or more than double its current net international reserves. Recognizing the magnitude of the problem, the GOP has requested assistance from foreign governments and foreign private banks. The U.S. private banks with loans outstanding to Peru have agreed to a rescheduling of a large percentage of these loans and have granted substantial new loans to Peru. At the recent consultative group meeting on Peru initiated by the World Bank, Peruvian officials were promised substantial foreign financing for projects to be carried out within the framework of the National Development Plan. This financing, if actually forthcoming, should be sufficient to cover most of Peru's needs over the period, with very little reserve loss for the country. To the extent that this financing is not forthcoming in the magnitude required, Peru will probably fall short of its development goals, with corresponding increase in its balance of payments deficits and loss of reserves.

Peru's debt service payments will approach 20% of annual exports for the years 1972 through 1974, after which they should fall to less than 15% of exports. The current GOP has refrained from acquiring additional short term foreign debt, and is making a serious effort to plan its debt structure for coming years.

## 7.1 Current Economic Situation in the Disaster Area

The rehabilitation and reconstruction program for the earthquake area (ZAS) has entered the rebuilding stage; the emergency needs for food, clothing, housing, etc., and the initial requirements of road and street clearing and repair, etc. having been met. The Peruvian Government has incorporated its future rehabilitation and reconstruction efforts into the country's National Development Plan for 1971-1975 under which it will undertake to stimulate the general economic and social development of the area rather than simply to return it to the condition it was in prior to the earthquake. Work is just beginning on this phase of the program.

The current economic situation in the disaster area is one of slow growth in production, employment, etc. as the area recovers from the effects of the earthquake. The socio-economic structure was not significantly changed by the disaster; however, certain economic sectors and geographical areas were affected more than others. Most of the economic infrastructure (highways, electric power, etc.) has been returned to its before-earthquake status. As a proportion of the total economy, the disaster zone represents approximately 14% of GNP and contains 13% of the country's population. Agriculture is the primary economic activity in the disaster area, followed by the fishing and fishmeal industry.

### Industry

The industrial sector prior to the earthquake consisted of a few large scale firms (the SOGESA steel complex, several fishmeal plants and sugar refineries) situated in the coastal area of the ZAS and a large number (several thousand) of medium and small scale firms located primarily in the urban centers, including many one or two worker artisan shops. Three cities in the affected area, Huarmey, Chimbote and Trujillo, contained nearly 60% of these firms.

Due to the small size of the market and the lack of investment capital, almost all of these firms were producing at high cost and, therefore, were unable to compete with similar products coming from the Lima area. These same factors prevented new firms from being established in the area.

The earthquake caused extensive damage to the medium and small size firms in the ZAS, but did only light to moderate damage to the larger firms situated on the coast. Most of the medium and small size firms had their buildings and inventories completely destroyed and their machinery and equipment badly damaged. Also, their sources of power and marketing and distribution systems (commercial centers, highway, etc) were destroyed and the purchasing power in the area was substantially reduced through the loss of jobs caused by the damage. In other words, most firms were completely paralyzed by the earthquake.

At the present time many of the small artisan shops and service firms are beginning to operate again, utilizing self-constructed, make-shift building and salvaged materials and machinery. Power and transport facilities have been restored to the area, and some markets are operating again. Purchasing power remains low, however, as un- and under-employment remains high.

There are still many firms that have not begun to operate at all and innumerable others that are operating at only a fraction of their pre-earthquake levels. The lack of available credit at concessional terms and conditions prevents many of these (and other, new) entrepreneurs from obtaining replacement equipment and inventories with which to begin anew.

So, while there has been some recovery in the industrial sector, a large proportion of the sector still remains paralyzed and needs assistance.

### Agricultural Sector

The agricultural sector of the ZAS consists of intensive, minifundio farming in valleys scattered throughout the sierra and large plantation farming (sugar, cotton, etc) mixed with some smaller scale individual farming in scattered irrigated valleys running from the sierra to the coast. Some of the farms in the sierra also depend on irrigation.

The major damage to this sector caused by the May 1970 earthquake was in the destruction of irrigation canals and farm machinery and buildings. In addition, some livestock was killed. The destruction of market places and distribution systems resulted in some loss of markets, as did the general reduction of purchasing power in the area resulting from the loss of jobs.

Recent flooding (February, March and April 1972) along the coast, but generally outside the ZAS, has produced much greater loss to the sector than did the earthquake. In this disaster, irrigation systems, buildings, etc., were again destroyed, and in addition there was considerable crop loss, especially in cotton, an important export crop for Peru.

Currently, with the exception of the flooded areas, the sector has recovered substantially from the effects of the earthquake. Most of the irrigation networks have been repaired (albeit many only temporarily), and makeshift markets have sprung up as transportation and power systems are operating again. The general loss of purchasing power and the loss of capital continue to exercise some restraint on the sector, however, except for the flooded areas, these are minor factors at this time.

### Employment

The shortage of job opportunities in the ZAS prior to the earthquake was increased by the disaster, as many firms, shops, etc. were put completely out of business. Many of the previously employed workers reconstructed their homes or joined temporary work gangs, but have yet to regain permanent employment. The current rate of un and underemployment

in the area is estimated at over 30%, with the rate reaching 50% in some of the major urban areas. As the rehabilitation and reconstruction program reaches the stage of implementing the development program for the area (which is expected to be soon), considerable permanent and semi-permanent employment opportunities are expected to appear, however significant underemployment will continue in the area.

### Migration

The two principle migration flows in the ZAS, that from the rural areas to the urban areas and that from the sierra to the coastal cities and then on to the Lima-Callao area, were accelerated by the adverse conditions following the earthquake. Faced with the area's history of high unemployment and underemployment and with the large scale unemployment caused by the destruction of industry and commerce in the disaster, many additional able-bodied workers migrated to the coastal cities and to Lima.

This migration has two important effects; it removes some of the more productive labor power from the area thereby reducing the area's ability to rebound from the disaster, and it creates additional pressure on the already seriously over-burdened public services in the Lima-Callao area. A recent estimate places the population growth rate of the Lima metropolitan area at well over 5%.

### Housing

It is estimated that 160,000 houses were destroyed and severely damaged by the earthquake, representing some 45% of the total value of the damage caused by the disaster. In many cities the destruction of houses exceeded 80%.

Considerable emergency housing was constructed immediately after the disaster and most families in the area have at least partially rebuilt their homes. However, there have not been any significant housing construction programs in the area, in part due to the fact that many of the cities in the area are to have their locations changed and/or their development planned and the decisions on these changes have yet to be made. Nevertheless, the housing programs planned for the area constitute an important segment of the overall economic and social development plan for the area.

## 7.2 Economic Impact of the Program in the Region

Over a period of several years as the houses are built, this program will inject some \$25 million into the Peruvian economy, a large proportion of which will go into the ZAS in the form of payment for labor,

materials, services, etc. Since the ZAS does not and cannot produce all of the materials, etc., needed for this program, a portion of the spending necessarily will be diverted to areas outside the affected area. Every effort will be made to utilize sources local to the ZAS and to stimulate the development of new suppliers in the area.

The amount of the initial spending entering the area will have a multiplier effect as the receivers of this income in turn spend it; wage earners on consumer goods, businesses on intermediate goods, etc. Also, the increased economic activity created by this spending will induce investment in the area further stimulating the economy. Consumer goods industries, retailers, service enterprises, the construction industry, brick and tile manufacturers, and many other type industries will be favorably affected by this program.

#### Employment Generating Aspects

A substantial proportion of the work associated with this program will be labor intensive, including that related to the supplying of materials and equipment for the construction process, and, therefore, the employment generated by the program itself will be sizeable. In addition, since maximum use is to be made of local contractors and suppliers of materials, etc., most of the employment will be created within the affected area. Much of the labor demand will be for relatively unskilled labor, thereby making use of the large local supply of this resource.

As the economy of the area begins to respond to the stimulus provided by this program, additional job opportunities will become available in other sectors of the economy, for example in the consumer and intermediate goods industries and in the service industry.

It is estimated that the proposed A.I.D. loan of \$15 million and the \$10.0 million GOP counterpart for housing investment in the earthquake disaster zone are likely to directly generate approximately 8,125 years of employment over a five year time period in that region. The average \$5.0 million annual expenditure will generate 1,625 man-years of employment, or approximately \$3,077 of housing investment per man-year of employment generated. This employment generated estimate includes on-site employment plus the labor component of the materials utilized in the construction program and produced within the earthquake disaster region. The implications of any self-help housing program as a segment of the total program are excluded from this calculation.

In addition to the proposed housing program, the HIG (\$28.3 million) and BID (\$29.4) housing loans will provide an additional \$58 million of funds for earthquake disaster housing construction. Utilizing

the estimating procedures discussed below the employment generating impact of those expenditures will result in 18,850 man-years of employment over the five-year time period or approximately 3,770 man-years of employment per annum. Together the \$83.0 million combined housing program will provide 5,395 man-years of employment per annum for the five year period. Unemployment in the earthquake disaster zone was estimated by CRYRZA to be about 150,000 persons out of an active labor force of 413,000.

The above discussion has been limited to the employment generating effects within the earthquake disaster zone. Including the employment generating effects of building material purchases from outside the earthquake disaster zone, the proposed housing program will provide 9,800 man-years of employment over the five year period or 1,960 man-years of work per annum. This inclusion reduces the investment man-year employment ratio to \$2,571 per man-year generated. For the entire \$83 million of housing construction expenditure mentioned above, the total number of man-years employment increase (including proposed program) to 32,536 man-years or 6,507 man-years per annum. This calculation does not endeavor to account for reduced requirements for labor, in man-years generated, because of imported materials purchased from the foreign trade sector. These are likely to be relatively minor.

See Annex VIII for the assumptions and methods used to calculate the impact of the program in employment terms.

#### 7.2.2 Development of Local Resources

The utilization of sources local to the ZAS is to be emphasized in this program. Many of the local contractors and suppliers of resources (such as cement block and tile producers, electricians, etc.) either were not able to resume production after the earthquake due to damage suffered or did not have the incentive to do so because of the stagnant economy of the area, both prior to, and especially after, the earthquake. The lack of credit was also a limiting factor.

This program, supplemented by the other \$25 million AID Loan designed to provide credit to small businesses, should provide the means and stimulus through which the firms supplying the necessary resources for this project can again produce profitably. Many small firms producing cement blocks and tile, gravel companies, construction firms, etc., will find new markets and should be especially benefited by this loan. In addition, they will experience increased demand from other sources through the general economic stimulus provided the area; e.g., increased investment spending by firms not related to the housing industry as the demand for consumer and investment goods increased.

Following the initial effects of this program, the development plan for the region should provide continuing impetus thus permitting these firms to become permanent fixtures in the area. The GOP has already provided considerable incentives (tax breaks mostly) to firms located outside the Lima-Callao area, which the firms located in the ZAS will be able to take advantage of.

### 7.2.3 Other Economic Effects of the Program

Over a period of several years this loan will inject \$25 million into the Peruvian economy, a large percentage of which will enter the economy of the ZAS. To the extent that materials, fixtures, etc., are not available in the ZAS, spending will be diverted to the Lima-Callao and other areas; however, every effort will be made to concentrate loan expenditures in the earthquake area.

The construction industry in Peru, by its very nature, is labor intensive, therefore a large portion of the loan will be spent on labor. This will mean a diffusion of the benefits to the largest possible segment of the population, and will create a secondary demand for basic consumer goods and services, which in turn are relatively labor intensive. As a result this loan will have the majority of its impact on the segment of the population and of the business sector most in need of assistance; thus the social return on the loan should be high.

Given the high marginal propensity to consume of these consumers and enterprises, and the low marginal taxes, the multiplier effect of the loan will also be large. By minimizing the drain to other areas of Peru the maximum impact will be concentrated in the affected area.

As additional jobs and incomes are created in the ZAS, there will be less desire to move out of the area, relieving somewhat the pressure on the Lima-Callao metropolitan area.

Perhaps of most importance will be the impact on the spending and saving habits of those participating in the program and of those observing the program. The implantation of the habit of saving and investing in an asset such as a house should be of great value in terms of future investment and wealth creation.

### 7.3 Economic Soundness of Proposed Program

#### 7.3.1 Description of the Housing Market Study of the Earthquake Zone

A comprehensive study of the Housing Market in the Earthquake Zone was begun in April 1972 by the consulting firm of Manseriche, under a contract signed with CRYRZA. USAID worked closely with the BVP in the preparation of the terms of reference for the study. The total cost of the study is the sol equivalent of \$140,000, and the Final Report of the study is due 8 months from the date of the contract. The Final Report will provide the following information on the 16 largest population centers in the disaster area:

- (a) Economic and geographical characteristics.
- (b) Socio-economic characteristics of the population, including urban growth rates, population densities, major sources of employment rates of unemployment, composition and distribution of family income, and the projected impact of public and private housing programs on the economy of the region.
- (c) Inventory of existing housing and housing needs - qualitative and quantitative.
- (d) Analysis of the supply of housing, including the numbers and types of housing programs planned or underway, including self-help programs, the capacity of the construction industry and the availability of building materials and labor.
- (e) Analysis of the effective demand for housing, based on potential demand data from the above socio-economic study, on the need for housing and on the projected supply of housing. This section will project by income group the capacity to pay for new (low cost) housing and will also project the rate at which effective demand within the respective income groups can be expected to increase over the five year life of the program.
- (f) Potential for social and community organization, including existing cooperatives, pueblo joven associations, labor unions and other organizations with possible interest in participating in self-help housing programs.
- (g) Availability of land.

(h) Inventory of infrastructure services, including water, sewerage, electricity and roads. Description of ongoing infrastructure reconstruction.

(i) Construction materials and techniques, including the use of non-conventional techniques and materials and the likely degree of acceptance by homebuyers, and suggestions for techniques to be utilized.

(j) Recommended housing programs to be undertaken during the period 1973-1977. Based on the needs for housing and the potential and effective demand for housing by locality, the Report will recommend resource allocations for the various types of low cost housing, home improvement loan, infrastructure and community facility sub-programs to be carried out under the program.

The results of the Market Study will be made available on a phased basis over the 8 month work plan. The preliminary Resource Allocation Plan proposed in this Loan Paper is based on preliminary findings of the consultant made available to A.I.D. in early May. The Final Report due in November 1972, will, in effect, structure the final Resource Allocation Plan for the Program. The final Allocation Plan agreed upon by the BVP and AID will be a condition precedent to disbursement of the AID Loan.

