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9. ABSTRACT

In May of 1975 a four-man team of consultants from the Foundation for Cooperative Housing was sent to Peru by the Office of Housing, AID/Washington, to assess the possibility of a new Housing Guaranty program focused on the needs of the lower-income sectors in Peruvian urban centers. The new program would place special emphasis on the squatter areas ("Pueblo Jovenes") to provide essential infrastructure and basic utility services, home improvement loans, and other alternatives, including lots and core housing. On the basis of its observations, the team made four recommendations: 1.) The several Peruvian government agencies involved in providing shelter and services should be more intensively coordinated and centrally directed in the planning, programming, and implementation of the proposed program; otherwise, as past experience has shown, the proposed large-scale program cannot be efficiently implemented. 2.) Institutional mechanisms for reaching into the marginal settlements are needed. A large gap exists between the type of housing that is needed and the type presently being financed. Moreover, the BCH and the "mutuales" make almost all of the long-term housing finance in the country with average loans several times larger than what can be afforded by the average family. As for the credit cooperatives, their operations are limited by restrictions on the amount of interest they can pay on savings or shares. 3.) The government should review its interest rate structure and consider permitting higher interest rates to be paid on savings, particularly for those institutions willing to extend credit to lower income groups. 4.) Program design is an extremely important consideration in meeting the need for shelter and services in the "Pueblo Jovenes." Whenever possible, programs should utilize a maximum amount of local inputs and neighborhood control through participation of neighborhood associations, credit cooperatives, housing cooperatives, and other local organizations.

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PERU SHELTER SECTOR ASSESSMENT

OFFICE OF HOUSING

AGENCY FOR INTERNATIONAL DEVELOPMENT

OCTOBER 1975

F O R W A R D

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Daniel Coleman	- FCH Services, Inc.
Craig Noren	- FCH Services, Inc.
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ACRONYMS FREQUENTLY USED AND THEIR TRANSLATION

1. BVP	Housing Bank of Peru
2. MOHC	Ministry of Housing and Construction
3. BCH	Central Mortgage Bank
4. SINAMOS	Social Mobilization Agency
5. Pueblos Jovenes	Young Towns
6. COFIDE	Government Finance Corporation
7. NPI	National Planning Institute
8. EMADIPERU	Public Agency for Administration of Real Estate
9. ESAL	Lima Sanitation Authority
10. ESAR	Arequipa Sanitation Authority
11. CCC	Central Credit Cooperative
12. PCC	Peruvian Chamber of Construction
13. IDB	Inter-American Bank
14. ORDEZA	Agency for Reconstruction
15. DGOS	Sanitary Works Division of the Ministry of Housing and Construction
16. IBRD	World Bank
17. Mutuales	Savings and Loan Associations

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PREFACE

The purpose of the Peru Shelter Sector Assessment was to obtain a current overview of the Sector to assist in an evaluation of assistance needs. The study was undertaken in response to several Peruvian requests for new housing guaranty loans. The assessment was organized in a form that has evolved in AID's Office of Housing during the last few years. It is the policy and practice of the Office to conduct such studies in countries where such a study has not been realized and where there is interest in US assistance in the shelter sector.

The term "shelter" instead of "housing" is used in these studies to signify AID's recognition of a broad approach to the problem of human habitation - an approach that includes consideration of ways to improve the total living environment or important aspects thereof, and therefore one that in some cases may involve solutions distinct from the common past practice of providing completed standard houses.

As in previous shelter sector studies, the Office of Housing organized a team including members drawn from outside of its own Washington or field staffs. The personnel of the team and their principal areas of study or responsibility were as follows:

Jack Edmondson, Vice President, FCH
Team Leader

Dan Coleman, Housing Consultant, FCH
Economic considerations, the demand for shelter, and land tenure

Craig Noren Architect, FCH
Housing construction industry: dwelling design, level of production, costs, organization, and land improvement

Philip Jones, Housing Consultant, FCH
Field Investigator, and writer

The Mission participated extensively in all phases of the sector study, and provided the team with valuable insight into the multi-facets of the Sector.

The team came to Peru not with any sense of knowledge or capacity superior to that of the many Peruvians who have long worked for better shelter for the citizens of their country, but with the purpose of securing an objective picture of the current situation and its potential for action. To the extent that the team realized this objective, thanks are due to the many Peruvians in the private and government sectors who readily shared their knowledge, time, and counsel with the team.

It is hoped that the study will enable both those in Lima and in Washington who are charged with formulating the next steps, to do so with a common understanding of both the problems and the possibilities for further mutually beneficial cooperation.

I. BACKGROUND

Since the early 1960s, AID has provided significant assistance to the Government of Peru in the development of the housing sector, and specifically its housing finance institutions. The most notable of these is the Housing Bank of Peru (BVP), and its affiliated mutual savings and loan system. Technical as well as capital assistance have been made available to expand and strengthen those institutions.

The first AID loan in 1962, in the amount of $7.5 million went to the BVP as seed capital for the initial capitalization of the bank, and to stimulate the expansion of the savings and loan system. The second loan for $6 million was subsequently made available through the BVP for members of housing cooperatives.

The mid and late 1960s saw a series of six Housing Guaranty projects ($17.7 million) successfully implemented under the competitive program.

Within a short period after the devastating 1970 earthquake AID made a $10.5 million grant to the GOP for emergency reconstruction. Shortly thereafter, a $3 million development loan for community development and reconstruction in the rural and urban centers of the disaster zones was made. A followup development loan for urban reconstruction in the amount of $15 million was agreed to in 1972, and is currently under disbursement. The latter includes construction of self-help housing projects in numerous communities,

the provision of infrastructure as well as essential services for the affected communities. To complement the programs in the earthquake zone, AID made a $28.3 million Housing Guaranty Loan to the GOP. Both loans were subsequently expanded in scope to cover a zone to the north that was affected by serious floods in 1972.

In 1975, there were discussions between the GOP and the AID Mission concerning the possibility of a new Housing Guaranty program which could be focused upon the needs of the lower income sectors within Peruvian urban centers with special emphasis on the squatter areas ("Pueblo Jovenes") to provide essential infrastructure and basic utility services, home improvement loans and other alternatives including lots and services, core housing, etc. This report was prepared for the Office of Housing, AID/ Washington, by the Foundation for Cooperative Housing, which sent a team to Peru in May of 1975.

II. SUMMARY OF FINDINGS AND RECOMMENDATIONS

A. Shelter Policy

The official Peruvian shelter policy is directed to making it possible for every Peruvian to have access to adequate shelter. This has been spelled out in new policy guidelines within the 1975-1978 National Development Plan, as well as the earlier "Inca" Development Plan, which defined the broad goals of the Revolutionary government. Peruvian officials have recognized the fact that new standards are

necessary if all or even most of their people are to have decent shelter. The GOP has adopted a conscious policy of upgrading existing human settlements, and to this end, there is great emphasis on improving and preserving existing housing stock and on upgrading squatter communities.

The provision of utility services is recognized in the policy as being one of the most pressing needs, as is the need for employment among the jobless and underemployed. Furthermore, there is recognition of the need to employ labor intensive solutions wherever possible, so as to make maximum use of the human resources available.

B. <u>The Need for Shelter and Services</u>

Perhaps the most pressing need is for the basic services of water, sewer and electricity. Due to phenomenal growth rates in the urban areas and the lack of resources on the part of governments to respond to this growth, large proportions of urban areas do not have public services. The total need for services is presently estimated at 1.8 million electric connections, 1.9 million water connections, and 1.6 million sewer hookups and/or latrines. In addition to these basic services, there is a present need for at least 420,000 new housing units of all types.

These estimates of the total need will be obsolete in a very short time, simply due to the accelerating growth of the

urban areas. At a conservative estimate of 5.5% increase per year, the cities will double their population in about 13 years, and in 21 years their population will have tripled. This tremendous pressure on the existing service systems will probably continue, although the government hopes to curb Lima's growth rate by developing the cities to the north and south of Lima.

C. Incomes

There is a marked difference in incomes between rural and urban areas, and also between different cities. For example, median family income in Lima is about S/.8,235 ($192) per month, while for urban areas as a whole S/.6,405 ($148), and in the Sierra (Puno-Juliaca area), median income is only S/.2,812 ($65).

In general, the vast majority of families cannot afford a "standard" modern house. However, there is ample evidence that most of the people needing basic infrastructure services could afford to pay for them. A large number of families could even afford a basic or "core" house, which would be inexpensive and designed for expansion as their economic situations improved.

D. Institutions

The following institutions play a major role in the Shelter Sector. The Ministry of Housing and Construction (MOHC) is the primary institution involved in all aspects of shelter

and related basic services. The Department of Sanitary Works is one of the main operating branches of the Ministry throughout Peru in designing and supervising the construction of water and sewer systems. The Lima Sanitary Authority, and the Arequipa Sanitary Authority, design and supervise the construction of the water and sewer systems in those cities. The MOHC Departments of Programming, Projects, and Construction develop and execute all new public works carried out by the Ministry, including massive housing projects, apartment buildings, urban renewal, and other projects designed for human habitation. EMADI-Peru, the successor agency to the Junta Nacional de Vivienda, administers the public housing after the construction phase, as well as undertaking the construction of housing and lots and services projects.

Other institutions involved in the provision of basic infrastructure services include Electroperu and the associated electric companies, which develop electrification projects under the Ministry of Energy and Mines. These groups design and supervise the construction of additions to the electric power grid, which will eventually be extended to cover the entire country under the direction of Electroperu.

The Peruvian Housing Bank (BVP) finances shelter and infrastructure projects in conjunction with Electroperu, the MOHC, and other public utility agencies. In addition, the

BVP is active in financing middle-income housing through its own branches, and it also supervises the extensive Savings and Loan System, which is responsible for financing a sizeable portion of new housing in Peru.

The Central Mortgage Bank (BCH) finances middle-level housing programs, many of which include individual housing cooperatives and private housing associations. The BCH is the strongest bank in the savings field, holding an estimated 35% of the national savings.

Credit cooperatives and the "mutuales" make short-term loans for small amounts for home improvements and other housing related activites. This type of credit makes up a significant amount of the credit cooperatives' business, as well as a modest amount of the "mutuales'" activities.

The Social Mobilization Agency (SINAMOS) has been deeply involved in organizing the residents of the "pueblos jovenes" (literally "young towns") and preparing them for the remodeling necessary prior to final legalization of the settlements. The agency is currently under reorganization, and while it is anticipated that its activities will be somewhat circumscribed, it will probably continue to play an active development role in the "pueblos jovenes".

E. Recommendations:

On the basis of the teams observations, the following recommendations are made for consideration;

1. More intensive inter-agency coordination of planning, programming and implementation. The institutions involved in the provision of shelter and services in general are individually capable of handling their respective segments of the sector. However, the development process in Peru needs central direction and coordination when large programs involving several autonomous agencies are undertaken. Experience has shown that a lack of coordination results in delays in project development, which increases lead time and creates an atmosphere of frustration for all parties involved. This coordinating function should be melded into new large-scale infrastructure and shelter program endeavors by the GOP to ensure timely and efficient implementation of such programs.

2. Increase in availability of credit for target groups. There is an apparent need for a) strengthened institutional mechanisms which can reach into the marginal settlements, and, b) additional resources to be channelled through such mechanisms to the poorest majority.

A large gap exists between the type of housing that is needed and the type presently being financed. The BCH and the "mutuales" make almost all of the long-term housing finance

in the country with average loans several times larger than what can be afforded by the average family. The "mutuales" make a substantial number of home improvement loans, but it appears this type of credit is extended cautiously and without extensive promotional campaigns. More imaginative and aggressive steps might be taken to stimulate the extension of services into the "pueblos jovenes".

The credit cooperatives have a wide membership throughout the country and make many times more loans than the "mutuales". At present, however, there are restrictions to the amount of interest they can pay on savings or shares, thus limiting their potential outreach. Consideration should be given to encouraging their efforts to work with lower income groups and to a re-evaluation of the present interest rate structure.

In summary, credit policies should be examined and reviewed in order to make more credit available to a larger portion of the population.

3. <u>In the government's review of the interest rate structure to increase private savings, consideration should be given to reassessing current government policy which tends to vary among the savings institutions</u>. The team feels that consideration might be given to providing incentives, in the form of higher allowable interest rates on savings, to those institutions which demonstrate a capability to extend credit for and mobilize savings among the lower income groups.

4. New Shelter and Home Improvement Programs with increased popular participation. The sector team recognizes the efforts of the government to improve the quality of life in the "Pueblos Jovenes" and in particular, the efforts to provide all families with the basic infrastructure services. However, the rapid growth of the cities has created a continuing need for more and better housing. In this respect, the government should foster programs which provide for financing for home improvements, as well as programs promoting the concept of minimum, though adequate housing, which can be expanded as time and money permit. As stated above the "mutuales" and other private and public groups should be encouraged to invest a larger part of their resources to housing low-income families.

The need for shelter and services in the "Pueblos Jovenes" is among the greatest in the entire country. These needs should be assessed, recognizing that the concentration of need in close proximity to the cities make it possible to direct specific programs toward those needs, thereby increasing the possibility of an efficient use of development resources. Program design is an extremely important consideration for the "Pueblos Jovenes" and similar communities, and wherever possible, programs should utilize a maximum amount of local inputs and neighborhood control through the participation of neighborhood associations, credit cooperatives, housing cooperatives or other local organizations.

III. NEED FOR SHELTER AND SERVICES

A. Population Characteristics

1. Total Population

The total population of Peru is estimated to be 15.4 million people as of mid-1975. This total is based on the 1972 census, and assumes a continued growth rate of 2.9% per year.

2. Urban-Rural Comparison

It is very difficult to arrive at a reliable estimate of the urban-rural mix, due to conflicting definitions as to the meaning of "urban" and "rural". The latest census has defined "urban" as any settlement of more than 100 houses. This rather broad definition would place the total urban population at around 9.4 million, or more than 60% of the total population. A more usable figure would be an estimate of the population living in urban centers of more than 5,000 inhabitants. It is estimated that in 1975, about 7.4 million people live in such centers. This would make the urban population around 48% of the total country population.

In any case, Lima is the largest urban center with a population of about 3.8 million, which represents about

25% of the total population. The second largest city is Arequipa, with a population of about 400,000.

3. Growth Rate

According to the 1972 National Census, the overall growth rate of Peru is 2.9% per year. The urban growth rate is 5.1%, and the rate of increase for Lima is at least 5.5% per year. There is general agreement that the cities, and especially Lima, are growing at a rapid rate, due to both natural increases and in-migration.

TABLE #1
Population

Year	Countrywide	Urban 1/		Lima Only	
	#	#	% of country	#	% of country
1940	6,680,000	2,197,000	35.4	645,000	9.7
1961	10,319,000	4,698,000	47.4	1,846,000	17.9
1972	14,121,564	8,058,495	59.6	3,241,000	23.0
1975 2/	15,386,000	9,355,000	60.8	3,806,000	24.7

1/ Definition of an urban area, according to the census, is any group of at least 100 houses or approximately 500 persons.

