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PERU

SHELTER SECTOR ASSESSMENT

Office of Housing

Agency for International Development

August 1979

FOREWORD

This study was conducted by the Foundation for Cooperative Housing in cooperation with representatives of the Government of Peru under the auspices of the Office of Housing of the Agency for International Development and through financing provided by this office. The purpose of the study was to develop information and make recommendations relating to the shelter sector in Peru and, in doing so, to focus on the shelter needs of the low-income population.

The study team was headed by Ted Priftis with other team members being Lucy Conger, Donald Stout, and Randall Trudelle. Field work was completed in February, 1979.

The findings and recommendations of the study are for the purpose of discussion and review and are not to be considered as the official position of either the Agency for International Development or the Government of Peru.

We hope, however, that the Government of Peru will find the report and its recommendations useful to it as it formulates and implements its future shelter programs.

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List of Abbreviations

ACJ	Asociación Cristiana de Jóvenes (Peruvian YMCA)
AID	Agency for International Development
BCH	Central Mortgage Bank
BCRP	Central Reserve Bank of Peru
BVP	Housing Bank of Peru
CAPECO	Peruvian Chamber of Construction
CARE	Cooperative for American Relief Everywhere
CARITAS	Catholic Church social assistance agency
CEPIS	Pan American Center for Sanitary Engineering
CIDA	Canadian International Development Agency
COFIDE	Corporación Financiera de Desarrollo(Development Finance Corporation)
CPI	Consumer Price Index
ELECTROLIMA	Electric Company for Lima
ELECTROPERU	Electric Company for Peru
EMADIPERU	Peruvian Real Estate Management Enterprise
ESAL	Sanitary Works Company for Lima
ESAR	Sanitary Works Company for Arequipa
ESAT	Sanitary Works Company for Trujillo
GDP	Gross Domestic Product
GOP	Government of Peru
HG	Housing Guarantee
IMF	International Monetary Fund
MEF	Ministry of Economy and Finances
MEM	Ministry of Energy and Mines
MOHC	Ministry of Housing and Construction
OFASA	Seventh Day Adventists Social Assistance Agency
ONDEPJOV	National Office of Development of Pueblos Jóvenes
ORDEZA	Regional Development Office for the Affected (earthquake) Zon
PLANDEMET	Metropolitan (Lima) Development Plan
PREVI	Experimental Housing Project
SINAMOS	National System of Social Mobilization
S&L	Savings-and-Loan Institution

SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Economic Setting of the Shelter Sector

The Revolutionary Government which assumed power in 1968 set out an ambitious program of growth with equity. The execution of the reform and development program, however, overtaxed Peru's resources. By 1976, the economy was headed for deep trouble. Its real rate of GDP growth averaged 5.8% per year from 1961-67, 4.7% from then through 1976, and then came to a halt. Real GDP declined in both 1977 (1.2%) and 1978 (1.6%). (Per capita income, of course, fell still more.) GDP is expected to hold steady in 1979.

Symptomatic of Peru's economic trouble were a rapidly increasing rate of inflation, balance-of-payments deficits since 1974, an overwhelming external debt-servicing problem (which would have exacted 68% of Peru's projected 1979 export earnings had the debt not been rescheduled in late 1978), and falling real wages.1/ In order to arrest the decline of GDP in 1979, consumption must continue to fall (by 3.6%), imports must be held to 1978 levels, and exports must increase (by 16.9%). The goal is to cut the inflation rate in half during 1979 and by half again during 1980--from a 1978 inflation rate of nearly 80% to about 20% by the end of 1980.

These are ambitious goals; but except for inflation, they have been surpassed during the first six months of 1979. The 2 1/2 year Stabilization Program undertaken by the GOP in July 1978 provided a basis for a new IMF Standby Agreement in September 1978. The IMF Standby was a precondition for rescheduling Peru's US$8.3 billion external debt 2/ through December 1979; and a further 1 year rescheduling will be contingent on adhering to the targets in the Agreement. The quarterly goals thus far have been more than fulfilled. During the first three months of 1979, exports rose 47% above the first quarter of 1978; a favorable balance of payments was achieved; the expected international reserve losses of S/.19,700 million during the first quarter were converted into a gain of S/ .21,000 million. In short, the austerity program, favorable world market prices for petroleum and mineral exports, and a substantial increase in non-traditional exports have combined to reverse the entire picture of external equilibrium. This had been a magnificent achievement in a short period. 3/

Achieving internal equilibrium, however, is proving to be a more intractable task than expected. Stagnation continues together

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1/ Between June 1976 and December 1978, the index of real wages in Lima fell 44% for white-collar workers, 40% for blue-collar workers.

2/ As of 31 December 1977.

3/ Peru is taking advantage of its increased foreign exchange earnings to pay off some of its external debt earlier than scheduled. The president of the Central Bank announced on July 25, 1979, that all short-term debt would be liquidated by the end of 1979. Import restrictions also are to be relaxed. The foreign exchange liquidity will permit a tripling of imports over expected imports, thereby providing significant inflationary relief during the second half of 1979.

with higher-than-hoped for inflation rates. The 40% inflation rate goal for 1979 has now receded officially to 60%; and 60% may prove difficult to attain. In these circumstances, the favorable short-term external accomplishments are not matched by any improvement in the quality of life of the urban poor. On the contrary, their plight continues to deteriorate.

The recital of Peru's recent economic past and of its current transitional austerity program has at last three serious implications for the shelter sector. (a) The unavoidable recessing of the economy will further squeeze effective demand for housing. Housing demand will continue to dry up as real incomes are further depressed. (b) Secondly, the housing sector finance institutions are terribly vulnerable in these circumstances. The pressures of budget austerity could persuade the GOP to pull the subsidy plug from the entire S&L system and bring the Banco de la Vivienda del Peru (BVP) to a halt. (c) Third, some 75% of Lima's population now lives in squatter settlements (pueblos jovenes) and inner city slums (tugurios). Over half of the housing stock in Lima is substandard. Conditions elsewhere in Peru are as bad or worse. For the most part, the poor are without adequate shelter, food, water, educational facilities, community and health services. Their living condition, always precarious, is now desperate.

Effective Housing Demand

The combination of rising interest rates, high inflation rates, still higher inflation rates of housing construction costs, and lower real income has been devastating for housing demand. At present, it is unlikely that anyone with an income high enough to qualify for a loan for a minimum-level economic house[1/] would be satisfied with that low a housing standard. The professional middle class has been priced out of the housing market. By 1977, the BVP calculated that the monthly family income necessary to qualify for a loan to finance a minimum-level economic house exceeded the income of 97% of the families in Metropolitan Lima. Even this exaggerates the potential effective demand because the calculation assumes that a family is willing to spend 40% of its income on housing. Historically, budget studies show that less than 20% of family income is spent on housing in Lima--still less elsewhere in the country. Moreover, interest rates rose sharply in 1978. The maximum interest rate which S&Ls can charge, for example, increased to 33.5% in October 1978 and, in January 1979, another 3 points to 36.5%. Construction costs also continued to rise.[2/] Consequently, not even the families in the top 3% of Lima's socio-economic scale today can afford the cheapest 1-bedroom house. For all practical purposes,

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1/ Defined as a $70m^2$ one-bedroom house with electricity, water, and sewerage on a $120m^2$ lot, costing about $7,000 equivalent in September 1978.

2/ The Instituto Nacional de Estadistica index of construction costs shows that, in the year ending September 1978, the cost of construction materials rose 44% faster than the Lima consumer price index while construction labor wages fell 46% behind the CPI.

there is little effective demand for housing in Lima, much less in the rest of the country. The effects of all this on the S&Ls and on the construction industry are ineluctable: the S&Ls cannot afford to be housing finance institutions without subsidies and the full potential of the construction industry in housing is not being realized.

The Savings and Loan System

The S&Ls thus far have been able to continue operating because of two factors, both of which contradict the rationale of the S&L system itself. On the one hand, the S&Ls have been permitted to lend for "activities related to the construction industry." A liberal interpretation of what is "related" excludes very little. Accordingly, the S&Ls are enabled to switch their lending into essentially short-term commercial banking activities.1/ Diversification out of the housing field negates the reason for the existence of S&Ls as specialized housing finance institutions.

The second support element for the S&Ls is a substantial governmental subsidy which is passed to the S&Ls through the Central Reserve Bank (BCRP). When interest rates rise, the weighted average interest rate on the outstanding housing portfolio falls farther behind the new market rate of interest. The BCRP compensates the S&Ls for the difference by making available low-cost money raised from selling Treasury bonds. This indirect subsidy amounted to almost US$15 million equivalent in 1978. This is disturbing on two counts. (a) It is an administratively awkward subsidy to administer and to police. There is no way to match up the subsidy with the efficiency of an S&L's lending activity. The subsidy is inefficient. (b) Sudden withdrawal of the subsidy would be fatal for the S&L system at this time. Yet, the austerity of the GOP's economic stabilization program and the probable difficulty which will be encountered in meeting the program targets could very well presage a re-examination of government expenditures by the second half of 1979. The pressure to cut out a subsidy will grow, especially a subsidy which is not directly for the less privileged, lower-income groups. A good system, which has been supported by AID since the creation of the BVP in 1962, could become a senseless sacrifice to transitory conditions, an expensive sacrifice because it would cost a great deal to reinstate the system when the economy revives and again needs the system.

Although for the most part the S&Ls do not directly serve the lowest income groups, we recommend that the GOP continue to look favorably on

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1/ The general manager of one of the largest S&Ls said that he was trying, with some success, to sell off his housing portfolio at tremendous discounts as a strategy to survive the present and worsening housing picture.

measures to sustain the system through this difficult period. One possibility would be to channel housing finance through the BVP to the S&Ls for home improvement loans and infrastructure services.

The Poorer Half of Households

The lower 50% of income families cannot afford any conventional housing in the formal sector. The lower 50% of income receivers have a total of 11.4% of income in Peru (see figure 1, page 16 of the Shelter Sector Description and Analysis). This is one of the most unequal distributions of income in the world. Within the below-median income group itself, income also is unevenly distributed, (curve "b"). A 1978 survey of family income distribution in Metropolitan Lima translates the income distribution into money terms. The finding is that about 14% of the below median-income group in Lima-Callao has a family income high enough to pay for basic services of electricity, water, and sewerage. In the rest of the country, still fe r of the target group can afford even basic services. The policy implication is clear: support of the shelter sector for the poorer half of the population in Peru necessarily must concentrate on basic infrastructure services.

The 70% and more of the poorer half nationwide who cannot afford to pay for minimal infrastructure must do without services from the formal sector or else be addressed as welfare cases. The GOP should face up to the welfare aspect of accommodating new migrants to the cities. The cost of providing minimal infrastructure services to the lower 86% of the below median-income group would amount to more than US$700 million in Lima alone (at December 1978 prices)--clearly not a viable short-term undertaking within current GOP budget and priorities.

Pueblos Jovenes

The Shelter Sector Description and Analysis documents that the residents of squatter settlements in Lima who do not have infrastructure services must pay more for inferior products. Unsanitary water delivered by trucks costs 12-16 times more than piped water; lighting by candle costs 8 times more than the superior lighting furnished by electricity; markets supply inferior food at inflated prices. It is a grim picture of self-reinforcing poverty. The middle and upper classes enjoy subsidized infrastructure services; the poor must pay full cost or, as is usually the case, go without. The families below the median income have economically marginal, subsistence incomes. The issue is not just habitat; it is subsistence and survival. The need is awesome: infrastructure, education, community services, food, medical care. A program which would ease the problems of the poor is called for. It might include:

a. A program of 100% financing of infrastructure services. S&Ls have lent squatter communities 90% of the cost of electricity installations. Amortization is included in the monthly billing for consumption. Delinquencies have been almost zero because service is cut off if bills are not paid. 90% financing also has been used for water and sewerage services.

Communities find it increasingly difficult to come up with the 10% front-end financing. Although 100% financing is a bad banking principle, it is a good social principle which the GOP should consider promoting.1/

b. More technical assistance to squatter communities for infrastructure services. Scrimping on technical assistance has led to delays in project design and implementation, resulted in inferior infrastructure, and increased infrastructure costs. The process for approving infrastructure projects should be streamlined. Approval by the MOHC, ESAL, or ELECTROLIMA can take 6-12 months. By the time of approval, the budget for a project becomes inadequate through inflation and financing is insufficient. Technical assistance is also called for in order to avoid improper infrastructure design.

c. Technical assistance to make it possible to use self-help economically. Undirected and unmanaged self-help can delay project execution so much that the total project cost is increased. Self-help projects should be encouraged as a cost-cutting device; but self-help can reduce costs in an inflationary environment only if it is carefully programmed and directed.

d. A modification of infrastructure standards to adapt them to the economic constraints of the target group. Simpler street lighting, non-water-borne sewerage, and narrower streets than the prevailing standards should be adequate for squatter settlements.

e. Mechanisms to reduce the cost of goods and services for the residents of squatter settlements. Food price controls and quality standards should be enforced at squatter community markets; pharmacies should be set up in the communities to sell generic drugs.

f. Continued support for financing basic infrastructure (light, water, sewerage), home improvement loans, and financial support for "remodelacion" and titling.2/ A considerable body of experience has been developed by private voluntary groups working with pueblos jovenes. The GOP should consider incorporating, and funding if necessary, the

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1/ It is a bad banking principle because the borrower should have a vested interest in a project financed by a bank. In the case of basic infrastructure, however, the squatters should be treated on a par with those who historically amortized the cost of infrastructure indirectly solely through current consumption charges and taxes. 100% financing need not be a burden on the city's or the GOP's budget.

2/ After a provisional community is formally recognized by the government, the inhabitants can obtain land title by complying with MOHC requirements. These include "remodelacion": a plan which shows the area's existing physical characteristics, location, and spells out the infrastructure requirements preparatory to incorporation within the city.

participation of the private sector and of voluntary groups. The MOHC, along with the rest of the government housing agencies, has been put on a stringent budget. In the present circumstances, IIPUP and other grant funds could well be used to finance some of the necessary studies and related community services which will be required in order to promote these programs, in Lima as well as in the rest of the country.1/ Otherwise, the present budget austerity, the complementary activities will not get funded.2/

g. Greater use of credit unions to channel financing to the target group. Credit unions are well established in Peru and already deal extensively with the target group. They identify more than 20% of their present loans as openly for home improvements. Disguised home improvement loans undoubtedly are additionally significant.

h. Greater use of cooperatives in dealing with the pueblos jovenes. The residents of pueblos jovenes have formed cooperatives as a natural vehicle to promote community projects and to receive government funds. Especially now that SINAMOS has been abolished, the MOHC can benefit by using the cooperatives more in its programs. The GOP may want to consider extending technical assistance to the cooperatives in squatter communities with a view to making the cooperatives still more effective.

1/ IIPUP resources can finance consultants and staff for technical assistance, not the physical facilities.

2/ It is appropriate to add here the observation that the pueblos jovenes are, surprisingly,an unknown quantity in key respects. We cannot find anyone to explain how the building activity in the pueblos jovenes is being financed, for example. It is a confessed mystery for the quite knowledgeable people we have talked to as well as to us. The people in the pueblos jovenes have incomes well below the median. They spend up to 75 percent of their family income on food. Yet, new construction continues in the pueblos jovenes despite a universal denial that any housing credit is used by them. "Everything is paid for by cash from savings." This jars one's credibility. Either there is a financial system catering to them which we know nothing about or else they have higher incomes than they report to investigators. We suspect that there is an informal credit system for construction materials. The hypothesis should be tested through in-depth investigations.

No formal institution, public or private, is capable of providing shelter to the poorer half of the population except at the cost of unbearably high subsidies. Recognition of the severely limited potential effective demand for housing by the poor and awareness of the presently unsupportable cost of attending fully to them prompt one to seek still lower-cost site-and-service solutions. We recommend that serious consideration be given to laying out sites in advance of the arrival of new city migrants. By planning for the inevitable influx, the "invasions" can be supplied with basic infrastructure at lower costs than is now the case. The reduced costs are inherent in the more orderly structuring of sites and the consequential avoidance of inhospitable sites for water and sewerage lines as well as in the avoidance of relatively expensive "remodelacion" costs.

Remodeling and legalization of squatter settlements should be a thrust of the MOHC. Remodeling is a prerequisite for obtaining infrastructure services and land tenure in existing settlements. Remodeling brings the layout and density of squatter settlements into conformity with zoning provisions. Land title and the legalization of squatter settlements follow the remodeling process. Remodeling often involves the demolition of housing and the relocation of some of the resident families to other sites. By its nature, remodeling is a delicate process. A bulldozer approach is inappropriate. A good model to examine for planning a remodeling project would be the Sexta Zona El Agustino Project (see Appendix to Section III), planned and implemented by the community without any Ministry involvement except for the necessary approvals. This project resulted in the relocation of one-third of the community to the residents' satisfaction and to the satisfaction of those families which were relocated. The ability to carry out relocation with minimal outside assistance is rare. In most cases, MOHC technical assistance will be essential for remodeling, but this assistance should be combined with a maximum participation of the community organization in project planning and implementation.

Until this decade, most squatter settlements in the coastal cities were established on relatively large, flat parcels of land. This facilitated the future installation of basic infrastructure (water, sewerage, electricity) and the provision of other services (garbage collection, access by modes of public transport, etc.). While the physical development was gradual it was, in a certain sense, guaranteed--i.e., the physical setting and prior layout of the community permitted its evolution into a fully served neighborhood over the years with reasonable chance of moving into the middle class. The picture has changed in the past 10 years. Settlements are forming now on less desirable land--or hillsides and on smaller parcels. Prospects for future development at such sites are limited.1/

1/ The Flor de Amancaes settlement in Rimac district of Lima, for example, was founded four years ago when long-time residents of central Rimac were evicted (to clear space for the new beltway around Lima) and re-settled by the Ministry of Housing in a narrow sloping valley on top of a former trash dump. Four years after settlement, there is no public transport for this community, and residents must walk 2 kilometers to get transportation. In order to get water trucks to come to Flor de Amancaes, the residents had to pay for street grading.

The social character of the pueblos jovenes is changing as well as the physical settlement patterns. A combination of large numbers, lower real incomes, and more scarce "good" sites has led to a "densification" of squatter settlements. In Lima, the inner ring of squatter settlements--those closest to the central city--are becoming more densely populated. It is now common for two or three families to live in a house originally built to serve as a single-family dwelling. Settlement on undesirable sites and the densification of existing squatter settlements threaten the traditional evolutionary development of squatter settlements which offered the long-run prospect of established, serviced communities. If these trends continue, most notably in Lima, more and more of the settlements threaten to become like the inner city slums.

Inner City Rehabilitation

The fairly common fact that inner city slums fester and that inner city housing stock deteriorates is strikingly exaggerated in Lima. The heart of an architecturally and historically magnificent city is collapsing in decayed rot. This is tragic and uneconomic. La Victoria, Rimac, and El Cercado, for example, urgently need attention. While people in tugurios are more likely than squatters to have access to running water, electricity, and sewer systems, they are also more likely to be living in extremely dense and unsanitary conditions. In the past, the MOHC has carried out some small-scale efforts to rehabilitate and "thin" out tugurios. More should be done with relocation to nearby government-supported housing solutions.

The MOHC should develop a broad program of rehabilitation and renovation.[1] This should include more than housing itself; for example, it could include research and pilot projects for sanitary waste disposal systems not dependent on water. As in the case of squatter settlements, the entire process of inner city rehabilitation can be helped by restudying whether present physical standards for lighting, access roads, sidewalks, and other infrastructure need to be as high as they now are.

Rent Controls and Rental Property Investments

Especially at this time when housing demand has practically dried up and there is great unused capacity in the construction industry, it is unfortunate that rent control laws have eliminated incentives for private investment in rental housing as well. The rental market should be strongest during a period of falling income and increasing housing costs. Instead, it now is weakest. Rental housing should be an attractive alternative for many families to the option of indefinitely postponing housing ownership. It could also contribute to a long-term moderation of housing aspirations.[2] The rent control laws have made rental investment

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1/ Inner city renovation programs could also encourage middle-income families to upgrade their own neighboring housing through home improvement programs.

2/ We are told by several knowledgeable Peruvians that Peruvians have unrealistically high housing expectations. This extends to the lowest income families, who will do without rather than use traditional building materials or concrete blocks. They insist on brick and cement ("materiales nobles").

unprofitable.

Rent control laws in Peru date back to a 1945 law which prohibited rent increases and suspended court eviction of renters--renters of property used for industrial, commercial, or professional activities as well as renters of residential properties. The present September 1977 Decree Law No. 21398 limits annual rents to 10% (12% for new housing) of the historically declared value of the property for tax purposes. No provision is allowed for adjusting the rent for inflation. Further, the person renting acquires a quasi-proprietary right to rent the unit in perpetuity, passing the unit on to his heirs. It is evident that investing in rental properties makes almost no sense.1/

The rent controls have four perverse effects:

a. They discourage rental investments in general.
b. They limit investment in rental properties to luxury housing.
c. They reduce the potential stock of housing.
d. They eliminate any incentive to maintain and improve the housing stock.

We recommend that the rent controls be phased out. The relevance of this to the entire problem of inner city rehabilitation and maintenance of the housing stock is evident.2/

Finally, the MOHC and the BVP should assess the desirability of promoting the construction of rental property for their own portfolio as well. A substantial program, perhaps with options to buy, probably could be designed to provide better housing than either the target group or the middle class can now afford. By amortizing properties over a longer useful physical life than would be sound for an individual, the public sector housing agencies in effect substitute their creditworthiness for that of the clients--a kind of officially guaranteed program that should be reproducible.

Housing Sector Finance Institutions

The MOHC has overall direction of the housing sector. Its own principal agencies are the BVP, through which housing finance is channelled, and EMADIPERU, which administers the MOHC housing portfolio. It cooperates with quasi-independent, housing-related entities such as ESAL and ELECTROLIMA which have well-defined responsibilities for housing infrastructure. The principal housing finance institutions are the BVP, the S&Ls and the

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1/ The exception is that units valued at more than S/.2.4 million (about US$12,000 as of December 1978) are exempt from the rent control law. High inflation rates eventually would render the law ineffectual.

2/ The law provides that the owner will maintain and pay for repairs to the rental unit but forbids recuperating the cost of maintenance and repairs through higher rents. Clearly, owners will delay and avoid those expenditures.

Banco Central Hipotecario (BCH). The Shelter Sector Description and Analysis examines these institutions in some detail. The examination raises disturbing questions about their financial soundness under present conditions and suggests that the working relationships between the BVP and the S&Ls, which it oversees, can be improved.

The analysis of the principal housing institutions makes it clear that they are being progressively decapitalized. There is no system for readjusting loan principles for inflation. The housing portfolio collections can buy less and less housing. Earnings cannot maintain real capital without some system for readjusting loan principles during high rates of inflation. The GOP's reaction to this problem thus far has been a holding operation of subsidizing losses. The annual subsidy to the BVP will be about US$25 million in 1979; for the S&Ls another US$15 million.1/ Subsidies of this magnitude to the basic housing institutions are neither efficient nor indefinitely tolerable. The alternative thus far used is also undesirable: diverting the S&Ls from housing to commerical bank financing. More realistic alternatives must be sought. Two alternatives which merit consideration are indexing and forced savings.

The record of indexing systems is mixed. The literature on the theory and practice of indexing leads to the conclusion that the benefits and disadvantages of an indexing system are country specific. The fundamental advantage of permitting maintenance of real capital can be outweighed by the disadvantages in a particular environment. The major disadvantage is that indexing may build into the system self-justifying, inflationary expectations. The psychological expectation of continued inflation discounts the possibility of reducing inflation, thereby making inflation higher.2/ This has persuaded the GOP until now to reject indexing, considering indexing to be an unacceptable confession of its inability to manage the economy and to reduce inflation. The attitude toward indexing should perhaps be reconsidered at this time in the context of the austere economic program which the government is undertaking through the end of 1980. It may provide a preferable way to deal with decapitalization than subsidies.

A system of capturing forced savings for housing can also be an alternative to direct subsidies. The impact on the housing sector can be tremendous. The numbers are hypnotic: diverting very small percentages of the total forced savings captured by a government can dramatically increase the resources available to the housing sector. If housing has a high priority, for economic or social reasons, the temptation to claim some of the forced savings is great and should be weighed.

1/ ESAL lost S/.140 million in 1977, S/.500 million in 1978. The losses are intolerable (especially in the view of the IMF and the World Bank); and ESAL plans two rate increases this year in hope of eliminating the losses. ELECTROLIMA also will increase its rates this year. This is additional evidence that the government economic team is serious about cutting the fiscal deficit.

2/ There also are technical problems with indexing: the choice of index or indexes, the political temptation to manipulate the index, the frequency of readjustment of indexed financial instruments, and the extent to which the index will apply.

The construction industry can be used as a focus for stimulating an entire economy. This is particularly true in Peru at this time when the construction industry has great unutilized capacity, especially in the housing field. The Shelter Sector Description and Analysis presents convincing evidence that there are no foreseeable constraints in the physical housing delivery system. Building materials, infrastructure capacity, skilled and unskilled labor all are in excess supply during the recession. Housing construction activity has declined greatly since 1975. The availability of a large idle housing construction capacity is challenging. Recent studies of the repercussions on total economic activity and on tax revenue of additional housing activity conclude that the construction industry has a high multiplier effect. A study commissioned by the Camara Peruana de la Construccion (CAPECO), for example, estimates that an additional S/.100 spent on construction generates an additional S/.226 of gross value added in the economy; and that the next round of multiplier effects alone raises this to S/.431.1/ Equally impressive is the finding in the same study that an additional S/.100 in construction returns S/.76 to the state in additional revenues.

Use of the construction industry as a focal stimulus for the economy, however desirable in principle, is not feasible within the economic stabilization program unless the effort can be financed without burdening the central government budget. The diversion of a very small percentage of forced savings into well thought out housing programs could do just that: spur the use of idle capacity in a labor-intensive industry without jeopardizing the central budget. It is in this context that the BVP scheme is potentially an exciting breakthrough in the housing sector that can benefit the entire economy.

The Role and Functions of EMADIPERU

In a sense EMADIPERU is suffering the decapitalizing effects of inflation as well as the housing finance institutions. It has to use a larger and larger percentage of its portfolio collections to cover its own operating expenses; and the fewer soles which it is able to turn over to MOHC are able to buy less and less new housing as inflation erodes the value of collections and construction costs increase. In response to its financial troubles, EMADIPERU has advanced the idea of administering a supervised credit program for self-help, low-income housing. The program could be financed by the second tranche of HG money which is due to become available shortly to the BVP. This would be a mistake.

1/ Carlos O. Carrillo M., El Sector Construccion en la Economic Peruana: Ensayo du Cuantificacion Economica, August 1978.

Even if the EMADIPERU concept were a detailed program--and it is not, it is only a general concept--it would be counterproductive to encourage it. The GOP has carefully set up housing sector institutions by function and they operate well. There are rational divisions of labor between the BVP, the S&Ls, ESAL, ELECTROLIMA, and EMADIPERU. Coordination can always be improved and programming can be better, but the basic division of labor makes sense. EMADIPERU was established to administer the public sector housing portfolio and it does a good job of this. There is no call to blur the functional distinctions between the housing section institutions by now conferring on EMADIPERU a task for which it is neither designed nor equipped to handle. The BVP, together with the S&Ls, continues to be the logical vehicle for shelter finance. There is no justification to abet an EMADIPERU activity which would require considerable technical assistance when other institutions have an underutilized present capability to manage the activity.

Decentralization

The GOP has adopted a policy of promoting the decentralization of governmental and economic activity. This is consistent with the GOP's fundamental objective of economic growth with equity. It is hoped that by encouraging the growth of centers outside metropolitan Lima, it will be possible to prod the rest of the country in more productive directions and thereby diminish the gross discrepancies in well-being between Lima and the rest of the country.

Decentralization of MOHC has been underway for more than a year now. The MOHC has wisely used decentralization as an opportunity to reorganize its activities along staff lines by delegating construction to the regional offices. The MOHC is to become a policy maker, coordinator, and expediter rather than a builder. This could be a big plus for the housing sector.

At the same time, however, the MOHC must recognize that decentralization will require an increased (combined) MOHC-Regional staff. The administrative and personnel budget will inch up. The MOHC itself will be confused and, to some extent, drained of personnel if the regional offices are to be competently staff. It will take 12-18 months for the MOHC to recover from and adjust to the new conditions. Nevertheless, decentralization does present the MOHC with a vehicle to channel development funds outside Lima. We are thinking here of urban development in the largest sense of consisting of more than housing. It means habitat, including clinics, health centers, bus stations, slaughter houses; whatever is necessary. These programs should be supported throughout Peru; but decentralization should not relegate Lima, which to a large extent is urban Peru, to a place too far below the salt.

I. COUNTRY SITUATION

A. Government Structure

A military government assumed control of Peru in October 1968. The revolutionary junta, consisting of the three armed forces ministers, selects the President. The cabinet is composed largely of the military. The President rules by "revolutionary statute" and national decree. The Revolutionary Government was headed by President Velasco until 1975 and, since 1975, by President Morales Bermudez. Congress was disbanded in 1968; but the Supreme Court, with 16 justices, continues to function. For administrative purposes, Peru is divided into 24 Departments. The Central Government appoints the Departmental Preects and the Mayors of cities.

The Revolutionary Government instituted a broad program of economic and social reforms. The military plans to relinquish power to a civilian government as soon as the reform program is firmly established. The first step toward this end was the 1978 election of a Constituent Assembly which is to produce a new Constitution incorporating the statutes/decrees promulgated by the government. Municipal elections are to be scheduled as well as elections to select a Congress and a President by 1980.

The Ministry of Housing and Construction (MOHC) was established in 1969 as the government agency responsible for the housing sector. (Annex 1 is an organization chart of the MOHC.) The MOHC is in charge of developing and improving the housing sector, implementing urban renewal and urban housing projects, and promoting construction activities. In its housing programs, the MOHC cooperates with a number of public sector agencies which are responsible for infrastructure services--electricity, sewerage, water. These are briefly described in Section V.

La Empresa de Administracion de Inmuebles de Peru (EMADIPERU), created in 1969, manages property for the MOHC. (See organization chart, Annex 2.) To this end, it is responsible for property maintenance, for selling urban housing program units, and for collecting rental income for the MOHC. Its budget is financed from its collections; the balance after the deduction for EMADIPERU's administrative costs is transferred to the MOHC for use in new low-cost housing programs and community services programs.

