

23 JUNE 2001 EARTHQUAKE EMERGENCY RELIEF PROGRAM

(PE-0215)

EXECUTIVE SUMMARY

Borrower:	Republic of Peru	
Executing agency:	Ministry of Economy and Finance (MEF) through the Office of Public Investment (ODI)	
Amount and source:	IDB: (OC)	US\$20 million
	Local:	US\$ 9 million
	Total:	US\$29 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	5 years
	Disbursement period:	1 year
	Commitment:	9 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollar Single Currency Facility
Objectives:	The purpose of the program is to restore basic services to the communities in the disaster area and to take immediate steps to prevent further harm from befalling people in the earthquake zone as well as to set about rebuilding damaged infrastructure.	
Description:	Under the program funding will be provided for procurement of goods and services for temporary reconstruction, stabilization, and repair of physical structures damaged by the earthquake in the departments of Arequipa, Moquegua, and Tacna and in the provinces of Parinacochas and Páucar del Sara Sara in the department of Ayacucho. The activities include (i) removal of debris and demolition of unstable buildings and structures; (ii) clean up and repair of environmental damage including upgrading of refuse dumps; (iii) control and stabilization of buildings, terrain, and physical structures such as bridges, landfills, roads, telecommunications towers, and dams; [(iv) restoration] of electricity, water, and sanitation service; (v) repair, construction, and purchase of the necessary equipment and	

facilities for restoring social and sanitation services to the affected communities; (vi) communications equipment and facilities, (vii) temporary housing; and (viii) studies and surveys for taking an inventory of the damage and devising plans for reconstruction and rehabilitation and two studies to evaluate the national emergency system.

The Bank's country and sector strategy:

In cases of catastrophic natural disasters, the Bank assists its borrowing member countries in dealing with the unexpected effects that such events have on the population and to mitigate its socioeconomic and environmental impact. In addition to the emergency reconstruction facility (ERF) to be used in the present program, the Bank can draw on other instruments such as reformulation of existing loans or approval of new ones for use during the reconstruction and recovery stage.

Environmental and social review:

Given the nature of the activities proposed, no adverse environmental effects are anticipated. The works are fairly simple and should satisfy the technical and environmental specifications at the subexecuting agencies' disposal. However, as some activities such as the removal of debris could have undesirable environmental effects, the eligibility of such activities will be subject to defining in advance the site for disposal of rubble and the technical and environmental procedures that would be followed. The program also includes financing specifically for activities relating to the disposal of debris that may have been improperly removed in the early days of the emergency and for repair of damage that may have been occasioned during that same period. No specific environmental assessments are planned. The environmental dimension will be added to the system of supervision and operational audit.

Benefits:

The program will help alleviate the immediate effects of the earthquake on the living conditions of affected communities in the departments of Arequipa, Moquegua, and Tacna and in two provinces in the department of Ayacucho, thus making it possible to restore basic infrastructure and reduce damage to sources of employment. The beneficiaries of the program will be mainly low-income communities since the homes and sources of employment destroyed in the disaster zone affect mainly to the very poor.

Risks:

The main risks associated with the program are as follows:

- (i) A lack of continuity and delays in execution may result from possible personnel changes in the subexecuting agencies and the executing agency following the change of administration on 28 July 2001. The orderly transition process that is under way will minimize this risk. Also, the

Bank will offer information workshops on procurement and disbursement procedures in each department, with the new staff designated for the project. There will be no changes in municipal authorities, however, and generally speaking they are the ones who will be making all decisions concerning the program.

- (ii) Another potential risk are the delays that could arise from having many different institutions assessing and addressing the needs in each department. Having a general coordinator within the MEF, with expertise and experience in administering similar programs will assuage this risk.

**Special
contractual
clauses:**

The first disbursement of the financing will be subject to the following conditions being met, to the Bank's satisfaction:

- (i) A separate account must have been opened in the name of the executing agency specifically for deposits, transfers, and use of the proceeds of the financing (paragraph 4.19); and
- (ii) A short list of independent public accounting firms deemed eligible to perform the financial and operational audit must have been drawn up (paragraph 4.40).