### 7.3.2 Results of the Preliminary Market Analysis

The preliminary findings of the consultant responsible for the Housing Market Study, and data from the "Plan Chimbote" prepared by CRYRZA, indicate that there is, at the present time, a more than adequate market (i.e., effective demand) for the size and type of programs proposed. Moreover, as the multiplier effect of the expenditures under the overall reconstruction program begin to stimulate the level of economic activity in the area, this effective demand can be expected to increase considerably over the life of the Program.

#### 7.3.2.1 Analysis of Effective Demand in Chimbote and Basis for Preliminary Allocation of Funds

The present population of Chimbote is estimated at 160,000 people grouped in approximately 30,000 families. Nearly 22,000 of these families live in the 44 Pueblos Jovenes of the city, and the rest in the center of the city and the new housing developments.

On the basis of reports prepared by CRYRZA - Plan Chimbote (Informe - Curso de Trabajo de Planificación y Realización del Plan Chimbote, 1972) and preliminary investigations by the consultants responsible for the Housing Market Study, the distribution of families by income group is approximately as follows:

Monthly Income \$	Type of Employment	%	No. of Families	
0 - 25	{ Unemployed Occasional	20 %	6,000	
25 - 50		23 %	6,900	
50 - 75	Occasional	15 %	4,500	
75 - 100	Permanent	"	13 %	3,900
100 - 150	"	"	12 %	3,600
150 - 200	"	"	10 %	3,000
Over 200	"	"	7 %	2,100
		100 %	30,000	

The Sub-programs proposed for Chimbote are the following:

Type of Project	N° of Loans	Average Loan (\$)	Monthly Payment <sup>1/</sup> (\$)	Approximate Minimum Monthly Income <sup>2/</sup> (\$)
I.1 Integral Project	1,000	2,500	18	75
I.2 Relocation Projects	1,250	2,000	14	70
II.1 Provision of Services	5,000	250	4	40
II.2 Housing Improvement	417	600	11	56

As can be seen from the two above tables, the market for the loan program will be mainly provided by the 15,000 families with permanent jobs and monthly incomes between \$50 and \$200. Considering the following factors: the critical pre-earthquake housing situation, the 62% degree of damage or destruction by the earthquake, the present overcrowding (above 80%), and the need of total relocation of 17 "Pueblos Jovenes" with over 6,000 families, it is reasonable to assume that at least 75% or 11,250 of the financially qualified families are in need of new housing or credits for housing improvement. The IDB-CRYRZA Program will provide approximately 5,000 new housing units <sup>3/</sup> and 1,000 loans for housing rehabilitation. The input within this income bracket by the S&L system and other financing sources, during the 5 year Program Period, may be estimated at 2,000 units or 400 units per year. All the above programs total 8,000 units or loans, which leaves a minimum unattended balance of 3,250 families, which will be largely covered by the 2,667 loans under the subprograms Integral Projects, Relocation Projects and Housing Improvements.

The Sub-Program "Provision of Infrastructure Services" is directed to the large number of Pueblos Jovenes which will not be relocated and which lack basic services in the following percentages: water, 80%, sewerage, 74% and electricity, 79%. Many of the underemployed 6,900 families with monthly incomes between \$25 and \$50 may also be included in this sub-program, in view of the low monthly payments required.

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<sup>1/</sup> At 6% interest and terms of 20 yrs. for I-1 and I-2; 8 yrs for II-1 and 10 yrs. for II-2.

<sup>2/</sup> Taking as a % of income, 25% for I-1; 20% for I-2; 10% for II-1; and 20% for II-2.

<sup>3/</sup> The original IDB-CRYRZA program comprised 6,350 new units, including 4,500 one room "basic cores". Present sales are demonstrating that there is need for enlarging and upgrading this core. This, plus the normal cost escalations, will reduce the total number of units originally planned.

Finally, it is important to note that all the above market determinations have been made taking into account only the present population and conditions. It is reasonable to assume that the high rate of growth of the population of Chimbote (14.5% during the period 1961-1971) and the improvement of the economic conditions through the vast GOP development plans for the city, will considerably increase the effective housing demand during the 5 year Program.

### 7.3.2.2 Analysis of Effective Demand in Trujillo and Basis for the Preliminary Allocation of Funds

The population of Trujillo is estimated at 226,403 people or approximately 42,500 families.

A report, by the Consultant responsible for the Housing Market Study indicates that the distribution of families by income group is as follows:

Monthly Income (\$)	Center of City		Pueblòs Jovenes	
	Number of Families	%	Number of Families	%
Unemployed	2,873	15%	2,574	11%
Up to 25	1,916	10	5,616	24
25 - 50	2,299	12	7,722	33
50 - 75	2,490	13	2,808	12
75 - 100	2,299	12	2,106	9
100 - 150	3,257	17	1,404	6
150 - 200	1,724	9	702	3
Over 200	2,298	12	468	2
Totals	19,156	100	23,400	100

The Sub Programs proposed for Trujillo are the following:

Type of Sub-Programs	No. of Loans	Average Loan \$	Average Monthly Payment \$	Approximate Minimum Monthly Income Required \$
I.1 Integral Projects	2,200	2,500	18	75
II.1 Provision of Services	8,000	250	4	40
II.2 Housing Improvement	833	600	11	56

In the following sections, the existing effective demand for each one of the sub-programs is analyzed and the basis for the type and size of projects proposed for Trujillo is explained.

#### Sub-Program I-1 - Integral or New Housing Projects

The market for the Sub-Program I-1 (average loan \$2,500) consists primarily of the segment of population with monthly incomes ranging between \$75 and \$200. A total of 11,492 families fall within this category: 7,280 from the central portion of the city, representing 38% of the population of the center city, and 4,212 from the "Pueblos Jovenes", representing 18% of the present population of the "Pueblos Jovenes".

The preliminary findings of the Market Study indicate that in the central portion of the city only 65% of the houses within this income bracket comply with the minimum conditions of safety and liveability, and that 74.5% of these houses are over-crowded, with an excessive number of occupants per room. It is therefore reasonable to assume that at least 40%, or 2,912 families, of the financially qualified 7,280 families in the central portion of the city, are in urgent need of new, adequate housing.

In the "Pueblos Jovenes", the percentage of adequate housing is only 35.9%, and the degree of over-crowding, 77.5%; the housing needs are therefore on the order of 60 to 70%. However, considering that a number of the families will prefer to stay on their present lots, it is reasonable to assume that the Pueblos Jovenes offer to the Integral Projects, an immediate market of at least 35%, or 1,475, of the financially qualified families.

Adding the 1,475 families from Pueblos Jovenes to the 2,912 from the rest of the city, we get a total of 4,387 possible qualified homebuyers for the Sub-Program I-1. This leads us to the conclusion that Trujillo offers a more than sufficient market for the 2,200 units included preliminarily in this Sub-Program.

#### Sub-Program II-1 Provision of Services for Pueblos Jovenes

The Market Study indicates that approximately 80% of the families in Pueblos Jovenes do not have water service, 88% do not have sewerage and 95% lack electricity. Considering a minimum monthly income of \$40 to pay for the installation of some of these services, the market for this sub-program is at least 40% of the total population of the Pueblos Jovenes, or 9,360 families.

Several small programs have been started by the GOP for the provision of essential infrastructure services for the Pueblos Jovenes of Trujillo, but the progress has been very slow due to the limited availability of funds. The \$2.0 million dollar assigned in the Loan Program for the provision of services to 8,000 families will satisfy a pressing need coupled with effective demand.

#### Sub-Program II-2 - Housing Improvement in Pueblos Jovenes

The Market Study indicates that approximately 25%, or 1,755, of the 7,020 families in Pueblos Jovenes with monthly incomes between \$50 and \$200 live in houses which need urgent repair or improvements. The Sub-Program II-2 will provide 833 loans for these families. In view of the fact that the sub-program covers slightly less than 50% of the effective demand, it is reasonable to assume that the 833 loans will be easily placed in the rapidly growing Pueblos Jovenes.

Finally, it is important to note that the rate of growth of the population of Trujillo has been approximately 7% p.a. during the period 1961-1971. The economic development has also been important during the past years. Everything seems to indicate that the population and the economy will continue growing during the following years, thus, increasing considerably the present effective housing demand.

#### 7.3.2.3 Proposed Programs for Huaraz and Other Cities and Towns of the Disaster Area

The preliminary allocation of funds includes \$5.5 million or 27.5% of the program funds for sub-programs in Huaraz and other 8 to 10 towns of the sierra and coast with a combined population of over 150,000. This portion of the Program includes the construction of 1,800 new units, 2,000 loans for provision of basic infrastructure service and 833 loans for housing reconstruction and improvements. A preliminary distribution per cities has been prepared on the basis of effective demand determined by CRYRZA master plans, and also taking into account the projects already programmed for some of the cities under the IDB-CRYRZA Program. Considering that the Loan Program proposes to build or rehabilitate in these smaller cities a total of only 2,633 units which are equivalent to 14.7% of the housing deficit of the cities and 25.2% of the effective demand, it is reasonable to assume that the proposed units will be easily absorbed by the existing market.

The three cities for which higher investments are proposed are: Huaraz (pop. 30,000), Huacho (pop. 30,000) and Barranca (pop. 16,000) with an aggregate combined investment of approximately \$2.5 million.

## 7.4 Availability of Construction Materials

The overall "5-Year Housing Reconstruction Program for the Earthquake Area" demands investments in the order of \$104 million during the 5 years or \$20 million per year. Over 80% of that amount, or \$16 million per year, represent actual housing construction costs. However, in spite of this relatively high investment, an analysis of Peru's production of basic construction materials, the natural resources of the area and their proximity to the steel and cement manufacturing plants, seem to indicate that the Loan Program and the overall "5-Year Program" will not be affected by any serious shortage in the supply of the basic required construction materials.

It follows a brief analysis of the needs of the Program with relation to the installed production capacity and present sales of cement and steel, and some comments with regard to the existence of natural resources in the area for the development of clay and lime bricks and gypsum.

### Cement

Five cement plants are at present operating in the country with a total installed production capacity of 2,200,000 tons. The internal consumption amounted to 1,136,000 tons in 1970 and 1,450,000 in 1971, that is 51.6% and 66.0% of the present production capacity. The needs of cement for the Loan Program and the "5-Year Housing Reconstruction Program" are estimated in 16,000 tons and 65,000 respectively, that is 0.7% and 2.9% of the installed production capacity and only 2.2% and 8.7% of the idle production capacity in 1971. This assures an adequate supply of cement for the Program. Furthermore, in view of the development plans for Northern Peru, the Pacasmayo cement plant which is the one nearer to the cities of Trujillo and Chimbote, has immediate plans for doubling its present capacity from 350,000 to 700,000 tons per year, with an investment of \$10 million and a construction period of 18 months.

### Steel

The only steel mill at present operating in Peru is located in Chimbote. This plant (SOGESA) has at present an installed production capacity of 270,000 tons of finished products per year, including a production capacity of over 100,000 tons of reinforcement bars. The production of bars in 1971 totalled 72,672 tons, which is approximately 70% of the installed capacity. The steel needs for the Loan Program and the "5-Year Program" are estimated at 1,100 and 4,500 tons per year respectively, which is 1.1% and 4.5% of the installed capacity, and 3.7% and 15.0% respectively of the idle capacity in 1971. This

leads to believe that the Program needs of the first years, will be covered by the present production capacity of the Chimbote steel mill. In addition, the GOP has plans for expanding the existing SOGESA installations, and longer range plans for building new steelmills in Talara and Nazca.

#### Brick and Other

The brick manufacturing industry, not requiring large investments, is very elastic to the demand. It has so far covered the ever growing housing construction activities in the sierra and coastal areas. A study on the natural resources of three of the main valleys of the Disaster Area, recently completed by the GOP Office of Evaluation of National Resources (ONERN), indicates that these valleys are rich in the type of clays required for the manufacture of burnt bricks. This study also indicates that these valleys and the "Callejon de Huaylas" are rich in gypsum, lime and concrete aggregates. It is expected that, as a result of the large investments on the housing programs now local small and medium size plants for miscellaneous construction materials will be started, to meet the program demands. The proposed AID \$2.5 million Small Business would help substantially in meeting the financing needs of such plant.

## SECTION 8.0 ECOLOGICAL IMPACT OF PROGRAM

In contributing to improved employment opportunities and living conditions in the earthquake area, the proposed housing program should not significantly impair the ecology of the area.

New large scale projects will be built either on barren desert or on previously inhabited urban areas which have been cleared of earthquake debris. These projects will include provision of "green areas" for recreational, aesthetic, and urban air protection purposes.

Projects will provide for waste disposal, including disposal of human waste through sewer systems existing or to be constructed under GOP-BID programs now under way.

PART III      LOAN ADMINISTRATION

SECTION 9.0    TARGET DATES

a) Execution of the Loan Agreement

Assuming a mid-June authorization, it is estimated that a draft loan agreement could be completed in Washington by the end of July. It is estimated that one week would be needed to pouch the draft to USAID/Peru and two weeks to translate and transmit it to the BVP in the latter part of August. Depending upon how quickly the BVP was prepared to discuss the draft, negotiations could start in the early part of September. It is estimated that two months will be necessary to complete the negotiations and that the Agreement thus could be signed in late October or early November.

b) Conditions Precedent

It is estimated that the proposed conditions precedent to disbursement could be met within 30 days after signature of the Agreement, provided the BVP was able to develop a portion of the required documentation during the course of negotiations. Based on this assumption, first disbursement under the loan could take place in December, 1972.

c) Program Implementation

As indicated in the project cash flow in Section 6.3, it is anticipated that the Program will be completed within a five year period.

## Section 9.1 Disbursement Procedures

Initial Disbursement.- AID will make an initial disbursement to the BVP for an amount equal to 60% of the estimated needs for the first three months of the Program. For this initial disbursement, the BVP will prepare a schedule of aggregate Program disbursement requirements based on estimated individual sub-project needs for the first three months of the Program. Upon receipt of this estimate, AID will advance local currency in an amount equal to 60% of the estimated needs.

With the initial disbursement plus the 40% GOP contribution the BVP will establish a revolving fund equal to the estimated needs of the Program during a three month period. The amount of the revolving fund may be reduced or increased, by agreement of BVP and AID, in accordance with the level of expenditures of the Program.