The Banco de la Vivienda del Peru (BVP), established in 1962 as an autonomous decentralized public agency, is the MOHC's financial arm for the housing sector. Four of the eight members of the Board of Directors are appointed by the MOHC, two by the Ministry of Economy and Finance (MEF), and one by the Central Mortgage Bank (Banco Central Hipotecario: BCH). (The eighth member is the President, elected by the Board.) It supervises and regulates the savings and loan system ("mutuales").1/

1/ The BCH, the S&L system (mutuales), and the BVP are examined in greater detail in Section V, where the shelter sector delivery system is described and analyzed.

The MOHC is decentralizing its operations. The regional reorganization, underway for over a year, led to control over project execution being given to seven Regional Offices in January 1979. The MOH itself will concentrate on coordination, overall policy, and financial planning. The Regional Offices will otherwise constitute autonomous regional MOHCs.

B. Geographic and Climatic Conditions

Peru is the third largest country in South America, with a land area of 1.3 million square kilometers (three times the size of California). Peru is located south of the equator on the west coast of South America. It is bordered by Ecuador and Colombia to the north, Brazil to the east, Bolivia and Chile to the south, and the Pacific Ocean along its 2,253 kilometer coastline. The country is sharply divided into three geographic regions and the distinct characteristics of these regions have a pervasive influence on national live.

The coastal strip, 16-160 kilometers wide, occupies 11% of the national territory, is arid and semiarid, and is uninhabitable and uncultivatable except with irrigation. The coastal strip is cut by 50 river valleys which empty into the Pacific. Forty percent of the national population lives in coastal river valleys; and much of the agricultural, industrial, and commercial activity is centered along the coast. Sugar cane and cotton are the major cash crops of the coastal area, but a wide variety of other crops also are cultivated in this region. The climate on the coast is mild and rainfall is negligible.

The sierra region, formed by the mountain chain of the Andes which runs north-south through the length of Peru, is about 320 kilometers wide, and occupies 27% of the land area. The highest peak in Peru is Huascaran (6,767 m.), and a number of cities and settlements are situated at altitudes of over 3,5000 meters. Climate varies within the sierra region, ranging from temperate to frigid. There are dry and wet seasons. Rainfall exceeds 100 inches a year on the eastern slopes of the mountains. About 50% of the population, predominantly Indian, lives in the sierra. Most of the sierra population is engaged in subsistence agriculture. The major deposits of mineral wealth are in the Andes. The sierra region poses formidable barriers to transportation and communications.

The selva (or montana) region of rainforests, hills, and tropical jungle comprises over half of Peru's land area. This region is sparsely populated and largely undeveloped. Communication and transportation within this region are extremely difficult. The area is served by airlines, but the only surface transportation routes are waterways which empty into the Amazon River. The climate is humid and warm year-round, with abundant rainfall. The "high jungle" (seja de montana) is more suitable for agriculture. Commercial lumbering and cultivation of coffee and tropical and citrus fruits occur in this area. Petroleum deposits have been found in the selva region.

A diversity of small Indian tribes inhabit the Amazon basin region of Peru.

C. Human Settlement Patterns

Urban settlement in Peru is overwhelmingly dominated by metropolitan Lima, which exhibits all the classic characteristics of a primate city. Metropolitan Lima includes the port city of Callao. The MOHC reports that in 1977 the population of Lima was 4,290,735, about 25% of the total national population and more than half of Peru's urban population. Virtually all administrative functions and much of the modern industrial sector are in Lima. For example, 71.6% of all industrial establishments with five or more employees, 65% of the retail trade, and 65% of all industrial workers are in greater Lima-Callao. In 1970, 90% of banking and 50% of the national wealth were based in Lima.1/ The preeminence of Lima as the primate city has intensified in the last 40 years. In 1940 the population of the metropolitan Lima area was 8 times that of the second largest city; in 1961, 13 times; and in 1970, 14.7 times.2/ The metropolitan area quadrupled its population between 1940 and 1970. It absorbs 58% of all rural-urban migration destined to coastal cities.3/

At the national level, urban settlement is concentrated predominantly in river valleys and at natural harbors along the Pacific coastline. An apparent exception to this pattern is the case of Arequipa, the second largest city of Peru,4/ which is situated at about 2,500m altitude in a mountain valley inland from the coast. For all intents and purposes, however, Arequipa may be considered a coastal city since it is situated west of the Continental Divide, its geographical and climatic conditions are basically coastal, and its commercial industrial sector shares far more similarities with other urban coastal cities than with urban settlements of the sierra. Including Arequipa, 9 of the 12 cities with population in excess of 50,000 are located on the coast.5/ In addition to Arequipa, the other major coastal cities are Chiclayo, Chimbote, Trujillo, Piura, Ica, and Tacna. The coastal towns of Tacna and Tumbes are significant for their location at the borders with Chile and Ecuador, respectively. The other major urban centers in Peru are Cuzco and Huancayo, located in the sierra, and Pucallpa and Iquitos, located in the jungle.

1/ Elsa Chaney, "Agripina: Domestic Service and Its Implication for Development," paper presented at the Primer Simposio Mexicano-Centro-Americano de Investigacion sobre la Mujer, Mexico, November 1977 (mimeo), p. 39.

2/ Raul Guerrero de los Rios and Abelardo Sanchez Leon, La Trampa Urbana: Ideologia y Problemas Urbanos: El Caso de Lima (Lima: Centro de Estudios y Promocion del Desarrollo, 1977), p. 36.

3/ Ibid., p. 37; and Thomas E. Weil, Area Handbook for Peru (Washington, D.C.: American University, 1972), p. 53.

4/ Students of urban growth in Peru maintain that Pampa de Comas, a Lima squatter settlement, is actually the second largest "city" in the country.

5/ Area Handbook for Peru, op. cit., p. 53.

Nine of the 13 major cities are administrative centers in the sense that they are capitals of their department. However, the degree of centralization in the country until now has limited the autonomy of departmental capitals. The predominant administrative center has been Lima; all other administrative centers were overshadowed by the capital city. Relative to Lima, all other urban centers can be classified as secondary cities at best. The major secondary cities are Arequipa, Chiclayo, Trujillo, and Chimbote. Secondary cities of lesser magnitude include Piura, Sullana, Ica, Huacho, Iquitos, and Pucallpa. The two sierra centers, Huancayo and Cuzco, can be characterized as market towns which also function as administrative centers.

Currently, the government is implementing a plan for decentralization. Fully elaborated documentation of this plan is not yet available, but there are indications that a two-pronged strategy is being developed. On the one hand, government functions are being decentralized, and implementing arms of the ministries are being established in departmental capitals. On the other hand, intersectoral regional development organizations are being formed. The government is also embarking on integrated regional development programs in the high jungle (ceja de selva) and the northern sierra region. The decentralization initiative is designed to increase productivity and extend services to the secondary cities. Despite the existence of a number of significant secondary cities and plans for decentralization, the reality is that Peru is an extremely centralized country and, basically, Lima is urban Peru.

II. THE ECONOMIC SETTING

A. Performance of the Economy[1/]

Peru's GDP, in real terms, rose on an average of 5.8% per year from 1961-1967, a reflection, among other things, of its vastly underutilized economic potential. The Revolutionary Government, which took control in 1968, addressed itself to staking out a course of promoting "social justice" with growth. Through 1976, the momentum of the Government's economic and social policies continued to register a 4.7% annual increase in real GDP; but the apparent economic health disguised an unsupportably rapid increase in public debt, both domestic and foreign. Socially laudable but not immediately productive public sector investments and the withdrawal of private sector investors' confidence combined to bring the economy to a halt by 1975. Real GDP growth averaged 0.8%, 1975-1978. By mid-1978, Peru was hard put to deal with the high inflation rate, balance-of-payments deficits, stagnant and declining real GDP, decreasing real wages, and intolerably high external debt servicing obligations which confronted the nation.

The postponement of stern measures to deal with its economic problems has made more acute the now unavoidable wringing out of the economy. This year and 1980 will be inescapably agonizing. Once the rate of inflation has been cut significantly, which should occur during the second half of 1979 and the first half of 1980, the prospects for increasing real demand will be good. Real income is expected to increase moderately in 1980 and more dramatically in 1981 and 1982. This will permit a restoration of effective demand for housing. In the interim, Peru needs substantial continuing external assistance for the shelter sector.

The determination of the economic team to reverse the unsupportable economic trends is evident. Peru reached agreement with the IMF on a new Standby Agreement in September 1978, based on a 2 1/2 year Stabilization Program undertaken in July 1978.. Agreement with the IMF was a precondition for rescheduling Peru's $8.3 billion external debt;[2/] and a one-year extension of the rescheduling will be contingent on adhering to the targets in the Agreement. If the debt had not been rescheduled, Peru would have faced an overwhelming debt-service problem (which would have exacted 68% of Peru's projected 1979 export earnings).[3/]

The Stabilization Program and the IMF Standby now dictate the constraints within which the economy must operate. Table 1 is a diagram of

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1/ The USAID Mission in Peru has provided some extremely useful updating and elaboration of the economic situation in Annex 3.

2/ As of 31 December 1977. Annex 4 presents a breakdown of the debt into long- and short-term debt, by borrower.

3/ The IMF benchmark goals on central government finance and credit expansion have been met and surpassed for year end 1978.

the overall economic picture since 1974 with projections for 1979. The deterioration of economic performance since 1975 is clear. In order to reverse the trends, draconian measures are envisaged. The government intends to reverse the rising inflation rate, which reached 75.7% (Lima CPI) for the year 1978, reducing it to 40% for 1979 and 20% for 1980. Private sector consumption is programmed to decline marginally by 1% during 1979, public consumption by more than 15% (after a 1978 decline of 17.5%). The economy will go into a severe recession.

Tables 2 and 3 reveal some of the implications for the central government budget. The budget aims at reducing the deficit by 6.5% in current soles. If inflation is held to 40%, this will require a 33% reduction in real terms. In order to achieve the planned decrease in the deficit while simultaneously increasing capital expenditures (38%) in real terms, the GOP plans to reduce current expenditures (4%) and to increase tax revenues by 14% in real terms (over 60% in current soles). These are extraordinarily ambitious performance targets.

TABLE 1

Economic Performance, 1974-1979
(billions of 1970 Soles)

	1974	1975	1976	1977	1978	1979 1/
Aggregate Demand	360.6	377.6	376.7	368.8	350.8	354.1
Exports	37.9	36.5	37.1	42.2	47.8	55.9
Domestic	311.7	334.2	335.5	325.1	303.1	298.2
Investment	48.4	58.3	53.9	43.5	38.1	42.7
Private Sector	23.1	29.9	27.2	23.9	22.5	24.3
Public Sector	25.3	28.4	26.7	19.6	14.1	18.4
Consumption	263.3	275.9	281.6	281.6	265.0	255.5
Private Sector	226.8	234.5	238.8	234.6	226.2	224.1
Public Sector	36.5	41.4	42.8	47.0	38.8	31.4
Changes in Stocks	11.0	6.9	4.1	1.5	1.5	-
Aggregate Supply	360.6	377.6	376.7	368.8	350.8	354.1
Imports	56.7	63.5	53.1	49.1	36.1	36.3
GDP	303.9	314.0	323.6	319.7	314.7	317.8

Source: BCRP

1/ Projections by the BCRP

TABLE 2

Central Government Accounts
(billions of current Soles)

	1970	1975	1976	1977	1978	1979 1/
Current Income	38.8	87.9	111.4	154.1	259.0	415.0
Current expenses	32.2	90.5	122.7	193.1	281.9	379.0
Current budget balance	6.6	(2.6)	(11.3)	(39.0)	(22.9)	36.0
Capital expenditures	9.9	28.0	37.1	40.1	57.6	111.3
Deficit	3.3	30.6	48.4	79.1	80.5	75.3
Deficit Financed by:						
sources (net)	1.5	16.8	15.6	34.6	14.2	(59.6)
" (net)	1.8	13.8	32.8	44.6	86.3	134.9
of which Banking System	(0.9)	15.9	34.0	40.0	72.9	74.5

Source: MEF

TABLE 3

Central Government Accounts
(billions of current Soles)

	1970	1975	1976	1977	1978	1979 2/
Current income	38.8	47.9	46.0	46.2	48.2	55.1
Current expenses	32.2	49.3	50.6	57.9	52.4	50.3
Current budget balance	6.6	(1.4)	(4.7)	(11.7)	(4.3)	4.8
Capital expenditures	9.1	15.3	15.3	12.0	10.7	14.8
Deficit	3.3	16.7	20.0	23.7	15.0	10.0
Deficit Financed by:						
External sources (net)	1.5	9.2	6.4	10.4	2.6	(7.9)
Internal " (net)	1.8	7.5	13.5	13.4	16.0	17.9
of which Banking System	(0.9)	8.7	14.0	12.0	13.6	9.9

Source: MEF, BCRP

1/ Projections by MEF.

2/ Ibid.

The historical inelasticity of tax collections to both increases in income and increases in tax rates foreshadows difficulties in attaining all of the goals. The safety valve likely will be a forced reduction in the rate of investment expenditures. Projects with long gestation periods will have to yield to projects with a quicker economic payoff. Social investments will have to be reduced and drawn out in deference to economically "productive" capital expenditures. The foreseeable trade-off that will be necessary will pose a sharp policy conflict between social and economic goals, between growth and inflation.

The looming policy conflicts will be especially difficult since the deficit will have to be financed by more than 100% from domestic sources. External capital disbursements are expected to fall short of foreign debt service by nearly S/.60 billion; but in order to reduce the inflation rate, the banking system is expected to provide little more than half of the financing (55%, compared to 85% in 1978).

B. External Debt and the Balance of Payments

Table 4 summarizes the balance of payments since 1974. The decline of imports since 1975, indicative of the stagnation and recession, is largely responsible for keeping the current account deficit from getting bigger. The drastic fall in external loans to the government sector, especially in 1978, contributed heavily to the net loss of international reserves. Indeed, net international reserves were estimated to be negative in the amount of $1,340.8 million at the end of 1978, down each year since a high of plus $692.5 million at the end of 1974. Finally, the growing unease of foreign private investment (part of the capital account) is shown in a drop from $342 million in 1975 to $60 million in 1978.

TABLE 4

Balance of Payments, 1974-1978
(millions of U.S. dollars)

	1974	1975	1976	1977	1978 a/
Current Account	(807.2)	(1,538.4)	(1,192.0)	(926.2)	(43.4)
Exports	1,503.3	1,290.9	1,359.5	1,725.6	1,829.1
Imports	1,908.1	2,390.2	2,100.0	2,164.0	1,792.8
Balance of Trade	(405.6)	(1,099.2)	(740.5)	(438.4)	(36.3)
Non-financial Services (net)	(228.2	(248.2)	(142.9)	(118.2)	(23.9)
Financial Services (net)	(218.6)	(240.3)	(366.4)	(426.4)	(503.8)
Transfer Payments	45.1	49.4	57.9	56.8	56.0
Long-term Capital (net)	894.9	1,135.1	675.5	673.8	256.1
Short-term Capital	243.5	(150.0)	(351.0) b/	(97.5) b/	n.a.
Errors and Ommissions	(49.3)	(23.4)	b/	b/	n.a.
Compensatory Movement c/	(281.9)	576.7	867.6	349.9	n.a.

a/ Estimate by American Embassy, Peru.

b/ Short-term capital includes errors and omissions in 1976 and 1977.

c/ Minus indicates an increase in net international reserve position

Management of the balance of payments is particularly difficult because of the narrowly based economic structure. Peru's exports are heavily concentrated on primary commodities. Table 5 shows the composition of exports during the first nine months of 1978. The value of exports is hostage to fluctuations in world commodity prices and the physical production of copper, in particular, is dependent on labor peace.

TABLE 5

Exports, January-September 1978
By Major Commodity

Commodity	Percent of Total
Copper	27
Fish & Fish Products	14
Silver	11
Coffee	9
Petroleum & Derivatives	8
Zinc	7
Lead	5
Iron	4
Sugar	2
Other	13
TOTAL	100%

Peru's desperate debt-servicing problem can be appreciated in the rising ratio of debt servicing to exports. The ratio rose from 16.2% in 1970 to 53.1% in 1978, and as noted earlier, would have amounted to a projected 67.8% in 1979 had the debt not been rescheduled in late 1978. Debt-service ratios of this magnitude cannot be borne for long, especially by a stagnant economy heavily dependent on primary commodity exports. Peru's creditworthiness must continue to be based on the confidence of the international lending community. If it loses confidence in Peru and withholds new lending or fails to renew existing debt, Peru will not be creditworthy by definition. The objective basis for confidence would be the type of effort which the present GOP Stabilization Program and IMF Standby Agreement entail.

Real wages and real income will have to continue falling for some time. Table 6 shows that real wages (in constant 1973 Soles) for blue-collar workers in the greater Lima area fell by 21% between 1973 and 1977; for white-collar workers, 35%. This was caused by wage rate increases lagging behind inflation, by devaluation which raised the cost of imported goods, and by sharply higher prices for basic foodstuffs, bus fares, petroleum products, and utilities. The total impact of lower real wages is accentuated by the lower employment rates during the recession. Still, subsidies must be cut further in 1979 and 1980 if the economy is to be put back on the road to growth with equity.

TABLE 6

Index of Real Wages, 1973-1977
(Metropolitan Lima)

Year	Blue-Collar Workers	White-Collar Workers
1973	106.4	114.1
1974	100.2	104.7
1975	100.0	100.0
1976	104.0	88.1
1977	83.8	74.1

Source: BCRP

C. Government Economic Policies and the Housing Sector

The combination of rising interest rates (the GOP is to achieve positive real interest rates during 1979), high inflation rates, still higher inflation rates for housing construction costs, and lower real income has been devastating for housing demand. Housing demand has practically dried up. The same factors must continue to depress housing demand for the time being. The government has little freedom of action in the near term to improve the picture. Indeed, the analysis of the shelter sector finance institutions in Section V points out the danger that the GOP will be tempted to reduce its subsidies to the shelter sector in order to curtail its own budget deficit.

One thing which the government could do would be to phase out current rent-control laws. Rent controls have at least 4 perverse effects:

a. They discourage rental investments in general.
b. They limit investment in rental properties to luxury housing.
c. They reduce the potential stock of housing.
d. They eliminate any incentive to maintain and improve the housing stock.

Rent control laws in Peru date back to a 1945 law which prohibited rent increases and suspended court eviction of renters--renters of property used for industrial, commercial, or professional activities as well as renters of residential properties. The law was modified in 1975, 1976, and 1977. The present September 1977 Decree No. 21398 limits annual rents to 10% (12% for new housing) of the historically declared value of the property for tax purposes. No provision is allowed for adjusting the rent to inflation. Further, the person renting acquires a quasi-proprietary right to rent the unit in perpetuity, passing the unit on to his heirs. It is evident that investing in rental properties makes almost no sense. The exception is that units valued at more than

S/.2.4 million are exempt from the rent control law.[1/] The rent controls should be phased out.

1/ High inflation rates eventually would render the law ineffectual.

The Squatter Settlement of Canto Grande in Lima was established 4 years ago. Its residents typify Peru's population profile in which 50% of the population of squatter settlements is 17 years of age or less.

III. POPULATION CHARACTERISTICS

A. Overall Population Characteristics

The population of Peru was estimated to be 17 million in 1978; the annual growth rate, 2.9%. If present fertility rates remain unchanged, the population will approach 32 million by the end of the century. The population is young: 43.8% is under 14 years of age, and fully one-half of the population is less than 17 years old. Table 7 shows average urban family size by region. The range is from 4.0 persons in Cuzco (highlands region) to a high of 6.5 persons in Loreto (jungle) and averages more than 5.

TABLE 7

Urban Households

Department	Average Number of People per Household	Department	Average Number of People per Household
Amazonas	5.5	Junín	5.1
Ancash	5.1	La Libertad	5.2
Apurímac	4.6	Lambayeque	5.3
Arequipa	5.1	Lima	5.1
Ayachucho	4.6	Loreto	6.5
Cajamarca	5.9	Madre de Dios	5.0
Callao	5.2	Moquegua	5.0
Cuzco	4.0	Pasco	4.8
Huancavelica	4.7	Piura	5.6
Huánuco	5.7	Puno	4.4
Ica	5.5	San Martín	5.7
		Tacna	5.0
		Tumbes	5.8

Source: Compania Peruana de Investication de Mercados, S.A., Censo Muestra de Provincias, 1978, p. 13.

The population is concentrated primarily in the Andean highlands (sierra) region and in river valleys along the Pacific coastline. Almost half (45%) of the national population resides in the sierra, 23% inhabit metropolitan Lima, 22% live on the coast, excluding Lima, and 10% reside in the selva (jungle). Since Peru is the third largest South American country in area, population density is a relatively low 12 persons per square kilometer (30 per square mile). Average density figures are deceptive, however, since the vast expanse of jungle is very sparsely settled and the desert areas between coastal valleys are wholly devoid of settlement.

There are three major ethnic groups in Peru: Indian, Mestizo, and Caucasian. These groups comprise 46%, 38%, and 15%, respectively, of the population. There is also a small number of Blacks. The major Indian group is the Quechua, followed by the Aymara. Both these groups live predominantly in the sierra. A diversity of ethnic and linguistic Indian groups populates the jungle. Mestizos and Whites live throughout the national territory, but are concentrated in urban settings, particularly on the coast. The Black population lives almost exclusively on the coast.

The 1972 Census reported 59.5% of the population to be urban.1/ Several major waves of rural-urban migration have contributed to a rapid growth of urban centers since the 1940's. Table 8 indicates the degree of increased urbanization between 1961 and 1972.

TABLE 8

Urban and Rural Population Growth Rates By Region, 1961-1972 (percent)

Regions	Urban	Rural	Total
Coast	5.20	1.01	3.19
Sierra	3.70	0.77	1.48
Selva	4.87	2.56	3.32
Total	5.02	0.46	2.87

Source: Oficina Nacional de Estadistica y Censo, Boletin de Analisis Demografico, Vol. 13 (Lima, 1972).

Rural-urban migration has been described as a complex network which, starting from small communities, discharges in Lima.2/ The coast absorbs 72% of all migrants; 58% of all migrants to the coast take up residence in the Lima-Callao metropolitan area. The sierra receives 24% of rural-urban migrants; the jungle, 4%. In 1972, 45.8% of the population of Lima consisted of migrants.3/ Migration is predominantly "inter-urban." Between 1940 and 1961, only 6.1% of migrants were from rural settlements.4/

The degree of poverty correlates closely with the geographical regions of the country (coast, sierra, selva) and the rural/urban dichotomy.

1/ Defined as settlements with more than 100 houses grouped contiguously and all capitals of districts.

2/ Jose Matos Mar, cited in Guerrero de los Rios, Raul and Abelardo Sanchez Leon, op. cit., p. 36.

3/ Ibid., p. 37, 38.

4/ Ibid., p. 39.

Poverty in Peru is concentrated predominantly in the sierra and selva regions, where the non-Spanish-speaking Indian population is concentrated. There is more poverty in rural settings than in urban centers.1/ The largest concentration of the poor is in two regions of the sierra: a southern region comprised of Ayacucho, Apurimac, Huancavelica, Cuzco, and Puno departments; and a northern region comprised of Cajamarca, Ancash, and San Martin departments.2/

Income distribution is highly skewed throughout the country, but is most uneven in poorer and rural regions.3/ While incomes are highest in urban areas and on the coast, money income differentials exaggerate the differences in living standards. In fact, there is some evidence that nutrition is poorer in urban than rural areas.4/ Urban areas do provide greater access to public services, but residents have to purchase expensive alternatives to infrastructure services (trucked water, candles, kerosene) which deepens their poverty.

The nuclear family unit is prevalent as the household unit. With intensification of land use in pueblos jovenes, single family dwellings often are now inhabited by 2 or 3 families. Extended family ties are maintained, and relatives frequently live together of close to one another. Common law marriage is widespread. There is a relatively low incidence of single women heads of household. A recent study of a Lima squatter settlement found 9% of families were headed by women.5/ Residents of other squatter settlements report a similarly low incidence of women-headed households.

1/ Vinod Thomas, The Measurement of Spatial Differences in Poverty: The Case of Peru (Washington, D.C.: World Bank, 1978), p. 8.

2/ Agency for International Development/Lima, "Analytical Description of the Poor, " draft DAP, (Lima, 1979), p. 3.

3/ Thomas, op. cit., p. 5.

4/ Ibid.

5/ Asociacion Cristiana de Jovenes de Lima, "Informe General de la Investigacion Participatoria en el Pueblo Joven 'Flor de Amancaes' - Rimac," (Lima, mimeo, 1979), p. 15, and interviews with squatter settlements. Two recent studies of lower class working women found even lower incidences of abandoned mothers: 6.25% among female industrial workers, and 8% among female street vendors. See Villalobos , Gabriela, "La Madre Trabajadora: El Caso de las Obreras Industriales," p. 9, and Mercado, Hilda, "La Madre Trabajadora: El Caso de las Comerciantes Ambulantes," p. 17 (Lima: Centro de Estudios de Poblacion y Desarrollo, 1978). Although these studies were not focused exclusively on women residents of pueblos jovenes, they were focused on women in the occupational and economic strata which are common to women of pueblos jovenes.

The most common migratory pattern is a one-step migration (salto directo) from the migrant's home town to Lima, whether the migrant is from an isolated village, a medium-sized town, or a provincial capital.1/ Women are somewhat more likely than men to migrate directly to Lima.2/

B. Demographic Characteristics of the Poor

The urban poor are located primarily in pueblos jovenes (squatter settlements) and tugurios (inner-city tenements). Pueblos jovenes (young towns) are most commonly located on the outskirts of the central cities. As a result of extensive self-help development, many have evolved from spontaneous settlements with minimal, precarious shelter with no services to permanent shelter with infrastructure services. Tugurios take different forms, but are typified by densely populated deteriorating rental units, often with communal water and waste disposal facilities.3/ In contrast to the inner-city tenements, single-family dwellings predominate in pueblos jovenes.

There are no firm statistics on the number of people living in pueblos jovenes and tugurios. A 1976 study reports that there were more than 2.3 million people in pueblos jovenes in 28 urban centers.4/ Informed observers believe that the population of pueblos jovenes is understated in official documents. Several informants working for institutions headquartered in Lima who have extensive experience in squatter settlements claim that the population of Lima's pueblos jovenes is closer to 2 million than the 1.1 million estimate by the MOHC. Statistics on the population of tugurios are still more difficult to come by. A recent study based on the 1972 Census estimated that 44% of the population of Lima, nearly 2 million people, live in tugurios.5/ This would mean that at least 75% of the Lima population live in pueblos jovenes and tugurios. We have no documentation on the tugurio population in other urban centers.

1/ Hector Martinez, et. al., El Exodo Rural en el Peru (Lima: Centro de Estudios de Poblacion y Desarrollo, 1973), cited in Elsa Chaney, op. cit., p. 24.

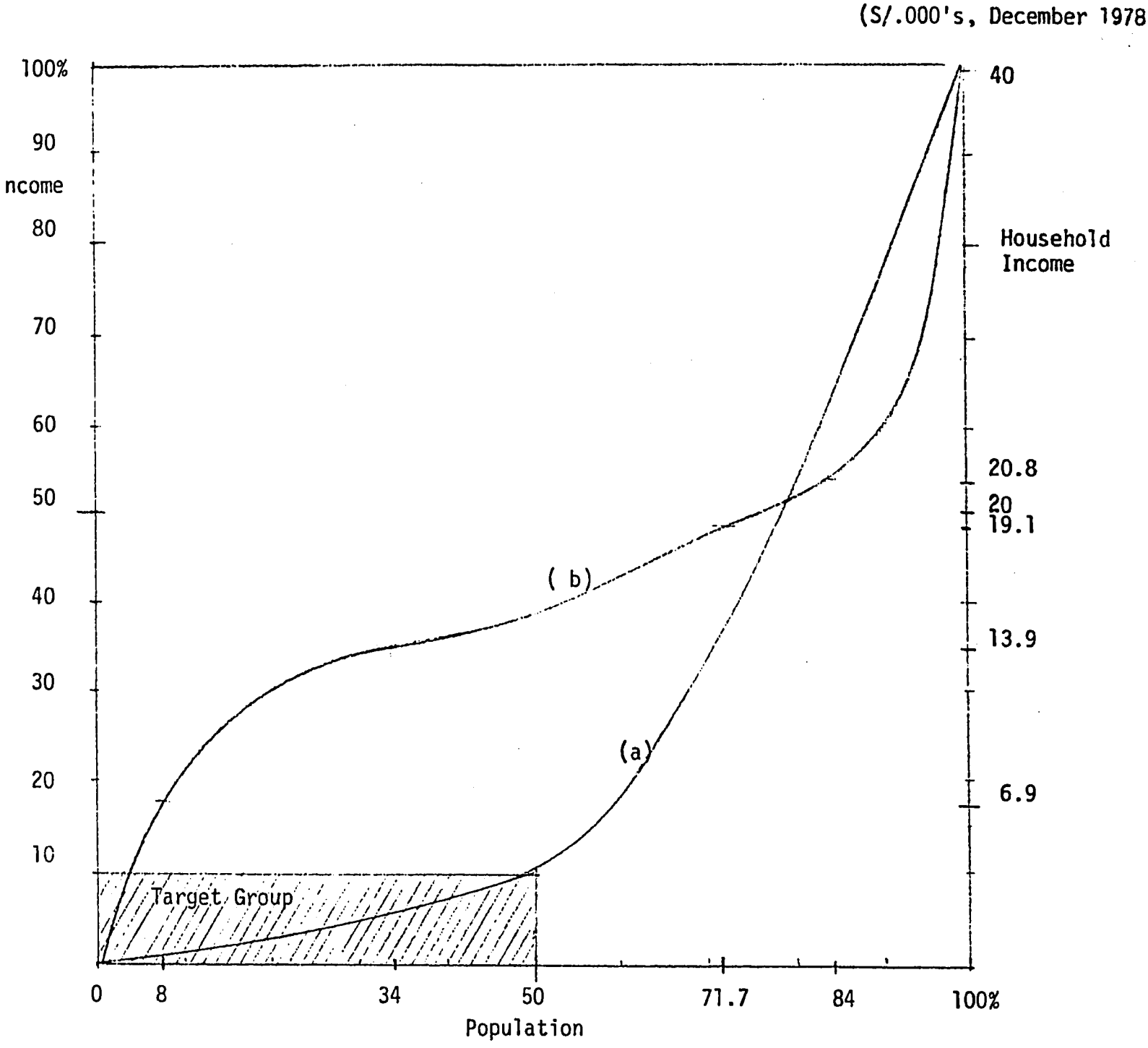
2/ Ibid.

