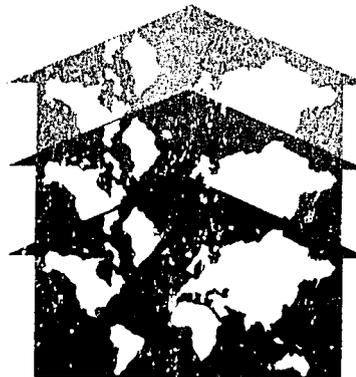


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Peru

**A BACKGROUND PAPER PREPARED
FOR THE URBAN DEVELOPMENT
STRATEGY SECTION OF THE PERU
AID MISSION 1983 CDSS**

March 27, 1983



**OFFICE OF HOUSING
AND URBAN PROGRAMS
AGENCY FOR
INTERNATIONAL DEVELOPMENT**

Prepared by

PADCO

**PLANNING AND DEVELOPMENT
COLLABORATIVE INTERNATIONAL**

A BACKGROUND PAPER PREPARED FOR THE URBAN DEVELOPMENT
STRATEGY SECTION OF THE PERU AID MISSION
1983 CDSS

Prepared for Agency for International Development
Lima, Peru

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March 27, 1983

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Acknowledgement and The Author's Approach

This paper was prepared during a nine day assignment to the USAID/PERU Mission by Alfred P. Van Huyck, President, PADCO Inc. under a contract with the Office of Housing and Urban Programs, Agency for International Development, Washington, D.C. The author acknowledges the useful contributions of Kraig Baier, Housing and Urban Development Office, USAID/Lima and William Gelman, RHUDO/LA, Panama.

The author's approach has been to work with secondary source documentation and through interviews with USAID Mission staff to assemble a background paper necessary to develop an urban strategy for inclusion in the 1983 CDSS. The paper sets forth a strategy framework and, hopefully, provides sufficient supporting documentation, analysis, and argument to permit the Mission to extract relevant and useful information needed to prepare the final urban strategy for the CDSS. It should be noted that the data used may not be the most recent or accurate but what was readily available. Furthermore, time did not permit careful disaggregation of data and therefore the analytical results should be considered indicative of trends and directions and not in themselves precise or accurate.

The author recognizes that the USAID/Peru Mission must make the final strategy decisions taking into account that an urban strategy is only one component of a balanced Mission program strategy that will span both urban and rural poverty amelioration initiatives, support both enterprise and agricultural investment, and enhance balanced management and institutional development. Furthermore, since Mission resources will be limited and the needs and opportunities for assistance are great, hard choices and trade-offs will be required which are beyond the scope of this assignment.

PREFACE

The Author's Central Thesis

It may be useful to set forth in the beginning the author's central thesis which emerged while undertaking this assignment. The large number of topics addressed in the body of the report and significant amount of data presented might obscure the main point, which in the author's opinion, should be of prime concern to both the GOP and AID.

1. The future of Peru is an urban future. 80 percent of the population will be urban in the year 2000. The critical task ahead will be creation of 500,000 manufacturing jobs in urban areas that will in turn support the creation of 1.5 million productive urban service sector jobs by the year 2000. However, to have any hope of accomplishing this challenging task agriculture, mining, and petroleum investment to create an export base sufficient to finance the inputs required for the job creation in manufacturing (as well as agriculture for food sufficiency) must be given a strong priority in overall economic planning.
2. Under the most optimistic scenarios for income growth a significant percentage of the urban population will still be poor in the year 2000 in absolute terms. The growth rate of urban poverty level households requires direct remedial action, because the formal sector job creation will not be fast enough to establish a viable "trickle down" process.
3. The national settlement system is not out of balance or "overconcentrated" in Lima. The slowing of the urban growth rates in general (because of a reduction in the national growth rate) coupled with the fact that secondary cities are in aggregate growing faster than Lima means that there is sufficient margin in the hierarchy of settlements to pursue an urban investment policy based on economic efficiency and comparative advantage. While this will initially favor Lima and coastal cities, prospects for longer term decentralization of economic activity to the Sierra and Selva are encouraging.
4. Preparation for accommodating the significant majority of the population in urban centers requires a concern with investment in the inter-urban linkages (transport, electricity, and telecommunication) meeting intra-urban needs for basic shelter, social facilities, and minimal infrastructure services and concentration on improving urban management and the urban financial base.

The previous CDSS of April, 1978 contained a section entitled "Urban Development Sector Review and Strategy." Prior to entering on the analysis

and recommendations of this background paper for the 1983 CDSS several observations on the previous version are in order in that the differences are important to understanding the approach taken in this paper.

Notwithstanding these differences, the 1978 CDSS generated and guided a number of positive urban program initiatives, and was representative of the "state-of-the-art" in AID and professional circles at that time. The following observations are not intended as criticism but rather as clarification of why this present paper presents a somewhat different approach.

1. The 1978 CDSS recognized Peru's significant urban population base, as well as its substantial urban poverty problems. The response to this phenomena was to see it as a "weakness" ("The pattern of urbanization in Peru starkly reveals the historic weakness of Peruvian development: agricultural stagnation, income maldistribution, regionally unbalanced growth". (1978 CDSS pp.115). This paper argues that urbanization is a positive and desirable phenomena ("a strength") which should be selectively encouraged and, above all, efficiently managed.

2. The 1978 CDSS points out the dominance of Lima and coastal urban centers in general, but calls it "A System Out of Balance" ("In few other developing countries does a single metropolis so thoroughly dominate economic life." 1978 CDSS pp.115). It is misleading to say that Lima has achieved a level of primacy shared by few other developing countries. It is more accurate to say that Lima is typical of primacy patterns in similar countries in Latin America and the world. This paper will argue that it is essential to take a positive attitudes toward Lima (and the coastal cities) and its future growth because it is (1) inevitable, (2) in many ways the most efficient use of productive investment and particularly private sector investment, (3) potentially the least risk development environment; and (4) conversely, the risk of artificially retarding the growth and development of Lima is the highest risk strategy both economically and socially which could be followed.

Recognizing that investment flows into Lima must continue at high rate, this paper suggests it is equally important to continue to press for the adoption of capital resource conserving standards for physical development and land use; and the correction of such public policies, laws, and subsidies which accelerate the growth of Lima by sending inappropriate market signals to investors and migrants and, thereby, distorts the comparative advantage of other urban centers.

The paper will also argue that an appropriate urban decentralization strategy is urgently required. However, it must meet tightly drawn criteria in that it: (1) has acceptable economic performance; (2) is affordable within national budget constraints; (3) is implementable within present and expected GOP administrative and management capacities; (4) meets inter-personal social equity objectives (but not necessarily inter-regional spacial equity objectives). These decentralized urban centers may or may not be in the Sierra and Selva regions, but should depend on objective analysis of their economic function and growth potential. While it is impossible to define the specifics of such a strategy in detail now (see the recommendation for the

implementation of a National Urban Policy Study already funded under HG-011) it is likely that such a policy will initially require strategic concentration on the urban centers with a greater comparative economic advantage and these centers should be few in number and include key urban centers which are crucial to the successful implementation of high priority agricultural investment programs.

3. The 1978 CDSS pinpoints the issue of urban poverty for special attention and indeed this is correct for a variety of economic, social, and political reasons which are amplified in this report. The implementation of this aspect of the CDSS has met with considerable success through the HG programs, Title II programs, and initiatives in health, education, and most recently employment generation.

The recognition of urban poverty as an issue of concern in the CDSS flowed out of the AID "new directions" and "basic needs" approach of the period. As a result the selection of locations for programming (not necessarily in Peru as I do not have the facts) were often chosen because they were the locations of the greatest needs. The approach presented in the report, while entirely similar in the kinds of programming recommended, suggests that priority for urban poverty programming should support the broader issues of urbanization's contribution to national economic development and targeted decentralization efforts. In other words, the rationale is changed from "basic needs" for their own sake to "basic needs" to support national economic development strategies.

4. The 1978 CDSS called its Section V, "Urban Development Sector Review and Strategy." This paper argues that there is not an urban sector per se, separate and apart from the traditional economic and social sectors (industry agriculture, infrastructure, public services of health, education, shelter, etc.). The concept used is that urbanization is a multisectorial process and that urban centers are locationally specific places, connected by a networks of transportation, power, communications, and sometimes bulk water (in the sense that rivers may serve multiple centers as well as agricultural uses). Using the same logic it is a faulty to think of rural development as a "sector". In Chart 1 a conceptual framework is presented which illustrates this point.

While it may appear to be merely a matter of semantics, in fact, the recognition of the argument that urban and rural are not sectors is critical in the preparation of policy and programs. For example the traditional sectorial development Ministries of Governments are the key actors in urban and/or rural development. They must be recognized as such even if an "office of urban development" is located in the Ministry of Housing (as is frequently found in many countries besides Peru). It is equally true that public policies such as labor laws, taxation, agricultural pricing policies, etc. will often have more effect on the configuration of urban development in a country than explicit urban plans and programs. This becomes obvious analyzing the range of implicit subsidies which favor the growth of Lima.

SECTORAL DEVELOPMENT POLICIES	NATIONAL SPATIAL POLICY						
	URBAN DEVELOPMENT			RURAL DEVELOPMENT			
	PRIMARY CITY	SECONDARY CITIES	MARKET TOWNS	ZONE 1	ZONE 2	ZONE 3	ETC
I. ECONOMIC POLICIES INDUSTRY NATURAL RESOURCES AGRICULTURE CONSTRUCTION FINANCE ETC.							
II. NATIONAL NETWORKS & NODAL POLICIES TRANSPORT COMMUNICATIONS ELECTRIC POWER WATER ETC.							
III. NATIONAL PUBLIC SERVICES EDUCATION HEALTH ETC.							
IV. SETTLEMENT AND SETTLEMENT HOUSING INFRASTRUCTURE FACILITIES							

NATIONAL DEVELOPMENT POLICY MATRIX

CHART I

20

The more appropriate approach to urban development is not "integrated urban" programs involving enormous coordination burdens (though highly desirable, it is usually not feasible), but clearly articulated, achievable, urban policy which sets the basic parameters within which individual ministerial initiatives can take place, lower levels of government take an explicit function and which give the private sector confidence that their decision making is done within a known, coherent urban policy framework. For this reason it is desirable for the urban policy function to be located at the source of real decision making power (for example the Prime Minister's Office or Ministry of Finance rather than the Ministry of Housing).

A similar issue will eventually have to be addressed within the AID Mission also. Urban is not a sector subject to a separate office and programming initiatives, independent of the other AID initiatives. AID Missions should have a coherent urban/rural strategy which it uses to guide sectoral programming, coordinate efforts with the GOP and other donor agencies, monitor development growth and impacts overtime etc., but this, in this author's opinion, is best done at the "program coordination" levels of the Mission and not in the project implementation levels.

EXECUTIVE SUMMARY

Section I: Population, Economy and Income

I.1. Population

1. Overall population growth rates declined to 2.6 percent (1972-81) and urban growth declined to 3.6 percent.
2. Secondary cities grow at rates somewhat higher than Lima.
3. Rural population growth was negligible.
4. In spite of slowing growth rates urban population now represents 65 percent of the total, up from 59.6 percent in 1972. Peru has a broad definition of urban and if only cities and towns above 2,000 are included the urban population in 1981 represents 58 percent of the total.
5. In light of these positive results it is likely that previous estimates of the population for 1990 and 2000 both total and urban will need to be reduced. Lima is now not likely to exceed 10 million in the year 2000 and could be as low as 8.5 million. Secondary cities will average only about 340,000 each by the year 2000, though growth amongst individual centers is likely to vary considerably. Rural population will be stagnate or even possible decline.
6. This means that the urban settlement system should be adequate to absorb future growth and there is no need for specifically or primarily programming to counteract "overconcentration" in any city including Lima. Therefore, economic efficiency criteria can be used for allocating urban investment.

I.2. Economy

1. The Peruvian economic policies have shifted in important ways which are desirable and worthy of international support. However, many problems remain which need to be addressed.
2. Urbanization correlates positively with GDP by department and by per capita GDP.
3. Future national economic growth will largely depend on the productivity of balanced investments in the productive sector of agriculture, manufacturing, mining and petroleum. Urbanization interacts with the productive sectors in different ways:

- a. Agriculture for export or domestic food self-sufficiency requires urban centers as distribution points for inputs and outputs and inter-urban networks for transportation. Potentials exist for agro-industry. On the otherhand, subsistence agriculture has little requirement for urban centers except for low level market towns.
 - b. Manufacturing is largely an urban based sector which favors larger urban centers, hence the creation of primacy. Manufacturing is the basic generator of productive employment in urban areas through stimulation of the service sectors (the ratio in Peru is three service sector jobs for each manufacturing sector job).
 - c. Mining and Petroleum sectors are important for export earnings and domestic energy consumption, but neither have strong urbanization relationships because of their geographic locations, environmental characteristics, and high capita/output ratios.
4. Urban investment should be allocated in order to support investments in the productive sectors and the comparative advantage of the individual urban center. Inter-regional equity investment should be limited to essentially humanitarian response to particularly difficult problem areas or target groups.
 5. The service sectors are highly correlated with urbanization and generally responds to growth in output and employment in the productive sectors spontaneously. The government in recent years has relied on the construction sector to act as a basic urban employment generator (largely because of the slow down in manufacturing growth). Government employment is also highly urban in location.

I.3. Finance

The financial sector is dominated by government policy. Financial sector decisions in the rationing of investment will be a significant factor in overall economic development. If the manufacturing sector is to begin to grow (with its importance to urban development and private sector initiative) a positive financial climate will need to be created. Domestic savings mobilization rates will need to be increased. Adequate international investments and transfers will have to be maintained.

I.4. Labor Force

1. Peru presently faces severe problems in unemployment and underemployment.
2. While the agricultural sector has severe underemployment problems at present, the fact that population growth in rural areas is minimal suggests the primary issue there is the creation of

more productive employment for the existing labor force.

3. Almost all new jobs required for the future labor force will be urban jobs. To maintain the present ratio of manufacturing to service jobs this means the creation of 238 thousand manufacturing jobs by 1990 or a growth rate of 2.74 percent per year. Another 260.7 thousand manufacturing jobs will be required between 1990 and the year 2000.
4. Achieving this level of growth in primarily private sector manufacturing is the most serious problem facing the long run viability of the urban structure of Peru.

I.5. The Cost of Job Creation in Manufacturing

1. The World Bank estimates the average cost of creating one job in the formal manufacturing sector at US\$36,500 which means a total investment in new manufacturing jobs of 8.9 billion dollars by 1990 (not allowing for inflation).
2. Priority must be given to providing these jobs in locations where the overall costs are least which will be primarily the Coastal cities and particularly Lima. A speculative index was developed (as merely indicative of the location versus cost problem) which suggests that if the Coast location represented 100, the Sierra would be 107, and the Selva 115. It is urgent that a realistic analysis of this cost of job creation versus geographic location be prepared. In addition supporting investment in housing infrastructure is likely to be higher outside the coast as well. This reality will serve to limit the decentralization of urban activity because it will either require more resources to create the same levels of employment or it will mean forgoing the employment which might have been created with the same level of investment.
3. Medium scale and small scale manufacturing would appear to offer better opportunities for job creation because of their lower capital/output ratios, lower levels of management required, and faster start up potentials.

I.6. Household Income and Distribution

1. Urban and rural incomes are low for the majority of households in Peru. There has in fact been in general decline in real wages since 1973 (though there has been increases in real wages over the last two years).
2. Even if real wages increased at the optimistic rate of three percent annually to 1990 the index would only have regained its position as of 1973.

3. It is important to recognize that even under optimistic scenarios that the household incomes of those below the 50th percentile in income will be poor throughout the remainder of this century. This means that the standards of provision of shelter and infrastructure must be kept low in order to have any opportunity at cost recovery.

SECTION II: The Urbanization Issues in Peru

II.1. The National Settlement System

1. Whereas Lima is 10 times the size of Arequipa Peru's second city, Arequipa is only four times the size of the 11th ranked city (Sullana) which in turn is only twice the size of the 22nd ranked city. This means that except for the primacy of Lima the remaining urban settlement system is a broadly based hierarchial group.
2. A typology of cities is useful in planning a national urban strategy. In Peru this might consist of:
 - (1) Lima (as the primate city);
 - (2) Secondary Cities (over 50,000);
 - (3) Department capitals below 50,000;
 - (4) Sub-regional centers (between 16,000 - 50,000);
 - (5) Areal Market Towns;
 - (6) Local service centers.

In addition special purpose settlements for tourism, ports, etc. should be recognized because of their economic potential regardless of size.

II.2. Inter-Urban Networks

1. The investment in the inter-urban networks will be a key determinant in the ultimate configuration of the national settlement system and the contribution of individual settlements to national economic growth.

II.3. Intra-Urban Problems Issues

II.3.1. Existing Physical Deficits and Needs Projections

1. The total urban housing deficit (new units plus backlog) is estimated at 853,300 which would require a rate of construction of 44,470 per year in Lima; 34,030 in the secondary cities as a group; and 16,300 per year in the other urban places as a group.
2. To meet a theoretical 100 percent service connection target for the urban population by 1990 would require more than doubling the services levels of water, sewerage, and electricity throughout the nation (except for electricity in Lima which would require only a 47 percent increase in service connections).

3. Since these targets are clearly not achievable from projected levels of investment prioritization will need to take place. This should seek to relate to expected economic growth potential for various urban centers. It should focus on water and electricity as the main priorities (seeking on site sanitation solutions wherever feasible).
4. The standards of provision should be kept to the minimum feasible to conserve scarce capital resources in order to have the widest possible spread effects, and cost recovery policies should be improved in order to mobilize additional resources.

II.3.2. Ultra-Urban Transportation

1. Except in Lima intra-urban transportation is not a major problem.
2. 85 percent of the private vehicles are registered in Lima. Limiting the growth of the private vehicle fleet will save substantial investment later on.
3. Priority should be given to improve traffic engineering within Lima before embarking on major new road projects.
4. Of special priority should be improvements in the bus transportation system which is critical to the poor.

II.3.3. Urban Land Availability

1. Urban land availability, its location, services, and price are important determinants of the urbanization process.
2. Because the government owns coastal desert land in quantity the coastal region has a smaller land availability problem than the Sierra (where there is little public land ownership, difficult topography, and surrounding private agricultural land holdings which should be preserved). The Selva does not present serious land availability problems, though there is apparently some land title issues.
3. Special land problems which need to be addressed are the preservation of agricultural land on the coast and the efficient use of land resources to minimize future expenditures on infrastructure, and to achieve full cost recovery from public land sales (at market equivalent prices) particularly from middle and upper income groups and enterprises.

II.3.4. Urban Job Generation (Informal Sector)

1. While the emphasis has been on the creation of manufacturing jobs in general the special problems of job creation amongst the urban poor and the informal sector needs attention because the "trickle down" process is too slow.
2. The provision of infrastructure, particularly water and electricity available to informal enterprise locations is one high pay-off means of stimulating this group.
3. Access to credit which recognizes the limitations on the informal sector to meet standard criteria used to evaluate credit risk of medium and large enterprise is also essential. The urban poor have demonstrated in Peru and elsewhere that they are good credit risks.

II.3.5. The Special Issue of Urban Poverty

1. Urban Poverty is growing much more rapidly than rural poverty (though rural poverty is serious in kind and needs to be addressed as well).
2. The special emphasis on immediate action in response to urban poverty should include (besides informal sector job generation II.3.4. above): Programming for basic nutrition, basic health services, primary education and vocational training and mother-child care facilities.
3. Coupled with direct social action programs should be the installation of basic infrastructure and emphasis on solid waste disposal.
4. Continued emphasis on the transfer of land title in pueblos jovenes.
5. The problems of the tugurios are also serious, but because of the land title issues and the fact that the downtown sites of the tugurios have high values for other urban uses it is difficult to program in these areas.
6. Since the problems of the pueblos jovenes will outstrip available resources the priority should be first in urban centers targeted for priority and then in urban areas where a community organization exists to support the effort, there is a community based demand, and a demonstrated willingness to pay for the services provided.

II.3.6. Public Revenue Mobilization for Urbanization

1. The current policies on public revenue mobilization are in flux. Substantial subsidies favoring urban populations still exist, in spite of improvements in gasoline prices, water tariffs (at least in Lima), and improved property taxation system.
2. Further improvement on reducing urban subsidies and increasing cost recovery is justified on both economic and equity grounds (i.e. accelerating the spread of public service investments to larger population segments and because the urban poor often pay more for substituted services than they would for public services with full recovery).
3. The elimination of the urban bias in pricing (including food pricing) is one means of reducing the primacy of Lima and clarifying the comparative advantage of all urban centers.

II.3.7. Urban Management

1. The problem of urban management is made complex because of a number of factors including:
 - a) the unique urban management issues of Lima,
 - b) the present weak urban management capabilities of other urban center,
 - c) the uncertainty as to the ultimate role to be retained by the central government after the decentralization concepts have been fully developed.
2. Among the key problem areas to be addressed are:
 - a. Local government finance mobilization.
 - b. Improvements in capacity and operating efficiency of agencies responsible for urban development and management.
 - c. The modernization of regulations and controls to facilitate rapid response to urban growth, individual transactions with households and the private sector, record keeping, and information monitoring.

d. The avoidance of duplication of effort amongst urban development and management agencies at all government levels.

e. The establishment of a public administration climate conducive to economic growth in the urban private sector and the achievement of social equity objectives targeted to the urban poor.

3. Urban institution building is a long term process.

II.3.8. Urban Institutional Base at the National Level

1. The President and Council of Ministers provides overall national policy guidance. INFOM reports to the President of the Council of Ministers.

2. Prime Minister's Office is responsible for major large scale projects and controls the Institute of National Planning.

3. Ministry of Economy, Finance and Commerce manages the financial sector and allocates financial flows.

4. There are eight development ministries with urban programming functions.

5. The responsibility for National Urban Policy rests with the Direccion General de Desarrollo Urbano in the Ministry of Housing.

6. Because of the breadth of institutions working in the urban areas of the nation it is clear that there cannot be one "urban sector".

II.3.9. Municipal Level Institutions

1. The municipalities are taking on expanded functions.

2. Central government agencies are available to assist them such as INFOM. Department Development Corporations, Cooperacion Popular, and the National Urban Development Institute (INADUR). Most of these institutions are new and it is not clear how successful they will be in assisting municipal development with capital funding and technical assistance.

II.3.10. Important Institutions in the Shelter and Infrastructure Sector

1. The Ministry of Housing and Construction (MOH) has policy responsibility.
2. ENACE is a government corporation within MOH which acts as the public sector developer of housing and sites and services programs.
3. The Materials Bank makes building materials loans to low income families.
4. SENAPA has policy responsibility for water and sewerage nation wide. It supervises SEDAPAL which is the subsidiary for Lima plus the subsidiaries for Arequipa and Trujillo. SENAPA reports to MOH.
5. ELECTROPERU is responsible for coordination and planning of national electrical supply through its various subsidiaries. It reports to the Ministry of Energy and Mines.
6. Financial institutions active in the sector include BANVIP (which reports to the Ministry of Economy, Finance and Commerce) and controls FONAVI funds and provides oversight to the 16 Savings and Loan Associations in the private sector. Also the Central Mortgage Bank is a source of finance for mainly middle income borrowers.