Subsequent Disbursements. Subsequent to the initial disbursement, the BVP will submit to AID disbursement requests at the end of each month (or other disbursement period) for an amount equal to 60% of the disbursements of the BVP to the Program during the period. BVP requests shall include the following:

- a) A detailed schedule of all disbursements of the BVP to the Program during the period, including dates, payees and amounts.
- b) A summary of cumulative AID and GOP disbursements, total disbursement thereof, and the balance of AID and GOP funds on hand at the beginning of the month.
- c) A certification by the BVP that all construction invoices included in the payment request were approved for payment by the inspector of the agency responsible for construction inspection.
- d) All other standard and supporting papers required by the loan agreement.

For reasons related to budgeting, the Ministry of Finance proposes to release to the BVP the GOP contribution to the Program in quarterly tranches totalling an even \$2 million in each of the five years of the Program. To the extent that those releases do not cover the 40% GOP share of the periodic payments to the Program, the BVP has agreed, and shall so covenant in the Loan Agreement, to advance its own funds (at no cost) to meet program needs.

A 12

HOUSING BANK (FVPI) EXECUTING AGENCY CONTRACTOR

REMARKS

IMPLEMENTATION AGREEMENT

CONSTRUCTION CONTRACT

Best Available Copy

- ① INVOLVES COMPLIANCE WITH CP PRECEDENT TO INITIAL DISB.
- ② ACTUALLY THE AMOUNT PAID TO PAY IS A NET OF THE OF WORKS PERFORMED. MIN. A LIQUIDATION OF PART THE ADVANCE.  
 THE ADVANCE IS LIQUIDATED VALORIZATION OF REIMBURSE IN THE SAME PERCENT BY THE INITIAL ADVANCE REGARD TO CONTRACT. IN THIS WAY THE POSITION IN THE LAST REIMBURSE CONSIDERS AVOIDS EXCESS LIQUIDATION OF THE INITIAL
- ③ REQUESTS ONLY AIDS SHARE OF THE PAYMENTS

PROCESS THE REQUEST

MAKES THE INITIAL DISBURSEMENT OF LOAN FUNDS

REQUEST THE INITIAL ADVANCE ①

USE FUNDS COVERED FR 1 AID PLUS COUNTERPART FUNDS TO ESTABLISH A RECEIVING FUND

EXPLORE AND PROCESS THE DISBURSEMENT & PAYMENT

ADVANCE FUNDS TO CONTRACTOR SUBJECT TO RESTRICTIONS OF REIMBURSEMENT IF UNDERSTANDING

PROCESS COPY OF REIMBURSEMENT REQUESTED

WITH THE AUTHORIZATION TO PAY, REIMBURSE ELIGIBLE EXPENDITURE TO CONTRACTOR DEDUCTING APPLICATION & ADVANCE ②

PREPARES REQUEST OF REIMBURSEMENT INCLUDING STATEMENT AND SUPPORTING PAPERS RECEIVED BY THE LOAN AGREEMENT AND SUBMIT TO AID/MISSION ③

PROCESS THE REQUEST OF REIMBURSEMENT

DISBURSE LOAN

ADD FUNDS TO RECEIVING FUND

BASED ON CONSTRUCTION CONTRACT VALUE, PROVIDED TO THE CIP AN AUTOMATIC FUND OF PAYMENT TO CONTRACTOR

CONTAINS REIMBURSEMENT REQUESTS CHECKING IT ALSO AGAINST PROGRESS IN WORKS

CERTIFIES WHETHER IT REQUEST OF REIMBURSEMENT AND WHEN ELSE THE DATE TO PAY

USE SOME OF FUNDS TO PURCHASE MATERIALS FOR WORKS

PREPARES VALORIZATION OF WORKS PERFORMED AND REQUEST REIMBURSEMENT COPY

WITH THE FUNDS RECEIVED THROUGH THE REIMBURSEMENT, CONTINUES THE WORKS

THE PROCEDURE OF REQUESTING REIMBURSEMENT OF VALORIZATION CONTINUES THROUGH THE COMPLETION OF THE WORKS

## 9.2 Role of A.I.D.

The intermediate credit nature of the Program dictates that the intermediate credit agency, in this case the BVP, have direct responsibility for the proper implementation of all aspects of the Program. With the exception of approving large projects, AID's role is one of monitoring the actions of the BVP and the progress of the Program.

Responsibility for the Loan within USAID will be located in the Office of Capital Projects, which includes three divisions: Housing, Engineering and Capital Development. Actual monitoring of sub-programs and projects in the field will be carried out by the housing and engineering staff of the Mission. It is proposed that the Mission technical staff systematically visit the various construction sites to verify that construction and construction inspection are being carried out in accordance with all agreed procedures. The USAID Community Development Division also will work closely with the Capital Projects Office on projects involving cooperatives and self-help construction.

USAID representatives will meet as often as necessary with the BVP and other involved agencies to insure the prompt and efficient implementation of all aspects of the Program. USAID will be provided with information on the progress of the Program in the monthly reports prepared by the BVP (See Section 9.3 below) as well as from its own field inspections.

USAID will designate the necessary staff and assign the corresponding responsibilities and duties to assure effective monitoring and overall program coordination.

Annually, there will be a joint AID/BVP review of the Program, which will, among other things, evaluate progress toward the objectives of the Program, analyze the causes of any delays or difficulties experienced during the year, and propose measures for avoiding any such delays or difficulties in the coming year. The annual up-dating of the overall Program Implementation Plan shall incorporate the conclusions reached at the joint review.

### 9.2.1 A.I.D. approvals

Prior to contracting projects under the Program which have a total cost of \$200,000 or more, USAID shall have reviewed and approved such projects in writing. All plans, specifications, and other relevant documents concerning such projects will be provided to USAID by the BVP.

Prior to starting any project to be financed under the Program, the BVP will provide AID with information and general plans on the project.

### 9.3 Reporting Requirements

As indicated in Section 5.1.8, the BVP will provide to A.I.D. a monthly status report on program implementation which will include but not be limited to: projects under review, projects under construction, and projects completed. The BVP will also furnish to A.I.D. copies of the monthly reports from project administrators indicating the number of applications received and processed; sub-loan contracts signed; down-payments received; status of monthly collections from sub-borrowers; and, if necessary, legal actions taken against sub-loans in default.

Annually, the BVP will provide to A.I.D. an overall report on the progress of the Program during the previous year, including a discussion of any unusual problems or delays encountered. This Report, together with the Program Implementation Plan, will serve as the basis for the joint AID/BVP Program Review to be held once a year.

### 9.4 Conditions and Covenants

#### 9.4.1 Conditions

1. Prior to the first disbursement of the Loan, the BVP shall develop and submit, in form and substance satisfactory to AID:

a) A revised Plan for the Allocation of Program Funds, based on the findings contained in the final report of the Housing Market Study contracted on March 30, 1972. This Plan shall be agreed upon in writing by AID and the BVP.

b) An overall Program Implementation Plan. This Plan shall set forth in reasonable detail the roles and responsibilities of the various Peruvian agencies which the BVP will utilize to carry out various aspects of the Program. The Plan shall contain a reasonably detailed description and scheduling of the activities planned under the various sub-programs during the first 12 months of the Program, as well as a summary forecast by year of the activities projected for implementation in the subsequent four years. The Plan projections would be used as the benchmarks against which to evaluate the progress of the Program.

c) A description of the procedures and techniques to be used by project administrators to assure effective and efficient collection of monthly amortization payments on sub-loans financed under the Program. This should include the form of notice of payment due, the delivery method, and follow up steps to be taken.

d) A statement of the terms, conditions and other criteria which shall govern the use of Program funds under each of the respective Sub-Programs. These terms, conditions and criteria may be

modified from time to time, as agreed to by AID and BVP in writing, as may be necessary to meet the needs of the Program.

2. As a recurrent condition precedent to disbursement for each succeeding year of the Program, the Program Implementation Plan shall be up-dated by agreement of BVP and AID.

3. Prior to disbursement of the 10% of Program Funds reserved for self-help housing, and in any event within one year from the date of the Loan Agreement, the BVP shall submit, in form and substance satisfactory to AID, a Plan for developing and carrying out the self-help housing and community improvement aspects of the Program. With regard to self-help housing, the Plan should indicate the agency or agencies responsible; the availability of necessary staff; the procedures to be followed; and the size, location, and nature of projects proposed for self-help construction in the 12 months following the preparation of the Plan.

#### 9.4.2 Covenants

1. The GOP shall agree to provide the sol equivalent of U.S.\$10 million to the Program in the form of a capital contribution to the BVP and in accordance with the schedule agreed upon with the BVP.

2. The BVP shall agree to advance to the Program from its own resources, at no cost to the Program, sufficient funds to cover any difference between the amount of GOP funds needed to cover its pro rata share of periodic disbursement requirements and the amount of GOP fund actually received by the BVP.

3. The GOP shall agree to coordinate its infrastructure investments in the Zone, particularly in areas of transport, power, and sanitation, so as to complement the projects to be carried out under the subject Program.

PART IV            ISSUES

## SECTION 10.0 ISSUES

## 10.1 Why the BVP as borrower and implementing agency?

Among the issues raised and considered by both USAID and GOP during intensive review was the appropriateness of the Housing Bank as borrower and implementing agency.

The two principal alternatives as program implementing agency were CRYRZA and the Ministry of Housing. The GOP considered that CRYRZA already had its hands full with implementation of the BID housing program in the earthquake area and the AID \$3 million community reconstruction loan, together with coordination of the other major programs referred to in Sections 1.2 and 4.5.3 above. Having established reasonably good working relationships with the Bank in planning the proposed program and contracting the Housing Market Study, CRYRZA has willingly accepted the Bank as implementing agency of this program, subject to CRYRZA's role as coordinator of all GOP programs in the Earthquake Area, and as implementing agency for self-help housing projects.

The Ministry of Housing also works closely with the Housing Bank on a wide variety of programs, exercises much influence upon policies of the Bank and will serve as principal project implementing agency under the program. On this basis the Housing Ministry also has willingly accepted the role of the Bank as program implementation agency.

Other factors apparent in the GOP's selection of the Housing Bank as implementing agency include the Bank's performance record as described in Section 4.2.6 above, its already established role as implementing agency for the \$28 million housing guaranty program, its demonstrated ability to work with other agencies, both public and private, in developing and carrying out housing programs, and its ability as an autonomous agency to operate with a minimum of bureaucratic inertia in responding to the rapidly developing and changing needs of a relatively short term emergency housing program.

Having decided upon the Bank as Program implementation agency, the Government saw no particular advantage in inserting itself as an intermediate borrower. This in itself is impressive evidence of the Government's confidence in the Bank. The Government will, however, be a party to the loan agreement in assuring its \$10 million contribution, guarantying repayment, assuming devaluation risk and joining as appropriate in certain other undertakings under the loan agreement. Also, while the Bank enjoys the operational freedom of action to be expected of a financially self-sustaining autonomous institution, it is responsive to policy guidance from the central government.

While the USAID was willing to consider alternative arrangements for borrower and program implementing agency, it considers the Government's choice of the BVP to be well founded. As indicated in Section 4.2.6 above, the Bank has served as borrower and implementing agency for other AID loan financed projects as well as AID housing guaranty projects. Over the years the USAID and BVP have established excellent working relationships.

Loan Authorization (Draft)

Provided from: Alliance for Progress Funds

Peru: Urban Reconstruction - Earthquake Area

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 Housing Bank of Peru ("Borrower") of not to exceed fifteen million United States dollars (\$15,000,000) to assist in financing the local currency costs of a program to provide housing, utility services and community facilities for low income families in the area affected by the earthquake of May 31, 1970 ("Program"). The Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment

Borrower shall repay the Loan to AID in United States dollars within forty (40) years from the date of the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to AID 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) All goods and services financed under the Loan shall have their source and origin in Peru and countries included in AID 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 AID.
- (c) Prior to any disbursement of loan funds, the Borrower shall submit, in form and substance satisfactory to AID, an overall Program Implementation Plan, to include inter alia: (1) a satisfactory Allocation of Program Funds based on the final report of the Housing Market Study; (2) detailed definition of the roles of the various project implementation agencies; (3) detailed description and scheduling of sub-program activities during first year, together with summary forecast for subsequent four years; (4) detailed statement of the terms, conditions, and other criteria which shall govern the use of Program funds under each of the respective sub-programs; and (5) detailed description of collection procedures to be used by project administrators.
- (d) Prior to any disbursement for each subsequent year of the Program the Borrower shall submit, in form and substance satisfactory to AID, a Program Implementation Plan duly revised to reflect the then current situation.
- (e) Prior to any disbursement of the ten percent of Program funds reserved for self-help housing, and, in any event, within one year from the date of the Loan Agreement, the Borrower shall submit, in form and substance satisfactory to AID, a Plan for developing and carrying out the self-help housing and community improvement aspects of the Program. Relative to self-help housing, the Plan should indicate the agency or agencies responsible; availability of necessary staff; procedures to be followed; and size, location, and nature of projects

Annex I

Page 3 of 3

proposed for the twelve months following preparation of the Plan.

- (f) The Government of Peru shall agree to provide the sole equivalent of ten million dollars to the Program as a capital contribution to the Borrower pursuant to the schedule agreed upon with the Borrower.
- (g) The Borrower shall agree to advance for the Program from its own resources, at no charge to the Program, sufficient funds to cover any difference between the amount of Government of Peru funds needed to cover its pro-rata share of periodic disbursement requirements, and the amount of Government of Peru funds actually received by the Borrower.
- (h) The Government of Peru shall agree to coordinate its infrastructure investments in the Zone, particularly in the areas of transport, power, and sanitation, so as to complement the projects to be carried out under the Program.
- (i) This Loan shall be subject to such other terms and conditions as AID may deem advisable.

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Deputy U.S. Coordinator

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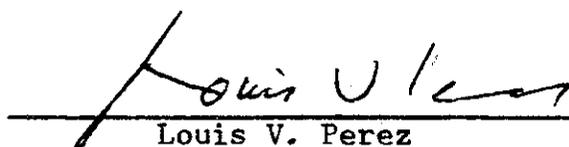
Date

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

I, Louis V. Perez, Director of the Agency for International Development in Peru, do hereby certify that, to the best of my knowledge and belief, Peru possesses both the financial and human resources to effectively use and maintain the program for assistance to low cost housing (earthquake area) proposed to be financed by an A.I.D. \$15 million loan to the Housing Bank of Peru. In so certifying, I have relied upon a memorandum dated May 6, 1972, from the Assistant Director for Capital Projects, USAID/Peru; I have taken into account the use and maintenance of similar projects in Peru previously financed or assisted by the United States; and I have particularly taken into account the capabilities of the Bank as program administrator, and of CRYRZA, the Ministry of Housing, EMADI, the Peruvian savings and loan system, component agencies of SINAMOS and the Peruvian engineering profession and construction industry as demonstrated in past performance of functions similar to those assigned to them in the subject program.