In addition, the disbursement of funds to finance activities that are the responsibility of the subexecuting agencies will be subject to fulfillment, to the Bank's satisfaction, of the following conditions:

- (i) The corresponding participation and funds transfer agreement must have been signed with the subexecuting agencies (paragraph 4.20); and
- (ii) Separate accounts must have been opened in the name of the subexecuting agencies specifically for deposits and transfers of the proceeds of the financing and its use (paragraph 4.20).

Contracts awarded and expenses incurred under the program will be subject to a financial and operational audit that will be performed by a firm of independent auditors acceptable to the Bank, in accordance with procedures and terms of reference previously agreed on with the Bank (paragraph 4.40).

The borrower will hire an independent firm of auditors acceptable to the Bank to handle the financial and operational audit of the program within three months after the effective date of the loan contract.

Failure on the part of the borrower to comply with this commitment will result in the immediate suspension of disbursements. Such suspension will remain in effect as long as the situation of noncompliance persists (paragraph 4.40).

The auditing firm must submit to the Bank and the executing agency the operational and financial audit report on activities completed during the first six months of the program within 60 days after the end of the aforesaid period (paragraph 4.41).

The final operational and financial audit report on the program, to be performed by the aforesaid auditing firm, must be submitted to the Bank by the executing agency within 60 days after the date of the last disbursement (paragraph 4.41).

Poverty-targeting and social sector classification:

This operation qualifies as a social-equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (PTI) (paragraph 4.48). The borrowing country will be using 10 percentage points in additional financing, or 70%.

Procurement of goods and services:

The Emergency Procurement Procedures set out in the Procurement Manual (GS-601) will apply for the program:

1. **International competitive bidding:** For procurement in amounts above the mandatory thresholds for international competitive bidding, simplified procedures will be used for contracts: (i) over US\$3 million in the case of civil works; (ii) over US\$250,000 in the case of goods and related services; and (iii) over US\$200,000 in the case of consulting services.
2. **Closed bidding will be used for contracts:** (i) over US\$500,000 and up to and including US\$3 million in the case of civil works; (ii) over US\$50,000 and up to and including US\$250,000 in the case of goods and related services, and over US\$50,000 and up to and including US\$200,000 in the case of consulting services.
3. **Price shopping** will be used for contracts (i) over US\$200,000 and up to and including US\$500,000 in the case of civil works; and (ii) over US\$5,000 and up to and including US\$50,000 in the case of goods and related services.
4. **Direct contracting** will be used for contracts: (i) up to and

including US\$200,000 in the case of civil works; (ii) up to and including US\$5,000 in the case of goods and related services, and (iii) up to and including US\$50,000 in the case of consulting services.

These emergency bidding procedures will remain in force for a period of 12 months commencing on 25 June 2001, the date on which the emergency was declared.

Up to US\$8 million of the proceeds of the loan may be used under the direct contracting modality provided that:

- (a) reimbursable procurement effected under retroactive financing is included under the corresponding threshold,
- (b) the cumulative maximum amount of contracting by company does not exceed US\$600,000.

The municipalities will publish every month in a place readily accessible to the public the names of the beneficiary families. The executing agency will post on the MEF's Webpage a list of the contracts awarded with program funding, including the purpose and amount of the contract. This information must be published in a leading national newspaper.

Recognition of expenses and retroactive financing:

The Bank may recognize as chargeable to the local counterpart funding expenses of up to US\$4 million that are incurred between 25 June 2001 and the date on which the loan is approved. An amount of up to US\$10 million incurred between the aforesaid dates may be recognized as chargeable to the IDB financing. All such expenses must have been incurred for eligible activities using procurement and contracting procedures similar to those established for the present program.

I. DESCRIPTION, SCOPE, AND EXTENT OF THE DISASTER AND DECLARATION OF THE STATE OF EMERGENCY

A. Description, scope, and extent

- 1.1 In the afternoon of 23 June 2001, an earthquake measuring 6.9 on the Richter scale rocked the departments of Arequipa, Moquegua, Tacna and southern Ayacucho in Peru's southern region. The epicenter was located near the coast in the southern part of the country, 82 km northwest of Ocoña in the department of Arequipa. The earthquake generated a tsunami at Camaná, where the sea receded approximately 50 meters then surged in, sweeping away homes, crops, fishing tackle, etc. and flooding nearly 2,500 hectares of arable land. Since the disaster, there have been 140 aftershocks, with the most powerful ones occurring southeast of the principal shock.
- 1.2 On 2 July 2001, the National Civil Defense Institute (INDECI) reported that more than 2,716 people had been injured and 53 were missing. The earthquake also claimed 118 lives, with more than 60,000 homes destroyed or partially destroyed. The disaster also triggered landslides and caused cracking in national, departmental, and local roads, considerable damage to irrigation canals from landslides with some even collapsing, disruptions in water service, and damage to schools and health facilities. The energy, communications, and small-scale fishing sectors have also been adversely affected, but to a lesser extent. Some remote areas, mainly in the sierra, where information on the scale of the damage is sketchy, have still not received adequate assistance.