3/ Tugurios may be sub-divided, multi-storey houses, or alleyways (callejones) with small, one-or two-room family units off the alley, or tenement-like structures built specifically to serve as tugurio-type rental accommodations.

4/ Oficina Nacional de Estadistica y Censo, Encuesta Nacional de Pueblos Jovenes, 1976. See Annexes 4-7 for official figures on urban growth and population of pueblos jovenes.

5/ Cited in Gustavo Riofrio Benavides, Se Busca Terreno para Proxima Barriada: Espacios Disponibles en Lima, 1940, 1978, 1990 (Lima: Centro de Estudios y Promocion del Desarrollo, 1978), p. 20.

TARGET GROUP INCOME DISTRIBUTION



(a) Income distribution, all Peru (left-hand scale)

(b) Distribution of target group household income, Lima-Callao (right-hand scale).

C. Economic Characteristics of the Poor

The Poor and Affordable Habitat

In the Lima Metropolitan Area, the median monthly family income is about US$175.1/ The bottom half of the income population receives 11.4% of total income, one of the most unequal income distributions in the world.2/ No one in the bottom half of the income distribution can afford any housing provided by the formal sector. As of September, 1978, the monthly family income required to qualify for a loan from the BVP (and the S&Ls) for a minimum house3/ in the Lima Metropolitan area was S/.112,310.4/ Only the top 3.03% of family incomes could qualify for that kind of loan in September 1978; still fewer could today.5/ Needless to say, the top 3% of income families would not be interested in a minimum house in any event. The most that the target group can aspire to is a site with basic services of electricity, water, and sewerage.

This minimum qualifying income has since increased because both interest rates and construction costs have increased. Furthermore, the loan is based on a family being willing and able to spend 40% of its income on shelter. Traditionally, less than half that is spent on housing in Lima. For the rest of the country, a still smaller percentage of expenditures is for housing. In Lima, 18.5% of total expenditures was for housing. For the rest of the country, the range was 3.4-17.6%. (See Table 9.)

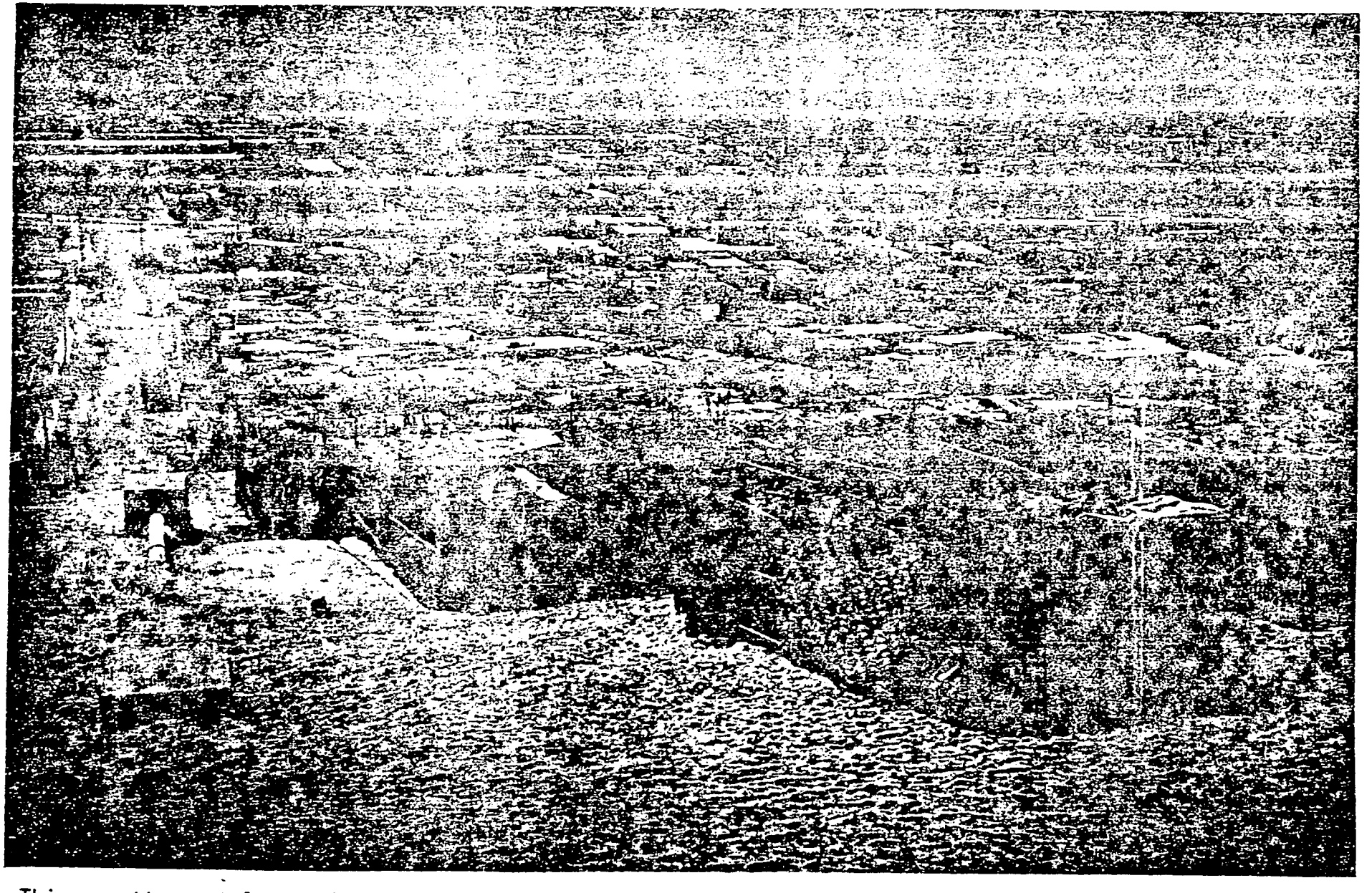
1/ S/.37,046 as of December 1978. See Annex 9.

2/ One study found that, among 50 countries, only Gabon and Columbia had more unequal income distributions. (Felix Paukert, "Income Distribution at Different Levels of Development," International Labour Review, Nos. 2-3, August/September 1973.) The World Bank's World Tables 1976 tabulates the percentage of national income received by (a) the lowest 20 percent of income receivers and (b) the top 5 percent. The ratio (a)/(b) is a rough proxy to the degree of inequality in income distribution. Peru had the third smallest ratio (5.9%) among 45 countries for which data were presented. A different tabulation of Gini coefficients for 81 countries shows 6 countries with more unequal income distributions, (Shail Jain, Size Distribution of Income, World Bank, 1975.) The absolute numbers are suspect but the conclusion is not: Peru has one of the most unequal income distributions in the world.

3/ 70 square meters, one-bedroom house on 120 square meter lot with electricity, water, and sewerage.

4/ A study by BVP.

5/ The cost of electricity connections is estimated at S/.40,000 per unit; the cost of water and sewer, S/.85,000 per unit. (These are figures from ELECTROLIMA and ESAL.) The calculation of potential effective demand is based on assumptions of a 35% annual interest rate to be amortized over 15 years. At present, the BVP is lending at 12 1/2% for the provision of services financed with HG funds.



This squatter settlement in Chimbote, in which primary sewerage lines have been installed, is but one of the squatter communities in which 95% of the population of Chimbote is located. New growth areas of squatter communities have moved onto hillsides and other marginal locations.

TABLE 9

Average Family Expenditures on Housing
(percent of total expenditures)

	All Regions	Rural	Medium-Size Cities	Big Cities
Lima	18.5	-	-	18.5%
North Coast	10.5	4.3	4.5	17.6
South Sierra	6.5	3.4	6.5	12.0
South Coast	7.8	3.6	8.0	10.0
Central Coast	7.1	4.7	8.1	6.9
Central Sierra	7.2	6.3	8.9	5.8
Low Selva	6.5	4.3	11.8	8.6
North Sierra	6.1	5.1	13.0	-
High Selva	7.2	5.8	11.8	-

Source: Vinod Thomas, op. cit., p. 100. Based on 1970-71 Census.

Figure 1 suggests that the potential effective demand by the below median-income group for even minimal services is quite limited at this time. The income distribution within the group would qualify less than 15% of those households in Lima for minimal services of water, sewerage, and electricity on a "free" site with conventional financing at market rates of interest. Even fewer families outside Lima could afford to pay for the cost of minimal infrastructure services. The most current income figures which cover the entire country are in a 1978 national household survey. The median family income in Lima was estimated to be S/.37,751 per month as of 30 June 1978. Income elsewhere is less. Median family income figures for other urban centers at the end of June 1978 were: Arequipa, S/.20,939; Trujillo, S/21,037; Iquitos, S/.19,847; Huancayo, S/.18,583; Cuzco, S/.17,347; Chimbote, S/.13,648. Tacna (S/.24,289) had the highest median household income outside of Lima; Chimbote the lowest.1/ The policy implication of these statistics is clear: support of the housing sector in Peru necessarily must be concentrated on basic infrastructure services for the low-income groups. Although many of the top 15% of the low-income group already have minimal infrastructure, the size of the potential other 85% of that group still is impressively large. For Lima alone, there are probably some 60-65,000 families in this group who could afford infrastructure services. The agencies which provide infrastructure would have to strain their capacity to rapidly catch up on the deficit.

1/ Compania Peruana de Investigacion de Mercados, S.A., Censo Muestra Provincias, op. cit.. In February 1979 at USAID's request, the firm prepared estimates of median household income as of 30 June 1978.

TABLE 10

Monthly Urban Income and Food Expenditures
July 1978

	Average Per Capita Monthly Income		Percent of Monthly Income Spent on Food	
	Middle Socio-Economic Stratum	Low Socio-Economic Stratum	Middle Socio-Economic Stratum	Low Socio-Economic Stratum
Arequipa[1]	S/.5,901	S/.2,238	43.6%	65.7%
Cajamarca[2]	4,414	1,732	41.1	65.2
Cuzco[3]	6,393	2,584	43.9	63.9
Cerro de Pasco[4] *	7,148	3,234	37.4	44.7
Chiclayo[1]	4,976	2,121	44.4	65.7
Chimbote[1]	4,604	1,918	47.1	68.7
Huancayo[4]	6,064	2,254	28.4	63.6
Huanuco[4]	3,958	1,647	44.1	66.4
ICA[1]	5,711	2,075	42.8	70.1
Iquitos[5]	4,982	2,063	44.9	75.1
Juliaca[3]	6,903	2,558	38.5	63.8
Piura[1]	5,419	2,023	45.0	71.2
Pucallpa[5]	3,990	1,741	44.3	69.5
Puno[3]	6,903	2,558	38.5	63.8
Sullana[1]	4,200	1,859	44.7	68.2
Tacna[1]	5,997	2,496	44.1	58.4
Trujillo[1]	5,761	2,272	43.0	61.7
Tumbes[1]	5,466	2,008	45.0	71.2
Lima[1]	7,996	3,892		67.4

*The labor force in Cerro de Pasco consists primarily of organized miners. This accounts for the relatively high income figure there.

[1]Coast [2]Sierra: northern [3]Sierra: southern [4]Sierra: central [5]Selva

Source: Compania Peruana de Investigación de Mercados, S.A., Censo Muestra-Lima y Provincias (Lima, 1978).

The 85% of the target group who cannot afford to pay for full infrastructure services packages must acquire services incrementally, be left in the unserviced informal sector, be addressed as welfare cases, or be provided with subsidized financing.1/ The GOP must face up to the welfare aspects of new arrivals to the cities. The cost of providing minimal infrastructure to that 85% in Lima alone would amount to some US$700 million at December 1978 prices--clearly not a viable short-term undertaking within the foreseeable GOP budget.2/ Table 10 presents data on income and the precent of income spent on food by the middle and low income groups in the major urban centers. With the single exception of Cerro de Pasco, which is atypical, low-income groups spend about 60-75% of their monthly income on food. Evidently little is left for discretionary spending on shelter in the formal sector.

The median income of people in pueblos jovenes is undertandably quite a bit lower than for Lima as a whole. (See Annex 10.) A recent study in Pueblo Joven Flor de Amancaes (Rimac District) found that 58.9% of the population can meet their basic needs for food; 20% cannot; and 11.1% "more or less" cover their needs.3/ Another study reported that the following percentages of families cannot meet their basic needs: Lima: 11.6%; other large cities: 8.1%; other urban: 21.3%.4/ The number of families living in extreme poverty are 6.3% in Lima; 15.8% in other large cities; and 24.5% in other urban areas.5/

The minimum wage is currently S/.8,970 per month (8 Feb. 1979). This is insufficient to meet the needs of the average family. The minimum wage is a poor indicator of income in Peru because the minimum wage guidelines are not honored. Domestic servants consistently are paid less than the minimum wage. Income figures also fluctuate because many of the income earners among the target population do not have steady employment. The Mutual Metropolitana Survey of 11 pueblos jovenes and urbanizaciones populares found that 48.6% of workers had stable incomes while 51.4% had unstable or fluctuating incomes.6/ A survey of Flor de Amancaes found

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1/ Recent inflation rates far exceed Peru's traditionally modest inflation record. (See Annex 3.) HG funds should reach the low-income groups based on longer-term inflation expectations even though it would mean using interest rates below current market rates. At 18.5%, for example, 92% of the target group in Lima-Callao could afford sewerage, 91% water, and 81% electricity with a 10-year amortization. An 18.5% interest rate should become positive during 10 years as inflation abates. The temporarily negative real interest rate would permit a big increase in the number of the target group who can be reached.

2/ This leads to another policy implication: the arrival of new city migrants should be planned for by laying out sites in advance of invasions. The cost of providing infrastructure could be consequentially reduced, not to mention the savings gained by thereby avoiding the relatively high cost of "remodelacion."

3/ Asociacion Cristiana de Jovenes, "Informe General...Flor de Amancaes," op. cit., p. 20.

4/ Programa Regional del Empleo para America Latina y el Caribe, Peru: Estrategia de Desarrollo y Grado de Satisfaccion de las Necesidades Basicas (Santiago: PREALC, 1978).

5/ Richard Webb, Income and Employment in the Urban, Modern and Traditional Sectors of Peru (Washington, D.C.: World Bank, 1974) p. 29.

6/ Derived from preliminary findings of Mutual Metropolitana Survey, November

similar proportions: 47.9% had stable employment; 25.5% had unstable or occasional employment; and 15.5% were "freeworkers" (trabajadores libres)--i.e., street vendors, gardeners, service workers, and other underemployed.1/ The incidence of unemployment is reported to be increasing in Flor de Amancaes.

Pueblos jovenes families must have more than one income earner per family. Two recent surveys found that 25-40% of families have more than one worker, as shown in Table 11. Similar results (Table 12) were obtained in a June 1978 household survey of Metropolitan Lima.

TABLE 11

Number of Workers Per Family in Pueblos Jovenes and Urbanizaciones Populares of Greater Lima

Workers Per Family:	1	2	3	4	5
(a)	75.0%	21%	2.6%	0.3%	0.6%
(b)	57.9%	20%	7.7%	2.2%	1.1%

(a) Derived from preliminary findings, Mutual Metropolitana Survey, November-December 1978.

(b) Asociacion Cristiana de Jovenes, "Informe General...Flor de Amancaes," January 1979, p. 16.

TABLE 12

Family Size, Monthly Income, and Expenditures Metropolitan Lima, June 1978

	Income Classification				
	All Lima	High	Middle	Low	Very Low
A. Average Income	35,371	122,757	39,978	20,627	13,205
B. Food	16,429	27,523	19,853	13,906	9,808
B/A (%)	46.4	22.4	49.7	67.4	74.3
People per Household	5.1	4.0	5.0	5.3	5.5
Income Earners Per Household	1.7	2.1	1.8	1.6	1.5

Source: Compania Peruana de Investigazcion de Mercados, S.A.

1/ Asociacion Cristiana de Jovenes, "Informe General...Flore de Amancaes," op. cit., p. 17.

Expenditure and Consumption Patterns

The bulk of expenditures by the poor is for food. Despite devoting most of the family budget to food, they are inadequately fed. A community leader in one squatter settlement stated simply, "The diet is based on starch." He continued to describe meals as follows:

Breakfast:	bread and tea.1/
Lunch:2/	rice, noodles, and/or potatoes; possibly a vegetable.
Dinner:	bread and tea.

There are indications that many have a poorer diet than this. Actual starvation is a reality among the poor.

A number of factors contribute to the poor diet in pueblos jovenes. Virtually all sources of protein, including beans and dairy products, are beyond the reach of the lowest income groups. Second, people in squatter settlements pay more for the same food than do people located in central or high-class neighborhoods. For example, a can of milk costs S/.2.00 more in pueblos jovenes than in Jesus Maria, a centrally located middle-income neighborhood. Other forms of abuses occur in pueblos jovenes. Many of the markets in pueblos jovenes are not supervised, so price controls are not maintained and vendors hoard products until prices rise, thereby creating artificial scarcities. Community residents report that some vendors refuse to sell a desired item unless the client also purchases several other items for the vendor's stock.3/ There is no quality control in the markets in pueblos jovenes, so vegetables are over-ripe or rotten and fish is spoiled by the time it gets to the market. Nonetheless, economic necessity compels people to buy spoiled food which would have been rejected in pueblos jovenes a few years ago.4/ The below-median-income population is unable to adopt a hoarding strategy to offset inflation or projected scarcities of foodstuffs.5/

In summary, the diet of the low-income population in urban areas is inadequate in quantity, quality and variety. Thomas reports that nutritional levels are lower in urban centers, particularly highly urban coastal areas, than in rural areas.6/ According to an AID study, fully one-half of the

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1/ A number of Peruvians mentioned, with chagrin, the new advertising slogan, "Te Toro--El Nuevo Desayuno Peruano" (Toro Tea--The New Peruvian Breakfast), and pointed out that the ad reflects the reality that people cannot afford to drink milk anymore.

2/ "Lunch" is the main meal of the day in Peru; it is the meal at which any protein customarily is consumed.

3/ Personal communication, residents of Huascar, Canto Grande, Lima.

4/ Personal communication, community promoter, Asociacion Cristiana de Jovenes.

5/ Recently potatoes have been scarce due to bad weather. Sugar also is reported to be scarce. In other words, there are shortages even of staples.

6/ Vinod, Thomas, op. cit., p. 31.

Peruvian population with caloric deficiencies live in Lima.1/ Last year, within the lowest socio-economic stratum in Lima, caloric intake was only 62% of daily requirements.2/ There is no projection that these grim realities will be alleviated in the near future, even if pueblos jovenes' residents could devote an even greater proportion of their incomes to food.

Traditionally, housing expenditures are the second-largest budget item for the below median-income population (after food). Housing accounts for about 20% of their monthly expenditures in Lima.3/ In the squatter settlements, housing expenditures are mostly for construction materials and contracted labor; in tugurios residents pay rent. The family budget for housing has had to be curtailed during the recession because larger percentages of income must go for food. Discussions with community leaders, development organizations working in pueblos jovenes, and personal observation confirmed that the amount of home improvement or house construction activity has fallen off sharply from the levels of recent years.4/ Community leaders in two pueblos jovenes reported that only those residents with a monthly income of S/.15,000 to S/.20,000 (the average income for residents) can currently afford to engage in home improvements or construction.5/

Among squatters, house construction and home improvements are financed primarily from savings. As a result, expenditures on shelter fluctuate even under normal circumstances. Expenditures on housing are one of the few areas of flexibility in the family budget; so expenditures have decreased during the current recession. With the rapid increase in the cost of building materials, even those who could continue to devote 20% of monthly income to shelter are being priced out of the new housing market. The ability to adjust expenditures on shelter has long been perceived as beneficial by the poor.6/ However, so long as they are unable

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1/ Agency for International Development/Lima, op. cit., p. 4.

2/ Ibid., p. 4-5.

3/ Oficina Nacional de Estadisticas y Censos, Indicadores Demograficos, Sociales, Economicos, y Geograficos del Peru, Vol. II (Lima, 1974), p. 187-93. Data based on 1971-72 survey. Housing Finance institutions currently allow up to 4-% of income to be used to qualify for housing loans.

4/ Fernando Llosa Seoane, "Low Efectos Sico-Sociales del Alto Indice de Inflacion en las Comunidades Marginales Urbanos de la Ciudad de Lima," (Lima, 1979), mimeo, p. 3.

5/ Flor de Amancaes, Rimac District, Lima, and El Agustino, El Augustino District, Lima.

6/ John C. Turner, "Barriers and Channels for Housing Development in Modernizing Countries," in Mangin, William, ed., Peasants in Cities: Readings in the Anthropology of Urbanization (Boston: Houghton Mifflin Company, 1970), p. 1-19; and Sebastian Brett, "Low-Income Urban Settlements in Latin America: The Turner Model," in Emanuel de Kadt and Gavin Williams, editors, Sociology and Development (London: Tavistock Publications, 1974), p. 171-96.

Squatters develop neighborhood facilities to supplement their incomes and respond to community needs. This store in the eight year old Collique Squatter Settlement is convenient to hillside residents who might purchase cooking staples and beverages.

to initiate construction of permanent housing, their standard of living deteriorates. (There is a good deal of evidence, however, that the poor are using savings for home improvements as an intelligent response for inflation.) Inhabitants of tugurios and renters in pueblos jovenes who are required to pay fixed amounts for rent cannot decrease their expenditures for shelter, although rent controls do restrict the amount of rent increases. Preliminary findings from the Mutual Metropolitana Survey provide a tentative reading on the amount the poor can afford to spend on housing. These findings are presented in Table 13. Two-thirds of them either cannot afford to make home improvements or can afford to spend less than US $5-10 equivalent per month on home improvements.

TABLE 13

Monthly Amount Residents of Pueblos Jovenes and Urbanizaciones Populares Could Pay to Amortize a Home Improvement Loan (Greater Lima)

Ability to Pay (S/.)	No. of Respondents	Percentage
unable to pay anything	113	34.1
1,000-2,000	104	31.4
2,000-4,000	44	13.2
4,000-5,000	28	8.4
Over 5,000	42	12.6
TOTAL	331	99.7%

Source: Preliminary findings, Mutual Metropolitana Survey, November-December 1978.

Transportation is another major item in the family budget. Table 14 presents an overview of transportation costs in Metropolitan Lima. It is clear that transportation costs are a significant charge on the family budget for the target group.1/ A survey in Flor de Amancaes found that

1/ Recent man-on-the-street interviews conducted by the newsmagazine Oiga are revealing. Responses included: "I don't have money for transportation." "In the afternoon I go to Lima to wash clothes. I get paid S/.300 per week, and spend over half my wages in transportation." "Since I go out to look for work, I spend about S/.120 daily on transportation and lunch, and to avoid spending more on transport, I walk wherever I can." "When I get short-term jobs, I earn about S/.2000 per week which I use for transportation and to seek work. A lot is spent on transportation." Hugo Garavito and Pablo Pinedo, "¿Que Solucion y Cual La Opinion del Submundo de la Desocupacion?" Oiga, January 29, 1979, p. 10-11.

52% of the population can cover their transportation expenses, 24% cannot, and 24% "more or less" can meet their needs for transportation.1/

TABLE 14

Monthly Transportation Costs in Lima

Work Days per Month	Round-Trip Without Transfer	Round-Trip With Transfer	Ten Trips per Month for Rest of Family	Transportation Expense			
				S/.5400 Income		S/.10,000 Income	
	I	II		I	II	I	II
22	S/.440	S/.880	S/.100.	10.0%	18.1%	5.4%	9.8%
24	.480	.960	.100.	10.7	19.6	5.8	10.6
26	.520	1,040	.100.	11.5	21.1	6.2	11.4

Source: Reelitz Boback, Udo, El Problema Habitacional Urbano del Peru: Contribucion a una Racional Asignacion de Recursos para una Aproximacion a la Solucion del Problema de la Vivienda (Lima: Universidad del Pacifico, 1978), p. 1973.

Residents of pueblos jovenes also often have transportation costs to send their children to school since schools, especially secondary schools, are not located in all settlements. The cost of school transportation for four children could equal the car fares paid by the wage earner even though students pay reduced fares on public transport.

Another main budget item for the poor is basic services, primarily water and lighting. The sale of water to the low-income population of coastal cities has attracted speculators and the rate structure has been exploitative. The poor pay more. The cost of trucked water is 12 to 16 times higher than piped water. In Metropolitan Lima, water from water trucks costs S/.60-80 per cubic meter; from pipes, S/.4.90.2/

Total expenditures on water are substantial. The price of one cylinder (55 gallons) of trucked water averages about S/.30 in Lima. The average family consumes 1-2 cylinders of water per day, spending a total of S/.900-1,800 per month, 13-26% of a minimum wage.

The cost of lighting also varies greatly depending on the source, as shown in Table 15. As in the case of water, low-income families who do not have the service supplied by the infrastructure agency must pay higher prices for inferior services. The cost of lighting is nearly 10 times greater. Residents identify two other disadvantages of the

1/ Asociacion Cristiana de Jovenes, "Informe General...Flor de Amancaes," op. cit., p. 20.

2/ Udo Reelitz Boback, El Probelma Habitacional Urbano del Peru: Contribucion a una Racional Asignacion de Recursos para una Aproximacion a la Solucion del Problema de la Vivienda (Lima: Universidad del Pacifico, 1978), p. 171. Based on prices in March 1978.

The most common water service to Lima's squatter settlements is by water trucks. Residents pay 12 to 16 times more for less sanitary water than do piped water customers. The trucks make home deliveries into steel drums and brick tanks.

lack of electricity: it inhibits the formation of energy-dependent cottage industries and the lack of lighting reduces neighborhood security.1/ It is estimated that installation of standard services--piped water and street and household lighting--could represent a saving of at least S/.500. to S/.700. per month to a pueblo joven family in greater Lima.2/

TABLE 15

Cost of 10 Hours of Light, Greater Lima

Source	Cost	Quality of Light
Candle	S/.44.50	Inadequate
Kerosene lamp	7.30	Inadequate
Coleman type lantern	13.60	Adequate
Electric Bulb	5.40	Very good
Neon tube	4.80	Good

Source: Reelitz Boback, Udo, El Problema Habitacional Urbano del Peru: Contribucion a una Racional Asignacion de Recursos para una Aproximacion a la Solucion del Problema de la Vivienda (Lima: Universidad del Pacifico, 1978), p. 170. Based on prices in March 1978.

In the absence of water-borne sewage systems, the poor do not use an alternative service except in rare cases when a family builds a latrine at low cost. Education, health care, and clothing comprise the other major budget items of the target population. All of these items are being restricted more than normally at this time because of the recession. Educational expenses include school uniforms, supplies, matriculation fees, and, in many cases, transportation. With four children, the cumulative total of educational expenses can be a significant budget item. Community workers in pueblos jovenes of Lima report a growing inability to pay educational expenses.3/ A survey of residents of Flor de Amancaes found that 43% of residents can meet educational expenses, 24% cannot, and 22% "more or less" cover these expenses.4/

1/ Interviews with residents of Canto Grande and Flor de Amancaes.

2/ Udo Reelitz Boback, El Problema Habitacional Urbano del Peru, op. cit., p. 171. Based on prices in March 1978.

3/ Fernando Llosa S., "Los Efectos Sico-Sociales de Inflacion," op. cit., p. 2.

4/ Asociacion Cristiana de Jovenes, "Informe General...Flor de Amancaes," p. 20.

Expenditures for health care are beyond the means of the majority of the target population. They seek treatment in state-run hospitals or health centers, where medical attention is free. A private doctor running a clinic in a Lima settlement reported that the use of private medical services is declining although the incidence of illnesses, such as TB, typhoid, and malnutrition, is increasing.1/ The charge for a consultation with a private doctor is S/.230. Moreover, the cost of drugs has risen sharply in the last year; even if a family does obtain diagnostic services, it may not be able to afford treatment. Nationwide, only 1 million workers are covered by the social security system, which theoretically offers good health coverage.2/ Among the urban poor, the number of workers with stable employment and social security benefits is quite limited.

Various sources report that fewer and fewer families are able to cover their clothing needs. The Oiga man-in-the-street interviews with residents of Lima squatter settlements elicited such comments as: "Don't mention clothing. Luckily my sisters work as seamstresses and are godmothers of my children, and give them clothes." "The only clothing we can buy is used."3/ The Flor de Amancaes survey reports that 20% of the residents cannot cover their needs for clothing.4/

Among the low income population, recreational activities have always been simple and relatively inexpensive--movies, parties, short outings. Expenditures on recreation are foregone in the current crisis.

Residents of pueblo jovenes have customarily saved money. Personal savings have been used primarily for housing and community savings have been used for community improvements such as installation of water, sewerage, light, and schools. The following preliminary findings from the Mutual Metropolitana survey shed light on the pattern of savings among residents of pueblos jovenes in Lima.5/ 138 of 331 residents (42%) interviewed do manage to save something. Over half (58%) were saving for a home. The source of finance for building a home and for home improvements (table 16) was overwhelmingly savings--85% for building and 83% for home improvements. Credit cooperative accounted for most other home financing (6.2%). Savings were kept mostly in credit cooperatives (31% of total

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1/ Interview, Canto Grande.

2/ Alfonso Reyes, "El Cuadro Clinico del Peru en Visperas Electorales," Oiga, January 29, 1979, p. 12.

3/ Garavito and Pineda, "Submundo de la Desocupacion," Oiga, January 29, 1979, op. cit., p. 10-12.

4/ Mutual Metropolitana survey, preliminary findings, November-December 1978.

savers), banks (28%), and S&Ls (25%). Finally, the survey disclosed that the absolute amount of accumulated disposable savings is quite modest: 45% of the respondents had less than S/.500 available, 72% had less than S/.1,000, and only 15% had more than S/.2,000 on hand.1/

TABLE 16

Source of Finance for Home Building and Improvements
Metropolitan Lima

Source	Number		Percent	
	Building	Improvements	Building	Improvements
Savings	247	48	85.2	82.8
Credit Cooperatives	18	6	6.2	10.3
S&L	4	3	1.4	5.2
Bank	6	1	2.1	1.2
Other	15	-	5.2	-
TOTAL	290	58	100.0	100.0

Source: Preliminary findings, Mutual Metropolitana survey, November-December 1978.