2/ Estimates based on average yearly population increases over period 1961 to 1972 - countrywide 2.9%; Urban 5.1%; Lima 5.5% - and calculated to June 1975.

Source: 1972 National Census

B. Housing Stock

1. Total Number

The 1972 census indicates there were slightly more than three million housing units throughout the country that year, with an average of 4.6 persons per unit. Lima accounted for approximately 720,000 units.

2. Vacancy Rate

The overall vacancy rate is useful in indicating the amount of choices available to someone looking for a house. When the vacancy rate is less than 4%, for instance, then it is very difficult to find adequate housing. When the rate is less than 3%, it means you probably won't find what you're looking for. The 1972 census indicates throughout Peru, 134,000 units were vacant, giving an overall vacancy rate of about 4.4%. This figure would tend to indicate that housing is difficult to find in urban areas, and probably in abundance in the countryside. This is caused by the in-migration to the cities, with people often abandoning their rural dwellings.

3. Types of Housing

Most houses were single-family detached units totaling 2.4 million units, or 80% of all units. 108,113 units were in multi-family buildings of two or more stories, of which almost 90,000 were in Lima. 417,000 units were

"chozas", which are generally defined as rural dwellings built of rustic local materials.

4. Housing Condition

Indicators of housing condition include degree of overcrowdedness, and the degree to which the house is served by water, sewer, electricity and transportation. Table #2 (pg. 14) shows the percentage of dwelling units provided with different services in typical cities.1/

a. Overcrowdedness

This indicator is based on the number of occupants per room. An example of an overcrowded unit would be a one-room house with three occupants, or a two-room house with five occupants, etc. 583,000 units or almost 20% of the existing housing stock, were overcrowded in 1972.

b. Water

Problems of supply and distribution of water are evident in every rural and urban area of the Republic. Although an average 65% of urban households2/ have a domestic piped water supply, only 9% of rural households enjoy this service. Water distribution is better in Lima (79% of the population is served) than in

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1/ Using the Ministry of Labor definition where urban is defined as 5,000 or more inhabitants.

2/ Ibid

TABLE #2

PROVISION OF UTILITY SERVICES IN PERU

	Total No. Dwelling Units (1969)	No. Dwelling Units in Pueblos Jovenes (1970)	% in Pueblos Jovenes	Water Service		Sewer Service			Lighting			
				Piped Potable Water	Public Tap	River Well Other	Single Family Piped Sewer	Common Piped Sewers	None	Electricity	Kerosine	Candles or other
Rural Areas	-	-	-	9%	10%	81%	5%	-	95%	10%	60%	30%
Urban Areas	-	-	33%	65%	14%	21%	44%	13%	43%	70%	17%	13%
Lima-Callao	451,000	133,000	29%	79%	10%	11%	58%	15%	27%	85%	8%	7%
Arequipa	55,000	19,000	35%	71%	7%	12%	39%	25%	36%	79%	1%	20%
Trujillo	30,000	23,000	77%	58%	19%	23%	41%	4%	55%	50%	31%	19%
Chiclayo	18,000	10,000	55%	60%	23%	17%	43%	6%	51%	60%	27%	13%
Cuzco	16,000	4,000	25%	81%	3%	16%	23%	48%	29%	79%	3%	18%
Piura	22,000	10,000	45%	72%	18%	10%	35%	1%	64%	58%	30%	12%
Iquitos	13,000	3,000	23%	60%	13%	27%	41%	13%	56%	60%	38%	2%
Percentage in all Republic	-	-	33%	36%	12%	52%	24%	6%	70%	39%	39%	21%

Encuesta de Hogares (1970) Tabulaciones sobre Vivienda en el Perú. Ministerio de Trabajo, publicado 1972, Lima pp. 15, 16 y 17

smaller towns (Puno [43%] and Iquitos [60%]). For the poorest sector of the population living on marginal dwelling sites (Pueblos Jovenes), only 25% of households have piped water (see Table # 2). These communities comprise a third of the population of the major cities.

c. Sewer

Sewer services are available to 44% of urban families[1/] and only 5% of rural families. While almost 75% of the population of Lima has sewer connections, only a third of some of the smaller towns are so served. Only about one in five of families of the poorest income strata in "Pueblos Jovenes" have sewer services (Table # 2).

The Government has, over the years, made substantial investments totaling more than $100 million to improve water and sewer services. These services are controlled and constructed by the MOHC, together with municipal agencies and the so-called concessionary state companies in the cities of Lima and Arequipa. Financing for new services comes from national, multilateral and bilateral sources.

1/ Ibid

d. Electric Services

The provision of electric power and street lighting is more readily available in Peru. About 70% of urban residents and 10% of rural households have electric power. The second most important means of illumination is kerosene lanterns. Kerosene lanterns are most used by the poorest sector of the population though the cost is high. More people have electricity in their homes than piped water (35% vs. 25%).

Electric service is controlled by the Ministry of Mines and Energy. This Ministry is in the process of absorbing the few autonomous public electric companies still in existence. (See ElectroPeru - Section V)

e. Roads and Public Transportation

A central roads authority does not exist and comprehensive information is not available. The national government develops roads by distributing tax revenue to municipalities, except for major highway systems constructed by the central government.

Within the major urban areas, the secondary towns are generally regarded to have higher quality paved roads and public transportation than Lima, itself. In the capital, about 20% of arterial roads and 30% to 40% of

local streets are in need of surfacing. 95% of the streets in "Pueblos Jovenes" appear to be unpaved. However, this is of lesser priority in Lima and other coastal cities than water and electric service because of the arid climate. The national government has set the standards so that streets which are only leveled and compacted for low-cost urbanization can be accepted by municipalities.

In Lima, 72% of all trips per day are handled by public transportation. However, only about half of the buses necessary to accommodate the peak rush hour demand are available, causing great crowding of the buses in service and great delays in commuting around town.

Public transportation vehicles are generally financed by each municipality by means of loans from the Government Finance Corporation (COFIDE).

5. Form of Tenancy

About 65% of all families in Peru own their own homes. However, this does not necessarily include land ownership, for which statistics were not available. Due to squatting in the cities, it is probable that land ownership is lower than house ownership. Home ownership is greater in the rural areas, where 83% of all families own their homes. In urban areas, this percent decreases

to 52.1%, while in Lima it is even lower at 44.2%. Lease-purchase arrangement is a common form of home ownership in the cities, and, in fact, is the form of tenancy for 9.4% of the units in Lima. Renting is the second most common form of tenancy and includes 16.6% of all units, with 35.5% in Lima. Table # 3 below gives a breakdown of forms of tenancy.

TABLE # 3
House Tenancy

Forms	Countrywide		Urban		Rural		Lima	
Owner occupies 1/	1,757,230	65.4	798,011	52.1	959,219	83.0	286,083	44.3
Lease-Purchase	110,442	4.1	105,762	6.9	4,680	0.4	61,101	9.4
Rental	444,874	16.6	426,980	27.9	17,894	1.5	229,821	35.5
Free Use 2/	285,334	10.6	152,435	10.0	132,899	11.5	62,459	9.6
Other	88,591	3.3	47,147	3.1	41,444	3.6	8,210	1.2
	2,686,471	100.0	1,530,335	100.0	1,156,136	100.0	647,674	100.0

Source: 1972 National Census

1/ Status of land tenancy not covered.

2/ Means occupant does not own dwelling, but is living rent free.

C. Annual Production

Discussions were held with officials at the Ministry of Housing and Construction, the Housing Bank, the Central Mortgage Bank, and the Peruvian Chamber of Construction, and there was general agreement that current housing production is running at about 40,000 units per year.

The final production figure in Table #4 only includes "standard" housing, which is estimated by various sources as only accounting for about 60% of all new housing construction. No official estimates have been made of clandestine starts, i.e., units illegally constructed by lower-income families.

D. Housing Need

1. Basic Assumptions

The need for housing can be measured in many ways, depending on the assumptions one makes while attempting to measure that need. For purposes of this analysis, it will be assumed that:

a. it is desireable to reduce overcrowding
b. it is desirable to replace dilapidated housing
c. it is desirable that every house have electricity, running water, and a waste disposal system.

Given these assumptions, information was gathered from

the Sistema Nacional de Mobilzacion (SINAMOS), the Ministry of Housing and Construction, the Housing Bank, and other sources to determine the present housing situation and to estimate the current need.

TABLE # 4

HOUSING CONSTRUCTION
Combined Public and Private
Single-Family and Multi-Family Dwellings

	Public		Private		
Year	Single	Multi	Single	Multi	Totals
1970	3,785	91	18,448	1,039	23,363
1971	4,436	224	33,621	2,084	40,365
1972	4,311	926	25,822	1,315	32,374
1973	2,550	889	31,993	4,833	40,265
Totals	15,082	2,130	109,884	9,271	136,367
% of Totals	11%	1.6%	80.6%	6.8%	

Sources:

Public: Peruvian Chamber of Construction
Public Works Bid List, 1970-1973

Private: Peruvian Chamber of Construction. Figures extrapolated from "Private Sector Housing Throughout the Country, 1965-1973".

2. Housing Need to Meet Population Increase

In 1972, the ratio of occupants to dwelling units was 4.62 persons[1/]. Since then, the total population is estimated to have increased by about 1.25 million. So at a minimum, it would have been necessary to have built almost 90,000 new units each year during the 3 year period 1973-1975, to avoid any overcrowding.

3. Housing Need to Reduce Overcrowding

As noted earlier, about 583,000 units were considered as overcrowded in 1972. It is doubtful that this overcrowding problem will be solved in the short run, but if a ten-year program were undertaken to combat this problem, it would be necessary to build or enlarge almost 60,000 units every year.

4. Replacement or Obsolescence

Another indicator of the need for housing is the need to replace units taken out of circulation due to natural disasters, road-building,obsolescence, or other governmental action, or abandonment as in the case of rural migration to the cities. It is difficult to arrive at an exact figure here, but even assuming a low figure of 1% per year for replacement, at least 30,000 units should have been

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1/ Encuesta de Hogares, Ministry of Labor.

built each year since 1972 just to maintain the current housing stock.

5. Need for Public Services and Utilities

It is also important to look at the degree to which water, electricity and sewer services are provided to the existing housing stock. The 1972 report from the Ministry of Labor included a statistical analysis of the provision of services in 1969 and 1970 for the whole country and selected cities, and a 1971 report from SINAMOS dealt with the "Pueblos Jovenes", making occasional references to the whole country. By comparing these reports, and applying their results to the 1972 census, an estimate of the total need for services is as follows:

a. Water: It was found that 36% of the houses were served by piped potable water, which leaves 64% in need of this service, or, 1,929,000 houses.

b. Sewer: Only 24% of the houses had a sewer hookup, and another 24% had a latrine or septic tank. At a minimum, 52% or 1,568,000 houses are in need of a human waste disposal system.

c. Electricity: 39% of the houses had electric service, leaving 61%, or 1,838,000 in need of electricity.

Table # 5 shows how services are presently furnished in the "Pueblos Jovenes" alone.

TABLE #5

Utilities in Marginal Neighborhoods "Pueblos Jovenes"

Potable Water	% of Service
Domestic individual piped service	25
Communal tap within neighborhood	26
Communal tap outside neighborhood	4
River or well source	10
Truck delivery - by the can	34
Waste Systems	
Sanitary Sewer System	20
Septic or latrine system	24
None	37
Domestic Lights	
Electric Service	35
Candles	23
Kerosene Lamp	40

Source: Censo de Pueblos Jovenes - 1970
Vol. 1, Datos de Vivienda - SINAMOS (1972)

6. Total Current Need

The current need for new or improved housing can be estimated by calculating the number of units which should have been built, and subtracting the number that were built each year since 1972. Thus, the total need is 540,000 less 120,000, leaving an estimated deficit of 420,000 new units needed since 1972. Also, there is still the need for 1.8 million electric connections, 1.9 million water connections, and 1.6 million sewer hookups and/or latrines.

7. Future Annual Need

As there are no indications that population growth in Peru will abate, the need for housing will continue to grow at an increasing rate. In 1976, close to 100,000 new families will be formed, meaning that at least that many new dwelling units will be needed just to satisfy the need of this group. In addition, at least 30,000 new units will be needed to replace units eliminated from the market. The above 130,000 units are in addition to the requirements already noted to provide housing for families who do not have adequate housing to date. Moreover, as stated, the need will increase by about 3% per annum, so that in 1977 the need will increase by 5,000 units over the previous year.

E. Income and Expenditures

1. Household Survey

In 1970, the government undertook a nationwide household survey which included questions on family income. The results of this part of the survey were published several years later under the title "Encuesta de Hogares - Tabulaciones sobre Ingresos de la Pobacion en el Peru". The monthly family incomes of a sample of over 6,000 families throughout the country were broken down into several categories, and the percentage in each category calculated. For use in this report, it was necessary to project 1970 incomes into today's income and relate this to the number of families in each category.

2. Income Projection

A Consumer Price Index for the Lima/Callao area which is the only monthly economic indicator available in Peru, was used to update 1970 income figures. From the date of the 1970 survey to December 1974 (the last published data), this index had increased by 56.8%[1/]. However, discussions with foreign and local economists indicated that incomes have not quite kept up with the Consumer Price Index. Based on these discussions, a straight line

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1/ Boletin del Banco Central de Reservea del Peru, Dec. 1974.

projection of 50% was used to update 1970 income figures[1/].

3. Median Incomes

Throughout the country, including rural and urban income, the estimated median monthly family income is $116. The median income in urban areas only, which, as mentioned includes towns with as few as 100 dwellings, is US$144. In Lima-Callao, the median income rose to US$193.

4. Urban/Rural Comparison

Figures show that 41.5% of all rural families earn less than US$34 per month. This indicates the relative poverty in rural areas. The largest single group among urban dwellers, including Lima-Callao, earns US$105 to US$174. There are 583,000 families in the rural areas earning less than the median income, while in urban areas, there are 978,000 families in this same category, and in Lima-Callao, 378,000 families (see Table # 6).

There is also a wide variation in incomes in the larger urban areas. For example, in

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1/ Since real GNP per capita has been increasing throughout the period, gross incomes must, by definition, increase faster than the rate of inflation. While there may have been a shift in the proportion of income accruing to low-income groups and wage earners, it is doubtful that this shift was so significant that the increase in wages was substantially less than the rate of price increases.

