

## JBIC Continues Financial Assistance for Poverty Alleviation in Peru- Signing of ODA Loan Agreement -

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1. Japan Bank for International Cooperation (JBIC; Governor: Hiroshi Yasuda) signed today four loan agreements totaling up to 44.872 billion yen with the Republic of Peru, following its decision to extend ODA loans in fiscal 1999. These loans will be used for the Sierra - Natural Resources Management and Poverty Alleviation Project III, the Social Sector Development Project in Sierra Area II (FONCODES III), the Provincial Cities Water Supply and Sewerage System Improvement and Expansion Project (Iquitos, Cusco and Sicuani) and the Lima Marginal Areas Sanitary Improvement Project. The cumulative ODA loan approvals for Peru, including these loans, number thirty-one, for a total of 334.552 yen billion.
2. In Peru, almost half of the country's 24.33 million population live in poverty, with some 3.57 million people in dire poverty, in that they cannot meet the minimum nutritional requirements. The current government is placing top priority to reducing poverty and has earmarked more than 40 percent of the national budget for social spending. JBIC has supported that strategy/policy by providing loans aimed at poverty alleviation project, strengthening the production infrastructure of the rural poor, and a social and economic infrastructure project, whose aim is to improve the living conditions of the rural and urban poor. Since 1996, Peru is the only country in Central and Latin America that is earmarked to receive annual financial support from JBIC.
3. The present loans, prepared in fiscal 1999, are part of on-going financial assistance to Peru. Their overall objective is to support poverty reduction and improve the living conditions of the general population. Specifically, the four projects are designed to develop agricultural production infrastructure, build basic rural infrastructure, including roads, electric power facilities and schools, and improve water supply and sewerage systems in Lima and provincial cities.  
(See Appendix for details.)

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### - Signing of ODA Loan Agreement -

Japan Bank for International Cooperation (JBIC; Governor: Hiroshi Yasuda) signed today four loan agreements totaling up to 44.872 billion yen with the Republic of Peru, following its decision to extend ODA loans in fiscal 1999. The signing took place in Lima, capital of the Republic of Peru, between Vice Governor, Yoseki Nagase, on behalf of JBIC and Minister of Economy and Finance, Carlos Bolona on behalf of the Government of Peru.

With these loans, the cumulative ODA loan approvals for Peru number 31 in the total amount of 334.552 billion yen.

#### 1. Loan Amounts and Terms and Conditions

Project Name	Loan Amount (Mil. yen)	Interest Rate (%)		Repayment Period/Grace Period (Years)		Tying Status	
		Project Proper	Consulting Services	Project Proper	Consulting Services	Project Proper	Consulting Services
Sierra-Natural Resources Management and Poverty Alleviation Project III	5,588	1.7	0.75	25/7	40/10	General Untied	Bilateral Tied
Social Sector Development Project in Sierra Area II (FONCODES III)	6,794	2.2	0.75	25/7	40/10	General Untied	Bilateral Tied
Provincial Cities Water Supply and Sewerage System Improvement and Expansion Project	7,636	1.7 0.75*	0.75	25/7 40/10*	40/10	General Untied Bilateral* Tied	Bilateral Tied
Lima Marginal Areas Sanitary Improvement Project	24,854	1.7	0.75	25/7	40/10	General Untied	Bilateral Tied
Total	44,872						

\* The sewerage system portion

#### (1) Sierra - Natural Resources Management and Poverty Alleviation Project III

##### (i) Project Background and Requirements

In the mountainous, Andes region of the Sierra, which encompasses 30 percent of Peru's terrain, two-thirds of its people live in poverty. Almost half of them are in dire poverty, unable to meet minimum dietary nutritional requirements.

Most of the inhabitants in the Sierra make their living by farming on steep slopes and engaging in traditional agriculture and herding. Productivity is low due to low technology and poor infertile soil. Poorly-managed farming has led to soil erosion, deforestation and a reduction in water retention in soil, resulting in worsening of the environment. This has created a vicious cycle of worsening productivity and ecological destruction.

To break this vicious cycle, the Government of Peru set up the National Project for the Management of Watershed Basins and Soil Conservation (PRONAMACHCS) in 1981 with a mandate to increase production and alleviate poverty to those living in the Sierra region, at the same time conserving the environment for sustainable agriculture.

The Government of Peru made a request to the World Bank and the Government of Japan for financial assistance to implement projects under PRONAMACHCS. Beginning in 1997, the World Bank set out to provide assistance for 22 out of 122 offices of PRONAMACHCS. Similarly, Japan provided a total of 5,667 million yen assistance for 14 offices of PRONAMACHCS as an ODA project in FY1997 and in FY 1998 provided 7,259 million yen for 22 offices.

##### (ii) Purposes of the Project and Profile

The current project comprises an additional 22 offices, providing support for sub-projects that develop rural infrastructure, including afforestation, development of anti-soil erosion farmland, small-scale irrigation facilities, building agricultural produce storage and assistance in acquiring agricultural production equipment. These sub-projects will be implemented with the participation of the local populace throughout the inception to the project, to construction of the project. The project objective is to strengthen local community organizations, improve living environs and develop infrastructure for production activities, thereby establishing farming practices that result in high productivity and meeting environmental conservation needs.

The proceeds of the loan will be used for procurement of materials, equipment and services for the project as well as consulting services, including advisory service for maintenance and control and evaluation studies.

The project executor is the National Project for the Management of Watershed Basins and Soil Conservation (Proyecto Nacional de Manejo de Cuenca Hidrograficas y Conservacion de Suelos). Address: Av. Alameda del Corregidor 155 La Molina, Lima. Phone: 511-349-3369. Fax: 511-349-3394.