In summary, the pattern of expenditure reveals an inability to meet the most basic human needs: food, decent shelter, clothing, health and educational services. Inadequate diet reduces resistance to disease; unsanitary water supply and poor environmental health conditions such as the lack of solid waste disposal systems increase the vulnerability of the target population to illness. Lack of access to preventive and curative health services compounds the problem. Community organizers familiar with Lima's pueblos jovenes report that the economic crisis is contributing to increasing family disintegration. More and more children are being abandoned. As more women seek work as primary or secondary wage-earners, children are left unattended and locked indoors. Economic pressures are also fragmenting communities. Apathy, indifference, and lack of motivation are widespread among both residents and leaders

1/ These figures suggest that repondents may understand that it makes little sense to hold financial assets at this time. Inflation dictates that savings should be converted into physical assets or consumption goods as quickly as possible. Accordingly, quite different rates of savings are consistent with the Survey findings.

of community organizations. Increasing aggressiveness in interpersonal relations is evidenced by the rising incidence of theft, assault, juvenile delinquency, and "gratuitous violence." Prostitution, alcoholism, and begging are increasing.1/ There is scant hope that the dispiriting picture is going to improve under present programs. Housing and social programs demand greater attention.

Employment Opportunities and Prospects

The urban poor are employed predominantly in low-paying and low-status jobs which require a minimum of skills. A 1978 study of the Instituto Nacional de Estadistica found that one-third of the Lima labor force is concentrated in two occupational groups--sellers, (mainly street vendors) and service workers (mainly doemstic workers).2/ Table 17 gives a different classification of the occupations most often found among pueblos jovenes residents. A survey by the National Office of Statistics and Census found that 80% of the work force in pueblos jovenes is male; of these, 50% are blue collar workers, 25% are self-employed in the informal sector, 15% are service workers (clerks, drivers, concierges), and 10% are small shopkeepers or work in other activities.3/

The occupations of men and women show marked differences. Webb has found that 60% of the urban labor force is in traditional types of employment.4/ In a study of Lima and 7 other cities, he found that women comprise 40% of the urban traditional sector (excluding domestic service) but hold only 18% of the urban modern sector jobs.4/ Women are a slight majority among vendors and are an overwhelming majority among service workers. Domestic servants account for 47% of service workers; 90% of all house servants are female.6/

An important aspect ot the types of employment characteristic of the poor is its relative instability. (See Table 18.) Studies show that about half of those employed have stable work while the other half do not.

1/ Fernando Llosa S., "Los Efectos Sico-Sociales...de Inflacion," op. cit., p. 2-5.

2/ Cited in Elsa Chaney, "Agripina," op. cit., p. 7.

3/ Oficina Nacional de Estadistica y Censos, Censo de Publacion y Vivienda de Pueblos Jovenes 1970. Cited in Chavez, Roberto, "The Pueblos Jovenes."

4/ The "urban traditional sector" was defined statistically to include all people working in establishments with five employees or less. It includes domestic servants; it excludes government employees and all professions which require university training. Richard Webb, "Income and Employment in the Urban, Modern and Traditional Sectors of Peru," (Washington, D.C.: World Bank, 1974), mimeo, p. 29.

5/ Ibid.

6/ Webb, "Income and Employment," op. cit.

TABLE 17

Occupations of Residents of Lima's Pueblos Jovenes

Occupation	Mutual Metropolitana Survey[a]: Percent of Employed	Flor de Amancaes[b] Percent of Employed	San Juan de Lurigancho[c]: Percent of Employed
Office Worker	10.4	7.8	44.9%
Technician	2.2	15.5	
Laborer	62.0	25.6	27.9
Mechanic	1.0		
Artisan[1]	0.6	13.3	
Vendor[2]	12.8	6.7	4
Industrial Worker	2.1		
Driver	3.6		
Mason	2.8		
Carpenter	2.1		
Independent Worker[3]			29.2
Domestic Service		2.2	

1/ This category includes cottage industry types of activities such as shoe repair and tailor.

2/ Vendor includes those who run small shops in their own homes as well as street sellers (ambulantes).

3/ Independent worker includes those who do not have a formal job or are self-employed.

Source: a/ Based on preliminary findings of survey of 11 pueblos jovenes and urbanizaciones populares in metropolitan Lima conducted by Mutual Metropolitana, November-December 1978.

b/ Asociacion Cristiana de Jovenes, "Informe General de la Investigacion Participatoria en el Pueblo Joven 'Flor de Amancaes, Rimac," (Lima, 1979), mimeo, p. 11.

c/ Jesus Alfredo Torres H., "Informe Memoria Sobre las Actividades Realizadas en el Centro de Salud Chacarrilla de Otero del Distrito de San Juan de Lurigancho," (Lima: San Marcos University, 1976).

TABLE 18

Stability of Employment Among Residents of Pueblos Jovenes in Lima

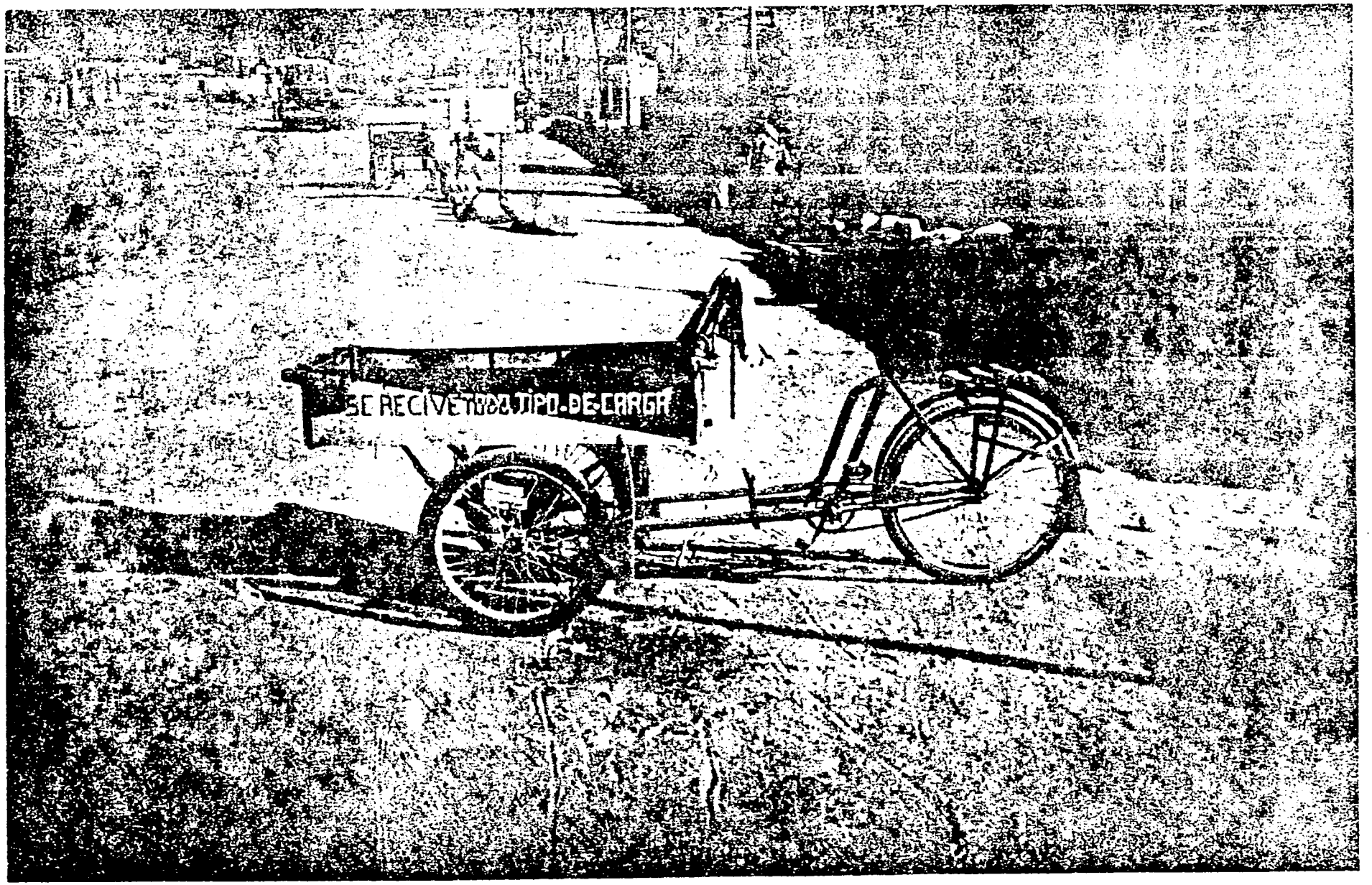
	Mutual Metropolitana Survey[a] % of Employed Respondents	Flor de Amancaes Survey[b] % of Employed Respondents
Stable Work	48.6	47.9
Occasional Work	51.4	25.5
"free workers"[c]		15.5
Stable Workers Per Family	Number of Workers	Percent
1	157	42.1
2	13	3.5
3	2	0.5
Occasional Workers Per Family		
1	171	45.8
2	26	7.0
3	4	1.1
TOTAL	373	100.0

(a) Based on preliminary findings of survey of 11 pueblos jovenes and urbanizaciones populares in metropolitan Lima conducted by Mutual Metropolitana, November-December 1978.

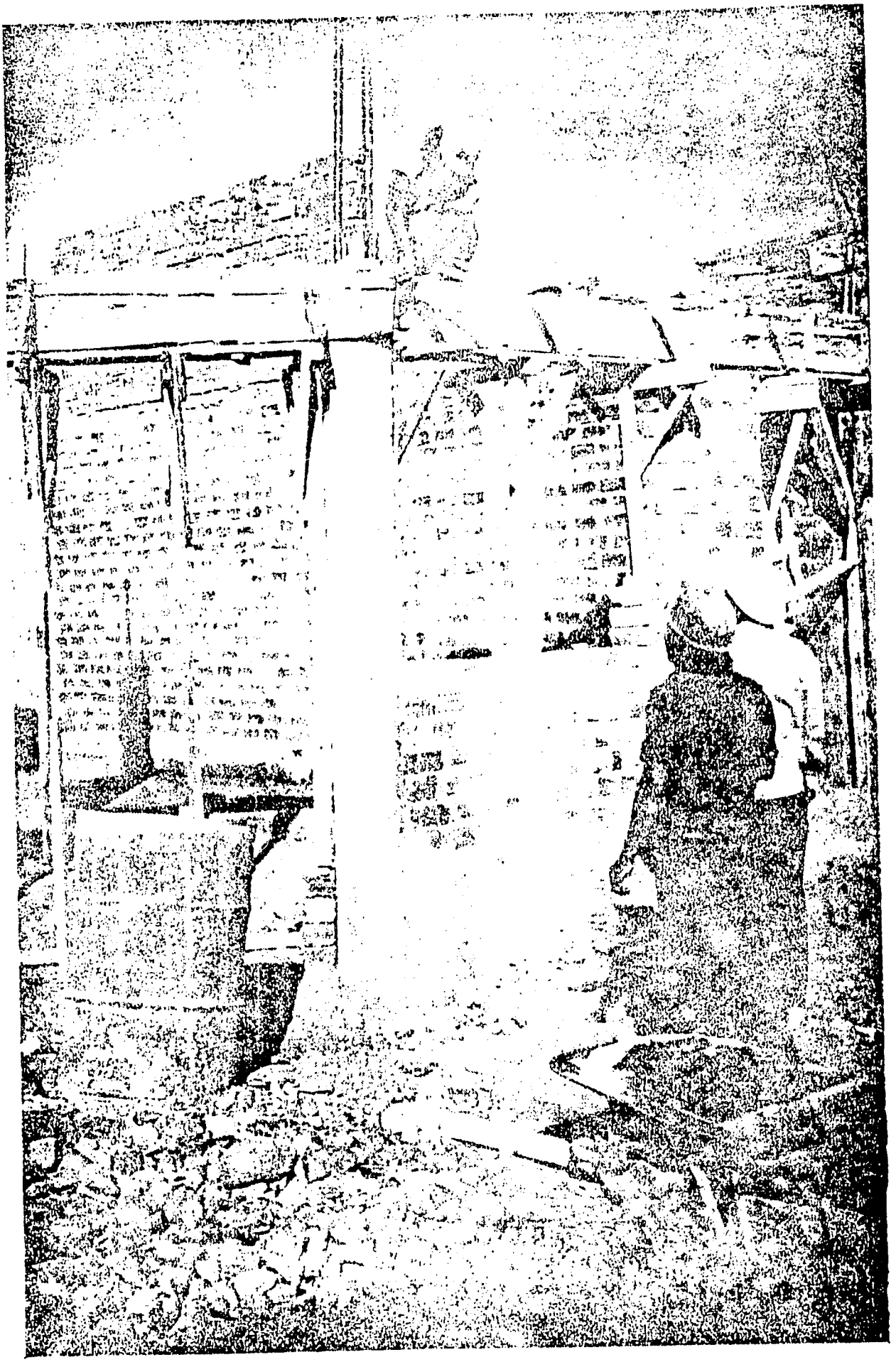
(b) Asociacion Cristiana de Jovenes, "Informe General Flor de Amancaes," op. cit., p. 17.

(c) This category includes vendors, service workers (gardeners, etc.), and underemployed.

Source: Same as (a) and (b) in preceding table.



This tricycle rigged for light loads, symbolizes the wide spread underemployment found in squatter settlements. Its owner collects materials and objects for recycling and resale such as bottles, paper and boxes.



A squatter family is building a house that includes a corner store. The dwelling will accommodate the mixed use of commercial and residential roles for its housing investment.

Job mobility for members of the low-income group is constrained by the lack of technical skills and education. Discrimination further restricts job mobility for women. The more stable and higher-wage modern sector jobs are reserved for men.1/ The 1956 Social Security law made generous provisions for maternity leave and benefits and other protective measures. The perverse effect of the law has been to persuade employers to discriminate against women in hiring.2/ One study identifies a high correlation between ethnic group and economic status of the residents of Herta Perdida, a tugurio of central Lima. Mestizos have the best economic situation, serranos are in second place, and Blacks occupy the lowest economic status.3/ This type of correlation between ethnic origin and economic status further restricts job mobility.

D. Social and Cultural Characterisitcs of the Urban Poor

Social and cultural characteristics of the poor vary according to physical setting (tugurio vs. pueblo joven), place of origin (sierra vs. coast), migration status (city native vs. migrant), and ethnic group (mestizo vs. serrano). Tugurios show the classic symptoms of a rental poverty subculture typically found in crowded and impoverished inner-city slums. More is known about the pueblos jovenes. A high percentage of the population consists of migrants from rural areas, especially from the sierra. Their skills, employments, and income levels place them solidly in the lower class. They are predominantly mestizo or Indian. These serranos bring with them a number of cultural values which have been significant in shaping the pueblos jovenes. The custom of mutual help and community work which persists in sierra communities has been successsfully applied to all aspects of community development in the pueblos jovenes from the initial planning of land invasions through self-help projects in school construction, installation of water, sewerage, and electricity.4/ Migrants arrive in the city with a fierce determination to create a better life for themselves and their children. This determination explains their tenacity and persistence in establishing communities which meet their expectations in terms of adequate shelter and open space and in obtaining needed services. The migrants have an upwardly mobile attitude. They strive to educate their children to a level which qualifies them for white collar or professional jobs.

City dwelling tends to reduce the family unit to the nuclear family, although extended family members may live close to each other and maintain close ties. The serrano also maintains ties with his home community and makes every effort to return home for special occasions. Migrants form associations based on their place of origin, and these regional clubs

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1/ Webb, "Income and Employment," op. cit.

2/ "The Urban Edge," Vol. 2, No. 4 (Washington, D.C.: Council for International Urban Liaison, 1978), April 1978, p. 1.

3/ Luis Millones, Tugurio: La Cultura de los Marginados. (Lima: Instituto Nacional de Cultura, 1978) p. 63.

4/ John C. Turner, "Barriers and Channels for Housing Development," op. cit., pp. 1-19.

function as a vehicle for integrating the migrant into city life. There are instances of neighborhoods within pueblos jovenes in which all the residents are from the same rural province or district.1/

The migrant undergoes a constant process of acculturation to the city. Many pueblos jovenes residents have lived first in tugurios and are partially or largely acculturated before they move to a pueblo joven. Most pueblos jovenes in Peru have been formed in the past 15 years. In Lima, however, there are a number of pueblos jovenes which were formed 20 to 30 years ago. There is now a generation of youths who were born and raised in pueblos jovenes. Second-generation migrants in pueblos jovenes are similar to the second-generation of migrants in the U.S. in that the children of migrants strive to acculturate to the city as fully as possible, reject the Indian language of their parents, and probably lose many of the community traditions and values of the serranos.

Residents of squatter settlements themselves differentiate between the city-born and migrant serranos. They characterize serranos as working together for advancement of the group. The serrano is felt to be more responsible, has a habit of saving money, and is less frivolous in general. The city-born type is "criollo," is considered to be more irresponsible, spends a lot of money on recreation and alcohol, and is attracted by the bright lights of the city. The criollo lacks a collective spirit, tends to not participate in community affairs, and seeks personal advancement. In general, the criollo is individualistic while the migrant is community-minded. As serranos live longer in the city, the trend is for their behavior to become increasingly individualistic.

The layout of self-planned, self-built housing in squatter settlements reveals a number of cultural values. Normally, use of the lot space by the resident shows a clear division between the front and back areas. The front area is reserved for formal, public spaces, the sitting or receiving room (sala) and the dining room (comedor). The back area of the lot is utilized for private and informal areas which include the bedrooms, kitchen, and backyard (corral). The front rooms are reserved for guests and are usually not used by the family alone. These rooms constitute the "presentation" area and are utilized to display the material status of the family. They are, therefore, the rooms which the family seeks to finish and furnish first. If the family is unable to afford a separate comedor, then the sala doubles as a comedor. These presentation areas are important to the upwardly mobile squatter, for they permit him to entertain and to convey a "proper" image of himself. Since many squatters operate cottage industries from their homes, the presentation area

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1/ Paul Doughty, "Behind the Back of the City: 'Provincial' Life in Lima, Peru," in Mangin, William, ed., Peasants in Cities: Readings in the Anthropology of Urbanization (Boston: Houghton Mifflin Company, 1970) p. 30-46.

is also used as a space for hosting business clients. The back rooms of the house are generally the last to be finished. They are concealed from the front area by curtains, baffles, walls, or doors. The kitchen is frequently a thatch outbuilding with a dirt floor. The furnishings are simple, and the kitchen is usually poorly equipped. As house construction proceeds over time, the kitchen will become attached to the house. The degree of acculturation and "modernization" of the family is reflected in the development of the kitchen. The most fully acculturated families are more likely to have attached kitchens with work areas raised off the floor and running water in the kitchen. Bedrooms are frequently finished before the kitchen, but even when finished the rooms remain simple and the furnishing utilitarian. The corral occupies the remainder of the back area of the lot. It is used in various ways. The family may use it for storage space, for hanging out the laundry, for running a small business, or for raising small domestic animals.1/ In coastal cities, the backyard is generally not used for garden plots because of the scarcity of water.

This formalized pattern of land use and space management reflects the aspirations of the squatters to improve their life-style and to make their improving condition known to their neighbors and visitors. Upward mobility is tangibly demonstrated through, first, the degree of elaboration of the formal spaces and, subsequently, of the informal or family spaces of the house.

The most widespread type of organization found in pueblos jovenes is the community organization (organizacion vecinal). After creation of the National Office for Development of Pueblos Jovenes (ONDEPJOV), the Velasco government promoted a standardized form of community organization for pueblos jovenes in over 20 cities of Peru. Subsequently, through SINAMOS,2/ the government passed a law requiring that all pueblos jovenes establish an organizacion vecinal in accord with the standard form. The basic structure of the organizacion vecinal is as follows:

1/ The above description is drawn from "House Space and Ladder Climbing: Architecture, Impression Management, and Social Mobility in a Peruvian Barriada," by Sandord Low (Paper presented at the American Anthropological Association meetin, 1975) and field work I did with the author in 1972 in Trujillo, Peru.

2/ Sistema Nacional de Mobilizacion Social. This office was established in 1971 as a coordinating body for community promotion activities of the government, and incorporated offices responsible for the Agrarian Reform, cooperatives, and urban and rural community development. SINAMOS was dismantled in 1978.

a. Families living in the same block or contiguous blocks form a Comite Vecinal and elect Secretaries of Coordination, Economy, and Organization.
b. The Secretaries of Coordination from all the Comites Vecinales form a Committee for Promotion and Development of the Pueblo Joven, and represent their respective blocks on this Committee. The Committee elects a Board of Directors composed of a Secretary General, Sub-Secretary General, and Secretaries of Economy, Organization, Culture, and Public Relations.
c. The Secretary General of the Committee for Promotion and Development of the Pueblo Joven represents the community of the government's Coordinating Committee of the local office of pueblos jovenes.1/

Community organizations of this type have been set up in all pueblos jovenes and, during the time of ONDEPJOV and SINAMOS, they had direct linkages with government institutions. The government offered collaboration in the form of heavy machinery, technical assistance, and legalization of land title by working with the community organizations.2/ At the present time, with the dismantlement of SINAMOS, responsibility for government liaison with community organizations in pueblos jovenes has passed to the Ministry of Housing. Government resources for maintaining collaboration with community organizations are scant, and it is to be expected that ties between official channels and residents will weaken. Nonetheless, community organizations do continue to function throughout pueblos jovenes and take responsibility for community improvements.

A variety of private agencies are active in pueblos jovenes and offer a range of services. The majority of private institutions are religious. The Catholic Church has a number of institutions which carry out different types of programs. CARITAS? the Catholic charity organization, administers food-for-work programs and offers social services. Catholic missionaries from the United States and Europe are very active in pueblos jovenes. The services offered by missionaries include schools, health clinics, informal job-skill training, preventive health care, and a wide range of community organization and promotional activities. Protestant agencies, such as Church World Service and Seventh Day Adventists (OFASA), administer food-for-work programs and also promote the establishment and operation of community service.

1/ Directiva No. 01-70-OND, "Organizacion para los Pueblos Jovenes," May 28, 1970.

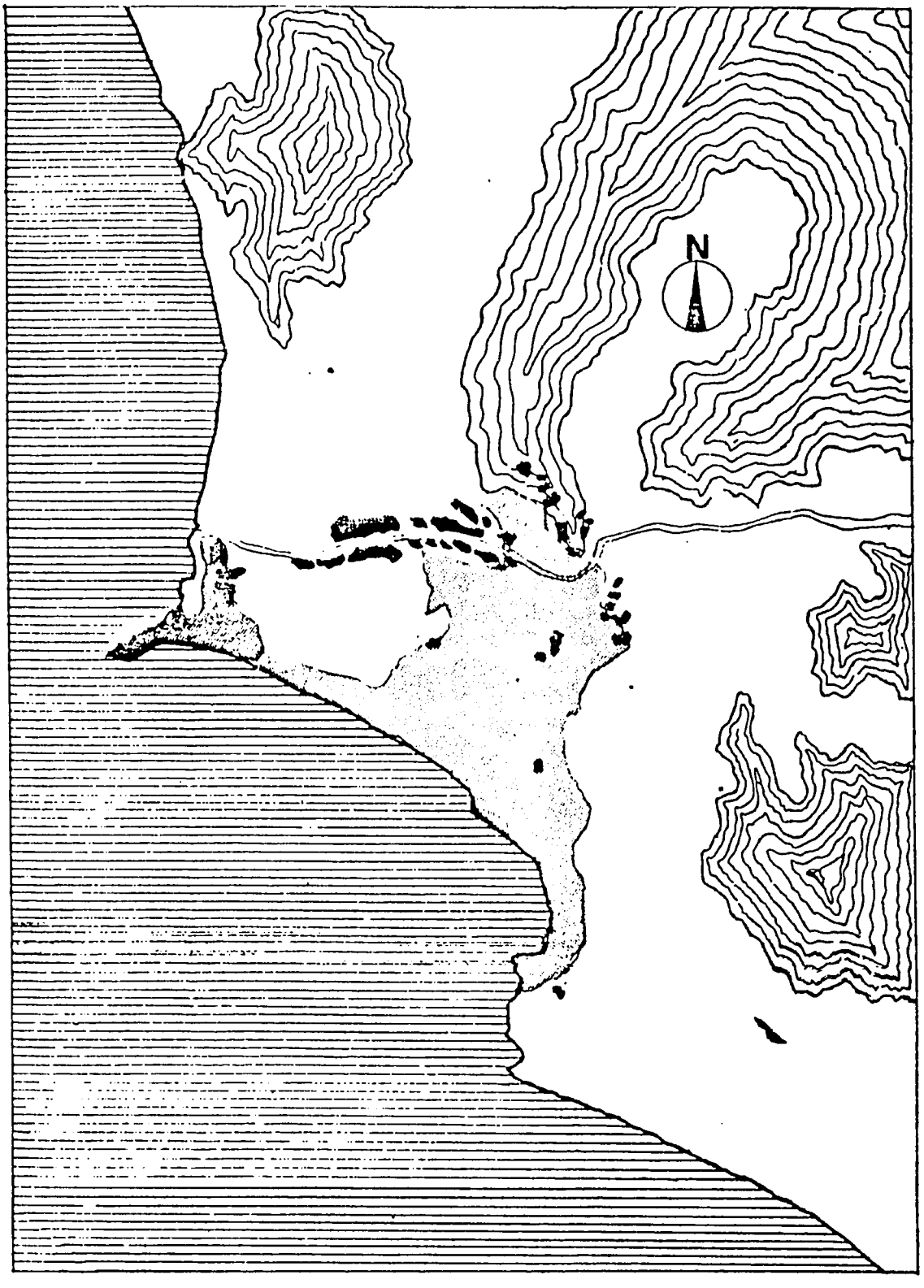
2/ Among scholars of the pueblos jovenes, there is a school of thought which asserts that the intention of promoting community organizations was to co-opt the residents of pueblos jovenes, as opposed to creating cooperation between government and residents to capitalize on self-help and facilitate community development at minimal costs. See: Collier, David, "Squatter Settlements and Policy Innovation in Peru," in Lowenthal, Abraham F., ed., The Peruvian Experiment: Continuity and Change under Military Rule (Princeton: Princeton University Press, 1975), and Michl, Sara, "Urban Squatter Organization as a National Government Tool: The Case of Lima, Peru," in Rabinovitz, Francine f., and Felicity M. Trueblood, eds., Latin American Urban Research, Vol. 3 (Beverly Hills: Sage Publications, 1973).

There also are several indigenous private voluntary organizations which are active in pueblos jovenes. Accion Comunitaria del Peru has been active in promoting community organization in pueblos jovenes, primarily in the Southern Cone of Metropolitan Lima.1/ In recent years, Accion has focused much of its efforts on promoting self-help housing construction in urban and rural areas outside Lima, and now has considerable experience in this field. Accion intends to continue working in pueblos jovenes. The Asociacion Cristiana de Jovenes (ACF)2/ has a program devoted to community organization and development in the pueblos jovenes of the La Victoria and Rimac districts of Lima. ACJ has conducted surveys with community residents in order to formulate plans of action which reflect community needs. ACJ is currently working to develop income-generating and community development activities with pueblos jovenes residents.

Equipo para el Desarrollo Humano is a private voluntary organization which works in pueblos jovenes of the San Juan de Miraflores and Chorrillos districts in the southern part of Lima. The Equipo provides pre-school education at 20 centers serving 700 children. The centers are built by community residents: the Equipo trains women from the pueblos jovenes to teach at the centers. The Equipo also provides health services to residents of the southern area of Lima. The Equipo promotes a variety of activities designed to strengthen community organization and community improvement undertakings. Fe y Alegria is a voluntary agency operated by Jesuit missionaries which operates in eight Latin American countries, and was founded in Peru in 1966. The purpose of Fe y Alegria is to provide education to the most underprivileged sectors of the population. Fe y Alegria works with community groups which contribute to the construction, maintenance, and operation of the schools. In Peru, Fe y Alegria schools are located in pueblos jovenes in Lima and six other cities. There are 24 such schools serving 21,000 students. The Ministry of Education has staffed these schools with a total of 466 teachers. Fe y Alegria has recently initiated a vocational training program to train 10,500 residents of pueblos jovenes in manual skills to increase their employability and earning power.

1/ This institution was founded by the U.S.-based institution, ACCION International. Accion Comunitaria del Peru has been a wholly Peruvian agency for some time now.

2/ This is the Peruvian YMCA which is independent but is affiliated with the international YMCA.



BARRIADAS DE LA GRAN LIMA

1957

Pueblos Jovenes — BARRIADAS

Contiguous Urban Zone 1957 — CASCO URBANO 1957

Natural Barriers — LIMITE NATURAL

0 1 2 3km

scale esc.: 1/ 150,000

BARRIADAS DE LA GRAN LIMA

1977

Pueblos Jovenes
Contiguous Urban Zone 1975

Natural Barriers

BARRIADAS

CASCO URBANO 1975

LIMITE NATURAL

scale

0 1 2 3km

esc.: 1/150,000

CASE STUDIES OF THREE PUEBLOS JOVENES IN LIMA

The variation between pueblos jovenes is most readily apparent in terms of location of settlement and stage of physical development. The stage of physical development correlates closely with the age of the settlement. The older, more developed settlements reflect the type of community which younger settlements aspire to become through a gradual, progressive process of self-help development. The following case studies of pueblos jovenes and describes some of the problems faced by their inhabitants.

Flor de Amancaes, Rimac District[1/]

Flor de Amancaes is a small settlement of 330 families (2,200 inhabitants) which is four years old. It is located on a gently sloping narrow plain between two hillsides behind and above the historic colonial Rimac district of Lima. The settlement was formed when SINAMOS (Sistema Nacional de Movilizacion Social) relocated families from the central Rimac area because the new beltway around Lima was to cut through their neighborhood. Flor de Amancaes was situated on top of a former trash heap. Prior to relocation of the inhabitants, SINAMOS laid out the community, marking roads and house plots ($105m^2$), and allocating space for the future construction of community facilities such as schools. Space for a health clinic was not provided. When the residents were relocated to Flor de Amancaes, the trash had not been cleared from the site, so many of them had to devote considerable time and energy to clearing their plots of 50 centimeters of trash.

The streets were not sufficiently graded, so the water trucks would not drive up the hillside to Flor de Amancaes to deliver water. The residents arranged for SINAMOS to make street grading equipment available, and the residents paid S/.60,000 (about US$450 equivalent in 1977) for street grading which made it possible for water trucks to serve the community. At times, however, the water trucks simply do not come to Flor de Amancaes. When this happens, the residents walk 3 kilometers to central Rimac and request water form restaurants which they carry back to their homes. Due to crowding within the community, some residents are moving up to the hillsides to build their own house. These people are making terraces on the hillside using rocks and soil to create a flat space for building a home.