May 17, 1972

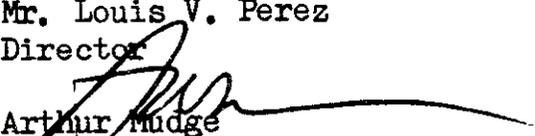
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Date

  
\_\_\_\_\_  
Louis V. Perez

MEMORANDUM

May 6, 1972

TO : Mr. Louis V. Perez  
Director

FROM :   
Assistant Director for Capital Projects

SUBJECT : Section 611(e) Certification for Proposed \$15 million  
Loan to Peruvian Housing Bank for Low-Cost Housing in  
the Earthquake Area

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

The proposed program will be administered by the Banco de la Vivienda as Borrower, using the Ministry of Housing, CRYRZA, EMADI, the Peruvian Savings and Loan System, SINAMOS, and some private sponsors as implementing agencies for the various projects within the program.

We have had satisfactory prior experience under direct loan and housing loan guaranty projects with the Banco, the savings and loan system, housing cooperatives, and peruvian private engineering and construction firms. We have also had favorable experience with CRYRZA and the Ministry of Housing in the temporary housing projects financed by the AID earthquake relief grant. On the basis of this prior experience, I believe these agencies have shown the capacity to perform reasonably well the functions assigned to them within the subject program. Although SINAMOS is a new agency, it has incorporated two existing agencies, Oficina Nacional de Pueblos Jovenes (ONDEPJOV) and Promoción Comunal ("PROCOM"), which had demonstrated competence in performance of the functions to be assigned to SINAMOS within the subject program.

Accordingly, I consider that Peru possesses both financial and human resources to effectively use and maintain the subject project; and on the basis of the information contained in the loan paper, I recommend that you sign the attached certification.

ORGANIGRAMA ESTRUCTURAL DEL BANCO DE LA VIVIENDA DEL PERU

ANNEX IV  
Exhibit 1-A

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BVP PERSONNEL

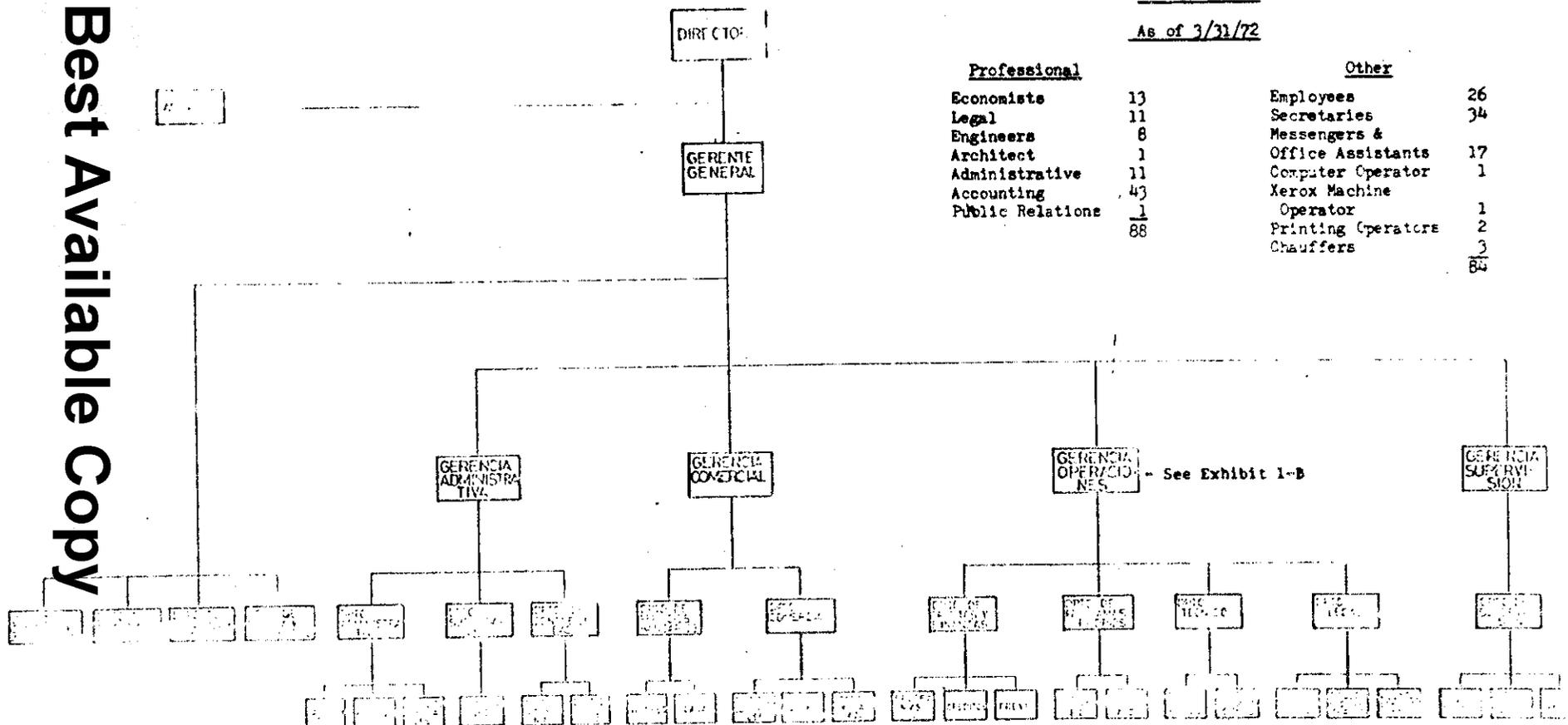
As of 3/31/72

Professional

Economists	13
Legal	11
Engineers	8
Architect	1
Administrative	11
Accounting	43
Public Relations	1
<b>Total</b>	<b>88</b>

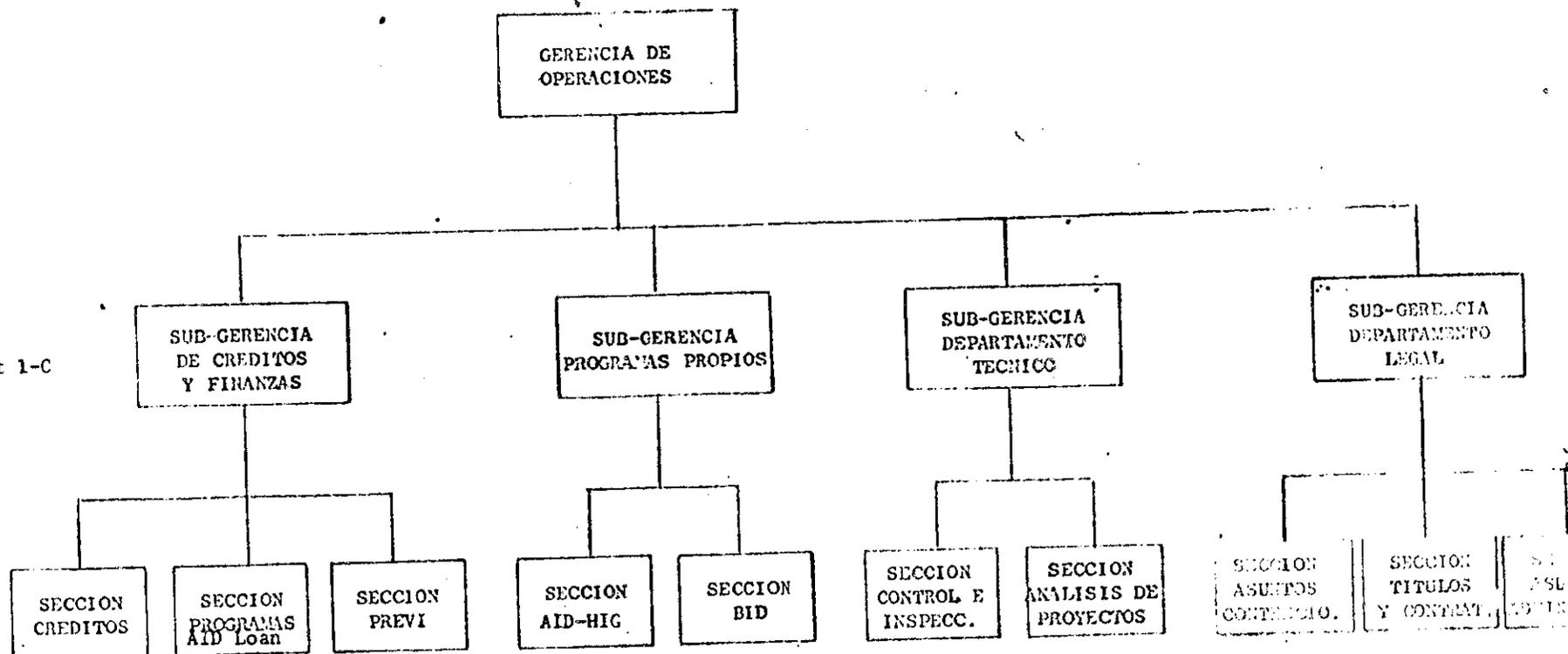
Other

Employees	26
Secretaries	34
Messengers & Office Assistants	17
Computer Operator	1
Xerox Machine Operator	1
Printing Operators	2
Chauffers	3
<b>Total</b>	<b>85</b>