SECTION III: Urban Development Strategies

III.1. GOP Policies Affecting Urbanization

III.1.1. Macro Economic and Investment Strategy

1. The GOP has major investments designed to enhance the mining and petroleum sector. These have little urbanization significance.
2. In agriculture the twin priorities are completing the major irrigation schemes on the coast (which will reinforce coastal city urban growth) and opening new lands in the Selva (small initial urban development effect, but expansion of inter-urban networks will facilitate more urbanization in later years).
3. In manufacturing the GOP strategy is to cut back public investment and shift responsibility to the private sector. Manufacturing is the driving force in urban economic growth and the failure of the private sector to respond to date is therefore a most serious problem to be addressed.
4. The GOP appears to be using investment in the construction sector to achieve job generation objectives. This is a short run strategy of merit, but no substitutes for the ultimate creation of urban jobs in manufacturing.

III.1.2. Urban Specific Policies

1. The GOP has no one integrated National Urban Policy.
2. There appears to be a wide gap between GOP thinking about cities as social equity problems concerned primarily with urban poverty and the view of this paper that cities are potential generators of economic growth.
3. The GOP is concerned about promoting decentralization which at present seems more focused on decentralization of functions to lower levels of government to support the "democratization" process, while the decentralization of economic activity, while

supported in principle, is still controlled by the central government investment decisions.

III.1.3. Urban Investment Priorities

1. There does not appear to be an overall relationship between locational allocations and economic growth objectives.
2. The intra-urban investment priorities are in basic infrastructure (water, sewerage and electricity) which is correct. Issues remain, however, as to standards of provision and cost recovery policies.
3. The GOP has initiated a massive housing program (probably because of its employment generation effects) which is seriously flawed in its failure to deal with effective cost recovery (units are 78 percent subsidized), and the failure to target both production and subsidy to low income groups.

III.2. Other Donor Assistance

1. AID is only one donor participant among many. The major donors in volume terms are IBRD and IDB.
2. Urban related programs of other donors have concentrated on bulk infrastructure, infrastructure service connections, some sites and services provision, technical assistance to central government agencies, some assistance to the private sector. While overlaps exist they are minor concerns when given overall GOP needs.
3. Issues of donor coordination of the terms and conditions of loans in sectors and activities with multiple sponsors need to be addressed, particularly with reference to pricing, cost recovery, and the use of subsidy.
4. All donors would benefit from an analytically based National Urban Policy to assist in targeting assistance for maximum economic growth with equity impact.

III.3. AID Assistance in Urban Areas

1. AID is already participating in urban development assistance through a substantial on going HG program, Title II (food for work), social impact support for pueblos jovenes through international and domestic PVO's, and in small enterprise development activities.
2. AID has recognized the urban component required for support to essentially agricultural/rural development efforts.

III.4. Suggestions for the Urban Strategy of the 1983 CDSS

III.4.1. The Structuring Ideas for the CDSS

1. Urban population and urban poverty are on the rise while rural population has levelled off and may begin to decline in absolute numbers. Rural poverty will continue to be a concern, however, in any case.
2. The urban settlement system (including Lima) is not out of balance and there is not likely to be "overconcentration" in Lima.
3. Rapid, sustained growth in the productive sectors is essential. Manufacturing sector growth is a most serious problem affecting urbanization.
4. Urbanization should be seen as a direct contributor to national economic growth strategy and urban investments should be programmed where and how they best contribute to agriculture and manufacturing development.
5. Even while targeting urban centers on the basis of economic comparative advantage the social equity emphasis on the amelioration of urban poverty should be maintained in those most economically efficient locations (because this is where poor migrants will come to settle).
6. Within this framework AID's CDSS strategy should be people oriented (as opposed to an economic output strategy). Emphasis should be on increasing small farmer productivity in agriculture, generating urban jobs in

manufacturing and services, and minimizing the negative impacts of poverty on low income households.

III.4.2. Small Farmer Productivity and Urban Development

1. An urban component should be maintained in relation to rural development programs in the form of credit to small urban enterprises and limited infrastructure improvement in market towns (with low costs per capita).
2. Inter-urban networks should be encouraged (mainly through other donor activities and the GOP) to support rural development in the short-run and improve the potential for long run urban development.

III.4.3. Urban Private Sector Job Generation

1. The second economic thrust of AID should be in direct job generation support for the private sector in manufacturing and services.
2. The program should focus in Lima (because it is likely the location for the most rapid job generation at the least cost per job) and a few targeted secondary urban centers.
3. The program should provide for access to credit and technical assistance through intermediary local institutions.
4. At the national level emphasis should be on support for a private enterprise support policy and specific assistance in removing government connected "bottlenecks" to private enterprise development. Special support could be offered in assisting the GOP to proceed with their strategy of "spinning-off" public enterprise to the private sector.

III.4.4. Support for the Preparation of a National Urban Policy

1. Key to rationalizing the GOP's decentralization strategy, insuring the appropriate allocation of public investment in urban areas, and coordinating the multiple institutions and foreign donors involved in urban development is the creation of an analytical, economics oriented national urban policy.

2. The kind of National Urban Policy required will need additional AID resources for technical assistance above and beyond the level of funding suggested in HG-011.

III.4.5. Shelter Sector and Infrastructure Service Connections

1. Deficits in shelter and infrastructure connections are high (particularly in Lima in water and sewerage) and new urban growth threatens to make the deficits dangerous to economic growth and social well-being if not given priority attention. Of particular importance is access to services and sites for shelter of the urban poor.
2. The HG program is well established and responsive to the problem. It has both an urban poverty focus and a secondary impact on job creation (both direct through the program and indirect in that it facilitates informal enterprise to grow).
3. The current shelter policies of the GOP present a major constraint of the future of the HG programs as AID approaches on maintenance of value, targeting to low income people, and cost recovery differ substantially from those of the GOP. These issues need to be resolved.

III.4.6. Social Impact Programming for the Pueblos Jovenes

1. AID already has a bundle of initiatives working in this area through international and domestic PVO's and these efforts should be continued.
2. While socially motivated these programs also have an indirect and direct contribution to make to job generation.

III.4.7. Urban Management Capacity Development

1. This is essentially a new potential AID initiative which responds to the GOP's concern over decentralization of functions to lower levels of government. It recognizes that local urban government management capacity is weak and needs long term support both through improved management procedure models and through training of personnel.

2. The program recommended consists of several phased parts:
 - a. Local urban management assessment of requirements.
 - b. Follow up direct assistance in improving procedures and methods for general application to cities of different sizes and functions.
 - c. Preparation of a national local urban management training strategy.
 - d. Sustained support for the implementation of the training strategy over a five year period.

SECTION I: POPULATION, ECONOMY AND INCOME

I.1 POPULATION

This section concludes that the urban demographics of Peru are well within expected parameters and are therefore no cause for alarm on the part of the GOP or AID in terms of attempting programs specifically concerned with the demographic distribution in the country. On the contrary, the evidence of the preliminary data from the 1981 Census of Population --available in November, 1982-- indicates that the previously predicted population growth will not materialize in the numbers previously expected. This is highly desirable and underscores the importance of maintaining a high priority on family planning programming to reinforce the trend toward lower growth rates.

Almost all predictions made before the 1981 Census data was available overestimated both total population and urban population. This is presumed to be due to that the drop in natural increase was more than anticipated and to a drop in migration rates as well. For example, The World Bank Mission responsible for preparing "Peru: Long Term Development Issues" (Volume III Statistical Appendix pp.490) provides a year 2000 "low estimate" for the Peru population of 29,685,000 (Based on a growth rate of 2.97 percent, more than the current rate of 2.6 percent) and a "high estimate" of 36,023,000 (yielding a growth rate of 4.02 percent if based on the 1981 population). Even this "low estimate" is likely to be high in the light of present conditions.

I.1.1. 1981 Census Preliminary Results

It will take some time for demographers to fully analyze the 1981 Census and revise estimates of future years on a scientific basis. Nonetheless, the current great concern with an "explosive" urban growth rate and particularly, a dangerous overpopulation in Lima and the Coast, does not seem to be well founded. Secondary cities also appear to be growing at acceptable rates.

Lima's 1972-81 growth rate was 3.77 percent, down from 5.4 percent in the 1961-72 period. Peru's overall urban growth rate was 3.6 percent, down from 5.1 percent in the previous period. The 21 largest secondary cities (not including Lima) averaged a growth rate of 4.33 percent, which was also down from the 1962-72 period. These are all modest growth rates which should be expected as Peru continues the urbanization process. Nonetheless, because of the aggregate numbers involved the percentage of the total population considered urban increased from 59.6 percent to 65 percent in the 1972-81 census period. ^{1/}

^{1/} The Census defines "urban" very broadly by including all district capitals and all settlements with over 100 houses as "urban". At least 580 district capitals did not have the minimum 100 houses. Future analysis should account for this definitional bias. If towns under 2000 population are deleted Peru is 58 percent urban, and if towns under 20,000 are eliminated Peru is 49 percent urban.

TABLE I

SUMMARIZED POPULATION TREND ANALYSIS 1981 - 2000

	1		2		3		4		5			6			7		8	
	1981 Population 000's		%		1990 Population Est. with 2.75% Growth (1981-1990) (000's)				Alternative I 2000 Population with 2.33% Growth (1990-2000) (000's)			Alternative II 2000 Population with 2.9% Growth (1981-2000) Total (000's)			% Rate			
Peru Total	17031.2	100%	2.9	21.741	2.75	27372	100%	2.53	29318	100%	2.9							
Urban Total	11085.9	65%	3.6	15.312	70	3.6	21175.7	77%	3.46	23121	79	3.94						
Lima Callao	4426.1	39.9	3.77	6175.4	40	3.77	8585.6	41	3.55	9383	41	4.0						
Next 21 Cities 50,000-499,999	2983.9	26.9	4.33	4395.1	29	4.33	6549.5	31	4.22	7151	31	4.7						
Next 31 Cities 20,000-49,999	925.2	8.4																
Next 284 Towns	1612.5	14.5	2.87	4,742.0	31	2.87	6,040.6	28	2.65	6587	28	3.1						
Towns less than 2,000	1138.2	10.3	.3															
Rural Population	5945.3	35	.91	6429	30	.87	6196.3	23	.22	6197	21	.22						

NOTES:

- Column 1 is extracted from preliminary numbers released by the Census in November, 1982.
- Column 2 is an analysis by PADCO Inc. which compares the 1981 data with the previous 1972 Census.
- Column 3 is a projection of population to 1990 which assumes a natural increase in total population of 2.75 percent (which was calculated from the World Bank data shown in the Appendix) and a continuation of the growth rates of urban areas from the 1972-81 levels.
- Column 4 is an analysis done in manner similar to Column 2.
- Column 5 is the low alternative of urban population growth in the year 2000 determined by a 2.33 percent growth rate of the population and the slowing of the urban growth rate by the same amount as the difference between the two natural growth rates used (2.75 - 2.33 or .43 percent).
- Column 6 is an analysis as in Columns 2 and 4.
- Column 7 is the high alternative which uses a 2.9 percent growth rate applied from 1981 to 2000 consistently. It assumes that the entire difference in total population between Column 5 and Column 7 will be assigned to urban, and distributed according to the percentage distribution of urban centers used in alternative I Column 6.
- Column 8 is the analysis as before.

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I.1.2. Speculative Estimates for 1990 and 2000

The 1981 demographic situation is summarized in the first column of Table I. The table also contains speculative projections of urban population for 1990 broken down by city size and two alternatives for the year 2000. The notes to the table should be read for an explanation of the construction of the estimates. The specific numbers included in this table are not to be considered predictions. Rather, their purpose is to demonstrate that under any reasonable scenario of future population growth and migration, the cities of Peru are not likely to have growth rates which are unusual or alarming by comparable international norms.

In the worst case situation (Alternative II for the year 2000) which assumes the current 2.9 percent growth of population to the end of the century and an increase in urban growth rates to 3.7 percent (i.e. an absolute decline in rural population) the result is still only a 9.383 million population in Lima (as opposed to estimates which previously ranged to 12 million or more); an average population in the next 21 cities of 340,500 thousand (See table II for a detailed breakdown of the 21 cities growth rates used in Table I); and the remainder of the urban settlement system (even if all the remaining urban population were located in the 315 towns presently between 2,000 - 49,999 population the average would only be 20.9 thousand per town.

This is not to say that Peru does not have serious urban problems and urgent needs to be addressed. The dimensions of the urban problems will be developed in subsequent sections of this paper.

The most important point of this argument is that GOP and AID programming and investment strategy in the rural and urban areas of Peru can be based on economic efficiency and comparative economic advantage without fear of "overconcentration" in Lima or the coast and need not be overly concerned with migration flows from rural to urban areas. Apart from the relevant issues of poverty and social equity which are discussed later, this trend is welcome news given Peru's current urgent need to focus on economic growth with equity.

This means that, where jobs can be created the fastest, at least cost, and with maximum productivity gains either in urban or rural areas is where productive investment should flow. Population can respond to these job opportunities in situ or through migration with out "unbalancing" the urban system. This will (and most likely should) include the Lima Metropolitan Area.

Map I presents the 22 largest cities in Peru by numbered rank order coordinated with Table II. Additional tables on population are presented in the Appendix.

TABLE 11

TREND ANALYSIS OF 1981 - 2000
URBAN CENTERS GROWTH RATES
(000's)

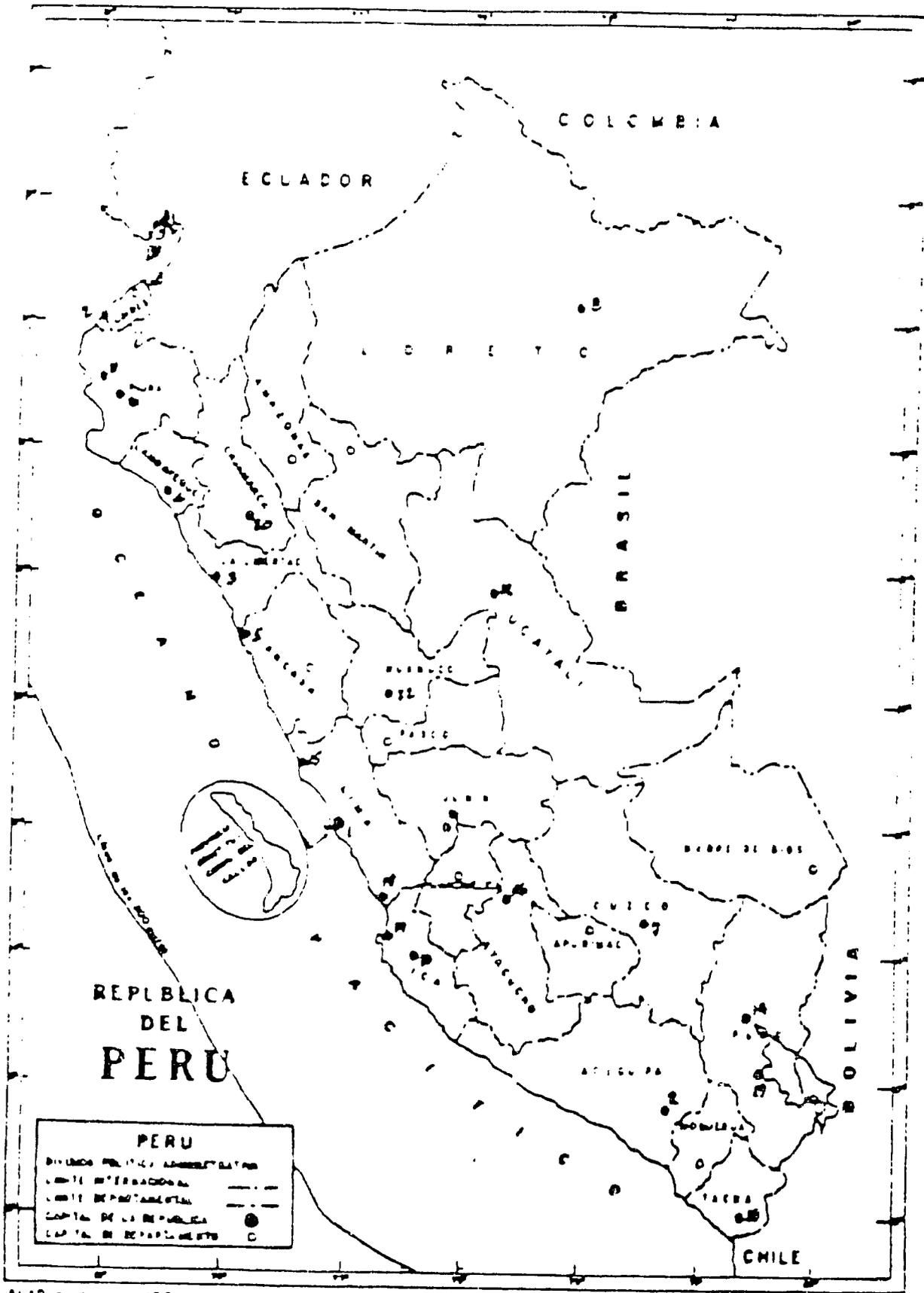
City	1	2	3	4	5	6	7	8	9
	1981 Population	Compound Yearly Growth 1972 - 81	1981 - 90 * Current Growth Rate Proj.	Population Natural Increase 2.75 rate	Estimate Net Migration (Dif. 3-4)	1990 - 2000 Adj. Rate *	Population Adjusted Growth Rate Project	Natural Increase 2.33 Rate	Net Migration
Lima-Callao	4426.1	3.77	6175.4	5650.1	525.3	3.35	8585.6	7774.9	810.7
Arequipa	452.9	4.34	663.8	578.1	85.7	3.92	975.0	835.7	139.3
Trujillo	354.6	4.42	523.4	452.6	70.8	4.00	774.8	659.0	115.8
Chiclayo	265.4	4.58	397.1	338.8	58.3	4.16	596.9	500.0	96.9
Chimbote	216.4	3.38	291.9	276.2	15.7	2.96	390.8	367.5	23.3
Piura	186.3	4.44	275.4	237.8	37.6	4.02	408.4	346.7	61.7
Cuzco	181.6	4.22	263.4	231.8	31.6	3.80	382.5	331.6	50.9
Huancayo	160.5	3.02	209.8	221.6	51.9	4.76	435.4	344.3	91.1
Ica	111.1	2.93	144.1	204.9	4.9	2.60	271.2	264.1	7.1
Sullana	110.4	3.43	149.6	141.8	2.3	2.61	184.6	181.4	3.2
Pucallpa	97.9	5.47	158.1	140.9	8.7	3.01	201.3	188.4	12.9
Tacna	92.6	5.64	151.7	125.0	33.1	5.05	258.8	199.0	59.8
Juliacca	77.9	7.98	155.5	118.2	33.5	5.22	252.3	191.0	61.3
Huacho	76.0	4.00	108.2	99.4	56.1	7.56	322.3	195.8	126.5
Ayacucho	68.5	3.30	109.0	97.0	11.2	3.58	153.8	136.2	17.6
Puno	66.5	5.67	109.2	87.4	21.6	4.88	175.5	137.2	38.3
Chincha Alta	60.8	3.58	83.4	84.9	24.3	5.25	182.2	137.5	44.7
Pisco	60.7	2.92	78.6	77.6	5.8	3.16	113.8	105.0	8.8
Cajamarca	60.3	4.76	91.6	77.5	1.1	2.50	99.2	99.0	.2
Talara	58.6	5.31	93.4	77.0	14.6	4.34	140.1	115.3	24.8
Huanuco	51.0	2.63	64.4	74.8	18.6	4.89	150.5	117.6	32.9
TOTAL	7410.0	3.99	10570.5	9458.5	1112.0	3.57	15,135.1	13,308.3	1826.8

* Nine Year Period

* Adjusted to reflect average drop of .42 in overall rate of natural increase.

NOTES:

- Columns 1 and 2 are based on 1981 Census data.
- Column 3 is a projection to 1990 of the same rates of growth by city as existed between 1972 - 1981. This covers a period of nine years.
- Column 4 calculates the total amount of growth which will be generated by natural increase alone using the estimate for overall natural increase (obviously there will be differences by city, but data was not available to make such adjustments).
- Column 5 subtracts "Natural increase" from the total population to obtain a "net" figure which can be presumed to be net migration.
- Column 6 adjusts the natural growth rate downward by .43 percent as discussed in footnote 5 of Table 1.
- Column 7 presents the estimated growth to the year 2000 by applying the adjusted growth rate (Column 6) to the estimated total 1990 population (Column 3). This covers a period of 10 years.
- Column 8 calculates the natural increase using the lower rate on the estimated 1990 population.
- Column 9 "nets" out the potential net migration as was done in Column 5.



Al 12 de Julio de 1981

I.2. ECONOMY AND URBANIZATION ^{1/}

I.2.1. General Overview

The Peruvian economy, as has been pointed out in other Mission papers (see USAID/Lima, FY-85 CDSS, Response to AID/W Concerns) is facing a difficult period with high rates of inflation, high levels of unemployment, large public sector deficits (including high deficits on public enterprises), shortages of credit, and soft export performance, etc.

The GOP has attempted to reorient the economy in important ways during the current Administration. These policy directions are compatible with AID objectives in that they stress recognition of the market economy, emphasis on private enterprise (including reducing in large measure the public enterprise sector), freer international economic relations, reduced price distortions, increased financial resource mobilization, and renewed emphasis on agriculture.

GDP grew at an annual average rate of 5.2 percent during the first half of the 1970s. Economic stagnation and severe balance-of-payments problems led to negative growth in 1977 and 1978. In the 1978-81 period, despite awesome economic difficulties, GDP growth has averaged 3.6 percent annually. However 1982 growth is estimated to reach only 0.2 percent. On the average this growth is above the 2.6 percent population growth rate.

The military government, which assumed power in 1968, embarked on an ambitious program of "growth with justice." In practice, the policy involved having the government take control of many sectors of the economy and substituting controls for market forces. The State took control of more than 150 enterprises in key economic sectors. Public sector expenditures grew from 14.7 percent of GDP in 1970 to 25.7 percent in 1980. Table A-8 (Appendix) highlights public sector finance for the past five years.

The new GOP economic policy is to be commended in many respects. The signals which it is sending should promote economic revival and economic growth while reducing inflation. The policy, however, is not yet producing these results. The economy continues to be frustrated by stagnation, balance-of-payment problems, exorbitant public sector budget deficits, high unemployment, and 70 percent inflation rates. The problems seem to lie to some extent in the faulty execution of policy, in particular in a failure to control the deficits of public enterprises; but the problems in part are attributable to worldwide economic conditions.

^{1/} It is assumed that in the CDSS a full discussion of Peru's economy will be available. This section, therefore, focuses on the economy as it affects urbanization.

The 1982 public sector deficit is expected to be about the same as the 8.2 percent of GDP registered in 1981, compared to a target of about 4.2 percent agreed to with the IMF. Table A-8 (see Appendix) shows the performance of GOP finances during the past five years. The 1981 public sector deficit of \$1.38 billion equivalent was financed largely by the Central Bank. The 1982 deficit draws mainly on external financing. The current excessive deficits of State enterprises are due to a number of factors. Important causes are the reduced prices and demand for Peru's major exports, external borrowing to cover working capital and investment needs by the companies, and ambitious investment programs.

The external debt of Peru grew quite rapidly through 1977, at an annual average rate of 20.7 percent, 1973-1977. That growth has since moderated, averaging 6.1 percent annually from 1977 through June 1982. The total external debt, nevertheless, is large --11.0 billion as of June 30, 1982 (See Table A-9 Appendix). The debt service ratio to total exports of goods and services was 53.2 percent in 1981 and 48.0 for the first half of 1982. Projections of debt service ratios show that they should decline, but they continue to be uncomfortably high.

While progress in implementing these new policy initiatives has been made, it is clear that there is much more to do in order to achieve the potential benefits. It should also be noted that there are significant vested interests which are of a concern in implementation of the new policies and political issues which will make implementation that much more difficult. Nonetheless, the overall climate of economic policy change makes AID support both desirable and essential at this time.