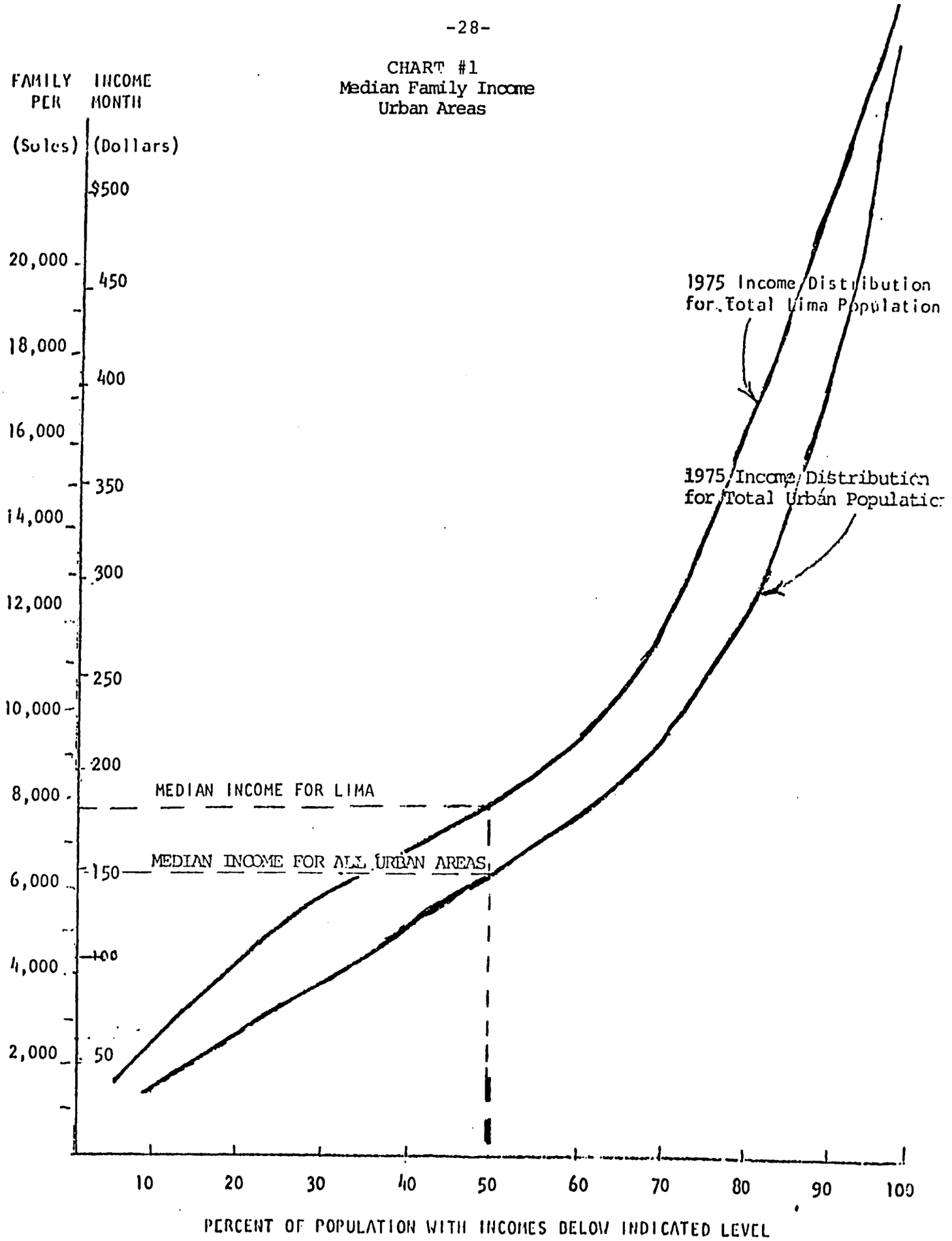
Table #6

Family Income Distribution

Monthly 1975 Family Income Range $	Soles	Countrywide #of families	Countrywide %	Urban #of families	Urban %	Lima-Callao #of families	Lima-Callao %
0 - 34	0 - 1,499	718,753	23	235,061	12	30,288	4
35 - 69	1,500 - 2,999	375,002	12	235,060	12	68,149	9
70 -104	3,000 - 4,500	375,002	12	254,649	13	90,865	12
105 -174	4,500 - 7,000	593,753	19	430,945	22	166,586	22
175 -244	7,500 - 10,449	406,252	13	313,414	16	136,298	18
245 -349	10,500 - 14,999	218,751	7	176,296	9	75,721	10
350 -524	15,000 - 22,499	218,750	7	156,707	8	90,866	12
525 -872	25,000 - 37,499	156,251	5	117,530	6	68,149	9
over -873	over - 37,500	62,500	2	39,177	2	30,289	4
		3,125,014	100	1,958,840	100	757,211	100

Source: 1972 National Census and Encuesta de Hogares - Tabulaciones sobre Ingresos de la Población en el Perú.

CHART #1
Median Family Income
Urban Areas



Iquitos the median income in 1975 is US$145, yet in Puno-Juliaca the median income is less than half that or US$65.

5. Consumption Patterns

The only source on consumption patterns, is the sample survey on nutrition carried out in Lima[1/]. According to this survey, families earning under US$350 annually spend 12.3% of their income on shelter. However, as income rises, the percentage of expenditures for shelter increases, while the percent for food decreases. The percentage spent for housing by families in the US$350 to US$800 annual income groups was 21.9%, while families earning more than US$800 spent 25.5% for housing. (See Table # 7).

F. Needs in the "Pueblos Jovenes"

The cities on the coast of Peru are experiencing phenomenal growth such that the local governments can hardly provide even basic services to the new residents. This lack of services, however, has not deterred immigration simply because conditions in the rural areas are still much less favorable than in the urban areas.

"Pueblos Jovenes" (Young towns) is the term used in Peru when referring to squatter settlements. These marginal settlements have been defined by the Ethnographical Institute of the Uni-

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1/ Source: Encuesta Nacional de Censos de Alimentos, 1974.

TABLE #7

Consumption Patterns

Lima only

Item	Annual income range: Under $350	$350 to $800	Over $800
Food	49.7	36.0	38.8
Shelter	12.3	21.9	25.5
Other	38.0	42.1	35.7
Total	100.0	100.0	100.0

Source: Encuesta Nacional de Censos de Alimentos, 1974.

versity of San Marcos, Lima, as "social agglomerations formed by a population which takes over a wasteland, usually owned by the State, the municipalities, or private owners who do not make use of it. In Peru, for the most part, they are initiated as, or take the form of, organized communities"[1/].

"Pueblos Jovenes" occur on the outskirts of cities in areas which have been taken over by new residents. This "invasion" is often a well-organized event in which several hundred families set up rustic shacks on land owned by public or private owners. These shacks do not last long, as they are soon replaced with adobe walls and, eventually, with brick and mortar walls. In a few years, the area is difficult to distinguish from any other urbanized area.

Organized Invasion. An example of an organized invasion is the area called Villa El Salvador, located some 20 kilometers southeast of downtown Lima. Four years ago, Villa El Salvador was vacant land. The organized invasion began in May of 1972, and today there are more than 120,000 people in residence there. The invasion of the area was planned in coordination with SINAMOS, so as to include the provision of streets, sewers, lighting, etc. Most "Pueblos Jovenes" did not receive such help beforehand though, and there have been further dislocations of families when these services are installed.

1/ Housing in Peru, Pan American Union, Washington, D.C., 1963 Footnote 3, pg. 596.

In a typical "Pueblo Joven" which was not planned as well as Villa El Salvador, there is usually a dislocation of families when the government, through SINAMOS, undertakes the "remodeling" process of laying out streets and assigning lots to the residents. It is estimated by SINAMOS that when this occurs at least 30% of the families must be relocated to some new site.

In general, it can be said that life in the "Pueblos Jovenes" is better than that in the rural areas, but is still a long way from reaching the quality of life attainable by the rest of the city population.

At least 1,200,000 people in Lima alone live in "Pueblos Jovenes" and in other urban areas the population of the "Pueblos Jovenes" has been estimated to be more than one-third of the urban population.

Incomes are much lower in "Pueblos Jovenes", than in other parts of the city. In 1974, the average monthly income in Villa El Salvador was estimated to be about S/.3500 ($81) per family. Based on this figure, median income would probably be about S/.4600 ($106), compared to with the Lima median income of about S/.$8235($192).

<u>Demand for Service</u>. An important fact to note concerning

"Pueblos Jovenes" is that they quickly begin to grow in economic power. This is due to the upward mobility of its residents, who are constantly improving their economic conditions. An important factor for these new residents is that neither they nor the municipality can supply the basic services of water, electricity, and sewers. This need for basic services in the "Pueblos Jovenes" can be illustrated by comparing the degree they are provided in "Pueblos Jovenes". A further comparison with rural areas indicates the conditions in the "Pueblos Jovenes" are bridging the gap between urban and rural areas. (See Table #8)

G. Housing Demand

1. Rural Areas

Demand for modern housing is constrained by the factors of low-income, high construction costs, and present credit facilities. In the rural areas, incomes are even lower, construction costs for traditional housing are higher since it is away from trade centers, and credit is generally less available. The existing housing in rural areas has a median value of about S/.19,020 ($231), while 99% of all rural housing is valued at less than S/.180,000 ($3,459)1/.

2. Urban Areas

The housing situation in the cities is much better than

1/ Housing Survey. Labor Ministry, 1972. Values corrected to 1975.

TABLE # 8

% of Houses Receiving Services

SERVICE	IN URBAN AREAS	IN "PUEBLOS JOVENES" 2/	IN RURAL AREAS 1/
Electricity	70%	35%	10%
Piped water or public tap nearby	79%	51%	19%
Sewer	44%	20%	5%

1/ Ministry of Labor. Home Survey. published 1972.

2/ Census Pueblos Jovenes. SINAMOS. 1970.

in rural areas. Monthly median family income is about S/.6,400 ($121) in all urban areas, while the Lima median income is S/.8,235 ($192). This greater affluence is translated into higher demand for housing in urban areas, making it likely that almost all of the more than 40,000 houses produced each year are built in urban areas.

Median value of all urban housing is about S/.71,800 ($1,655), or more than seven times that or rural areas. In Lima, median value is about S/.128,000 ($2,950), or almost 13 times the value in rural areas. However, even in Lima, at least 73% of all houses are valued at less than S/.300,000 ($6,916).

Assuming that a family should be able to afford a house worth about twice its annual income, then the average family in urban areas should be able to afford a house worth around S/.154,000 ($3,541), which is about twice the median value of the existing housing for all urban areas. In Lima, the typical family should be able to afford a house worth S/.198,000 ($4,556), while the median value is about S/.128,000 ($3,950).

These figures are important because the present, average value of housing financed by the mutuales (see Section V) is about S/.386,000 ($8,905), which is more than twice what is affordable by the average urban family. Average

value of housing financed by the BCH is even higher, at about S/.490,000 ($11,300). These institutions are currently handling the financing of almost all private housing. There is undoubtedly a large, effective demand for this more expensive housing.

Construction costs are so high for contractor-built housing, that it is doubtful this type of housing could be afforded by more than 15% to 20% of the urban population. However, by providing a "core" house, or unfinished basic house, prices could be lowered to within the economic reach of many people.

The cost of providing basic services is estimated to be about S/.35,000 ($807), which would include hookups for electricity, water and sewer. These could be afforded by all but the poorest in the urban areas.

3. Summary

While there is great need for housing and related services in rural areas, it is doubtful if more than 20% of those needs can be met, due to low incomes and high costs. The ability to pay is much greater in cities, so that it would be possible that almost 75% of the need could be met. (See Table #9 on pg. 37).

As can be seen in Table #9, there is an apparent demand for 203,900 basic houses, 608,220 electric hookups, 908,460 sewer connections, and 481,698 water pipe hookups. Table #9

TABLE # 9

NEED FOR SHELTER AND RELATED SERVICES
% of Population that Need and Can Afford Services

a. Basic Housing

Rural:	202,000 needed x .20	=	40,400
Urban:	218,000 needed x .75	=	163,500
		Total	203,900

b. Electric Service

Rural:	90% needs x .20 x 1,554,000	=	279,720
Urban:	30% needs x .75 x 1,460,000	=	328,500
		Total	608,220

c. Sewer Service

Rural:	95% needs x .20 x 1,554,000	=	295,260
Urban:	56% needs x .75 x 1,460,000	=	613,200
		Total	908,460

d. Water Service

Rural:	81% needs x .20 x 1,554,000	=	251,748
Urban:	21% needs x .75 x 1,460,000	=	229,950

gives more detail concerning urban/rural breakdown. It is important to note that the housing needed and affordable is much less expensive than contractor-built housing currently being financed, and is more in the nature of "core" housing, or a basic house, which could be enlarged by the new owner.

IV. LEGAL CONSIDERATIONS

A. Land System

1. Ownership

The National Government exercises extensive control over the ownership of rural and urban land, through its policies on taxation and powers of expropriation. The purpose of these policies are to control land speculation and accumulation, and the misuse of land for rental income purposes.

A special property tax is levied by municipalities on individuals who own more than one piece of property. The tax is calculated according to the number of lots owned. Expropriation of land for public purposes is a widely accepted method of acquiring sites for installation of services, and is the preferred method for acquiring land for public housing programs by the MOHC. The expropriation process requires a Supreme Decree of the Council of

Ministers, which may be secured within a three-month period.

2. Availability for Development

The GOP is the largest holder of land available for urban development. Because of its taxing policies, land for housing is also readily available on the private market. A strong system of land planning is an integral part of the tradition of urban development in Lima and in larger secondary towns. With an emphasis upon the need to industrialize and provide jobs for a fast-growing urban population, a substantial portion of available land is being zoned for industrial purposes for which there are few ready developers at this time. Some of the major secondary towns (Arequipa, for instance) have additional topographical characteristics which limit growth.

3. Suitability/Location

Despite the vulnerable seismic characteristics of the country, the preferred urban pattern remains one of relatively high density and multi-story construction for single-family units. The topography of Lima-Callao is flat, and this has meant that the commuting time for existing development (with some exceptions) is not excessive for a city of four million people.

The principal urban development restraint is the inability

of public utilities to keep up with the demand for water and sewerage services. Fast growing major urban areas are located along the arid coastal plane. Agricultural zones are located in these planes where river delta areas are fed from the interior mountain range. These areas are carefully conserved for this purpose.

4. Tenure of Land and Housing

The tenure condition of property is being comprehensively and radically altered by the Government to reduce and eventually eliminate the former widespread practice of rental units. The principle, however, of owner-occupied housing is secure and there is a preference on the part of public housing agencies to avoid lease-hold and lease-purchase arrangements. One exception to this may be projects of urban renewal, though experience to date is minor.

The government is strongly discouraging private ownership of large tracts of rural land.