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#### (2) Social Sector Development Project in Sierra Area II (FONCODES III)

##### (i) Project Background and Profile

Development of a social and economic infrastructure that provides services to meet basic human needs (BHN) is of great urgency if Peru is to raise the living standards of its rural populace. Since many people live in small and isolated villages scattered across the land, development of the infrastructure has to be implemented on a grass roots level.

The Government of Peru set up the National Social Development Fund (FONCODES) in 1991 to address this urgent challenge. The World Bank and the Inter-American Development Bank (IDB) have provided a total of \$200 million assistance for FONCODES on two occasions/in two installments to date, thereby supporting its activities across the country. The Government of Japan has provided ODA loans: a total of 5,976 million yen in FY1997 for Social Sector Development Project in Amazon Area to support development of an economic infrastructure, including roads and bridges, in the Amazon region and the public health infrastructure, including water, sewerage and latrine supply; a total of 7,259 million yen in FY1998 for Social Sector Development Project in Sierra Area, in the four provinces in the mountainous Sierra region, namely, the southern and northern part of "the poverty triangle of the Andes".

##### (ii) Objectives of the Project and its Description

The present project target the four main provinces in the Sierra region, as in the FY1998 project. It is designed to develop economic and social infrastructure, including schools, clinics, village community facilities, roads, electric power facilities, with local participation. The main objective of the project is to strengthen local community organizations and reduce poverty by providing services to meet basic human needs.

The proceeds of the loan will be used for procurement of materials, equipment and services for the project as well as consulting services, including advisory service for maintenance and control and evaluation studies.

The project executor is the National Social Development Fund (Fondo Nacional de Compensacion y Desarrollo Social). Address: Paseo de la Republica, 3010, Lima 27. Phone: 511-421-4028. Fax: 511-421-8026.

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### (3) Provincial Cities Water Supply and Sewerage System Improvement and Expansion Project (Iquitos, Cusco and Sicuani)

#### (i) Project Background and Profile

Peru faces three major tasks concerning its water supply and sewerage system in urban areas. 1) Water supply: Increase the coverage of water supply and improve the water supply capacity; 2) Sewerage system: Increase the coverage of the sewerage system and equip sewage treatment facilities; and 3) Business management: Improve unaccounted water ratio.

Peru's water supply and sewerage sector received minor investment in the 1980s when the country faced economic difficulties, resulting in little improvement. In 1989, management was transferred to local governments as part of a decentralization policy. Subsequently, local governments were not able to fully cope with the issues rising from the aging of existing facilities and increasing in demand. This situation did not improve.

In the 1990s, the Government of Peru recognized the importance of improving and expanding water supply and sewerage systems, and improvement plans that took into light the size of each city and implemented programs accordingly. Major donors have also contributed to the expansion and rehabilitation of facilities and helped improve business operations. Notably with the water supply and sewerage public corporations in regional cities, IDB has played a leading role in improvement efforts, including proposal of policies on sector reform and support in building an institutional framework. JBIC and KfW in Germany are also co-financing these efforts.

#### (ii) Purpose and Description of the Project

This project will expand and improve the existing water supply facilities in the Iquitos city in Loreto province (the major city of the Amazon region), expand and rehabilitate the existing water supply and sewerage facilities in the Cusco city and Sicuani city in Cusco province(a transportation hub and tourist and business center) with the aim to improve environmental and hygienic conditions in these areas. The project will also assist local water supply and sewerage corporations in their efforts to make improvements in tasks before them.

The proceeds of the loan will be used for the purchase of equipment and services needed to implement this project and for consulting services (detailed designs, assistance in procurement, and construction supervision).

The executing agency is the Programa Nacional de Agua Potable y Alcantarillado (PRONAP) under the Ministry of the Presidency; Avenida Benavides 2199 Piso 5, Miraflores, Lima, Peru, Tel: 51-1-271-9638, Fax: 51-1-271-2707.

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### (4) Lima Marginal Areas Sanitary Improvement Project

#### (i) Project Background and Profile

Water shortages during the dry season has been a serious problem in the metropolitan Lima area. This is the most populous city in Peru at 7.2 million people. Securing a steady water source has been a vital issue. The Government of Peru is making efforts to develop new sources of water, but at the same time, the existing water treatment facilities are already operating at maximum capacity. Thus they are faced with the problem of not being able to supply enough water in the future due to insufficient water treatment facilities, even if new water sources are secured.

Furthermore, with the influx of low-income earners attracted to the metropolitan Lima area and rapid urbanization in marginal areas, the city's population will continue to rise with the residential areas primarily in the marginal sectors of the city expected to expand. Many people in low-income groups have occupied public land as squatters and have formed communities called "Poblaciones Marginales(marginal residences)" where they built their own dwellings. The basic infrastructure, such as water supply and sewerage system, did not exist on the public land where these dwellings were built. Furthermore, there have been no improvements in the infrastructure development in many cases because these are arbitrary residential areas. As a result, many of the residents must rely on water supplied from privately-run water supply vehicles with poor water quality and small water storage tanks in which quality control is questionable. The low standards in the sewerage has also led to serious health and sanitary problems.

#### (ii) Purpose and Description of the Project

This project will build new water treatment facilities (intake facility, water treatment plant, basic water conduits) and improve water supply and sewerage system in order to improve the living environs for low-income groups in the marginal areas of Lima.

The proceeds of the loan will be used for the purchase of equipment and services needed to implement this project and for consulting services (detailed designs, assistance in procurement, and construction supervision).

The executing agency is the Servicio de Agua Potable y Alcantarillado de Lima; Planta La Atarjea, Km.1, Autopista Ramiro Priale, Lima, Tel: 511-317-3000, Fax: 511-317-3059.

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