B. Declaration of the State of Emergency

- 1.3 On 25 June 2001, the Government of Peru issued Executive Decree 077-2001-PCM declaring a State of Emergency in the departments of Arequipa, Moquegua, and Tacna, and in the provinces of Parinacochas and Páucar del Sara Sara in the department of Ayacucho. This action was justified on the basis of article 137 of the Constitution, which accords the executive branch the authority to declare a State of Emergency, setting out the duration and the budgetary measures that may be taken to address the disaster.

C. Preparedness of Peru's emergency prevention and assistance system

- 1.4 The task of the Peruvian Geophysical Institute (IGP) is to detect, evaluate, measure, and report on earthquake activity. The IGP, an independent institute attached to the Ministry of Education, is nationally recognized as an institution of high technical and scientific caliber. It also has an excellent public earthquake information system.
- 1.5 To deal with the emergency, Peru has a warning system that puts certain district, provincial, regional, and national civil defense committees on immediate alert. INDECI is the technical coordinator of these committees. The provincial and

district committees are chaired by a mayor. In addition, a national committee assisted by INDECI is activated. The main function of these committees is to funnel assistance to the victims, and they remain in place as long as the risk to the population persists and until such time as the sectors and/or public entities can be organized to deal with damage control and the tasks of rehabilitation and reconstruction.

- 1.6 In the present emergency, the system functioned as follows: the IGP effectively performed its duties, recording the event, its intensity, and the areas hardest hit. It is still monitoring the aftershocks, their intensity, and their location, making it possible to identify damage caused by the aftershocks and to provide a rapid response. After the earthquake, the civil defense committees were activated promptly according to the established procedure. Their response was slowed somewhat by a shortage of technical tools, thus reducing the effectiveness of their efforts. Because of these problems, INDECI took on many of the functions that would normally fall to the committees, including the rapid distribution of such items as food, blankets, and tents.
- 1.7 To expedite the efforts of the civil defense committees, funds available under the IDB loan for the El Niño event (operation 1058/OC-PE) are being used to strengthen the system for mobilizing financial, logistical, and technical emergency relief. The present program is also financing two municipal pilot projects to evaluate the system's present response capacity and to provide any additional strengthening that may be needed for other emergencies in the future.

II. INITIAL ASSESSMENT OF THE DAMAGE

- 2.1 According to the government's initial assessment, a minimum of US\$500 million would be needed for recovery efforts in the disaster zone. The bulk of this assistance will be used to provide shelter and to rebuild urban and rural infrastructure in agricultural areas. The UNDP has been evaluating the assistance that is needed in the wake of the earthquake. A more complete assessment of the costs will be done by ECLAC in the next few months. Most of the damage occurred in the following sectors.

A. Housing

- 2.2 The earthquake is estimated to have destroyed or partially destroyed 60,877 homes, dislocating the lives of 218,923 people. Most of these dwellings, rickety structures located in so-called young towns, were home to persons living in extreme poverty.

B. Agriculture

- 2.3 Damage was caused to irrigation systems for approximately 106,727 hectares of arable land. The main damage was sustained by 546 irrigation canals. Some of these were blocked up by debris while others collapsed altogether; 196 intake tunnels were damaged, and 9.5 km of access road obstructed.
- 2.4 The major crop in the disaster area had already been harvested. However, as the planting season is in July and August, infrastructure that was damaged needs to be repaired soon to allow the regular planting to proceed as normal and prevent further losses. The tsunami at Camaná disrupted pumping systems and drainage for more than 2,500 hectares of farmland, altering the salinity of these soils and possibly rendering them useless for farming in the future.