5. Registration Transfer Taxes

Conventional public recording of deeds of ownership remain time consuming and costly. The charge is approximately 3% to 5% of the real estate value to record a single-family dwelling. Public agencies are authorized by law, however, to record deeds of ownership as a

private document in which only the signatures on the documents are certified and recorded. This reduces the notary and recording cost on lowest cost housing to about 1% of the value of the real estate. Note that any subsequent sale by an owner of housing purchased from a government agency to another private person must return to the conventional public recorded deed process with its higher costs. In addition to fee-simple purchase methods, lease-purchase arrangements can be used between private sellers. Government agencies constructing housing have not used this system, preferring to stimulate responsibility and civic consciousness through home ownership. In rural areas public agencies are considering land and house sales agreements tied to liens on the sale of agricultural products rather than relying upon cash payments.

6. Real Estate Tax

Four major real estate taxation programs are in existence:

a. A transfer tax on the sales of property costing more than $7,000 is paid to the municipality. Six percent is paid by the seller, and an equal percentage is paid by the buyer.

b. A property tax for general revenue is levied on property and dwellings of a value of over $3,500.

Mortgaged property is exempt from this tax up to a value of $4,600. This tax burden is minimal, however, not exceeding $23 per year on property valued up to $11,500. Housing constructed by government agencies, whatever its value, is exempt from this tax.

c. Municipalities also levy a "speculative land tax" of about 5% on the value of land in excess of one lot held by a single owner. This tax is calculated on the number of properties owned; while the first lot is exempt, the second lot is taxed at 5%, the third lot at 10%, etc. The tax rate is increased annually.

d. Perhaps the most important tax for municipalities is the quarterly service tax (arbitrios) paid for street lighting, garbage collection and maintenance of parks.

7. Land Costs

Because of restrictions on speculative land ownership, land cost for new housing is relatively insignificant in terms of total cost. In private development, this value may range from 10% to 15% of sales price. When government land is sold for development, the value is set at 14 cents maximum per square meter in unimproved areas up to 45 cents for land with some utilities. Typically, this represents a value of only 1%-2%, or less, of the final sales price.

V. INSTITUTIONAL FRAMEWORK: PRODUCTION OF SHELTER

A. Role of Government

1. Introduction

The GOP, primarily through the MOHC and its dependencies, and secondarily through the Central Mortgage Bank (BCH), and the Peruvian Housing Bank (BVP), has assumed the central role in providing shelter and related urban facilities throughout the country. As is evident from its stated policies, the GOP has recognized the need for improving the quality of urban life for all its citizens, and especially for the lowest income groups who reside in squatter settlements or Pueblos Jovenes.

2. Housing Policy

The new housing policy of the GOP, enuciated in early 1975 1/, represents an enlightened approach to attacking the massive urban problems confronting the government and is reproduced in part below:

a. The Housing Policy

(1) Housing policy will have as its goal the intensification of those actions directed toward giving every family access to an adequate house with corresponding services, with priority given to those families whose present dwelling is basically uninhabitable.

(2) Policy will move toward reducing the imbalance between supply and demand of adequate services through the increase of

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1/ From the "Lineamientos del Plan Nacional de Desarrollo para 1975-78", early 1975.

community facilities, the reduction of costs, the setting of standards which are more in line with our reality, the study and evaluation of the land tenure structure, and adjusting the country's real possibilities to the patterns of the construction of housing and other buildings.

(3) The system of urban development planning and control will be strengthened within the framework of the policy of "territorial conditioning".

(4) The Ministry of Housing and the Sector's public agencies will be decentralized.

(5) The increase of construction activities will be studied, with the investigation aimed toward normalization, increased use of local materials and labor intensive technologies; and the decentralization of the means of housing investment, giving priority to the social property enterprises 1/.

(6) The application of new forms of investment-work (sweat equity), self-construction, self-help, self-effort, etc., will be encouraged.

(7) A legal framework will be developed which will provide for the integrated regulation of land development, giving priority to those developments which are for massive housing; building and developed lots in the urban cores; condominium ownership; leasing and renting; lease-purchase; and the right to improvements.

(8) Priority will be given to the construction of urban infrastructure, particularly provision of water and sewage to the populated centers, to the Pueblos Jovenes and to the cities identified as "compensatory centers" and "support centers" in the policy of "territorial conditioning".

(9) A substantial modification of the current financing system will be proposed, in order to be able to provide preferential attention to the housing needs of the lower-income groups.

(10) The forceful intervention of the State will be used to fight to the maximum, the speculation in the price of land.

(11) Development of preferably uncultivated land, with simultaneous massive housing construction, will be encouraged. An example would be the construction of multi-family housing to increase the density of the populated centers.

(12) Agricultural lands will be protected to the maximum, preferably orienting and programming urban development toward non-productive and uncultivated lands.

(13) Encouragement will be given to the development of urban renewal programs aimed at progressive slum elimination.

(14) Permanent training will be established for the manpower of the sector.

1/ Worker controlled enterprises

This stated policy has not been in force long enough to gauge its effect; however, it appears to be in accord with other policy statements made by the MOHC during the past two years. In particular, these policies reinforce and refine strategies laid out in the INCA Plan announced earlier by the President of Peru, under which the GOP has been attempting to transform the Peruvian Society. The following is an outline of the section of the Inca Plan dealing with housing:

b. The Inca Plan: Housing

(1) The Setting: The large majority of the population lives in sub-human conditions, occupying unhealthy housing without comforts or security.

- Only a minority own their own house 1/
- Land speculation, taxes, and the high cost of materials and technology combine to make housing more expensive
- Credit policies are oriented toward favoring the privileged groups
- Legislation covering inequity is unjust
- Large urban areas lack community services.

(2) Objective: All Peruvian families shall have access to adequate housing.

(3) Actions:

- Create a Ministry in charge of housing
- Provide essential services to marginal neighborhoods, and change the deprecative name "barriadas"
- Eliminate slums
- Reduce the cost of housing by:

  (a) eliminating land speculation

  (b) developing techniques and producing economical construction materials adequate for our region

1/ In the sense of owning both the land and house.

(c) rationalize taxes which increase the cost of economical, type housing, giving preference to areas of the greatest majority.

. Regulate rents in just proportion to the value of the dwelling

. Motivate and regulate the construction of community services.

The MOHC is now charged with the overall responsibility for shelter, housing, and infrastructure programs in the country. The policies as outlined above appear to be well conceived and essentially consistent with the new AID housing policy, with more realistic standards adopted and, more significantly, priority attention addressed towards the lower-income sectors.

c. Housing Programs and Plans

It is noted that the GOP has enunciated a most favorable housing policy, which, if effectively implemented, will begin to solve the housing problem. However, in many instances, a housing policy is not effectively implemented due to a variety of reasons, but most importantly, because of a lack of financial resources and a lack of specific, well developed, and thought out programs of action. There has to be a coordinated, concerted cause of action to insure that the Peru housing policy will reach those goals set out. Only in this way will a policy become a reality and not a paper exercise.

3. Ministry of Housing and Construction

The Ministry of Housing was set up in 1969 as the GOP agency in charge of developing and improving the housing sector, implementing urban renewal programs, and carrying out studies to develop construction activities throughout Peru.

In January 1975, the MOHC was reorganized to give it a stronger voice in all housing and related activities. The reorganization has resulted in establishing a more important role in general for MOHC in construction activities, including controlling the supply of building permits.

a. Basic Functions of the Ministry of Housing and Construction (MOHC)

The essential functions performed by the MOHC pursuant to the reorganization are:

(1) Planning, regulating, executing and controlling of housing and related facilities, public buildings and works, with exception of national defense works, and the construction of other shelters for any human activity.

(2) Promoting sector empresarial activities with emphasis on social property enterprises.

(3) Implementing urban planning and development programs.

(4) Regulating the use of sector funds.

(5) Developing, promoting and executing urban renewal programs for the erradication of squatter areas.

(6) Providing legislation to lower the prices of land and land control.

(7) Planning, regulating and promoting technological research.

(8) Planning, regulating and directing social promotion and workers training programs of the sector.

(9) Analyzing the demand, supply and flow of construction equipment and materials.

(10) Issuing construction licenses.

b. Organization

The MOHC has many advisory agencies within its organization, which serve for internal planning and control. Functional agencies of the Ministry are legally constituted to have overall control of specific areas, and are of two types: Technical and Normative Agencies which have direct duties within the MOHC, and Public Sector Agencies which are controlled by the MOHC, but have their own organizational framework.

(1) Technical and Normative Agencies

(a) Direccion General de Programaccion (Programming Dept.): This office is charged with programming investments to be executed by the MOHC, studying slum areas requiring attention, and evaluating fiscal, social and economic results of MOHC projects, as well as urban renewal programs.

(b) Direccion General de Proyectos (Projects Dept.): The Project office is charged with soil studies, topographical studies, the architectural and engineering aspects of projects, the design of water, sewer, electrical and structural installations, urban rehabilitation projects, public buildings and related works, and working up budgets and specifications.

(c) Direccion General de Construccion (Construction Dept.): This office carries out or contracts for projects through the public bidding system. Supervising, and inspecting housing projects and communal equipment executed by MOHC, and letting bids on contracts are part of its responsibilities.

(d) Direccion General de Obras Sanitarias (Sanitary Works Dept.):
This office oversees the development of all sewer and water infrastructure throughout the country; promotes projects, executes and administers all such projects except those done by the Public Sector agencies (ESAL, ESAR, see below), and supervises all such projects done by the private sector.

(e) Direccion General de Desarrollo Urbano (Urban Development Dept.):
This office has responsibility for urban development and planning studies, and the formulation of Regulatory Plans in the various localities throughout the country in coordination with the National Planning Institute (NPI). In doing so, it standardizes, coordinates, and controls the processes of urbanization and sub-division of lands, and also expropriations.

(f) Oficina de Propiedad Social y Promocion de Entidades no Publicas (Office of Social Property, and Promotion of Non-Public Enterprises):
This new office will be involved in promoting, advising and standardizing the activities of, and bringing technical support to, the Social Property Enterprises of the Housing and Construction Sector. Also, it is the agency charged with standardizing, promoting, evaluating and controlling the activities of all other non-public enterprises throughout the Sector. It is likely that this bureau will take over some of the functions of the SINAMOS, which is presently undergoing a total reorganization.

4. Public Sector Agencies

a. Public Agency for Administration of Real Estate (Empresa de Administracion de Inmuebles, EMADIPERU)

(1) Background

The Empresa de Administracion de Inmuebles (EMADIPERU) was created in 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 MOHC. According to Peruvian 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.

(2) Sources of financing

EMADI's main sources of financing are derived from the sale of goods and services, rentals, financing from BVP, and capital transfers. According to the 1973 balance of operations, EMADI's budget for 1973/1974 totalled 1,308 million soles ($30,16 million). EMADI's assets amounted to 6,312 million soles ($145.5 million) as of December 31, 1973.

(3) Programs

The income levels of the groups reached by EMADI under its low-cost housing programs range from $69 to $300 per month. The cost of the units financed by EMADI range from $920 to $9,000, as follows:

TABLE 10

EMADI HOUSING PROGRAMS

Type of Project	Minimum Monthly Income	Average Loan	% Interest	Term	% Down Payment
1. Home Improvement Loans	$ 69-$276	$ 922	8.5	20 yrs	-0-
2. Lots and Services	138	1,600	7-9	7-10 "	10
3. Core Houses	207- 300	3,000-4,100	9 1/2	20 "	10
4. Low Cost	184	3,450-9,220	9 1/2	20 "	10

In addition to the services outlined above, EMADI administers the collection of the portfolio of projects it has built as well as for other public agencies and for home improvement and rental property (housing and commercial).

The following chart illustrates the number of units under EMADI administration as of December 1973:

TABLE 11

FINANCING AND ADMINISTRATION OF EMADI HOUSING

Type of Projects	Lima	16 Other Cities*
Low-cost Housing	9,732 units	11,950 units
Core Housing	4,854	3,915
Lots and Services	18,975	19,373
Apartments	7,248	327
Home Improvement Loans	N.A.	2,757
Commercial Lots	325	192
Industrial Lots	334	104
Commercial Property	1,351	-
Rental Units	2,130	-
Total	44,949 units	38,618 units

*Chiclayo, Huancayo, Huanuco, Iquitos, Piura, Talara, Chimbote, Casma, Barranca, Huaraz, Huacho, Trujillo, Cuzco, Canete, Tacna, Arequipa.

b. Empresa de Saneamiento de Lima - ESAL (Lima Sanitation Authority)

ESAL operates as the sewer and water authority in metropolitan Lima, as part of the central government's program of managing the major utilities throughout the country. Services performed by ESAL include the drilling of wells, building water storage tanks, building the water distribution networks, maintaining water treatment plants, and building and maintaining sewage collection lines. According to a World Bank report from 1973, it is estimated that "one-third of the population of Lima totally lacks water and sewage service. Of the two-thirds which have water services, 70% are served by ESAL, and 30% by private companies, wells and the Callao water distribution system". The World Bank proposed that the two systems be incorporated into one under the direction of ESAL.

A large portion of ESAL's work is in providing water service to the Pueblos Jovenes in conjunction with SINAMOS and the BVP. SINAMOS organizes the community being served, ESAL installs the water and sewer lines, and the BVP provides the financing for the project. The individual being served pays his water bill, which includes a portion to amortize the cost of the installations. ESAL then repays the BVP.

This system appears to work well, and there is currently interest by the World Bank and the West German government in helping to finance additions to the system in Lima.

c. Empresa de Saneamiento de Arequipa - ESAR (Arequipa Sanitation Authority)

Similar in operation to ESAL, this agency works in Arequipa, Peru's second largest city. Programs administered by ESAR are for the same purposes as those of ESAL, although some technical problems make it quite different. As an example, in Lima, provisional water service can be established by use of wells, while in Arequipa, such wells are not feasible, and other more distant sources of water must be used.

d. Electroperu

Electroperu was created by a Decree Law in September 1972, to be the public enterprise for coordination of all activities related to the production of electricity within Peru. The final goal of Electroperu is to incorporate the existing electric networks into a single grid system, create new hydro-electric dams to expand the system, and, finally, have enough capacity to serve the entire country.

Electroperu is organized as a decentralized public agency under the direction of the Ministry of Energy and Mines. As such, it is autonomous, both economically and administratively, and has jurisdiction throughout Peru.

The main thrust of Electroperu's work is to increase the production of hydro-electric power by building dams on rivers of the Sierra. The latest production figures indicate that 72% of total production is from hydro-electric power stations, compared with 69% in 1970. Installed potential capacity is currently at 59% for hydro-electric sources, and 41% for thermal sources. This indicates that hydro-electric sources, which are much cheaper to operate than, say, diesel generators, are being used at near top capacity.