I.2.2. Urbanization and the GDP

Peru has a 65 percent urban based population so it is not surprising that its economy also reflects an urban bias. Table 3 presents a projection of the Peruvian economy from 1979 to 1985. If it is assumed that Agriculture, fishing, and mining are rural based economic sectors and the other sector are primarily (though obviously not exclusively urban based) then it can be seen that the rural based economy (while expected to grow between 1980-85 at 4.6 percent for agriculture and fishing and 3.8 percent for mining) is predicted to decline in importance from 24.8 percent of GDP in 1979 to 21.2 percent in 1985. The predicted most rapidly growing sectors of the economy will be manufacturing, and construction which are predominantly urban based.

This does not per se argue for an urban economic strategy. Agriculture and mining are the critical elements of exports and are extremely important in the overall economy while food production for domestic consumption is a key element in reducing food imports. The point to be made is that urban based economic growth will have an extremely important role in leading the Peruvian economy forward as it is seen to have the highest growth rate potentials.

Using 1977 Department data a scatter diagram, Figure 1, was developed which relates the percentage of the population classified as urban (derived at by taking half the difference between the 1972 Census figure and the 1981 Census figure) to the percentage of Department GDP (See Table 4 for the data). While there was not time to do a correlation it appears that there is generally a good fit. The two departments which report substantially more urbanization than "urban assigned GDP" are both heavily mining economies (Tacna and Pasco). The five departments which show less urbanization than their urban GDP would suggest, might be given a further look as to an explanation (for example, Cuzco might be influenced by tourism activities). Towns in these departments might be expected to have fairly rapid urban growth rates in the future.

Another scatter diagram, Figure 2, places the same 1977 data for percentage of the population considered urban in relationship to the per capita departmental output figures for the same year. The results of this diagram, once again unfortunately not correlated, show even more dramatically the relationship between the degree of urbanization and economic performance. There is a very clear relationship that per capita output rises as the percentage of urbanization rises. Roughly a doubling of the percentage of the population which is urban results in a doubling of the per capita output of the department. In the following discussions the issue of urbanization will be presented in light of the main productive sectors of the economy.

TABLE: T-3

PERU - PROJECTION OF GDP BY SECTOR OF ORIGIN, 1979-85
(Billions of 1979 \$)

	1979 ^p	1980 ^e	1981	1982	1983	1984	1985	Average Annual Growth (1980-85) (%)
Agriculture and fishing	335.7	316.7	311.5	356.3	361.7	378.4	396.5	6.6
Mining	400.0	395.7	409.4	446.4	460.4	470.6	476.2	3.8
Manufacturing Industries	663.2	709.4	759.3	817.2	869.0	929.9	995.0	7.6
Construction	79.4	97.5	102.7	114.5	128.7	143.6	162.2	11.9
Government	224.6	229.1	267.8	257.4	272.9	289.2	305.6	6.0
Other sectors	1,258.9	1,281.8	1,312.0	1,418.7	1,528.9	1,650.0	1,770.6	6.7
GDP at factor cost	<u>2,961.8</u>	<u>3,026.7</u>	<u>3,129.5</u>	<u>3,383.5</u>	<u>3,620.6</u>	<u>3,861.7</u>	<u>4,107.0</u>	<u>6.3</u>
Indirect taxes - subsidies	355.8	385.8	435.6	448.5	461.4	466.0	477.0	3.4
GDP at market prices	<u>3,317.6</u>	<u>3,412.5</u>	<u>3,565.1</u>	<u>3,832.0</u>	<u>4,082.0</u>	<u>4,327.7</u>	<u>4,584.0</u>	<u>6.0</u>

^p - preliminary
^e - estimate

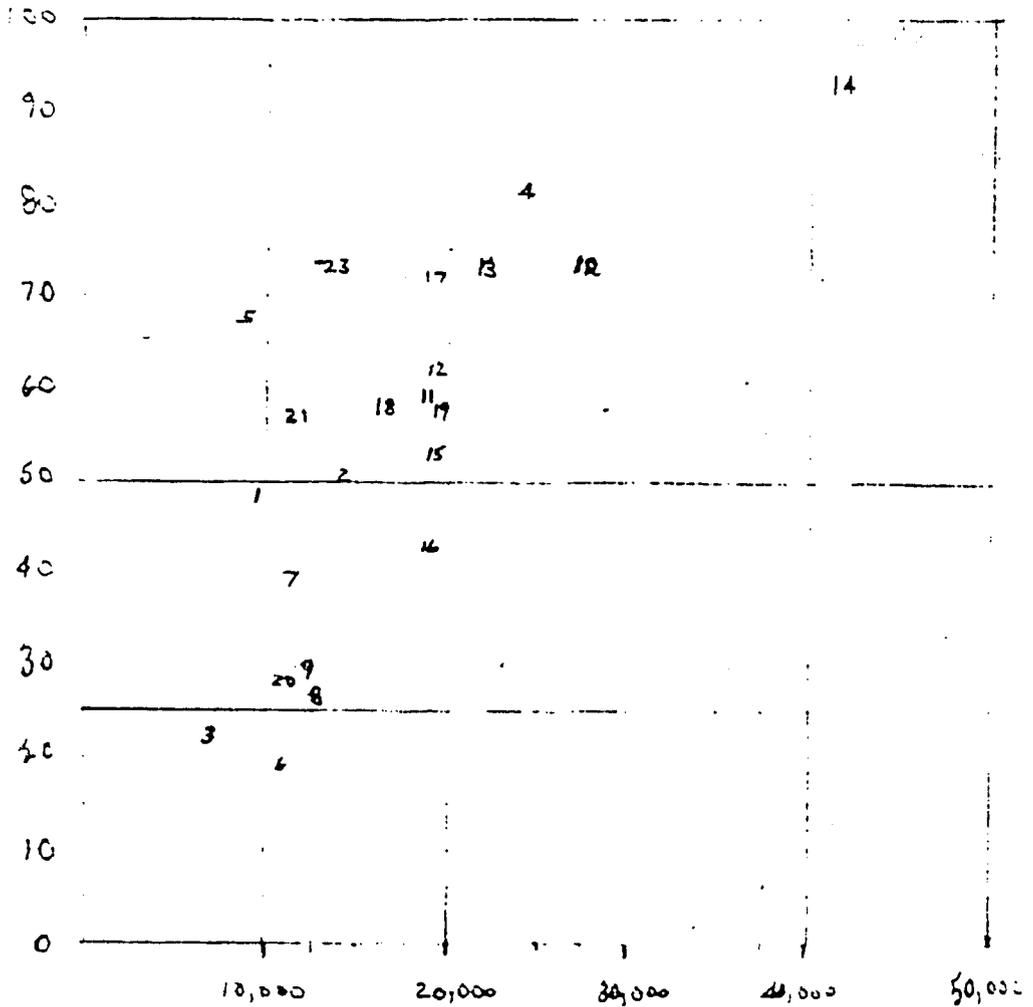
Source: ONE; Central Bank and World Bank staff estimates.

FIGURE No. 1

1977 Department Output in Soles Per Capita Compared to Percentage of Urbanization

Code to Departments Numbers:

- 1. Amazonas
- 2. Ancash
- 3. Apurimac
- 4. Arequipa
- 5. Ayacucho
- 6. Cajamarca
- 7. Cuzco
- 8. Huancavelica
- 9. Huanuco
- 10. Ica
- 11. Junin
- 12. La Libertad
- 13. Lambayeque
- 14. Lima
- 15. Loreto
- 16. Madre de Dios
- 17. Moquegua
- 18. Pasco
- 19. Piura
- 20. Puno
- 21. San Martin
- 22. Tacna
- 23. Tumbes



TACNA reports a per capita output of S/16,000 because of its minimum area.

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FIGURE No. 2

1977 Relationship Between Department Percent Urban Population
and Percent of GDP Generated by Urban Assigned Outputs

Code to Department Numbers

- 1. Amazonas
- 2. Ancash
- 3. Apurimac
- 4. Arequipa
- 5. Ayacucho
- 6. Cajamarca
- 7. Cuzco
- 8. Huancavelica
- 9. Huanuco
- 10. Ica
- 11. Junin
- 12. La Libertad
- 13. Lambayeque
- 14. Lima
- 15. Loreto
- 16. Madre de Dios
- 17. Moquegua
- 18. Pasco
- 19. Piura
- 20. Puno
- 21. San Martin
- 22. Tacan
- 23. Tumbes

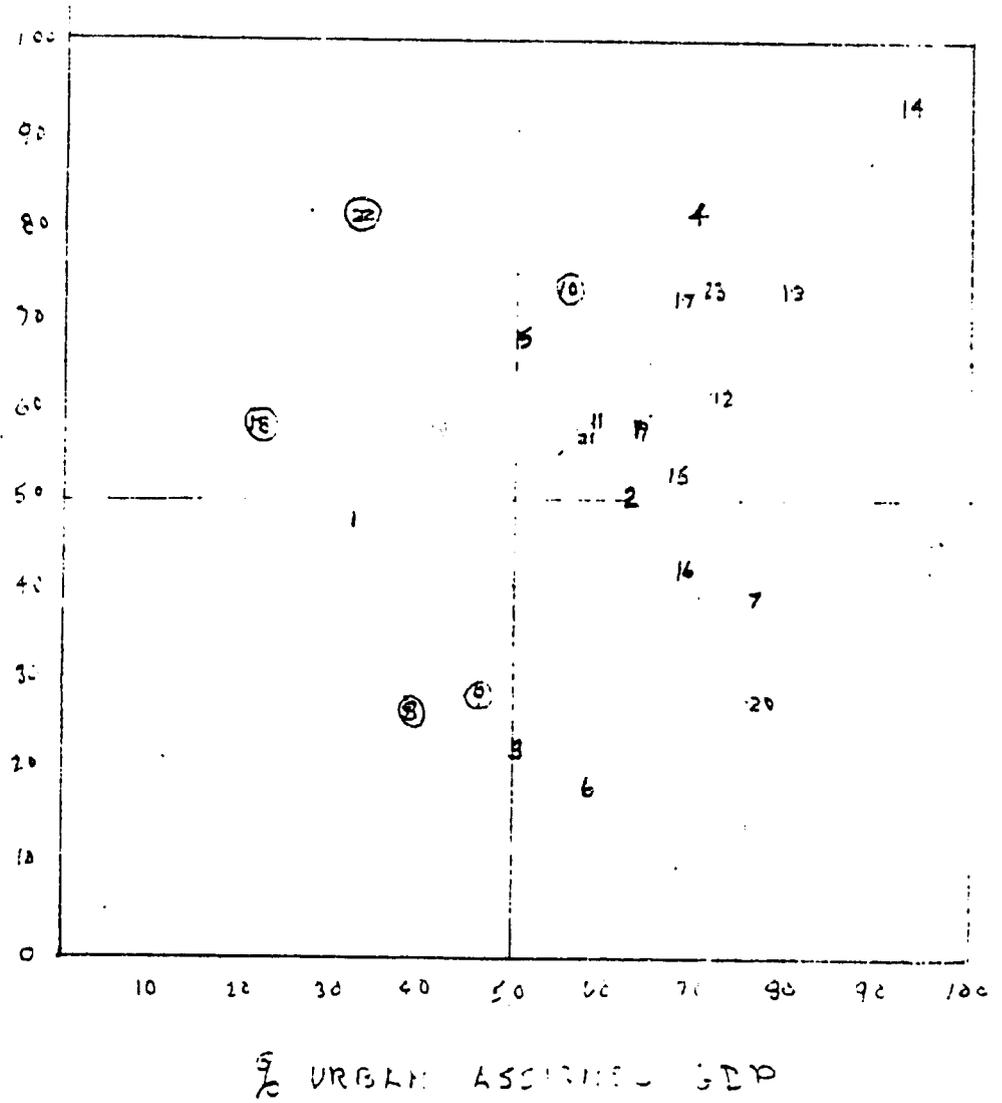


TABLE: 7-B

DISTRIBUTION OF INDUSTRIAL OUTPUT BY DEPARTMENT, 1977 (2)

Departamentos	Agriculture	Mining	Mining and quarrying	Manufacturing	Utilities	Construction	Commerce	Transport and Communications	Financial and Business Services	Social and Personal Services
Ancash	52.1	0	0	25.6	0	1.6	2.5	4.0	5.7	8.6
Ancash	23.3	5.5	0.7	37.3	0.5	6.2	6.2	5.6	7.9	7.0
Arequino	49.7	0	0.2	24.5	0	4.9	8.2	4.5	6.3	8.8
Arequipa	19.0	1.1	0.3	23.0	1.5	7.1	11.8	6.7	10.2	10.1
Ayacucho	45.4	0	1.7	25.4	0.6	2.2	1.3	4.7	7.9	8.7
Cajamarca	37.9	0	3.2	38.8	0.6	2.3	1.4	3.2	4.7	5.4
Cuzco	22.7	0	1.1	34.5	1.0	3.1	7.0	3.5	11.2	9.8
Huancavelica	21.9	0	19.8	19.4	0	1.5	0.4	2.9	2.3	4.2
Huanuco	11.6	0	25.1	19.4	0	1.3	1.4	4.3	7.9	6.7
Ica	21.1	3.0	20.8	20.4	0.7	1.9	8.3	5.3	11.5	7.0
Junin	22.2	0.1	18.4	23.3	2.1	4.8	6.7	4.7	8.3	7.6
La Libertad	24.0	0.7	2.3	25.6	4.1	3.2	3.4	3.2	10.4	8.1
Lambayeque	29.0	0.8	0.2	25.0	0.2	7.4	15.1	4.5	9.3	7.8
Lima	6.2	0.3	1.4	29.8	1.3	1.3	13.4	9.2	13.2	9.1
Loreto	27.3	1.4	4.1	23.2	6.8	11.7	10.4	8.7	6.6	7.7
Morona de Dios	22.7	0	0	24.0	0	17.7	2.8	3.3	21.9	7.7
Moquegua	22.7	7.8	0	32.9	0	7.2	3.3	7.3	7.8	10.8
Pasco	16.9	0	42.4	3.6	0	0.3	1.6	3.0	3.4	3.4
Piura	17.4	4.1	13.8	29.2	0.6	10.3	7.2	4.9	8.9	6.4
Puno	20.1	0.04	4.2	47.3	0.4	12.0	4.4	4.3	7.2	8.4
San Martín	20.3	0	0.1	34.3	0	10.6	7.9	4.0	7.0	10.9
Tarma	6.0	0.04	20.3	11.3	0.4	0.1	2.4	1.2	2.3	8.1
Tumbes	21.6	0.6	0	20.7	0	10.1	6.0	7.5	11.1	14.0
Total	21.6	0.4	8.1	28.7	1.0	3.3	11.4	7.1	13.2	8.3

Source: Dirección General de Cuentas Nacionales, Indicadores Macroeconómicos por Departamentos: Producto Bruto Interno de los Departamentos, 1970-1977.

TABLE: 7-1

DEPARTMENTAL DISTRIBUTION OF OUTPUT, 1977 (2)

Department	Agriculture	Mining	Mining and Quarrying	Manufacturing	Utilities	Construction	Finance	Transport and Communications	Pharmaceutical and Business Services	Social and Personal Services	Total	GDP per capita
Ancash	2.15	0	0	0.50	0	0.25	0.09	0.32	0.24	0.24	0.56	1.33
Arequipa	5.41	22.86	1.82	4.10	1.64	3.47	0.85	2.81	1.82	2.86	3.16	14.95
Apurimac	2.14	0	0.02	0.50	0	0.75	0.03	0.32	0.29	0.62	0.55	1.07
Ayacucho	3.57	5.62	4.57	3.20	5.63	7.37	3.05	3.88	3.28	3.01	3.79	24.405
Cajamarca	3.40	0	0.46	0.90	0.60	0.59	0.10	0.67	0.61	1.27	1.02	7.942
Cusco	7.42	0	1.71	3.60	2.59	5.96	0.25	1.21	0.95	1.27	2.64	17.131
Huancavelica	3.74	0	0.31	3.00	2.20	1.94	1.01	1.69	1.90	2.24	2.24	10.961
Huancayo	1.67	0	5.09	0.70	0	2.32	0.03	0.43	0.22	0.33	1.24	11.402
Ica	5.12	0	3.80	0.90	0	1.22	0.29	0.81	0.80	1.07	1.20	11.111
Iquitos	4.59	12.11	7.60	2.10	1.94	1.41	1.59	2.25	2.39	2.42	1.92	27.212
La Libertad	6.48	0.03	1.97	1.30	7.39	3.00	1.70	1.62	2.19	3.11	1.98	19.172
Lambayeque	7.60	3.30	2.23	3.30	0.39	3.90	2.02	3.15	3.35	4.21	2.21	13.641
Lima	4.51	3.33	0.10	4.20	2.61	6.82	3.37	2.17	2.42	2.24	2.44	21.432
Loreto	19.84	16.30	9.07	54.30	67.52	20.86	79.39	68.09	72.23	57.63	52.37	12.771
Madre de Dios	5.96	5.09	1.50	2.40	2.25	9.09	2.05	2.80	1.49	2.77	2.97	19.102
Moravia	0.20	0	0	0.10	0	0.66	0.02	0.06	0.22	0.11	0.12	15.070
Pasco	0.73	4.27	0	0.50	0	0.82	0.10	0.45	0.24	0.57	0.44	12.701
Piura	1.66	0	10.25	0.40	0	0.16	0.14	0.56	0.34	0.39	1.22	14.377
Puno	6.04	24.38	3.03	4.80	2.73	12.76	2.21	3.23	2.12	3.66	4.72	13.911
San Juan	3.15	0.13	1.16	1.80	1.33	2.33	0.65	1.38	1.23	2.20	2.28	12.311
San Martin	2.37	0	0.01	0.40	0	3.24	0.36	0.45	0.42	1.04	0.79	11.325
Tarma	1.52	0.16	24.31	0.40	1.45	0.41	0.33	0.57	0.59	1.25	3.45	116.311
Tumbes	0.40	3.42	0	0.20	0	0.76	0.11	0.30	0.24	0.58	0.22	12.477

Total 100.0 100.0 100.0 100.0 100.0 100.0 100.0 100.0 100.0 100.0 100.0 100.0 24.43

Source: Directorio General de Cuentas Nacionales, Indicadores Macroeconomicos del Departamento de Planeacion
Producto Bruto Interno de las Industrias (1977)

I.2.3. Agriculture

Agriculture and urbanization are interwoven in a variety of ways. It is useful in this urban/agricultural context to disaggregate the agricultural sector into agriculture for international export, agriculture for export for domestic consumption (usually urban), and subsistence agriculture for local use.

In Peru, agriculture for export and agriculture for food self-sufficiency are critical elements of national economic recovery. The trade-offs between them however, need to be carefully evaluated as to future investment since capital will be scarce and its rationing will need to be carefully done. Table 6 shows Agricultural Land and Output By Region in 1975. The Coast Region appears to have roughly twice the productivity in value of output per hectare than the Sierra Region and the Selva. The GOP focus on the Sierra presumably relates to potentials for rapid increases in productivity.

1. Subsistence Agriculture

By definition subsistence agriculture means that the production will be consumed in situ. Such agriculture has little need for urban services as the households have little disposable cash income and little surplus to ship to markets. If subsistence agricultural areas are such because of poor soils, lack of water, or extreme isolation little can be done which will affect national agriculture growth requirements. In other words if there is little potential for large productivity gains then programming in such areas is justified only on humanitarian grounds. Migration from such areas may be the most effective way for increasing household incomes and standard of living.

2. Agriculture for International Export and Domestic Urban Consumption

Peru's food imports were reported by the World Bank, "World Development Report 1982 (pp 128) as running in 1980 at 16 percent of total imports. This means that a major effort is justified in seeking food self-sufficiency. Part of this effort will have to be a concern of how related urban centers are developed to support their agricultural regions and the required inter-urban networks (transportation, power, and telecommunications). Among the critical functions of urban systems and agriculture are the following:

- a. The distribution system whereby agricultural products are sent to urban areas for consumption, storage, and processing (agro-industry).
- b. The reverse flows to agricultural areas through the urban system whereby manufactured consumer goods, farm equipment

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TABLE: T-6

AGRICULTURAL LAND AND OUTPUT BY REGION, 1975

	Coast	Sierra	Selva
Cultivated land (1000 ha) (%)	635.2 (26.5)	1,244.4 (52.0)	524.4 (21.5)
Gross output (m. soles) (%)	26,310.4 (40.9)	26,366.3 (40.9)	11,695.4 (18.2)
Output per hectare (10 ³ soles/ha)	41.4	21.2	19.0

Source: INP, Diagnostico, op. cit., p. 516.

and inputs (fertilizer, petroleum, etc.) are sent out from larger, through small urban centers.

- c. The development of urban centers for agricultural area serving facilities such as banking, government administration, higher level education, and health.

AID's "Integrated Regional Development Project" should respond well in theory to the establishment of urban/agricultural linkages. The present team evaluating this project should be able to make useful suggestions on how to make the urban component more viable. Was it theory or was it implementation which is at the root cause of project delays (See the Section of this report which outlines the typology of urban settlements for a further discussion of market towns.)

Urbanization and agricultural policy also needs to be integrated in terms of the allocation of investment capital for productive sectors (agriculture versus manufacturing or mining) and related support to achieve balanced development. In Peru with the strong demands for capital to support both the rapid growing urban economic sectors and the critical agricultural sectors simultaneously this rationing process takes on even more significance. In setting the agricultural investment priorities between alternative areas the ability of the urban system to service the project with minimum additional investment should be one of the characteristics considered and the failure to do so could later emerge as a major bottleneck in project implementation.

Two other issues need attention as they affect urban/agricultural policy. First, an agricultural pricing policy which sends the correct signals to agricultural producers needs to be developed in light of the political pressures generated by the vested interests of the urban consumer, the majority of whom are poor. Based on the macro urbanization pattern, and particularly the case of Lima, there is reason to believe that better agricultural pricing policies would be in the national economic interest and affordable (in general) by the urban consumer given overall wage differentials. However, this is not to underestimate the reality of the political power of the urban poor and other vested interests.

Second, the potentially serious problems of the conversion of the highest value agricultural land on the coast to urban use needs to be addressed. Apparently there are laws already on the books concerning the preservation of arable land, but the process of conversion is continuing. This needs special study to carefully evaluate the economic options and alternatives. Similar analysis in other countries has illustrated the problem to be that the overall national interest may well support the preservation of arable land on the urban fringe, but that the individual interests of the owner of the land will be to capitalize future agricultural earnings through sale of the land for urban uses. The use of the police power and regulations is rarely effective and tools such as acquiring development rights seem to offer more promise of success.

I.2.4. Industry and Manufacturing

Industry is for the most part an urban based activity. In Peru industry and manufacturing account for over 24 percent of the GDP. The Lima Department accounted for 54 percent of all industry and manufacturing component of the GDP in 1977. The industrial contribution of the next four ranked Departments (Ancash 4.1 percent; La Libertad 5.5 percent; Lambayeque 4.2 percent; and Piura 4.2 percent) combined was 18 percent of the industrial share of GDP. However, the GDP of individual departments shows the much more wide spread importance of manufacturing to the local economies. Twelve Departments have a larger share of their GDP deriving from industry than agriculture. See Table 4.

Table 7 presents to regional distribution of industry as of 1974. The dominance of the Coast Region is dramatically apparent in that 81.5 percent of all firms, and 87 percent of all employment, is located there. Furthermore the size of the firms is larger on the Coast, which averages 34.2 employees per firm as compared to the Sierra with 26.6 employees and Selva with 20 employees.

