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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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AN APPRAISAL OF THE 1966-1967

PUBLIC INVESTMENT PROGRAM

OF PERU

(in seven volumes)

VOLUME VII

HOUSING

December 28, 1965

CURRENCY EQUIVALENTS

1 US \$	=	26.82 Soles
1 Sol (S/. )	=	3.7 US cents
1 million Soles	=	US \$37,286

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## PREFATORY NOTE

The focal point of reference in this report is the investment program prepared in early 1965 by the National Planning Institute (INP) as a proposed basis for the Government's investment outlays for 1966. Subsequently, the Government's Budget proposals of August 1965 introduced changes in the INP prepared program. While it has not been possible to revise this report to take account of these changes and comment on them, certain comments are made and some new information included in the main report (particularly Chapter II and supporting tables). The main aspects of the analysis and policy conclusions in the present report are still applicable in broad terms, and many of the details provide useful reference material.

## I. RECENT TRENDS

1. Prior to 1963, public investment in housing was carried out in a disparate manner by a number of different agencies at various governmental levels. Municipal corporations, special interest groups (e.g. military, police, etc.) and others, were responsible for a major part of housing construction. Beginning in 1963, however, the reconstituted Junta Nacional de la Vivienda (JNV),<sup>1/</sup> assisted by a \$22.8 million loan from the Inter-American Development Bank (IADB), assumed the predominant position as the Government's primary agent for public housing. Most of the municipal corporations, preferring to concentrate on other aspects of development, now rely on the JNV to provide housing units.<sup>2/</sup>

2. Since its inception, the JNV has tended to concentrate primarily on dwelling construction programs and, to some extent, rehabilitation and sanitization of squatter developments. In addition to the execution of its own programs, the JNV became the channel through which other public agencies invest in housing, so that by 1965, practically all investment is being done through this central body. Moreover, the JNV also became involved in projects which were financed in whole or in part by non-public and quasi-public sources such as the savings and loan associations and the central mortgage bank. This trend had become so pronounced that by 1965 nearly 40 percent of the total investment carried out by the JNV was with non-public funds (Table 1).

3. The JNV has been successful in greatly increasing the level of public investment housing over the past few years. Capital investments in housing and related facilities by the JNV and its predecessor agencies, compared with total housing investment, are estimated as follows (in millions of soles):<sup>3/</sup>

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<sup>1/</sup> National Housing Board

<sup>2/</sup> See tabulation, paragraph 12.

<sup>3/</sup> From a national accounting point of view, strictly public investments in 1964 and 1965 by JNV would amount to only S/.900. The difference represents private funds invested through this agency. This also accounts for the difference between the JNV series and the total public series.

<u>Year</u>	<u>JNV (and predecessors)a/</u>	<u>Total Public Investmentb/</u>	<u>Total Unitsc/</u>
1960	7	204	-
1961	30	726	-
1962	48	597	-
1963	247	454	-
1964	1,100	1,000	8,500
1965*	1,150*	1,100*	11,250

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a/ Source: JNV

b/ Source: INP

c/ No data available prior to 1964. Estimates include units produced by the Savings and Loan System with public funds, including proceeds of foreign official loans.

\* Estimated.

4. With the JNV concentrating on investment activities, many of the other areas included in the agency's domain have received only slight attention or none at all. There are several reasons for this emphasis on construction, the most important appearing to be:

- a. A strong sense of urgency to "get something done", i.e. to demonstrate physically the Government's desire and ability to actually produce housing (particularly for the middle-income group).
- b. To offset unemployment in urban areas through construction programs.
- c. Lack of financial resources that are not tied to specific construction programs.

5. In spite of the increase in public action during the past two years, the larger part of housing construction continues to be carried out by the private sector.<sup>1/</sup> The official data<sup>2/</sup> do not cover all the private housing built in the country, but only the housing registered with municipal authorities when building licenses are obtained. In addition, however, thousands of unregistered dwellings are erected each year in and around cities, in the suburbs and in rural areas.<sup>3/</sup>

6. If these units were to be included in overall production, the private sector's investments in housing would far exceed the official

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<sup>1/</sup> See tabulation in paragraph 12.

<sup>2/</sup> Source: Report on housing, building and urban development. National Housing Board, 1963, p. 58.

<sup>3/</sup> Source: Oficina Nacional de Planeamiento y Urbanismo (ONPU).

estimates. One report estimated that in 1960 some 60,000 new family units were completed while official estimates of housing production indicated only 10,000 new units provided.<sup>1/</sup> Clearly, many more units were actually built, but no data or even rough estimates as to the actual number are available.

7. At the present time, financing of private housing in the moderate price range in this field is closely linked with the public or publicly-assisted institutions, such as the Banco de la Vivienda del Peru. and the savings and loan associations. Higher cost housing is primarily financed through the Banco Central Hipotecario, the commercial banks, some insurance companies, private lenders and personal savings.

8. Authority and responsibilities of the JNV under Decree Law No. 14390, September 1963, are:

- a. To investigate the housing problem.
- b. To formulate a general housing policy and coordinate national housing plans.
- c. To prepare housing projects.
- d. To establish standards for urban and rural dwellings:
- e. To administer the resources secured or appropriated for housing.
- f. To promote housing cooperatives.
- g. To provide technical assistance.
- h. To promote the creation and development of private enterprises concerned with housing programs of social interest.
- i. To remodel, sanitize and organize squatter developments.
- j. To promote low cost land improvement projects.
- k. To eliminate slums.
- l. To administer housing projects.
- m. To rent or sell houses.
- n. To issue bonds.

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<sup>1/</sup> Pan American Union (OAS), Housing in Peru, Washington, D. C., 1963

- o. To purchase or expropriate (eminent domain) any real estate needed for housing.
- p. In addition, the JNV was given authority to issue mortgage guarantees.

II. HOUSING NEEDS AND PRODUCTION

9. The recent increases in housing production must, of course, be viewed against housing needs, within the context of the rapid urbanization that Peru has been undergoing during the past few decades. Between 1961-1964, for example, the population of the Lima-Callao region grew by an estimated five percent per year, and with the highest rates of growth (up to 12.4 percent per year) occurring in what can be called working-class districts. Similar examples can be cited in other principal urban centers in Peru. Urban populations are rising in response to natural population increases, in both urban and rural areas, and to heavy migrations from the countryside to the cities.

10. The most recent data on housing requirements comes from a study prepared by the Pan-American Union in 1962-63<sup>1/</sup> which took into consideration data compiled by two prior studies done by Peruvian agencies.<sup>2/</sup> The rate of production required to meet the three normally-accepted constituents of need<sup>3/</sup> over a 30-year period was estimated at approximately ten units per 1,000 of population for the country as a whole. In urban areas, where the current and especially future needs are much greater, the ratio would be closer to 13 per thousand, and as high as 15 per thousand for the middle to lower income groups. On this basis, current annual housing requirements in a physical sense would break down as follows:

	Population (thousands)	Production Requirements per Thousand	Units Required
Urban	4,400	13	57,000
Rural	6,600	8	53,000
Total	11,000	10	110,000

<sup>1/</sup> Pan American Union, Housing in Peru, op.cit.

<sup>2/</sup> Comision para la Reforma Agraria y la Vivienda, Informe sobre Viviendas, Lima, 1958, and Instituto de la Vivienda Housing Plan 1962-71.

<sup>3/</sup> (a) current deficit, (b) population growth, (c) obsolescence. See UN publication, World Housing Conditions and Requirements. (This is of course a strictly physical requirement, and not an economic demand, concept of need).

11. Since the mission was unable to arrive at any meaningful estimate of current housing production in both urban and rural areas and for all income groups, this analysis is limited to requirements in that segment of the urban population to which government housing programs have been directed. This group would consist of approximately the lower 70 percent of urban income groups.<sup>1/</sup> The average annual housing requirements of this group for 1965-75 would be about 46,000 units (assuming 15 units per thousand of the population of 3,080,000 in the group comprising the lower 70 percent of the income groups in cities).

12. Against this requirement, the annual rates of production, both current and projected, fall considerably short, as can be seen in the following tabulation:

Current and projected rates of housing production for the lower 70 percent of urban income groups

	1964	1965	1966	1967
Central Government <sup>a/</sup>	6,500	8,000	9,000	10,000
Local Government <sup>b/</sup>	300	300	300	300
Other Governments <sup>c/</sup>	200	200	200	200
Savings and Loan Association <sup>a/</sup>	3,000	5,500	8,000	10,000
Commercial <sup>d/</sup>	8,000	9,000	10,000	12,000
<b>Total</b>	<b>18,000</b>	<b>23,000</b>	<b>25,500</b>	<b>32,500</b>

<sup>a/</sup> The estimates are based on official data where available, e.g. data for the Central Government and Savings and Loan Associations were obtained from the Junta Nacional de la Vivienda and the Banco Nacional de la Vivienda respectively.

<sup>b/</sup> Local government housing programs are carried out primarily by the development corporations of Callao and one or two other municipalities.

<sup>c/</sup> Includes housing for military and police forces and other specialized groups.

<sup>d/</sup> Includes the Central Mortgage Bank, commercial banks, private corporations and individuals. No aggregate data were available for this source of production and the estimates are of a rough order of magnitude.