ARZO 1972

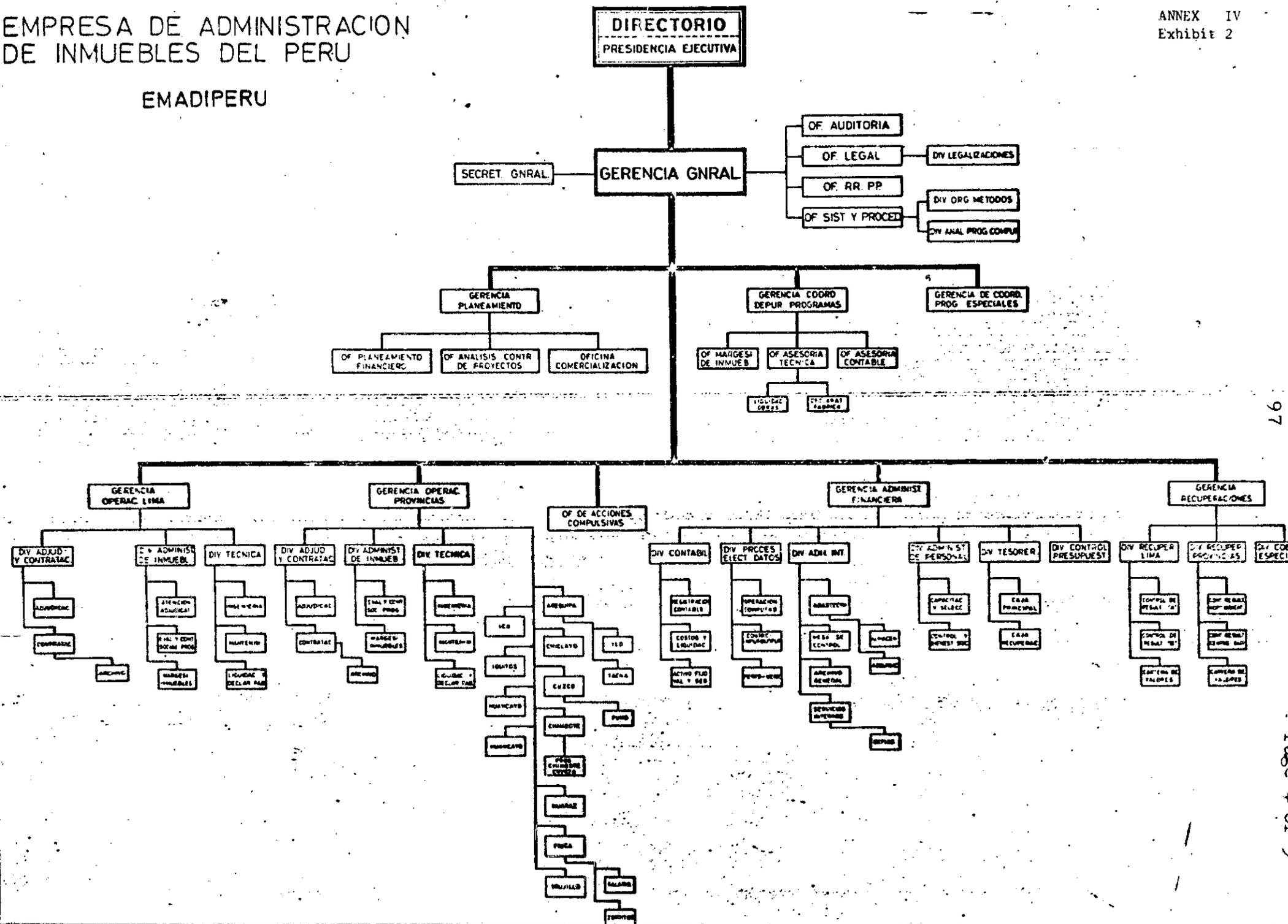
See Exhibit 1-C

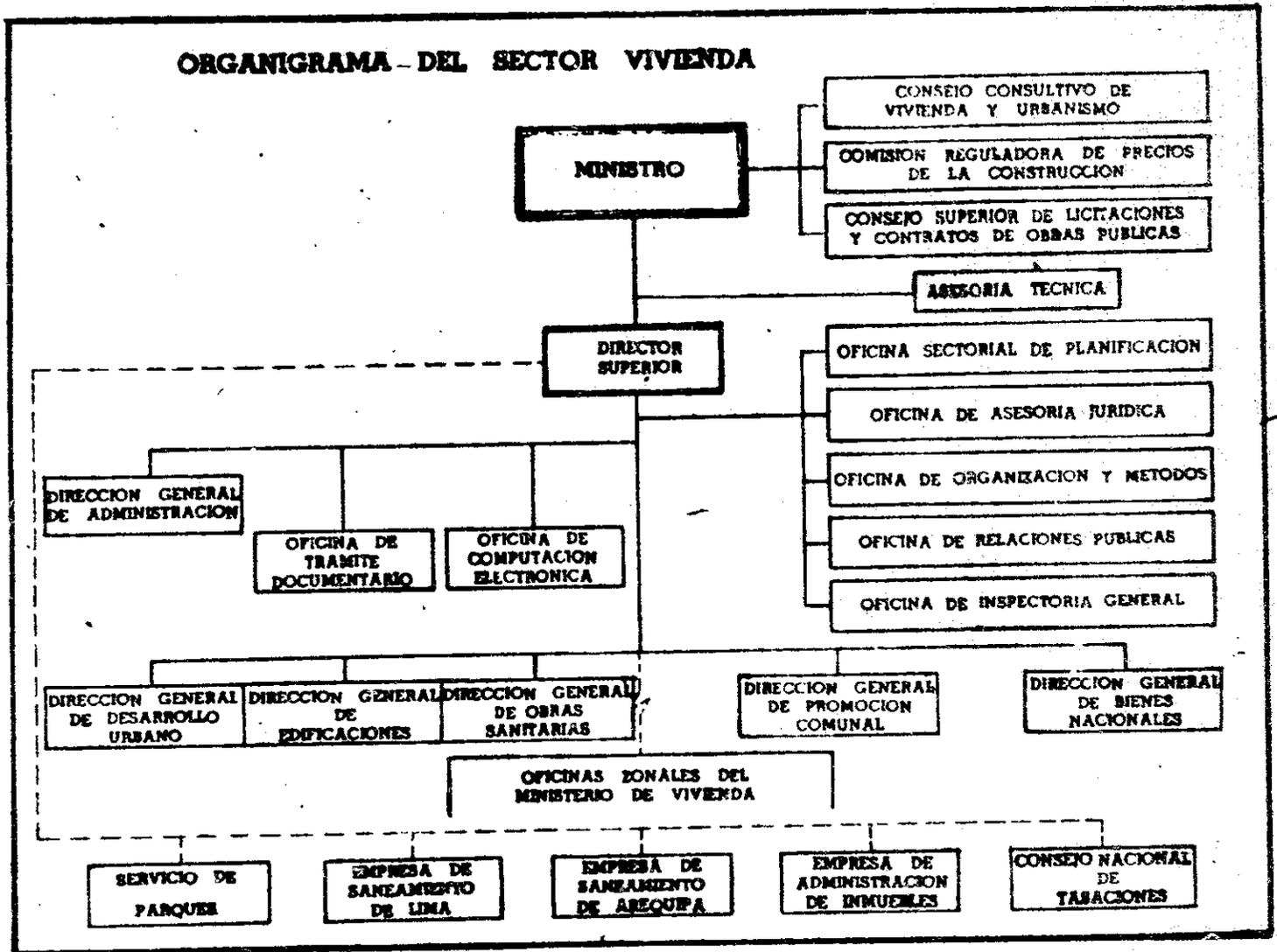




EMPRESA DE ADMINISTRACION DE INMUEBLES DEL PERU

EMADIPERU





MINISTRY OF HOUSING: ORGANIZATION CHART

## ANNEX V

## Exhibit 1

## COMPARATIVE BALANCE SHEET OF THE HOUSING BANK

(1971 - 1970)

	1971		1970		Absolute and Percentage Changes	
	(Absolute Figures in millions of Soles)					
<b>ASSETS</b>						
- Cash & Banks	321.0	11.0%	986.3	40.2%	- 665.3	- 67.4%
- Short-term Investments	814.6	28.0	528.3	21.6	+ 286.3	+ 54.2
- Interest, Commissions & Other						
Accounts Receivable	103.0	3.5	51.1	2.1	+ 51.9	+ 101.6
- Loan Portfolio	954.0	32.8	692.3	28.3	+ 261.7	+ 37.8
- Housing Programs	346.3	11.9	108.3	4.4	+ 238.0	+ 219.7
- Long-term Investments	348.9	12.0	66.4	2.7	+ 282.5	+ 425.4
- Land, Buildings & Equip. (Net)	18.7	0.8	17.4	0.7	+ 1.3	+ 7.5
<b>Total Assets</b>	<b>2,906.9</b>	<b>100.0</b>	<b>2,450.5</b>	<b>100.0</b>	<b>+ 456.4</b>	<b>+ 18.6</b>
	\$ 67.0 mill (1)		\$ 56.5 mill		\$ 10.5 mill	
<b>LIABILITIES</b>						
- Sight Deposits	349.7	12.0%	402.8	16.4%	- 53.1	- 13.2%
- Time Deposits	608.1	20.9	527.6	21.5	+ 80.5	+ 15.2
- Accounts Payable	33.1	1.1	29.8	1.2	+ 3.3	+ 11.1
- Mortgage Development Bonds	686.8	23.6	622.4	25.4	+ 64.4	+ 10.3
- IDB Loan	160.2	5.6	26.3	1.1	+ 133.9	+ 509.1
- Federal Home Loan Bank of New York & Boston	154.0	5.3			+ 154.0	+ 154.0
- Retentions & Pending Accounts	31.6	1.0	17.9	0.7	+ 13.7	+ 76.5
- Reserve for Indemnities	6.1	0.2	4.2	0.2	+ 1.9	+ 45.2
<b>EQUITY</b>						
- Paid-in Capital	727.9	25.1	719.7	29.4	+ 8.2	+ 1.1
- Reserves	149.0	5.2	99.4	4.1	+ 49.6	+ 49.8
	<b>2,906.9</b>	<b>100.0</b>	<b>2,450.5</b>	<b>100.0</b>	<b>+ 456.4</b>	<b>+ 18.6</b>
	\$ 67.0 mill		\$ 56.5 mill		10.5 mill	

1) U.S. \$1.00 = S/.43.38

HOUSING BANK  
COMPARATIVE PROFIT AND LOSS STATEMENTS  
(1970-1971)

(Millions of Soles)

<u>Income</u>	<u>1971</u>	<u>1970</u>	<u>Increase (+)</u> <u>Decrease (-)</u>
Interests & Commissions on Loans	54.3	41.6	+ 12.7
Banking Interests	38.9	37.9	+ 1.0
Income from Stocks & Bonds	74.9	21.0	+ 53.9
Interests & Commissions from Housing Programs	19.2	-	+ 19.2
Others	<u>3.8</u>	<u>3.8</u>	<u>          </u>
Total Income	191.3	104.5	+ 86.8
	<u>\$4,409 (1)</u>	<u>\$2,408</u>	<u>\$2,001</u>
<u>Expenditures</u>			
Interest Payments	98.3	42.4	+ 55.9
Salaries, Fees and Others	30.4	22.8	+ 7.6
Publicity and Seminars	1.3	3.0	- 1.7
General Expenditures	10.2	9.4	+ 0.8
Depreciation of Fixed Assets and Others	<u>3.5</u>	<u>2.8</u>	<u>+ 0.7</u>
Total Expenditures	143.9	80.6	† 63.3
	<u>\$3,317</u>	<u>\$1,857</u>	<u>\$1,460</u>
Net Surplus	47.4	23.9	+ 23.5
Plus: Excess revaluation	<u>2.1</u>	<u>          </u>	<u>+ 2.1</u>
	<u>49.5</u>	<u>23.9</u>	<u>+ 25.6</u>
	<u>\$1,141</u>	<u>\$550</u>	<u>\$591</u>

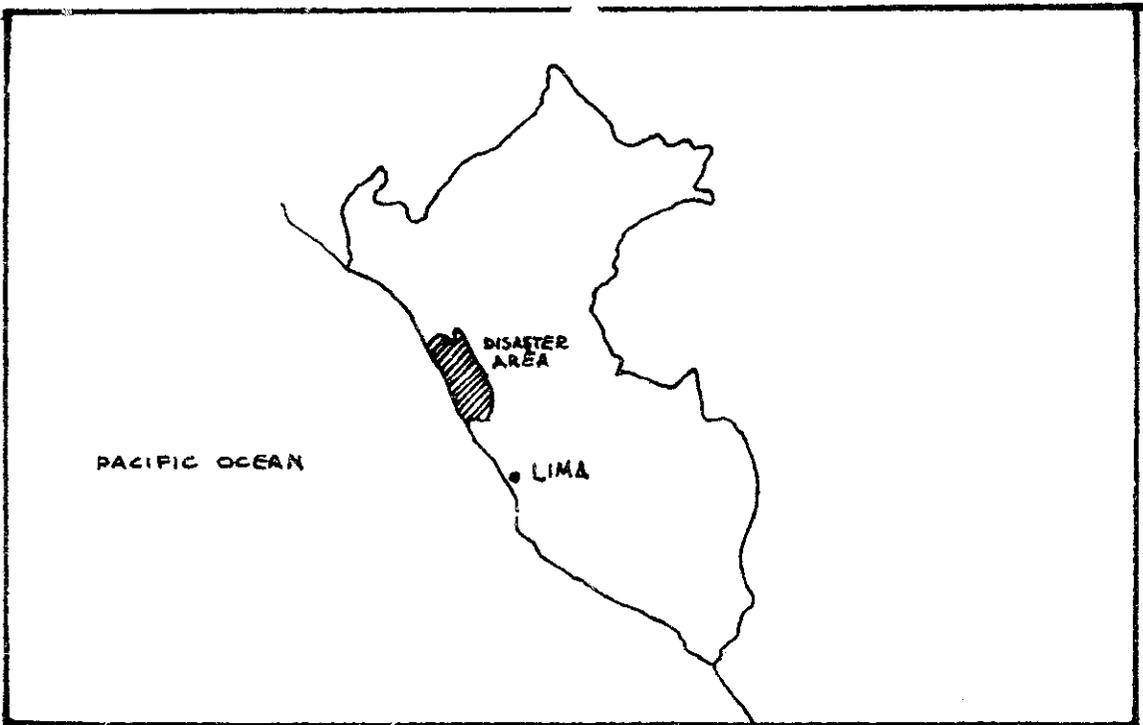
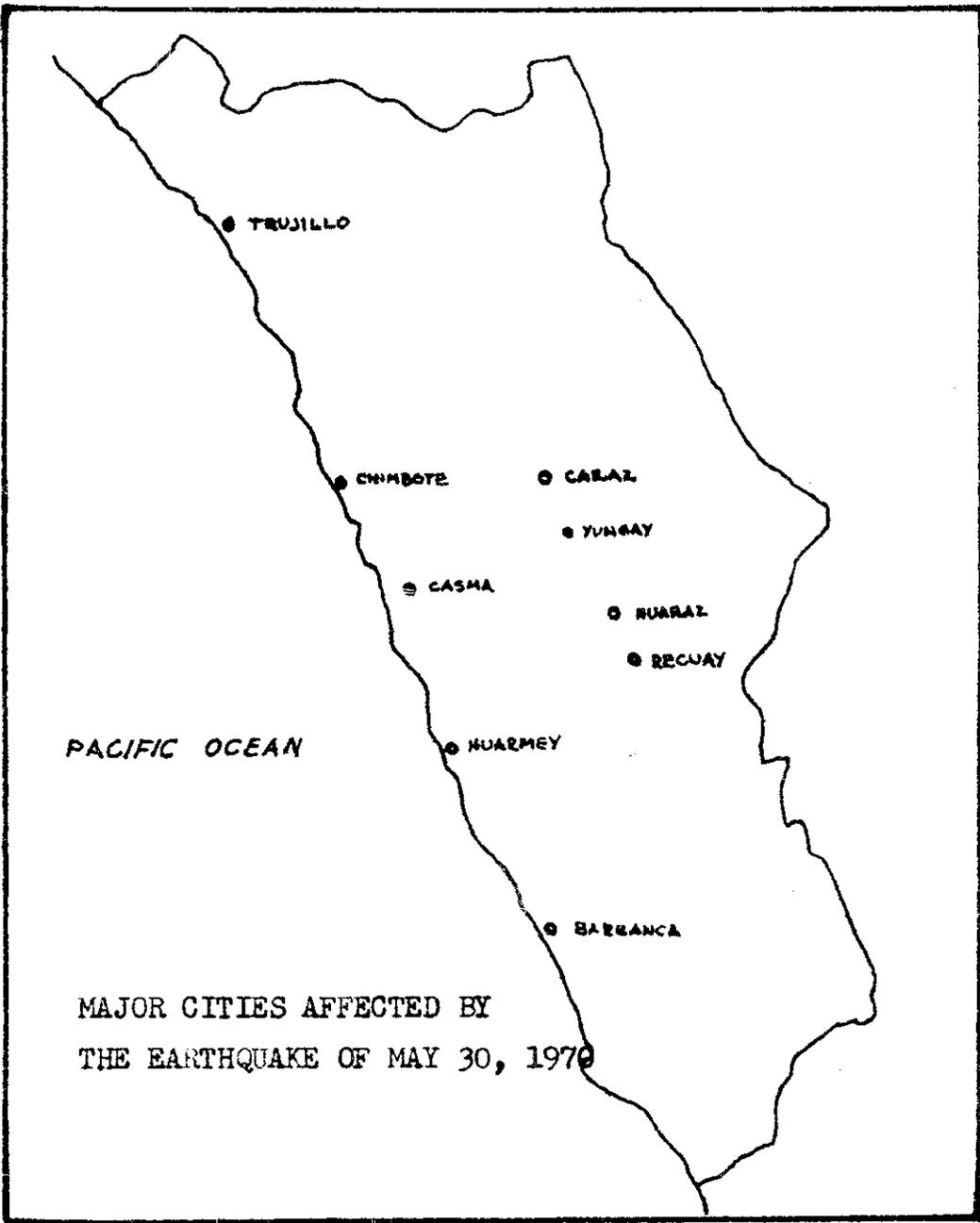
(1) U.S. \$1.00 = S/.43.38