TABLE 12

Electricity Consumption According to Use
(Percentages of Production)

Use	1969	1970	1971	1972
Domestic Service	16	17	16	15
Commercial	8	8	7	7
Industrial	34	34	38	37
Mining	35	33	30	26
Agriculture	1	2	1	1
Fishing	3	3	3	1
Public Lights	3	3	3	3
Other	-	-	-	10

Source: Adapted from 1974 Electroperu Report "Revolucion con Electrificacion".

e. SINAMOS - Systema Nacional de Apoyo a la Movilizacion Social (National System of Support for Social Mobilization)

In 1971, SINAMOS was formed to consolidate the government programs for low-income people throughout the country. A large portion of its work has been to organize residents in the Pueblos Jovenes so as to guide the future growth of those settlements. The agency is organized into eleven regions which correspond to the military regions, and, although the SINAMOS employees are civilians, the head of each SINAMOS region is the military commander of that region. This has made it convenient to use the military engineering sections, for instance, when construction work is needed in the Pueblos Jovenes during the remodeling process.

This remodeling has been a major task of SINAMOS, along with organizing activities, and has been a popular program among the residents since "remodeling" is a major step toward the final legalization of a Pueblo Joven. In order to receive official status, the Pueblo Joven must have been "remodeled", and each lot must be provided with the basic services of electricity, sewer, and water. SINAMOS works closely with the agencies providing these services, to assure their availability before starting the legalization process. In case it is deemed unfeasible to provide services, the residents will have to move to a suitable site.

The agency is currently undergoing a major reorganization, and while it is still too soon to know the full scope of the changes to be made, it is felt that SINAMOS will continue with its role in the Pueblos Jovenes.

B. Housing Finance

1. Introduction

Housing finance is principally the responsibility of four institutional groups. The largest of these is the state controlled Central Mortgage Bank (BCH), which operates mostly with private sector financial resources. The second is the National Housing Bank, which is also state controlled but operates mostly with government budgetary assistance and external funds. The third group is the "mutuales" of the Saving and Loan System, most of which are privately owned by their depositors. These mutuals are regulated by the BVP, which also controls outright several of the mutuals, as will be explained later.

A fourth institution is EMADI, which in size is less important than the others, but in production of housing for low income families, is certainly a key factor in the housing sector.

These institutions invested a total of about $162 million into the housing, shelter, community facilities and services sector in the two year period 1973-4. The table below shows the relative position of each institution.

Total Investment by the Principal Housing Finance Institutions

(In Millions)

	1973		1974		Total	
EMADIPERU	S/. 253	$ 5.83	S/. 350	$ 8.07	S/. 600	$ 13.9
BVP	977	22.52	1,338	30.84	2,315	53.36
BCH	2,353	54.24	1,740	40.11	4,093	94.35
Totals	S/. 3,583	$ 82.59	S/. 3,428	$ 79.02	S/. 7,008	$ 161.61

At the present time, the BCH holds more than 35% of national savings and is followed by the commercial banks with 24%, the "mutuales" with 17%, and the credit co-ops with 16%.

Current trends indicate that the BCH is increasing its share of the national savings faster than other institutions. Thus, in 1974 the BCH attracted more than 43% of the new savings, while the "mutuales" attracted only about 11%.

1. Taken from the Annual Reports of EMADI, BVP and BCH.

TABLE 13

Increase in National Savings During 1974

(millions of soles)

Institution	Increase S/.	% of Increase
BCH	2,748	43.2
Private Development Banks	112	1.8
Mutuals	733	11.5
Lima Savings Bank	350	5.5
Commercial Banks	1,377	21.6
Credit Co-ops (estimate)	1,040	16.4
Total	6,360	100.0

On page 58 is a table showing a three year picture of savings among these institutions (Table 14).

2. Banco Central Hipotecario

The vast majority of BCH funds are derived from private sources - mainly through savings deposits. As was noted above, the BCH is increasing its share of the private savings market, and is the largest private financial enterprise in Peru.

a) Board of Directors

Under various Decree Laws and Supreme Resolutions, the Board of Directors of the BCH consists of nine members; eight from the Ministry of Finance and Economy (one of whom is proposed by the MOHC), and one from the commercial banks.

TABLE 14

National Savings

1972, 1973, 1974 end-of-year figures
(in millions of soles and dollars)
($1 = S/. 43.38)

Institution	1972			1973			1974		
	S/.	$	%	S/.	$	%	S/.	$	%
BCH	11,228	258.8	33.3	14,209	327.5	34.0	16,957	390.9	35.2
Private Dev. Banks	1,027	23.7	3.0	1,089	25.1	2.6	1,201	27.7	2.5
Mutuals & BVP Branches	6,754	155.7	20.0	7,483	172.5	17.9	8,216	189.4	17.1
Lima Savings Bank	1,560	36.0	4.6	1,986	45.8	4.7	2,336	53.8	4.8
Commercial Banks	9,044	208.5	26.8	10,293	237.3	24.6	11,670	269.0	24.2
Credit Coops	4,167	96.1	12.3	6,766	156.0	16.2	7,806	179.9	16.2
	33,780	778.8	100	41,826	964.2	100	*48,186	1110.7	100

*1974 figures not available for credit unions. Estimates are based on maintaining 16.2% of the savings market.

Source: Adapted from BVP statistical Bulletin, Dec. 1974, and Federation of Credit Coops, Statistical Bulletin, Dec. 1974.

b) Loan Services

A basic housing loan of BCH is for up to 75% of the total sales value of the unit and land. Usually, borrowers are expected to hold title to the land, which thus gives the extra 25% needed. The bank, in actual practice usually lends for about 100% of the value of the house.

BCH new mortgages have a term of 20 years. The interest will vary from 11% to more than 14%. In the latter case, developers who do a large amount of construction ultimately financed by the BCH, can charge a percentage as commission. In this manner, while the advertised interest rate is 11%, the ultimate actual rate can be as high as 14 3/4%. This rate includes mortgage life insurance.

In case a loan is for more than S/ 475,000 ($10,050), the bank does not lend the whole amount in cash. Rather, a system of "cedulas" comes into play whereby 60% of the loan is given in cash, with the remaining 40% given in cedulas. These cedulas carry a face value of S/1,000 ($23) each, but are not redeemable for cash. They can be kept, and the owner will earn 9% interest until maturity (generally 30 years). In practice, the cedulas are sold on the open market where they bring about 75% of face value. The new owner then earns 9% on face value for a cost of 75% of par, thereby increasing his return to 12%.

Table 15 provides a concise overview of the size and number of loans made by the BCH over the past five years.

TABLE 15

BANCO CENTRAL HIPOTECARIO

Number of Mortgage Loans, Average Loan Amount, and Approx. Average Value

YEAR	NUMBER OF LOANS	AVERAGE AMOUNT	APPROX. AVERAGE VALUE * of House and Land
1970	3258	$ 5710	$ 7615
1971	3996	6240	8320
1972	3843	7655	10205
1973	7073	7430	9905
1974	4538	8475	11300
TOTAL	22,708		

* assumes loan of 75% total value house and land.

Source: Banco Central Hipotecario. Department of Control and Statistics. Report of May 2, 1975.

c) Other Services

The BCH is also involved in the financing of tourism projects throughout Peru. Activities include financing tourist hotels run by state-controlled enterprises, and the financing of the renovation of historical buildings.

3. Banco de la Vivienda del Peru - BVP (Peruvian Housing Bank)

a. Background

The BVP was created in 1962 as a decentralized public agency which is legally and administratively autonomous. The Board of Directors is composed of eight members: four from the Ministry of Housing and Construction, two from the Ministry of Economy and Finance, one from the Central Mortgage Bank, and the President of the BVP.

b. Objectives

The major purposes of the BVP are:

(1) The promotion of public and private, national and foreign investments for the development of housing in Peru;

(2) The building of its own financial resources and operative capacity to carry-out housing programs, by marshalling savings, contracting for housing loans, issuing bonds and incurring other types of financial obligations;

(3) The concession of loans to promote home ownership;

(4) The promotion, creation and development of savings and loan institutions (mutuales) for housing. The "mutuales" operate in Peru under the direct and permanent control of BVP.

c. Programs

The programs carried out by the Bank under its mandate are wide and varied, and fall into the following categories:

(1) Housing and Infrastructure Programs. The BVP carries out housing programs throughout the country in coordination with the Ministry of

Housing and Construction (MOHC) and the S&L System (Mutuales). Presently, the housing programs sponsored by BVP are being financed with the assistance of an IDB Loan for $12.58 million and GOP counterpart of $8.94 million; by AID loans 527-L-055 and 527-HG-005/008 for $15 million and $28.3 million respectively, the former having a $10 million GOP counterpart; and by the BVP's own resources, including the "mutuales". Land is sometimes made available by the MOHC for low income housing development purposes. The type of projects undertaken by the BVP include basic infrastructure, provision of utility services and a small program for individual loans for home improvement.

(2) Urban renewal and Rehabilitation Programs. The principal objective of these programs is to improve the existing housing stock. The main activity in this field currently under way is "El Porvenir", an urban renewal project being carried out by BVP with EMADI in the district of La Victoria, Lima. The project comprises renewal of 16 apartment buildings housing 3,023 families.

(3) Urban Infrastructure Programs. BVP is also engaged in a program for the provision of water, sewer and electricity to communities lacking these essential services. In 1973, BVP invested S/.163 million ($3.76 million) in projects located in the Pueblos Jovenes of Lima serving 285,000 people. The projects are being implemented through a loan made by BVP to the Lima Water and Sewer Company (ESAL) and with the assistance of SINAMOS.

(4) Community Facilities Programs. BVP is financing facilities including schools, medical clinics, and community centers in several cities amounting to S/.80 million ($1.80 million).

(5) Experimental Projects. BVP is financing experimental housing projects sponsored by the MOHC. The United Nations is assisting in the PREVI project, a 500 unit pilot project of middle income housing designed by leading Peruvian and world architects. The BVP is also participating in a second PREVI project which is developing innovative urban renewal techniques in the inner city area of Barranco (Lima). Also, a program for improvement of stabilized soils (adobe) is being carried out under a $75,000 AID grant, with the assistance of the National Engineering University, Fresno State College, California, and the U.S. Bureau of Standards.

(6) Large Scale Housing Programs. The major program under this category is the construction of the first stage (871 units) of a 12,000 unit project in Los Proceres, Lima. The total investment of BVP in the Los Proceres project is expected to be S/. 1.9 billion to construct 2,000 multi-family dwelling units, 10,000 single family units and related infrastructure and community facilities.

(7) Promotion of the Construction Industry. The BVP is actively engaged in promoting the construction industry by making financing available to builders and suppliers. The principal activities under this program include loans, the discounting of notes, and the purchasing of portfolios. As of December 31, 1973 the BVP had invested over S/.800 million ($18.4 million) in construction industry related operations.

d. Supervision of the Mutuales

The BVP is legally charged with regulating and supervising the activities of the "mutuales" of the Savings and Loan System. The Supervision Department of the BVP regularly audits the "mutuales". If major irregularities are found, the BVP can and will take over the financial operations of the mutual.

In such cases, the BVP will restructure the mutual's financial and administrative orientation in order to optimize its operating capacity.1/

e. Branch Offices

The BVP has established branch offices in cities not served by an existing mutual, and not likely to attain a large enough volume to attract private interests to form a mutual. At the present time these BVP branch offices are located in Huaraz, Cajamarca, Puno, Juliaca, and Huanuco.

Branch Volume

The Branches collected S/ 89,581,000 ($2,065,000) in 1974, which represented about 14% of the total deposits collected by the BVP (excluding the mutuales). The outstanding loan amount attributable to the branches was S/. 107.7 million ($2.5 million) as of December 1974. This sum is equal to slightly more than 9% of the mortgage volume of all of the mutuals, but it is equal to almost 37% of the outstanding loans of the mutuales outside of Lima.

f. Direct Programs

As mentioned, the BVP has entered into agreements with various public agencies to carry out the development of basic infrastructure and massive housing projects. These programs are carried-out in coordination with the "mutuales", EMADI, ESAL, and SINAMOS in projects in the Pueblos Jovenes. Table 16 summarizes the BVP programs through December 1974.

1/ From BVP 1973 Annual Report

TABLE 16

BVP - Direct Programs

through December 1974

(thousands of soles and dollars)

Program	Administrator	Loan Amount S/	Loan Amount $	Percent Disbursed
PERU - BID	Mutuales			
	Lima	42,864	988	100%
	Provinces	26,223	604	100%
	EMADI			
	Lima	18,111	417	100%
	Provinces	231,358	5333	100%
COCHERAS (Lima)	Mutuales	5,850	135	100%
EARTHQUAKE ZONE	Mutuales	413,976	9543	82%
ESAL	ESAL (Lima)	40,046	923	100%
Totals		S/ 778,428	$ 17,944	

1/ All loans made since early 1971, most since mid 1972

Source: Adapted from BVP General Balance. December 1974 Annex 4, pp. 7, 8

g. Special Loans

Apart from the direct programs done by the BVP, there is also a special loan program which the BVP uses to finance development beyond the normal reach of existing programs of the mutuales or its branches. These loans usually bear a lower interest rate than can be obtained commercially. The following chart summarizes most of the special loan activities through December 1974.

TABLE 17

BVP - Special Loans

as of December 1974

(thousands of soles and dollars)

Borrower	Loan Amount S/.	$	Percent Disbursed
EMADI	343,000	7,907	80%
EMADI (Earthquake)	4,000	92	100%
SINAMOS (Pueblos Jovenes)	105,132	2,424	32%
ESAL	550,000	12,679	73%
PREVI	273,200	6,298	57%
S.E.N.	685	16	100%
COSERELEC	1,346	31	100%
5 provision of services projects	153,856	3,547	32%
	S/. 1,431,219	$ 32,994	

h. General Indicators

The BVP is becoming more important as the financier of GOP development programs, while continuing its role as a large financier of massive housing projects. The accompanying tables and chart summarize the Bank's position in relation to resources, investments, and loan policies. A few noteworthy statistics include:

(1) S/. 1831 million ($42.2 million) or 46% of total BVP loan disbursement has been for the "mutuales" massive housing and cooperative housing programs.

(2) S/. 1621 million ($37.4 million) or 41% of total BVP loan disbursement has been in the area of special loans and direct programs.

(3) Loan funds available for disbursement have increased 3.47 times since 1971, and actual loan disbursements have increased 3.41 times, indicating the Bank has been very active in both attracting and disbursing loan funds.