<sup>1/</sup> This is a rough calculation derived from the per unit cost of projects being undertaken by the principal public housing agencies and publicly-assisted agencies. However, while the higher cost units would include up to the 70th percentile, the minimum cost programs do not accommodate the lowest income levels. Government housing programs are not directly concerned with the higher income groups.

If the estimated production is reasonably accurate for the year 1965, it is clear that current production falls short by more than half. Even if the units improved or produced under the official program of rehabilitation of marginal settlements in urban areas is added to the total (about 1,500 in 1965), the conclusion does not change significantly. That is, there is a large segment of the urban population whose housing needs are not being met through either official or market channels. This is not to say, of course, that these groups go completely unhoused. The implication is, nevertheless, that the majority of these people find accommodations that are considerably below the standards established by the Government and the commercial market and, more importantly, that urban expansion occurs, to a large extent, outside the national planning effort.

### III. PUBLIC EXPENDITURES ON HOUSING AND THEIR FINANCING

13. A comparison of the official estimates of investment in housing financed by public funds for 1965-67 and the mission's estimates are summarized below:

1964 Actual	1965 Mission Estimate	1966 INP Program	1966 Mission Suggestion	1967 Mission Suggestion
(Millions of Soles)				
1,000	1,100	729	680	700

The mission's estimate for 1966 is lower than the INP program is due to (a) an assured lower activity level and (b) the prospects that expected disbursements from a new IADB loan (assumed in the official estimates) would not occur as early in 1966 as anticipated by the JNV and INP. The mission's estimate for 1967 should be representative of the level that may prevail for the next several years. This would call for a publicly-financed program of about S/.700 million.<sup>1/</sup>

14. As previously mentioned, the JNV covers only a fraction of the finance for its total program from direct budget appropriations and from earnings and transfers from other Government agencies. These funds covered (or will cover) between 20% to 50% of the JNV total investments from 1964 to 1966 (see Tables 1 and 2). The most important sources of financing are either private institutions such as the savings and loan associations and the Banco Hipotecario or quasi-public bodies (pension and social security funds). In effect, these institutions simply use the JNV as a contracting agent. They become the mortgage

<sup>1/</sup> The JNV would continue to administer a total program of well over S/.900 million in both 1966 and 1967; but part of this is to be financed with non-public funds. The sharp drop from 1965 to 1966 also results mainly from this accounting difference in the source of funds.

lender and naturally prefer to serve their own (largely middle-income) memberships. As a result, the JNV is obliged to use these funds in a closely prescribed manner. In fact, only about ten percent of the total funds invested through the housing agency can be said to be available for either general use or for the lowest income groups.

15. Of the S/.2,500 million invested by the JNV during 1963-65, about 20 percent was from the proceeds of a loan from the Inter-American Development Bank (IADB), as shown in Table 2. An additional 60 percent represents funds owned by various quasi-public and private sources which invest through the JNV. The remaining 20 percent is comprised of funds either earned through operations or transferred from general funds under various statutory provisions.<sup>1/</sup>

16. Mainly as a result of limitations attached to the bulk of funds becoming available to JNV for housing construction, as noted above, the average cost of the majority of all dwellings produced by the JNV in its current program is over S/.100,000, a cost which is beyond the payment possibilities of more than 50 percent of urban populations. The bulk of the low cost units produced have been carried out under the program financed in part by the IADB loan. Moreover, the IADB loan is likely to be entirely disbursed by early 1966. If no new external loans are provided for use in 1966, the amount becoming available to JNV from its own earnings, from budget allocations and from loan recoveries is not likely to be more than about S/.200 million. At least half of this will be required for central administrative expenses leaving only S/.100 million for investment in low cost housing programs. In fact, a breakdown by program of expenditures planned by JNV in 1965 and 1966, shows not only relatively low but decreasing expenditures on programs for marginal settlements that are primarily directed toward the lowest income groups. In the 1965 and 1966 projections, expenditures on these programs amount to 8.6 percent and 4.6 percent of the total current and capital expenditures of JNV.<sup>2/</sup> On the basis of existing plans, even the relatively small amounts allocated to improving conditions in the squatter settlements (Barriadas) are to decrease in 1966. This reflects the phasing out of the \$22.8 million IADB loan (Table 3). The

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<sup>1/</sup> e.g. Laws 13182, 10844 and 14390 which provide for annual allocations of specific amounts of general budget funds to the JNV; and Laws 13517 and 14390 which provide specific amounts for "squatter" or other settlements on urban margins. While funds provided under these laws should amount to over S/.250 million annually, it was expected in May 1965 that the amount actually likely to be made available would not exceed S/.100 million in 1966.

<sup>2/</sup> Under this loan program, 23,205 low cost units will have been constructed, 28,350 units provided with sanitation services and 3,475 units rehabilitated; altogether, some 48,000 families will have received some form of assistance over a four year period.

1966 INP program assumes disbursements of \$5.9 million from a second IADB loan of \$10 million which the Government hopes to obtain in the near future. The projects tentatively programmed by JNV under this proposed loan are largely dwelling units of the S/.50,000 to S/.90,000 class.

#### Other Sources of Finance

17. JNV has been instrumental in developing other sources of finance for construction of middle-to-lower cost dwelling. These include:

- a. Insurance companies. Some private life insurance firms have agreed to invest up to ten percent of their legal reserve requirements in housing bonds issued by the JNV. These bonds yield ten percent, tax free, and have a ten year maturity.
- b. Private developers and land-owners. The JNV is now attempting to develop a large-scale program under which it would underwrite the sale of a large number of units of middle-to-lower cost homes constructed and financed by private developers, land-owners and banks. If successful, this program could have a significant impact on the housing problem of the middle and lower-middle income groups in Lima. In essence, the program which displays a high degree of imagination on the part of the JNV would work as follows:
  - i. Owners of land designated for expropriation under statutory provision would be permitted to develop the land for residential and commercial use themselves rather than be required to sell it to the Government at the expropriation price.
  - ii. On the urbanized land, the owner, in collaboration with private developers and sources of finance, would construct and finance a limited number of units of the Type A class (under S/.125,000 per unit) which enjoys a 50 percent tax exemption on capital gain and profits. Of the total units built under the agreement, some 35-45 percent would be in the range of S/.45,000 to S/.75,000 for sale to buyers selected by the JNV. In one case, the terms of financing on 1,800 such units (of a 4,000 unit total development by the Fondo la Chalaca and Compania Nacional Rio Mar) were to be financed by loans of 80 percent of the cost, at twelve percent interest with a seven year term of repayment.
  - iii. The JNV, under authority available to it, will guarantee repayment to the lender of loan principal and interest.

Other variations on this idea are also under consideration, such as having the owner urbanize the land and with the JNV constructing and financing the buildings. In all, there are plans for the eventual production of some 30,000 homes and sites in the Lima area over the next several years.

18. A very important question here is whether or not the JNV's guarantee, a key element in the plan, is actuarially sound. If, for example, an increase in unemployment or inability or unwillingness to pay for any other reason were to cause even a minor number of defaults, the JNV must be in a position to honor its guarantee without dangerously decapitalizing itself. This would become a serious problem primarily in the event that real estate values were to decline. Inability to meet its obligations would, of course, jeopardize any further attempts to encourage the private capital market to invest in such popular housing programs. Further analysis of the problems of risk involved in this plan would seem to be very much worthwhile.

#### Priority Areas for Government Action

19. The agency's primary concentration on the construction of dwelling units has resulted in a substantial increase in the number of units produced in the country each year. Nevertheless, the housing shortage in Peru is so acute, especially for low income urban groups, that the current levels and types of public programs, together with private construction, are not sufficient to eliminate the long-accumulated deficit for many years. In fact, the deficit - largely stemming from the low levels of real incomes of the masses of Peruvians - probably will grow despite rising levels of housing production including that of the private sector.

20. If the public programs were to be extended to provide a standard, urbanized dwelling unit for each family (with appropriate price differentials to reflect income variations), the additional cost of housing only the currently unaccommodated urban families would range from S/.2,000 to S/.3,000 million per year<sup>1/</sup> or 2.5 percent of GNP in 1965. This does not include the cost of community services (markets, roads, water and sewage facilities, etc.). Since current expenditure on housing already represents about 2.5 percent of GNP, these additional outlays would increase the total to five percent, a level which is neither possible nor desirable for Peru at this stage of its development. Given the financial resource limitations faced by Peru's economy, the mission considers that the main efforts should be to achieve greater efficiency in the use of the limited public funds available for designing

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<sup>1/</sup> 28,300 units at S/.70,000 to S/.110,000 per unit cost for house plus land and services.

and building more of the types of houses and community facilities most needed by the lower-income urban population groups. At the same time, increased attention should be devoted to encouraging private capital to enter the housing field.

21. What is most needed, however, but presently lacking, is an overall strategy for the physical expansion of cities within which meaningful programs and projects can be carried out. As a result of the present allocation of resources, there are many areas not now receiving adequate attention that are essential to the orderly and efficient expansion of Peru's urban-industrial complex.