Figures expressed in thousands of dollars

FINANCIAL ANALYSIS OF THE HOUSING BANK

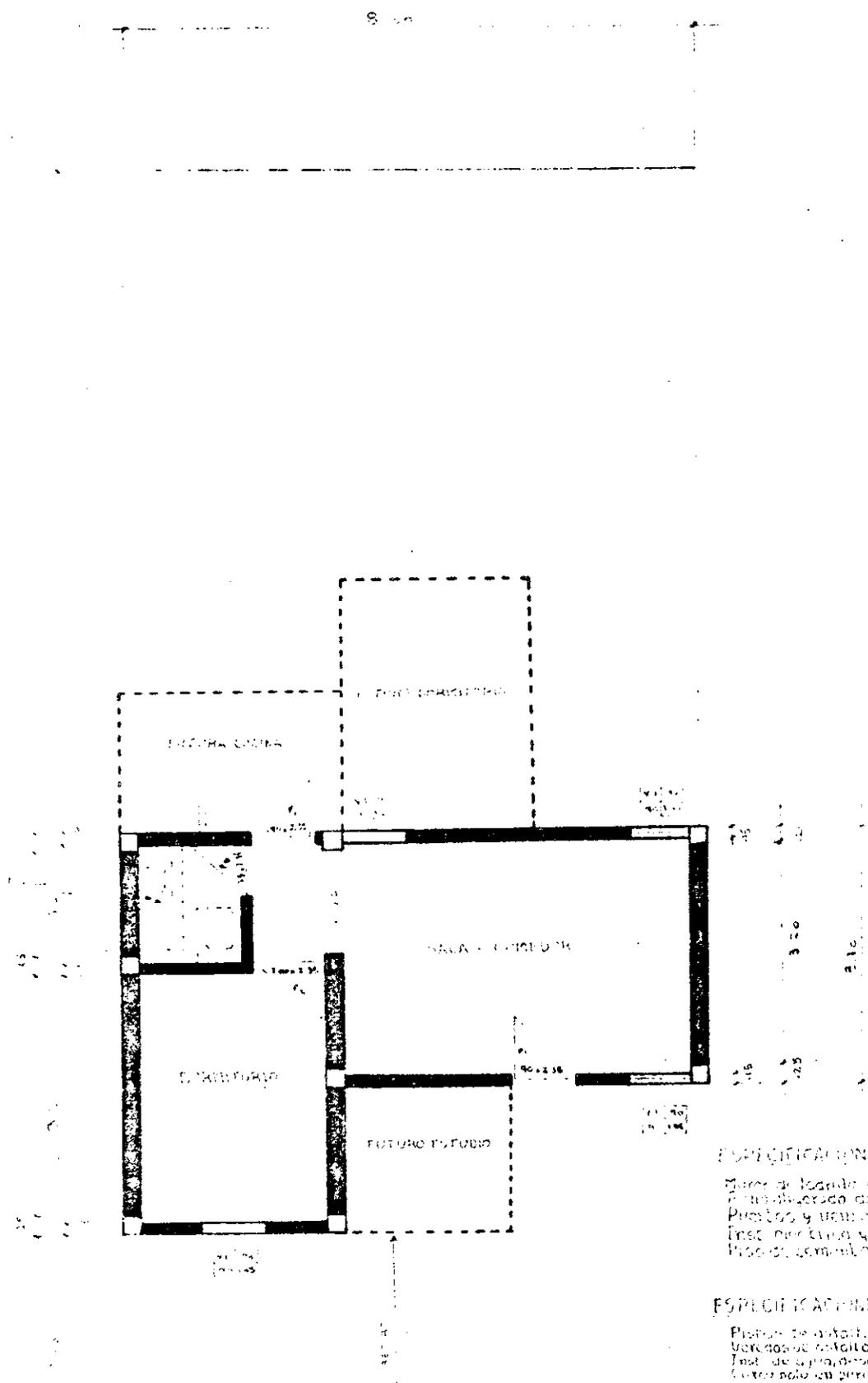
(1971-1970)

	<u>1971</u>	<u>1970</u>
<b>1.0 <u>Solvency Ratios</u></b>		
1.1 Deposits time Paid-in Capital and Reserves (Equity)	1.09X:1	1.13X:1
1.2 Trade on Equity (Investment divided by Equity)	2.80X:1	1.70X:1
1.3 Equity to Total Assets	30%	33%
1.4 Equity to Total Assets (Excluding Cash)	34%	56%
<b>2.0 <u>Liquidity Ratios</u></b>		
2.1 Cash to Deposits	33%	106%
2.2 Cash to Sight Deposits	92%	245%
2.3 Primary (Cash and Secondary (Short-term Investments) Reserves to Deposits and Current Liabilities	1.11X:1	1.55X:1
<b>3.0 <u>Earnings on Investment Ratios</u></b>		
3.1 Net Income to Equity	5%	3%
3.2 Net Income to Total Assets	1.6%	0.9%
3.3 Net Income to Income Producing Assets	1.9%	1.7%
3.4 Gross Income to Income Producing Assets	8%	7%

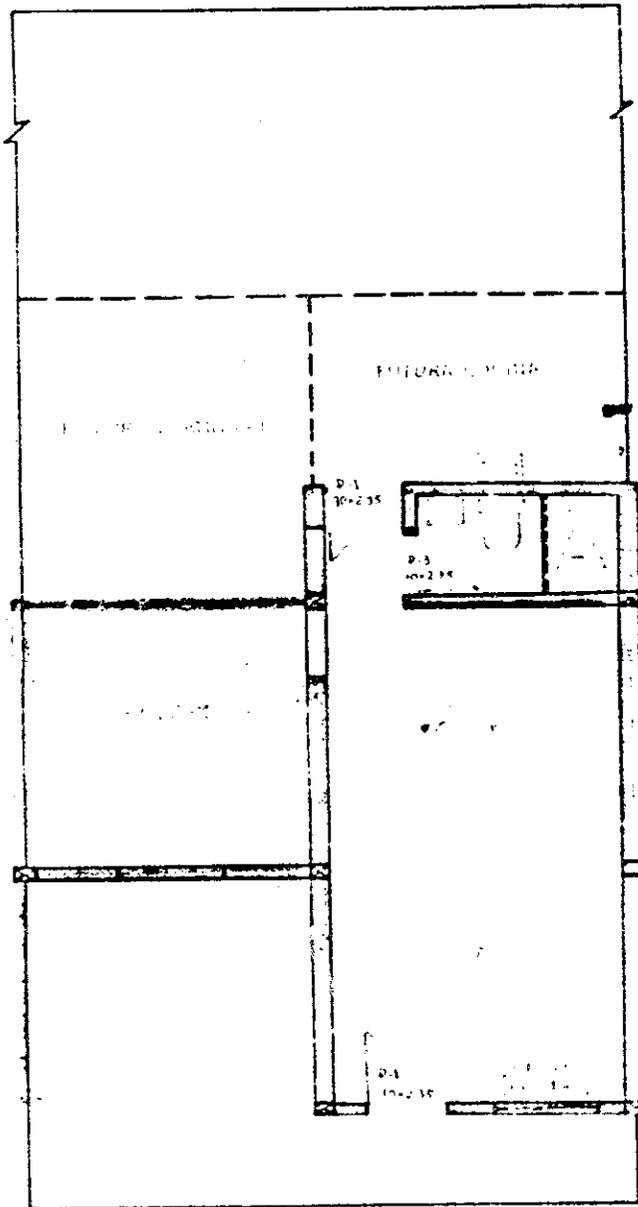


NUCLEO ELEMENTAL DE VIVIENDA TIPO COSTA

B-C



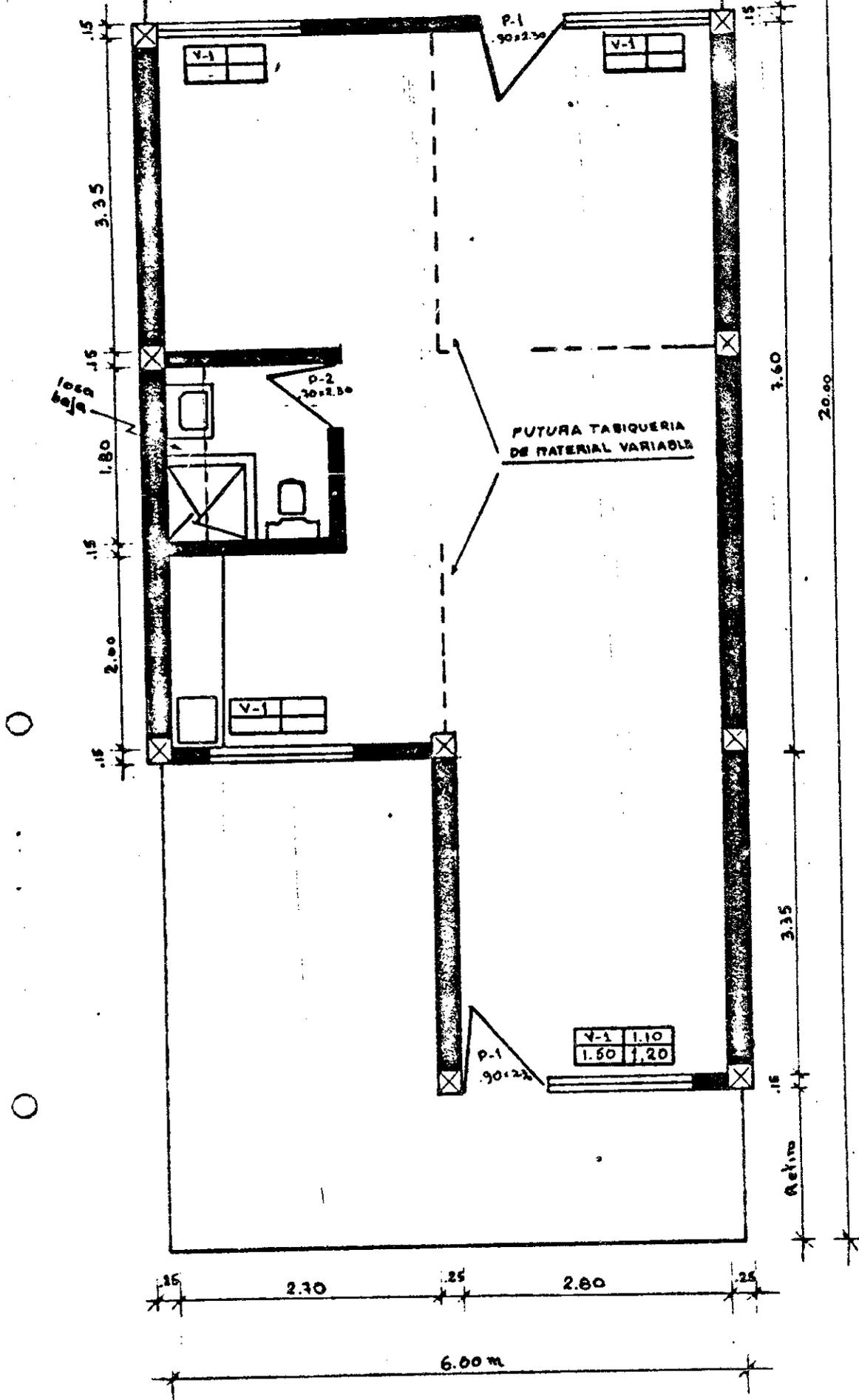
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NUCLEO ELEMENTAL DE VIVIENDA  
TIPO SIERRA

**B-S**

CORE HOUSE; TYPICAL FLOOR PLAN



CASA BASICA COMPLETA A-2

APPROXIMATION OF DIRECT EMPLOYMENT GENERATED BY A.I.D. -GOP LOAN  
HOUSING PROGRAM IN EARTHQUAKE DISASTER ZONE

1. SUMMARY AND CONCLUSIONS

The proposed A.I.D. Loan of \$15.0 million and the \$10.0 million GOP counterpart for housing investment in the earthquake disaster zone are likely to directly generate approximately 8,125 years of employment over a five-year time period in that region. The average \$5.0 million annual expenditure will generate 1,625 man-years of employment or approximately \$3,077 of housing investment per man-year of employment generated. This employment generated estimate includes on-site employment plus the labor component of the materials utilized in the construction program and produced within the earthquake disaster region. The implications of any self-help housing program as a segment of the total program are excluded from this calculation.

In addition to the A.I.D./GOP housing program, the HIG (\$28.3 million) and BID (\$29.4) housing loans will provide an additional \$58 million of funds for earthquake disaster housing construction. Utilizing the estimating procedures discussed below the employment generating impact of those expenditures will result in 18,850 man-years of employment over the five-year time period or approximately 3,770 man-years of employment per annum. Together the \$83.0 million combined housing program will provide 5,395 man-years of employment per annum for the five year period. Unemployment in the earthquake disaster zone was estimated by CRYRZA to be about 150,000 persons out of an active labor force of 413,000.

The above discussion has been limited to the employment generating effects within the earthquake disaster zone. Including the employment generating effects of building material purchases from outside the earthquake disaster zone, the AID/GOP housing program will provide 9,800 man-years of employment over the five year period or 1,960 man-years of work per annum. This inclusion reduces the investment man-year employment ratio to \$2,571 per man-year generated. For the entire \$83 million of housing construction expenditure mentioned above, the total number of man-years employment increase (including A.I.D./GOP program) to 32,536 man-years or 6,507 man-years per annum. This calculation does not endeavor to account for reduced requirements for labor and in man-years generated because of imported materials purchased from the foreign trade sector. These are likely to be relatively minor.

## 2. TYPICAL HOUSING PROJECT MODEL

The summary figures for man-years of employment generated by the A.I.D./GOP housing program was based on the cost profile of a typical project mode. A simplifying assumption made was that the program consisted of module units of 500 housing units with average construction costs of \$2,000 per unit. Aside from self-help type housing projects, the construction methods and distribution of inputs applicable to this typical project was considered as representative of the \$1,000 - \$2,500 housing cost average to be included in the A.I.D./GOP housing program.

No allowance was made for downpayments as a factor in estimating the investment labor generating impact mentioned above. The inclusion of a 10% downpayment, for example, would increase the total investment in housing and the employment generating effect.

The summary and conclusion section above has not confined itself solely to the impact of the A.I.D./GOP housing program. The impact of the HIG and BID housing programs are also noted. Whether or not the A.I.D. typical project model is representative of the higher priced HIG housing units (up to \$8,622 mortgage) is uncertain. It would appear to contain a somewhat different distribution of costs and a different weight for the labor component. The available information is not adequate to make any meaningful adjustment for this factor. The A.I.D./GOP housing program does include a small proportion (5%) for construction of community facilities. The HIG program somewhat more. Our calculations have treated these investment as if they were additional housing units.

(Brief technical description of typical housing project, specifications and building methods to be inserted when available.)

## 3. ON SITE EMPLOYMENT GENERATED BY A.I.D./GOP HOUSING PROGRAM

Investigations by USAID on local experiences and practice in regard to selected low-cost housing construction has indicated that on-site labor accounts for 25 percent of total costs, materials, inputs represent the largest cost factor at 55%, and other items (engineering, supervision, administration, financial charges and profits) the remaining 20 percent.