It is an appealing concept to view the decentralization of industry as one part of a program to achieve inter-regional equity (i.e. an effort to accelerate the economic growth of various regions which are lagging in the overall economy). This is particularly so because on the surface it supports policies of reducing the "over concentration" of economic activity in the primate city such as Lima. It is important, however, to understand the reasons why industry seeks major urban centers and particularly the largest center in which to locate. Among the key reasons are the following:

1. The forward and backward linkages are best developed with economies of scale.
2. Essential business services are readily available such as banking, suppliers, repair services, and the like.
3. Pools of skilled labor and management are available (it is frequently found that when industries are located for inter-regional equity purposes that skilled labor and management are imported from the major centers, but do not fully move to the new location, preferring to keep their family in the large urban center; therefore creating the need for dual housing and other infrastructure and facilities).
4. In so far as the primate city is the seat of government, and access to government is critical to industry, this also serves to focus industry in the capital city.
5. Infrastructure is usually more readily available.
6. Costs of production are lower because of the above factors.

TABLE: T-7

REGIONAL DISTRIBUTION OF INDUSTRY, 1974

<u>Region</u>	<u>No. of firms</u>	<u>%</u>	<u>Employment</u>	<u>%</u>	<u>Gross output</u> <u>(m. soles)</u>	<u>%</u>	<u>Value added</u> <u>(m. soles)</u>	<u>%</u>
Coast	6,329	81.5	216,615	87.0	187,977	83.9	84,044	85.3
Sierra	683	8.8	18,182	7.3	27,322	12.2	10,530	10.7
Selva	333	4.3	6,651	2.7	3,052	1.4	1,502	1.2
Unidentified	420	5.4	7,635	3.1	5,722	2.6	2,741	2.8
Total	7,765	100.0	249,083	100.0	224,073	100.0	98,817	100.0

Source: INP, Diagnostico, op. cit., p. 570.

7. For consumer industries the large cities are the primary markets for output. For export industries (not dependent on regional resource bases such as mining and certain agro-industries) locations near ports are critical. The same is true for import industries. Inadequate inter-regional networks also contribute to centralization of industry.

In Peru, all of these criteria uniquely support why Lima has the disproportionate share of industrial activity and why the Coast Region in general so completely dominates the country.

It is understood that the GOP has underway (or is considering) incentives to encourage industrial decentralization. The international experience with such incentives has not been good (except in isolated situations where very long lead times have permitted decentralization, but usually at a cost in economic growth which Peru cannot afford at this time). The reasons why incentives frequently fail are either because the incentives offered are not sufficient to outweigh the economic costs of not being in the prime location for the particular industry; or the incentives have been of such scale (in order to be meaningful in the location decision) that the subsidy involved has a negative effect on the economy overall (in that subsidy transfers to balance additional costs for the same levels of job creation and output represent forgone opportunities to support additional increments of economic growth). For a speculative discussion of the cost factors involved see the section on the cost of job creation in manufacturing.

The other constraint on industrial decentralization schemes is the issue of new capital investment in entirely new plant and equipment versus the need to make capital investment in expansion and modernization of existing plant and equipment. This issue is subject to analysis, but in general it will be found that expansion and modernization of established industries will consume a significant share of the total capital available for investment in the industrial sector. Since in Peru the existing establishment is located in Lima and on the Coast it means that the sheer momentum of the sector will continue in those locations regardless of the policy position of the GOP.

All of the above really refers to the macro situation of the industrial sector and underscores the reality of Lima and the Coast with the implied point that the economic future of the nation depends on maintaining a productive economic climate in this region. Nonetheless, there can be a planned and useful decentralization approach toward the Sierra and Selva regions. The criteria which should be applied might be as follows:

1. The emphasis should be on support for expansion and creation of small scale industry (except in situations where major natural resources are to be utilized and clear comparative advantage can be obtained by undertaking the industrial operation at the site because of reduction in bulk transport or whatever).
2. The output should be planned to serve a local regional market (i.e. intra-country import substitution).

3. The industry is labor intensive.
4. The industry has limited forward and backward linkages.
5. Local private sector entrepreneurs and management can be mobilized.
6. The use of simple or "appropriate" technologies can be applied.

The importance of the industrial sector in economic development and urbanization cannot be emphasized enough. It is the industrial sector which generates the "spin-offs" in services required for employees. In designating secondary centers for GCP and AID emphasis the potential economic climate and comparative advantage for industrial growth should be ranked highly in the selection process. Industrial development because of its required linkages and relationship to the larger urban settlement system should not be included in programming which is primarily concerned with humanitarian assistance. See the section Labor Force for an amplification of this point.

I.2.5. Mining

Mining has much less impact on urbanization than either agriculture or industry. Mining is usually so specialized in its equipment and its output that the usual kinds of linkages which support urbanization in proximity are lacking. Furthermore mining is usually capital intensive and does not generate major employment. In 1979 only 66.9 thousand jobs were reported in the mining sector versus 2.2 million jobs in agriculture and .7 million in manufacturing.

Furthermore, mining frequently presents environmental conditions which makes urbanization in proximity less desirable than in other locations. This is illustrated by the fact that the five departments which have the mining sector contributing more than 20 percent to their local GDP are well within the lower half of all departments in total population.

I.2.6. Construction (Source is Shelter Policy Issues in Peru, Vol II)

Table 8 gives an indication of existing private sector construction capacity (based on the sum of public plus private sector investment since private contractors carry out all construction nation-wide) and private sector investment, viewed separately.

- Combined 1981 public and private sector investment in housing (constant 1973 soles) equalled only 47 percent of the peak 1974 figure.

TABLE: T-8

PUBLIC AND PRIVATE SECTOR INVESTMENT IN GENERAL WORKS AND HOUSING

1969-1981

YEAR	DEFLATOR	PUBLIC SECTOR INVESTMENT (THOUSANDS OF SOLES)				PRIVATE SECTOR INVESTMENT (THOUSANDS OF SOLES)				TOTAL PUBLIC & PRIVATE SECTOR INVESTMENT (THOUSANDS OF CONSTANT 1975 SOLES)	
		NOMINAL SOLES		CONSTANT 1975 SOLES		NOMINAL SOLES		CONSTANT 1975 SOLES		ALL WORKS	HOUSING
		ALL WORKS	HOUSING	ALL WORKS	HOUSING	ALL WORKS	HOUSING	ALL WORKS	HOUSING		
1969	1.239	1,680,892	351,990	2,082,823	436,116	1,128,114	3,401,055	8,829,255	6,691,907	10,911,880	7,128,023
1970	1.203	2,351,769	627,541	2,870,832	754,187	8,675,002	6,648,995	10,453,377	8,012,039	13,523,409	8,748,226
1971	1.161	3,428,802	646,674	3,977,588	882,991	11,560,725	10,044,450	13,421,421	11,661,616	17,199,009	12,644,507
1972	1.085	3,855,159	751,997	4,182,848	815,917	8,871,819	7,631,418	9,825,924	8,780,089	13,808,772	9,046,006
1973	1.000	3,583,833	458,122	3,583,833	458,122	14,978,291	12,815,662	14,978,291	12,815,662	18,562,124	13,233,784
1974	0.894	4,368,911	485,082	3,898,654	453,663	19,452,646	16,148,784	17,390,666	14,437,015	21,298,320	14,870,676
1975	0.781	3,653,807	417,780	2,780,347	357,931	17,182,441	12,784,631	13,075,838	9,729,104	19,856,185	10,047,033
1976	0.512	6,335,114	470,448	3,356,218	240,869	16,162,047	11,691,982	8,377,368	5,986,295	11,733,586	6,227,164
1977	0.348	9,336,979	503,667	3,258,606	175,780	19,672,234	12,413,308	6,869,610	4,332,244	10,124,216	4,508,024
1978	0.224	8,501,656	44,326	1,859,371	9,974	22,042,450	14,135,474	4,937,504	3,170,826	6,797,073	3,180,800
1979	0.123	52,853,788	11,894,615	4,041,016	1,463,638	24,913,231	16,654,006	3,064,330	2,048,443	7,105,346	3,911,481
1980	0.076	55,468,192	8,950,115	4,215,659	680,209	39,447,423	16,873,861	4,157,624	2,802,413	8,375,283	1,482,622
1981	0.045	159,319,314	60,157,706	6,859,531	2,586,781	148,363,382	103,567,183	6,379,825	4,453,174	13,238,956	1,039,853

Source: Economic-Statistical Department, CAPECO.

- 1981 private sector investment, in real terms, equalled only 31 percent of the corresponding 1974 figure (in addition, private sector investment, as a percentage of total investment, dropped from 97 to 63 percent over the 1974-1981 period).
- From a relatively small base in 1974, 1981 public sector housing investment, in real terms, had increased dramatically (over 500 percent) due mainly to significant increases in GOP investment since 1979.
- Through 1981, private sector investment, in real terms, has grown at over 30 percent per annum since the recession year of 1978.
- While partial figures 1982 are not yet available, the private sector is once again talking pessimistically about a downturn in private sector investment.

While it is not known how much of the installed 1974 production capacity is still in place, it can be argued that present investment is still far below past peak years, in real terms, and that excess capacity is still available (as presently argued by private developers), or that new capacity would become available to meet newly created demand produced by increased investment financing.

With respect to the availability of building materials the latest available figures (1980) show that none of the major construction materials was being produced at full capacity. (See Table A-11 Appendix)

- Production of Portland cement was at 89 percent.
- Production of steel reinforcing rods at 58 percent.
- Production of concrete pipe at 16 percent capacity.

However, while the 1980 statistics indicate that the building materials industry was not producing at full capacity (which would lead one to assume that supply outstripped demand), the costs of construction materials rose at percentage rates substantially greater than the National Statistics Office Consumer Price Index.

- For 1981, the general construction materials index increased by 89 percent, and it is estimated that the increase for 1982 will be over 100 percent (versus C.P.I. increases of 72.7 and 65 (estimated) percent for 1981 and 1982, respectively).
- Furthermore, certain key construction materials experienced dramatic price increases during 1981 and through September 1982:

- Steel reinforcing rods, 125 percent for 1981 and 123 for 1982 to date;
- Portland cement, 162 percent for 1981 and 82 percent through September 1982.

This phenomenon can be partially explained by the dated nature of the excess capacity figures when compared with the upswing in housing investment in 1981-1982. It is reasonable to assume that the GOP's ambitious ongoing housing program (two-fold increase in total investment between 1980 and 1981) and continued increased investment in 1982 has strained existing capacity levels and, in part, accounts for the dramatic price increases in key construction materials.

Furthermore, the concentration of building materials production in Lima further aggravates materials costs for most secondary cities (especially those of the Sierra and Selva) due to the additive transportation costs.

Of the 113 major building suppliers (Table A-12 Appendix) 106 are located in Lima.

I.2.7. Service Sector

The service sector contributed 43 percent to GDP in 1979 (not including government or construction). For each manufacturing job there were three service jobs (not including government) the majority of which undoubtedly were in urban areas. For each job in the productive sectors (agriculture, mining and manufacturing) there was .84 service sector jobs. The service sector responds to the creation of jobs in the productive sector spontaneously, although programming assistance in the form of access to credit and management training can facilitate the process and make it more productive. The only exception perhaps is where entirely new towns are built and the lag in the development of the service sector acts as a drag on population build-up and urbanization. (See the section on New Towns in the typology of urban centers).

The size and economic base of a given urban settlement usually determine the range and selection of service activities which will be located there. As household income rises the service sector usually responds through the market mechanism to broaden and deepen the range of goods and services available.

I.2.8. Government

The government sector usually has high urban bias in its employment location. In 1979 there were 404 thousand government employees. Data was not available on their location within the country, but it is likely (based on other country experience) that the majority are located in Lima, and as much as 80-90 percent of all employees are located in urban areas. The

employment policies of government are therefore of significant importance to urbanization in general and decentralization strategies in particular.

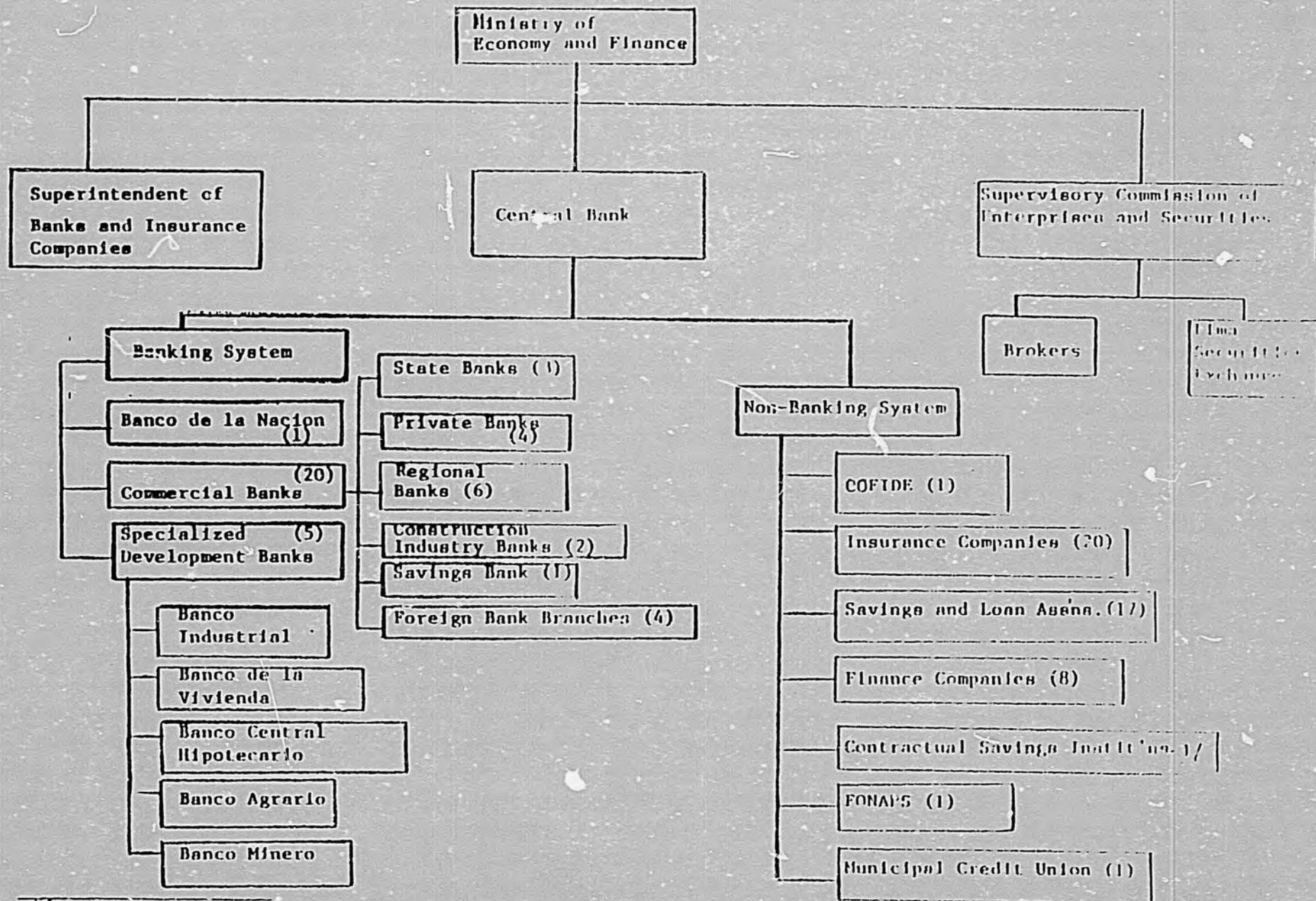
One of the ways government's have to implement decentralization strategies is to consciously move public sector employment to targeted urban settlements, and through the transfer of functions to lower levels of government from the center. This strategy, if implemented gradually, can be successful because there is little productivity loss and the service sector stimulation can be met spontaneously and incrementally. The major disadvantage is that the capital investment cost for offices, housing, infrastructure, etc. is born by the public sector and therefore may either not be financially feasible or as productive as using available capital in an alternative manner. However, it is not infrequent to find that while governments support decentralization strategies they are unwilling to transfer either functions or employment to outlying areas. In the latter case employees usually greatly prefer the capital city location, both environmentally and because of the perception that career advancement rests at the center. For example, note the decade long struggle to make major shifts of government employment to the new capital of Brazil.

I.3. FINANCIAL SECTOR

The financial sector plays a major role in both urban and rural development. The most recent overview data on the financial sector available was the report prepared by the Capital Market Department, International Finance Corporation, "Financial Sector Review", dated November 4, 1980. It is based for most part on 1979 data. The key points of the study with reference to urbanization and economic development include:

1. Government financial policy dominates the financial system, both public and private. Public financial institutions depend primarily on flows of funds channeled by government policy decisions.
2. Interest rate policy decisions have resulted in highly negative yields which has discouraged savings and possibly led to capital allocations to otherwise uneconomic projects.
3. There a large number of financial institutions in Peru, but there is considerable overlapping of functions. (See figure 3 and table 9 for the structure of the financial system). On the other hand the IFC suggests that there are not a sufficient range of financial instruments to mobilize domestic savings.
4. Domestic savings rates generally grew between 1975-1979. Gross domestic savings ratio to gross domestic product stood at 18 percent in 1979. This level of savings still tends to be on the low side for Latin American countries.
5. Domestic savings accounted for approximately 50 percent of total investment from 1975-1977. A combination of declining investment and increasing domestic savings resulted in an overall decrease in dependence on foreign resources in 1978 and 1979. (See table 10)
6. The banking sector held 89 percent of all financial obligations with the private sector in 1979 (See table A-19 Appendix).
7. Peru has had a securities exchange for many years, but activity has traditionally been modest. More recent activity is seen to be a result of accelerating inflation rates. In August of 1980, the securities quoted on the exchange included about 125 different stocks, seven bonds of different companies, and the mortgage certificates issued by Banco Central Hipotecario. See table A-15 Appendix for the Yearly Trading Volume of the Lima Securities Exchange, and table A-16 Appendix for the Price Indices.
8. A money market in Peru is relatively undeveloped, but some trading does take place.

Figure 3
Structure of the Financial System
 (as of December 31, 1979)



^{1/} Contractual Savings Institutions comprise cooperative savings associations and capitalization companies.

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TABLE : T-9

STRUCTURE OF THE FINANCIAL SYSTEM

(as of December 1979)

	<u>No. of Institutions</u>	<u>No. of Offices</u>	<u>TOTAL ASSETS</u>	
			<u>\$', million</u>	<u>%</u>
<u>A. Banking System</u>	<u>27</u>	<u>1,427</u>	<u>2,777,194</u>	<u>88.7</u>
Central Bank	1	6	919,000	33.1
Banco de la Nación	1	456	786,969	28.3
<u>Commercial Banks:</u>	<u>20</u>	<u>803</u>	<u>731,590</u>	<u>26.3</u>
Private Banks	4	330	324,601	11.7
State Banks	3	347	298,692	10.8
Regional Banks	6	82	65,816	2.4
Construction Develop- ment Banks	2	6	15,581	0.6
Foreign Bank Branches	-	11	26,421	1.0
Savings Bank	1	27	10,486	0.4
<u>Development Banks:</u>	<u>5</u>	<u>162</u>	<u>339,635</u>	<u>12.2</u>
Housing	2	47	153,115	5.5
Industrial	1	21	99,992	3.6
Agricultural	1	79	65,087	2.4
Mining	1	15	21,441	0.8
<u>B. Non-Banking System</u>	<u>46</u>	<u>226</u>	<u>354,469</u>	<u>12.7</u>
COFIDE	1	6	162,363	5.7
Insurance Companies	20	99	81,916	2.9
Savings and Loan Assn.'s	17	96	50,690	1.8
Finance Companies	8	11	37,000	1.3
Contractual Savings Institutions	n.a.	n.a.	22,500 ^{1/}	0.8
TOTAL	<u>73</u>	<u>1,639</u>	<u>3,131,662</u>	<u>100.0</u>

1/ Estimated

SOURCE: Superintendent of Banks and Insurance Companies Bulletin

9. The relative investment share by government increased significantly from 14.4 percent of total investment in 1975 to 20.6 percent in 1979. Table 11 shows the regional distribution of public investment 1977-78, which favors the Coastal Region.

The financial sector will need to be reviewed (and there may have been significant changes already) to insure that an economic development program led by the private sector has sufficient access to credit and financing. In urban areas this is particularly important for the manufacturing sector. It will be essential to have credit for both medium and small scale enterprise available because of their propensity for rapid job creation.

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TABLE: T-10

SAVINGS AND INVESTMENT

(In 1970 Prices)

<u>SOLES. MILLION</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Gross Domestic Investment	65,254	57,942	44,980	39,266	44,602
Domestic Savings	<u>28,381</u>	<u>30,830</u>	<u>22,934</u>	<u>34,399</u>	<u>58,694</u>
Savings Gap = Foreign Savings	36,873	27,112	22,046	4,827	(14,092)
Savings Gap/GDP, %	11.7	8.4	6.9	1.5	(4.3)

SOURCE: Central Bank Bulletin

TABLE: T-11

Regional Distribution of Public Investment, 1977-78

(In Millions of Soles) 1/

	<u>Total</u>	<u>Agri- culture</u>	<u>Ind., Tour., Mining</u>	<u>Elec., Tran.</u>	<u>Housing Ed., Hch.</u>	<u>Investment per Capita</u>
		1	2	3	4	
Coast	46,718	11,193	15,311	9,231	60,403	.0058
% of total	60	86	49	52	96	
Sierra	16,373	1,227	6,761	5,151	998	.0034
% of total	21	9.5	22	29	1.5	
Jungle	15,490	583	9,042	3,329	1,543	
% of total	<u>19</u>	<u>4.5</u>	<u>29</u>	<u>19</u>	<u>2.5</u>	
Total	<u>78,581</u>	<u>13,003</u>	<u>31,114</u>	<u>17,711</u>	<u>62,944</u>	

1/ Coast includes departments of Tumbes, Piura, Lambayeque, Libertad, Ancash, Lima-Callao, Ica, Arequipa, Moquegua, and Tacna.

Sierra includes departments of Cajamarca, Huanuco, Pasco, Junin, Ayacucho, Huancavelica, Apurimac, Cuzco and Puno.

Jungle includes departments of Amazonas, San Martin, Loreto and Madre de Dios.

I.4 LABOR FORCE

Whereas economic growth in the GDP is desirable, in fact the real bottom line of development is productive jobs and the resulting improvement household income. If employment can keep pace with population growth and unemployment and underemployment kept at reasonable levels the improvements in the standards of living of the country will follow. (See Table A-31 Appendix for the 1972 Regional Distribution of the Labor Force and Table A-32 Appendix for Regional Distribution of Employment By Sector)

Peru faces significant problems of unemployment and underemployment. Table 12 shows one estimates of the problem. In 1979 it was estimated that seven percent of the labor force was unemployed (11 percent of the urban labor force), but that 64 percent of the agricultural labor force and 44 percent of the urban labor force was underemployed (defined as working less than 35 hours per week or earning less than the minimum wage).

The Table 13 indicates that in 1979 the total labor force was 5.44 million (a labor force participation rate of 31 percent). Of this total 2.22 million were in agriculture and 3.22 million were in non-agricultural which can be presumed predominately as urban jobs. Some 689 thousand were in manufacturing (Table A-17 Appendix) which meant that there was one job in manufacturing for each 3.6 urban jobs outside of manufacturing.

The World Bank predicts a declining labor force participation rate as children drop out of the labor force which will reach 25.5 percent by the year 2000. Other estimates support labor force participation rates around 33 percent. Applying this ratio to the previously discussed low estimate national and urban population and keeping the ratio of industrial jobs to service jobs constant generates the urban job requirements for 1990 and the year 2000 as shown in Table 14.