C. Transportation

- 2.5 In addition to damage to urban roads, the earthquake set off landslides along a 405.5-km stretch of the Pan-American Highway South and in certain parts caused cracking in the pavement and damage to a number of bridges.
- 2.6 Landslides have blocked secondary and tertiary roads and heavy machinery will be needed to clear away the debris. Overall, works to restore service entail earth removal, rebuilding of bridges and highways, repair of asphalt surface, and reconstruction of slopes.

D. Education

- 2.7 According to a preliminary assessment, approximately 2,700 classrooms were affected through damage to walls, broken windows, and collapsed roofs, and

classes have been suspended. Prefabricated classrooms and/or tents will be needed so that the school year is not lost.

E. Health

- 2.8 Published reports indicate that approximately 31 outpatient facilities and health posts (13% of the total) were damaged. Of this number 18 were severely damaged and two destroyed. In addition, two hospitals were partially destroyed. Medicine is needed to control diarrheic diseases and respiratory infections caused by low temperatures in the disaster area and a lack of adequate shelter.
- 2.9 The Tacna regional hospital (which serves a population of 280,000) is in need of emergency repair because of the damage to its structure and equipment. Assistance to the department of Arequipa is being gradually restored although the regional hospital sustained severe structural damage.

F. Small-scale fishing

- 2.10 More than 3,518 small-scale fishermen were deprived of their means of livelihood by the earthquake, which caused substantial damage to wharves, fishing stations, vessels, and fishing tackle and equipment in Arequipa and Tacna.

G. Water supply

- 2.11 Some of the irrigation canals damaged by the earthquake also convey water to treatment plants. As a result, normal water service has been disrupted. Also, 60 wells in Tacna that were damaged need to be repaired.

III. STEPS TAKEN BY THE GOVERNMENT

- 3.1 In its rapid response to bring relief to the disaster zone, the national government instructed State-controlled institutions and agencies, regional governments involved with the emergency operations, to offer assistance to the victims and begin rescue efforts, provide housing in temporary shelters, first aid, and food for all of the victims especially those in remote areas.
- 3.2 To provide immediate care to the communities affected, restore public services that had been disrupted, and repair infrastructure damaged by the quake, the government set up two bodies pursuant to Executive Decree 076-2001-PCM. The first, the Emergency Executive Commission, is responsible for coordinating and carrying out emergency actions promptly and the second, the National Reconstruction Commission, is in charge of coordinating reconstruction activities and channeling national and international assistance. The government also issued Emergency Decree 073-2001 authorizing the MIVIVIENDA Fund to provide resources through the financial system for the reconstruction of housing damaged in the disaster.
- 3.3 The Emergency Executive Commission is chaired by the Minister for the President's Office. Its other members are the Minister of Women's Affairs and Human Development, the Minister of the Interior, the Minister of Health, the Minister of Energy and Mines, the Deputy Minister of Agriculture, the Deputy Minister of Transport, the Head of the National Civil Defense Institute, the Executive President of Social Security, and the Army Commander of the Third Region. INDECI acts as Technical Secretariat for the commission. Sitting on the National Reconstruction Commission are the Chairman of the Council of Ministers (the chair), the Minister of Economy and Finance, the Minister of Justice, the Minister of Education, the Minister of Health, the Minister of Agriculture, the Minister of Transport, the Minister of Communications, the Minister of Housing and Construction, the Minister of Fisheries, the Minister for the President's Office, and the National Director of the National Institute of Culture.
- 3.4 An assessment of the requirements and the assistance that is needed is being done locally in each of the departments in the disaster area by an Executive Commission chaired by the President of each region (Temporary Regional Administrative Councils). The members of these commissions are the regional representatives of the ministries for each sector and the mayors. The Commission also has the support of institutions such as INDECI, the National Armed Forces, the Red Cross, and municipal governments in the provinces and districts. The scale of the disaster has sorely tested the government's response capacity and particularly its ability to provide temporary shelter and food for the victims. The government has received assistance such as tents, food, and medicine from a number of countries and the United Nations Development Programme (UNDP).