Table 1 (next page) presents data on the daily wages of construction workers by three labor categories in the program area. Columns 3, 5 and 7 present the daily wages for each of departments included in the earthquake disaster zone. In order to provide a weighted average, the preliminary estimates of A.I.D./GOP funds assigned to each department (column 2) was adopted as a reasonable weighting factor for the individual labor categories. The weighted daily wages are shown in columns 4, 6 and 8.

Table 1

CALCULATION OF DAILY AVERAGE WAGES FORCONSTRUCTION WORKERS IN PROGRAM AREAS

(As of April 1, 1972)

Department (1)	% of funds assigned (c) (2)	Skilled Worker (in soles)		Semi-Skilled (in soles)		Unskilled (in soles)	
		Wage (W) (3)	C.W. (4)	Wage (W) (5)	C.W. (6)	Wage (W) (7)	C.W. (8)
Ancash (Santa)	35%	140.65	49.22	121.28	42.40	101.50	35.52
La Libertad	35%	123.70	43.40	107.17	37.50	90.61	31.71
Ancash	20%	127.70	25.54	107.63	21.52	87.09	17.40
Lima	10%	155.73	15.57	126.59	12.66	105.47	10.55
Weighted Daily Average Wages	100%		133.73		114.08		95.18

Source: Bulletin #413 of the "Camara Peruana de la Construcción."

In order to derive a weighted average for a construction worker on the typical housing unit, a percentage distribution of the various types of labor was adopted. This factor (Column 2 of Table 2) was utilized in order to derive an average daily wage for the composite on-site construction worker employed on the typical housing project. As shown in Table 3 (next page), this weighted average daily wage was S/.113.43.

This weighted average daily wage represents only one portion of the housing units on site labor costs. A social benefit factor of 65 per cent of the daily wage is also paid by the employer. The monthly salary of this composite construction work is approximately \$108 (S/.4,674.95) including social benefits.<sup>1/</sup>

<sup>1/</sup> Basic salary for 25 working days	125 x 113.34 =	S/.2,837.50
+ 65% social benefits:	0.65 x 2,833.50 =	S/.1,841.45
Average Gross Monthly Cost		S/.4,674.95
Approximately:		\$ 108.00

Table 2  
CALCULATION OF AVERAGE DAILY WAGE FOR  
THREE CATEGORIES OF CONSTRUCTION WORKERS

Type of Worker (1)	% of Utilization in (U) housing construction (2)	Average Wage (AW) (in soles) (3)	U x AW (in soles) (4)
Skilled	40%	133.73	53.40
Semi-Skilled	15%	114.08	17.11
Unskilled	45%	95.18	42.83

★ Based on local experience, studies by the "Camara Peruana de la Construcción" and "Table of Labor Minimum Outputs" by the Ministry of Housing.

The typical housing project has a construction cost of \$1,000,000. On-site labor represents 25% of those costs, or \$250,000. Utilizing the \$108 monthly composite labor costs, the \$250,000 cost figure represents 2,315 man-months or 193 man-years since the construction period in the earthquake zone is all year round. The 193 man-months multiplied by 25 results in 4,825 man-years for the total A.I.D./GOP housing program or 965 man-years per annum for the assumed five-year construction program.

4. LABOR COMPONENT OF MATERIAL INPUTS AND OTHER CATEGORY

Material inputs account for approximately 55% (or \$550,000) of the cost of the typical housing project. Table 3 endeavors to estimate the proportion of materials that are likely to be produced in the earthquake disaster zone over the 5-year construction period for the A.I.D./GOP housing program. Approximately 60 percent of the required materials are presumed to be produced by enterprises from within the earthquake disaster zone. Over the projected higher levels of construction in the program and this proportion necessitates a substantial expansion of building material capacity and output in the earthquake disaster zone. If the percentage of building materials projected as available in the future is lower, than the employment generated in the zone by AID/GOP housing program will be smaller and other regions will drain off some of the employment benefits.

Table 3APPROXIMATE PERCENTAGE BREAKDOWN BY MATERIALSAND POSSIBILITY OF PRODUCTION IN THEPROGRAM AREA

Material	% of cost in relation to total costs of materials	% Produced or Manufac- tured in Project Area
(1)	(2)	(3)
Bricks	20%	20%
Cement	18	--
Steel	10	10
Aggregates	7	7
Wood (Forms)	6	3
Doors Windows	10	8
Bath Fixtures and Plumbing	10	5
Electrical Inst.	3	--
Glass	3	--
Paints	3	2
Other	10	5
TOTAL	100%	60%

Source: Publications of the "Camara Peruana de la Construcción"  
Economic Indicators on Construction Costs by the Central Reserve Bank

A further assumption was made that the approximate labor component in the total production cost of building materials was 40%. Since only 60% of the building materials for the AID/GOP housing program are to be produced within the earthquake disaster zone, the approximate labor component of the 55% of total cost applicable to building material is calculated at 24% (40% x 60%). The local labor component of the \$550,000 total materials costs is, therefore taken as \$132,000 (24% x \$550,000).

For convenience, the previously calculated construction worker cost estimates was adopted as a reasonable proxy for the wages of the various categories of labor employed in the numerous building materials sub sectors. Generally, wages for these sub-sectors are lower than for construction workers, but the difference is offset by the higher salaries of the technicians and white collar workers of the construction materials industry. The \$132,000 in expenditures for the labor component of building materials produced in the earthquake disaster zone is equivalent to 1,220 man-months or 102 man-years. The equivalent projections for the entire \$25 million A.I.D./GOP housing program is 2,550 man-years over the five-year construction period or about 510 man-years of employment per annum.

In the "other " category, local labor was assumed as 20% of the \$200,000 costs or \$40,000. This reduces to 750 man-year for the five-year construction period or 150 man-years per annum.

5. Total Labor Component of A.I.D./GOP Housing Program in Earthquake Disaster Zone

Table 4

SUMMARY OF LOCAL LABOR COMPONENT

Components (1)	Cost Breakdown		Local Labor		Employment Generated- Man-Years (6)
	% (2)	\$ (3)	% (4)	\$ (5)	
"On Site" Labor	25%	\$ 6,250,000	100	\$ 6,250,000	4,825
Materials	55	13,750,000	24	3,300,000	2,550
Other (Eng. & Super. Administ. & Financial)	20	5,000,000	20	1,000,000	750
Totals	100%	\$25,000,000		\$10,550,000	8,125

Table 4 summarizes the employment generated by the A.I.D./GOP \$25.0 million housing program in the earthquake disaster zone. Local labor cost represents about 42% of the total costs shown in Table 4.

The 8,125 man-years shown in Table 4 (or the 1,625 man-years per annum) do not include the employment generated outside the zone. The employment generated leakage out of the zone is represented by the necessity to produce 40% of the building materials needed for the housing program from outside the program area. This leakage reduced the regional labor component of building materials production from 40 percent to 24 percent, or by 16 percent. When included in the labor component for the entire country it increases total labor costs by \$1,205,000, from \$10,550,000 to \$11,755,000 and the proportion of total labor costs from 42% to 47% of total construction costs. Including this leakage out of the earthquake disaster zone also increases the number of man-years of employment generated from 8,125 man-years in Table 4 to 9,800 man-years (or to 1,960 man-years per annum) for the five year construction period.

MACRO-ECONOMIC ANALYSIS OF PERU

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General Economic Policy of Current Government

When the current Government of Peru came to power in October 1968, the economy had just passed through a highly unstable period characterized by stagnant real production, negative net investment, high and rising unemployment, serious inflation, large balance of payments and Central Government deficits, and general lack of public confidence in the previous Government's policies. Most of the previous government's difficulties stemmed from the Administration's inability to obtain new tax legislation from the Congress which would have provided the funds required to finance the Administration's development plans. Unwilling to moderate its expansionist policies, the Administration relied on short-term foreign credits and Central Bank financing, both highly inflationary given the stagnant productivity of the economy. As a result, the balance of payments deteriorated and the debt service burden for the first half of the 1970's increased ominously. An austerity program was introduced (under a truce between the Administration and Congress) following the devaluation of late 1967 and some improvement had begun by the time the Government changed hands.

The current Government strengthened and expanded the austerity program during its first full year in office, while at the same time designing and beginning to implement a program of structural reform destined to effect profound changes in the economic and social order of the country. In its economic policies, among other things, it limited government spending, tightened monetary policy and its control over the banking and financial system, reduced Central Government borrowing both external and internal, instituted measures to increase taxes, and in general followed conservative economic policies. The result was a dramatic improvement in the overall economic situation which included balance of payments and Central Government budget surpluses and a reduction in the rate of price increase from 19.1% in 1968 to 6.2% in 1969. Real production increases in 1969 were small, however, due to the conservative spending policy of the Government and the lack of significant new net private investment. This latter was adversely affected by the uncertainties of the political and economic situations.

In 1970, the Government changed its economic policy to one of cautious expansion, having decided that it had sufficient control over the economy to prevent a recurrence of the previous administration's difficulties. Thus, it began a program of government spending (mostly on public works projects in 1970) to stimulate the economy which it has continued with marked success up to the present time. Consequently (in 1970), a five year economic and social development plan was devised covering the period 1971-1975. This Plan (National Development Plan 1971-1975) calls for a total investment of some \$2 billion over the five years with major emphasis on agriculture, education, communications and transportation, and the extractive industries. This investment is expected to generate a 7.5%

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annual average increase in real gross national product for the period and to provide nearly 1 1/4 million new jobs.

At the same time that it was bringing order to the economy, the Government began slowly introducing a pattern of economic and social change which has as its intermediate objectives a better distribution of income and ownership of property, greatly lessened external dependence, and a much greater participation by the State in the economy. The ultimate objective, of course, is to increase the well-being of all Peruvians.

Among the changes that have been introduced to reach these objectives are the following: greatly accelerated implementation of agrarian reform; an education reform which will extend access to education to many more Peruvian children and which will develop Peru's human resources to correspond to the manpower needs as envisioned in the National Development Plan; a public administration reform which will restructure Peru's administrative system with the view to increasing its efficiency, thereby eliminating a potentially serious obstacle to fulfillment of the Plan; strict controls over both domestic and foreign investment so as to assure that the country's resources are used for essential, priority projects and to lessen the foreign influence in the economy since the interests of foreign investors do not always correspond to those of Peru (for example, foreign mining interests for years have been sitting on valuable mineral deposits the exploitation of which would probably have been in the interest of the country); strict controls over the inflow and outflow of foreign exchange so as to reserve its use to the most pressing needs and to prevent capital flight; and the introduction of the concept of "the community" into the laws regulating the various sectors of the economy (industry, mining, etc.) under which fifty percent ownership of all enterprises will eventually be turned over to the workers through the reinvestment of 15% of the company's profits in company shares in their names.

The Government has reserved ownership of the basic industries (communications, extractive industries, etc.) for the State, however, private firms, foreign and domestic, will be permitted to operate in these industries under contract with the State regulating agency (for example, foreign oil companies are working under contract to PETROPERU in the exploration for oil and they will be permitted to exploit any oil found, again under contractual arrangement with the Government). In the non-basic industries foreign ownership will be limited more or less in accordance with the Andean Pact foreign industrial investment code.

In addition to its controls over private investment, the Government is expanding its own investment program with a goal of 50% public and 50%

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private investment by 1975, and it has taken over the marketing of the countries major export products, including fishmeal and the mineral products.

As a consequence of these changes the State will exercise progressively greater control over the economy and the lives of the Peruvian people; however, there should also result a fuller and more efficient use of the countries human and material resources with accompanying benefits to all Peruvians. The Private sector's role, although reduced, will continue to be important, especially in non-basic areas of the economy; however, it is clear that this Government intends to regulate and direct the private sector in the best interest of the country.

Naturally, these changes have had short-term repercussions on the economy. Private investors have been reluctant to invest in new plant and equipment because of having to relinquish ownership under the "community" laws and because of the general uncertainty. Also, the acceleration in agrarian reform has resulted in some decapitalization in rural areas. However, recent indications are that private investors are beginning to replace worn out plant and equipment and some new investment is occurring. Whether or not the private sector is soon to become a dynamic factor in the economy again depends upon the absence of injections of new uncertainties into the picture and upon the success of the Government's development efforts.

Peru's development prospects have always been good, due to its vast mineral wealth; but now with the discovery of oil in the Peruvian jungle and the rapid advances made within the Andean Group, the prospects are even better. If the Government's control over the economy remains effective, Peru could be on the verge of an unprecedented period of economic and social progress.

## Recent Performance of the Peruvian Economy

### Gross National Product Growth

As table I shows, Peru's real GNP grew very slowly during the two "crisis" years (1967 and 1968) and the one austerity year (1969), but rebounded sharply in the two expansionist years (1970 and 1971).

TABLE I

Year	<u>GROSS NATIONAL PRODUCT</u>		
	(Constant 1963 Prices)		
	G.N.P. Billion Soles	G.N.P. Billion Dollars <sup>1/</sup>	% Increase From Previous Year
1965	88.1	3.3	4.8
1966	93.2	3.5	5.7
1967	94.7	3.5	1.6
1968	95.4	2.5	0.7
1969	96.7	2.5	1.4
1970	104.1	2.7	7.7
1971 <sup>2/</sup>	110.4	2.9	6.0

The strong expansion of 1970 was due primarily to increased government investment spending and sharply higher exports occasioned by strong international demand (with higher prices) for Peru's major export products. Also, consumer spending was up significantly in response to the expanding economy and to increased personal liquidity caused by the required repatriation of foreign deposits in the last half of the year. Private domestic and foreign investment actually decreased in 1970 as investors were wary of the new, restrictive legislation then being promulgated.

In 1971, government investment spending was again an important growth factor, and consumer spending continued increasing as a result of higher wages and as consumers worked off some of the idle balances caused by the foreign deposit repatriation of the previous year. Private domestic investment recovered somewhat, and some foreign private investment occurred under contractual arrangement with the Government.

<sup>1/</sup> Converted at S/.26.80 = \$1.00 through 1967, and at 38.70 = \$1.00 for 1968 until 1971.

<sup>2/</sup> Estimated, according the last speech of Minister Morales Bermudez (February 16, 1972)

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(For example, several companies began exploring for oil in the jungle, under contract with the state oil company PETROPERU, and there was some new investment under contract by foreign mining companies). Exports fell considerably in 1971 due partly to an inflexible price policy for fishmeal in the face of declining international demand and partly to a series of crippling strikes in the mines which reduced the supply of mineral products.