It can be noted that this rather simplistic approach suggests the need for the creation of 238.8 thousand new manufacturing jobs between 1979 - 1990. This is a growth rate of 2.74 percent per year. However, it is probable that the last few years have seen a drop-off from the growth rates of the 1972 - 1979 period of 2.82 percent per year and therefore the "catch-up" rate would have to be higher. Between 1990 - 2000 an additional 260.7 thousand new manufacturing jobs will be required which would be achievable at a growth rate of 2.5 percent per year if the 1990 jobs target is reached.

TABLE: T-12

PERU - UNEMPLOYMENT AND UNDEREMPLOYMENT RATES, 1970-79
(Percentages)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
<u>Unemployment</u>										
Total	4.7	4.4	4.2	4.2	4.0	4.9	5.2	5.8	6.5	7.1
Agricultural	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Non-agricultural <u>1/</u>	8.3	7.7	7.3	7.1	6.6	8.1	8.4	9.4	10.4	11.2
<u>Underemployment 2/</u>										
Total	45.9	44.4	44.2	41.3	41.8	42.4	44.3	48.2	52.0	51.4
Agricultural	64.3	63.6	67.0	65.4	65.4	68.2	68.8	62.1	65.4	63.5
Non-agricultural <u>1/</u>	30.9	29.0	26.6	23.3	25.0	24.8	32.7	39.2	43.7	44.1
<u>Adequately Employed</u>										
Total	49.4	51.2	51.6	54.5	54.2	52.7	50.5	46.0	41.5	41.5
Agricultural	35.4	36.1	32.7	34.3	34.3	31.5	37.9	37.6	34.3	36.2
Non-agricultural <u>1/</u>	60.8	63.3	66.1	69.6	68.4	67.1	58.9	51.4	45.9	44.9

1/ Includes unclassified activities

2/ Working less than 35 hours per week or earning less than minimum wage.

Source: Ministry of Labor

TABLE: T-13

PERU - PROJECTED LABOR FORCE, 1970-79
(Thousands)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Total Labor Force	4167.3	4281.0	4401.7	4534.3	4672.9	4817.5	4968.0	5124.7	5283.4	5441.9
Agricultural	1879.5	1900.8	1919.1	1936.1	1948.6	1955.9	1977.3	2003.8	2026.0	2042.0
Non-agricultural <u>1/</u>	2287.8	2380.2	2482.6	2598.2	2724.3	2861.6	2990.7	3120.9	3257.4	3399.9
Employed	3971.4	4092.6	4215.6	4343.9	4486.0	4581.3	4709.7	4826.8	4940.0	5054.3
Agricultural	1873.6	1894.8	1913.0	1930.1	1942.8	1950.1	1971.4	1997.8	2019.9	2035.9
Non-agricultural <u>1/</u>	2097.8	2197.8	2302.6	2413.8	2543.2	2631.2	2738.3	2829.0	2920.1	3018.4
Unemployed	195.9	188.4	186.1	190.4	186.9	236.2	258.3	297.9	343.4	387.6
Agricultural	5.9	6.0	6.1	6.0	5.8	5.8	5.9	6.0	6.1	6.1
Non-agricultural <u>1/</u>	190.0	182.4	180.0	184.4	181.1	230.4	252.4	291.9	337.3	381.5
Underemployed <u>2/</u>	1913.4	1900.8	1845.5	1872.7	1953.3	2042.6	2200.8	2465.3	2745.0	2797.1
Agricultural	1207.6	1209.4	1285.8	1266.2	1273.5	1333.4	1222.1	1243.4	1325.0	1296.7
Non-agricultural <u>1/</u>	705.8	691.4	659.7	606.5	679.8	709.2	978.7	1221.9	1420.0	1500.4

1/ Includes unclassified activities2/ Working less than 35 hours per week or earning less than minimum wage

Source: Ministry of Labor

TABLE T-14

SUMMARY FUTURE URBAN LABOR FORCE AND MANUFACTURING JOB REQUIREMENTS (000's)

Estimates 1990 and 2000

	<u>1979</u>	<u>1990</u>	<u>Difference</u>	<u>Growth Rate</u>	<u>2000 (Low Estimate)</u>	<u>Growth Rate</u>	<u>Difference 1990 - 2000</u>
Total Population	16,084.7	21,741	5,656	2.78	27,372	2.33	5,631
Urban Population	10,328.8	15,312	4,983.2	3.64	21,175.7	3.30	5,863.7
Urban Labor Force	3,218.2	4,333.3	1,115.3	2.74	5,549.6	2.50	1216.3
Labor Force Participation %	31%	28.3	—	—	25.5%	—	—
21.43 Industrial Jobs	689.8	928.6	238.8	2.74	1,189.3	2.50	260.7
Service Jobs (w/Government)	2,528.4	3,404.7	876.3	2.74	4,360.3	2.50	955.6

Source: PWDQ Analysis

I.5 THE COST OF JOB CREATION IN MANUFACTURING

The leading force of the urban economy is the creation of manufacturing jobs. Therefore, insuring that the jobs required are created should be a priority objective of government. The service sector jobs will most likely be created spontaneously in response. Noted that, in the absence of manufacturing jobs the service sector will act as employer "of the last resort" and underemployment will increase in the service sector to absorb the otherwise unemployed labor force. However, with adequate growth of industrial jobs, service sector jobs will be more productive and generate higher incomes for the owners and workers.

Governments faced with this concern for manufacturing job creation have in the past resorted to the creation of public sector enterprise. Such has been the case in Peru. While this does indeed create jobs, the experience with public sector enterprises has been almost universally bad. Peru's current policy is to spin-off public enterprises to the private sector. But public enterprises are currently running at an annual deficit (See table A-18 Appendix). AID should support this GOP effort with technical assistance (and perhaps capital assistance) in order to "package" public sector enterprise for sale to the private sector.

Unfortunately, since public sector enterprises are for the most part overstaffed with low level, low skilled employees it is very likely that retrenching of staff would be an early step which any private employee would seek to accomplish and is perhaps a concern in Peru. This reality is certainly one of the factors which has given pause to governments such as Jamaica and Sri Lanka from rapidly implementing their stated goals of divestiture. The above notwithstanding, the Peruvian government clearly views the private sector as the major vehicle for manufacturing growth and job creation in the future.

Given the importance of manufacturing job creation and the expected reliance on the private sector to achieve this goal (policy assistance is required from the GOP to remove current constraints which AID should support. Also support in the form of access to credit and establishing generally favorable economic climate in relationship to national urbanization process will assume significant programming importance.

It has already been discussed why manufacturing investment flows to major cities, and in Peru, particularly to Lima. Given the approximate estimates of the number of new jobs which are required it is then possible to speculate on the impact of total investment required based on alternative regional variations of the possible locations. A considerable analytical effort is required to prepare specific information on this important subject, but it can and should be done as part of a National Urban Policy effort. At least three important issues need to be considered: the first cost of building that plant and purchasing the equipment, the second costs of housing the workers and supplying the essential infrastructure and facilities to serve both the

workers and the plant, and finally the operating cost of the facility measured against the value added per worker.

The Urban Small Scale Enterprise paper (pp.7) states the IBRD estimates that the formal manufacturing averages \$36,500 per job. This figure highlights the investment task required to sustain manufacturing growth at a rate that will provide 238,000 jobs by 1990. For the sake of argument, let us say that the average cost of the 238,000 jobs will be \$36,500 each. This modest figure per job results in a new investment of 8.9 billion dollars in the manufacturing sector by 1990 not counting inflation. To continue this "speculative" illustration, let us assume that this 8.9 billion dollar investment would, in the absence of public policy, be distributed as the 1974 distribution of industrial output of 83.9 percent to the Coast, 12.2 percent to the Sierra, and 1.2 percent to the Selva. The resulting allocation of the "theoretical" distribution would be as follows:

Coast	\$7.47 billion and	199,682 jobs
Sierra	\$1.09 billion and	29,036 jobs
Selva	\$.1 billion and	2,856 jobs

Now let us assume that for decentralization policy reasons the combination of incentive and regulatory instruments would put in place to shift 30 percent of the Coast jobs to be divided two thirds in the Sierra and one third in the Selva. This would make the following policy targets:

Coast	139,777 jobs (59,904)
Sierra	68,972 jobs + 39936
Selva	22,824 jobs + 19968

However, it is likely that the estimated 8.9 billion of investment would no longer be sufficient to create those jobs. Table A-19 Appendix presents a proxy construction index for June, 1982 which shows that using the Coast index as 100 then the Sierra is 110 and the Selva is 125. If we assume that 40 percent of the investment is represented by construction and we tack on a transportation charge for the 60 percent represented by equipment of say 4 percent for the Sierra and 8 percent for the Selva, then we can make a rough calculation of the additional total manufacturing investment cost of the decentralized strategy:

Coast	\$36,500 per job or 100 index
Sierra	\$39,055 per job or 107 index
Selva	\$41,975 per job or 115 index

When this illustrative index is applied to the total jobs to be shifted the results are as follows:

Coast	(59,904) jobs at \$36,500 or	(\$2.186 billion)
Sierra	39,936 jobs at \$39,055 or	+ \$1.559 billion
Selva	<u>19,968 jobs at \$41,975 or</u>	<u>+ \$0.838 billion</u>
	0 jobs	+ \$0.212 billion

In other words it would cost \$212 million in additional investment to create the same number of jobs or stated the other way the same level of investment would create 5,750 jobs less with the same investment. If we keep the same ratio of manufacturing jobs to service jobs there would be another 17,250 service jobs forgone, or a total of 23,000 jobs.

The capital investment in plant and equipment is only the first cost to the manufacturer. It is likely that the costs of operations would also be higher for such obvious reasons as the cost of transportations, but also some more subtle reasons such as higher wages for skilled and management staff etc. Finally, the costs of the housing of the workers and supporting infrastructure would also be up. Once again, as pure speculation, let us say that the average cost of the house of a worker were the 1982 equivalent cost of an ENACE provided core house (approximately \$5,500 each). If the construction cost index is applied the additional cost of housing the workers would be \$50 million.

Obviously this an entirely speculative example based on skimpy information. The issues raised, however, are subject to detailed analysis and the results can be realistically presented as a critical input to the discussion on decentralization --how much and where? This was done in the National Urban Policy Study for Egypt (sponsored by AID) and it was found that the most decentralized development strategy (originally preferred by the Egyptian government) would have resulted in nearly 40 percent additional cost to achieve the same level of job generation and infrastructure and housing as the most efficient locational policy. The ultimate selection in this case was a modest decentralization strategy requiring eight percent additional investment to achieve the same level of jobs and performance.

The point of this illustration to Peru development planning and AID strategy is to underscore the importance of planning for feasible and likely modest decentralization in carefully selected target centers. Random programming under the "banner" of decentralization by AID and other donors (see section on other donors) may result in little decentralization and little economic performance for the investment unless done according to a carefully developed strategy.

A final word is in order about the recently authorized project on Urban Small Scale Enterprise. This AID sponsored project is, of course, not a factor in the above illustration which is concerned with larger scale

manufacturing investment. The low cost per job created through this program (estimated to be \$4,000 not including construction and land) is exactly the kind of program which makes sense at this time, and can be effective with the proposed level of AID resources.

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TABLE T-15

PERU

RELATIVE CONSTRUCTION COSTS BY REGION

<u>Element</u>	<u>INDEX</u>		
	<u>Coast</u>	<u>Sierra</u>	<u>Selva</u>
1. Wall & Structure (Brick)	100	113	196
2. Roof (Conc. Slab)	100	125	128
3. Floor Finish (Conc.)	100	40	121
4. Doors & Windows (Steel & Wood)	100	87	100
5. Finishes (Plaster)	100	100	120
6. Baths (White, Motile)	100	203	245
7. Electricity/Water (Single phase, cold)	<u>100</u>	<u>132</u>	<u>100</u>
Total Weighted Average	100	110	125

Source: Official unit building values as of June 6, 1982 Ministerial Resolution No. 414-82-VI-9300 actual figures reduced to relative values to coast region.

I.6 HOUSEHOLD INCOME AND DISTRIBUTION AND POVERTY

The problem of urban poverty, as well as rural poverty, is obviously of great concern to both the GOP and the donor community. Table 16 and 17 show the decile income of Lima and the comparative decile distribution of income in the secondary cities. The secondary cities have approximately a 25 percent decline in comparative deciles of income. Table A-20 Appendix presents aggregate data for 1961-71 which shows the geographic relationships in per capita income expressed as a percentage of the national average. Once again the favorable position of Lima is self evident as well as the Coast in general. There has also been a general decline in real wages and salaries since 1973, though there has been some improvement in the last two years (1981 and 1982) as shown in Table 18. Even with three percent real growth in wages it will take approximately eight years or to 1990 to return the real wage base to its 1973 levels.

Equally important is to understand that even if real incomes begin to rise (and three percent compounded would be considered outstanding performance) the debt carrying capacity of the population for housing will rise only modestly. For example, a household in Lima (1982) presently earning S/.235,500 monthly (at the 40th decile) or \$258.94 per month (using the S/.900 to US\$1 exchange rate at that time) would be able to amortize a loan (25 years at 10 real interest) of a principle amount of \$7,051.23. In 1990 if that household enjoyed a three percent income growth compounded over the eight years they would be able to afford to amortize a loan principle of \$8,932.35 at the same terms. The difference of \$1,900 of principle would obviously mean that the household could finance a somewhat larger or better finished house, but the important point is that it cannot be substantially better than what is affordable to the household now.

Such substantial real income gains are highly problematical and even if such gains materialize it will not dramatically affect the affordability of the housing type available to the household. This means that the selection of low, affordable standards for housing are of prime importance. This impacts in two ways: (1) housing supplied for low income groups by government should be affordable to the target groups without major subsidy (the present complete housing supplied by ENACE would not be affordable to the target groups without subsidy in 1990 even with the illustrative three percent real growth rate and no increase in real construction costs); and (2) all regulations and restrictions on housing should be reviewed to insure that they are not artificially driving up the costs of housing or resulting in inefficient land use planning.

The reality is that urban poverty is a serious problem and it is unlikely that national economic growth alone will, in the remainder of this century, be able to provide any significant amelioration. Therefore it is a problem particularly deserving both GOP and international donor concern and direct assistance.

TABLE T-16

HOUSEHOLD INCOME DISTRIBUTION BY DECILE FOR
METROPOLITAN LIMA

December 1982

DECILE (%)	MONTHLY HOUSEHOLD INCOME (S/.)
10	109,000
20	153,500
30	192,250
40	233,050
50	281,050
60	338,100
70	414,550
80	525,750
90	735,300

Source: PADCO Elaboration of the Information Contained
in Table A-24.

TABLE T-17

HOUSEHOLD INCOME DISTRIBUTION BY DECILE
FOR SECONDARY CITIES, DECEMBER 1982

Decile (%)	Monthly Household Income in Soles
10	88,050
20	125,850
30	156,650
40	187,900
50	221,450
60	262,800
70	316,900
80	396,450
90	606,700

Source: PADCO elaboration of the information contained in the ENAPROM Enuesta Nacional de Hogares de Propositos Múltiples, 1977-1978, published March 1981. The secondary cities surveyed and included in the distribution are Arequipa, Trujillo, Chiclayo, Chimbote, Piura, Ica, Tacna, Cuzco, Iquitos, Huancayo, Puno and Cajamarca. Household incomes for each of these cities were derived from the decile tables presented in the original report, then adjusted to reflect inflation using the composite 11.77 multiplier derived from the Consumer Price Index. A weighted average decile distribution based on population was calculated from the resultant tables.

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TABLE T-18

INDEX OF REAL WAGES AND SALARIES

1973-1982

LIMA METROPOLITAN AREA

	<u>WAGES</u>	<u>SALARIES</u>
1973	100.0	100.0
1974	100.5	95.6
1975	88.2	90.3
1976	91.1	79.6
1977	76.0	67.9
1978	65.6	56.7
1979	63.0	51.4
1980	72.9	58.2
1981	75.6	58.0
1982 (February)	79.3	58.7

Source: Ministry of Labor.

I.7. CONCLUSIONS

The conclusions which can be drawn from the previous discussion of urbanization and the macro trends in Peru provide the broad framework for the specific discussion of urban issues and opportunities which follow in Section II.

1. Peru's population growth rates are dropping more rapidly than expected and estimates for 1990 and 2000 will need to be revised downward.
2. Urban population growth rates, while still exceeding overall national growth rates, are also dropping. Rural/urban migration is continuing, but at slower rates. It is likely that natural increase in urban centers will be the major growth force in the years 1985 and beyond. Inter-urban migration in response to job opportunities will become a more important issue than rural/urban migration.
3. Peru's urban structure is not out of balance at present. Lima's population should not exceed 10 million by the year 2000 which is significantly less than previous estimates. The distribution of Peru's cities forms a good base for future development of the settlement system.
4. The economic future of the nation depends on balanced growth in agricultural (for export and domestic food self-sufficiency) mining (for export), and manufacturing (for job creation and stimulation for the service sector). Rationing of productive investment between these sectors is of major importance.
5. Urban investment should be made in order to support and enhance the investments in the productive sectors and not concentrated on achieving "inter-regional equity" or out of a negative fear of "overconcentration" in Lima.
6. Urban job creation is the critical issue. Investments should flow to urban centers based on their comparative advantage economically, and the opportunities for rapid job creation. This is likely to continue to favor Lima and the Coast cities, but form the basis for more decentralization in the Sierra in the future.
7. It is likely to be more expensive to create manufacturing jobs away from the Coast and operating costs and the costs of maintaining the work force are also likely to be higher.
8. Job creation in the service sector will tend to spontaneously follow investment and job creation in the productive sectors (agriculture, mining, and manufacturing).
9. The construction sector has had considerable stimulation recently, yet is operating well below its 1974 capacity. Building materials do not

seem to be a constraint in the short run, but prices seem to be increasing more rapidly than demand suggests.

10. The government is a significant employer with an urban locational bias. Government employee locational decisions should be considered as part of a decentralization strategy.
11. The financial sector is critical to economic growth. In Peru there appears to be opportunities to rationalize the financial institutional structure, concentrate on domestic savings mobilization, and coordination of the flow of investment funds into the productive sectors and required supporting shelter, infrastructure, and facilities.
12. Labor force participation rates are likely to decline as the economy improves and children drop out of the labor force.
13. The key to future job generation is the creation of jobs in the manufacturing sector and improvements in productivity of agricultural labor.
14. Household incomes even under the more optimistic scenarios cannot increase rapidly enough to pay for shelter and services substantially better than at present. This suggests the need to keep standards of physical provision low for the purposes of affordability and spreading benefits to the largest number of households with the resources available.

SECTION II: THE URBANIZATION ISSUES IN PERU

The previous section has attempted to place urbanization within the context of overall national issues. This section focuses on the urban specific issues which need to be addressed.

II.1. The National Settlement System

The national settlement system is an important component of an overall national urban policy. It is useful to have a sense of the role and function of each of the major settlements and a typology of the kinds of settlements within the national structure in order to focus specific kinds of programming and policy action. In the absence of a more detailed analysis, which is required, it is possible to make a first cut at the typology of settlements along the following lines:

1. The Primate City: Lima-Callao

The data presented so far supports the reality of Lima-Callao as exhibiting all of the characteristics of primacy. However, in beginning to think through a strategy for Lima-Callao it will be necessary to expand the concepts to a Lima Metropolitana Region which will probably include the Lima Department in its entirety including the other two secondary cities of Huacho and Chincha Alta (in part because of Lima's importance in agriculture). An overall physical, economic, and social development strategy for this crucial urban development region needs to be prepared which reflects the objectives and guidelines of the proposed National Urban Policy. Considerable work has been done by the GOP already on this subject, but it does not reflect sufficient analysis of the economic role of the region within a national framework.

The issue of the diseconomies of urban concentration are frequently advanced as arguments for decentralization strategies. While a widely held view by governments and residents of the major cities, there is in fact no solid research which demonstrate that any city of the world has reached a scale at which the diseconomies of additional growth outweigh the economies. The extensive research of Koichi Mera at the World Bank supports this view.

In the opinion of the author the reason the "diseconomies" argument is given such widespread credence is the matter of allocation of the costs and benefits of growth within the primate city. Whereas the new increments of economic activity and new residents can demonstratively be seen to obtain the bulk of the benefits generated, the burden of the diseconomies (costs) fall on the existing residents (pollution, increased traffic congestion,

etc.) and on the government in the sense of the costs of attempting to ameliorate the conditions (improved traffic, increased infrastructure, etc.) Nonetheless, in terms of overall national economic growth the primate cities remain the most productive locations for much of the urban economic activity of the nation.

2. Secondary Cities (over 50,000)

The largest secondary cities form a group within which accelerated economic growth is potentially the greatest. It is likely, however, there will be considerable variations in potential when the cities are subjected to detailed analysis. Nonetheless, this group can be divided geographically as follows: (rank order of city size in parentheses)

Coast/North:	Trujillo (3)	Piura (6)
	Chiclayo (4)	Sullana (11)
	Chimbote (5)	Talara (21)
Coast/Center:	See Lima as Primate City	
Coast/South:	Arequipa (2)	Tacna (13)
	Ica (10)	Pisco (19)
Sierra/North:	Cajamarca (20)	
Sierra/Central:	Huancayo (9)	
	Huanuco (22)	
	Cerro de Pasco (between 11-12)	
Sierra/South:	Cuzco (7)	Ayacucho (16)
	Juliaca (14)	Puno (17)
Selva:	Iquitos (8)	
	Pucallpa (12)	

It is interesting to note that Lima is 10 times the size of Arequipa, the second city, but Arequipa is only four times the size of the next 10 cities. Sullana the 11th ranked city is only twice the size of the next eleven cities. In other words, once Lima's primacy is eliminated the remaining secondary cities of Peru have a quite closely "packed" city size relationship. This should prove advantageous in targeting a modest, yet possibly broadly based decentralization program.

3. Department Capitals (below 50,000 population)

There are number of departmental capitals below the 50,000 population mark in 1981. These capitals need to be analyzed from

the point of new of their potential functions in response to increased decentralization of government in accordance with emerging GOP policy and very selected economic growth potential.

Department capitals which fall into this category are as follows: (1981 population in parenthesis)

Coast/North :	Ancash - Huaraz	(45,116)
	Tumbes - Tumbes	(48,182)
Coast/South :	Moquegua - Moquegua	(21,488)
Sierra/North :	None	
Sierra/Central:	None	
Sierra/South :	Huancavelica - Huancavelica	(20,889)
	Apurimac - Abancay	(19,807)
Selva :	Amazonas - Chachapoyas	(11,919)
	San Martin - Moyobamba	(14,319)
	Madre de Dios - Puerto Maldonado	(12,609)

Note: The remainder of the typology is derived from the Integrated Regional Development Project Paper.

4. Sub-Regional Centers (approximately 16,000 - 25,000)

Sub-Regional centers are likely to either have one economic base (such as mining) or to be service centers to surrounding agricultural areas. Investments in these kinds of centers should usually be made, as a matter of policy, when it is required to support a broader economic development concept. That is, where major investment is proposed for agricultural development in its surrounding region. Beyond this, minimal investments for inter-regional social equity reasons, at low per capita unit costs, should be the extent of public activity, other than that mobilized by local resources. Additional discussion of inter-regional social equity programming is a part of the paper under decentralization strategy.

5. Area Market Centers (approximately 5,000 - 12,000)

These towns will benefit primarily if there is an overall improvement in their regional economy, but have little potential to respond to specific targeted investments in and of themselves.

6. Local Service Centers (approximately 1,500 - 5,000)

At this level of the settlement system the sheer numbers of settlements precludes direct central government attention except in most unusual cases. Little or no individual economic potential exists beyond that of the general economy of the region.