TABLE 18

BVP - Resources and Investments

balance as of December 1973

	(million soles)	(Million dollars)
A. Income		
1. Funds provided from operations		
a. 1972 Surplus	21.6	0.50
b. Reserves, depreciation, others	10.6	0.24
	31.2	0.74
2. Various Resources		
c. Accounts receivable	162.7	3.75
d. Bonds	291.2	6.64
e. Retention	8.3	0.19
f. IDB loan	68.0	1.57
g. AID loan-527-L-055	2.8	0.06
h. AID loan, 527-HG-005/008	112.2	2.59
i. Guaranty funds, DL 19604	104.0	2.40
	749.2	17.9
3. Income		
j. Investments	121.8	2.81
k. GOP contribution	33	0.08
l. Land contribution	0.2	0.01
	125.3	2.90
TOTALS	906.6	20.9
B. Allocations of Income		
1. Housing Programs	264.0	6.08
2. Loans to Mutuales	586.8	13.53
3. Advances	74.5	1.72

4. Land, goods, equipt.	6.8	.16
5. Amortizations	26.1	.60
6. Interest increment	105.6	2.43
7. Transference of profit to GOP	25.9	.60
	1,089.7	25.12
Cash on hand	(183.1)	(4.22)
	S/. 906.6	$ 20.90

TABLE 19

Breakdown of BVP Loan Activity

to December 31, 1974

(in thousands of soles and dollars)

Loan Purpose or Recipient	Contracted Amount		Disbursed		Amortized		Outstanding	
	S/.	$	S/.	$	S/.	$	S/.	$
Lima Mutuales	655,000	15,100	655,000	15,100	265,000	6,109	390,000	8,990
Provincial Mutuales	237,000	5,463	237,000	5,463	126,000	2,905	111,000	2,559
Massive Housing	600,000	13,831	600,000	13,831	125,000	2,882	475,000	10,950
Coop Housing	339,000	7,815	339,000	7,815	60,000	1,383	279,000	6,432
Short Term Loans	3,000	69	3,000	69	-	-	3,000	69
Special Line of Credit	343,000	7,907	121,000	2,789	4,000	92	117,000	2,697
Direct Programs:								
Peru-BID	364,000	8,391	364,000	8,391	20,000	461	344,000	7,930
DP - BFV	413,000	9,521	338,000	7,792	6,000	138	332,000	7,653
Special Loans	1,432,000	33,011	919,000	21,185	4,000	92	915,000	21,093
Personal Loans	33,000	761	31,000	715	3,000	69	28,000	645
Advances on Current Accounts	-	-	309,000	7,123	-	-	309,000	7,123
Discounted Documents	-	-	52,000	1,199	-	-	52,000	1,199
Totals to Dec. 1974	4,419,000	101,867	3,968,000	91,471	613,000	14,131	3,355,000	77,340
to Dec. 1973	3,684,000	84,924	2,764,000	63,716	419,000	9,659	2,345,000	54,057
to Dec. 1972	3,268,000	75,334	2,032,000	46,842	269,000	6,201	1,763,000	40,641
to Dec. 1971	1,272,000	29,322	1,163,000	26,810	176,000	4,057	987,000	22,752

4. Savings and Loan (Mutual) System

The Savings and Loan System consists of 17 private associations (Mutuales), which are regulated by the BVP.

a. Savings and Growth

The mutuales experienced rapid growth in the late 1960s and 1970s, during which time they held more than 23% of the national savings. Since 1971, their share of the savings market has diminished, so that currently they hold about 17% of the total savings. Their recent annual performance has been reduced, so that in 1974 they brought in around 12% of the new savings. This can largely be attributed to a strong public inclination towards investing in "cedulas" (mostly issued by the BCH), whose yield is substantially more attractive.[1/]

b. Loan Terms and Services

Mutuales can make two basic types of loans to its membership: mortgage and non-mortgage. Mortgage loans are for new housing, and can be for 20 years with interest at from 12% to 13%. Non-mortgage loans are for housing related facilities such as home improvements, and are for five to seven years at 12-13% interest (see sub-section 5e below).

Passbook savings for demand deposits pay 6%, and time deposits can yield up to 10%.

c. Mortgage Loans

Mutuals can lend money for housing that is in the "social interest", that is, housing that is modest in nature so as to reach the lower income groups. The maximum value of such housing, as determined by the State, must be less

1/ "El Mercado Potencial de Ahorro Financiero", published in the December 1974 issue of Ahorro y Vivienda.

than $10,000 for the land, and unit. The following table indicates that most mortgage loans are for housing costing considerably less than this limit. During 1974, the mutuales made 5,709 mortgage loans at an average loan amount of $7,125. In most cases, the loans are for 80% of the total value, 12% interest rate, 20 years so the average selling price was around $8,900 for house and land. (See Table 21, pg. 75.)

d. Restrictions

The principal restrictions are that the land must have clear title, and the borrower must be a good credit risk. The mutuales use as a general rule the premise that the borrower should not pay more than 30% of his monthly income for the monthly loan repayments.

e. Non-Mortgage Loans

Mutuales also make loans for improving existing housing. The average loan is around S/.75,000 ($1,728), and in the years 1973 and 1974, the mutuales made 5,243 such loans, compared to 9,200 mortgage loans. Roughly, 30% of all loans made by the Mutuales are in this category, but they represent only about 5% of the total value of loans made.

TABLE 20

MUTUAL SYSTEM
Non-Mortgage Loans
1970-1974

Year	Number of Loans: Lima	Number of Loans: Total Peru	Average Loan Amount: Lima S/.	Average Loan Amount: Lima $	Average Loan Amount: Total Peru S/.	Average Loan Amount: Total Peru $
1970	3,606	3,976	60,000	1,380	55,000	1,270
1971	2,892	3,361	64,000	1,400	64,000	1,480
1972	1,766	2,039	58,000	1,340	67,000	1,540
1973	2,922	3,115	52,000	1,200	61,000	1,410
1974	1,190	2,128	62,000	1,430	72,000	1,660
Total	12,376	14,619				

5. Credit Cooperatives

Credit unions are restricted to making loans with a maximum term of eight years. Thus, while they do not finance much new housing construction, they do make home improvement loans, and consumer loans for purchase of household goods. In 1973, there were more than 520 credit unions in Peru, which made more than 290,000 loans averaging $490 each[1]. The Lima area received 54% of these loans.

1/ National Federation of Credit Cooperatives of Peru. Statistical Bulletin, 1974

TABLE 21

MUTUAL SYSTEM

Number of mortgage loans, average amount
and approx. average value

1970-1974

	NUMBER OF LOANS		AVERAGE LOAN AMOUNT		APPROXIMATE AVERAGE SALES VALUE*	
YEAR	LIMA ONLY	TOTAL PERU	LIMA ONLY	THROUGHOUT PERU	LIMA ONLY	THROUGHOUT PERU
1970	2003	3477	$6780	$6315	$8475	$7895
1971	3857	5428	6480	6480	8100	8100
1972	3403	4969	7515	7195	9395	8995
1973	2444	3491	7010	7170	8765	8965
1974	4186	5709	7125	7125	8905	8905
TOTAL:	15,893	23,074				

*assumes loan of 80% total value house and land.

SOURCE: adapted from Statistic Bulletin from the Banco de la Vivienda December, 1974.

Although credit unions are restricted to paying 6% on savings, they have been able to retain, and even increase, their membership. The general manager of the Central Credit Cooperative (CCC) estimated the membership of the movement to be about one million members.

Finally, the credit unions and the CCC have had experience in administering a loan for housing from the IDB, made in 1967. The loan was for new housing and housing improvement.

C. Construction Industry

1. Introduction

The construction industry in Peru is large and well-developed. The largest segment of the industry is directed toward house construction and the provision of basic urban services. More than 85% of all privately bid construction contracts in Lima-Callao have been for housing and related infrastructure. Single family housing alone accounted for more than 70% of all construction during the same period[1/].

2. Peruvian Chamber of Construction (PCC)

The Peruvian Chamber of Construction is the organization which serves the construction industry in a manner similar to the National Association of Home Builders by providing such services to contractors as statistical information and legal bulletins. It also represents

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1/. Peruvian Chamber of Construction. 1974 Annual Report.

membership before the National goverment. Membership in the PCC is based on the system in use by the National Bidding Board, which pre-qualifies eligible contractors for state contracts.

Under this system, a contractor is classified according to the amount of his capitalization and reserves. The following table shows the classifications, capitalization : cessary for each, and the maximum amount which can be contracted for by a contractor in any category:

TABLE 22

Contractor Qualification

Type	Capitalization soles	Capitalization dollars	Max. Contract per Contractor
A	$5,000,000	($115,000) & more	20 times capitalization
B	2,500,000	(58,000)	S/.$50 million ($1,150,000)
C	1,250,000	(29,000)	S/.$25 million ($ 576,000)
D	600,000	(14,000)	12 million ($ 277,000)
E	300,000	(7,000)	6 million ($ 138,000)
F	150,000	(3,500)	3 million ($ 69,000)
G	30,000	(390)	600,000 ($ 13,800)

The following table shows the number of private contractors' presently able to bid for larger government contracts:

TABLE 23

Number of Qualified Contractors

Type	Total Capacity	No. of Contractors In Classification	Average Capacity
A	S/.7,300,000,000 ($168 million)	40	182,500,000 ($ 4,207,000
B	S/.1,600,000,000 ($ 36,880,000	32	S/.50 million ($ 1,150,000)
C	S/.1,450,000,000 ($33,400,000)	57	S/.25 million 576,000)
Total:	S/. 10,350 million ($238.6 million)	129	

Source: PCC Technical and Statistical Information Section. May 1975

The PCC has 39 Type A members, 22 Type B, and 27 Type C. In other words, 2/3 of the largest contractors in Peru are members of the PCC. The total membership is several hundred and includes architects, civil engineers, and materials supply companies.

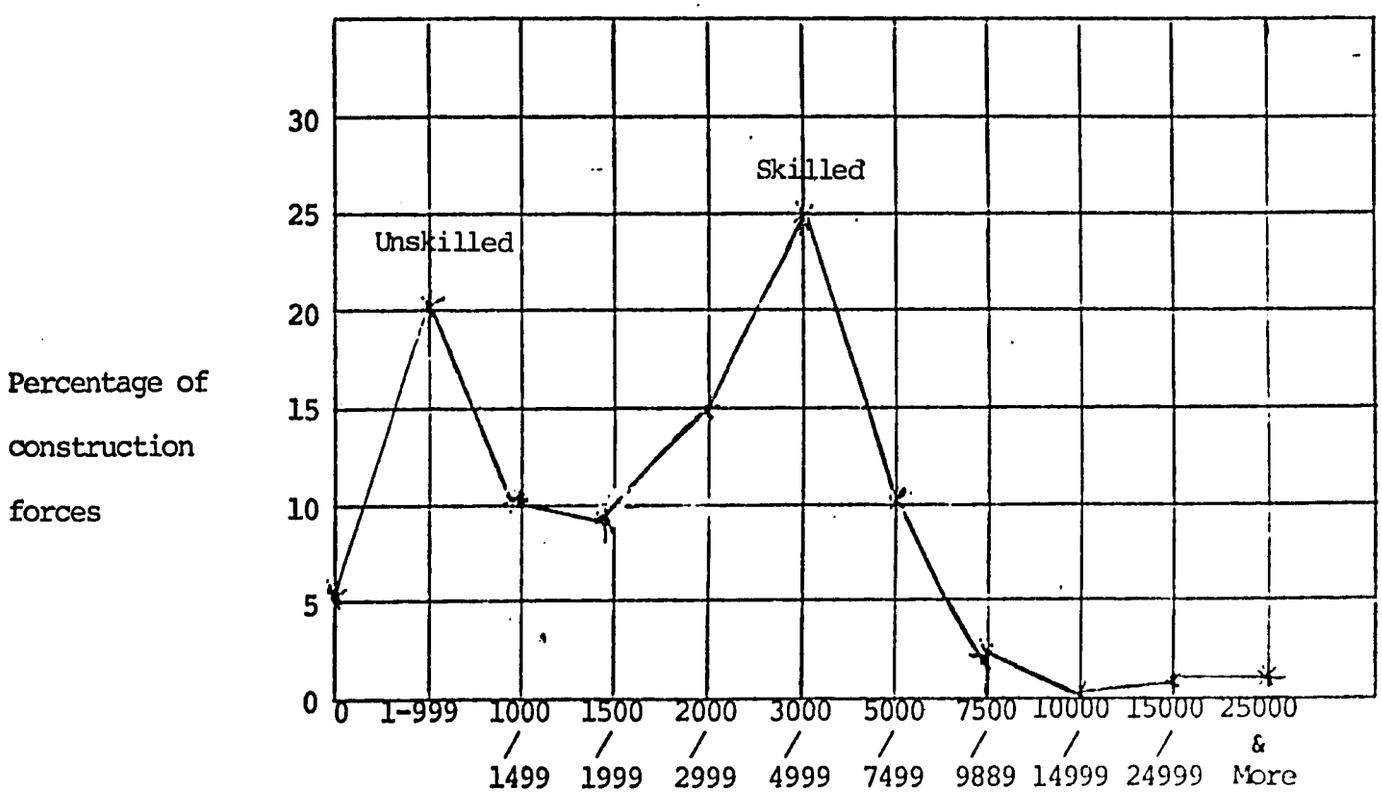
3. Labor Supply

The availability of skilled workmen is very important, and while it was not possible to determine the exact size of the construction labor force, estimates range from more than 175,000 to around 220,000 construction workers.

Chart 2 summarizes the relationship between labor skills and income, with the two peaks representing the largest number of skilled and unskilled workmen and their monthly incomes. 50% of the labor force earned between $46-$173 per month in 1970, while 46% earned less than $46.

CHART 2

Distribution of Construction Labor Force by Income



Source: Ministry of Labor, Division of Employment, Technical office of manpower studies. Published Nov. 1973 using material from 1970 census. Adapted from Chart 16 "Family Income According to Economic Activity of the Head of the Household. National Level.

4. Construction Methods

Modern house construction in Lima calls for baked brick or concrete block (or poured concrete) walls with brick veneer or stucco exterior. Floors are poured concrete with tile covering, or hardwood flooring in more expensive housing. Roofs are flat since there is almost no rain in Lima. Expensive housing makes use of classic, Spanish-style tile roofs, which is also much used in the Sierra. Almost all middle and higher middle class new housing includes quarters for at least one live-in maid. This is due to the low cost of this service, its social desirability, and also as a form of security to insure that the home be permantly occupied at all times. For similar security reasons, each house is surrounded by a two to three-meter high brick wall or fence.

Traditional Peruvian house construction is a relatively low key, inexpensive, and long drawn out affair whose product is not considered to be finished until the walls are made of durable materials, the windows have glass and bars, and the floor is set with tile or hard wood. Depending on the economic situation of the occupant/builder the process of transforming a shack with dirt floor, cane-mat walls, no roof, and no water, sewer, and electric service may take as few as 4 or 5 years, or up to several generations until the house is finally "completed." In some cases the process may be stopped short of the finished house.

This process has been definitively described by John F.C. Turner with his specific references to the Pueblos Jovenes of Peru. The

traditional building process starts with a shack with dirt floors, cane-mat walls and no ceiling and gradually, the original materials are replaced by better materials. Thus the cane-mats are soon replaced by adobe walls, and these in turn are replaced by brick walls. It is noted that the base of the entire process is secure land tenure. If the occupant-builders feel they have land security they will eventually build solid, finished houses.