#### Lower Income Groups

22. Perhaps the most urgent need is to provide some type of orderly and controlled settlements for the substantial segments of the urban populations whose incomes do not permit participation in current and projected programs of standard-type dwellings. As shown earlier, the estimated current and proposed rate of construction of dwelling units for the lower 70 percent of urban income groups can satisfy only about half the housing needs of this group. And even if sufficient credit were to be made available to permit the construction of additional units, of the type currently being produced, a large group would remain unserved because their incomes and spending schedules do not support the necessary payments for debt service and other housing costs. It is difficult to determine exactly the dimensions of this group, since both population and income distribution data are incomplete. A survey undertaken by the JNV in 1964 indicated, however, that at least 50 percent of urban populations have monthly incomes of less than S/.2,000 in the larger industrialized urban centers and less than S/.1,600 in smaller urban areas. Given the present income distribution structure, this would mean that the average income of the lower 70 percent of all urban families would probably not exceed S/.1,200 per month. At this income level, it is not likely that more than about 15 percent of monthly income could or would be allocated to housing expense<sup>1/</sup> (this holds particularly true for those who have recently migrated from rural areas). The resulting monthly housing allocation of less than S/.200 is insufficient to meet the monthly payments on the type of units now being produced or programmed under the various government and private programs. And only by virtue of a severely restrictive rent-control system does such a level of monthly expenditure enable these families to occupy market-produced rental units.

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<sup>1/</sup> This would depend on a number of factors such as the number of children, food prices, etc. but it is within the range suggested by the United Nations specialized agencies, World Health Organization, and Food and Agriculture Organization (FAO).

23. The result is that those families not served by market-or-government-produced housing are forced to seek dwellings through one or another of a variety of extra-legal alternatives. The most prevalent alternative in the urban areas of Peru is land invasions, either individually or in large groups, forming squatter settlements, called "barriadas". Estimates of the magnitude of this type of development range up to 500,000 people in the Lima-Callao area alone, while in some other urban centers such as Arequipa and Chiclayo, barriada-type settlements represent the majority of residential development. A reading of the available data on population growth and migrations indicates that the pressure for further expansion along these lines will continue for the foreseeable future - particularly as investments in industrial and service industries continue to concentrate in existing urban areas.

24. Programs designed to deal with this problem must be based on a per-unit cost which bears a realistic relation to the incomes of the families involved, plus whatever subsidy is feasible under present and foreseeable conditions. The experience of the program financed with the assistance of the IADB loan is revealing. The programs carried out under this loan varied from the construction of a complete satellite community, about 40 km. from Lima (Ventanilla), to small loans to individuals in barriadas for the improvement of their homes. In the mission's view, the latter, called "supervised credits", have been among the most successful of the many programs undertaken. Not only was the average loan amount relatively low (about S/.25,000) but the administrative costs had also been reduced to a reasonable ratio. An important consideration, however, is that these loans were most effective where the barriada was in a reasonably well organized and viable condition. This requires some degree of land urbanization and above all, physical, social and administrative planning. Programs along these lines would help to guide residential development for the lower income groups within an overall plan for urban expansion rather than in unrelated and disharmonious sprawl.

25. From the point of view of desirable urban expansion, the type of construction is less important than the land-use pattern that is established. Hence, a first priority would be the acquisition and development of land for low income residential use (possibly combined with commercial and industrial investments). Locations away from the center city - appropriately related to employment and transport considerations - should be laid out according to a development plan, equipped with what services the economic situation permits (including, where economically feasible, a basic shelter), and sold or leased to individuals to whom additional loans would be made as financial resources became available. The average initial cost of each family unit would have to be held at S/.25,000 or less if a significant impact were to be achieved. Also, a well balanced program would include comparatively close-in land for the lowest income groups which traditionally find employment in construction and service trades and commercial activities in the center-city. Economics of land development

would seem to dictate a high density development of the lowest possible cost rental units for these groups. However, the lack of finance, together with relatively high official standards, retard such government-sponsored programs at the present time.

26. Moreover, the rent control laws in Peru work against this type of solution on a commercial basis. Legislation passed in 1945 and 1946 (Laws 10222 and 10716) prohibited further modification of rentals as well as eviction and dispossession proceedings in the case of all urban real property throughout Peru. This has effectively reduced investment in new low cost rental properties to an almost negligible level. While the resulting relatively low rentals that now prevail benefit the occupants of existing units (even though most are in poor condition due to lack of maintenance and overcrowding) practically no new rental units are being produced to accommodate low and middle income urban families. The laws apply to public as well as private dwellings. A serious attempt should be made to develop a plan for the gradual elimination of these overly restrictive laws as suggested by the Commission on Agrarian Reform and Housing in its 1958 report, "Housing in Peru".

27. Technological Research. Given the scarcity of resources for housing, a primary objective of public authorities should be the reduction of construction costs. Current costs may not be considered unreasonably high in Peru, given the state of development in the construction industry, but it should be pointed out that practically no research is being undertaken on new, lower cost methods and techniques in the building material and construction industries. There is sufficient evidence in other countries of cost reduction possibilities through research and experimentation to warrant a considerable increase in this area in Peru. Examples of possibilities for such work would include:

- a. Building materials. There is need for substitutes for manufactured bricks as the principal exterior material in middle and lower cost dwellings. Greater use might be made of adobe or new types of light weight concrete. Integration of low cost construction modules might also offer cost reduction opportunities. Experience of other countries in this field should be investigated.
- b. Construction techniques. Forward scheduling of materials and financing requirements would help to reduce costly work stoppages that now occur. This would also require determinations as to the present and future capacity to produce necessary materials and supplies, and obtain needed labor.
- c. Site management and organization. Extension services for small contractors might be undertaken through the regional offices of the JNV.

28. Data Collection and Analysis. Another field requiring attention is data analysis and collection. While considerable work has been done at various times by the JNV, its predecessors and the INP, for the most part, the efforts have been discontinuous and the conclusions fragmentary and under-utilized. There is a feeling in some quarters in Peru that there is no longer time for studies and analytical work. The evidence does not support this contention; in fact the opposite is true. Without adequate data on which to base policy decisions, there can be no overall strategy for urban development. And the less-efficient, project-by-project approach will continue to prevail to the disadvantage not only of urban growth but of overall economic development. The actual placement of the statistical function is a question involving broader organizational problems.

29. Organization for Urban Development. As the comprehensive list of responsibilities for JNV indicates, it was conceived to be the principal national agency for housing and urban development. It was formed of a merger of two former agencies, the National Housing Corporation (Corporacion Nacional de la Vivienda) and the National Housing Institute (Instituto Nacional de la Vivienda). Also incorporated into the JNV was the housing division of the National Health and Social Welfare Fund (Fondo Nacional de Salud y Bienestar Social).

30. There remain, however, a number of other important public agencies in housing and urban development, including:

- a. The National Housing Bank (Banco Nacional de la Vivienda) primarily a central bank and supervisory body for the country's savings and loan system.
- b. The National Office of Urban and Regional Planning (Oficina Nacional de Planificacion y Urbanismo, ONPU), which is responsible for developing directly, and assisting municipalities to develop master plans and overall policy for physical development.
- c. The Lima Corporation for Sanitary Works (Corporacion de Obras Sanitarias de Lima, COSAL). While not a housing agency in the strict sense of the word, COSAL has primary responsibility for providing sanitary facilities in residential areas where such facilities cannot be provided by the municipal Government.
- d. The several municipal and regional development corporations, public works agencies and other sanitary commissions in the larger cities, among them Lima, Arequipa, Callao and Cuzco.
- e. The Central Mortgage Bank (Banco Central Hipotecario). A national mortgage bank.

31. With so many agencies involved, coordination is likely to be a difficult problem under the best of circumstances. Unfortunately, the means for effecting central coordination by the JNV were not made clear when it was set up, and little coordination has actually been achieved as a result. The broader issue, of course, is whether the current organizational arrangements are well suited to the tasks at hand. Some of the problem areas are as follows:

#### Internal Organization.

32. While the JNV has performed well in the area to which the Government has assigned the highest priority, i.e. the construction of middle and lower-middle level housing units, it is also apparent that as a result of concentration in this field, many other important areas are not receiving adequate attention, and the organizational means for dealing with these problems have been allowed to atrophy or were never developed. To plan and carry out a comprehensive strategy for housing and urban development requires a national agency that can allocate its resources to the several important aspects of this sector on an official and permanent basis. This usually requires several functional units of more or less equal standing operating under the overall direction of a common leadership. The Government might, in this connection, study its organization and administration in this sector and take the necessary steps to deal more effectively with such basic functional areas as construction; financial operations (loans, mortgage insurance, etc.); special programs for marginal settlements; technical assistance; physical planning (both urban and regional); research and development; and coordination with other agencies.

33. This organization should have the responsibility for housing and urban development in Peru; that is, it should be constituted as the Government's principal organ for developing and carrying out an overall strategy for urban development. In this endeavor, the mission believes the Peruvian housing authorities could make good use of technical assistance. A team of experts experienced in the various aspects of urban development in developing countries could enable the agency to continue its current high rate of production while at the same time begin to develop the groundwork for a comprehensive plan.

#### Economic Planning

34. The sectorial planning group of housing construction and urban development, organized to aid INP in its overall national development planning activity, was attached to the JNV where it was to function as a coordinating agent and to prepare economic data related to the housing sector. Thus far, this office has not fulfilled its coordinating role and has remained an uncertain adjunct to the JNV. To correct this situation, the Government was planning, at the time of the mission's visit, to transfer the sectorial group to the Office of Physical and Regional

Planning (ONPU). However, the Director of the JNV would continue as head of the sectorial group, thus retaining a strong link with the JNV. In the meantime, however, relations between the sectorial group, INP and JNV have been primarily in connection with the budget process. There is need for close cooperation between the housing agencies and the INP on matters such as demand for construction materials and effects on employment of proposed housing projects. Since housing and related programs account for up to 20 percent of capital formation in the public sector,<sup>1/</sup> cost/benefit analysis should be applied as strictly as possible.