7. Nucleated Rural Settlements (approximately 250 - 1,250)

In general, these settlements are rural in nature and do not fit within an urban programming and investment strategy.

It should be noted as a general guideline that all settlements below the Sub-Regional Center level are much more likely to respond to regional investment programming such as improvements in the regional road system, the introduction of electric power to the region, etc. rather than to specific investments within their boundaries.

8. Special Purpose Urban Settlements

Outside of the regular typology, consideration needs to be given where appropriate to special purpose urban settlements. These settlements have one particular function which makes them essential to some useful economic activity. For example, mining settlements, tourism settlements, or ports. Regardless of their size or location if the economic function supported by these special purpose settlements is of sufficient importance then investment and planning for these settlements requires priority.

9. The Special Case of New Towns

Governments seem to be especially interested in New Towns which offer a scale and an identity which governments respond too readily. Nonetheless, the history of new town development in the LDC's and in developed countries as well is particularly poor. The major reason for their failure is that it requires enormous front-end costs to construct a new town, it has a very slow payback, and is unlikely to attract the population it as intended to serve for many years, if ever.

Peru has announced plans for a small new town called "La Ciudad Constitución". The new town will be developed as part of the Pichis-Palcazu project which is to become a model for Selva agriculture and forestry development. The plans for "La Ciudad Constitución" are at present modest in that it proposes a small settlement of 7,500 population. It is important, however, that the staging and standards of this new town be monitored so that it does not development at too high a set of physical standards (the "show place" mentality) and therefore become a drain on capital which could be more productive if used elsewhere in the project.

II.2. The Inter-Urban Networks

The Inter-Urban networks of importance are transportation (road, rail, air and water) electric power, telecommunication, and "bulk" water (in the sense that sources of water are used for irrigation and urban consumption sometimes in several cities from a single source). Urbanization is highly sensitive to the extent and capacity of the national inter-urban network to support the essential flows of people and goods, provide the essential inputs for productive employment, and distribute outputs.

There is very great social and political concern on the part of government to link the national space, including both urban and rural areas, together. The building of inter-urban networks is, therefore, a development priority independent of its purely urbanization effects.

In fact, decentralized urbanization will lag behind the construction of the inter-urban networks. Their effect will be felt in the agricultural/rural areas first by improving inputs and outputs needed, secondly they will accelerate migration to Coastal urban places by stimulating information flows about urban opportunities and facilitating easier movement. However, in the longer run they will form the basis for the reverse flows of productive job generation in manufacturing and services and consequent population growth of urban centers.

The principal issue to be addressed in the construction of inter-urban networks is not whether or not they should be built, but their sequencing spatially, their design capacities, and the timing of the required investments. These are issues subject to analytical investigation as they relate to national economic growth and inter-regional equity objectives (but beyond the time constraints of this paper). The issue is made all the more critical in Peru because of the competition for scarce investment resources and the difficult topography of the nation which must be overcome.

There has been insufficient time to investigate as fully as appropriate the issues of concern in the inter-urban network development in Peru. The following presents a brief review.

II.2.1. Transportation

There presently exists approximately 65,000 kilometers of roads of all types, but only 7,300 kilometers of this networked are paved. There are approximately 7,500 kilometers of railroad lines.

Major transportation projects are underway with the objective of linking the high jungle (Selva) with the coast. The initial impact will be on increased urbanization on the coast before the secondary gains in urbanization in the Selva are seen. A second emphasis is on the interconnection of the high jungle through the Marginal de la Selva, which will have little urbanization impact outside of Selva cities. The priority is

to improve access along the coast central highway, which should have a stimulation effect throughout the coastal network of urban centers.

II.2.2. Electric Power

Electric Power supply has been a major nationwide priority. Forty percent of the total population is now served and demand is expected to increase seven to eight percent per year. The present installed capacity is now about 3,200 MW of which 1920 MW is hydrogenerated. Plans call for a foreign exchange commitments up to three billion dollars over the 1982 - 1984 period. ELECTROPERU is to be decentralized to eight regional companies with public control, but private concessions. Recent changes in the tariff structure have improved the potential for cost recovery.

The total development program calls for a combination of thermal and hydro generation projects, primary distribution lines and secondary distribution widely amongst provincial, district, and rural areas. The estimated cost of the total program thru 1990 is US\$6 billion for generation and an additional \$3 billion for transmission and distribution.

What the effect of this level of investment will be on economic growth generation is a critical issue. While there is no doubt that adequate sources of electric power are essential for economic growth the locations where that potential will exist, at least for urban generated growth, will be much less than the total urban settlement system. (See table A-21 Appendix for a list of power projects)

II.2.3. Telecommunications

Telecommunications network is also proposed for major expansion in both urban and rural areas, as well as overall modernization of existing systems. Included within the telecommunications field are the urban and rural telephone system, the national microwave system, the satellite communications system, the national data transmission system, and the celex system. Three new satellite stations in the Selva region have been installed. Work is underway for increasing the Lima telephone service by 150,000 lines and installing 34,000 lines in secondary cities.

The technology in the telecommunications field is developing rapidly, but tends to be high cost. Communications capacity needs to be carefully related to the effective demand generated by real economic growth prospects.

II.2.4. Bulk Water Issues

No data was available on the issue of bulk water supplies, but references are made in various sources to potentially serious problems associated with the future growth of Lima's water supply and the competition for water use. These issues need to be addressed on a city by city basis.

II.2.5. The Cost and Investment Implications for Inter-Urban Networks

Table 20 presents the breakdown by department of public sector investment in 1982. It indicates that transportation and communications represented 21 percent of total investment and electricity and additional 29 percent. Public investment in the productive sectors of agriculture, mining and petroleum amounted to only 22 percent of investment combined. Whereas the inter-urban networks are critical to overall balanced national growth the data would suggest (at least by cursory review) that the relative shares of investment might well be out of balance when the urgency of overall national economic growth is considered. If the productive sectors cannot utilize the capacities of the inter-urban network effectively in the short-term, that portion of investment in the networks would represent forgone opportunity costs for that capital and underutilized assets to the nation. There is no hard data available to prove or disprove the point, but such analysis might be justified.

TABLE T-20

DEPARTMENTAL BREAK DOWN OF PUBLIC SECTOR INVESTMENT, 1982

(In Billions of Soles)

<u>Department</u>	<u>Transport & Communication</u>	<u>Electricity</u>	<u>Agriculture</u>	<u>Mining & Oil</u>	<u>Other Sectors</u>	<u>Total</u>
Amazonas	2.95	1.49	.86	-	3.49	8.79
Ancash	7.81	16.21	3.80	-	35.87	43.68
Apurimac	2.29	1.69	1.84	.02	3.76	9.60
Arequipa	24.59	89.55	29.40	.06	44.39	187.99
Ayacucho	4.19	4.78	4.27	-	5.24	18.48
Cajamarca	15.87	3.98	23.79	.09	27.85	55.71
Callao	20.21	.29	-	-	9.25	29.75
Cuzco	21.48	47.43	7.86	-	21.1	103.87
Huancavelica	8.01	58.73	.84	50.96	3.26	131.80
Huanuco	17.82	3.59	2.52	-	7.5	31.43
Ica	4.37	1.63	4.80	22.55	9.21	42.56
Juin	22.27	8.40	3.82	35.57	57.83	93.40
La Libertad	16.09	4.16	4.10	-	15.57	39.92
Lambayeque	9.31	65.78	1.30	-	21.95	98.34
Lima	58.42	70.61	18.76	4.82	130.09	282.70
Loreto	11.54	6.61	5.59	25.35	22.6	71.69
Madre de Dios	2.38	1.34	.54	-	3.32	7.58
Moquegua	3.15	.42	1.46	.02	3.57	8.62
Pasco	11.85	.59	.43	7.48	9.98	30.33
Piura	9.19	11.29	34.71	2.43	11.04	68.66
Puno	6.68	8.36	2.42	.25	25.48	43.19
San Martin	15.25	5.04	22.74	-	4.67	38.36
Tacna	7.08	1.22	3.35	-	3.25	14.90
Tumbes	1.103	.93	1.69	-	5.73	8.35
Ucayali	10.04	11.57	.94	.03	14.87	27.41
Total	313.85	435.69	181.83	149.63	416.11	1,497.11
	21%	29%	12%	10%	28%	100%

Source: Peru 1982, Presidents Message to Congress pages 216 thru 228.

II.3. Intra-Urban Problem Issues

A national urban strategy flows from decisions about the national economic priorities and growth potentials, the national settlement system in place, and the capacities and potentials of the inter-urban national networks. However, it is at the intra-urban level that actual progress must be made in supporting economic growth and improving the standard of living of the people. This section examines the intra-urban problems to be addressed.

II.3.1. Existing Urban Physical Deficits and Needs Projections

The existing physical deficits in water supply, sanitation, transportation, and shelter impact urban economic development in two ways: (1) the deficits maybe dragging down the present economic base of a particular city, and (2) substantial new economic growth and population cannot effectively be accomodate in centers which are already heavily deficit in serving their existing population.

The material which follows first appeared in Shelter Sector Issues In Peru Volume II, (PADCO Inc., January, 1983). The population estimates used are somewhat less than those made by the author in the previous section, but have not been adjusted here because of the time required to redo the analysis and the fact that the magnitude of the needs assessment would not change significantly.

An accurate forecast of housing deficits and future needs is presently difficult to make because the 1981 Census figures for housing are not yet available. However, there are benefits to be derived from even a rough approximation of the demands which will be placed on the housing construction section; therefore, estimates will be made based on clearly stated assumptions.

The present section will undertake deficits/needs analyses on the basis of both new housing solution requirements and dwelling units currently lacking service connections for water, sewerage and electricity.

Table 21 estimates the total new housing solution need for the period 1981-1990. This estimate is based on:

- New household formation;
- Replacement of deteriorated units;
- Backlog of overcrowded units.

The total estimated need for the nine-year period equals over 850,000 new housing solutions, or more than 90,000 solutions per year.

Table 22 summarizes the 1981 estimated deficits in dwelling unit services connections for water, sewerage and electricity. Back-up information for these analyses is found in Table 22 through 25 in the Appendix.

The implications of these deficit numbers are significant in planning GOP strategy. Table 23 adds the new households to be formed from 1981 - 1990 to the total of households unserved by water, sewerage, and electricity in 1981 and presents the ratio of new service connections required to the 1981 households served. To meet total needs there would have to be more than doubling of the present service levels (except for electricity in Lima) by 1990. This is unlikely to be affordable at the national scale and therefore a rationing strategy of prioritization will need to be adopted. (Table A-26 shows the contribution of Informal Housing to the housing stock)

Such a strategy might include in some mix the following elements:

1. Lima Metropolitan Area: Achievement of full electrification plus maintaining with some improvement the ratio of water and sewer connections (as in 1981).
2. Secondary Cities (50,000 - 500,000): Overall priority on electrification and water, adoption of on-site sanitation approaches in fringe areas and limiting sewerage to downtown or high density areas, establishing priorities amongst cities on the basis of economic growth potential.
3. Smaller Towns (2,000 - 50,000): priority to be given to electrification and minimal standard water service, sanitation to be achieved by on-site methods. Lower overall priority than the larger centers with selection made favoring centers with economic growth potential followed by departmental capitals, and other centers to receive minimal packages based on social equity criteria (poorest first) with a small percentage of the total sectorial investment allocation.

TABLE T-21

ESTIMATE OF NEW HOUSING SOLUTION NEED

1981-1990

URBAN POPULATION	ESTIMATED INCREASE IN POPULATION 1981-1990 ¹	ESTIMATED AVERAGE HOUSEHOLD SIZE ²	NEW HOUSEHOLD FORMATION 1981-1990	REPLACEMENT OF DETERIORATED UNITS ²	BACKLOG IN OVERCROWDED UNITS ¹	NEW SOLUTION NEED 1981-1990	AVERAGE NEED PER YEAR
Metropolitan Lima	1,765,000	5.4	327,000	0,200	65,000	400,200	49,470
Cities: 50,000 - 500,000	1,375,000	5.6	246,000	5,300	55,000	306,300	14,010
Other Urban: 2,000 - 50,000	604,000	5.3	114,000	4,800	28,000	146,800	16,110
TOTAL	3,744,000	5.4	687,000	10,300	148,000	853,300	94,590

1 1990 population projected on basis of 1972-1981 annual growth rates (1981 Census of Population).

2 1981 Census of Population.

3 Assume 1 percent of existing 1981 housing stock from Estimate of Housing in Cities Greater Than 2,000, Statistics Office, Ministry of Housing, July 1982.

4 Based on an arbitrarily selected maximum of 5 persons per dwelling unit (no current data available on household basis of number of persons per room).

Source: PADCO Elaboration.

TABLE T-22

SERVICE LEVELS FOR WATER, SEWERAGE AND ELECTRICITY

DWELLING UNIT CONNECTIONS

1981

URBAN POPULATION	WATER ¹				PUBLIC SERVICE SEWERAGE ¹				ELECTRICITY ²			
	SERVED		UNSERVED		SERVED		UNSERVED		SERVED		UNSERVED	
	Percent of Total D.U.	No. of D.U. (000's)	Percent of Total D.U.	No. of D.U. (000's)	Percent of Total D.U.	No. of D.U. (000's)	Percent of Total D.U.	No. of D.U. (000's)	Percent of Total D.U.	No. of D.U. (000's)	Percent of Total D.U.	No. of D.U. (000's)
Metropolitan Lima	55.1	452	44.9	368	55.0	451	45.0	369	97.1	780	4.9	40
Cities: 50,000- 500,000	60.3	321	39.7	211	42.1	224	57.9	308	54.7	291	45.3	241
Other Urban: 2,000-50,000	33.1	159	66.9	320	27.0	105	73.0	374	11.1	61	88.9	110
TOTAL	50.9	932	49.1	899	42.6	780	57.4	1,051	62.0	1,136	38.0	627

Notes: (1) Ministry of Housing, Office of Statistics, "Potable Water and Sewer Service in Cities of Two Thousand and More Inhabitants through 1981," Lima, June 1981. Their sources for the number of actual connections through December 1981 included regional directorates and the general directorate of public works. The reader may note that the study's percentages on the unserved population run higher than this report's. This is due to 1) an overestimation on the part of the Ministry on the actual number of extant houses and 2) the placement of unreported cities into the "unserved" category. For cities over 50,000 population, this report uses our own estimates on housing. For cities under 50,000, we have picked up the report's data.

(2) Electrical Service - Statistics for Lima-Calle supplied in interview with ELECTROLIMA management in November 1987.

Electrical service for cities 50,000-499,999 based on Ministry of Housing, Office of Statistics Study, "Housing Indicators Derived from Census Data," 1981-1990, Republic and Principal Cities, October, 1981, Lima, Peru.

Electrical services for smaller towns based on Ministry of Energy and Mines Report, "Electrical Energy and Growth, Action Program," Lima, March 1981 (p. 57).

Source: PADCO Elaboration.

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TABLE T-23

NEW SERVICE CONNECTIONS REQUIRED
BY 1990 FOR WATER, SEWERAGE AND ELECTRICITY

<u>Number</u>	<u>Urban Centers</u>	<u>1981 Households (000's)</u>	<u>Unservd %</u>	<u>New Household 1981 - 1990</u>	<u>Total Households To Be Served</u>	<u>Ratio of Services Required to Those Served In 1981</u>
1	Metropolitan Lima			327		
	Water	368	44.9		695	1.52
	Sewerage	369	45.0		696	1.52
	Electricity	40	4.9		367	.47
21	Cities 50,000 - 500,000			246		
	Water	211	39.7		477	1.22
	Sewerage	308	57.9		554	2.47
	Electricity	241	45.3		487	1.67
311	Cities 2,000 - 50,000			114		
	Water	320	66.9		434	2.73
	Sewerage	374	78.0		48.8	4.65
	Electricity	414	86.5		52.8	8.38

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II.3.2. Intra-Urban Transportation

Lima represents the only city in which road congestion is potentially a problem. Lima maintains 85 percent of the nation's private cars. Public policy of rationing future car ownership can in and of itself maintain suitable levels of vehicular traffic on the streets of Lima and therefore avoid the enormous costs which will be required (by car user's demand) later. The importance of this strategy of postponing major intra-urban transport investments for Lima is critical given the alternative demand for capital investment urgently needed for economic growth and social equity initiatives, including a needed investment in the inter-urban transport system.

Solutions to immediate traffic congestion problems within Lima should be focused on improved traffic management and minor improvements to the road system, signals and other steps which fall under the heading of improved traffic engineering. Of much greater priority is improvement to the bus system in Lima. The configuration of the city and the relationship between places of residence and work (particularly for the poor residents of the pueblos jovenes) make bus transportation a high priority in supporting productivity gains in the urban economy.

References are seen in the available literature to the possibility of installing a metro system in Lima. Clearly such a system would be highly uneconomic given the configuration of the city, relatively low density transportation corridors, the inability of the poor majority to afford ridership under anything but the most heavily subsidized circumstances. If a metro system is under any kind of serious consideration it should be strongly discouraged. The intra-urban transport problem in the secondary cities should not be a high priority for investment, other than to insure that the connections to the national road grid are made and are of a standard to support the economic development functions of the city.

II.3.3. Urban Land Availability ^{1/}

At the core of the urbanization process is the issue of development of urban land and its availability to all income groups particularly low income groups, given their inability to compete in the market place for available land because of price. Urbanization is a wealth creating process in that land values rise in response to demand for land, its location, and its services. The government is a key actor in the land market and determines the "rules" by which the market will operate. Therefore, an urban land policy is a key necessity to successfully implementing a national urban policy.

^{1/} The materials presented here on urban land in Peru have been summarized from Urban Policy in Peru (Richardson and Carroll, World Bank, October, 1981).

The Coastal cities and Lima have a much less serious land availability problem than the Sierra cities, because the GOP has title to the desert land which surrounds them. The Sierra cities, because of topography constraints, private agricultural land holdings, and the absence of significant public land would present serious land problems if significant and rapid growth were to take place. Land speculation and "windfall profits" to existing land holders would become probable in the Sierra. The Selva cities do not present the same problem in that the government has taken over the jungle areas, but some land title problems apparently exist. In the Selva the locational constraints in general will serve to limit land availability problems.

In spite of massive land resources under the ownership of government there are still a variety of urban land problems which need attention on the Coast. The preservation of agricultural land, because of its high value in food export and food self-sufficiency is an important issue that is in need of attention. Contrary to Richardson's view that preservation of agricultural land in the Lima region is "impossible", a combination of controls and positive steps such as land right purchases could be effective. The contribution of agricultural land to the improvement of the urban macro environment cannot be stressed enough. As a part of the preservation of agriculture there will need to be a general improvement in the overall public land management process. Urban land for all income groups and all urban land using functions will need to be brought "on-Line" efficiently according to effective demand. For the poor this means a basic sites and services program, located with concern for employment opportunities, and at affordable standards. For higher income groups, industry and commerce, the land policy needs to seek recovery of full market value for land from public reserves. Land transfer procedures need to be workable and efficient.

One reason that agricultural land is converted to urban uses is that it can be done easily (albiet illegally or with favored political treatment). If non-agricultural land availability is improved and well managed it will lower the overall pressure on agricultural land.

Control over development of public lands has been vested at the municipal level which, while desirable in general, places an urgency on the local urban development planning process to insure its appropriate and cost effective use. Of particular concern are such issues as increasing population densities and insuring that non-residential land is efficiently utilized. Regardless of the "value" of land the costs of infrastructure services require efficient land management.

II.3.4. Urban Job Generation

Section I of this report lays out the argument for why the cutting edge of urban development is through the creation of jobs, particularly in the manufacturing sector. It also outlines the kinds of locational issues which need to be addressed in assessing the comparative advantage of the various potential urban locations in Peru where job

generation through manufacturing might best be achieved. Until this analysis is done there is little that can be said for the relative advantages of particular urban centers outside the Lima area;

Within each urban area there needs to be consideration of the roles, in manufacturing, between formal sector enterprise (large and medium scale), and informal enterprise (small scale). Though no data was examined, it is likely, that the economic climate is not appropriate for new, large scale manufacturing enterprise initiatives because of the capital and market constraints. Large scale enterprise was emphasized in the 1960's and 1970's and a careful review is needed as to how these enterprises can be made more effective within the national economy.

The greatest potential appears to rest with the stimulation of medium size and small scale enterprise. These units usually have low capital/output ratios, are suitable for reinforcing the private enterprise emphasis of government, and require lower levels of management skill. They also offer more favorable potential for supporting deconcentration strategies.

Nonetheless, the stimulation of medium and small scale industries will require not only access to investment capital, but a concern with the policy framework established by government in terms of regulation, taxation, and controls as well as the provision of infrastructure and land.

While the emphasis of this paper is on job generation and manufacturing sector growth as a lead urban activity it is important to recognize that the benefits of that growth will not be sufficient (in terms of the "trickle down" theory) to meet the immediate employment needs of the low income, relatively unskilled, and under educated participants in the labor force. Therefore, a direct concern, parallel to the formal job generation emphasis, must be given to the informal sector and small scale enterprise. Here the potential is great because of the low capital/output ratios, but the institutional delivery systems need to be carefully designed in recognition of the specific needs and capacities of the informal sector. A working partnership between the government and the informal private enterprise sector needs to be developed. Some risks will need to be taken in that small enterprise support cannot be expected to pass through the same economic analysis procedures as medium or large enterprise. However, international and Peruvian experience supports the view that the small enterprise sector is credit worthy.

The importance of access to infrastructure (water and electricity in particular) is crucial to productivity in the small enterprise sector. Equally important is the recognition of the "informal" nature of the sector in that it works on close margins and therefore cannot be expected to pay rents and fees for "mini-industria" parks, etc. Informal enterprise operates best within the informal residential areas from which it emerges. The Urban Small Enterprise Development Project seems to have though through these issues in a clear and useful fashion.

II.3.5. The Special Issue of Urban Poverty

Peru in general faces, well recognized, serious problems with both rural and urban poverty. Between 1960 and 1980 many of the government initiatives taken within the policy context of social equity and alleviation of poverty did not achieve their purpose. Richardson (Urban Policy in Peru, World Bank, 1981) reports that only 15 percent of rural workers were direct beneficiaries from agrarian reform and less than five percent of the industrial and mining profit-sharing schemes benefited the labor force. Other policies of that period favored capital intensive development. Tax policies have relied on indirect consumption taxes which are retrogressive.

The 1979 CDSS in its "Profile on the Poor" states that "Poverty in Peru, while not exclusively limited to the rural areas can nevertheless be considered a rural phenomena." (pp. 24). The entire section goes on to discuss rural poverty at the exclusion of urban poverty. Given the demographic shifts that have taken place continually over the last twenty years it is likely that analysis of the 1981 Census will document that in aggregate scale urban poverty is increasing at substantially more rapid rates than rural poverty simply because of the population growth trends. This is not to say that rural poverty is declining in kind but perhaps in absolute numbers of persons effected, it is constant.

Various social indicators are used to illustrate the presumed favored position of urban areas over rural areas in such things as education and health. However, strong evidence exists (see Report on Peruvian "Pueblos Jovenes" Problems and Possibilities for USAID IIPUP Technical Assistance, November, 1979, Rivkin Associates) that the distribution of these services does not frequently include the urban poor. Therefore urban versus rural indicators are not a useful measure in the aggregate of the conditions of urban poverty versus rural poverty in either numbers or kind. More specific analysis might usefully be done on this subject now that the 1981 Census results will soon be available.