Flor de Amancaes is virtually without services. The community is not served by public transportation. The closest transport route stops

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1/ This description is based on "Informe General...Flor de Amancaes", op.cit., Jan. 1979, and two interviews with a community leader conducted by a member of the team.

2 kilometers away. Although the community organization has approached microbus lines and the Ministry of Transportation, offering to pay higher rates in order to have transport service, it still is not served. The microbus companies are unwilling to pay the cost of gasoline (which has doubled in the last year) and the wear and tear on vehicles which will be needed in order to extend their lines to the settlement. There are no educational facilities of any kind in Flor de Amancaes. There are no primary or secondary schools, no child care centers, no adult education facilities, no health center. The community does not have water, sewerage, or electricity. There is no market. The community is not served by trash collection. The closest playing field is 2 kilometers away.

Despite the bleak physical setting, Flor de Amancaes has an active community organization. With the collaboration of the Asociacion Cristiana de Jovenes, the community has conducted a survey of its inhabitants and has formulated a plan of action for community development. This plan includes the following activities: promote community savings; consolidate the community organization system; prepare plans, get necessary approvals, and begin construction of a community center, health center, community marketplace, and school; resolve the transportation problem; reduce unemployment and underemployment through establishing community businesses (a community food store, a crafts center, and a building materials production center); plan and execute installation of water, sewerage, and electricity; obtain title to the plots.1/ Each of these projects is to be planned, executed, and financed by the community residents who will obtain the necessary approvals from the various ministries responsible for such services.

Huascar, Canto Grande, San Juan de Lurigancho District

Huascar was formed three years ago, and is also a relocation carried out by the Ministry of Housing. Originally the settlers of Huascar, Canto Grande, invade land located near Puente Huascar in the Rimac district between the new beltway and the Rimac River. The invasion occurred on January 20, 1976, and expanded rapidly. The first day 904 families arrived; the second day 805 families arrived. By January 29, only 10 days after the invasion, over 4,000 families had invaded the site near Puente Huascar.2/ Community residents report the initial population of the Huascar settlement in Canto Grande was 8,000. Today, three years later, the population is estimated at 42,000.

In Huascar and in the larger adjacent settlement of Canto Grande, a great deal of physical development has occurred in just three years.3/ The community was laid out by the Ministry of Housing prior to settlement.

1/ "Plan Operativo de Flor de Amancaes, 1978-79," Community residents of Flor de Amancaes in collaboration with Asociacion Cristiana de Jovenes, Lima, October, 1978, pp.1-16.

2/ Ministerio de Vivienda, "Desarrollo Integral del Area de Canto Grande," mimeo, Lima, 1976.

3/ The information for the subsequent discussion is based on two site visits and conversations with 20 residents of Huascar.

Next to the pharmacy on the main road in Canto Grande, the owner of the pharmacy's brother has set up a private clinic. An appointment with the doctor costs S/.230 (US 1.01) per visit. Since the economic crisis, visits have declined but health needs have increased.

Consequently the lots are of a standard size, a regularized network of roads was laid out and graded, and land was allocated for community uses such as markets, schools, bus parking lots, and parks. This process, known as remodeling (remodelacion) in already established pueblos jovenes, was completed prior to settlement. Many houses have been constructed at least partially of permanent materials. However, as elsewhere, house construction has slowed, and very few houses are now undergoing improvement.

The settlers in Huascar lack piped water, sewerage, and electricity. Among residents, there is a strong consensus that all three services are urgently needed. However, there are different opinions as to which single service occupies top priority. Some residents argue that water and sewerage are the priority need because, in their absence, sanitation conditions are poor and trucked water causes many illnesses among the population. Other residents argue that electricity is the priority need because street lighting enhances the sense of neighborhood security and would inhibit the rising incidence of crime in Huascar. Electricity also permits residents to engage in energy-dependent cottage industries.

Since Huascar needs no "remodelacion," the community meets the requirements for the installation of permanent infrastructure services. Community residents indicated, however, that they are unable to get infrastructure projects started. There are conflicting factions within the community. Community organization is not adequately consolidated. Further, at the time of relocation, the Ministry led residents to believe that infrastructure services would be provided by the Ministry. Comments of residents demonstrated that they do not know how to go about planning such community works on their own. The residents also are unable to participate sufficiently in a community savings program to be able to contract technical services to prepare plans for infrastructure and to put up the necessary front-end financing for negotiating a loan to buy the materials required for execution of infrastructure projects.

Huascar is served by public transport, and the roads and bus service are quite adequate relative to other pueblos jovenes. There is a rudimentary community market, constructed of straw mats (esteras) with dirt floors, in Huascar itself. Women residents complained that price controls are not enforced in the market and expressed their desire for a local EPSA store (government-run, price-controlled commodity stores).[1/] There are private medical clinics nearby in Canto Grande but the fees are beyond the means of most residents. A secondary school, operated by a Peruvian private organization (and built by residents), is about 3 kilometers away at the entrance to Canto Grande.

1/ There is an EPSA store about 2 kilometers away in Canto Grande. Its stock was scanty, and the produce was of poor quality.

Residents of Huascar and the adjacent Canto Grande area are participating actively in food-for-work programs. Several such projects were underway in January, 1979. Most of these projects consist of land-clearing to create community parks or open spaces for recreational or beautification purposes. In Huascar, the residents were clearing a site for a small community park. The Seventh Day Adventists (OFASA), the administering agency for the project, will provide plant and tree seedlings for completion of the park, and the community will then have to provide water for keeping the plants alive. Most of the participants in the project were women. This is probably due to the fact that more women than men are in the community during the day, and possibly also because women are responsible for food purchasing and preparation. The participants in the project made it clear that they are working because they need the food. Community women discussed with vehemence the constant increases in prices of food and the poor quality of food which is sold in Huascar. Under the provisions of the food-for-work program, residents of Huascar will only be eligible to receive food in exchange for work over a period of three months. The rationale for discontinuing food-for-work at a given site is to prevent creating a dependency on the food.

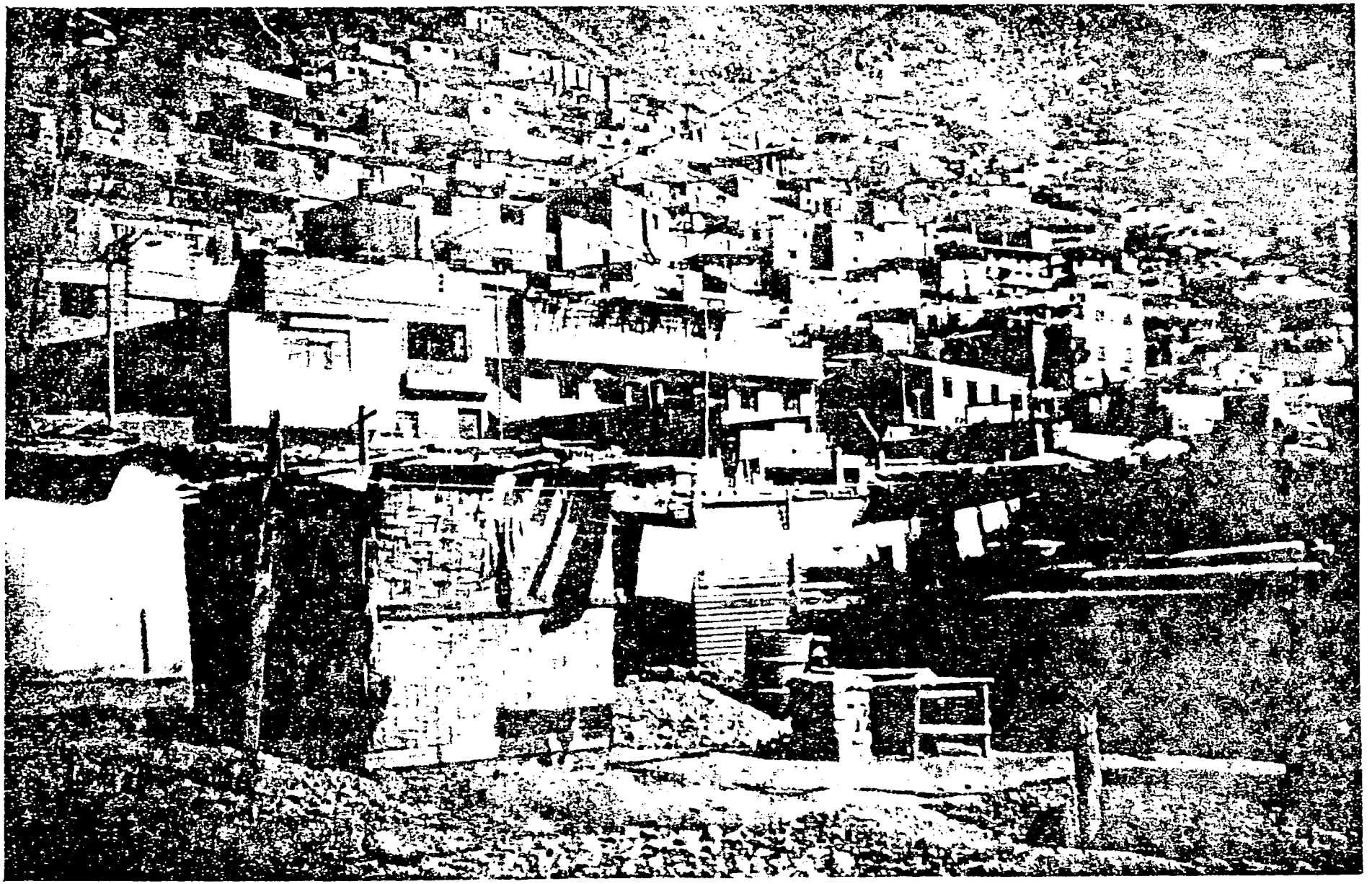
Sexta Zona, El Agustino, El Agustino District[1/]

El Agustino is a large squatter settlement formed around 1945. It is located adjacent to the central western section of downtown Lima.

The El Agustino settlement arose because it is located next to the major wholesale market (La Parada), and early migrants to Lima first sought work at the market. The Sexta Zona of El Agustino is located on flat land bounded on the east by El Agustino Hill and on the west by Jose Riva Aguero Avenue, a major artery and commercial strip which cuts through the community and connects it with major access roads to the central city. As in other sections of El Agustino, the Sexta Zona evolved haphazardly, and took the form of a tugurio. In 1978, 1,700 families resided in the Sexta Zona, primarily in one-story callejones[2/] which housed an average of 30 families each, although as many as 40 families lived in some callejones. Most of the housing was built of adobe and had deteriorated with time and progressively more intensive use. A generation of youths have been raised by their migrant parents in the Sexta Zona and have begun to form their own families, the third generation, in this settlement. El Agustino was classified as a pueblo joven by the government, but the Sexta Zona needs to be remodeled in order for the residents to install permanent infrastructure services and get title to their land. Several years ago the community organization began working toward initiating a

1/ The subsequent discussion is based on lengthy interviews with community leaders, a site visit, and discussions with collaborating private sector institutions.

2/ Callejones are alleyways which lead from the street in a curving or labyrinthine course to the interior of the block. A series of rooms or very small "apartments" are built along the alleyway and families occupy these rooms. Conditions are crowded and there is minimal air space in callejones. Residents of callejones usually share communal water and sanitation facilities.



This squatter community is El Agostino, one of the oldest in Lima. It was originally established 40 years ago near the wholesale market, to be close to employment opportunities. The original land subdivision pattern is now being rationalized to accommodate streets and infrastructure. This initial mat unit houses a family voluntarily relocated by the community association to facilitate the rationalization process. All non-permanent residences were demolished and families relocated to a site provided by the community association.

remodeling scheme for the Sexta Zona. The residents saved money, contracted the services of architects and engineers (who offered a reduced rate), and began planning. A cluster planning scheme was designed for the site which provided for pedestrial walkways and "interior" plazas which offer open spaces for recreation removed from vehicular traffic. The community organization, through considerable effort obtained zoning easements from the Ministry of Housing, which approved their plan.

In order to meet zoning requirements, establish house lots of $112m^2$ regularize the layout, and provide sufficient space for vehicular access and community facilities, it was determined that 600 families would have to leave the Sexta Zona. The community saved money to buy land for relocation of these families, and acquired Fondo Nocheto, a parcel 3 kilometers away.[1/] The community association established selection criteria for determining which families would stay in the Sexta Zona and which would relocate to Fondo Nocheto. It was agreed that the older, long-term residents would stay in the Sexta Zone and the youths who were just beginning to form their families would move to Nocheto.

In January 1979, the community association carried out the demolition and relocation. The demolition was planned so that the maximum number of permanent structures (brick and concrete) were spared and so that residents could recuperate their building materials and other investments (such as light meters). The vast majority of housing was temporary shelter. Within one year, most residents of the Sexta Zona have erected a permanent house or at least have completed one room. Some residents have constructed two-story permanent structures; others are still living in esteras. The Sexta Zona has more active house construction underway than any other pueblo joven we observed. This is probably due to the fact that the settlement is old, the residents are established in the city, and their incomes are, on the average, higher than for other squatter settlements. (Community leaders report that the average family income is about S/.15,000 per month.) Some areas of the Sexta Zona have already initiated installation of permanent water and sewerage systems.

1/ In order to acquire this land, the community organization successfully applied for overturning of a Decree Law affecting the parcel.

IV. DIMENSIONS OF THE SHELTER PROBLEM

A. Human Settlement Patterns

A dramatic shift in settlement patterns has occurred in Peru in the last 30 years. The population of Peru has been predominantly rural until recently. By 1970, the majority of the population (52.5%) was urban.1/ By 1975, it was estimated that over 55% of the national population was urban.2/ Table 8 shows that the growth rate of urban areas exceeded that of rural areas by 11-fold between 1961 and 1972, and confirms that the coastal urban areas are growing fastest of all.

The urban population of Peru is located predominantly in the coastal region. Fully half of the national urban population is found in Lima. The capital is more than 10 times larger than the second largest city. All coastal cities are significantly larger than the 4 urban centers of the sierra and the selva. With the exception of Piura, Sullana, and Ica, the coastal cities have populations in excess of 150,000 while the jungle cities are only half as large. Huancayo and Cuzco each have less than 200,000 inhabitants.

The scale of Lima overshadows all other urban settlements. The housing deficit in Lima alone is possibly equal to the total urban housing deficit throughout the rest of the country. Lima's rapid growth is superimposed on such a large base that the absolute magnitude of increase is intimidating. The growth far outstrips the ability to cope with expanding demands on the urban system. In addition to natural growth of 2.9% per year, some 250,000 people migrate to Lima every year.3/ That is equivalent to incorporating each year a population nearly the size of Chimbote, the fourth largest city in Peru after Lima, into the metropolitan area. Although population growth in other urban centers also registers a rapid rate based on a high natural growth rate and rural-urban migration, the implications for urban investment are much more manageable.

The response to the pressures on the cities created by natural growth and migration depends on the social class involved. The urban poor are concentrated primarily in provisional settlements and tugurios. Spontaneous settlements have rimmed the immediate outskirts of the central urban area in a succession of concentric rings, with the newer settlements being located ever farther from the city center. The inner-city tugurios are the urban slums, consisting of subdivided lots, rooming houses, and buildings fractionalized into small apartments.

1/ IBRD. Social Indicators for Peru mimeo, Computer printout.

2/ Ibid.

3/ Alfonso Reyes, "Cuadro Clinico del Peru", op.cit., p. 12

The growth of spontaneous settlements around the outskirts of cities began in the 1940's in Lima. The period of greatest activity in outward expansion was from 1955 to 1976, during which time the proportion of the population of Lima residing in such settlements increased from 10% to 31%. Pueblos jovenes have typically been settlements with single family dwellings on relatively ample lots. Population density in pueblos jovenes is low relative to the inner city. The growth of tugurios, located within the densely populated inner city, in contrast, occurs through a process of increasing subdivision ("densification") of already crowded and inadequately-serviced dwellings. A study by Sistema Nacional de Movilizacion Social (SINAMOS) reported that 44% of the Lima population is housed in tugurios.1/ The evolution of spontaneous settlements has historically been one of progressive, incremental improvement and consolidation; the evolution of tugurios is typically a process of deterioration.

In the decade of the 1970's in Lima, these two divergent processes of urban growth began to merge. While outward expansion continues to occur, there are many signs of an implosive growth pattern within the pueblos jovenes themselves. This process is most notable in the older, more established pueblos jovenes, closest to the urban core. The implosion takes two forms: a) "turgurizacion" of the pueblos jovenes: accommodation of several families in housing units intended to be single-family dwellings;2/ and b) invasion and settlement of hillsides and other undesirable settings located nearer the city center.

B. Housing Stock

Table 19 shows that in 1977 there were about 3.1 million housing units in Peru. This estimate includes 474,000 units which were added during the five years following the 1972 Census. 62 percent of the total housing units were in urban areas. The estimated increase in housing stock for urban areas for the 1972-1977 period led the increase for rural areas by a 10 to 1 margin. In Lima, only 51 percent of all housing units in 1977 were considered to be of adequate standard.3/ PLANDEMET estimated that 910,549 additional housing units to meet the Lima population of 5.1 million would be needed in 1990.4/

1/ Cited in Riofrio Benavides Gustavo, Se Busca Terreno, op.cit., p. 20.

2/ Ibid., p. 40.

3/ Raul Guerrero de Los Rios and Abelardo Sanchez Leon, La Trampa Urbana, op.cit. Statistics in this area are necessarily somewhat impressionistic. They do give a feeling, however, for the magnitude of the problem. If, as earlier suggested, some 75% of the people in the greater Metropolitan Lima area live in tugurios and pueblos jovenes, the statistic implies that only half of the other 25% have "adequate" housing.

4/ Metropolitan Lima's growth plan prepared by the National Office of Development and Planning (ONPU).

TABLE 19
1977 Urban and Rural Housing Needs by Region

Regions	Total Units 1977	Housing Needs: New Units 1972-77	Housing Needs: Replacement Units 1972	Housing Needs: Total
National	3,147,903	473,539	2,195,890	2,669,429
Urban	1,960,341	429,803	1,057,202	1,487,005
Rural	1,187,562	43,736	1,138,688	1,182,424
Coastal	1,812,813	345,263	1,020,149	1,365,412
Urban	1,468,461	342,525	680,404	1,022,929
Rural	344,352	2,738	339,745	342,483
Sierra	1,054,171	86,397	947,476	1,033,873
Urban	373,366	63,439	292,013	355,452
Rural	680,805	22,958	655,463	678,421
Selva	280,919	41,879	228,265	270,144
Urban	118,514	23,839	84,785	108,624
Rural	162,405	18,040	143,480	161,520

Source: BVP, based on National Housing Census, 1972.

The anticipated population growth of Lima foreshadows problems within Lima of the physical supply of land. Metropolitan Lima now has an area of approximately 19,822 occupied hectares. With planned occupation of another 28,371 hectares for the expected 1990 population expansion and additional new areas beyond present day Metropolitan Lima of approximately 17,500 hectares which could be made available, there would be a total of 65,693 hectares for the city in 1990. The implicit population/hectare density for the projected 1990 population is much higher than that envisaged by the Government.1/ The problem of accommodating future population growth is yet to be resolved.2/ The implications for zoning and housing standards have not yet been faced up to.

The most popular and predominant housing type recorded in the 1972 National Housing Census was the single-family detached dwelling unit, which accounted for approximately 80 percent of Peru's total number of housing units. Multi-story, multi-family, mostly found in Lima, accounted for approximately 4 percent.

1/ "Lima Ano 2000" projects the population for Lima in 1990 to range between a high of 8.42 million and a low of 7.07 million -- Colegio de Arquitectos del Peru, Lima Ano 2000, Cuaderno Forum No. 2, p. 61.

2/ The urban expression potential to the north and south of Lima is relatively endless if open land area is the only criteria used for accommodating citywide growth.

The concept of "housing deficit" is not a universal one. Certainly, it is not the same for poor and for rich countries. In recognition of this, the MOHC considers adequate housing to be that proportion of habitable space that a family "needs" and which also satisfies other conditions such as structural stability, good quality construction materials, sanitary services, light and ventilation.1/ The adequacy of housing in Peru is best judged with indicators of the number of rooms per house, of the materials used for various construction elements, and of the type of sanitary services provided. The 1972 Census has considerable information along these lines.

Overcrowding. The 1972 Census indicated that 63 percent of all houses in Peru in 1972 contained 1 or 2 rooms; in urban areas it was 52 percent. In Lima, where 55 percent of the pueblos jovenes are located, SINAMOS found that 53 percent of the pueblos jovenes' population lived in 1 and 2-room houses.2/

Construction Materials. 56 percent of the houses in Peru have roofs constructed of permanent materials, 14 percent of which are of concrete. In urban areas, 71 percent have permanently constructed roofs, of which 25 percent are of concrete. Houses with walls of brick, concrete blocks, stone or reinforced concrete total 23 percent of the countrywide housing stock and 38 percent of the urban stock. When houses with adobe walls are included, the countrywide total is 72 percent; for the urban area, 81 percent. This is significant, considering that 75 percent of the urban population of Peru is located on the coast where the rainfall is negligible, and adobe walls are relatively long-lasting.

C. Public Utilities and Services

Census extrapolations for 1977 (Table 20) indicate that 72 percent of all houses lacked piped water service -- 56 percent in urban areas and 98 percent in rural areas; 72 percent of the total housing units were lacking waterborne sewer service; 65 percent of the households were without electricity. Services are more lacking in rural than in urban areas; and more infrequent in the squatter settlements of urban areas then in urban areas as a whole.

1/ Plan de Accion del Sector 1977-1980, MOHC, April 1977, p. 27.

2/ Censo de Pueblos Jovenes, Vol. 1, SINAMOS, 1972, p. 1.

TABLE 20

Urban and Rural Housing
Without Basic Services
By Region, 1977

Regions	Total Housing Units 1977	Lacking Services Water	Sewerage	Electricity
National	3,147,903	2,268,003	2,470,905	2,043,613
Urban	1,960,341	1,099,197	1,291,712	886,584
Rural	1,187,562	1,168,806	1,179,193	1,157,029
Coastal	1,812,813	1,064,753	1,200,012	896,627
Urban	1,468,461	729,776	860,141	571,352
Rural	344,352	334,977	339,872	325,275
Sierra	1,054,171	952,379	1,009,499	907,565
Urban	373,366	280,106	331,885	236,179
Rural	680,805	672,273	677,614	671,386
Selva	280,919	250,871	261,393	239,421
Urban	118,514	89,315	99,686	79,553
Rural	162,405	161,556	161,707	160,368

SOURCE: BVP calculations based on 1972 National Housing Census.

A central roads authority does not exist. Comprehensive information on roads and public transport is not available. The national government finances roads by distributing tax revenues to municipalities, except for major highway systems constructed by the central government. Within the major urban areas, the secondary towns generally have higher quality paved streets and public transport than does Lima. In the capital, about 20 percent of arterial roads and 30-40 percent of local streets are in need of surfacing. 95 percent of the streets in pueblos jovenes are unpaved. However, this is of lesser priority in Lima and other coastal cities than water and electric service because of the dry climate. The national government has set standards requiring that streets be leveled and compacted for low-cost urbanization. In Lima, 72 percent 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 comfortably are available. Public transportation vehicles are generally financed by each municipality with loans from the Government Development Finance Corporation (COFIDE).

Provisional or temporary services in pueblos jovenes include water delivered by tank trucks to the door. Water storage is in cisterns or barrels at a family's doorstep. Kerosene lanterns and candles are used for lighting; kersosene stoves for cooking. Sanitary services are provided by pit latrines in the more crowded areas, and is entirely lacking for many others at the edge of the urban perimeter.

About 65 percent of all families in Peru own their own homes. However, this does not necessarily include land ownership, on which statistics were not available. When pueblos jovenes are included, 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 percentage decreases to 52.1% while in Lima it is even lower at 44.2% (See Table 21).

TABLE 21

House Tenancy

Forms	Countrywide		Urban		Rural		Lima	
	No.	%	No.	%	No.	%	No.	%
Owner occupied a/	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 b/	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

a/ Status of land tenancy not covered

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

Source: 1972 National Housing Census

D. Environmental and Health Conditions

A 1977 study by the U.S. Department of Health, Education and Welfare concluded that:

> "Today in many rural and urban communities water supply, sewage disposal, and proper housing are insufficient in quality and quantity. In areas without potable water supplies, drinking water is obtained from rivers, lakes or wells or purchased from vendors with huge vats of water. Disposal of solid and liquid waste still remains in some local communities a responsibility of the family unit. The severe disparities between environmental sanitation and water supply services offered in the rural and urban areas are quite apparent."1/

In Chimbote, the AID programs have included the installation of a sewage disposal system (without treatment) and also, an experimental sewage lagoon. At the time of the Team's visit, the sewage lagoon construction had been completed but the lagoon was empty. It had not yet been put into use. Discussions with officials of the Lima Water and Sewar Authority (ESAL) revealed that no sewage treatment facility exists for Lima. Major sanitary waste disposal outlets into the sea lie to the north and south of the city. Periodic testing of the ocean for contamination is conducted by ESAL. Thus far, ESAL has uncovered no major hazard. Nevertheless, a part of a recently approved World Bank loan to the GOP will finance a study to assess sewage contamination and to propose remedies if hazardous pollution is found.

Asbestos cement pipe is widely used for secondary water service throughout Peru. There has been some question concerning its use for water service since it may be linked to cancer; but no firm evidence to date has been found to support this suspicion. The Pan American Center for Sanitary Engineering (CEPIS) began operations in Peru in 1976. Its functions include providing technical and scientific assistance, training, and research in the areas of water supply and pollution, industrial hygiene and occupational health. It has been involved with an evaluation of the Canete water treatment plant and has made some studies of water pollution and draingage in Trujillo. The MOHC's Institute of Occupational Health is working in the field of industrial hygiene by supporting private industries' programs for monitoring health hazards.2/

1/ HEW, "The Health Situation in Peru", December, 1977, mimeo, pp. 56-60.

2/ Illnesses from industrial contamination have been rising within the last decade. HEW, op.cit., p. 58.

V. SHELTER DELIVERY SYSTEM

The GOP's "TUPAC AMARU" Development Plan for 1977-1980 clearly set forth its objectives for the Housing and Construction Sector: to achieve a significant improvement in housing conditions and to promote private and public investment in construction. It is instructive to review the key elements in the present shelter delivery system as a preliminary step in assessing the degree to which these objectives are being met.

A. Land

Invasions of urban land, mostly state-owned in Lima and elsewhere, accelerated greatly during the 1960's. Expansion still is possible in Lima to the north and south; although at increasing costs for infrastructure services as the urban center is extended. New migrants recently have shown a preference to settle on closer-in hillsides rather than move onto open land farther out from the city center. Nevertheless, some planned communities, such as Villa Salvador in 1971 and Canto Grand-Puente Huascar in 1976, which are distant from industry and the city center, have been successful.

The land title question for spontaneous settlements was addressed initially by the GOP during the early 1960's. Invasion communities were formally recognized by the Government and accorded the name of "pueblos jovenes." The formal recognition permitted the inhabitants of these communities to gain land title by following procedures set out by the MOHC. After being declared a permanent community by the MOHC's Technical Commission, the settlement has to undergo "remodelacion" before land title is given. The "remodelacion" plan shows the area's existing physical characteristics, location within the city, and spells out the infrastructure requirements for future incorporation within the city.

The process for legitimizing the squatter settlements involves well-defined and time-consuming steps.

a. A census and registration must be taken of the families that occupy the land parcels in the pueblo joven.

b. Next, a decision must be taken whether the pueblo joven is to become permanent or be eradicated.

c. The MOHC must approve a site plan demarcating the area's borders, perimeter measurements, and area of the land parcel. The approval includes a descriptive narrative of the site plan and projections for its urban development.

d. The MOHC then must agree to a "remodelacion" plan.

e. A subdivision plan must be approved by the MOHC. The site plan has to show lots, vehicular and pedestrian ways, open areas, and community buildings, which are planned for after the "remodelacion."

f. The private property occupied by a pueblo joven is expropriated by the State and paid for at market value; in the case of State-owned land, a nominal charge is registered. This clears the way for granting titles.

g. The final step in the process is to sell the lots to occupants and register ownership with the State.

Urban communities settled after 1961 (not formally called pueblo joven) have no legal channel at this time by which they can gain legal land possession. The GOP is aware of the situation and is working on a plan to legalize the settlements.

State land sells for a nominal charge of S/.10, or US$.05 equivalent, per square meter. Unserviced cooperative housing estate lots sell for S/.50,000 and more. Serviced lots in "urbanizaciones populares" sell for S/.300,000 and up.

B. Infrastructure

The Direccion General de Obras Sanitarias (DGOS) is a dependency of the Ministry of Housing and Construction (MOHC) and is responsible for water and sewerage infrastructure throughout the country except in Lima and Arequipa. It is charged with increasing the supply of water and promoting, executing, and administering water and sewerage projects. In pueblos jovenes, it often worked with SINAMOS and now works with the corresponding section of the MOHC which has absorbed the SINAMOS functions in the planning and promotion phase. It may construct projects directly, although most work is carried out by contractors through a bid system.

The present decentralized posture of the Ministry has further increased the ability of DGOS to function effectively outside of Lima and has permitted more local decision-making and approvals.

In Lima and Arequipa, local companies (ESAL and ESAR respectively) are responsible for water and sewerage. They carry out their functions in a manner similar to DGOS, formerly working closely with SINAMOS in pueblos jovenes. Although in the last few years, AID has not had direct dealings with ESAL and ESAR, their staffs are quite competent. They have effectively expanded service in recent years.

ESAL's 1979 work program consists of water and sewer installations for 15,724 lots in 30 pueblos jovenes and 6 neighborhoods in Greater Lima. 5,800 of the lots presently have financing: 2,960 lots through the BVP, 2,530 lots through the German-Lutheran Association, and 310 through "auto-construction" with "auto-financing" by the 6 neighborhood committees. The total cost is estimated at S/.2,147 million (about $9.5 million equivalent). The average cost per family for water and sewer service in a pueblo joven is about $1,000 equivalent, including the water meter installation. This work is coordinated by ESAL's office of liaison with pueblos jovene. ESAL's technical competence is quite high. It would benefit from technical assistance in the planning and programming areas, however; and the World Bank has provided funds to strengthen planning and programming capability.