Construction was the most rapidly growing sector of the economy in both years, followed by the industrial sector. The growth of output in the latter sector resulted from increased use of existing capacity, rather than from expansion in capacity. The agriculture sector was most disappointing, with very little growth in either year. Over the past decade, per capita production of food products has fallen by an average of 2% annually, with corresponding increases in food imports.

Real per capita gross national product decreased in the three low growth years (67, 68, and 69), and increased in the last two years (70 and 71). See Table II. (Peru's population is thought to be growing at a rate of from 3.1 to 3.5% annually.) The distribution of income has probably not yet been significantly affected by the changes introduced by this government; however, the varying sectoral growth rates of the past two years probably mean a slight redistribution in favor of labor.

TABLE II

GROSS NATIONAL PRODUCT PER CAPITA

(1963 Prices)

Year	G.N.P. Per Capita Soles	% Increase From Previous Year
1965	7,502	1.3
1966	7,699	2.6
1967	7,585	-1.5
1968	7,407	-2.3
1969	7,285	-1.6
1970 <sup>1/</sup>	7,610	4.5
1971 <sup>1/</sup>	7,765	2.0

<sup>1/</sup> Estimated, according the last speech of Minister Morales Bermudez (February 16, 1972)

### Private Consumption Spending

Real private consumption has increased rapidly over the past two years; and, given the Government's policy of redistribution of income and the rapid growth of the population, it is likely to increase as a proportion of GNP in the future. The required foreign deposit repatriation of late 1970/early 1971 provided considerable domestic liquidity, some of which was spent on consumer goods. In addition, higher wages, both in the public and private sectors, and the general growth of the economy have contributed to increased consumer spending.

### Real Private Domestic Investment

Real private domestic investment has increased very little over the five year period 1967-1971. In the early years (1967 - 1969) the instability of the economy prevented such investment, while in the latter years (1970-1971) the uncertainty over the role the private sector was to play in the future had the same effect. There was some recovery in 1971 when many firms found it necessary to replace equipment and machinery worn out by two years of near full-capacity operation and when the legislative uncertainties diminished somewhat in the face of brighter economic prospects in the future.

Private domestic investment is expected to continue increasing in the near future; however, within the limits prescribed by the Government. The Government has announced its intention to be the sole producer in the basic industries (with the exception, that private firms may work under contract to the State), and has indicated that it is willing to enter into joint ventures with private firms in other industries. There is a considerable role left for the private sector; however, and, in spite of eventually having to pass 50% ownership over to the workers, many domestic firms appear willing to undertake replacement (and some new) investments.

### Private Foreign Investment

Private foreign investment has been seriously affected in the last few years by Peruvian legislation regulating private investment in general and foreign private investment in particular, and by the provisions of the Foreign Investment Code of the Andean Pact. New investments have been limited to a couple of expansion programs by extractive firms already heavily committed through previous investments and to selective investments under strict contractual agreements with the Government (such as the foreign firms under contract to explore for oil in the jungle, and the joint venture agreement between Dressler Industries and the Government's Development Finance Corporation to make drill bits for the mining and oil industries).

Peru's policy is to encourage foreign firms to take a minority position in joint ventures with Peruvian private and State participation; and, in fact, with respect to divestiture by foreign firms, is perhaps going further than that required by the Foreign Investment Code of the Andean Pact. Some U.S. firms appear to be interested in joint venture projects, and a number of third-country firms have been investigating similar arrangements. There appears to be a decided trend towards third country investment (non U.S.) in Peru; however, there still cannot be said to be any surge of private foreign investment in Peru from any source.

### Balance of Payments

Peru's balance of trade has been in substantial surplus for the past four years (68 through 71), with the surplus of 1970 exceeding \$400 million and representing 40% of exports. However, in each of these years with the exception of 1970, debt service payments, investment income outflows, negative tourist and transport balances, and other foreign payments more than offset the trade surplus, resulting in moderate balance of payments deficits. Fortunately, the large trade surplus of 1970, combined with a substantial capital inflow resulting from the required repatriation of foreign deposits and tight controls over certain other foreign payments, provided for a substantial balance of payments surplus thus replenishing Peru's international reserves. In spite of the sizeable deficit in 1971 (\$76 million), Peru's international reserves at year's end were equal to \$343 million or approximately 50% of one year's imports.

Due to the heavy short term foreign borrowing of the previous administration, Peru's debt service for 1972 through 1974 rose to an annual average of \$200 million for an estimated debt service ratio (debt service to exports) of from 20 to 25%, depending on the level of exports. Within the past year though, Peru has been able to reschedule part of the debt service for 1972 and 1973, thereby obtaining much needed relief for those years. The debt service ratio for 1972 is now estimated to be no more than 15 to 16% and additional relief will probably be forthcoming for subsequent years.

Peruvian Ministry of Economy and Finance and National Planning Institute officials have forecast a total balance of payment deficit of \$780 million for the Plan period, 1971-1975, under the assumption that the Plan will be fully carried out. Any shortfall in executing the plan will correspond to reduce this deficit. With this foreign capital deficiency in mind, Peru has obtained promises of substantial foreign assistance from the World Bank sponsored Consultative Group which met in Paris in early 1972.

If the required foreign capital inflows are forthcoming as expected, Peru should be able to weather any foreign exchange crisis in coming years. The present Government of Peru has never defaulted on a debt service payment (in which it prides itself) and it is unlikely that foreign exchange shortages will force it to do so in the near future. If the recent oil discoveries prove to be of commercial quantities as expected, the Government should be able to mortgage this asset within a year or two if necessary. Exports of oil products are not expected until at least 1975.

#### Central Government Budgetary Performance

Throughout 1966 and most of 1967, Peru's Central Government budget was in substantial deficit as the Government followed an expansionary fiscal policy in the face of stagnant tax revenue. The legislature refused to increase taxes, in response to which the Administration resorted to Central Bank and foreign short-term financing. The result was serious inflation followed by devaluation of the currency in late 1967. The austerity programs of 1968 and 1969 plus some increases in taxes led to the practical elimination of the budgetary deficits for these two years. In 1970, the sharp increase in government spending coupled with slowly increasing taxes led once again to a moderate budget deficit, financed in large part through the sale of treasury bonds. The following year saw continued increases in government spending accompanied by a reduction in government revenues occasioned by the virtual elimination of the tax liability of the mining industry due to a series of strikes which substantially reduced the profits of that industry. Thus, the mining companies, which are normally among Peru's leading taxpayers, paid practically no taxes that year; however, once again the Government was able to finance the deficit through the sale of treasury bonds, thereby avoiding having to borrow from the Central Bank.

The Government's ability to sell treasury bonds derived from the excess liquidity in the economy resulting from the repatriation of foreign deposits in combination with the coincident lack of investment demand for money for reasons stated above. This repatriation, amounting to an estimated \$170 million, was accumulated in idle balances in demand and savings accounts which still have not been completely worked down (deposit velocity is still significantly below normal). The lack of competing demand from the private sector permitted the budgetary deficit to be financed in a relatively non-inflationary manner.

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Through the first quarter of 1972, Peru's Central Government budget was in large surplus as a result of a substantial increase in taxes and only slowly increasing expenditures. The strong increase in taxes was the result partly of uninterrupted operations in the mining industry and partly of better tax administration and higher taxes. If this trend continues, Peru's tax effort should show a significant increase for 1972, and, although the rate of expenditure is expected to accelerate in coming months as the Government implements its development plan, any budgetary deficit should remain well within manageable bounds.

The fiscal policy of the current Government has been pragmatic. The Government has stood ready to stimulate the economy to the extent necessary to assure economic growth, but it has also been willing to hold back expenditures as necessary in the face of inflationary pressures. Thus, while the Government is committed to growth, it must be growth with stability.

### Inflation

Prices have risen only moderately since the Government began its austerity program in late 1967. The following two years, 1968 and 1969, were years of little inflation as the Government reduced its expenditures and kept tight control over private liquidity. In 1970, despite considerable impulse provided through increased consumer and government spending, prices rose only moderately (5%) as fuller utilization of existing plant and equipment provided additional supply to meet the growing demand. In 1971, prices again rose only moderately (6.8%) despite rising consumer and government spending and the partial resumption of private investment spending. Full capacity production, especially of consumer goods, once again offset some of the pressure of demand.

In the first quarter of 1972, shortages of certain basic items, primarily food products pushed the consumer price index up sharply (23% annual rate). While this is thought to be a temporary phenomenon caused by disrupted transport (landslides and floods) and crop damage through flooding, there is little doubt that the trend is toward more rapidly increasing prices. With demand continuing to increase and production probably having neared its maximum due to the lack of investment over the past few years, inflation promises to be one of Peru's most difficult problems in the months ahead. It may cause the Government to scale down its ambitious development plans.

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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 amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1972.

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCEProgress Towards Country Goals1. PAA § 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 intervention in affairs of other nations.

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

The GOP is contributing 40% of the required funding for the project: i.e., \$10 million in soles equivalent.

(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 of expression has been somewhat curtailed in recent years, tax collections have improved, laws are enforced and land reform has been given high priority. GOP is making significant efforts to improve quality of judiciary.

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(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 strengthened the 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. FAA § 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.

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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.

4. FAA § 620(o); Fishermen's Protective Act. § 5. If country has seized, 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 Fishermen'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?

The Administrator has taken into account prior fishing vessel seizures by the GOP in determining to continue assistance to Peru.

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Relations with U.S. Government and  
Other Nations

5. FAA § 620(d). *If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States 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, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?* The Administrator has taken Peru's limited guaranty program into account in determining to continue assistance to Peru.
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 the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?* No severance of diplomatic relations.
10. FAA § 620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?* GOP budget authorizes expenditures for delinquent U.N. dues and payment on regular budget account. 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 § 620(b). *If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?* Yes, such determination made.

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13. FAA § 620(f). Is recipient country a Communist country? No.
14. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? No in both cases.
15. FAA § 620(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 instance.
16. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? The U.S. Department of Justice, Bureau of Narcotics and Dangerous Drugs, is working closely with Peruvian law enforcement agencies to control illicit drug traffic to the U.S. GOP also cooperating with international organizations (e.g., U.N.) to control the drug problem.

## Military Expenditures

7. FAA § 620(s). 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 is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

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 stature, the Administrator has taken these matters into account in determining to furnish this assistance.

## CONDITIONS OF THE LOAN

### General Soundness

8. FAA § 201(d). Information and conclusion on reasonableness and legality (under laws of country and the United States) 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.

9. 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?

As indicated in the Loan paper, the project is considered economically and technically sound. An application with appropriate assurances has been received and is included as annex in this paper.

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10. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

As indicated in Section 6.5 of the loan paper, Peru's long term foreign debt appears manageable and there are reasonable prospects for repayment of the loan.

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21. 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 United States of the assistance?
- All planning necessary to the execution of this intermediate credit program has been carried out. The existence of an ample market for the houses to be constructed has been established (See Section 7.0) and the implementing agency has the professional and technical staff necessary to develop and carry out the overall program. Prior to commitment of funds to individual sub-projects, plans and firm cost estimates will be prepared for each sub-project. The cost of the Program to the U.S. will be \$15 million.
22. 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 further legislation necessary.
23. 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?
- Yes. See Annex II.
24. FAA § 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
- EX-IM Bank, IADB, and IBRD expressed no interest in financing this project.

Loan's Relationship to Achievement  
of Country and Regional Goals

25. FAA § 207; § 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 Voluntray Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws.

Proposed loan is designed to assist self-help measures, promote the establishment of housing and service cooperatives, and generally strengthen urban development programs throughout the earthquake zone.

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

Not susceptible.

27. 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.

Project represents a significant contribution to the GOP's long term reconstruction objectives for the earthquake zone.

28. 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.

It is estimated that 1,600 new construction jobs will be created over a five-year period in connection with the various sub-projects under the loan. Moreover, backward linkages will be established for materials and services required in the various construction programs. Both of these factors will contribute to the long-term objective of self-sustaining growth.

29. FAA § 281(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.

Proposed loan is designed to assist self-help measures, promote the establishment of housing and service cooperatives, and generally strengthen urban development programs throughout the earthquake zone.

30. FAA § 281(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 housing needs of the highest priority in the disaster zone. By promoting a cooperative effort, the program strengthens democratic processes at the grass roots level.

31. 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 Applicable
- (b & c) Yes, by encouraging self-help measures and the establishment of housing and service cooperatives.
- (d) Not applicable
- (e) Not applicable
- (f) No

32. FAA § 619. If assistance is for Peru not newly independent. newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?
33. 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 CIAP review of Peru emphasized the justifiable need of international financial assistance to Peru's development programs.
34. FAA § 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America. Sub-loans may be made to local cooperatives, thus supporting the cooperative movement in Latin America.
35. 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

36. 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. Loan is for local costs with negligible effect on U.S. economy.

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37. FAA § 601(b). Information and See item 36.  
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).
38. FAA § 601(d). If a capital Not applicable.  
project, are engineering and  
professional services of U.S.  
firms and their affiliates used  
to the maximum extent consistent  
with the national interest?
39. FAA § 602. Information and Not applicable.  
conclusion whether U.S. small  
business will participate  
equitably in the furnishing of  
goods and services financed by  
the loan.
40. FAA § 620(h). Will the loan Loan agreement will specifically provide  
promote or assist the foreign against such eventuality.  
aid projects or activities of  
the Communist-Bloc countries?

41. 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. No technical assistance to be financed by the Loan.
42. 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.

Loan's Compliance with Specific Requirements

43. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter? Yes.
44. 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. All financing to be for local costs.

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45. FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? All financing to be for local costs.
46. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? All financing to be for local costs.
47. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan? Loan Agreement will so specify.
48. FAA § 604(e). If offshore 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.
49. 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.

50. 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? To maximum extent possible, provisions will be made to ensure competitive bidding on sub-projects.
51. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? No such financing contemplated.
52. FAA § 612(b); § 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 United States are utilized to meet the cost of contractual and other services. GOP contributing 40% of required funding for project. No excess U.S. owned currencies are available in Peru.
53. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel? No.
54. 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 provide.
55. App. § 108. Will any loan funds be used to pay U.N. assessments? No.

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- App. § 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (A.I.D. Regulation 7). Loan agreement and implementation letters will provide for application of Regulation 7.
57. 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.
58. App. § 501. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress? No.
59. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million? Not applicable.
60. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? U.S. does not currently own excess foreign currency in Peru.

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61. MMA § 901.b. Compliance with All financing to be for local costs.  
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.

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