One selected indicator, for example, in the 1978 CDSS (Table 5, pp. 151) quotes data on the much more extensive percentage of illiteracy in rural areas in 1972 (51.9 percent versus only 12.6 percent urban), but while noting that overall urban illiteracy in aggregate numbers had increased by 1.9 million persons while rural illiterates had increased by 1.0 million persons. Urban illiteracy was growing at twice the rate of rural illiteracy.

The special emphasis on urban poverty recommended here would combine the kinds of job generation focus for the informal sector discussed above and in Section I with a social equity programming concerned with basic nutrition since fragmentary data suggests serious malnutrition problems amongst the urban poor, basic health services, primary school education, mother-child care facilities, and vocational training. It could take advantage, where possible of the community structure which is now in place. It could emphasize environmental upgrading of the kind already well underway under the auspices of the HG program with additional concern given to solid waste disposal.

Within the cities of Peru, and particularly Lima, there are two spacial concentration of the poor: The pueblos juvenes contain the majority of the urban poor, but tugurios (or in-town slums) present extremely serious urban poverty and environmental problems. Various studies have been made of the tugurios problem, but as yet no workable models for amelioration have been devised. The sites upon which the tugurios are located have extremely high land value for other urban uses, but residents are protected under the law against eviction and prefer the downtown location close to employment opportunities over the more distant pueblos juvenes. Because of the difficulties in programming in the tugurios effectively it is probably premature to focus on this very real problem in the short-term.

There has already been considerable success enjoyed by programming for the pueblos juvenes by government with the support of international donors and this seems the greatest potential in the future. Efforts are required to insure that the standards of provision of improvements are related to the affordability of the residents and in response to their effective demand. This means an effort to keep standards to a minimum in order to facilitate cost recovery, minimize subsidy, and conserve scarce available resources in order to achieve the maximum coverage of the pueblos juvenes with the funds available. Nonetheless, given the scale of the urban poverty problem in the cities of Peru it is obvious that even with a priority program the needs will greatly outrun the ability of government to respond. A rationing and selection process is required.

The criteria for such a process consistent with the philosophy of this report is to select target areas for social equity programming for the urban poor in relationship to the opportunities for economic development within the national settlement system. This means undoubtedly a clear priority to Lima for both economic and humanitarian reasons, but which should also include other targeted urban center as well. Within urban areas of priority the selection of particular pueblos juvenes areas should continue to be done on the basis of those areas which request assistance, demonstrate the necessary willingness to pay, and which have the needed community organizations in place to support the program.

II.3.6. Public Revenue Mobilization for Urbanization

The current policies of the GOP concerning urban revenue mobilization are in state of flux. Progress at reducing implicit and explicit urban subsidies is partial at best. Substantial progress in reducing gasoline price subsidies (one of the worst subsidies possible in that it favors the rich, who are the gasoline users primarily, encourage increased private car ownership, etc.) and some progress on increasing water and electricity tariff structures at least in Lima can be noted. Nonetheless, the present subsidies in the public provision of shelter are enormous, the use of land sales below market, a variety of other subsidies, and low levels of property taxation all undermine the public sector's ability to provide improved infrastructure and services to the urban population.

The current emphasis on decentralization of government will also have to address the issues of local government finance mobilization in secondary cities and other urban centers and departments. It is unclear at present just how these issues will be considered.

The arguments for increased urban government finance mobilization are persuasive on both economic and equity grounds. The latter in that it has been shown that the urban poor often end up paying higher costs for water and other services than they would if public services were provided even with full cost recovery. The matter of public finance mobilization is made more urgent in that the present economic conditions, the necessary cutbacks on public spending, and the commitment of large parts of the available public resources to major development projects all act to constrain the essential infrastructure investment needed to realize the urban economic growth potential of Peru's cities and will clearly constrain the implementation of any form of decentralization strategy in the near term.

The elimination of the public financing bias to urban areas should be a high priority. The only meaningful approach is through increased user pricing and cost recovery of essential urban services. This is particularly important in the case of Lima which has undoubtedly grown more rapidly because of these subsidies than would have otherwise been the case.

II.3.7. Urban Management

The problem of urban management is made complex by a number of factors: (1) the unique urban management problem of Lima with its size and growth potential; (2) the present weak urban management capabilities of the small cities of the nation; (3) the ultimate role retained by the central government in urban affairs after the decentralization concept has been fully developed (i.e. will it make substantial new revenues available to local urban governments or will it be largely a shift of responsibilities without the means of executing those responsibilities?).

The general subject of urban management will be one of priority, and appropriate points of intervention by AID and other donors should be found. Amongst the issues which will ultimately be of concern are:

1. The institutional location, policies, and powers of control over public finance mobilization and expenditures. It will be important to achieve a balance between local revenues and local responsibilities, as well as overall revenue enhancement as discussed in the previous section.
2. The improved capacity and operating efficiency of those agencies charged with the responsibility for implementing urban services and infrastructure projects. This is

likely to require both management assistance and training on a wide scale.

3. The modernization of regulations and controls to facilitate rapid response to urban growth, individual transactions with government, record keeping, and information monitoring.
4. The avoidance of duplication of functions between urban related institutions and the clarifications of urban oriented institutional responsibilities at every level of government.
5. The overall provision of a public climate conducive to economic growth in the private sector along with a direct concern with the special problem issues of the urban poor.

The improvement of urban management will be a long term process and it is important for donor agencies to be prepared to sustain assistance over a long period. Examples of successful institution building for urban management are AID's long standing involvement with BANVIP and the World Bank's involvement with SEDAPAL. In selecting urban management institutions for assistance donor agencies should maintain a long term prospective to their initiative and be prepared to provide support over the longer term of five to ten years.

II.3.8. Urban Institutional Base at the National Level

The Preface of this paper states that urban development is not a sector, but a set of activities and locations within which many sectors play a role. Therefore it is not surprising to see that there are a large number of institutions in Peru which have a direct impact on the urbanization process. A brief description of the most important, in terms of their role, follows:

- a. The President and the Council of Ministers overall development policy and policy guidance to sectorial ministries working in urban areas, and overall financial sector policy and control.
- b. Prime Minister's Office --responsible for the special development projects, some of which have significant urban impacts and collectively represent a significant share of national public investment. The Office also controls the departmental development corporations (CORDES), the Municipal Development Institute (INFOM), the Public Administration Institute (INAP), the Statistics Institute (INE), the Science and Technology Council, and the Departmental Public Service Directorates.

- c. Ministry of Economy, Finance and Commerce -overall financial management of the economy and public investment, the Banking System, and investment corporations. MEFC also oversees the public sector industries (Empresas Publicas)
- d. The Sectorial Ministries -those responsible for management and implementation of urban related or located projects and programs includes:
 - Ministry of Agriculture
 - Ministry of Industry, Tourism and Integration
 - Ministry of Interior
 - Ministry of Housing (where the Direccion General de Desarrollo Urbano is charged with preparation of a national urban policy)
 - Ministry of Transport and Communication
 - Ministry of Energy and Mines
 - Ministry of Education
 - Ministry of Health

II.3.9. Local or Implementation Institutions

In addition to the Ministries there are institutions related to a central government ministry that are concerned with urban and municipal development in a broader sense than a single sectorial program or project. Briefly, the key institutions to be considered are:

a. Municipal Governments

Municipal law was revised in March 1981 (Decreto Legislativo No. 51). It establishes the new functions and responsibilities of the municipalities. However it is again being revised to more effectively transfer functions to municipal government.

With respect to the urban sector, the municipalities are now responsible for the formulation of local government plans in compliance with national and regional objectives. They are also responsible, in coordination with other public sector institutions, for the provision of essential municipal services such as water, sewerage, public lighting, garbage collections, etc.

Specific new responsibilities that will have a direct affect on delivery of services to the low-income population are:

- i. Regularize the legal aspects of existing and future urban areas.

- ii. Provide technical support necessary to improve physical and legal structure of "pueblos jovenes".
- iii. Issue titles to legalize "pueblos jovenes" landholders.

Due to a lack of human and financial resources, few municipalities have been able to take on these new responsibilities to date. and most will continue to require central government budget support for the foreseeable future.

b. Municipal Development Institute (INFOM)

A March 1982 government decree (Decreto Supremo No. 018-82-PCM) created INFOM as a decentralized public institution and located it under the President of the Council of Ministers.

Its principal functions are the following:

- i. Formulated the policies for municipal development.
- ii. Provide technical assistance to the municipalities in order to improve their administrative capacity.
- iii. Assist the municipalities to increase locally-generated financial resources.
- iv. Undertake studies to promote development at the municipal level.
- v. Coordinate with INADUR in the formulation of local development plans.

c. Department Development Corporations (CORDES)

In December 1981, the regional organizations and development committees (ORDES) were organized into 25 departmental development corporations (Decreto Supremo 049-81-PCM). The overall purpose of the development corporations is to coordinate all public sector investment (central, public decentralized, and government corporations, plus their own funds) at the departmental level. Ninety four percent of development corporation investment comes from the central government budget.

The CORDES are to provide services and basic infrastructure which are not the direct responsibility of the municipalities or the central government. The generally weak position of the municipalities to provide their own services was undoubtedly foreseen by the lawmakers who allowed the CORDES to undertake project planning and implementation at the request of the municipalities. Some of the more affluent development corporations (the Department of Loreto generates large sums from an oil production tax) have moved rapidly into the vacuum caused by the absence of central or local investment. Some of the CORDES have even established project implementation teams with their own heavy equipment.

d. Cooperación Popular

Cooperación Popular is funded from the central government and had an annual budget in 1982 of \$41 million. The program supports self-help projects with money and technical advice. About 70% of the work is carried out in rural areas and road construction, river channelization, building school classrooms, and health centers. Cooperación Popular also works with local governments in paving small streets, building sports fields and other small public works projects. Funding goes partially to creating employment in small municipalities, whereby workers are directly paid for their assistance in building local governments projects cited above. The rest of the funds are evenly divided between two sets of programs. The first supports efforts to industrialize through promotion on behalf of small businesses. The second is a planning effort, developing small regional master plans which try to integrate the diverse programs into a cohesive whole. Cooperación Popular also helps out in emergency situations such as earthquakes, floods, and with personnel financial aid.

e. National Urban Development Institute (INADUR)

INADUR was created in June 1981 (Decreto Legislativo No. 144) as a decentralized public sector institution within the Ministry of Housing. Its main functions are to carry out the Urban Development Office's national urban policies and plans through investigations and studies of Peru's urban centers. It also assists the municipalities in the identification, preparation and implementation (where necessary) of local development plans and strategies. INADUR also trains local personnel in the skills required to organize and carry out local development plans.

INADUR undertakes urban studies and training courses only on a contractual basis with municipalities and CORDES AND has already completed 10 projects. Another 30 are in execution. The focus of INADUR's work has been in the central highlands and the Selva where it believes the greatest need for its services exists. It has offered many short courses in urban planning, has undertaken studies in urban planning, urban finance and taxation, legalization of pueblos jovenes.

II.3.10. Important Institutions in the Shelter and Infrastructure Sectors

This section is included because it is available from previous work of the Office of Housing and Urban Programs (AID). Similar identification could and should be prepared covering the other sectors which have major impact on urbanization. (See Shelter Sector Policy Issues in Peru, Volume II, PADCO-PRE/HUD, January 1983)

a. Ministry of Housing

The MOH has the responsibility to set policy, plan and coordinate those activities related to the construction, urban development and environmental issues including housing, water and sewerage infrastructure and complementary community facilities. A variety of decentralized companies and agencies, are assigned these normative functions.

b. National Building Corporation (ENACE)

ENACE was created as a government corporation in June 1981 (Decreto Legislativo No. 149) with the mandate to take on the development functions of th Ministry of Housing.

ENACE functions as the MOH's developer. It is responsible for the identification, planning, design, implementation, and in some cases, marketing of a wide range of housing solutions which vary from serviced plots with or without basic core units to complete housing and apartment units. It has its own minimal design capabilities, but normally relies on private sector A/E firms and contractors to undertake its primary shelter delivery responsibilities.

ENACE has responded very quickly to getting new construction "in the ground". Over the past two year, it has completed over 6,500 units, mainly complete houses and apartment units. It presently is heavily involved in three major middle and upper-middle income developments in Lima (San Borja, Limatambo, and Santa Rosa) and currently has more than 14,000 units under construction nationwide.

(See tables A-27 and A-29 for an analysis of ENACE programs)

The principal source of financing for ENACE projects is FONAVI funds in combination with governments housing bank (BANVIP and BCH) and Savings and Loan resources.

c. Materials Bank (Banco de Materiales)

The Materials Bank (BM) was created in the MOH in September 1980 (Statutes contained in Decreto Supremo No. 001-81-VC) and began operations in November 1980. Its principal objective grew out of an idea to contribute to the solution of Peru's housing problem by providing loans in the form of building materials for the new construction, expansion, and/or improvement of minimal housing by self-help or contractual means.

The BM's operations are directed toward low-income residents (household with incomes between one and six minimum wages, presently S/.60,000 to S/.360,000 per month) of "pueblos jovenes", Cooperatives and other low-income settlements (UPIS). The BM presently makes loans in Lima and in eight regional offices (Arequipa, Chiclayo, Chimbote, Ica, Piura, Tacna, Trujillo and Tumbes). The Bank's first Office in the Sierra will be opened in Cuzco in December 1982.

The BM provides basic building materials such as cement, bricks, doors, and electrical and sanitary fixtures up to the equivalent of a 50 square meter basic core house. Borrowers may select a simple house plan from a variety offered by the Bank. The transport of materials to the recipient's lot is an optional service offered by the BM.

d. National Water and Sewerage Service (SENAPA)

SENAPA was created in June 1981 (Decreto Legislativo No. 150) in order to coordinate and consolidate at the highest national level the provision of water and sewerage services. This function had previously been undertaken by a diverse group of institutions. SENAPA is the central government's policy and planning body in charge of development control. Operation and maintenance of the nation's water and sewerage systems.

The three main water and sewerage subsidiaries were restructured as technically and administratively independent entities. SENAPA has the authority to approve proposed tariff increases. The three subsidiaries received the new names of SEDAPAL (Lima), SEDAPAR (Arequipa), and

SEDAPAT (Trujillo). SENAPA has used this new authority very cautiously. The new law empowers SENAPA to establish water subsidiaries (filiales) and decentralized operating units (Unidades Operativas) where it deems necessary. The administration of the 100-200 existing small municipal systems demands longer-term solutions. SENAPA presently envisages two scenarios:

- SENAPA would provide technical assistance to those municipalities that request it so that they could run their systems.
- SENAPA would administer the individual municipal systems from the closest operating unit office.

For obvious cost and efficiency reasons, SENAPA favors the second alternative. However, the recently revised municipal law provides local government with the authority to administer the provision of water and sewerage. Many of the financially and administratively better-off municipalities are already seeking this right. A great potential for overlap and duplication of services presently exists between SENAPA, the municipalities and the newly restructured CORDES.

e. ELECTROPERU, ELECTROLIMA and Other Subsidiaries

ELECTROPERU is the public holding company in charge of the overall coordination and planning of national electrical supply and distribution for its regional affiliates (including ELECTROLIMA) and subsidiaries. ELECTROPERU reports to the Ministry of Energy and Mines. ELECTROPERU is in charge of supplying electricity to those areas of the country lacking individual electric companies. With the exception of ELECTROLIMA (which often supplies budgetary support to ELECTROPERU), ELECTROPERU provides financial support to its affiliated companies.

The regional affiliates are autonomous in terms of administration and budgeting, but are required to coordinate long-term planning with ELECTROPERU to ensure compliance with national and local objectives. A law (Decreto Legislativo No. 23406) passed in May 1982 gives ELECTROPERU the authority to establish new subsidiaries with the consent of the Ministry of Energy and Mines.

f. Peruvian Housing Bank (BANVIP)

BANVIP was established in 1962 as a state-owned, autonomous institution accountable to the Ministry of Economy, Finance and Commerce and responsible for

supporting the shelter sector policy (including residential infrastructure) of the Ministry of Housing. It administers the savings and loans system and the National Housing Fund (FONAVI) which was established in 1979. These funds come from a payroll tax from employers (4.5%) and employees (.5%). 1982 collections have averaged \$7.8 million per month. FONAVI funds are used primarily to build subsidized housing projects through ENACE, but 15 percent is transferred to SENAPA and two percent to the Banco de Materiales. BANVIP is headquartered in Lima and has seven branch offices in other major cities. 1981 year-end assets equaled approximately \$495 million.

g. Savings and Loan Associations

The Savings and Loan System was authorized in 1957 (Law No. 12813, dated March 6, 1957). BANVIP regulates the S&L system; the Superintendent of Banks and Insurance supervises it. There are 16 S&Ls, 7 in the Lima Metropolitan area and 9 in the provinces. As of July 31, 1982, a little more than half (55 percent) of the total system assets totalling \$248 million equivalent, belonged to the Lima S&Ls.

The basic reason for establishing an S&L system was to capture savings from the public and lend them in the shelter sector. Inflation and high interest rates have so decreased the affordability of conventional shelter loans that the S&Ls no longer serve primarily the shelter sector. The S&L's housing portfolio accounted for 68.43 percent of total S&L assets during 1976-1978. That percentage has dropped each year to 15.4 percent in July 1982. Deposits, in real terms, increased at more than 28 percent annually, 1978-1981; but more and more of the savings captured by the system are going into commercial consumer type lending.

h. Central Mortgage Bank (BCH)

The BCH, established in 1929 is specialized in housing finance. Assets (in dollar equivalents) have averaged an annual growth of 22 percent since 1977, totalling \$507.4 million at the end of 1981. Its clientele traditionally has been the upper middle-income families.

Since the "Hipoteca Social" was established in September 1980, the BCH has blended its funds with FONAVI resources to reach lower-income groups. During 1981, it approved 3,232 Hipoteca Social loans with an average value of about

\$6,300. The blended funds are lent at 16-27 percent. The "Hipoteca Social" accounted for 18 percent of its total loan approvals of \$134 million in 1981.

SECTION III: URBAN DEVELOPMENT STRATEGIES

This section will review the urban development strategy of the GOP, the existing portfolio of urban oriented assistance from other donors, the existing portfolio of AID urban development assistance, and conclude with a review of possible opportunities for new urban development initiatives.

III.1. GOP Policies Affecting Urbanization

The GOP is faced with difficult "trade-offs" given the macro economic conditions within which the urban strategy must operate. The source of this review of current policies of the GOP is primarily extracted from "Peru 1982" (Presidencia de la Republica, Mensaje Anual del Congreso).

III.1.1. Macro Economic and Investment Strategy

The GOP is committed to major investments primarily designed to enhance the export position of the country in mining and petroleum. These investments have little urbanization impact as they are capital intensive, but improvement in supporting transport networks may have a positive urban impact on centers along routes.

In agriculture the twin priorities are in completing major irrigation schemes along the coast and opening new lands in the Selva for mixed agricultural and forestry use. The irrigation schemes on the coast will reinforce urbanization trends in coastal cities, but the opening of new high selva lands will not greatly effect urbanization in the near-term, again, transport routes and centers along the routes should have a beneficial impact on local urbanization. Agriculture in the Sierra seems to be oriented largely to achieve inter-regional equity and will likely not be a significant factor in overall urbanization patterns or development. However, this will have localized modest impact on centers directly in the regions of priority.

The GOP policy toward the manufacturing sector has been to reduce public investment and shift the primary developmental responsibility to the private sector. Special emphasis is being given on the development of "non-traditional" exports. Unfortunately, to date the private sector has failed to respond, although this is not suprising given the high rates of inflation, high risk, and potential for substantial returns on money instruments rather than direct investment. Since this paper argues that the manufacturing sector is the crucial lead sector in urban economic development, the lag in manufacturing growth is potentially extremely serious for the future of Peruvian cities. This is clearly one area which needs careful attention by the GOP in order to establish the proper economic climate to create incentives for the essential private sector investment. This is also an area which should be of potential programming interest to AID (See III.4 Opportunities for AID programming).

The GOP has responded to the urgent need to create employment primarily through the stimulation of the construction sector. Examples are the investment in housing through ENACE, the building of public facilities such as schools, and inter-urban and intra-urban infrastructure. The use of construction investment as a stimulus to short-term needs for job generation is a proven approach, but it is important to recognize that this has been financed largely with deficits and that only permanent job generation through the productive sectors and related services can sustain the employment base over the long term.

III.1.2. Urban Specific Policies

The GOP does not have an integrated national Urban Policy (see Section III.4 for a discussion of urban policy opportunities), but there are a series of ad hoc policies in place which directly affect urbanization.

Perhaps the most important overall conclusion that can be reached is that to date there is a wide gap between thinking about cities as social equity problems concerned with the visible urban poverty and cities as potential generators of sustained national economic growth. It is the position of this paper that the closing of this gap is of importance so that the role of cities in economic growth become the leading determinant of priority while the laudable social equity objectives be kept in place but made supportive of the economic urban objectives.

Specifically the GOP is concerned about supporting the decentralization. In terms of Lima this means thinking about the Lima Department as the primary focus of activity in the process of decentralizing Lima city itself. This is a correct position. More generally the concern with decentralization seems based on political objectives to shift more responsibility to local levels of government to enhance democratic participation in the development process. Priority steps are at present rather general in their specific city focus, but include a bundle of useful steps to increase local government capacity including transfers of personnel, revenue enhancement such as the expansion of the property tax system control over the rationalization of marginal settlements, the allocation of public land, and the planning and regulation of land use. These are steps in the right direction, but must be carefully managed given the weak local government base upon which they will rest. Here too opportunities for AID programming, particularly in training activities in the near term.

III.1.3. Urban Investment Priorities

The GOP does not appear to have an overall urban investment rationing system in place for allocations, but there is a defacto allocation represented in the budget. The overall priorities are for infrastructure investment in improved water supply and sanitation and urban and rural electrification. These are the correct priorities, but the issues of standards and cost recovery have not yet been fully dealt with and could cause future constraints on the achievement of coverage within urban areas.

The GOP is also embarked a significant program of direct housing provision. Table 24 indicates the present national housing plan. This program, may well be the focus of attention by the GOP because of its construction generation effects and therefore employment, but it is seriously flawed in its failure to deal with effective cost recovery. The middle income units are subsidized to the extent of 78 percent while failing to target both production and subsidy to low income groups. The entire issue of maintenance of value in the GOP shelter program is a serious constraint on the future of the shelter sector, both public and private, and is a major concern to AID and its ability to continue the HG program.

III.2. Other Donor Urban Assistance *

Overall USAID/Peru has cooperative relationships with the other major donors working in Peru. Total international assistance to Peru is now approximately one billion dollars annually. IBRD and IDB provide a large part of this assistance and other bilateral agencies representing the Federal Republic of Germany, France, and Japan also have significant programs of capital and technical assistance. The United Nations agencies and the OAS are active in technical assistance and some capital assistance. The IMF also has an important and strategic role to play in the support of overall economic and financial policies in Peru.

All of the major donors have direct and indirect programming which effects urban development in Peru. ^{1/} USAID will continue to pursue effective coordination to avoid duplication of effort. The proposed AID supported National Urban Policy Study will be a particularly important contribution to all donors in prioritizing and focusing their urban programming. Current GOP Policy, while clear enough in its direction, is not adequate to insure donor initiatives in urban areas maximize their contribution to national economic growth. This is of particular concern in donor efforts to support the GOP's objective of achieving decentralization of urban development in

* This section relies in toto on the views and materials prepared by William Gelman, RHUDO/LA, in his paper "Some Notes on CDSS for Peru" (undated, but done in March, 1983), and the paper USAID/Lima, FY-85 CDSS, Response to AID/W Concerns. Consideration might be given to updating this material and making it more specific where possible.