It is estimated that pueblo joven families average 20 cubic meters of water consumption per month. Calculated at today's rate, meter water costs the family approximately US$0.60 equivalent per month. Peru's water rates are higher for industrial users than for commercial users and least for domestic users. The water rates were increased by 25 percent on 1 February 1979. Together with an additional 20 percent increase intended later this year, this will greatly lessen the present GOP subsidy for water consumption. In 1977, ESAL's operating deficit was approximately US$1.1 million equivalent and, in 1978, approximately US$2.5 million equivalent.

In November 1978, the World Bank lent the GOP and ESAL US$8.8 million equivalent for studies and programs looking toward a more effective water distribution and sewerage system for Lima. The technical and economic feasibility of transferring water from the Mantaro River across the continental divide to Lima also is to be researched. If feasible, this would ensure Lima's water supply through the end of this century.

Electricity. Power generating and distribution in Peru is the responsibility of ELECTROPERU. Its subsidiary for Lima, ELECTROLIMA, controls electric power distribution and maintenance in the Metropolitan Lima area; and ORDEZA manages electric power distribution throughout its region. Elsewhere, ELECTROPERU distributes electricity to all other urban and rural areas of Peru. The overall 1979 budget for electric service installations throughout Peru is approximately US$17.5 million equivalent. It has been very effective in expanding service in pueblos jovenes in Lima and other cities in recent years. The average cost per family for secondary and tertiary electric power service in a pueblo joven is about $700 equivalent as of December 1978. The individual household connection from the street, which is included in the installation cost, is valued at US$34.00 equivalent. The average electricity consumption is 100 KWH per household per month in low-income areas of Lima. A fixed monthly fee is charged the consumer. Consumption charges are added to that. With the latest increase (February 1, 1979) in electricity rates, an average monthly bill would be $2.50 equivalent.

Public area lighting is paid for by each municipality from taxes levied on urban lots. This tax also covers road and park maintanence costs and garbage collection. Payment to ELECTROLIMA for municipal lighting is as much as three years behind in some cases, although Lima's poorer communities are mostly up to date. ELECTROLIMA is preparing a proposal to charge the individual homeowner directly for municipal lighting. Public lighting is a priority item for poor urban communities. Pueblos jovenes want and are willing to pay for "high standard" installations. Concrete posts with mercury vapor lights (MEM rules that this type of lighting is required) spaced close together are the norm. Lamp efficiency and illumination standards are quite high.

C. Construction

Peru's construction industry is experiencing severe work cutbacks during the current economic crisis. As in other countries, the amplitude of fluctuations in the construction cycle is greater than the swings in general economic activity. At the same time, Tables 22 and 23 show that the cost of building, particularly of building materials, has risen faster than the general price level since 1975. The especially sharp increase in the cost of construction materials is due in part to speculation in building material stocks as a hedge against inflation and to the negative interest rates paid on most financial instruments.1/ The lower rate of increase in labor costs includes employee fringe benefits (social security, pension, retirement, taxes), which add 73% to the cost of the salary paid in Lima. Table 24 shows that per meter construction costs increased 248%, 1975-1978.

TABLE 22

Price Index, Metropolitan Lima
(1973 = 100)

Index	1974	1975	1976	1977	1978
Cost of Living	116.9	144.5	192.9	266.3	
Housing and Furnishings	117.6	136.8	169.4	213.4	
Construction Costs					
Materials	110.6	126.7	207.6	304.4	
Labor	113.7	137.7	178.3	272.0	

Source: I.N.E.

1/ Evidence in July 1979 suggests that the extraordinarily high inflation rates in the cost of construction materials is ending and will henceforth parallel the general inflation rate as has been the case historically.

TABLE 23

Variations of Cost per M^2 of Housing Construction

Building Costs, Lima

Year	Cost Per m^2	Year	Cost Per m^2
1965	1,698	1972	3,189
1966	1,835	1973	3,442
1967	2,088	1974	4,262
1968	2,479	1975	5,109
1969	2,654	1976	7,724
1970	2,702	1977	11,019
1971	2,894	1978	17,761

Source: CAPECO

The total public and private formal sector investment in construction in 1977 was approximately US$222 million equivalent, down approximately 14.0% from the 1976 total. Table 25 shows that total investment in construction (in constant 1973 soles) fell by more than half, 1974-1977; and public sector construction fell by 41% during 1978. Housing represented about 45% of total construction investment, public and private, in 1977. During the peak construction years of 1971 and 1974, total housing investment represented approximately 78% and 70% respectively of the total investment in construction. Total public sector construction decreased 16% between 1974 and 1977; but public sector housing declined 59%.

TABLE 24

Public Sector Housing Bids, 1967-1977
(Millions of Soles)

Year	Implicit Deflator	Current Soles		1973 Soles		Variation (Percent)
		Total Bids	Housing	Total Bids	Housing	
1967	1.578	1,197.4	254.5	1,889.5	401.5	-
1968	1.321	1,253.6	205.2	1,656.0	271.0	(32.51)
1969	1.239	1,680.9	352.0	2,082.6	436.0	60.93
1970	1,205	2,381.8	627.5	2,870.0	756.2	73.39
1971	1.161	3,426.0	846.7	3,977.6	983.0	29.99
1972	1.085	3,855.2	752.0	4,182.8	815.9	(17.00)
1973	1.000	3,58.9	438.1	3,583.8	438.1	(46.30)
1974	0.894	4,360.9	485.1	3,898.7	433.7	(1.14)
1975	0.761	3,653.9	417.8	2,780.5	317.9	(26.69)
1976	0.512(*)	6,555.1	470.4	3,356.2	240.9	(24.24)
1977	0.349(*)	9,337.0	503.7	3,258.6	175.8	(27.02)

(*) Preliminary

Source: CAPECO. Compiled from bids listed in the official gazette, "El Peruano."

The GOP, through the MOHC, instituted a construction cost indexing system in 1975. Adjustments are made for increases in the price of construction materials and of labor. The GOP bid tendering and contract award procedures are well outlined and regulations allow for virtually every possible situation that may arise during the bidding process. Standard forms and procedures for bid submissions are strictly interpreted and enforced.

Self-help labor in construction has long figured prominently in Peru's rural and smaller urban areas. Since the newcomers to Lima are principally from areas where self-help is common, self-help can also be relied upon for community improvements. Both ESAL and ELECTROPERU use self-help to reduce project costs. In ELECTROLIMA's cost estimating procedure, self-help is a separate line item and is an important input to electricity service installations. The incremental housing construction that takes place in the pueblos jovenes attests to the reality that the informal housing construction sector is large. Self-help is an important element in this. Many times a family will hire a mason to direct construction while doing all of the unskilled labor itself. The savings to the homeowner through self-help can be considerable. Self-help is part of the explanation of how low-income families are able to provide.

The whole question of self-help in the formal sector, however, needs to be examined critically at this juncture. Under some conditions, self-help can reduce costs significantly. Two similar housing projects in Trujillo, built about the same time, cost S/.4,000 per month for the contractor-built units (Daniel Hoyle), S/1,500 per month for the self-help units (El Moche). In a period of rapid inflation, however, the real "cost" of using self-help labor can become uneconomically high. It can reduce total project costs only if it does not unduly increase the construction period. If self-help cannot do the job in a reasonable time, the increase in other costs due to inflation will eat up any potential saving on labor costs. ESAL and ELECTROLIMA can no longer afford long delays in project execution. If self-help cannot be programmed into a project and be supervised to complete a job in a reasonable period, it will be better to do the job on a contract basis. The situation is a sad irony: Precisely at a time when real incomes of the target group are falling, inflation calls into question the whole issue of the "cost" of using self-help. New thinking is needed on how to manage self-help.

The problem is especially acute because, now that SINAMOS is defunct, the MOHC has been instructed to promote self-help. The MOHC really does not have a present capability to do this satisfactorily. The MOHC will have to deal with the question of self-help and develop the capability to manage self-help at a time when its staff is to be cut by about 30% and its operations decentralized.

D. Building Materials

Peru produces nearly 95% of its construction materials. Most construction material demands have been met locally for more than 10 years. As domestic demand for construction materials dropped in recent years, Peru exported cement after local demand was met. With production still rising and effective demand falling, building material exports will continue to rise. The supply of building materials is adequate and is not a constraint for the Peruvian shelter sector.

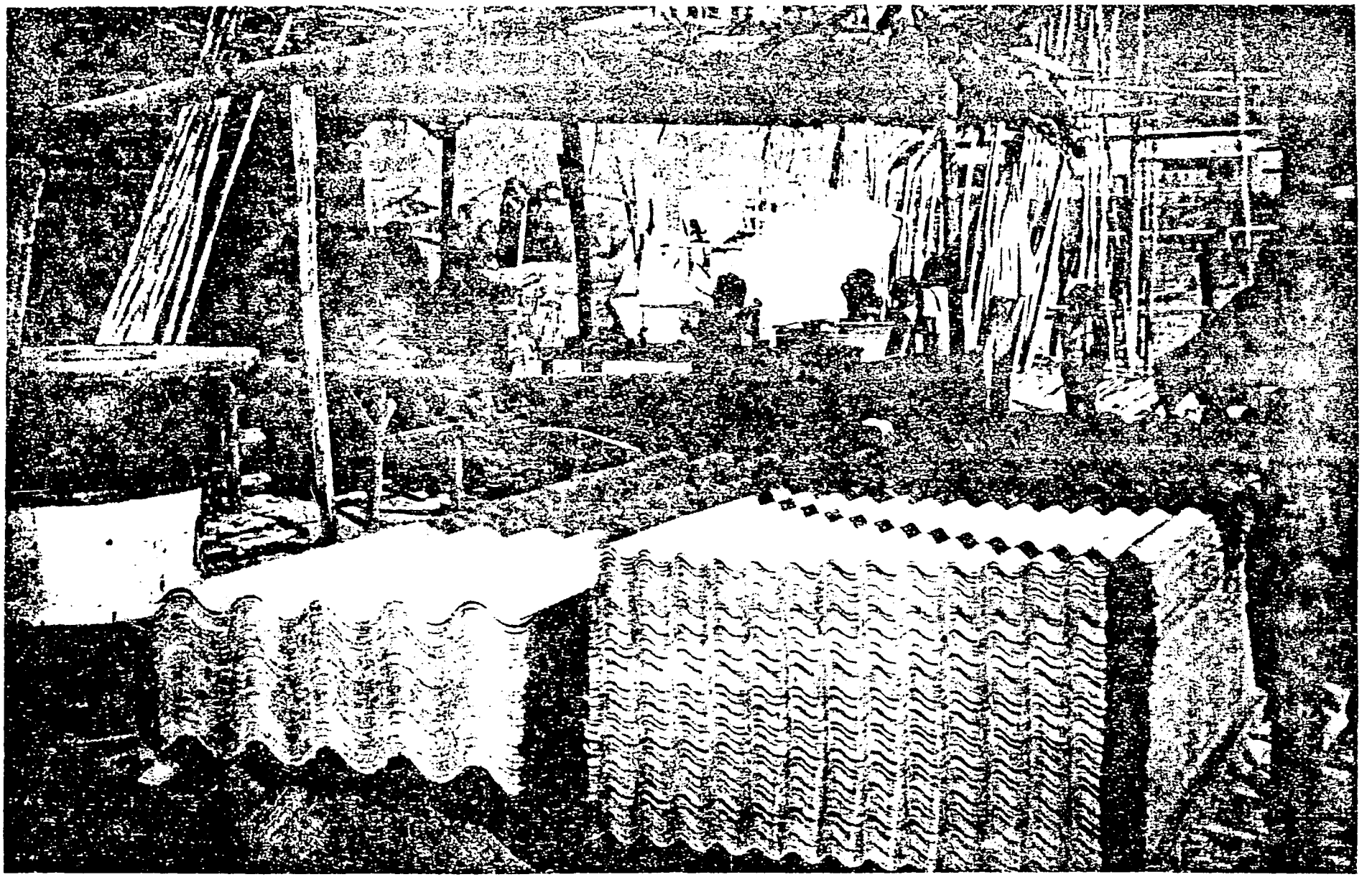
The most common construction technology throughout Peru for permanent buildings is reinforced concrete skeleton frame. It is used predominantly in coastal and mountain regions, where seismic design criteria are needed. This technology is expensive for the low-income family; nevertheless, it is strongly preferred by residents. Concrete block and fired tile or brick are common wall materials with reinforced concrete or reinforced fired tile systems used for roof and floor construction. Poorly fired brick is available at reduced rates and is used as aggregate or for wall construction.

Temporary construction materials in the coastal region are dominantly straw mats ("esteras"). Inexpensive, portable, and relatively long lasting (since there is little rain along the coast), the mats are stretched over wood pole structures to serve as initial shelter until a sufficient quantity of bricks, blocks, and steel can be found for a permanent room with reinforced concrete columns and beams. Until the masonry units are mortared together, the bricks/blocks are stacked as walls replacing the mats.

In mountain areas both stacked/rammed earth and adobe block constructions are common; also, stone walled dwellings are found high up in the Andes. On occasion, adobe with small-stone coursing is found. Burned tile and zinc sheet roofing help preserve the wall, consequently, preserving the structure from rapid decay due to heavy winter rains.

In general, material and technology are at higher standards than justified by income or climate. There have been several projects where low-cost construction technology was used. The PREVI Project (Proyecto Experimental de Vivienda) sponsored by the MOHC and the United Nations demonstrated several techniques for seismic zone construction. In Lima several types were constructed, including some sites-and-services with core housing solutions. However, some solutions tested under the PREVI program do not seem to be appropriate for very low-income groups. USAID also has sponsored asphalt-stabilized, soil-brick projects (Trujillo and Lima); and the United Nations and the World Bank have funded some low-cost demonstration housing components and units in Chimbote. These projects had mixed results and further evaluation is needed before widespread adoption of them could be considered.

This building materials supply yard offers rush mats used to construct the initial stage of a squatter house. The mats portability makes construction an easy operation and establishes territorial claims at limited investment risks. The typical one room mat shack costs approximately 50 dollars.



This building materials supply store offers industrially produced aesbestos-cement roofing materials that can be acquired on a piece-by-piece basis and stored as funds are available.

In 1974, the El Agostino Pueblo Joven organized a community association which established a community construction materials manufacturing facility. Members of the community work at the factory yard for which they receive wages. Construction materials are sold to the community members on credit at cost plus finance charges. Through a small business loan to establish the Company, the community was able to save money on the price of construction materials and also extend credit to community members unable to obtain credit in the formal sector. Since May 1978, the Company has had to stop giving building supply credits because they were experiencing a serious cash depletion.

The main obstacles to greater use of lower-cost material and technology are taste and tradition. Efforts to influence consumer preferences should be investigated. In terms of technical capacity and organizational ability, the formal building sector is quite good. It could mount and manage efficiently a far larger construction effort than is likely to be called for.

All infrastructure projects must conform to GOP subdivision regulations, engineering design, and construction standards and regulations. There is competent technical capability throughout the country to ensure effective designs and project supervision and execution. The MOHC sets high standards for subdivisions, water and sewerage design, construction, and testing. The Ministry of Energy and Mining, Electroperu, and Electrolima have developed, efficient standards for the design, construction, testing and operation of electrical projects. These standards and regulations are followed by the local utility companies.

The GOP is currently studying the possibility of reducing standards in the pueblos jovenes. Lower design and specification standards will be established which can produce substantial cost savings.

E. Housing Finance Institutions

Table 25 shows that the BCH, the BVP and the S&Ls hold more than 80% of the housing finance mortgage portfolio. The BVP is the principal source of finance for the target group. The S&L system also finances home improvement loans and infrastructure services for the target group. The BCH, which has the largest amount of housing related loans outstanding, deals with higher income groups. The total of BCH loans outstanding decreased (in constant 1973 soles) 26% between 1974 and 1977 and the S&Ls portfolio fell by 44%. Only the BVP's portfolio increased marginally (4%) Total housing finance has decreased in real terms in recent years; and the BVP's portfolio has grown in relative importance from half that of the S&Ls in 1974 to about equal the loans outstanding in the S&L system in 1977.

The Banco de la Vivienda del Peru (BVP) is a state-owned, semi-autonomous institution created in 1962 to establish and administer savings and loan associations and to be the financial arm of the MOHC. (Annex 11 lists the functions of the BVP, Annex 12 presents its organization chart. Annex 13 shows the income and use of funds as of the end of 1978 together with the budgeted financial plan for 1979).

In 1969, it received authority to mobilize funds domestically (through the issuance of mutual development bonds) and to extend credits for housing and construction. This included financing to housing cooperatives, public and private developers, lending for projects, urban renewal and redevelopment in poor areas, and lending for experimental projects.

With the 1969 switch away from a purely supervisory and promotional role connected with the development of a savings and loan system, the BVP embarked on a period of relatively rapid growth. Along with an expanding operational writ came a surge in asset growth. It closed 1978 operations with approximately US$200 million in assets. As public housing sector institutional roles were progressively rationalized and specialized in the decade of the 70's, the BVP role in shelter solutions employing international sources of financing grew increasingly prominent and included extensive experience with AID-financed housing programs.

The proposed budget for 1979 contains two items of central government financial support: a S/.3,357 million capital increase and a S/.2,896 million exchange risk loss ("other liabilities") -- a direct government subsidy of a little over US$25 million equivalent.1/ S/.550.8 million are also expected to be raised by selling Mortgage Development Bonds, a form of forced savings capture.2/

The full budget request for 1979 may be trimmed and the direct subsidy may turn out to be less than $25 million equivalent; but the conclusion remains that the BVP is not financially self-supporting nor can it be in the near term. The past few years of rapid inflation have severely decapitalized the BVP and the S&Ls. In the absence of some system of indexing, the BVP must have financial support from the GOP in order to survive. Thus far, the government has provided financial support directly with subsidies and indirectly through decreeing a forced savings market for BVP Mortgage Development Bonds. In Part I, we raise the question of whether this type of support should and will continue; and we recommend that (a) the issue of indexing be reexamined and (b) the BVP be encouraged in a new system which it has under study, a system which could capture a vastly greater amount of forced savings than the BVP currently receives.

1/ This uses an average exchange rate for 1979 of S/.250 per dollar, as specified by the MEF. This implies that the exchange rate is expected to be about S/.300 per dollar by the end of 1979. As of July 1979, expectations had been revised to S/.250 per dollar by year end.

2/ The BVP was authorized to issue Mortgage Development Bonds (Bonos De Fomento Hipotecario) by Decree Law 17863 dated 28 October 1969. The bonds are fully guaranteed by the GOP. S&Ls must buy the BVP Bonds in an amount equal to 10% of their deposits. The BVP can also require purchase of the Bonds by borrowers. The Social Security Fund, insurance companies, contractors and construction companies, and commercial banks also constitute a market. The first six series of bonds carried interest rates of 7-10% and terms of 5-10 years. (There also are 2½-year, 9% bonds issued by name to private firms who borrow for housing programs.) The most recent Mortgage Development Bonds pay 15% interest.

TABLE 25

Housing Sector Finance Institutions
Loans Outstanding
(millions of 1973 sales)

Year	Banco de la Vivienda	Banco Central Hipotecario	Banco de la Industria de l Construcción	Banco Peruano de los Constructores	Caja Ahorros	Sistema Mutual	Total
1970	911	4163	805	506	1013	5183	12581
1971	1625	5245	709	590	1416	6792	16377
1972	2386	6144	588	675	1783	7200	18776
1973	3096	7321	720	677	1947	7190	20951
1974	3357	7603	893	671	2280	6700	21504
1975	3770	7446	980	665	2015	5887	20763
1976	3505	6659	1071	598	1635	4813	18281
1977	3497	5605	848	533	1236	3776	15495

Source: BVP

Indexing cannot be recommended as a general "solution" to long-term lending in an inflationary economy. The record of indexing has been mixed and the literature on the theory and practice of indexing systems leads to the conclusion that the evaluation of advantages and disadvantages is largly unique for each country. The choice of index to which adjustments are to be tied is arbitrary, cannot be even-handed between different kinds of transactions, and does invite manipulation for political purposes. It also is true that indexing builds in self-justifying inflationary expectations. For these reasons, in part, the GOP until now has looked upon indexing as an inadmissible confession of its inability to supervise the economy. It has opted instead for a policy of attaining a level of real interest rates. The rapid increase in interest rates since 1978 has had some impact on financial savings; but it also has priced housing out of the market. The policy decision which should be reassessed is whether another 2-3 years of patience and education of the potential housing consumer are worth the cost of subsidies and a moribund housing industry. We are not unequivocally advocating turning to a system of indexing. We do think, however, that it merits analysis and should not be rejected out of hand.

A system of capturing forced savings for housing can also be an alternative to direct subsidies. The impact on the housing sector can be tremendous. The numbers are hypnotic: diverting very small percentages of the total forced savings captured by a government can dramatically increase the resources available to the housing sector. If housing has a high priority, for economic or social reasons, the temptation to claim some of the forced savings is great and should be weighed.

On its own initiative, we understand that the BVP already has begun study of a forced savings scheme which could be a worthwhile addition to Peru's housing finance institutions. We understand that, in a broad outline, it proposes to establish a separate entity to gather funds to be used only for housing. The sources of financing might include the Treasury (making available low-interest government bond money), the Social Security System,1/ and the funds which employers now are required to set aside to pay workers when they leave an employment. The latter would be by far the main source of funds.2/

1/ The rationale is that housing is as much a social need as other Social Security activities such as health and education; and much more a social need than investments by the Social Security System in high-rise office buildings as is now the case.

2/ Employers much set aside for each worker 1-month's salary for each year of employment. The employee is entitled to this severance pay upon leaving a firm, whether voluntarily or involuntarily, with or without cause. The scheme also envisages a type of "key money" to further increase the working funds available. Upon receiving a housing solution, the new owner would make a deposit in the fund which would be returned only upon resale; and the new buyer would then simultaneously renew the "key money" deposit.

The biggest objection to the scheme can be expected to come from employers. The firms now use the severance pay funds for working capital. In order to dilute employers' objections, the proposal would siphon off only a small percentage of new severance pay funds, thereby not decreasing accumulated "working capital." It would only infringe on the rate at which additional working capital is accumulated through additional severance pay retentions. Even so, the BVP estimates that the scheme would generate more funds for housing in the first year than the total new resources available to the BVP, the BCH, and the entire S&L system in three years.

The proposal seems to be well thought through. Among its features are an intention to define "appropriate housing" models according to family-income groups. The purpose of this is twofold. On the one hand, higher income groups would pay higher interest rates, providing a cross-subsidization of lower income groups, who would pay lower interest rates. The highest income groups also would have readjustable mortgages, a rudimentary form of indexing. A second reason for establishing income-housing models is to educate the consumer to accept reduced, more affordable housing expectations. Eventually more and more families probably would accept less-than-hoped-for housing standards as their dreams of the impossible are deflated by their purchasing capacity.

There are many possible variations of schemes to divert forced savings to housing. The Mexican system also relies heavily on severance pay funds. Brazil's system is funded from an employer indemnification fund. El Salvador also depends on social security funds. In Colombia, before the indexed S&L system was initiated, some use was made of reserve and portfolio requirements imposed on the commercial banks. The Peruvian proposal warrants analysis (even if housing is not accorded a higher priority by the GOP than at present) because it is an economically more efficient and an administratively more accountable system than the current subsidies.

The problems with subsidies as a response to decapitalization in the next two years is whether the government will continue them. We are not questioning that the GOP will honor its commitments as guarantor of BVP external borrowing to cover exchange risk losses. We do question whether subsidies continue to be the best way for the shortfall in BVP revenues to be met.

1/ On 30 June 1978, Decree Law No. 22591 established a National Housing Fund (Fondo Nacional de Vivienda: FONAVI) in the BVP. The principal resources of FONAVI would come from a 1% tax on wages and salaries to be paid by workers, a 4% tax on wages and salaries to be paid by employers, and taxes on construction companies and materials suppliers. The resources are to be used mainly for housing for low and medium income workers outside Lima-Callao. The GOP put out tenders for three sizable projects in July. The President has recognized that workers' contributions should not be collected until their economic situation measurably improves. There is substantial opposition to FONAVI by industry and commerce. While constituting a boon for the construction industry, FONAVI need not be a substitute for the scheme sponsored by the BVP.

Annex 14 lists the interest rates currently paid and charged by the BVP Annex 15 places them in context by detailing the entire interest rate structure of financial instruments. With current long-term lending rates of up to 34.5% on commercial loans, it is probable that interest rates now have topped out.1/ If so, real interest rates will continue to be negative for some time -- until mid-1980 even if the government's stabilization goals regarding inflation are attained. The prospect of continuing negative real interest rates means that decapitalization of the housing finance institutions will continue and that new remedies should be studied for the housing finance institutions.

The Savings and Loan System was authorized by Law No. 12813, dated 6 March 1958. The System is regulated by the BVP and supervised by the Superintendencia de Banca y Seguros. The S&Ls are authorized, among other things, to lend for housing and infrastructure on terms approved by the BVP. As of February 1979, there were 7 S&Ls in Lima and 10 outside Lima. The System held savings totalling S/.8,136 as of November 1978. A little more than half (56%) of the savings were in Lima, the balance elsewhere in the country.

The BVP has expressed an interest in promoting a home improvement loan program for low income families through the S&L system. To develop such a program with its own funds, the BVP requested technical assistance from the Foundation for Cooperative Housing (FCH). The FCH assistance is being provided to the BVP through an AID funded Operational Program Grant. An FCH Resident Advisor arrived in Peru in March 1978 to begin an assignment with the BVP.

The decapitalization of the S&L System is a matter of grave concern. (See the S&L consolidated financial statements in Annexes 15 and 16.) The System experienced net losses of S/.44 million in 1977 and S/.97 million during the first nine months of 1978. As the housing market has dried up, the S&Ls have been given some respite by being allowed to lend for activities related to construction. The relief provided by going essentially into short-term commercial lending can only enable the S&Ls to postpone bankruptcy as housing finance entities. An authoritative source ventured the opinion in January 1978 that S&Ls could survive for no more than another eight months. The housing market has been dried up by high interest rates and high construction costs. In another eight months, there will be no private sector housing market.

The GOP is also sustaining the System of subsidies amounting to some US$15 million per year. The subsidy is passed through the BCRP and is financed by the sale of government treasury bonds. The subsidy is intended to partially compensate for the difference between market interest rates charged on a new S&L loan and the weighted average interest rate charged on its existing loan portfolio. As interest rates were

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1/ One insider reported that the MEF is questioning whether rates have been raised too far.

raised sharply by the BCRP in 1978 and in January 1978, the difference between the average and current rate became greater; and the government offset subsidy has grown correspondingly.

The S&Ls suffer the pernicious effects of decapitalization the same as other financial institutions. It poses a particularly acute and dangerous problem for the S&Ls, however, It is not comfortable to be dependent on government largesse for survival in any circumstance. There always is the possibility that the GOP will decide to discontinue the subsidy. In the straitened financial position of the GOP at this time, the fear becomes even more plausible. The S&Ls have lent for low-income housing and for infrastructure to pueblos jovenes; but their natural clientele is the middle-income groups. It would be regrettable if the GOP should decide to cut subsidies for the S&Ls on social or economic grounds. A good financial intermediary system which AID has long supported and promoted would disappear overnight, a sacrifice to transitory national economic difficulties. The cost of reinstating the system after the economic storm had possed would be great. Alternatives should be sought.

Aside from indexing, the BVP should examine how to extend still greater assistance to the S&Ls. For example, the FCH technical assistance for home improvement loans for low income families described above is also being made available, in accordance with the BVP, AID and FCH, to a selected S&L, La Metropolitana in Lima. FCH is assisting this S&L in the planning, programming and implementation of a home-improvement loan program directed at low income families that could serve as a BVP approved prototype for such a program for the S&L System with funds from the BVP.

The Central Mortgage Bank (BCH) was established in 1929 with its capital equally held by the government, commerical banks, and the general public. The BCH was transformed in 1969 into a state-owned bank, although the private sector and the commerical banks continue to participate in the bank. It has 21 branches throughout Peru. Its loan portfolio is the largest among the institutions dealing in housing finance. In common with other housing finance institutions, it is suffering great losses of real value in its portfolio. The General Manager said that there is hardly any BCH lending for housing now, and none at all for new housing.