IV. THE BANK'S INVOLVEMENT

A. The Bank's response

- 4.1 On 26 June 2001, the Bank's Country Office in Peru approved an operation for nonreimbursable technical-cooperation funding in the amount of US\$50,000 to help with relief efforts under the Emergency Reconstruction Facility (ERF), which provides assistance in times of natural disasters (document GN-2038-2). In addition technical assistance in the amount of US\$100,000 from the Japan Program was approved to help with local first aid efforts in the aftermath of the disaster and provide medical training to deal with the situation. The Bank was approached by the Minister of Economy and Finance for a loan of US\$20 million to deal with the emergency under the ERF.
- 4.2 A mission from headquarters, together with staff from the Country Office, visited certain areas in the disaster zone and began putting together an emergency loan package. If more funding is required when the assessment of the damage has been completed, the borrower may ask the Bank to reallocate funding from loans now in progress in other sectors for the rebuilding of infrastructure destroyed in the earthquake.

B. Emergency program

- 4.3 The purpose of the program is to restore basic services to the communities in the disaster area as well as to take immediate steps to prevent further harm from befalling people in the earthquake zone and set about the task of rebuilding damaged infrastructure.

1. Activities to be financed under the program

- 4.4 Under the program funding will be provided for procurement of goods and services for temporary reconstruction, stabilization, and repair of physical structures damaged by the earthquake in the departments of Arequipa, Moquegua, and Tacna and in the provinces of Parinacochas and Páucar del Sara Sara in the department of Ayacucho. The activities include (i) removal of debris and demolition of unstable buildings and structures, (ii) clean up and repair of environmental damage including upgrading of sites for dumping rubble, (iii) control and stabilization of buildings, terrain, and physical structures, (iv) restoration of electricity, water, and sanitation service, and repair, construction, and purchase of the necessary equipment and facilities for restoring social and sanitation services to the affected communities, (v) communications equipment and facilities, (vi) temporary housing, and (vii) studies and surveys for taking an inventory of the damage and devising plans for reconstruction and rehabilitation.

2. Organization and execution of the program

a. Executing agency and subexecuting agencies

4.5 The executing agency will be the Ministry of Economy and Finance (MEF) through the Office of Investment (ODI). The subexecuting agencies will be:

- i. The National Institute of Education and Health Infrastructure (INFES) for the health and education infrastructure works.
- ii. The National Department of Roads (DGC) for highways and roads.
- iii. The municipalities and Temporary Regional Administrative Councils (CTARs) for housing; removal of debris, public street lighting and community parks and spaces, and repair of small wharves will be assessed as applicable by the Vice Ministry of Housing and the National Institute of Fisheries.
- iv. The National Development Institute (INADE) for control, stabilization, and removal of debris from irrigation canals.

4.6 **The Office of Investment (ODI).** Attached to the Ministry of Economy and Finance since 1994, the Office is responsible for coordinating funding from external borrowing. Its staff consists of specialists in different branches that acquired considerable experience in managing an earlier emergency program for the El Niño disaster (loan 1058/OC-PE). This loan is still under way and personnel from the executing unit will be used for the present program.

4.7 Amongst its duties, the ODI will (i) review and approve requests for financing to ensure compliance with the program eligibility criteria, (ii) hire technical advisors as required to assist with supervision and to approve advisory assistance for the subexecuting agencies, (iii) hire a firm of independent auditors for the program, (iv) perform periodic inspections, (v) prepare and submit, to the Bank's satisfaction, disbursement requests and requests for documentation justifying the use of resources and semiannual reports on the use of the proceeds from the Revolving Fund, (vi) ensure proper files are kept of documentation in support of disbursement requests, and (vii) submit to the Bank the semiannual statements duly audited by a firm of independent auditors.

b. The subexecuting agencies.

4.8 Each subexecuting agency has the legal authority and the experience to carry out the works in each of the areas mentioned.

4.9 **INFES** is a decentralized government body attached to the Ministry for the President's Office. It is administratively and technically independent. Its purpose is

to handle the requirements in terms of infrastructure and education and health equipment.