5. Building Codes

Very elaborate building codes are in effect throughout Peru, and cover all aspects of general construction, electrical, plumbing, lot size, etc. However, these standards only apply to "standard" housing, which is estimated to account for 60% or less of all housing construction. Since the populated areas of Peru are all within a seismic zone, the building codes call for specific reinforcement measures to resist horizontal movement. Concrete block and poured concrete construction is considered adequate to resist seismic forces. However, the widewpread use of adobe as the primary building material of the lower-income groups makes their housing more susceptable to earthquake damage.

6. Supply of Materials

a. Concrete:

From 1962 through 1966 cement production increased from 700,570 metric tons to 1,151,000 metric tons, while demand increased from 722,300 metric tons to 1,175,000 metric tons. The deficit was met by cement imports.

From 1967 through 1973, cement production surpased national demand, i.e., production rose from 1,151,000 metric tons in 1966 to 1,704,700 metric tons in 1973, while demand increased from 1,175,000 metric tons in 1966 to 1,645,120 metric tons in 1973,

Cement production is being expanded in Peru with current production at 2,200,000 metric tons. No figures are available for current demand, but market indicators show that production continues to satisfy demand. Cementos Pacasmayo, a major producer, is considering expansion of its plant. Already Peruvian cement is being exported to Ecuador. The trend is that production will continue to be ahead of demand in the next years.

b. Steel: Steel re-bars are produced locally, and are in good supply and of good quality.

c. Electrical Wiring: Many types of electric wire are produced locally. However, there is a problem of obtaining certain types of conductors which must be imported. This importation process increases lead time on major electrification projects.

d. Bricks: There are many producers of baked clay bricks, and the supply is considered to be adequate and of good quality.

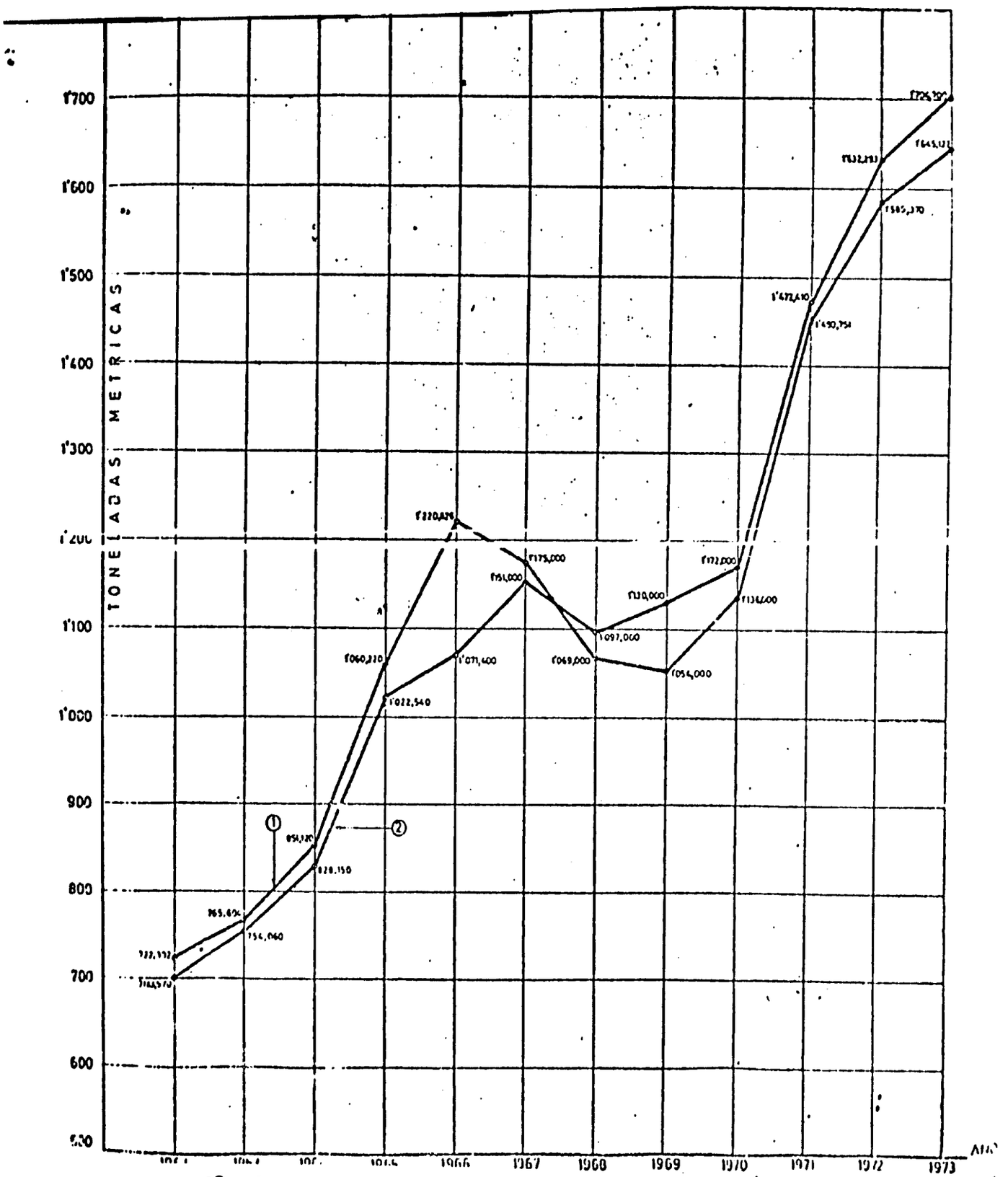
e. Window Glass: There is currently a shortage of window glass, making it difficult to assure supply for large-scale projects.

f. Plumbing Supplies: PVC and CPVC plastic pipe is produced locally, and is in adequate supply, though expensive. Sewer pipes are produced on-site at times, and quality varies, but can be quite good. Ceramic plumbing fixtures are produced locally and are of adequate quality.

CHART 3

PRODUCTION AND CONSUMPTION OF CONCRETE

1962-1973



1° Apparent Consumption

2° National Production

7. Construction Costs

There is wide variation in the cost of new housing, depending on the size of the house, location, choice of materials, and other variables. The following cost breakdown for a typical "middle income" contractor built house is based on discussions with many officials in both private and public agencies dealing with housing. This is a modest house of approximately 78 square meters of living area (840 Sq. Ft.).

The cost of construction has been rising steadily in Peru. According to the Peruvian Chamber of Construction 1974 yearbook, construction costs increased by 35% from 1969 through 1973. As a result of more recent economic changes and revision of overall prices in Peru, it is expected that the cost of construction will increase by 20 to 25% in 1975 compared with 1974 prices. The trend is continued increase in construction prices at higher rates than the 1969-1973 figures.

TABLE 24

Cost Breakdown for Typical House

House		
Material	S/. 133,000	$ 3,067
Labor	66,000	1,521
Builders' Profit	35,000	807
	S/. 234,000	$ 5,395

(continued, next page)

TABLE 24 (Continued)

Land		
Lot only	S/.33,000	$ 260
Urbanization:		
Water	11,000	254
Sewer	11,000	254
Electricity	7,000	161
Streets and Curbs	16,000	368
Total	S/.78,000	$1,798
Indirect and Closing Costs		
Meter Fee	S/.11,300	$ 260
Notary Fee	2,500	58
Design Fee	9,500	219
Inspection/Supervisor	7,000	161
Title Search/Guarantee	9,000	207
Sales & Promotion Fee	4,800	111
Administrative Fee	3,900	90
Constr. Finance Charge	30,000	692
Total	S/.78,000	$1,798
TOTAL COST:	S/.390,000	$8,991

VI. ECONOMIC CONSIDERATIONS

A. Present Status

The Peruvian economy has grown steadily over the past five years, although there are some indications that growth may slow down in 1975. The government continues to play an increasing role in control of the economy, principally through the creation and use of parastatal agencies, control of prices of key consumer products, and now the creation of "social property" (worker-owned) enterprises. In addition, key reforms in agrarian land ownership and ownership of key industries, particularly by foreigners, have attempted to bring about a more equitable distribution of income and wealth. The fishing industry seems to have recovered from the disastrous year of 1973, although it is entirely possible for this key sector of the economy to turn down again, in spite of all efforts by the industry and government. Agriculture continues to be the weak link in the Peruvian economy, in part because of the price controls which have discouraged production.

B. Recent Economic Performance

Between 1970 and 1974, the GNP (in 1963 base prices) increased at an average rate of 6.10% per annum, with fluctuations as low as 5.2% and as high as 7.3% (see Table #25). Taking into consideration the 3.1% population growth rate, this has meant an average increase of per capita GNP of 2.9% per year since 1970. Last year's (1974) GNP growth was estimated at 6.6%.

TABLE #25

GROSS NATIONAL PRODUCT
(1963 Prices)

Year	GNP Billion Sales	GNP Billion Dollars	Increase from Previous Year
1968	95.4	2.5	0.7
1969	99.3	2.6	4.1
1970	106.5	2.7	7.3
1971	112.0	2.9	5.2
1972	113.7	3.1	5.9
1973	125.1	3.2	5.4
1974	133.3	3.4	6.6

Source: Banco Central

TABLE #26

GROSS DOMESTIC PRODUCT BY SECTORS
(Millions of 1970 Sales)

	1971	1972	1973	1974	Percent Change 1973/1972	Percent Change 1974/1972
Agriculture	37,334	37,633	38,534	39,422	2.4	2.3
Fishing	5,682	2,960	2,261	3,186	-23.6	40.9
Mining	19,046	20,398	20,341	21,054	0.7	2.5
Manufacturing	62,140	56,662	71,662	77,395	7.5	8.0
Construction	11,061	12,433	13,452	15,739	8.2	17.0
Energy	2,806	2,966	3,144	3,411	6.0	8.5
Housing	10,243	10,714	11,196	11,644	4.5	11.5
Government	20,627	22,071	23,616	24,561	7.0	4.0
Others	84,075	91,945	97,834	104,458	6.6	6.8
Total GDP	253,014	267,782	282,242	300,370	5.4	6.6

Source: Banco Central

During the past two years, GNP growth was greatest in this construction industry, which showed an increase of 8.2% over the period 1972 to 1973, and 17.0% over the period 1972 to 1974. Due to the non-appearance of the anchovie and anchoveta off the Peruvian coast in 1972 and 1973, fish products, a large earner of foreign exchange, decreased 60% in two years. However, in 1974, fish production increased by 41% (see Table # 26). This wide fluctuation may occur again in the future, and again cause economic problems. GNP growth in 1972 and 1973 was lower than the five-year average, due, in part, to decreases in fish production.

In current prices, GNP was estimated at US$9,384 million in 1974, which was a significant increase over the 1970 GNP of US$5,209 million, although much of this was due to inflation. There is some indication that real GNP will not increase production in the industrial and mining sectors, as well as low agricultural production. However, if the fishing industry continues to recover while construction remains at its current high level, the real GNP may grow at a rate of 6% or more.

Inflation is increasing this year over last year. The consumer price index rose last year at the rate of 17%, but this figure could be considered on the low side due to price controls, as well as the questionable methodology in calculating the index. A World Bank report estimates that inflation is increasing by at least 20 percent this year, and will

TABLE 27

SUMMARY OF RESOURCE AVAILABILITIES, USES AND SAVINGS - 1968-74

	1968	1970	1972	1973	1974 /1	1968-70	1970-72	1972-74 /1	1973-74 /1
At 1970 Constant Prices, Including Terms of Trade Effects									
	As a % of GDY					Average Annual Growth Rates (%)			
a. Consumption	85.1	83.0	84.3	85.3	87.0	5.6	4.8	9.4	7.9
b. Gross domestic investment	13.4	12.9	14.9	14.7	16.9	5.6	11.9	14.1	21.5
c. Resource availability = resource uses	98.4	95.9	99.2	100.0	103.9	6.5	5.7	10.1	9.9
d. Gross domestic product (GDP)	104.2	100.0	103.1	99.2	100.0	5.7	5.6	6.0	6.6
+ Terms of trade gains	-4.2	-	-3.1	0.8	-	..	..	..	..
e. Gross domestic income (GDY)	100.0	100.0	100.0	100.0	100.0	7.9	4.0	7.6	5.8
f. Resource balance	1.4	4.1	0.8	-	-3.9	..	..	..	..
g. Net exports	5.6	4.1	3.9	-0.8	-3.9	..	..	..	..
Exports	(23.0)	(19.2)	(18.9)	(13.9)	(14.2)	(-0.1)	(1.3)	(-6.8)	(8.1)
Imports	(-17.4)	(-15.6)	(-15.0)	(-14.7)	(-18.1)	(2.5)	(2.0)	(18.0)	(30.6)
h. Terms of trade gains	-4.2	-	-3.1	0.8	-	..	..	..	..
i. Gross domestic savings	14.9	17.0	15.7	14.7	13.0	14.9	0.1	-2.2	-6.9
j. Gross national savings	13.5	17.1	15.5	13.9	12.0	21.0	-0.8	-5.2	-8.8
B. AT CURRENT PRICES									
	As a % of GDP					Average Annual Growth Rates (%)			
a. Consumption	84.5	83.0	85.2	85.7	88.4	12.8	12.1	24.0	25.8
b. Gross domestic investment	13.9	12.9	14.2	14.3	16.0	9.7	16.1	29.0	38.1
c. Resource availability = resource uses	98.4	95.9	99.4	100.0	104.4				27.6
d. Gross domestic product (GDP)	100.0	100.0	100.0	100.0	100.0	13.8	10.7	21.0	22.0
e. Resource balance	1.6	4.1	0.6	-	4.4	..	..	..	..
Exports	(20.6)	(19.7)	(15.4)	(15.0)	(16.2)	(11.5)	(-2.1)	(24.0)	(31.5)
Imports	(-19.0)	(-15.6)	(-14.7)	(-15.0)	(-20.6	(3.3)	(7.1)	(44.0)	(68.0)
f. Gross domestic savings	15.5	17.0	14.0	14.3	11.6	19.2	3.9	7.1	-0.1
g. Gross national savings	13.9	17.1	14.7	13.6	10.9	26.0	2.9	4.7	-2.9

.. No meaningful figure.

/1 Preliminary estimate.

Source: Appendix Tables 2.5, 2.6 and 3.1.

World Bank Mission Report, March 1974.

probably continue at this rate for two years. Furthermore, the government decreed, in May of this year, a 5% increase in the price of most manufactured products produced locally which most certainly could tend to exacerbate wage fluctuations, and contribute to inflation.

C. Savings and Investment

Gross Domestic Savings (GDS) has been stagnant over the past several years, and has declined from 17 percent of Gross Domestic Income (GDY) in 1970 to 13 percent in 1974. (See Table #27) At the same time, Gross Domestic Investment has increased from 12.9% of GDY in 1970, to 16.9% in 1974.