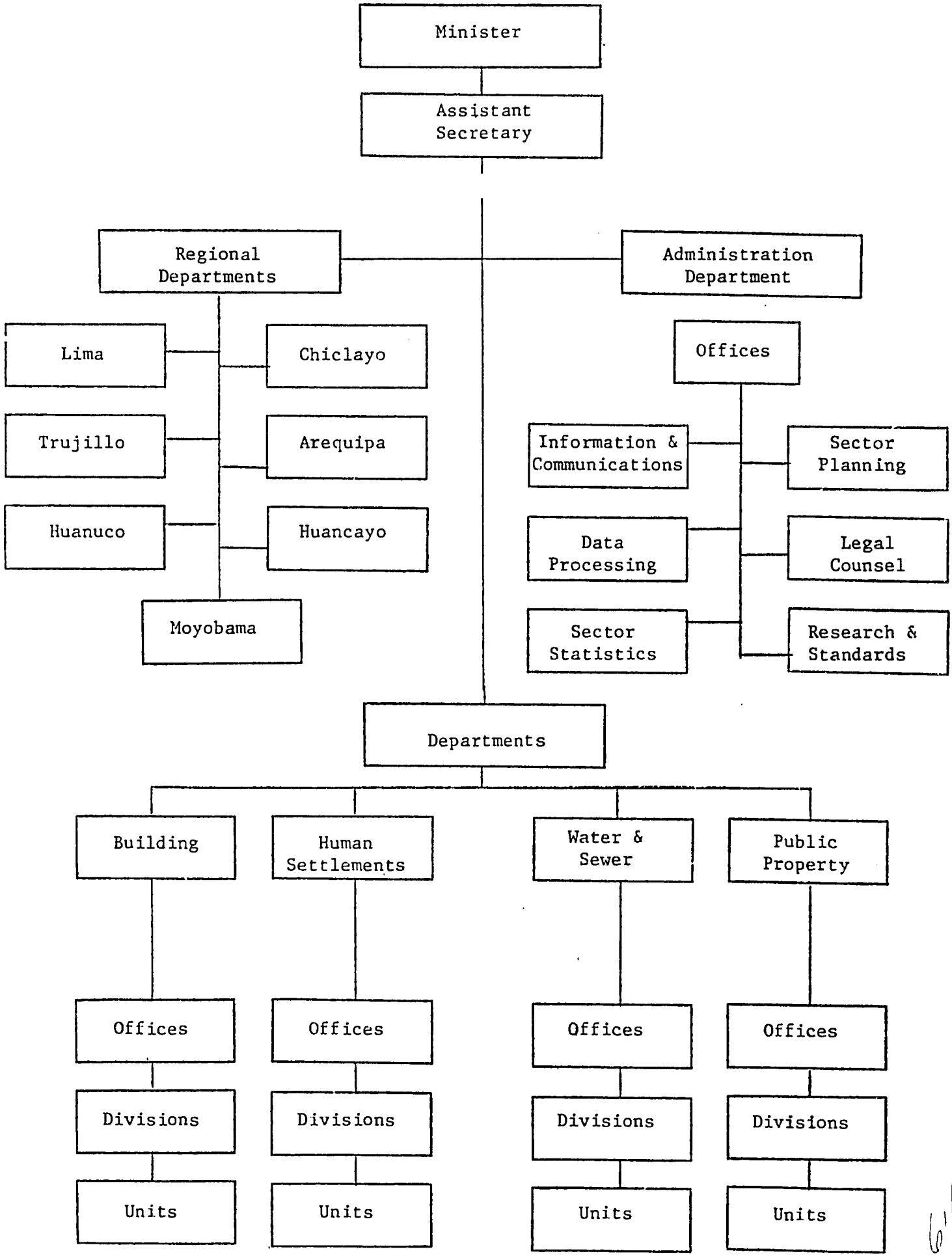
Until 1978, part or all of its loans (depending on the type of loan) was in the form of mortgage notes (cedulas) which bore an interest of 14%.1/ The cedulas are regularly traded on the Lima stock exchange, being quoted at 86% of face value in January 1979. Savings capture responded favorably to higher interest rates, increasing 15% in the nine months through September 1978. The rise of interest rates during 1978 consequently increased liquidity. With a decrease of effective house demand at the same time, the BCH had to begin disbursing its loans entirely in cash, thereby decreasing the rate of return per unit of loan.2/

1/ Loans outside the Metropolitan Lima area have always been disbursed in cash.

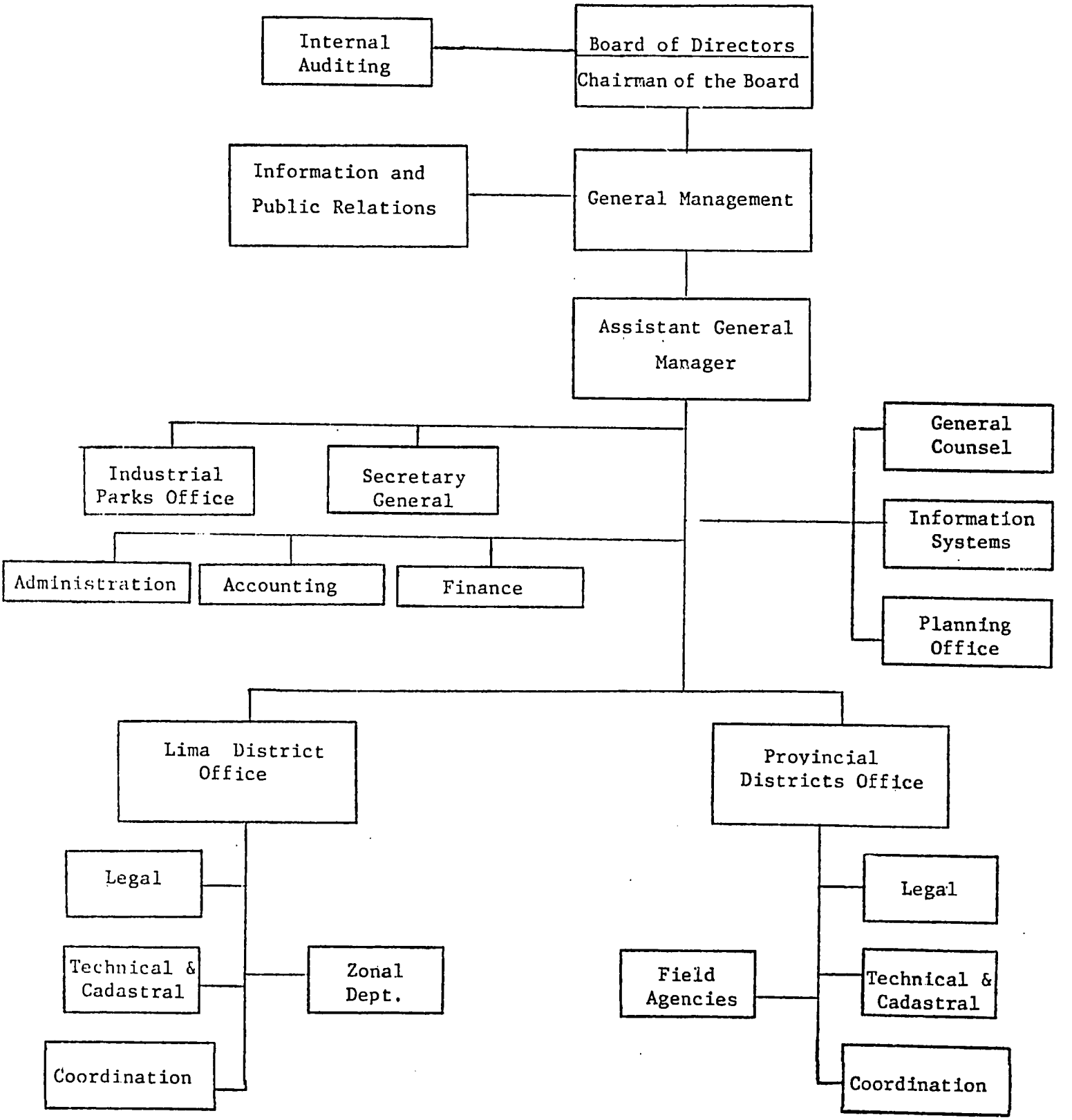
2/ 45% of the money which the BCH obtains by issuing cedulas must be used to buy government Public Sector Investment Bonds. The bonds pay 35% and are an important service of financing the fiscal deficit. BCH holdings of the Bonds rose from S/.495 to S/.1,767 during 1977.

Annex 1

MINISTRY OF HOUSING AND CONSTRUCTION



PERUVIAN REAL ESTATE MANAGEMENT ENTERPRISE (EMADIPERU)



THE ECONOMIC SETTING

Recent Economic Performance

Up to 1973, Peru's overall economic growth continued with adequate price stability and external equilibrium. In subsequent years, particularly 1974 and 1975, the apparent economic health was disguised by a rapid increase in public debt, both domestic and foreign. The pace of inflation accelerated, the exchange rate became overvalued, and fiscal and balance of payment disequilibriums grew rapidly. From 1974 on the Peruvian economy has had unsustainably large fiscal and balance of payments deficits, an accelerating rate of inflation, a declining rate of growth in Gross Domestic Product (GDP), and decreasing real income. In addition, beginning in 1975 export earnings have been adversely affected by cyclical lows in the prices of various export commodities, e.g. copper, iron ore, sugar.

Declining Economic Growth. Estimated GDP per capita for 1978 was at about the same level as in 1972-1973, i.e. about $580. According to the Central Bank's version of Peru's national accounts, the overall rate of growth of the Peruvian economy declined from an annual average rate of growth of 6.0 percent for GDP during the period 1971-1974 to 0.8 percent during the period 1975-1978. The declining rate of growth of GDP since 1974 is explained primarily by weak domestic demand for consumption and investment goods arising from a decline in real income and the contraction of money and credit in real terms. By 1977 severe recessionary conditions characterized economic sectors strongly linked to domestic demand, even though mining sector production increased substantially from 1976 on due to the coming

on stream of two copper mines and petroleum (from Peru's northeastern jungle area).

Percent Change in Gross Domestic Product

	1974	1975	1976	1977	1978[a/]	1979[b/]
Basic Productive Sectors	(+7.3)	(+2.5)	(+4.0)	N.A.	N.A.	N.A.
Agriculture	+2.3	+1.0	+3.3	+0.1	-0.8	2.6
Fishing	+35.9	-15.2	+19.9	-7.9	+23.4	11.9
Mining	+3.7	-10.9	+8.9	+29.9	14.4	9.1
Manufacturing Industry	+7.5	+4.7	+4.2	-6.1	-3.2	0.0
Construction	+22.0	+16.8	-2.8	-7.7	-16.1	0.0
Other Sectors	(+6.3)	(+4.2)	(+2.1)	N.A.	N.A.	N.A.
Total = Gross Domestic Product	+6.9	+3.3	+3.0	-1.2	-1.8	1.0

Source: Central Reserve Bank

Notes: a/ Preliminary
b/ Projected

Accelerating Inflation. Peru's current inflationary situation is illustrated by the following annual rates of increase in consumer prices (based on annual Consumer Price Index, CPI, numbers for the greater Lima area), for the past seven years: 6.8% in 1971, 7.2% in 1972, 9.5% in 1973, 16.9% in 1974, 23.6% in 1975, 33.5% in 1976 and 38.0% in 1977 and 51.8% in 1978. From 1937 until 1975 (a 38-year period), consumer price indices available for the Lima area reveal average annual rate of inflation in excess of 20 percent for only two years (1947 and 1948) and for 25 years the increase was less than 10 percent.[1/] The December 1977 to December CPI

1/ Up to June 1975 retail prices for many goods were not permitted to increase by means of law and of governmental subsidies. In addition, Peru has not had a system of automatic annual price and wage increases. From June 1975 through May 1978, increases in wages and the prices of foodstuffs, transportation charges, and petroleum products were effected by the government at approximately six-month intervals. Since 1978 the GOP has adjusted prices more continuously.

CPI increase in the Lima CPI was 73.7%. The high rate of inflation is obviously disruptive in terms of workers who clamor for wage increases. The accelerating of inflation in 1978 was also influenced by a very high rate of devaluation which moved the exchange rate S/ 80.88 per U.S. dollar at the end of September 1977 to S/ 177.03 at the end of September 1978, and many importers had to pay S/ 190-220 to liquidate foreign obligations as early as May 1978. Therefore, the cost of imported goods increased by about 150% during this period and this factor alone would suggest a 40% up-thrust in the CPI even without accompanying wage increases. Private sector pricing policies have been influenced by this devaluation experience due to the financial losses occasioned by being forced to liquidate 180-day import credits during most of 1978.

Declining Real Income. The principal official data on real income is limited to data on wages. When deflated by the Lima CPI, these data reveal a substantial decline in real wages, particularly for the period 1976 through 1978. From the decline in real wages, one can infer that real household incomes have also declined by approximately similar magnitudes. In regard to real wages, the most recent data of the Oficina Nacional de Estadistica is as follows:

	Index of Real Wages	
	White-Collar Workers	Blue-Collar Workers
December 1973	100.0	100.0
June 1974	94.6	100.1
August 1975	86.9	82.5
June 1976	85.8	96.3
June 1977	65.5	73.7
June 1978	56.2	67.0
December 1978	48.4	57.7

These data are based on basic wages (take-home pay plus social security and tax withholdings) of approximately 250 thousand employees of over 1,000 firms. Approximately three-fourth of the workers represented by these data are located in the Lima area. The index of real wages presented above is simply the index of average worker wages divided by the Lima CPI. The loss in real income for the average blue-collar worker from August 1975 to December 1978 as per the official index of real wages was 30.1 percent and the loss in real income for the average white-collar worker (which would also be representative of middle-income households) was 44.3 percent. The decline in real income since 1975 is historically more relevant than the decline from the 1973 base period of the official index because available evidence indicates that real wages reached a peak in 1973.[1/]

Balance of Payments Deterioration. The following table summarizes Peru's balance of payments since 1974. The decline of imports since 1975, which is indicative of stagnation and recession, is largely responsible for keeping the current account deficit from getting bigger. The substantial net inflow of credit to the public sector was the principal source of financing of the current account deficit during the period 1975-1977. The decline in this net inflow in 1978 reflects heavy amortization of

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1/ Converting data for earlier years to the 1973 base yields the following indices of real wages:

	White-Collar Workers	Blue-Collar Workers
1969	82.2	82.0
1970	85.7	81.5
1971	91.3	88.5
1972	97.5	95.0
1973	100.0	100.0

external credit and the decreased availability of new credits. From a high of plus $ 692.5 million at the end of 1974 Peru's net international reserve position eroded by $ 1.7 billion to negative $ 1,019 at the end of 1978.

Peru's Balance of Payments 1975-1978[a/]
(Millions of U.S. dollars)

	1975	1976	1977	1978
Exports, FOB	+1,291	+1,359	+1,726	+1,941
Imports, FOB	-2,390	-2,100	-2,164	-1,601
Trade Balance	-1,099	- 741	- 438	+ 340
Net Non-Financial Services	- 248	- 143	- 118	- 10
Net Financial Services	- 240	- 366	- 426	- 578
Transfers (and Donations)	+ 49	+ 58	+ 58	+ 56
Balance on Current Account	-1,538	-1,192	- 926	- 192
Net Long-Term Capital	+1,135	+ 675	+ 674	+ 421
Net Private Direct Investment	(+ 316)	(+ 171)	(+ 54)	(+ 25)
Net Credits to Private Sector	(+ 27)	(+ 25)	(+ 15)	(+ 14)
Net Credits to Government Sector	(+ 793)	(+ 547)	(+ 611)	(+ 394)
Net Credits to Rest of Public Sector	(- -)	(- 68)	(- 6)	(- 11)
Net Basic Balance	- 403	- 517	- 252	+ 229
Short Term Capital and Errors and Omissions	- 173	- 351	- 98	- 148
Balance of Payments	- 577	- 868	- 350	+ 82
Compensatory Movement (+ Indicates decrease in Net International Reserve Positions)	+ 577	+ 868	+ 350	- 82
Net International Reserve Position (end of year)	+ 116	- 752	-1,101	-1,019

a/ Notes: Totals may not add up due to rounding discrepancy of less than $ 1.0 million. Data for 1976 and 1977 are subject to revision and, 1978 is preliminary. Government sector category includes most state enterprises; rest of public sector includes principally state development banks.

Causes of Economic Deterioration

Economic deterioration from 1975 to the present was due partly, but not principally, to the unavoidable costs of structural reform. Obvious costs were evident, e.g. the start-up costs of various state enterprises, losses due to decapitalization of physical and human capital in the foreign enterprise and agricultural sectors, and the loss of potential investment of wealthy emigrants. Apart from these costs, some of which will be offset by future benefits, the more powerful causes of recent economic deterioration have been the following:

Living Beyond Means. Except for 1974 Peru's balance of payments during the period 1971-1978 public and private external debt increased rapidly. Expansion of domestic credit was too rapid to assure price stability and the efficient operation of a fixed exchange rate. By 1976 the erosion of international reserves brought increasing doubts concerning Peru's external creditworthiness. Unfortunately, the government delayed undertaking appropriate macroeconomic corrections and did not hold to its own stabilization program initiated in 1976. The following table reveals the classic case of fiscal-monetary malaise. Net utilization of domestic credit by the central government as a percentage of GDP increased significantly from 1974 to 1976. This growth is matched by very high rates of expansion of banking system credit in 1975 and 1976 caused by rapid expansion of credit to the public sector. At the same time, tax revenues as a percentage of GDP declined due to the inelasticity of the tax system in regard to changes in nominal income. The rate of growth of the stock of money was lower than the rate of expansion of internal credit due to the net sale of foreign

SELECTED MONETARY AND FISCAL VARIABLES 1 70-1978

	1970	1971	1972	1973	1974	1975	1976	1977	1978
MONETARY SECTOR									
Growth of Selected Monetary Variables (In Percent, Based on Dec. 31 of each year)									
1. Monetary Obligations Held by Private Sector	30.8	15.1	19.3	20.0	22.1	17.6	16.1	28.7	56.1
a. Money	39.4	10.5	20.7	20.8	26.9	18.5	21.3	N.A.	N.A.
b. Quasi Money	19.7	22.0	16.7	17.9	15.1	17.1	8.8	N.A.	N.A.
2. Domestic Credit	8.8	28.5	20.6	29.4	14.3	48.7	46.0	29.0	22.2
a. Net Credit to Public Sector	-21.1	64.7	13.1	59.8	-1.1	84.6	67.9	25.0	32.6
b. Credit to Private Sector	15.6	21.1	23.0	23.7	15.7	28.2	22.6	23.1	33.8
FISCAL SECTOR (AS PERCENT OF GDP)									
1. Tax Revenues/GDP	14.0	13.4	13.3	13.1	13.4	14.2	12.8	13.3	14.9
2. Total Current Revenues/GDP	16.2	15.7	15.5	14.9	15.4	15.9	14.5	14.7	16.1
3. Current Expenditures/GDP	13.4	14.0	14.4	14.5	13.9	16.3	15.9	18.4	17.6
4. Capital Expenditures/GDP	4.1	4.7	4.8	4.3	4.5	5.0	4.8	3.8	3.5
5. Amortization of Debt/GDP	2.4	3.1	3.0	4.4	3.6	2.3	2.1	3.2	4.5
6. Net Utilization of Domestic Credit/GDP	0.7	1.5	3.0	2.0	0.7	2.5	4.2	4.2	4.1

exchange (net purchase of soles)by the banking system arising from the trade deficit. When this process ended, e.g. due to the exhausting of foreign exchange reserves and international creditworthiness, the stock of money and the rate of inflation began to increase abnormally, as in 1978.

Waste of Capital. Presently available data indicate that Gross Domestic investment, which had averaged 20.9% of resource utilization (the sum of Consumption plus Gross Domestic Investment) during the nine-year period 1960-1969, fell to 15.6% of total resource utilization during the nine-year period 1969-1977. Thus, Peru failed to capture significant domestic resources for productive purposes. Also, the public sector's share of Gross Fixed Investment averaged 46.6% during the five year period 1972-1976 as compared with 27.3% during the period 1962-1966. Unfortunately, not all public spending proved to be economically productive. For example, Peru's present Minister of Economy and Finance stated publicly on June 14, 1978, that military expenditures had been excessive. Excessive military expenditures, certain public sector projects of low productivity, capital flight, and "protective" private sector investment of low productivity (e.g., industrial plant expansions of a capital-intensive type and urban real estate) all resulted in a large waste of resources, which had a negative impact on the pace of economic growth and led to a lowering of living standards.

Bad Luck with Export Earnings. World market conditions for Peru's exports weakened markedly after 1974. Even though Peru's exports are concentrated in primary commodities, their diversity has usually signified

a stability of export earnings not enjoyed by many less-developed countries. In the mid-1970's some analysts were projecting that Peru's commodity export earnings would reach from $ 3 to 4 billion in 1978. Export earnings in 1978 were actually $ 1.9 billion. The difference arises principally from lower-than-forecast volumes of fishmeal and petroleum exports and cyclically low copper and sugar prices. The impact of the shortfall in export earnings on Peru's $ 10-12 billion economy has been severe. The increase in international copper prices will bring a substantial increase in 1979 export earnings. It now appears likely that Peru's 1979 export earnings will be in the range of $ 2.5 to 3.0 billion.

The Current Economic Situation

The Peruvian economic situation has improved significantly since the low point of the financial crisis in mid-1978 (which was marked by an extreme shortage of foreign exchange and resulting accumulated payment averages), although the domestic economy remains depressed and continuing efforts are needed to restore economic equilibrium. The brigher economic picture is primarily a result of several policy measures which were taken by the Peruvian government since May of 1978. After a period of indecision, in May 1978 the government implemented austerity measures, replaced key members of the economic team, and secured emergency financing. Since then the Peruvian economic team, headed by Minister of Economy and Finance, Silva Ruete, and Central Bank President, Manuel Moreyra, has implemented an economic program consisting of three major parts: a financial program including a $300 million IMF Stand-By and Compensatory Finance Loan; an Economic Plan for 1979-1980; and debt rescheduling. The objectives of the

Peruvian stabilization program are to revive production in key sectors, restore balance of payments equilibrium and lower the inflation rate.

Financial Program. The keystone of the Peruvian financial program is fiscal restraint, including significant cutbacks in public spending and deficit financing by the Central Bank. Under the conditions of the IMF Stand-By, Peru is subject to ceilings on the amount of domestic credit from the banking system to the public sector and the net domestic assets of the Central Bank. The Peruvian central government ended 1978 with a domestically-financed budget deficit of $/.67.7 billion, a large improvement over the S/.100 billion which had been projected when the financial team took office. The growth of total net internal credit closed markedly in 1978, falling from 57 percent in 1977 to only 29.6 percent in 1978. The rate of expansion of credit to the public sector dropped from 63.5 percent in 1977 to only 32.5 percent in 1978. The growth of credit to the private sector increased somewhat in nominal terms, rising from 26.2 percent in 1977 to 30 percent in 1978. Given Peru's 73.7 percent rate of inflation in 1978 (December 78 over December 77), these nominal rates of increase imply a tight credit squeeze in real terms. The 1979 central government budget is austere with a significant increase in tax revenue, a decline in current expenditures, including a 36 percent real cut in defense spending. If the budget guidelines are followed, the share of the overall budget deficit in GDP will fall from 5 percent last year to 1.5 percent in 1979. Economic officials predict a 1979 domestic financing requirement of S/.86 billion of the budget which is within the credit ceilings set by the IMF Stand-By

and represents a real decline of 16 percent compared to the 1978 budget. The Peruvian government complied with the IMF targets established for November 15 and shortly thereafter drew down the second tranche of the Stand-By Loan. On February 12, 1979, Peru made a third drawdown of $25.8 million. Peruvian economic performance in 1978 bettered the goals set by the IMF and it is likely that the next IMF checkpoint on March 31, 1979 will be passed with ease.

The 1978-1980 Economic Program. On October 29, the Minister of Economy and Finance, Javier Silva Ruete, outlined the objectives of the GOP's economic program for 1978-80. The six major goals are: promotion of production in the priority sectors of agriculture, energy, mining, and export industries; a significant increase in traditional and nontraditional exports; a reduction in the inflation rate; a lower rate of unemployment and underemployment; a reduction of future external indebtedness relative to gross domestic product and improvement in debt structure; and an increase in reserves to a level compatible with national development. The Minister emphasized specific goals in the financial area and an improvement in tax administration, including a serious program to combat tax evasion and he explained that the new Peruvian investment strategy will encourage labor-intensive investment, projects with quick returns, small and medium sized enterprises, and foreign investment in priority areas when justified by the magnitude of financing or technology (and complying with existing laws, including Andean Pact commitments).

Debt Rescheduling. As a result of large increases in international borrowing during 1973-76, Peru's total external debt reached $8.9 billion at the end of 1978. This included $6.7 billion in medium-and long-term debt and $2.2 billion in short-term debt. The public sector accounts

for about 80 percent of the medium- and long-term debt. The size and maturity structure of the debt, which would have led to onerous debt service payments in 1979 and 1980, made a rescheduling of debt payments necessary. During Paris Club meetings on November 2 and 3, 1978, the GOP and its major creditor governments established the framework for rescheduling Peruvian public sector debt falling due in 1979 and 1980 which is owed to or guaranteed by other governments, totaling $588 million. The GOP also negotiated an agreement with the commercial banks to reschedule Peruvian public sector debt owed to them which falls due in 1979 and 1980, totaling $709 million. If the debt rescheduling provided by the Soviet Union, other socialist countries, and the Latin American countries and the resources from the IMF Stand-By are also considered, the total amount of financial relief negotiated by the Peruvian government for 1978-80 totals nearly $2 billion. As a result, the debt service ratio (the ratio of debt service payments to export receipts) will be reduced from a projected 58 percent in 1979 to 34 percent and from 47 percent in 1980 to 24 percent. The debt service ratio for 1978 was approximately 46 percent.

Balance of Payments Outlook Brightens. Preliminary figures indicate that Peru ended the year with a trade surplus of approximately $340 million, the first positive trade balance recorded since 1973. Relative to 1977, export receipts increased by 12 percent and total import payments dropped by 28 percent. The sharp contraction in import payment was a result of the economic recession, lack of import financing, depreciation of the sol, and increased tariff rates. Export products with the largest increases in value were petroleum and petroleum products which rose from $50 million

in 1977 to $180 million in 1978 and silver which rose by 20 percent. The value of copper exports increased by only 4 percent. Nontraditional exports rose from $237 million in 1977 to $354 million in 1978. Net long-term capital flows fell to about $420 million, a drop of about $250 million from the 1977 level. The decline is explained by a 15 percent drop in official loans and a significant increase in amortization payments. The net basic balance recorded a surplus of $229.5 million in 1978 compared to a deficit of $252 million in 1977. The improvement in the balance of payments halted the decline in net international reserves which began in 1975. At the end of 1978 the net international reserves of the Central Bank were negative $592 million compared to negative $644 million in September 1978.

The outlook for the 1979 external accounts is favorable. The government is projecting that exports will total $2,375 million, a 22 percent increase from the 1978 level based on a doubling of petroleum exports and higher metals prices but the total export earnings will be much higher. Imports are forecast to rise 12 percent to reach nearly $1,800 million. The official projection is a 1979 trade surplus of about $575 million, but the actual figure is likely to be higher. In spite of a further decrease in net long-term capital flows, Peruvian government officials expect that the surplus on the net basic balance will raise about 66 percent above the 1978 level.

The official value of the sol fell from S/.130 = $1 at the end of 1977 to S/.196.68 = $1 at the end of 1978, a depreciation of about 51 percent against the dollar. The Central Bank is forecasting an exchange

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rate of S/.225 = $1 for the end of June and S/.250 = $1 by the end of 1979. The acute foreign exchange shortage which characterized the first half of 1978 has been considerably eased. Most arrearages on private sector foreign exchange debts have been settled and Peruvian importers are finding it easier to obtain financing and open up letters of credit. The easing of the foreign exchange crisis has also permitted the Peruvian government to liberalize import financing requirements and officials are taking the first steps to encourage more imports in 1979 in order to revive production. In an attempt to minimuze the risk in importing, the Central Bank is also announcing what the official buying rate for the sol will be two months in advance. The aim of this new policy is also to discourage speculation and lower inflationary expectations.

Outlook for Real Income. In the normal sequence of economic events, balance of payments improvement, which is underway in 1979, enhances the prospect for recovery of the level of domestic economic activity because imports (which are essential for increases in the output of domestic manufacturing industry) can be increased as foreign exchange earnings increase. This process is, however, not entirely automatic and depends upon an increase in real domestic household incomes. There is an important discretionary element. At present, inflation continues at an annual rate in excess of 70 percent. The current program of monetary-fiscal restriction should reduce the rate of inflation to a 40-60 percent range during the second half of 1979. High percentage increases in nominal wages in 1979 (of a magnitude necessary to increase

real income) are believed to be unwise in 1979 because they would contribute more to the maintenance of a high rate of inflation than to an increase in real demand. For this reason, the outlook for a significant increase in real demand in 1979 is dim. Once the rate of inflation has declined, as should occur during the second half of 1979 and first half of 1980, the prospects for increasing real demand via increases in nominal wages will be enhanced. The most likely scenario is the following: real income of households will increase in moderate form in 1980 and in more dramatic form in 1981 and 1982. Restoration of effective demand for housing, which depends upon enlarged real household income, is not likely during the next 12 to 18 months but is very probable in the subsequent period.

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ANNEX 4

PERU'S EXTERNAL DEBT AS OF DECEMBER 31, 1977
(ON A DISBURSED BASIS)
(In Millions of U.S. Dollars)

I. Long Term (Original Maturity of Over One Year Term)	6,139.7
A. Public Sector	4,813.9
(1) Central Government	2,572.8
(2) Public Enterprises	1,606.9
(3) Other Public Sector	8.1
(4) Central Reserve Bank	626.1
B. Private Sector	1,325.8
(1) Domestic and Mixed Enterprises	447.7
(2) Foreign Enterprises	878.1
II. Short Term (Original Maturity of Less than one Year Term)	2,133.9
A. Import Credits	706.3
B. Export Credits	259.0
C. Financial Credits	236.4
D. Banking System	932.2
(1) Central Reserve Bank	274.9
(2) Bank of the National	488.9
(3) Commercial Banks	166.4
(4) Development Banks	2.0
III. Total (III = I plus II)	

SOURCE: Direccion General de Credito Publico, Ministerio de Economia y Finanzas; Banco Central de Reserva del Peru.

ANNEX 5

POPULATION AND GROWTH RATE OF PRINCIPAL PERUVIAN URBAN CENTERS AND THEIR PUEBLOS JOVENES

Urban Centers	Urban Population Total (000's)	%	Pueblos Jovenes Total (000's)	%	Growth Rate Urban Population, 1961-72
Lima Metropolitana	2,830,	100	762,	26.9	5.9
Arequipa	272	100	102,	37.5	6.1
Trujillo	208,	100	133,	63.8	8.1
Chiclayo	168,	100	58,	34.8	6.5
Plura	115,	100	57,	49.6	5.3
Cuzco	112,	100	24,	21.3	3.8
Huancayo	104,	100	17,	16.0	5.5
Chimbote	134,	100	128,	95.9	9.3
Iquitos	99,	100	21,	21.7	6.2
Ica	69,	100	20,	28.7	3.8

SOURCE: Census of Pueblos Jovenes, 1970

POPULATION GROWTH AND PROJECTIONS, METROPOLITAN LIMA AND ALL PERU AND OF THE PUEBLOS JOVENES OF LIMA-CALLAO

	Peru			Metropolitan Lima			% of Growth of Peru and Metropolitan Lima
	Total 000's	Urban 000's	%	Total 000's	Pueblos Jovenes	%	
1940	6,208,	2,197,	35,4	630,	45,	7.1	10.1
1961	9,907,	4,698,	47.4	1,846,	318,	17.2	18.6
1972	14,224,	8,723	61.3	3,331,	940,	28.2	23.4
1975	15,470,	9,863,	63.7	3,832,	1,123,	29.3	24.7
1980	17,780,	11,980,	67.4	4,764,	1,610,	33.8	26.8
1990	23,323,	17,199,	73.7	7,742,	2,865,	37.0	33.2
2000	29,795,	23,429,	78.6	11,707,	4,683,	40.0	39.3

* The 1961 Census defined urban areas as those centers with the following characteristics: streets, plazas, water, sewerage, electricity, and a population equal to or greater than that of the capital of the district. The 1972 Census defined urban centers as those settlements with more than 100 contiguous houses and counted all district capitals as urban.