#### Urban and Regional Planning

35. ONPU (Oficina Nacional de Planeamiento y Urbanismo), is the body officially responsible for physical planning in Peru. This agency, established in 1946, is authorized to coordinate and direct urban development aspects of technical government agencies and local municipalities and to prepare and assist others in the preparation of master plans. As is the case with many other small units, however, it has not gained thus far the necessary support and has not made as much impact as it should. However, the office should be strengthened with the transfer of the sectorial planning group to it, and greater activity on its part can be expected in the future.

#### Public Facilities and Community Services.

36. Possibly the most serious lack of coordination among agencies active in the urban sector occurs in connection with the planning and provision of basic facilities and services. Several agencies at both the central and local governmental levels have responsibilities for providing facilities and services for household use. These include water, sewer systems, electricity, intra-city transport, waste collection, schools and clinics. The mission found repeated instances of inadequate or non-existent coordination between the housing agency and organizations responsible for the provision of one or more of these facilities and services. There is urgent need for coordinating machinery through which plans and decisions can be integrated into a meaningful pattern. Machinery should be established to promote adequate coordination between all agencies whose programs affect housing and urban development.

#### Internal Technical Assistance

37. Technical assistance in the marginal settlements of urban areas has been provided under certain of the programs financed by the

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<sup>1/</sup> Housing 16 percent plus about four percent for sanitation programs related to housing projects in INP proposals for the 1966 public investment program.

IADB loan. An example is the program of supervised credit, mentioned above, where approved individuals in designated barriadas were given construction loans, and provided with free technical advice as to plans, building methods and materials, etc. However, as this loan is exhausted, there is danger that funds allocated for technical assistance may be reduced to a level far below even minimum needs. Investments in these activities can provide enormous yields. Experience in Peru and in other countries shows that a small staff of engineers, planners and construction technicians can greatly improve the efficiency of ongoing construction and resource utilization (including land) in marginal areas.

38. The type of assistance needed includes such diverse elements as site planning, purchasing management, construction techniques and home economics. In the mission's view, a program of self-help somewhat analogous to the efforts made by the Cooperacion Popular program in rural areas, would be highly useful in marginal urban areas. Although the financial limitations on the Government may preclude a massive program on these lines, at least a continuing minimum effort should be made in this area, perhaps with financial assistance from international agencies concerned with urban development in developing countries. In many instances, programs of self-help and mutual aid are the only feasible methods of obtaining increased investment in housing and community facilities. The potential for this type of resource utilization in housing has not yet been fully explored in Peru.

39. Another area in which technical assistance could yield a high return is in providing help to private construction and building materials producers. Most medium and smaller firms engaged in these activities in Peru have neither the resources nor the experience to develop more efficient methods in either the internal management and operational aspects of their firms, or in the external relations of their activities to other producers and the economy at large. The successful experience of other countries and regions that have undertaken government-sponsored programs to improve and integrate the production and use of building materials provides ample justification for considering a similar program in Peru. A program along these lines is currently producing favorable returns in the Central American Economic Integration Program. This again is an area where international assistance could play an important role.

#### Financial Planning and Management.

40. There is also need for strengthening financial planning and controls in the JNV. For example, recoveries on some loans are being used, in part at least, for current administrative expenditure instead, as they could, to set up a revolving fund for new, particularly low-cost, programs. Although there is probably insufficient experience on which to base any judgment on the promptness of repayments, delays in payments have occurred in certain projects, especially where the planned services were not connected to the dwelling units at the time of occupancy. Further consideration should be given to the interest rates

related to units produced and sold by the JNV. The current rate on most JNV loans is about six percent. There is justification for considering an increase in the rate, at least on the higher cost programs, to a level comparable to that charged by the savings and loan associations and the central mortgage bank. Even some lower cost projects should be able to yield up to six percent. Such a policy would enable the agency to build up a reserve, which is essential to operational flexibility.

#### Financing Sources and Problems

41. In view of the unlikelihood of obtaining any substantial increase in direct appropriations, the JNV should consider, as far as possible, using some of its resources to lever more funds out of the private capital market rather than investing all directly in the construction programs. A number of financial devices that have proven useful for this purpose in other countries have not yet been attempted in Peru. While many improvements in this area are dependent on broader questions of financial and investment policy and the development of the capital market and credit institutions, mechanisms of direct concern to housing should be under constant review and discussion by the housing authorities.

42. A possible method of obtaining greater domestic financing is the interest-supplement approach. Under this scheme, which has been used for some time in Western European countries, a stream of income from operations (e.g. from outstanding loans) is used to supplement the difference between what the beneficiaries can pay and what the private capital market demands. This might be accomplished by using income earned on outstanding JNV mortgage loans or from new international loans.<sup>1/</sup> Another measure which might be considered is the offering of deposit insurance on savings accounts. This would be particularly helpful in encouraging individuals to save in the relatively new system of savings and loan associations. At present there are no plans for this type of insurance. Mortgage insurance is another possibility; mortgage lending has been increased in many countries through government insurance programs that guarantee the lender repayment both of principal and interest. If prices continued to increase at the high rate evidenced since the

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<sup>1/</sup> For example: if a new external loan were obtained at three percent, the proceeds could be loaned out for middle income housing at the average S and L rate of ten percent. The seven percent spread could be used to make up the difference between what low income families can pay (say six percent) and the price of long term money on the capital market (assuming that ten year tax free funds would be obtained at 12-14 percent).

beginning of 1964, the problem of maintaining the real value of both savings and loans would doubtless arise, and devices for adjusting interest rates or principal values might be explored. However, in general considerations of such devices would require the most careful investigation of the issues and problems involved, and, as indicated in the main report, the mission believes it far more effective and sound for the Government to take necessary measures to maintain financial stability, thus avoiding price inflation.

43. The value of developing systems and institutions that contribute to greater domestic participation can be seen in the experience of the AID loan. This loan of \$7.5 million (which was matched by the Peruvian Government) was made to the newly-established Banco Nacional de la Vivienda. This institution was given the task of promoting the development of a national system of mutual savings and loan associations. When the loan was made in January 1962, only two associations existed in Peru - with deposit accounts of S/.40 million. They had made 400 home loans totaling S/.29.5 million. At the end of February 1965, a national system of 26 associations and branches existed, which had 57,000 deposit accounts worth over S/.456 million. The relative success of this program can be traced to several factors, perhaps the most important of which is that it provided a service that was not only badly needed but which was aimed at a market with the ultimate ability to pay. Administratively, much of the success is due to the large amount of external technical assistance.

44. International assistance has played an important role in urban development in Peru. Since 1962, Peru has received support from abroad for programs of urban housing development totaling more than \$33 million. In the INP 1966 budget program, disbursements on a new IADB loan are assumed to total nearly \$6 million (S/.157.3 million) toward the eventual construction of 6,689 units, averaging about S/.70,000 per unit. Domestic funds allocated in 1966 toward these projects were planned at S/.67.2 million or 30 percent of the total in that year. Moreover, these projects represent the largest part of the total low-cost housing program (about 70 percent). The bulk of the Government's low cost housing program - over one half - have been financed with external funds.

#### Publicly-Supported Financial Systems

45. The Savings and Loan System. The savings and loan system is a recent development, first authorized by Act No. 12813 in March 1957. The associations are mutual non-profit making organizations, and their activities are directed toward two aims, those of fostering the spirit and habit of saving, and helping to solve the housing problem. The system is supervised by a National Housing Bank (Banco Nacional de la Vivienda) which also provides working capital loans to institutions and may charter new institutions or open branches under its own charter.

As indicated above, the Housing Bank received capital and technical support from the U.S. Agency for International Development. Active AID support of this program began in January 1962 when the first resident staff member was assigned. Ground work had been laid through exploratory consultations by U.S. housing experts. This resulted in the authorization of an AID "seed capital" loan of \$7.5 million to be used to establish a state Housing Bank (Banco de la Vivienda) which was to charter, promote, lend to and supervise a system of private mutual associations.<sup>1/</sup> There were two additional loans of \$1 million each from AID and IADB to the two original Lima savings and loan societies.

46. At the end of February 1965, a national system of 27 associations and branches affiliated with the Housing Bank had 57,000 accounts totaling over \$17 million and they were receiving amortization payments on 6,500 loans on completed homes worth over \$25 million. An additional 3,000 loans were in process. The bulk of this home construction has been financed from the \$17 million in savings raised by the associations and from buyers' down-payments. The balance was financed with loans from the Housing Bank to various associations. The Housing Bank has presently available a capital of \$15 million which comes in equal parts from the original AID "seed capital" loan and Government of Peru budgetary appropriations.

47. While the dividend on savings in the savings and loan associations is a standard six percent (with an additional one percent bonus for amounts held over one year), the interest rate on loans varies from 9 to 11 percent. The actual rate charged by any association depends on a number of factors such as size, reserve ratio, and other indicators of its relative strength and stability. With accumulation of experience, it would be useful for the associations to review the margin between capital costs and earnings.