- 4.10 **The DGC**, an office of the Ministry of Transport, Communications, and Housing (MTC), is in charge of construction of highway infrastructure and its improvement, rehabilitation, and maintenance.
- 4.11 **INADE** is a decentralized government institution attached to the Ministry for the President's Office. Its main objective is to lead and direct development projects in strategic areas along the coast, in the sierra, and in the jungle. It also coordinates and carries out rehabilitation and reconstruction works in disaster zones and during emergencies.
- 4.12 **The municipalities in the provinces** are constitutionally autonomous and therefore enjoy administrative independence. Their resources are derived from tax revenue and municipal rates as well as transfers from the Municipal Compensation Fund (FONCOMUN). These municipalities also have technical offices that cover different sectors.
- 4.13 The CTARs are decentralized public bodies attached to the Ministry for the President's Office. They are technical and administratively independent and enjoy budget autonomy. They are responsible for promoting, collaborating with, and supervising the delivery of public services as well as the execution of private and public investment works and projects.
- 4.14 The subexecuting agencies' main duties are: (i) to identify together with the chairmen of the Temporary Regional Committees (CTARs) and the municipalities, emergency works that qualify for the program, (ii) to prepare financing requests including technical cards and other supporting documentation, (iii) to set environmental and technical specifications to be met during project execution including those relating to rubble disposal (iv) to enter into contracts for works, procurement of goods and services in accordance with the procedures established for this program, (v) to supervise program works and services, (vi) to receive and approve inspection reports and appraisals, (vii) to keep separate and proper financial and accounting records specifically for the program, (viii) to open and keep special bank accounts for administration of program resources, and (ix) to prepare a statement of account on the use of program resources and the financial information required by the ODI.

c. Implementation mechanism

- 4.15 The program will be carried out on the basis of requests for financing for qualifying activities submitted to the ODI by the subexecuting agencies.
- 4.16 To be eligible for program funding, the activities must satisfy the following criteria:

4.17 General criteria:

- i. They must be situated in the emergency zone described in the government decree.
- ii. There must be a causal link between the earthquake and the damage.
- iii. They must be included among the items qualifying for the program.

4.18 Special criteria:

- i. Have a technical file containing a description of the activity, justification for fulfillment of the general criteria, its cost, period for completion, organization in charge of execution, and procurement procedures. Activities involving the removal or disposal of debris should indicate the site or dumps and the technical procedures followed for proper disposal.
- ii. Provide a breakdown by expense with supporting documentation.

4.19 **Transfer of resources.** The transfer of resources will be conditional on a separate account having been opened specifically for deposits, transfers, and the use of financing before the first disbursement.

4.20 Disbursement of funds to finance activities that are the responsibility of the subexecuting agencies will be conditional on the corresponding participation and funds transfer agreement having been signed with the subexecuting agencies and on a separate account having been opened specifically for deposits and transfers of the proceeds of the financing and its use.

4.21 **Approval procedures.** Those proposals that are favorably evaluated on the basis of the preceding criteria will be processed by the ODI.

4.22 Once the financing has been approved, all approvals will be posted on the MEF Web page or published in local newspapers or in public notices.

3. Financing and budget

4.23 Based on information on the damage caused by the earthquake and the findings of the project team that visited the area, the ERF resources will be used to finance the activities listed in the table below.

Table 1: Financing and budget

Items	Bank (US\$)	Local (US\$)
1. Administrative costs		
1.1 Technical supervision	100,000	50,000
1.2 Accounting, financial, and operating audit	150,000	
Subtotal	250,000	50,000
2. Direct costs		
2.1 (a) Clean up and repair of environmental damage including upgrading of refuse dumps, (b) control and stabilization of buildings, land, and physical structures such as earthfill bridges, roads, telecommunications towers, dams, etc., (c) restoration of electricity, water, irrigation, and sanitation services as well as repair, construction, and purchase of necessary equipment and facilities for restoration of sanitation and social services to communities and for communications equipment and facilities.	9,000,000	6,300,000
2.2 Temporary housing, schools, and health facilities	10,350,000	1,600,000
2.3 Studies, designs, plans for reconstruction and technical teams to assist municipalities	200,000	
Subtotal	19,550,000	7,900,000
3. Financial expenses		
3.1 FIV	200,000	
3.2 Interest and fees		1,050,000
Subtotal	200,000	1,050,000
TOTAL	20,000,000	9,000,000

- 4.24 The allocation of resources indicated in the table above is consistent with the ERF policy and the government's strategy of according priority to the essential needs of the population affected. The most pressing need at this time is housing.

4. IDB loan and counterpart funding

- 4.25 The IDB loan of US\$20 million will be drawn on the Ordinary Capital. The local counterpart funding will come from the Department of National Revenue and donations granted to cover items under the program. No problems are anticipated in these resources being made available on a timely basis since the government has

made the appropriations and most of the expenses have already been incurred. Furthermore, donations in cash, medicine, tents, etc., estimated at the equivalent of US\$10 million, have now been received.