Source: Ministry of Housing and Construction.

ANNEX 7

POPULATION & PUEBLOS JOVENES RESIDENTS
BY MAJOR CITIES

CITY	1961 TOTAL	1961 PUEBLOS JOVENES	1961 % OF TOTAL POPULATION	1970 TOTAL	1970 PUEBLOS JOVENES	1970 % OF TOTAL POPULATION
Arequipa	164,325	62,768	38.19	252,[illegible]	101,301	40.27
Ayacucho	23,768	-	-	38,81[illegible]	15,020	38.69
Cuzco	79,857	5,010	6.27	132,642	23,882	18.00
Chiclayo	88,955	31,500	35.41	151,570	58,557	38.63
Chimbote	59,990	45,065	75.12	135,769	128,495	94.64
Chincha	20,817	-	-	32,572	13,486	41.40
Chancay-Huacho	22,806	-	-	32,179	20,356	63.25
Huancayo	64,152	-		116,957	16,667	14,25
Huanuco	24,646	-	-	37,262	6,228	16.71
Ica	49,097	7,854	15.99	76,164	19,763	25.94
Mazca	13,587	-	-	27,387	11,024	40.25
Pisco	22,112	-	-	41,690	14,126	33.88
Ilo	9,986	3,561	35.65	15,098	12,761	84.52
Iquitos	57,777	-	-	104,449	21,525	20.60
Maquegua	7,795	-	-	12,092	6,140	50.77
Paita	9,615	-	-	13,567	5,399	39.79
Piura	72,096	28,200	39.11	124,942	56,959	45.58
Pucallpa	26,391	-		54,088	7,959	14.71
Sullana	34,501	10,200	29.56	54,446	27,908	51.25
Tacna	27,499	4,000	14.54	52,721	24,485	46.44
Talara	27,957	-	-	38,103	6,348	16.66
Trujillo	100,130	34,500	34.45	208,661	129,073	61.86
Tumbes	20,885	-	-	28,712	23,123	80.53
Sub-Total	1,028,745	232,658	22.61	1,782,632	751,090	42.13
Lima-Motro'a.	1,766,722	404,225	22.87	2,959,613	761,755	25.73
TOTAL	2,795,467	636,883	22.78	4,742,245	1,512,845	31.90

Source: Roberto Chavez, "The Pueblos Jovenes" (Washington, D.C.: World Bank, 1975), mimeo., draft., p. 6.

TECHNICAL-LEGAL SITUATION OF PUEBLOS JOVENES IN PERU

ORAMS[1]	OZAMS[2]	NUMBER OF PUEBLOS JOVENES	INHABITANTS OF PUEBLOS JOVENES	DECLARED PUEBLO JOVENES	CLASSIFIED PUEBLOS JOVENES	HOUSING LOTS	TITLES GIVEN OUT	LOTS WITH HOUSE CONNECTIONS		
								WATER	SEWERAGE	ELECTRICITY
I	Tumbes	4	10,755	4	4	1,797	2	256	109	950
	Piura	29	116,051	29	1	19,308	3	12,044	5,773	5,546
	Sullana	11	45,102	11	-	8,651	25	711	-.-	1,204
	TOTAL	44	171,908	44	5	29,756	30	13,011	5,882	7,700
II	Chiclayo	36	122,450	35	28	28,519	1,893	8,215	7,778	4,299
	Trujillo	27	203,001	20	1	33,631	743	16,488	12,655	19,571
		10	9,258	6	1	1,335	-.-	-.-	-.-	470
		11	4,341	11	-.-	849	-.-	32	-.-	-.-
		1	500	1	-.-	111	-.-	100	-.-	-.-
	TOTAL	85	339,550	73	30	64,445	2,636	24,835	20,433	24,430
III	Chimbate	49	178,964	43	40	29,182	604	13,988	11,187	9,799
	TOTAL	49	178,964	43	40	29,182	604	13,988	11,187	9,799
IV	Norte	84	390,740	73	54	64,385	5,418	9,203	12,596	29,303
	Sur	43	396,344	41	31	76,015	9,587	3,973	3,693	25,777
	Este	97	178,780	95	89	33,030	3,355	15,548	4,309	20,490
	Centro	44	85,479	43	34	15,397	117	5,552	8,713	6,525
	Oeste	50	82,987	49	45	13,526	1,098	4,219	4,655	5,725
	Huacho	43	39,375	29	27	7,428	323	1,119	739	605
	Huarochirí	5	3,376	3	2	670	-.-	300	-.-	-.-
	Cañete	10	8,869	10	2	1,932	-.-	211	-.-	239
	Ica	37	90,613	27	26	16,323	80	2,895	1,388	4,044
	TOTAL	413	1,276,563	370	310	228,706	19,978	43,020	36,093	92,708
V	Iquitos	25	88,390	25	22	14,852	2,660	8,222	5,251	7,122
	Pucallpa	6	25,785	6	-.-	4,919	-.-	-.-	-.-	-.-
	San Martín	1	1,483	1	-.-	278	-.-	60	-.-	-.-
	TOTAL	32	115,658	32	22	20,049	2,660	8,282	5,251	7,122
VI	Huánuco	5	10,462	5	2	2,091	-.-	-.-	-.-	-.-
	Huancayo	8	5,628	1	1	960	-.-	226	61	213
	La Merced	5	1,520	-.-	-.-	300	-.-	-.-	-.-	-.-
	Pasco	2	3,759	1	-.-	683	-.-	-.-	-.-	33
	TOTAL	20	21,369	7	3	4,034	-.-	226	61	246
VII	Cusco	26	27,455	26	-.-	5,568	1,878	844	1,544	2,964
	Apurímac	1	1,676	1	-.-	321	-.-	-.-	-.-	-.-
	TOTAL	27	29,131	27	-.-	5,889	1,878	844	1,544	2,964
VIII	Puno	5	4,415	5	5	750	-.-	30	30	60
	TOTAL	5	4,415	5	5	750	-.-	30	30	60
IX	Arequipa	77	167,794	72	-.-	21,764	10,245	17,633	18,262	21,435
	Camana	13	13,513	12	-.-	2,730	121	720	774	423
	TOTAL	90	181,307	84	-.-	24,494	10,366	18,353	19,036	21,858

TECHNICAL-LEGAL SITUATION OF PUEBLOS JOVENES IN PERU

ORAMS[1]	OZAMS[2]	NUMBER OF PUEBLOS JOVENES	INHABITANTS OF PUEBLOS JOVENES	DECLARED PUEBLO JOVENES	CLASSIFIED PUEBLOS JOVENES	HOUSING LOTS	TITLES GIVEN OUT	LOTS WITH HOUSE CONNECTIONS		
								WATER	SEWERAGE	ELECTRICITY
X	Ayacucho	17	30,838	17	-.-	5,703	-.-	1,367	1,071	-.-
	TOTAL	17	30,838	17	-.-	5,703	-.-	1,367	1,071	-.-
XI	Tacna	14	37,988	12	-.-	7,081	1,185	6,116	3,152	5,926
	Maquegua	8	27,230	5	-.-	5,391	403	1,796	1,092	2,164
	TOTAL	22	65,218	17	-.-	12,472	1,588	7,912	4,244	8,090
TOTAL GENERAL		804	2,414,921	719	415	425,480	39,740	131,868	104,832	174,887

[1] Oficina Regional de Movilizacion

[2] Oficina Zonal de Movilizacion

Source: Sinamos, Direccion General de Pueblos Jovenes, 1975.

ANNEX 9

MEDIAN INCOME OF THE TARGET GROUP

1. The household surveys by the Compania Peruana de Investigacion de Mercados S.A. report average family income. They normally provide no direct information on median family income. (See Paragraph 9 below.)

2. I have found two sources which report median income or allow median family income to be derived.

a. The 1970 government household survey results published in 1973.[1/]

b. A February 1978 household survey for Lima, February 1978 published in "El Comercio", March 7, 1978 (I have not judged the reliability of this survey).

3. Four different ways of calculating family median income for July 1978 for Lima[2/] yield estimates which are not too divergent. The methodology can be used to estimate family median income in other cities.

Method A	S/.29,400
Method B	29,958
Method C	32,851
Method D	31,732

4. The 1970 survey data were used in the AID Project Paper on the Low-Income Housing Guaranty Program (527-HG-09) as the basis for estimating median and mean family incomes for 7 Peruvian urban areas as well as median and mean incomes at the national level and for all urban areas combined. The update from 1970 to 1976 assumed a 10% annual increase in income. The results for Lima-Callao for 1976 showed a median income of US$216 per month and an average of US$270. Converting the median family income of US$216 to soles at the average of the year-end 1975 and 1976 exchange rates (S/57.185 per US$1.00) and updating by the Lima Metropolitan CPI to July 1978 produces an estimate of S/.31.732 (Method D in the 1 February memo).

5. The Revolutionary government, despite its evidently sincere intent, has not succeeded in redistributing income toward the lower-income groups. What redistribution may have occurred seems to be confined largely to shifts within high-income deciles. The 1970 ratio between median and average family income for Lima-Callao is 0.80. The June 1977

1/ "Tabulaciones sobre Ingresos de la Poblacion en el Peru," Ministerio de Trabajo, Direccion General del Empleo, 1973.

2/ I have not tried to distinguish between Lima, Lima Metropolitana, and Lima-Callao.

household survey of Lima yielded an average family income of S/.23,981. Eighty percent of that would estimate the median income to be S/.19,185 in June 1977. Updating the median estimate by the CPI produces an estimate of S/.29,958 for July 1977 (Method B).

6. A similar household survey for June 1978 conducted by the same company estimated average monthly family income in Lima to be S/.35,371 in June 1978. Again updating to July 1978 by the Lima Metropolitan Lima CPI and calculating median income to be 80% of the average, I derive an estimate of S/.29,400 (Method A).

7. Finally, the February 1978 household survey in Lima Metropolitana, "Encuesta: presupuesto familiar y expectiva politica,"[1] permits an estimate of median family income. Updating by the CPI to July yields a calculation of S/.32,851 for Lima median family income in July 1978 (Method C).[2]

8. The updating of the 1970 Survey figures by the CPI has not yet, apparently, introduced severe distortions. Updates must inevitably become less reliable, however, as relative prices and incomes change during inflation. A new survey should be commissioned as soon as possible, preferably by mid-1979.

9. In February 1979, the Compania Peruana de Investigacion de Mercados, S.A., prepared estimates of median monthly household income for urban centers in Peru. The figure for Gran Lima is S/.32,751 as of 30 June 1978. This overstates the median income because it is derived by a linear interpolation within the income cell which contains the median. The larger the span of the cell, the greater will be the overestimate. Nevertheless, it is reassuring that their calculations are in line with the other four estimates presented in paragraph 3 above. The estimates for other cities are:

1/ Published in El Comercio, 7 March 1978.

2/ This, the highest of the four estimates, unavoidably exaggerates the size of the median income since the 50% population level is derived by interpolation within an income cell comprising 30.8% of the total families. By assuming a straightline distribution of income within the cell up to more than the halfway point (17.6% of the total 30.8% of families to reach the median), I fail to allow for the inequality of income distribution within the cell. The spread between the other three estimates is less than 8%.

CITY	MEDIAN MONTHLY HOUSEHOLD INCOME
Arequipa	S/.20,939
Cajamarca	15,297
Cuzco	17,346
Pasco	20,356
Chiclayo	18,576
Chimbote	13,648
Huancayo	18,583
Huanuco	14,118
Ica	21,224
Iquitos	19,847
Piura	20,969
Pucallpa	16,790
Sullana	14,355
Tacna	24,289
Trujillo	21,037

TOTAL MONTHLY FAMILY INCOME AND DISTRIBUTION IN SELECTED PUEBLOS JOVENES OF GREATER LIMA

Total Monthly Income	No. Families	Percent	Cumulative Percent
S/. 8 - 12,000	99	29.9	29.9
S/.13 - 19,000	107	32.3	62.2
S/.20 - 26,000	63	19.0	81.2
S/.27 - 37,000	32	9.6	90.8
S/.38 - 40,000	22	6.6	97.4
More Than S/.40,000	8	2.4	99.8

SOURCE: Preliminary findings of survey conducted by Mutual Metropolitan in November-December, 1978, covering 331 residents in 11 pueblos jovenes in the districts of Chosica, Callao, San Juan de Miraflores, Vitarte, San Marten de Porros, and Chorrillos.

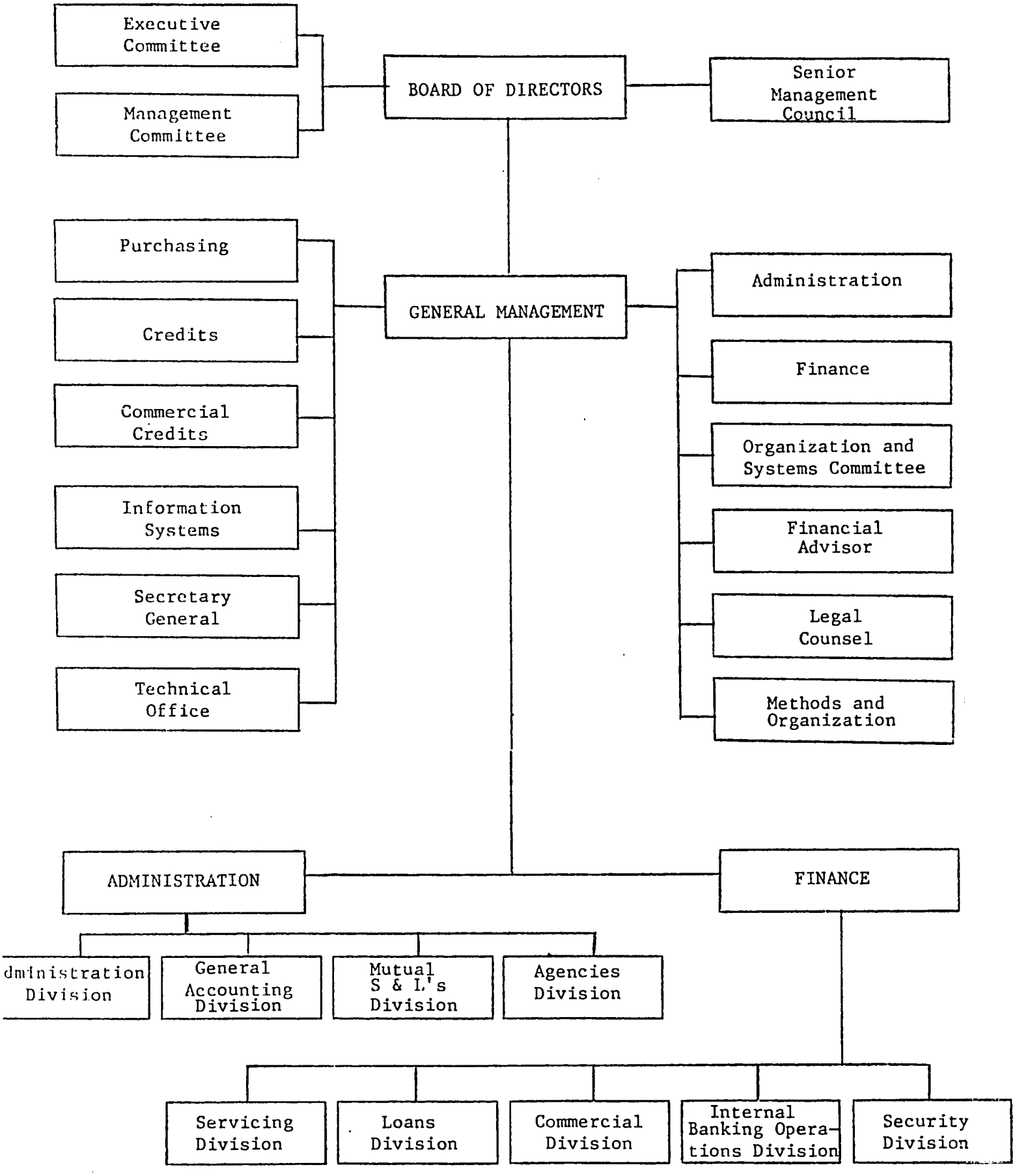
BANCO DE LA VIVIENDA DEL PERU

AUTHORIZED FUNCTIONS

1. To make mortgage loans constructing, buying, and improving housing.
2. To make mortgage loans for urbanization projects.
3. To make mortgage loans to savings banks and to S&L's.
4. To make loans to state development entities for low-income housing.
5. To make loans to savings banks and to S&L's to cover seasonal cash shortages.
6. To guarantee low-income housing.
7. To act as an agent for institutions who make investments in or place deposits with savings banks and S&L's.
8. To buy and sell construction materials when necessary to ensure continuous supplies.
9. To control and regulate the S&L's: to fix interest rates, commissions, reserve requirements, etc.
10. To act like any bank: receive savings deposits, issue mortgage bonds, receive guaranty funds, etc.
11. To assist, regulate and promote the S&L's. (The Superintendency of Banks supervises and controls the S&L's.)

Source: BVP

HOUSING BANK OF PERU



ANNEX 13

BVP SOURCES AND USES OF FUNDS

1978 AND 1979

(millions of soles)

	31st December 1978	During 1979	31st December 1979
SOURCES OF FUNDS	45,047.1	16,219.7	58,032.2
CAPITAL, PROFIT, & RESERVES	2,401.3	5,256.3	7,657.6
Capital	1,478.9	3,357.0	4,835.9
Profit & Reserves	345.1	1,552.6	1,897.7
Provisions	189.6	346.7	536.3
Revaluation gains	387.7	-	387.7
MORTGAGE DEVELOPMENT BONDS	2,152.4	550.8	2,306.3
EXTERNAL CREDIT	11,217.3	4,750.0	15,654.3
BID-179-SF/PE	2,075.8	-	1,943.3
BFV-527-HG-005-008-71	5,270.9	-	5,160.3
AID-527-055	2,775.3	-	2,775.3
BIRF-1283-PE	139.7	2,750.0	2,819.7
BFV-527-HG-005-009-77	955.6	2,000.0	2,955.6
DEPOSITS (NET)	13,118.7	1,455.0	14,573.8
SIGHT DEPOSITS	3,147.0	544.5	3,691.5
Sight deposits	481.9	167.4	649.3
Savings	190.2	98.1	288.3
S&L Reserve deposits	2,475.0	279.0	2,754.0
TIME DEPOSITS	9,971.7	910.5	10,882.2
Time deposits	315.5	232.7	548.2
Banco de La Nacion	1,089.1	364.8	1,453.9
Fondo de Garantia D.L. 19604	1,100.9	313.0	1,413.9
S&L credits	7,466.3	-	7,466.3
INTERNAL CREDIT (BCRP)	13,185.0	-	11,972.0
S & L's	11,722.0	-	11,722.0
Other Credits	1,463.0	-	1,463.0
PORTFOLIO COLLECTIONS	-	1,311.7	-

	31st December 1978	During 1979	31st December 1979
OTHER LIABILITIES	2,170.8	2,895.9	5,066.7
GUARANTORS	801.6	-	801.6
USES OF FUNDS	45,047.1	16,219.7	58,032.2
REQUIRED RESERVES	965.7	174.4	1,140.1
LOANS	20,757.9	11,306.5	30,752.7
BID-179-SF/PE	698.9	-	630.3
BFV-527-HG-008-71	1,768.2	-	1,744.5
AID-527-L-055	2,212.1	210.0	2,261.6
BIRF-1283-PE	392.9	4,858.9	5,231.0
BFV-527-HG-009-77	882.3	2,000.0	2,876.3
BVP reserves	6,230.0	3,270.9	8,468.9
Commercial Loans	1,107.2	966.7	2,073.9
Credit to S & L's	7,466.3	-	7,466.3
AMORTIZATION OF LOANS	-	1,526.0	-
Internal	-	1,213.0	-
External	-	313.0	-
MORTGAGE DEVELOPMENT BONDS	-	396.9	-
INVESTMENTS	11,848.4	170.3	12,018.7
BVP BUILDING	797.9	103.8	901.7
FURNITURE AND EQUIPMENT	44.9	89.1	133.9
REVALUATION OF ASSETS	387.7	-	387.7
OTHER ASSETS	8,997.5	2,895.9	11,893.4
GUARANTEES	801.6	-	801.6
AVAILABLE FUNDS	445.4	(443.1)	2.3

Source: BVP

BVP INTEREST RATES

		TASA ACTUAL
I	TASAS DE INTERES PASIVAS	
	1. Depósitos	
	1.1 A la Vista	2.0
	1.2 De Ahorro	29.0
	1.3 A Plazo Fijo	
	- De 90 a 179 días	30.5
	- De 180 a 269 días	31.5
	- De 270 a 359 días	32.5
	- De 360 días a más	33.5
	1.4 A la vista (de CAPVs por Fondos de Encaje, de Operación y/o Fondos en Exceso)	33.5
	2. Bonos de Fomento Hipotecario	15.0
	3. Fondos de Garantía	12.0
II	TASAS DE INTERES ACTIVAS	
	4. Area Comercial	31.5
	5. Fomento de Vivienda a/, b/	
	5.1 Programas en Ejecución	
	5.1.1 Con recursos externos	
	- AID-527-L-055	29.0
	- AID-527-HG-009	29.0
	- Otras fuentes	28.5
	5.1.2 Con recursos propios	29.0
	5.2 Etapa de Recuperación	
	5.2.1 CAPVs	17.0
	5.2.2 Coop. y Asociaciones	
	- Zona Sismo	15.0
	- Asoc. Pro Vivienda	29.0
	- Coop. Pro Vivienda	29.0
	- Soc.Agrc. de I.S. (SAIS)	16.0
	- Coop. de Servicio	31.5
	- Constructores	31.5

5.2.3 Empresas Públicas	17.0
5.2.4 Especiales	15.0
5.2.5 Individuales	
- Adm. CAPVs	21.5
- Adm. EMADI	17.5
- Adm. BVP	30.0
- SINAMOS PP.JJ.	16.0
- Cocheras	23.5
- Provisión Servicios	12.5
- Locales Comerciales	31.5
6. Sucursales (Créditos tipo Mutual) b/	33.5

a/ Las tasas corresponden al área de Lima-Callao; en Provincias debe tomarse el 1.0% menos que las señaladas (a excepción de la Zona Sismo).

b/ Se aplica a las operaciones que se contraten a partir del 1° de Noviembre de 1978 a las-situaciones consideradas. Las operaciones en contrato vigente al 31.10.78 no se modifi can.

Maximum interest rates were raised by 3 points in January 1979.

Source: BVP.

(Note: This annex will be translated for final draft.)

INTEREST RATES IN THE FINANCIAL SYSTEM

TASAS ACTIVAS

	Por ciento anual
A. BANCO CENTRAL DE RESERVA	
A los Bancos Comerciales	
Por redescuento y crédito con garantía	28.5
Por redescuento selectivo (Asociada) *.	21.5 a 24.5
A los Bancos Regionales	
Por redescuento y crédito con garantía	25.0
Por redescuento selectivo*	20.0 a 23.0
Al Banco de la Nación	
Campaña Arrocera	0.5
Al Banco Agrario	
Por redescuento y crédito con garantía	20.0
Al Banco Industrial	
Por redescuento y crédito con garantía	21.0 a 23.0
Al Banco Minero	
Por redescuento y crédito con garantía	21.0 a 23.0
A las Empresas Financieras	
Por redescuento y crédito con garantía	34.0
A COFIDE	
Por redescuento y crédito con garantía	21.0
A FONAPS	
Por redescuento y crédito con garantía	21.0
Líneas Especiales	12.0
B. BANCOS COMERCIALES	
Préstamo y avance en cta. cte.	31.5
Crédito Selectivo	27.0 a 28.0
Préstamo en M/E (1)	
C. BANCO DE LA NACION	
Préstamo y avance en cta. cte.	31.5
D. BANCOS DE FOMENTO PRODUCCION	
Avance en cta. cte. y corto plazo	31.5
E. BANCOS DE FOMENTO VIVIENDA	
Avance en cta. cte.	31.5
F. EMPRESAS FINANCIERAS PRIVADAS	
Créditos	36.0
G. COFIDE	
Activos Fijos	
Empresas públicas y no públicas	
Empresas no públicas descentralizadas.	
Capital de Trabajo	
Estudios	
Refinanciaciones	
H. SEGUROS	
Préstamos con garantía hipotecaria	
inferior a un año	31.5
superior a un año	36.0
Préstamos con garantía prendaria	
inferior a un año	31.5
superior a un año	36.0
Préstamos a los Asegurados Vida con garantía de sus respectivas pólizas	6.0

(*) Las zonas fronteriza y de selva gozarán de una reducción de 1% en todas las tasa indicadas.

(1) La Banca Comercial quedó autorizada a determinar las tasas de interés activas.

TASAS PASIVAS

	Por ciento anual
A. DEPOSITOS A LA VISTA	2.0
B. DEPOSITOS DE AHORRO	
Bancos Comerciales, Nación, Industrial y Minero	29.0
Banco Agrario	31.5
Mutuales	30.5
C. DEPOSITOS A PLAZO (1)	
1. Bancos Comerciales, Nación, Industrial, Minero y Mutuales	
De 90 a 179 días	30.5
De 180 a 269 días	31.5
De 270 a 359 días	32.5
De 360 días a más	33.5
2. Banco Agrario	
De 90 a 180 días	32.0
De 180 a 269 días	32.5
De 270 a 359 días	33.0
De 360 días a más	33.5
3. Financieras Privadas	
De 360 a 539 días	33.5
De 540 a 719 días	34.0
De 720 a 899 días	35.0
De 900 a 1.079 días	36.0
De 1,080 días a más	37.0
D. DEPOSITOS Y OBLIGACIONES EN M/E (2)	
E. BONOS	
BIC - BANPECO	33.5
Hipotecario	15.0
Financieras (Privadas)	33.0
Bonos Inversión Pública	35.0
COFIDE - Tipo "C"	35.0
COFIDE - Industrias Básicas	16.0
F. CEDULAS HIPOTECARIAS	
De Ahorro	31.5

(1) Las mutuales abonan medio punto más en los depósitos de 90 a 197 días y la Banca Regional para sus depósitos a plazo y certificados de depósitos abonará medio punto más a la tasa del resto de la banca. Los certificados se constituyen a plazos mayores de 180 días.

(2) La Banca Comercial quedó autorizada a determinar las tasas de interés pasivas.

Source: BCRP. Boletín Mensual, Nov., 1978.

SAVINGS AND LOAN ASSOCIATIONS
Balance Sheets, End 1974-78 and April 1979
(millions of soles)

	1974	1975	1976	1977	1978	April 1979
ASSETS						
Funds 1/	1,956.5	2,417.7	2,163.6	2,550.5	4,328.5	6,468.5
Cash	1,232.9	1,436.5	1,520.8	1,719.5	2,153.6	2,437.3
Operating Funds	572.1	641.6	412.2	664.1	2,174.9	4,031.2
Surplus Funds	151.5	339.6	230.6	166.9		
Credits for Housing	7,960.6	8,626.7	9,246.5	10,127.9	11,758.4	11,908.1
With mortgages	7,743.5	8,265.5	8,819.1	9,800.6	11,144.1	11,324.5
Without mortgages	151.2	179.7	211.1	301.9	412.4	462.7
To builders	490.0	824.7	797.6	761.5	1,098.0	933.4
Other	655.0	837.6	1,259.0	1,836.9	2,624.0	3,182.1
TOTAL	10,572.1	11,882.0	12,669.1	14,515.3	18,710.9	21,558.7
LIABILITIES						
Deposits	8,217.2	9,574,6	10,138.2	11,471.5	14,487.0	16,248.1
Savings	4,670.7	5,526.9	5,827.5	6,809.4	9,189.5	10,188.8
Time Accounts	3,546.5	4,047.7	4,310.7	4,662.1	5,297.5	6,059.6
BVP Loans	1,355.1	1,079.2	1,174.2	1,255.7	1,590.3	1,595.5
Other obligations	61.8	61.9	79.4	123.9	51.9	5.1
AID	12.8	11.1	9.4	7.7	5.9	5.1
IDB	47.8	50.3	69.5	115.7	45.5	--
Other institutions	1.2	0.5	0.5	0.5	0.5	--
Reserves & other liabilities	876.6	1,119.6	1,275.1	1,708.2	2,661.3	3,746.0
Net profit	61.4	46.7	2.2	(44.0)	(69.6)	(36.3)
TOTAL	10.572.1	11,882.0	12,669.1	14,515.3	18,710.9	21,558.7

1/ Includes cash, bank deposits, Mortgage Development Bonds, stocks & credits of less than one year.
Source: BVP, Boletin Estadistica, September 1978.

S&L SYSTEM
SOURCE AND USE OF FUNDS, 1974-79
(Millions of Soles)

	1974	1975	1976	1977	1978	Jan-April '79
SOURCE	1,825.8	2,128.3	1,832.4	2,738.0	5,448.2	3,416.2
1. Deposits	727.7	1,357.4	563.6	1,333.3	3,015.5	1,761.4
Savings	483.2	856.2	300.6	981.9	2,380.1	999.2
Time	244.5	501.2	263.0	351.4	635.4	762.2
2. Portfolio Collections	457.4	521.3	653.3	567.0	816.8	407.7
3. Other	-	-	-	-	3.1	-
4. BVP Loans	496.5	21.3	504.5	450.8	556.4	119.0
5. Reserves	(4.3)	3.5	29.3	205.6	115.9	171.0
6. Other Liabilities	87.1	178.1	79.5	225.3	1,077.0	993.2
7. Net Income	61.4	46.7	2.2	(44.0)	(136.5)	(36.1)
USE	1,825.8	2,128.3	1,832.4	2,738.0	5,448.2	3,416.2
8. Housing Loans (Disbursed)	1,150.6	1,187.4	1,273.1	1,448.4	2,445.8	557.5
With Mortgages	1,206.1	1,042.0	1,052.3	1,388.3	1,902.2	472.5
Without Mortgages	46.2	49.2	75.4	113.8	188.6	60.5
Prefinancing	(101.7)	96.2	145.4	(53.7)	355.0	24.5
9. Other Disbursements	-	-	-	-	58.8	-
10. Repayment of BVP Loans	337.9	297.2	409.5	369.3	221.1	113.7
11. Other Obligations	7.2	(0.1)	(17.5)	(44.5)	72.5	46.8
12. Cash	258.7	461.2	(254.1)	386.9	1,903.2	2,140.0
13. Other Assets	71.4	182.6	421.4	577.9	746.8	558.2