48. Consideration should be given to the desirability of increasing the current six percent dividend rate, particularly in view of the recent upward trends in prices. Some authorities consider that a rise in the dividend rate would require a corresponding increase in interest on loans. While such a move might require a partial corresponding increase in interest, it could also serve to promote greater savings. This was evident in the recent increase in interest on bonds of the Central Mortgage Bank.<sup>2/</sup> At present, most savings and loans depositors are induced to save in order to qualify for a mortgage loan.<sup>3/</sup> If the system is to achieve the growth desired by its founders and members, it is necessary to encourage savings that do not presume a mortgage loan as soon as the necessary deposit is

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<sup>1/</sup> See also Appendix A and Tables 4 and 5.

<sup>2/</sup> See paragraph 54.

<sup>3/</sup> In addition to the 20 percent down payment required by savings and loan societies, a deposit of ten percent of the outstanding balance of the loan is also required. Thus borrowers must also be depositors.

accumulated. These so-called "free savings" are vital to industry growth, but are not likely to be attracted at the current dividend rate. This question requires careful study by the Housing Bank and the savings and loan membership.

49. The average cost of units produced with savings and loan financing is about S/.125,000. While this cost does not appear excessive, it should be borne in mind that these institutions operate with considerable subsidized assistance and enjoy other forms of public aid such as tax relief. It could be expected, thus, that every effort should be made by the system to finance the largest number of units within the possibilities of sound lending practices. This does not appear to be a specific goal at present and its adoption should be considered.

50. In addition, it would be desirable to have industry representation on the board of the Housing Bank. At present there is no official spokesman for the member associations themselves. This is not consistent with the concept of the mutual savings and loan systems.

51. Credit Unions. The cooperative movement has been in existence in Peru for some years now, but its activities have been directed rather towards credit in general than towards housing. In 1961 there were 248 credit unions, but their interest in the field of housing dates only from recent years. In 1959, fifty-three of the existing cooperatives set up the National Federation of Peruvian Credit Unions. Through this institution, the Peruvian Central Credit Union was organized in 1961 and a loan of \$1 million was obtained from the Social Progress Trust Fund of the IADB. Funds from this loan have been used for granting housing loans through various credit unions connected with the Federation and for the building of low-cost housing for their members.<sup>1/</sup> The credit unions succeeded in accumulating, in the course of a few years, a volume of savings large enough to justify the subsequent establishment of the savings and loan system. They provided proof of the existence among wide sections of the population of both the ability and the desire to save.

52. Housing Cooperatives. The growing demand for loans for the building or purchase of houses has led to the formation of housing cooperatives. The number, membership and capital of housing cooperatives existing in 1965 are summarized as follows:

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<sup>1/</sup> The essential difference between the savings and loan associations and the cooperatives in Peru, is that the first works with savings deposits and the second depends on the members' contributions. Of course, there are other differences related to organization, administration and legal aspects.

Locality	Housing Cooperatives	Number of Members	Capital Contributions (in million soles)
Lima and Callao	60	7,000	75
Arequipa	19	6,617	23
Other localities	<u>67</u>	<u>2,883</u>	<u>7</u>
Total	146	16,500	105

The majority are located in Lima-Callao and Arequipa, with a capital of S/.98 million. Accurate recent figures are not available as to the number of loans granted by the cooperatives or their total principal value, however, the indications are that there are more than a thousand loans representing several million soles.

53. The cooperatives are assisted by the Housing Bank for which purpose it recently received a \$6 million loan from AID and a transfer of the equivalent of \$4 million from the Government of Peru. Half of these loans will be channelled through ASINCOOP, the Cooperative Union Alliance, sponsored by the American Institute for Free Labor Development (AIFLD) and consisting of the Federation of Cooperatives and two workers' confederations. However, in spite of this inflow of external capital, there is a need for greater support and attention to the housing cooperatives, especially in the field of organization, technical assistance and finance.

54. The Central Mortgage Bank. This bank was set up in 1926 and has had considerable experience in the housing finance field. Its capital is comparatively small, amounting to a total of S/.30 million held by the Government and commercial banks, and by other institutions and persons.<sup>1/</sup> Its main sources of funds have been savings from the general public and the proceeds of the sale of mortgage bonds (Cedulas Hipotecarias). The Mortgage Bank is the only institution in the country authorized to issue this type of security. The bonds earn nine percent (recently increased from six percent) and there are currently S/.806 million outstanding. At one time (in the 1940's), the Mortgage Bank had 40 percent of all savings accounts in Lima (in nine percent cedulas) but their importance declined to about 18 percent in 1963 as savers' liquidity preference increased and the market price of cedulas fell from 100 to around 80.

<sup>1/</sup> In 1963 the Housing Bank purchased 30 percent of the outstanding shares with the object of achieving better coordination between the two institutions.

55. In the latter part of 1964, under a new management, the Mortgage Bank reactivated a policy of guaranteed purchase of all cedulas issued on savings on an effective 90 day call at the full 100 point price.<sup>1/</sup> This increased savings to a current rate of about S/.20 million per month. The Bank is now making mortgage loans at about that volume using 70 percent of the savings inflow and the remainder in 20 year cedulas that the borrower sells to commercial banks at the going price.

56. This procedure works along the following lines: the bank divides borrowers into roughly four different groups based on the total cost of the house, the loan amount, and the borrower's income, as follows:

	Up to	Up to	Up to	
Cost of house S/.	250,000	350,000	600,000	600,000+
(Annual) income level	60-70,000	80-100,000	100-150,000	150,000+
Percentage of loan in cash	100	100	60	(all in cedulas)

The plan works out to the advantage of the lower-income borrower through a lower interest rate (nine as compared with ten or eleven percent for higher income borrowers) a higher loan ratio (up to 75 percent of value) and full cash loan proceeds.

57. Those cedulas issued as part of the mortgage loan are exchanged by the borrower (by previous agreement) for cash at the current discount rate, e.g. a borrower of 50 percent of the value of a S/.400,000 house would get S/.120,000 in cash at ten percent interest and S/.80,000 in cedulas which he can sell at, say, 87 percent of face value. Part of the reason the Bank does not use its full savings inflow to make mortgage loans, is that part of the funds are used to bid up the price of the outstanding cedulas. The management considers that this procedure will enable it to issue more cedulas in mortgage loans without causing the borrower undue loss while at the same time bringing more commercial bank money into the mortgage market. It considers that the nearer the market price is to 100, the greater the volume of cedulas the market will absorb.<sup>2/</sup> Another reason for not lending out more than 70 percent of savings is the need for a strong reserve to meet liquidity demands of savers who have been issued cedulas.

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<sup>1/</sup> But not those issued as part of mortgage loans. These are accepted only as part of loan repayment.

<sup>2/</sup> At present there are some S/.700 million in cedulas on the market.

58. There has been some criticism of the Mortgage Bank's policy in raising the interest rate on its cédulas but the increase has been defended on the grounds of rising general price levels. In fact, the Bank might well consider pursuing a more active campaign to "sell" its savings programs. This would include the possibility of new branch operations and other positive steps to increase the availability of its services.

59. Since the Bank derives considerable benefit from the Government in the form of guarantees and full tax relief on its cédulas, it would seem appropriate to introduce a more moderate policy with respect to the price of units financed with its funds. This might involve the use of a quota formula or other devices for ensuring that at least part of the Bank's funds are used to finance sound mortgage loans of moderate value.

#### Other Private Financial Institutions

60. In addition to the savings and loan associations, the cooperatives and the Central Mortgage Bank, the other principal sources of finance for housing include the commercial banking system, the insurance companies and corporate and private lenders and investors.

61. Commercial Banks. The commercial banks do not engage in long-term housing finance, but they do provide short-term funds for construction financing and provide the building industry with short-term loans. Generally it is reported that the loans granted by commercial banks to building firms cost up to 18 percent, including interest, commission and stamp duty. This, in the end, is reflected in the cost of the houses, and some of the sectors concerned are, therefore, studying the possibility of obtaining funds more economically.

62. Insurance Companies. There are, operating in the country, 21 insurance companies. The latest data indicate that capital, plus reserves, amounted to S/. 586 million and that available funds and investments were valued at S/. 1,210 million at the end of 1963. Although the companies' portfolio of investments includes mortgage loans and cédulas, these amounted to about ten percent of investments. Rather than granting of loans for residential construction, these companies prefer to invest in multi-story commercial buildings which appear to offer more security from inflation and greater profits. A substantial volume of commercial construction in the city of Lima has been financed by the insurance companies. The insurance companies recently agreed to purchase up to S/. 100 million in JNV ten year guaranteed bonds<sup>1/</sup>. However, the prospect of obtaining additional funds from these companies for the financing of housing programs is uncertain.

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<sup>1/</sup> Actual investment thus far has been about S/. 40 million.

Other Financing

63. Through the transactions recorded in the Property Register, it is known that a great deal of housing financing is carried on outside the scope of the public and private institutions mentioned above, mainly by private individuals and groups in the unorganized capital market. The individual amounts of the loans evidently are small, but some thousands of transactions are involved. Unfortunately, no statistics are available on the subject, so that it is not possible to state the extent of these transactions.