^{1/} It would be useful if a table and map showing the development assistance by sector in urban areas could be found or constructed. Included should be reference to important "inter-urban" initiatives such as transportation, power, and telecommunications projects).

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TABLE T-11

GDP NATIONAL HOUSING PLAN, 1980-1985

<u>Program Type</u>	<u>(millions of Soles)</u>	<u>% of Investment</u>	<u>Households Served</u>	<u>% of Total Solution</u>	<u>Average Cost per Solution</u>
FINACE constructed complete houses and apartment units	331,612	45%	28,117	8%	11.79 million
FINACE constructed basic core units and serviced sites	251,266	35%	60,923	17%	4.12 "
BANVIEP credits for upgrading and/or rehabilitation of marginal settlements, provision of water, sewerage and electrical service	78,726	11%	239,379	67%	.33 "
Banco de Materiales credits for construction, expansion or upgrading of low-income shelter	23,631	3%	22,946	6%	1.03 "
Long-term Hipoteca Social mortgages through BANVIEP, ECH, Savings and Loan System and the Lima Savings Bank for low-income shelter constructed by private sector	42,643	6%	7,590	2%	5.62 "
TOTAL	727,860	100%	358,955	100%	

Source: Ministry of Housing
 Analysis by PADCO

which existing or potential problems with donor's need to be addressed are the pricing policies and cost recovery of shelter and urban infrastructure, where their remains opposing views on the importance of maintenance of value and the need to reduce subsidies. AID believes it in the interest of the GOP to address these critical constraints on urban development as rapidly as possible while other donors (particularly IDB) are more sanguine about the urgency of these issues. It is clearly not in the overall interest of the donor community to have development assistance flowing into a given urban program with significantly different terms and conditions even recognizing that overall needs vastly outstrip available international resources by a considerable margin. On this score, IBRD, and AID maintain very complementary views.

The following list of international donor supported urban projects represents a sampling of the kind of activities underway. There in addition a significant number of projects concerned with the inter-urban networks of transportation, power, and communications. These projects are for the most part directed toward specific natural resource mobilization and agricultural development, but will have the indirect function of better linking urban centers as well.

III.2.1. IBRD (World Bank)

The IBRD has a series of projects in execution or in planning that affect urban areas. The key ones are:

- i. Public Sector Management Loan: Mainly with national level institutions but it may have some bearing on government policy vis a vis urban areas and projects.
- ii. The SEDAPAL/SENAPA Lima Emergency Plan loan consisting of a \$40 million loan (of a total of \$90 million project) for wells, water meters, new hook ups and tarriff study requirement.
- iii. A \$500,000 Loan Preparation Facility to undertake a feasibility study for a \$91 million program which includes a \$40 million loan from the IBRD to build water, sewer, and solid waste disposal systems in eight cities with populations between 50,000 and 150,000 inhabitants. The loan also will be used to analyze financial policies and to formulate a five to seven year investment plan. If the study effort develops adequate justification, this capital work development project would be funded in the near future.
- iv. A Second Urban Development Loan is being discussed which could lead to the financing shelter and urban services in seven secondary cities. Various figures were being

discussed which ranged from \$60 million or more. The issue that is affecting progress relates to the failure to achieve agreement on cost recovery and maintenance of value.

- v. A \$270 million program for Lima for urban transport, garbage collection and wholesale markets is in the discussion stage. The size of the loan is an issue with the IBRD which may result in cutbacks in scale or the elimination of a component. Municipal finances of the City of Lima will be examined as part of this effort.
- vi. A second Education loan that will focus on marginal urban areas.
- vii. Two COFIDE loans, one for larger enterprises, \$60 million and one for median enterprise, \$26 million are in process which will bear on urban employment generation.
- viii. An appraisal mission is working on a \$12 million loan for vocational education with primarily SENSICO under the Ministry of Housing for the training of laborer in the construction sector and SINAPE, an autonomous training agency of the Ministry of Labor.

III.2.2. IDB (Inter-American Development Bank)

The IDB projects with an urban orientation are:

- i. A \$67 million project is approved (\$30.5 million IDB Loan) for water and sewer systems in 25 cities with populations of 5,000 to 30,000 inhabitants. Also funding is to be allocated for preparation of a study to examine tariff structures to ensure better maintainance of systems that are built and a plan to improve their management and maintenance.

The IDB is willing to provide more than this level of funding but they are awaiting additional final projects which are far enough along in development to include them for future funding.

- ii. There were some discussions in process to do an institutional development project with the Departmental Development Corporations through COFIDE but there doesn't seem to be enough interest.

- iii. A program with INFOM is being discussed. It consists of a \$500,000 grant to INFOM for technical assistance and training. This is almost a certainty. As a related endeavor is a \$30 million IDB Loan which would be part of a \$70 million municipal development effort consisting of municipal public works to be carried out by municipios and community organizations such as cooperatives. A key element of this effort from the IDB perspective is the participation of BANVIP, although INFOM prefers to use the Banco de la Nacion and manage the account itself.

- iv. A \$40 million IDB Loan as part of \$80 million package to do sites and services is being discussed. A Project Development Mission is scheduled to arrive in April, 1983 to begin work on the feasibility of such an undertaking. Generally such recent, similar activities in other Latin American countries have passed low cost resources to beneficiaries without tying financial policies to national financial markets.

Also mentioned by IDB were the possibility of a small enterprise program and mention of the possibility that COFIDE might become involved in financing urban infrastructure. Generally, the IDB has stressed capital projects with some attention to management but less emphasis on cost recovery or financial policies.

III.2.3. United Nations

A broad range of technical assistance and training is provided. However more time is needed to verify these programs.

III.2.4. OAS

(Same as UN)

III.2.5. Bilateral Donors Other than AID

In the main, bilateral donors have channeled resources for technical assistance and development of facilities through Ministries of Education, Health, Labor and through private voluntary organizations. For example, the Government of the Federal Republic of Germany provided almost 30 percent of the bilateral resources, 20 percent from AID, 10 percent from Canada with the remaining contributions coming from Holland, Japan, France and China.

With regard to urban infrastructure services, financing for SEDAPAL's water and sewer program has been provided by Kreditaustal fur Wiederaufbau KFW (The German Development Bank) for works in the southern cone of Lima. This credit of approximately 2.5 billion soles started in 1976 and is now complete. An additional credit from KFW will also finance 18 wells that are now being bid.

The French Government has financed a second stage of the Lima water treatment plant that will double its capacity. This was inaugurated in December, 1982.

The Government of Japan is providing financing for the water system of Ventanilla, a district to the north of Lima for 900 million Yen and it will be completed in 1983.

The KFW is also considering a loan of approximately \$4 million for the Construction Materials Bank, and the Government of Japan has made a \$20 million credit to the GOP for purchase of equipment for municipal government and is considering a \$20 million credit to the GOP for INFOM.

Bilateral donors are playing an important role and more needs to be known about what their plans for urban related activities are and how assistance packages are coordinated.

III.2.6. Policy Implications for Donor Coordination

All of the international donors in the urban area will benefit if the GOP, with AID assistance, moves ahead with the National Urban Policy Study. The absence of a clear urban policy in light of the great interest of donors in supporting infrastructure projects in various urban centers outside of Lima increases the risks that the cities selected and the level of investment made will not reinforce national economic development potentials, and therefore the full benefits of such assistance will not materialize.

The National Urban Policy should also begin to develop practical and implementable approaches to foster appropriate levels of decentralization. As part of this effort the policies to guide decentralization (including pricing and cost recovery policies) need to be established.

In working with the other donors AID's efforts in the urban policy areas might focus on National Urban Policy Development, Shelter Sector Policy, and urban job generation for the informal or small enterprise sector. AID might consider supporting the IBRD in their efforts to develop workable policies for water and sanitation, transportation, and solid waste disposal.

The selection of targets for capital assistance by AID need not ignore areas in which AID does not seek "policy" leadership, but would indeed follow the policy leadership of the IBRD.

III.3. AID Assistance in Urban Areas ^{1/}

III.3.1. Shelter and Urban Services

AID's support of the urban sector has been structured to use two authorized HG projects amounting to \$35 million to support the provision of urban services, shelter and home improvements loans through the public infrastructure agencies as, the Banco de Materiales for home improvement loans and the Savings and Loan system for new units, improvements, and connections. The emphasis of this effort is to reach outside of Lima through a network of institutions that have developed capacities to extend their capacities to plan, program, implement and administer such shelter related facilities.

With regard to social, health, nutrition, training small scale public works and employment generation there are a variety of activities underway. These are targeted largely to Pueblo Joven area in Lima.

III.3.2. Employment Generation and Social Infrastructure

A \$10 million employment generation loan through the Industrial Bank of Peru (BIP) is being used to support small enterprise development. The Title II food donation programs reaches the urban poor in food for work projects such as school construction, health posts, street leveling, reforestation and sidewalks. PVOs such as AITEC/Accion Comunitaria are implementing a program targeted to informal business of 4 to 5 employees with loans of up to \$1,200 for working capital and materials in Pueblos Jovenes.

OFASA/SAWS (Seventh Day Adventist Groups) are implementing a \$3.6 million program in Lima and three other areas to support 600 work projects that construct classrooms, health centers and potable water installations, and this is coordinated with a mobile clinic which visits food for work construction sites and nutrition and vocational education classes. A \$500,000 grant to a PVO, Asociacion Obras de Bien Comun (AOBC) has been made for the construction materials to build community services centers to promote the delivery of day care, pre-school education, maternal, child health, supplementary feeding and primary medical services. GOP and AOBC are providing 65 percent of the costs of these facilities and various ministries are committed to operating the programs out of them.

^{1/} This sub-section relies in toto on the views and materials prepared by William Gelman, RHUDO/LA, in his paper "Some Notes on CDSS for Peru (undated, but done in March, 1983). Consideration might be given to strengthening this material in light of the early sections of this paper.

III.3.3. Vocational Education

A \$450,000 grant to Fe and Alegria is being used to train 27,000 young people and adults annually in carpentry, metal machines electricity, office skills. etc. TECSUP, a PVO, will provide highly specialized training for industrial, mining and service companies. This \$1.2 million grant is funded through PRE. The IFESA project to be funded in FY-82 as well calls for training of 1,200 residents in Pueblos Jovenes in carpentry, cabinet making and handicrafts in cooperation with the Peruvian Exporters Association. It will also have a job placement component.

III.3.4. Other Social Programs

Catholic Relief Service/CARITAS are active in the slums of Lima with an 80,000 person food for work program. Health and family planning services in the Pueblos Jovenes are provided by the Ministry of Health. AID also is cooperating with an institute founded by the Peruvian Pharmaceutical Manufacturers Association (ALAFARFE) to extend the commercial distribution of contraceptives in four Pueblos Jovenes. The institute is providing 1,200 women as part of the effort.

III.3.5. IIPUP

The Integrated Improvement Program for the Urban Program (IIPUP) sought to prioritize actions in Pueblos Jovenes in Lima and develop methodologies to assess needs and translate those needs into the identification of projects to be developed under food for work program. This was used to support the formation of a multisectorial commissions in those areas which were set up to coordinate service delivery.

III.3.6. Integrated Rural Development

This program constitutes an effort to link municipal and rural development through strengthening functional and economic relationships between a selected group of cities in the departments of Junin and Cajamarca. The program is supporting the development of various public works projects and providing technical assistance to the system of municipalities in those regions to help identify projects to be developed as well as to support studies and technical assistance to strengthen the capacity of those local governments.

In summary, AID programs have stressed decentralization of shelter delivery of urban infrastructure services beyond Lima through a network of centralized and locally based institutions. The IRD program has been structured to support regional development through strengthening local government and developing public works projects to support economic expansion and reinforce functional linkages. A third major thrust has been to structure

Food for Peace and various grant programs to support the provision of community facilities, service delivery mechanisms, and community outreach techniques to upgrade the quality of life in Pueblos Jovenes, essentially around Lima.

III.4. Suggestions for the Urban Strategy of the 1983 CDSS

This section presents the author's views on the philosophy of the urban strategy for AID's 1983 CDSS. It is recognized that this strategy will need to be debated in light of the competing (or hopefully complementary) views advanced by other teams working on CDSS inputs. It is, obviously based on the discussion and analysis which has been presented in the earlier sections of this paper.

III.4.1. The Structuring Ideas for the CDSS

1. Urban population and urban poverty are on the rise while rural population has levelled off and could likely begin to decline in absolute numbers, though rural poverty continues to be a serious problem.
2. The present national urban settlement system is not out of balance and there is not likely to be overconcentration (even in Lima) given the slowing of the overall growth rate and rural/urban migration.
3. The overall macro-economic situation in Peru makes it imperative that rapid, sustained growth take place in the productive sectors:
 - a. Agriculture for export and food sufficiency to reduce imports.
 - b. Manufacturing for non-traditional export and domestic consumption.
 - c. Mining and petroleum for export and domestic energy utilization.
4. Urbanization should be seen as a direct contributor to national economic growth strategy and urban investments should be programmed where and how they best contribute to agriculture and manufacturing development. It is presumed that mining and petroleum are sectors out-side of AID interest in that they are capital intensive, provide few jobs, and are largely in the periphery of the Peruvian public sector.

5. Even while targeting urban centers because of their economic comparative advantage the social equity emphasis on the amelioration of urban poverty should be maintained in those most economically efficient locations.
6. Within the above framework, AID's CDSS should be people oriented strategy (as opposed to an economic output strategy) with special emphasis on small farmer's involved in agriculture for export and food security, job generation for the urban worker, and the basic needs of poverty level urban household..

NOTE: In this author's opinion subsistence farmers and the desperately rural poor with no great potential for increased productivity are a lower level priority in which minimum humanitarian assistance is appropriate while encouraging their migration to urban centers.

III.4.2. Small Farmer Productivity and Urban Development

Improved productivity of small farmers in agriculture for export and food security should be part of a twin economic development concentration of AID. The other being the creation of manufacturing sector jobs in the urban private sector discussed below. The agricultural content of such a program is not the subject of this paper, but it would likely seek substantial gains in small farmer productivity and income enhancement. The success of such a program would be to increase the demand on market towns for a greater range and depth of goods and services that would become affordable because of the higher farmer incomes. This should stimulate the services sector in the market towns and create decentralized jobs. Opportunities for certain kinds of agro-industry may be created.

An urban component should therefore be a flexible part of an essential agricultural program in much the way it is recognized in the Integrated Regional Development project at present. The key components should be access to credit by private sector services enterprise and small manufacturing enterprises, and limited options for small scale infrastructure improvement (particularly electricity and water if required). The capital expenditures per capita should be kept low in market towns. It should be recognized that the urban stimulation effects will lag behind the agricultural development activities.

It is likely that the inter-urban networks, linking market town with larger urban centers, particularly for transportation, but also telecommunications can be supported only selectively by AID resources. AID should continue to work with other major donors, particularly the multi-nationals, and the GOP to insure that needed improvements are developed. The major justification of broadening the national networks of infrastructure to the Sierra and Selva is in the immediate term agriculture, mining, and petroleum. However, these networks in the later years beyond 1990 will also serve the dual purpose of broadening and strengthening the urban settlement system by increasing the attractiveness of these centers for manufacturing.

III.4.3. Urban Private Sector Job Generation

The second economic thrust of AID should be to contribute to the creation of urban jobs in the manufacturing sector. The team presently working on the "private sector" background paper should be able to supply hard suggestions for AID action. This paper has suggested that the long term viability of urban development and urban income enhancement will largely depend on the creation of manufacturing jobs and their stimulative effect on productive job generation in the services sector. The content of an AID initiative in urban private sector job generation might include the following key elements:

- a. Recognition of the importance of Lima as the center with the most potential for rapid job generation at the least cost per job. Selection of alternative secondary centers for job generation support should be based on clear comparative advantage.
- b. Support for expansion and creation and creation of medium and small manufacturing enterprises as a priority because of their lower capital/ outputs ratios, lower skill requirements. This should permit the creation of more employment opportunities for the urban poor, and a broader pool of entrepreneurial and management talent without substantially contributing to the already rich.
- c. Capital assistance as available should be in the form of credit through appropriate institutions.
- d. Appropriate technical assistance could be promoted in the form of marketing and management aid and training through an appropriate local agencies.
- e. Technical assistance to the government, as opportunities arise, to assist in facilitating access to credit for private sector enterprise and revamping regulations and controls which discourage private enterprise initiatives.
- f. Provide technical assistance, and possibly selective capital assistance, required to assist government in their announced objective of "spinning-off" public sector enterprise to the private sector.
- g. Possibly support through technical assistance improvements in the securities markets and money markets to increase private sector capital mobilization. This might better be in the perview of the IFC which has considerable experience in this area if they are so inclined.

Technical assistance to the appropriate government ministries in the preparation of a pragmatic, feasible, an analitically sound private sector enterprise policy.

NOTE: The current Small Urban Enterprise Development Project fits well with the above strategy guidelines.

III.4.4. Support for the Preparation of a National Urban Policy

AID has already recognized the need for a National Urban Policy for Peru and has offered assistance in form of a loan through HG-011. Nonetheless, this work on the urban component of the CDSS has strongly underlined the urgency of this urban policy concern. The terms of reference for this work have been well developed by Professor Richardson.

A few additional comments are in order. First, the kind of urban policy needed, and which Richardson proposes is highly economically oriented and analytically based. It is not likely that the Peruvian tradition of an architectural/engineering approach to urban development would of itself provide a urban policy of relevance. Second the original budget included in HG-011 suggested approximately \$200,000 for this work. While this study need not be enormous, the presently available amount is insufficient. Something in the range of \$500,000 for foreign advisors (and indeed the same physical planning orientation by a foreign team should also be guarded against) is more appropriate, with between \$200,000 and \$300,000 available to support the Peruvian members of what should be a joint undertaking.

AID and all of the other donors concerned with urban development issues should have a strong interest in seeing this study completed as a means of targeting resources in a manner likely to yield the best economic growth with social equity. Likewise, the study should be of enormous importance to the GOP in order to determine affordable and feasible deconcentration during the coming decade. It is surely going to be less than desired, but the risks of not recognizing this fact are high in potentially premature over investment in the name of decentralization while urban conditions in Lima and Coast cities deteriorate at the cost of national economic growth rates.

III.4.5. Shelter Sector and Infrastructure Service Connections

Shelter and infrastruture have been shown to be in major deficits in urban areas and particularly in Lima. Whereas the economic emphasis on urban job generation is a key strategic long term thrust toward sustained urban economic growth it needs to be recognized that the full benefits will be developing overtime and the urban poverty crisis in Lima and in other secondary cities is likely to grow more rapidly than productive employment. Therefore the AID urban strategy should contain a two part commitment to directly assist in the reduction of the negative physical and social impacts of urban poverty (see below for the social impact discussion).

It is recognized that there is large need for macro-infrastructure as well, which will be continuing and is likely to outstrip GOP resources. Other donors have demonstrated a willingness to support this effort and therefore it is recommended that AID concentrate its resources on land and services for the urban poor and infrastructure upgrading in residential settlements. AID, through the HG program has already established a substantial expertise in this area. Its long standing relationship with BANVIP as the financial intermediary provides a strong institutional framework for the program's continuance.

While the HG program contains a significant element of humanitarian concern with its focus on the poverty level households as beneficiaries, the contribution to economic growth and indirect job generation should not go unnoticed. It has been shown that where basic infrastructure (particularly water and electricity) is available and permanent settlement is anticipated, informal sector enterprise are formed and flourish. Community self-help activities are encouraged. Even with investment cost recovery, disposable income is often increased because publicly provided essential services are cheaper than the previously used alternatives. The HG component represents the capital assistance part of what is already a continuing dialogue on overall shelter sector policy with the GOP and an effort at institution building with the Ministry of Housing and its component parts, along with BANVIP as the central financing institution, and the Banco de Materiales (providing building material loans) as a new potential lending outlet to poor households.

At the present time the AID supported policy dialogue is at a critical stage in so far as current GOP housing policies represent significant differences with AID's concerns for maintenance of value of shelter sector resources, targeting resources, and such subsidies as are essential, to the urban poor as opposed to middle and high income residents, and the utilization of physical standards that are appropriate to capital resource conserving shelter policies. It is not clear at the present time as to what the outcome of this policy dialogue is likely to be. If appropriate agreement cannot be reached in the near term, AID's approach, given the overall importance of the shelter sector to the problems of urban poverty in Peru, should be to hold off further new HG commitments, but to maintain current programs and continue the policy dialogue in anticipation of a more favorable response in the future. Small scale technical assistance should continue to be provided when opportunities in shelter sector performance, consistent with AID approaches, can be achieved.

III.4.6. Social Impact Programming in Pueblos Jovenes

Improved social services and the support of self-help initiatives on the part of the urban poor are already recognized by AID as being an important component of an urban poverty amelioration program. These programs should be continued and expanded as resources permit. While the central thrust of the social program component is improved community welfare and the build-up of the human capital resources of the poor there is also a

direct link to job generation and income enhancement. The following activities should be given continued support:

- a. The Title II program (food for work) which employs low income persons in the construction of schools, health posts, road and sidewalks development and urban planting.
- b. Support for the work of Peruvian voluntary organizations whose efforts are focused on community service for the poor. Of particular interest should be nutrition improvement and training, mother-child services and training, child care services, etc. which improve the role of poor women and increase their ability to contribute to household income (through improved utilization of disposable income as well as direct income generation).
- c. Vocational training for basic skills through Peruvian voluntary groups.

III.4.7. Urban Management Capacity Development

The economic future of the population of Peru will in large measure depend on the role of urbanization in economic development across the national settlement system. Recent major policy moves by the GOP have set in motion significant decentralization steps aimed at increasing the role of local levels of government. This effort is worthy of AID support as consistent with realistic assessments of what is feasible. Under any circumstances local government will be shouldering larger responsibilities. At present local government levels have limited urban management capacity. It is suggested that AID move to support improvements in local government urban management assistance and training program. The elements of such a program might consist of the following:

- a. Support an urban management assessment study which would clarify the responsibilities of local government, assess local government capacity, identify critical skill and procedural areas which need assistance, and recognize the differences in requirements of the various levels of the urban system. The results of this study would generate two parallel tracks of AID assistance.
- b. Track one would consist of follow up technical assistance (and perhaps limited capital assistance) to improve the procedures of local government by upgrading systems, modernizing procedures, identifying essential urban management equipment. This work would be done through the use of standardized "models" for introduction and adoption by local urban governments. Special attention would be given to improved budgeting and urban finance, the standardization of the procedures whereby local governments conduct their business with central government.

- c. Track two would be the development of a national training program for the development of local urban government officers. The first step would be a technical assistance study to prepare a national urban management training strategy, based on the results of the urban management assessment item "a" above. The strategy would clarify the training institution or institutions which would be responsible, the kinds of training which are appropriate, the content of the training to be provided, and the implementation schedule.
- d. AID should be prepared to support, over a four to five year period, the implementation of the national urban management training strategy with significant technical assistance and limited capital assistance as needed for outfitting training facilities, purchasing training equipment and supplies, partially meeting expenses for the trainees and Peruvian trainers. Early emphasis will need to be given to training of trainers, developing team training techniques where the urban management staff of a given local government obtains both "classroom" and on-the-job training in sufficient quantity to have a positive impact, and the development of relevant training materials based on Peruvian experience and procedures.

The philosophical underpinning of this bold initiative is that ultimately the improved management of urban centers is critical to the facilitation of improved national economic performance, the enhancement of the contribution of the private sector to manufacturing and service sector job generation, and improvement of the standard of living of the urban poor throughout the nation. It is prerequisite to the successful implementation of a meaningful decentralization program which in the longer-term future can bring a significant measure of inter-regional equity without penalizing the urgent need for short-term gains in economic growth and productive employment.