5. Recognition of expenses and retroactive financing

- 4.26 It is recommended that expenses in an amount of up to US\$10 million incurred for administrative and direct costs as indicated in the table above be financed retroactively. Such costs include expenses incurred between 25 June 2001 and the date on which the loan is approved.
- 4.27 In addition, the Bank may recognize as chargeable to the local counterpart funding expenses of up to US\$4 million that are incurred by the subexecuting agencies, the CTARs, and the Departmental Ministries of Agriculture and Health between 25 June 2001 and the date on which the loan is approved.
- 4.28 The preceding expenses must have been incurred for eligible activities using procurement and contracting procedures similar to those established for the program.

6. Disbursements and revolving fund

- 4.29 The proceeds of the loan must be fully committed within nine months and be disbursed within 12 months after the date on which the loan is signed.
- 4.30 In keeping with the recommendations on ERF procedures and based on the favorable overall experience that the Country Office has had with the executing agencies and the effective monitoring mechanisms in place, a revolving fund in an amount equivalent to 20% of the loan will be established to expedite disbursement of the financing.
- 4.31 Disbursement requests must include supporting documentation in the case of contracts for civil works valued at more than US\$1 million and consulting services contracts valued at more than US\$100,000. All other contracts will be monitored through ex post evaluations performed every six months by a firm of independent auditors. The ODI will forward disbursement requests to the Country Office, consolidating the information received from the subexecuting agencies, together with payment details and disbursement and local contribution controls. Every effort must be made to ensure that (i) the information contained in the payment detail is duly justified by documentation supporting the disbursement requests (contracts, orders, invoices, receipts, work certificates, supplier certificates, certificates of origin, or any other documentation confirming the information supplied in the payment detail); and (ii) such information is duly identified, properly filed, and available for review by the Bank and the independent auditors.

- 4.32 The independent auditors will verify that the ODI and the subexecuting agencies have documentation supporting the disbursement requests in their records and the resources have been employed as specified in the loan contract.

7. Procurement procedures

- 4.33 The procurement procedures that will apply to the present operation have been agreed on between the Bank and the government, taking into account the guidelines established for the ERF, which are summed up below.

Table 2: Procurement thresholds

General conditions:	
1. Maximum cumulative amount of direct contracting without competition, by company	US\$600,000
2. Maximum cumulative amount of direct contracting without competition, for the entire operation	US\$8 million
Simplified international competitive bidding	
a. Civil works	Over US\$3 million
b. Related goods and services	Over US\$250,000
c. Consulting services	Over US\$200,000
Private bidding	
a. Civil works	US\$500,000-US\$3 million
b. Related goods and services	US\$50,000-US\$250,000
c. Consulting services	US\$50,000-US\$200,000
Price shopping	
a. Civil works	US\$200,000-US\$500,000
b. Related goods and service	US\$5,000-US\$50,000
Direct contracting	
a. Civil works	US\$1-US\$200,000
b. Related goods and services	US\$1-US\$5,000
c. Consulting services	US\$1-US\$50,000

- 4.34 Works contracts in excess of US\$1 million, procurement of goods and services contracts with consulting firms valued at more than US\$100,000, and contracts with individual consultants for more than US\$50,000 will be reviewed on an ex ante basis. This recommendation is made in light of experience with the El Niño emergency support program (1058/OC-PE).

8. By force account

- 4.35 The Bank may recognize expenses incurred under contracts by force account to a maximum of US\$3 million as chargeable to the local counterpart funding and

US\$1 million as chargeable to the loan, in accordance with the procurement procedures for emergency loans.

9. Monitoring and supervision of the program

- 4.36 A monitoring system will be established to supervise the works and their technical quality. To this end, ODI will be able to draw on the allocation for administration expenses to hire technical advisory assistance as required for periodic site inspections.
- 4.37 The ODI will submit to the Bank quarterly progress reports prepared in the format specified by the Bank, with a description of the activities carried out, the beneficiaries served, the procedures for financing, and the number of requests dealt with. A final report consolidating all data gathered during execution will also be submitted.
- 4.38 On the basis of an analysis of sample expenses, the Country Office will ensure compliance with the loan conditions and this will be used to justify the corresponding disbursements.
- 4.39 **Interim monitoring meeting.** Five months after the effective date of the loan contract, the executing agency and the Bank will meet to examine to what extent the program objectives have been fulfilled, the rate of advance of the program, and any problems that may have arisen during execution.