The increased investments have been due primarily to the 30% average yearly increase in public sector investments. A World Bank study in March 1974, estimates that the public sector now makes 54% of all investments, but accumulates only 14% of the nations' savings. The difference is made up by heavy borrowing from the private sector, and from international sources. The ambitious public investment program for 1975-76, will require substantially more international borrowing. Much of the foreign financing will be used in petroleum exploration and production, and a pipeline project which is expected to reduce imports of petroleum and, eventually, lead to petroleum exports. In the long run, these investments could substantially improve Peru's economic condition and its balance of payment position.

The World Bank report notes that a doubling of the overall savings rate will be needed to finance the large investment program, and gradually reduce dependence on foreign borrowing. Although most of the required increase in savings will have to come through public sector improvements in tax regulation and collection, reduction of consumption subsidies, and the improved operation of public corporations and services, there will also have to be a readjustment in interest rates and policies affecting private savings.

Domestic private institutional savings have been increasing in spite of the overall stagnation of savings. For example, savings in these institutions increased from S/.21 billion in 1970, to S/.43 billion in 1974, which was more than a twofold increase. The largest single recipient of savings is the Banco Central Hipotecario (BCH), which over the years has replaced the commercial banks as the number one savings institution. The third largest recipients are the savings and loan associations. In 1972, 27% of savings were in commercial banks, while the BCH has 33% and the S&Ls 20%. In 1974, commercial banks held 24%, the BCH 35%, and the S&Ls 17%. This is mostly due to an interest rate structure that favors the BCH. Interest on site deposits at the S&Ls pay 6% interest, while the "cedulas" issued by the BCH pay 9%, giving BCH a considerable edge over the S&Ls.

Although much of the private savings have been diverted to the

public sector, enough capital has been available to finance a significant growth in the construction industry. The strong growth in the construction industry has been due partially to growth in the housing sector (see Table # 26). There has been particularly rapid growth in housing and construction in the Lima area. The cost of housing construction has increased at a greater rate than other costs, which implies that the housing stock has increased less than the monetary value of new investments in housing would indicate. Direct budgetary investment by the government in housing continues to be low. The government spent only US$37 million in 1972, or 1.3% of total budget expenditures, and US$41 million in 1973, which was a decrease to 1.2% of the total budget.

D. Balance of Payments

The balance of payments current account was highly unfavorable in 1974, with a deficit of over 700 million, although the balance of goods traded was positive. The need to import an estimated US$200 million in food products in 1974, had a lot to do with the large deficit in the current account, as compared to more favorable, but still deficit balances in 1972 and 1973. Unless consumption and, hence, imports decrease in 1975, it is probable that the balance of trade will also become negative.

The balance of payments was positive in 1974, in spite of the large services deficit. External capital assistance and loans of nearly $700 million were responsible for covering the

deficit, and adding nearly $300 million to the foreign exchange reserves (see Table # 28).

In 1974, the government contracted a total of over $1 billion in new loans from all external sources combined. This level of borrowing will increase pressure on future balance of payments through increased debt service. Debt service now consumes about 20% of export earnings.

World Bank projections of balance of payments indicate that from 1975-1980, current account deficits will continue on the order of $900 million per year (see Table # 28). This deficit will be offset by substantial increases in external private investment, and a continuation and increase of external loans to the public sector from about $900 million in 1975 to $1.4 billion in 1980. The increased lending will be offset by the increases in debt servicing, so that net loans to the public sector will remain at about $700 million per year over that period. Private direct investment is expected to rise from the current rate of $71 million in 1973 to average over $250 million per year for the period 1975-1980.

E. Foreign Debt and Reserves

Total external public debt stood at US$2,151 million at the end of 1973, of which US$660 million was undisbursed. Of this latter amount, US$240 million were loans from international agencies and from the US government. The average interest

rate on foreign capital has increased since 1972, due to worldwide higher interest rates, while at the same time, the grant element in foreign assistance decreased from 16% to 6% in 1973 of total assistance.

International reserves have increased steadily, particularly from 1972-74, when there was a threefold increase ($300 to $960 million) in foreign capital disbursements under existing loan commitments. Reserves stood at US$616.4 million at the end of December 1974, which is equivalent to three to four months of imports at the current rate.

F. Future Prospects

There is some uncertainty regarding the Peruvian economy in the next few years. On the negative side is the continuing poor performance of the agricultural sector, which will necessitate rising food imports, and, consequently, outflows of hard currency. In addition, inflation will probably worsen, and increase economic hardships among the majority of the population. The anticipated level of external financing for the next few years is not expected to be sufficiently high to maintain the heretofore favorable balance of payments, unless new lending grows apace with the debt service burden or oil production grows rapidly.

On the plus side is the improved performance in the fishing industry due to the return of fish to the Peruvian coast, and the continued exploitation of petroleum, which may reach levels

TABLE #28

Table 3.1: PERU - BALANCE OF PAYMENTS PROJECTIONS, 1968-80

(In millions of current dollars)

	Actuals				Estimate			Projections						
	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1985
Exports of Goods and NFS	999	1,050	1,224	1,067	1,138	1,363	1,795	2,068	2,390	3,318	3,766	4,574	5,470	9,250
Merchandise	850	880	1,034	889	945	1,136	1,522	1,766	2,045	2,893	3,289	4,028	4,848	8,221
Freight and insurance	18	20	23	25	28	34	57	50	55	87	99	121	145	241
Travel	34	40	52	50	60	63	78	89	103	128	146	168	193	379
Other	97	110	115	103	105	130	138	163	187	210	232	257	284	409
Imports of Goods and NFS	909	-895	-972	-1,029	-1,138	-1,364	-2,405	-2,848	-3,292	-3,765	-4,302	-4,897	-5,545	-9,716
Merchandise	-673	-659	-700	-764	-840	-1,029	-1,900	-2,280	-2,656	-3,038	-3,479	-3,966	-4,497	-7,961
Freight and insurance	-79	-78	-84	-78	-82	-89	-155	-182	-212	-243	-278	-317	-360	-637
Travel	-38	-44	-60	-38	-44	-48	-60	-65	-72	-81	-90	-100	-109	-178
Other	-119	-114	-128	-149	-172	-194	-290	-321	-352	-403	-455	-514	-579	-940
Resource Balance	90	155	252	38	-	-1	-610	-780	-902	-447	-536	-323	-75	-466
Factor Income Payments, net	-149	-185	-149	-112	-134	-175	-199	-236	-295	-396	-551	-604	-699	-1,309
Public sector	(-34)	(-37)	(-31)	(-48)	(-51)	(-66)	-109	-156	-215	-276	-401	-414	-479	-919
Private sector	(-115)	(-147)	(-117)	(-64)	(-84)	-109	-90	-80	-80	-120	-150	-190	-220	-390
Transfers, net	37	32	82	39	41	32	48	44	45	45	45	47	47	70
Current Account Balance	-22	2	185	-35	-93	-144	-761	-972	-1,152	-798	-1402	-880	-727	-1,705
Direct Private Investment, net	-20	6	-70	21	48	65	91	313	225	275	300	250	250	300
Loans to Public Sector, net	86	116	91	12	132	333	691	639	738	593	739	677	565	1,438
Disbursements	262	219	245.	190	301	690	1,078	871	987	952	1,250	1,357	1,412	2,742
Project loans	n.a.	n.a.	n.a.	n.a.	(91)	(305)	(599)	(604)	(621)	(623)	(715)	(831)	(961)	(1,854)
Refinancing	(50)	(47)	(27)	(23)	(76)	(126)	(100)	(75)	(125)	(90)	(175)	(150)	(90)	(350)
Pre-payment	(-)	(-)	(-)	(-)	(-)	(128)	(115)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Other	(n.a.)	(n.a.)	(n.a.)	(n.a.)	(119)	(113)	(206)	(192)	(241)	(239)	(360)	(376)	(361)	(538)
Amortization	-196	-103	-154	-177	-169	-357	-387	-232	-249	359	511	680	847	1,304
Capital n.e.i.	10	1	6	4	6	-69	-80	2	4	6	8	10	12	20
Short term and Errors	-23	-83	45	-72	-58	-172	351	-	-	-	-	-	-	-
Change in Reserves (- = increase)	-11	-42	-257	70	-35	-13	-292	18 18	185	-76	-5	-57	-100	-53

Source: Central Bank, Ministry of Economy and Finance and IBRD mission estimates March 1974

in 1978-9 to satisfy local consumption and become perhaps even a significant export.

All in all, it is probable that the economic growth will become more and more dependent on public sector investments, and that the Peruvian economy will be under continuing stress as the conversion from a private-market economy to a public-managed economy takes place. Housing and shelter improvement are also likely to be dependent on the initiative of the public sector.

VII. THE ROLE OF EXTERNAL ASSISTANCE IN THE SHELTER SECTOR

A. Earthquake Relief and Reconstruction

A total of $119.3 million has been allocated by the Inter-American Bank (IDB), AID and the GOP for relief and reconstruction programs in the zone affected by the earthquake of May 31, 1970, as follows:

1. AID Emergency Relief Program

Within one month of the earthquake, AID provided a $10.5 million grant to the GOP for an overall emergency reconstruction program throughout the disaster area. Under this Program, 2,800 prefabricated temporary shelters were built costing approximately $500,000; and 241,000 aluminum roofing sheets (operation techo) were provided for about 20,000 families, costing approximately $700,000. Also, an additional temporary shelter and roofing project costing $500,000 was built with OAS assistance. The remaining $8.8 million were used

to provide emergency relief, e.g., tents, food, medical equipment, electric generators, construction and agricultural equipment, plus the construction of new schools and medical clinics.

2. AID Community Development and Reconstruction Loan (527-L-052

A $3 million development loan was made to the GOP to finance community development and reconstruction activities using self-help techniques in rural and urban centers in the disaster zone, including a pilot self-help housing project in Chimbote. $500,000 was allocated to build this project comprising 63 houses.

3. AID Urban Reconstruction Loan (527-L-055)

A $15 million dollar loan was made to the BVP to assist in the reconstruction of the housing stock damaged in the earthquake. The program was later expanded to the area affected by the January/March floods of 1972. The AID loan has a $10 million GOP counterpart. The type of projects being financed include (1) the provision of essential services (water, electricity, sewer) averaging $230, (2) the construction of self-help housing projects averaging $2,700 and (3) ten basic infrastructure projects. BVP is the borrower-administrator, and the Agency for Reconstruction of the affected area (ORDEZA) is the principal implementing agency. Other participating

agencies include the MOH, the electric companies, and SINAMOS.

Although delays were experienced in the early days of the program, excellent progress has been made during the last year. At present, almost all of the funds are programmed and some 18 projects requiring financing of 3.60 million dollars have commenced construction. Another 24 projects requiring financing of 7.34 million dollars have been approved. Upon the payment of a disbursement request presently being reviewed, almost 25% of loan funds will have been disbursed. Terminal disbursement date is December 31, 1977.

4. The AID Housing Guaranty Program (527-H-005/008)

A 28.3 million HG loan, intended to fund moderate income housing in the same earthquake and flood zone was negotiated in November, 1971. These programs suffered early delays because of the marketability considerations. Although the BVP rationalized the problems and was about to accelerate the program, additional delays have been experienced in recent months while the MOHC determined which project should be constructed with the remaining funds. A list of projects to be funded has now been established and the Ministry and the BVP have been urged to complete all final plans by the end of the year so that all construction may commence early in 1976. Presently, projects requiring financ-

ing of some 17.6 million dollars have been completed or are in construction. Private developers have played an important role in building the projects. BVP is administering the projects through the Savings and Loan system.

5. The IDB/ORDEZA Program (IDB Loan 266/F)

IDB and ORDEZA are presently implementing a $52.5 million urban reconstruction program in the earthquake zone, financed by IDB loan 266/SF for $35 million and by GOP counterpart funds totaling $17.5 million. The Program is providing financing for construction of core houses (2,200 units, averaging $1,840); low-cost houses (2,330 units, averaging $3,000) individual loans for home improvement (2,560 units, averaging $1,380); lots and services (4,500 units, averaging $460); community facilities and urbanization works. ORDEZA is the implementing agency, working with the Ministry of Housing (Division of Sanitary Works DGOS); EMADI is the program administrator in charge of sales and collections.

B. Other Loans and Grants to Sector

1. Six AID Housing Guaranty projects were built in Lima and Arequipa between 1962 and 1967, financed with $17.7 million in HG loans to the BVP. The houses ranged in price from $3,700 to $11,400. The administration of this program is being carried out by BVP through the Savings and Loan system, and by Banco Continental.

2. A $7.5 million AID loan was made to the BVP to provide for seed capital to support the creation of the Housing Bank BVP, to contribute to its initial capitalization and to help expand the Savings and Loan system.

3. A $6 million AID loan was made to the BVP to finance construction of more than 2,200 low-cost houses for members of housing cooperatives.

4. IDB made a loan to the Housing Bank in 1968 (Loan 179/SF) for $12.58 million to finance construction of 4,650 low-cost housing units in six cities.

5. IDB is negotiating with the MOHC a $61 million water and sewer program loan to provide financing for the construction and expansion of water and sewer facilities and provision of water and sewer connections in 27 cities (excluding Lima and Arequipa). Financing will be provided by IDB Loan 421/SF ($30.5 million), and by the GOP counterpart contribution ($30.5 million).

   This program comprises: (1) expansion and improvement of 20 water systems, (2) construction of 13 water plants, (3) construction of 21 storage tanks, (4) installation of 548 kms. of water pipe, (5) installation of 44,000 house water connections and 31,000 water meters, (6) construction of sewerage treatment plants in ten cities, (7) installation of 338 kms. of sewers, (8) installation of 36,600 house sewer connections, and (9) purchase of equipment.

   The IDB loan will be at 2% per annum, plus 1/2% service fee during the period of utilization of the loan (five years), 7 1/2 years grace period, and 30 yeara amortization period. The MOHC will be the executing agency through its Sanitary Works Division (DGOS).

6. A program for the improvement of stabilized earthblock (adobe) construction was initiated by the MOHC in 1972 under a $75,000 AID grant. The BVP and the National

Engineering College of Peru carried out the research program with the assistance of the US Bureau of Standards, and the Fresno State College. Two projects are presently under construction using the stabilizing system: Cayalti, a 300-unit project financed under the HG loan; and Nepena, a 32-unit pilot project financed under AID lona 527-L-055.

7. IBRD (World Bank)

The World Bank is studying the feasibility of a substantial loan in the neighborhood of $20 million for industrial parks, community service facilities, and urban infrastructure. Emphasis will be placed on manpower development and training. The estimated interest rate is 8 1/2%, and the loan will require a 30%-50% counterpart contribution.

8. The Federal Republic of West Germany

The German government has recently expressed interest in financing a loan of approximately $10,000,000 for water supply in Lima.

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