64. Building Materials. Peru has experienced periodic shortages of cement, wood and steel; and it imports hardware, electrical and other building materials (see Appendix Table 11). A substantial increase in housing production might contribute to shortages of these materials. This is particularly so in the case of cement; a shortage of this commodity occurred during the mission's stay in Peru when some local production facilities failed. Although other local materials are sufficient at present, a sharp rise in housing production could encounter bottlenecks because of the difficulty of rapidly increasing production of such common materials as lime, gypsum, sand and brick. Another factor that has considerable effect on construction in outlying areas is that the building materials industry is concentrated in Lima and Callao, which contributes to additional transportation costs. In the main, however, supplies of materials or construction capacity have not been a serious deterrent to the rapid expansion of housing construction. Further expansion, if planned on a large scale, could run into supply bottlenecks, and these factors should be kept under careful review. More details on building materials and the building industry are given in the Appendix.

65. With the object of financing the building and building materials industry, a group of building entrepreneurs has received permission to set up a new bank, the Building Industry Bank (Banco de la Industria de la Construcción). It is envisaged that this institution would start operating with a capital of S/. 50 million with the purpose of lending to the building and building materials industry for both capital improvements and operating funds.

## APPENDIX A

### Supplementary Information on Savings and Loan Associations, the Housing Bank, and the Building and Building Materials Industries

#### Asociaciones de Ahorro y Préstamo (The Savings and Loan System)

1. The associations are all of the mutual type. Opening an account makes a saver a member and, as such, he has a right to vote and to receive dividends.
2. General meetings consist of all the members present, and these elect the Board of Directors and approve the report and balance sheet relating to the previous financial year. The Board of Directors appoints the necessary Manager or Managers.
3. Mutual benefit societies are of a regional and decentralized nature, and they can operate only in such departments as the Banco de la Vivienda may direct when giving authority for them.
4. The deposits may be made in small sums, from five soles upwards, but the regulations stipulate a sum above which an interest of six percent will be earned. This amount is usually 250 soles. These deposits can be withdrawn whenever the saver wishes, and they enjoy certain legal privileges, such as exemption from taxation up to an amount of half a million soles, provided that the deposits are left in the account for a period of at least three years. The exemptions have proved to be a great inducement to the commercial banks and some large firms to deposit their money with these associations, for the sums thus deposited are deducted for the income tax payable by those institutions and firms.
5. The societies are authorized to carry out drawings by lot to determine loan recipients from among depositors who keep fair deposits above a thousand soles in their accounts. In order to have right to a loan, a member must hold in the association a deposit equal to ten percent of the amount of the loan which must be maintained throughout the life of the loan.
6. Loans are granted in accordance on the bases of a review of each particular case, for terms of up to 20 years, at a rate of interest of nine percent per annum; and in no instance may a sum greater than 25 percent of the family income be required to be set aside to repay them. As a general rule, the loans amount to about S/. 125,000 to S/. 150,000.
7. Associations are required to invest 85 percent of deposits in mortgage loans, which may be used for the following purposes:
  - (a) The purchase of an existing house;
  - (b) The erection of a house on land that has already been acquired;

- (c) The purchase of land and erection of a house; or
- (d) The extension or improvement of an already existing dwelling.

8. No loan may exceed the 80 percent of the value of the property. When the house is to be erected on the borrower's own land, the value of the latter may be accepted for the total or as part of the 20 percent to be provided by the borrowers.

9. Since, generally speaking, the associations have funds available to them, the rate of savings being in some cases greater than the rate at which loans are granted, owing to the time pay in negotiating loans, they place part of the available funds as time deposits with the commercial banks, thus obtaining interest of seven percent, and also make short-term loans, for periods of up to one year, to builders, at a rate of interest of twelve percent per annum.

El Banco de la Vivienda del Peru (the Housing Bank)

10. The initial capital was fixed at S/. 500 million, represented by shares subscribed by the Government. In order to constitute the capital, the Government had obtained a loan to an amount of US\$7.5 million from AID, on the undertaking that it would provide a like sum.

11. Of the Bank's present net worth of S/. 326,563,150.82, the amounts of S/. 97,300 are from the original AID loan and S/. 178,504,499.90 was contributed by the Government of Peru, while the balance has been formed from other patrimonial funds. Recently the authorized capital was increased to 800 million soles, by virtue of an AID loan of six million dollars for the cooperative housing programs and a subscription by the Government equivalent to four million dollars, i.e. a total of ten million dollars, which will be used for the building of houses through the cooperatives.

12. The Housing Bank has also assisted construction companies by providing them through the mutual benefit societies, with short-term loan funds for the construction of more than 1,000 dwellings in Lima and several other cities, representing an investment of about 100 million soles. These short-term loans are converted, once the dwellings have been completed and sold, into long-term loans to ultimate purchaser who becomes a borrower from the savings and loan mutual society. At present, a plan is under way for short-term construction loans to facilitate the building of more than 800 dwellings, primarily multi-family buildings, in Piura, Chiclayo, Trujillo, Chimbote, Ica, Ilo Tacna, Cuzco, Huancayo and Iquitos, at a total cost of about 160 million soles.

13. The Bank may also act as trustee, and in that capacity is concerned with the S/. 134 million value of the "Jardines Viru" project, consisting of 915 middle class dwellings with an average cost of about S/. 146,000.

14. In early 1965, the Bank had investments amounting to S/. 200,000,000. The management considers that its resources are sufficient for the moment to enable it to meet the needs of the system. Looking to the future, however, the Bank has in mind to issue securities of its own, but no figures are so far available concerning the probable extent of such issued. It has instituted a system of postal savings and it expects to be able to secure some thousands of new accounts all over Peru. Measures are also under consideration for the insurance of mortgages.

#### Building Materials

15. Traditionally the country has imported cement, wood, iron, hardware, electrical supply and other building materials that are mentioned in the following paragraphs.

16. The largest importation of cement in the past 20 years occurred in 1953 when 90,557 metric tons were imported for a value of 33,260,000 soles, as compared to national consumption of 540,000 metric tons; imports thus represented 17 percent of domestic consumption. However, as new production facilities in Peru came into operation, cement imports declined until in 1960, only 8,413 metric tons were imported, for a value of 3,826,000 soles. Imports amounted to 1.4 percent of domestic production.<sup>1/</sup> Since 1960, imports of cement have declined in importance and ceased to figure among the important imported goods. In the first half of 1965 cement was again imported, owing to a breakdown of some production facilities in the face of rising demands for housing and other construction.<sup>2/</sup> A new cement plant is scheduled to come into production next year in Arequipa; this will assist in relieving the shortage.

17. Imports of wood, have increased because, even though the country possesses extensive forests, only part of these is accessible at present and production is not well developed. In 1959, domestic timber production amounted to 48 million square feet and imports to 20 million sq. ft., or 42 percent of local production. The value of the imports was 55 million soles (about US \$2.5 million); and in 1963, imports of logs and plywood and cut wood amounted to \$5 million, doubling in comparison with 1960.<sup>3/</sup>

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<sup>1/</sup> Source: Central Reserve Bank of Peru, National Income, p. 146.

<sup>2/</sup> Source: JNV (National Housing Board).

<sup>3/</sup> Source: Central Reserve Bank, Productive Activities of Peru, Analysis and Prospects, pages 46 and 201 and Analysis of Imports, 1954-1963, National Institute of Industrial Promotion and Industrial Bank, pages 155 and 156.

18. Imports of steel bars and rods in 1960 amounted to 15 thousand tons, valued at 60.4 million soles, in comparison with 49,196 metric tons, valued at 194.3 million soles in 1956. Imports of tubes and piping in 1960 amounted to 9,830 tons valued at 83.9 million soles, also showing a decrease from 1956 when 26,377 tons were imported with a value of 245 million soles. However, in 1963, imports increased to 17,689 tons, valued at 178 million soles.<sup>4/</sup>

19. Other building materials are also imported, such as sheets for building; prepared materials such as planks, beams, shear legs, buildings and reinforcing steel; wire and cable for electrical installations, and electrical accessories. Total imports in 1963 were 128 million soles.<sup>5/</sup>

20. While any substantial increase in the housing program will affect demand for these materials, this may be reflected in a possible increase in imports as well as greater domestic production as new facilities come into being.

21. Other construction materials, such as lime, gypsum, stone, sand, concrete, brick, adobe, tile nails, wire, and paint are abundant in the country. In some instances, increasing use is being made of local materials as building stone in Arequipa and adobe in Cuzco. It can be expected that certain prefabricated pieces like concrete or iron beams and lintels will be produced on a larger scale as the production of cement and steel increases. Timber production could also increase with the completion of new roads leading into the Selva.

22. Nevertheless, if housing construction increased rapidly, a sharp rise in demand would follow, generating a scarcity, though temporary, of the more common materials such as lime, gypsum, sand and brick.

23. This industry is concentrated in Lima and Callao since about three-quarters of the industrial establishments and 65 percent of the labor employed are in that region and only the other 25 percent of the establishments and the 35 percent of the labor are in other parts of the country.

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<sup>4/</sup> Source: National Institute op. cit. p. 190, 191 and 192. There are discrepancies between the above data and these in the Pan American Union study "Vivienda en el Peru" (Housing in Peru). According to the latter study, imports of steel bars and rods and of tubes and pipes were as follows in 1956 and 1960:

In Tons and Thousands of Soles

Year	Bars and Rods		Tubes and Piping	
	Volume	Value	Volume	Value
1956	37,050	98,751	24,914	134,619
1960	2,063	6,998	11,911	91,023

<sup>5/</sup> Source: Analysis of Imports, op. cit., pages 195 and 196.