10. Accounting and audits

- 4.40 The ODI will hire an independent firm of auditors acceptable to the Bank to handle the financial and operational audit in accordance with terms of reference previously approved by the Bank. The firm must be hired within three months after the effective date of the loan contract in accordance with procedures and terms of reference agreed on in advance with the Bank. Failure on the part of the borrower to comply with this commitment will result in the immediate suspension of disbursements. Such suspension will remain in effect for the duration of the situation of noncompliance. The audits will include a review of the supporting documentation justifying the disbursement requests. The costs of the audits will be subsumed under the project costs, and financed out of the proceeds of the loan. As a condition precedent to the first disbursement, a short list must have been drawn up of independent public accounting firms that are eligible to perform the financial and operational audit.
- 4.41 The ODI must submit to the Bank consolidated financial reports of the program. The initial audit report, covering the first six months of the program from the date of the first disbursement and the review of expenses incurred prior to approval of the loan, must be submitted to the Bank within 60 days after the period under review. The annual audit, to be performed 12 months into the program, will consist

of the final operational and financial audit report on the program, and must be submitted to the Bank within 60 days after the date of the last disbursement.

- 4.42 The information to be audited will be prepared on the basis of the consolidated data kept by ODI on the use of the IDB financing and the local counterpart funding including the records of the subexecuting agencies.
- 4.43 The report of the independent auditors will include a special section describing the findings of the ex post review verifying that expenses in connection with disbursement requests (a) are properly justified with reliable receipts kept in the records of the executing and/or subexecuting agencies, (b) were duly authorized, (c) are acceptable in accordance with the terms of the loan contract, and (d) were correctly recorded for accounting purposes.
- 4.44 The members of the ODI team must include personnel who are qualified to validate the documentation forwarded by the subexecuting agencies and to verify that disbursement requests have been properly prepared.

11. Environmental and social considerations

- 4.45 The activities planned for the proposed program are aimed at alleviating the adverse effects of the earthquake by helping to restore basic services and communications, to remove debris, to evacuate victims from high risk zones, to stabilize unstable structures and provide temporary housing and support to the general population. The environmental impact of all these activities will be favorable. Given the nature of the operation and the activities proposed, no environmental assessments will be performed. However, some activities such as the removal of debris could have undesirable environmental effects. Accordingly, the eligibility of such activities is subject to defining in advance the site for disposal of rubble and the technical procedures that would be followed.
- 4.46 As part of the program, preventive measures will be taken to stabilize slopes in an effort to improve safety and the quality of life of the population.
- 4.47 The environmental units in each ministry will see to it that environmental standards and criteria are adhered to.

12. Classification as a poverty targeting and social-sector program

- 4.48 This operation qualifies as a social-equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). The project does not set out specific performance indicators to gauge poverty reduction and enhancements in social equity. The PTI classification is justified on the basis of geographical criteria. Calculations based on the FONCODES poverty map show that the incidence of poverty in 94% of the 162 districts affected by the earthquake was well above the national average. This

coincides with the fact that buildings in these areas, being more likely to be of makeshift construction and erected on unstable ground, suffered the most serious damage.

C. Other possible actions by the Bank to assist with the emergency

- 4.49 To address any further needs that may arise as a result of the emergency and the ensuing rehabilitation and reconstruction works, the Bank and the government are exploring the possibility of reallocating the unused portions of other loans now in progress. Any decision will depend on a more precise assessment of the damage and the financing requirements.

V. COORDINATION WITH OTHER AGENCIES

- 5.1 A number of nations including the United States, Canada, Spain, Belgium, Argentina, Chile, France, Italy, and Colombia have furnished contributions in kind and in cash for relief efforts in the disaster zone. Furthermore, nongovernmental and multilateral institutions have provided financial and technical assistance for reconstruction in the affected area. One of these institutions, the Andean Development Corporation, promised to give a grant of US\$50,000 as well as an emergency loan of US\$20 million and to reallocate for this purpose US\$30 million in available funding under ongoing loans. In addition, the United Nations Children's Fund made a donation of tents-schools so that classes can resume for the remainder of the year.