STATISTICAL APPENDIX

Table  
No.

- 1 Housing Investment Outlays and Sources of Finance 1964-1967  
INP and Mission Estimates
- 2 INP and Mission Estimates of JNV Capital Investment Program by  
Sources of Finance, 1966-1967
- 3 Capital and Current Expenditure Program of the JNV, 1965-1966
- 4 Savings and Loan System - Membership, 1961-March 1965
- 5 Savings and Loan System - Availabilities of Funds - July 1961  
to February 1965 and Estimated for March 1965-December 1968
- 6 Available Funds, Investments, Savings and Mortgage Bonds in  
the Housing and the Mortgage Banks, and in the Savings and  
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**Table 1: HOUSING INVESTMENT OUTLAYS AND SOURCES OF FINANCE 1964-1967**  
 INP AND MISSION ESTIMATES  
 (millions of soles)

	1964			1965			1965			1966			1966			1967		
	Total	Local	External															
<b>Investment Outlays</b>																		
A. JNV	1105	939	166	1250	1062	188	1150	977	173	1015	863	152	960	816	144	930	790	140
B. Less private funds (-) a/	205	175	30	250	212	38	250	212	38	386	328	58	380	323	57	330	280	50
C. Other public funds (+) b/	100	85	15	100	85	15	100	85	15	100	85	15	100	85	15	100	85	15
D. Total Public Funds	1000	850	150	1100	935	165	1000	850	150	729	620	109	680	578	102	700	595	105
<b>Sources of Finance</b>																		
E. Public funds (JNV) c/	550	550		660	660		550	550		206	206		180	180		320	320	
F. Other public funds	100	100		100	100		100	100		100	100		100	100		100	100	
G. Quasi public funds d/	150	150		200	200		150	150		211	211		250	250		100	100	
H. External funds e/	200	---	200	240	---	240	200	---	200	212	---	212	150	---	150	180	---	180
I. Total Public Funds	1000	800	200	1200	960	240	1000	800	200	729	517	212	680	530	150	700	520	180

General Note: Data have been rearranged by the mission on a uniform basis. Hence the INP figure for 1966 differs from that shown in its proposed 1966 investment program. One adjustment in particular should be noted. The INP's figure for direct investment of S/. 166 million in 1966 was understated and the figure for transfer - S/. 752 million - overstated according to the mission's definition of these categories. Thus the INP 1966 figure for investment was adjusted for purposes of comparability. The derivation of the mission's aggregate figures is given in Table 2. The mission's estimate of 1000 million soles for 1965 is slightly less than the Revised Budget figure for 1965 in view of an apparent slower rate of construction than planned, particularly under the program financed by the IADB loan.

- a/ Includes funds of central mortgage bank and private savings and loan capital.
- b/ Investments by municipal bodies, military and police, etc.
- c/ Includes direct appropriations, earnings and financial transfers from other government agencies.
- d/ Includes funds invested in JNV programs by Social Security and pension funds.
- e/ External funds provided by IADB and AID loans invested through savings and loan system.

Source: INP and JNV.

Table 2: INP AND MISSION ESTIMATES OF JNV CAPITAL INVESTMENT PROGRAM BY SOURCES OF FINANCE, 1966-1967  
(Millions of soles)

Source	INP Estimate		Mission Estimates			
	1966		1966		1967	
	Millions of Soles	Percent of Total	Millions of Soles	Percent of Total	Millions of Soles	Percent of Total
<b>A. Internal Public Funds</b>						
<b>(a) Direct public funds</b>						
JNV earnings and transfers from Central Government. <sup>1/</sup>	100	9.8	80	8.3	220	23.6
Banco de la Vivienda <sup>2/</sup>	52	5.1	50	5.2	50	5.4
Other public funds <sup>3/</sup>	54	5.3	50	5.2	50	5.4
Sub-total, direct public funds	<u>206</u>	<u>20.2</u>	<u>180</u>	<u>18.7</u>	<u>320</u>	<u>34.4</u>
<b>(b) Quasi-public funds <sup>4/</sup></b>						
Workers' Retirement Fund	115	11.3	140	14.5	60	6.4
Pension Fund (employees)	96	9.5	110	11.4	40	4.3
Sub-total, quasi-public funds	<u>211</u>	<u>20.8</u>	<u>250</u>	<u>25.9</u>	<u>100</u>	<u>10.7</u>
<b>(c) Total, internal public funds (a + b)</b>	<u>417</u>	<u>41.1</u>	<u>430</u>	<u>44.7</u>	<u>420</u>	<u>45.1</u>
<b>B. External Public Funds</b>						
IADB loans <sup>5/</sup>	160	15.7	100	10.5	130	13.9
AID loan in Savings and Loan financing <sup>6/</sup>	52	5.1	50	5.2	50	5.4
Sub-total External Public Funds	<u>212</u>	<u>20.8</u>	<u>150</u>	<u>15.7</u>	<u>180</u>	<u>19.3</u>
<b>C. Total Public Funds (Public investment)</b>	<u>629</u>	<u>61.9</u>	<u>580</u>	<u>60.4</u>	<u>600</u>	<u>64.5</u>
<b>D. Private Funds</b>						
Savings and Loan Associations	157	15.4	150	15.6	200	21.5
Central Mortgage Bank	225	22.1	225	23.4	100	10.7
Users' Fees	4	0.4	5	0.5	30	3.2
Sub-total	<u>386</u>	<u>38.0</u>	<u>380</u>	<u>39.5</u>	<u>330</u>	<u>35.4</u>
<b>TOTAL INP PROGRAM</b>	<u>1,015</u>	<u>100.0</u>	<u>960</u>	<u>100.0</u>	<u>930</u>	<u>100.0</u>

Table 2: (Continued)

- 1/ JNV earnings on investments are estimated to be approximately S/. 90 million in 1966. Transfers from the Central Government and direct appropriations are estimated to be about S/. 130. Of the total of S/. 220 million about S/. 100 million will be applied to capital investment programs. The balance of S/. 110 million plus some S/. 160 million in fees and charges will be used for administrative and other current expenses.
- 2/ This represents 20 percent of the total amount invested by savings and loan associations in JNV projects. It was assumed that approximately 40 percent of the total funds in the system are from public sources, i.e., 20 percent from government transfers to the Banco de la Vivienda and 20 percent from an AID loan.
- 3/ Other public funds invested by the JNV include funds provided directly by various public corporations and agencies.
- 4/ Quasi-public funds are those provided by the two main publicly-administered pension funds.
- 5/ The INP estimate assumes S/. 160 million in disbursements from a new IADB loan. The mission estimate assumes S/. 50 million carry-over from the existing IADB loan and S/. 50 million from the possible new loan.
- 6/ This represents the 20 percent of funds invested by the savings and loan associations that was originally provided by the AID loan.

Source: INP and Mission estimates.

Table 3: CAPITAL AND CURRENT EXPENDITURE PROGRAM OF THE JNV, 1965-1966

Program	1965 Revised Budget	Percent of Total	1966 JNV Proposals	Percent of Total
(expenditures in millions of soles)				
<u>A. Construction-oriented programs</u>				
1. Dwelling construction	1097	72.8	963	70.7
2. Maintenance	<u>6</u>	<u>0.3</u>	<u>7</u>	<u>0.5</u>
Sub total	(1103)	(73.1)	(970)	(71.2)
<u>B. Programs primarily for marginal settlements</u>				
3. Rehabilitation Credits	31	2.0	4	0.3
4. Sanitation in Barriadas	85	5.6	40	3.1
5. Rationalization of Barriadas	<u>11</u>	<u>0.7</u>	<u>11</u>	<u>0.8</u>
6. Technical assistance	<u>5</u>	<u>0.3</u>	<u>6</u>	<u>0.4</u>
Sub total	(132)	(8.6)	(61)	(4.6)
<u>C. Non capital formation expenditures</u>				
7. Community services	21	1.5	69	5.0
8. Land Acquisition	<u>7</u>	<u>0.6</u>	<u>29</u>	<u>2.1</u>
Sub total	(28)	(2.1)	(98)	(7.1)
<u>D. Administrative and other current expenditures</u>				
	<u>244</u>	16.2	233	17.1
Grand Total	(1507)	(100.0)	(1362)	(100.0)

Source: JNV, 1966 Investment Program  
Submission to INP.

Table 4: SAVINGS AND LOAN SYSTEM MEMBERSHIP, 1961 - MARCH 1965

Year	Number of Associations	Number of Associates	Number of Loans	Amount of		Increase over previous year	
				Deposits	Loans <sup>1/</sup>	Deposits	Loans
				(millions of soles)		(percent)	
1961	5	7,711	21	42.7	31.3	37.5	89.8
1962	10	11,344	423	74.8	105.2	75.0	235.6
1963	14	23,683	1,407	164.7	235.1	120.1	123.4
1964	19	52,658	3,049	406.4	484.6	146.8	106.2
1965 <sup>2/</sup>	19	59,512	6,848	489.9	586.4	20.5	20.9

<sup>1/</sup> Represents up to 80 percent of value of construction.

<sup>2/</sup> Includes only January 1965 to March 1965.

Source: Housing Bank and Superintendency of Banks (preliminary information)

Table 5: SAVINGS AND LOAN SYSTEM.--  
 Availabilities of Funds - July 1961 to February 1965 and  
 Estimated for March 1965-December 1968.  
 (Millions of Dollars)

	Savings Deposits in Associations	Down Payments & Other Peruvian Investments	Peruvian Govern- ment Capital Grants to Housing Bank	AID Loans to Housing Bank or to Associations	US Private Capital with AID Guarantee	IADB Loan Through an Association	Total
Funds available July 1961 through February 1965	17.0	5.5	7.5	9.5	4.0	1.0	44.5
Estimated Addition- al Funds Available March 1965-1968	23.0	9.0	4.0	6.0	12.0	-	54.0
Total	40.0	14.5	11.5	15.5	16.0	1.0	98.5

Source: Housing Bank and U. S. AID.

Table 6: AVAILABLE FUNDS, INVESTMENTS, SAVINGS AND MORTGAGE BONDS IN THE HOUSING AND THE MORTGAGE BANKS, AND IN THE SAVINGS AND LOAN SYSTEM. 1/

(millions of soles)

Year	Institution	Funds Available for Mortgage Loans	Savings Deposits <u>2/</u>	Outstanding Mortgage Bonds Law 12464 <u>3/</u>	Total Loans Outstanding <u>4/</u>
1963					
Dec. 31	Mortgage Bank	24	5	601	676
	Housing Bank	98	5	-	91
	Savings and Loan Association	-	<u>165</u>	-	<u>235</u>
	Total	122	175	601	1,002
		===	===	===	===
1964					
Dec. 31	Mortgage Bank	71	6	704	743
	Housing Bank	62	-	-	205
	Savings and Loan Association	-	406	-	484
	Total	133	412	704	1,432
		===	===	===	===
1965					
March 31	Mortgage Bank	143	8	806	757
	Housing Bank	105	-	-	200
	Savings and Loan Association	-	490	-	586
	Total	248	498	806	1,543
		===	===	===	===

Source: Superintendency of Banks.

1/ Preliminary information.

2/ Savings deposits in the Mortgage and Housing Banks not yet converted to long-term savings available for mortgage loans.

3/ Only the Mortgage Bank is authorized by law to issue mortgage bonds.

4/ Includes home improvement loans and other installment loans.

Table 7: MORTGAGE BANK: SUMMARY OF LENDING CRITERIA AND TERMS <sup>1/</sup>

Purpose	Value of Property	Monthly income required <sup>2/</sup>	Financing 75% of the property value - in percentages <sup>3/</sup>		Rate of Interest <sup>4/</sup>
	In Soles		Cash	Bonds	
To build, acquire, improve or reconstruct a house	Up to 250,000	From 2,500 To 6,120	100	-	9
	Up to 350,000	From 6,120 To 16,655	100	-	10
	Up to 600,000	From 9,129 To 16,655	60	40	11
	Up to 1,000,000	From 16,655	-	100	11
For completion of a house or another specified purpose	The same as quoted above except that interest rates are one point higher in each case.				
Other	The financing is totally in bonds and the interest rates are 12 percent, except: (a) loans for universities, hospitals and colleges, on which interest rates are ten percent; (b) loans for industrial and agricultural development, on which interest rates are eleven percent.				

<sup>1/</sup> Loans are for periods of 5 to 20 years.

<sup>2/</sup> This schedule applies only to loans of 20 years maturity. Ordinarily the repayments are around 20 percent of the family income and are not to surpass 30 percent of such income.

<sup>3/</sup> The Bank lends 75 percent of the valuation and the other 25 percent is covered by the borrower.

<sup>4/</sup> All loans pay additionally a commission of one percent.

Table 8: CONSTRUCTION LOANS OF COMMERCIAL BANKS, DECEMBER 1963 TO MARCH 1965

	December 1963	December 1964	Increase		Increase December 1964- March 1965	Percentage Change	
			December 1963- December 1964	March 1965		December 1963- December 1964	December 1964- March 1965
	(Millions of Soles)						
Available Funds	4,820	6,404	1,583	6,890	487	32.9	7.6
Loans in Total	10,729	12,025	1,295	12,570	546	12.1	4.5
Construction Loans	454	499	45	471 <sup>1/</sup>	-28	10.0	-5.6
Deposits	14,227	18,071	3,845	18,246	174	27.0	1.0

<sup>1/</sup> January 1965.

Table 9: JNV STANDARD TYPES OF DWELLINGS FOR LOW INCOME AND MIDDLE-LOW INCOME GROUPS:  
VALUE AND SERVICE PAYMENTS  
(in soles)

Types <sup>1/</sup>	Value	Monthly Income Required <sup>1/</sup>	Monthly Service Payments <sup>2/</sup>
A Dwellings consisting of one large room, kitchen and bathroom. Designed for possible later enlargement.	27,000	1,282	192.2
B Dwellings consisting of one dining room, kitchen, two bedrooms, large patio. Designed for possible later expansion.	40,000	1,922	283.3
C Dwellings consisting of one lounge-dining room, two bedrooms, kitchen, bathroom, large patio. Designed for possible later expansion.	53,000	2,000	400.0
D Dwellings consisting of a lounge-dining room three bedrooms, kitchen, bathroom and patio.	80,000	2,800	560.0

<sup>1/</sup> Type A and B are considered adequate by JNV for low income groups, and type C and D for middle-low income groups. Payments comprise 15 percent of monthly incomes in Types A and B and 20 percent in Types C and D.

<sup>2/</sup> Based on repayment terms of 20 years and six percent annual interest.

Source: Junta Nacional de la Vivienda.

Table 10: STABLE FAMILY INCOME: 1963 <sup>1/</sup>

No.	City	No. of Families with Monthly Income (in Soles)				
		Families	Above 2,000	Monthly Percent	Below 2,000	Percent
1	Abancay	2,660	1,234	46.39	1,426	53.61
2	Arequipa	33,420	10,209	30.55	23,611	69.45
3	Ayacucho	6,190	1,225	19.80	4,965	80.20
4	Callao	29,139	14,686	50.40	14,453	49.60
5	Cajamarca	4,770	820	17.21	3,950	82.79
6	Catacaos	2,660	339	12.76	2,321	87.24
7	Cerro de Pasco	4,280	479	11.21	3,801	88.79
8	Cuzco	15,345	5,372	35.01	9,973	64.99
9	Cachapoyas	1,450	499	34.48	951	65.52
10	Ciclayo	17,120	3,410	19.92	13,710	80.08
11	Chimbote	15,380	6,688	43.49	8,692	56.61
12	Chincha	4,280	1,239	28.96	3,041	71.04
13	Huacho	4,940	2,089	42.30	2,851	57.70
14	Huancavelica	3,000	799	26.66	2,201	73.34
15	Huancayo	12,300	4,228	34.38	8,072	65.62
16	Huaraz	4,510	1,468	32.56	3,042	67.44
17	Huanuco	5,160	699	13.56	4,461	86.44
18	Ica	9,040	3,587	39.68	5,453	60.32
19	Ilo	1,808	887	49.10	921	50.90
20	Iquitos	12,540	3,894	31.06	8,646	68.94
21	Juliaca	4,570	1,222	26.76	3,348	73.24
22	La Oroya	5,250	1,110	21.16	4,140	78.84
23	Lima	349,178	178,744	51.19	170,434	48.81
24	Moquegua	1,552	583	37.60	969	72.40
25	Moyamba	1,700	330	19.43	1,370	80.57
26	Nazca	2,830	810	28.64	2,020	71.36
27	Paita	2,420	419	17.35	2,001	82.65
28	Piura	13,825	4,903	35.47	8,922	64.53
29	Puerto Maldonado	800	466	58.37	334	41.63
30	Pucallpa	5,700	776	13.62	4,924	86.38
31	Puno	6,360	1,521	23.92	4,839	76.08
32	Quillamba	1,950	746	38.30	1,204	61.70
33	Salaverry	900	257	28.61	643	71.39
34	Sicuaní	2,980	940	31.57	2,040	68.43
35	Sullana	8,082	1,592	19.70	6,490	80.30
36	Tacna	4,856	2,254	46.43	2,602	53.57
37	Tarapoto	3,000	769	25.66	2,231	74.34
38	Tarma	4,770	929	19.49	3,841	80.51
39	Tingo María	1,450	199	13.73	1,251	86.27
40	Trujillo	19,494	4,199	21.54	15,295	78.46
41	Tumbes	3,980	539	13.56	3,441	86.44
	Total	635,639	267,159	42.02	368,480	57.98

Source: Enquiry conducted by the Junta Nacional de la Vivienda on the stable family income in Peru, 1963.

<sup>1/</sup> Stable means regular.

Table 11: IMPORTS OF SELECTED BUILDING MATERIALS; 1950-1963  
 Millions of Soles  
 In 1960 Prices

Year	Cement <sup>1/</sup>	Lumber	Steel Bars and Rods	Tubes and Pipes
1950	0.019	n.a.	n.a.	n.a.
1953	33.2	93.1	178.3	268.2
1956	17.0	84.2	194.3	245.2
1960	3.6	88.9	60.4	83.9
1963	n.a.	133.6	48.9	174.7

1/ Cement imports are in 1950 prices.

Source: Central Reserve Bank, Institute of Industrial Promotion and Industrial Bank.