

# Peru: Country Program Evaluation for the World Bank Group, 2003–09



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# Peru

## Country Program Evaluation for the World Bank Group, 2003–09

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**Cover image:** Woman and children tending animals in the Peruvian highlands. Photo image: Asita De Silva

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## Abbreviations

AAA	Analytic and Advisory Activities
AIDS	Acquired immunodeficiency syndrome
APL	Adaptable Program Loan
BEE	Business Enabling Environment
CAS	Country Assistance Strategy
CASPR	CAS Progress Report
CEA	Country environmental analysis
CEM	Country Economic Memorandum
CIDA	Canadian International Development Agency
cif	cost, insurance, and freight
CLAS	Community-managed publicly-financed Health Committee ( <i>Comités Locales de Administración de Salud</i> )
CO <sub>2</sub>	Carbon dioxide
CONSUCODE	State Council on Procurement and Acquisitions
CPAR	Country Procurement Assessment Report
CPE	Country Program Evaluation
CPS	Country Partnership Strategy
DB	Doing Business
DDO-DPL	Deferred Drawdown Option Development Policy Loan
DDSR	Debt and debt service reduction
DECSAL	Decentralization and Competitiveness Structural Adjustment Loan
DFID	Department for International Development, United Kingdom
DOTS	Directly Observed Treatment Short Course
DPL	Development Policy Loan
EITI	Extractive Industries Transparency Initiative
ENAHO	National Household Survey ( <i>Encuesta Nacional de Hogares</i> )
ESW	Economic and Sector Work
EU	European Union
EsSALUD	Social Security in Health in Peru
FIAS	Foreign Investment Advisory Service
fob	free on board
FTA	Free Trade Agreement
FSAP	Financial Sector Assessment Program
FSE	Financial sector
FY	Fiscal Year
GDP	Gross Domestic Product
GEF	Global Environment Facility
GNI	Gross National Income
GTZ	German Technical Cooperation
HIPC	Heavily-indebted poor country
HIV	Human immunodeficiency virus
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
IDA	International Development Association

IDF	Institutional Development Fund
IDI	Institutional development impact
IEG	Independent Evaluation Group
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
IFC-AS	IFC Advisory Services
IFI	International Financial Institution
IICCR	Institutional Investor Country Credit Risk
IMF	International Monetary Fund
INEI	National Statistics and Information Institute
IP	Implementation progress
LAC	Latin America and the Caribbean Region
LIL	Learning and Innovative Loan
LNG	Liquefied natural gas
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MFI	Microfinance Institution
MIC	Middle-income country
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro- and Small/Medium Enterprise
MVCS	Ministry of Housing, Construction, and Sanitation
NLTA	Non-Lending Technical Assistance
NPL	Non-Performing Loan
ODA	Official development assistance
OSITRAN	Organization of Public Transportation Infrastructure Investments
PEFA	Public Sector and Financial Accountability
PER	Public Expenditure Review
PPG	Public and publicly guaranteed debt
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public-private partnership
PRSL	Programmatic Social Reform Loan
REACT	Results and Accountability
RECURSO	Accountability for Social Reform (Spanish acronym for <i>Rendicion de Cuentas para la Reforma Social</i> )
ROSC	Report on Observance of Standards and Codes
SBS	<i>Superintendencia de Banca y Seguros</i> (Central Bank)
SIS	<i>Seguro Integral de Salud</i> (Integral Health Insurance)
SISFOH	Household Targeting System ( <i>Sistema de Focalización de Hogares</i> )
SME	Small and Medium Enterprise
SNG	Sub-National Government
SNIP	National Public Investment System
SOE	State-owned enterprise
TA	Technical Assistance
TAL	Technical assistance loan
UNAIDS	United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNHCR	United Nations Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNTA	United Nations Regular Programme for Technical Assistance
USAID	United States Agency for International Development
WBG	World Bank Group
WDR	World Development Report
WFP	World Food Programme

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Since 2003, Peru has emerged as an open, rapidly growing economy. Over the review period of 2003–09, successive governments adopted policy platforms aimed at maintaining macroeconomic stability, furthering the private sector supply response, broadening participation in growth, improving social service delivery, and strengthening public institutions. There was a strong supply response over the review period, with private investment increasing sharply, the economy diversifying into new areas, and gross domestic product (GDP) growing at nearly 7 percent a year. Poverty declined substantially, although unevenly, across Peru's three distinct geographical regions.

The World Bank Group (WBG) supported each of the three pillars of the government's poverty reduction strategy, namely: (i) broad-based economic growth that engaged a higher share of the population; (ii) enhanced human development through improved social service delivery; and (iii) strengthened public sector institutions. The WBG provided US\$3.9 billion in new International Bank for Reconstruction and Development (IBRD) lending and International Finance Corporation (IFC) financing, along with a range of analytic and advisory services.

There was a close convergence of views on the development agenda between the WBG and the government over the review period, which facilitated relevant WBG engagement. WBG activities supported economic growth by helping: (i) improve fiscal management; (ii) develop rural and urban infrastructure; and (iii) support private investment in emerging sectors. Challenges remain, however, in making growth more inclusive, with differential poverty reduction seen across the country's three distinct regions. In the social

sectors, IBRD helped realize good progress in implementing difficult second-generation reforms, although achievements in some areas fell short of established goals. The WBG made an effective contribution to strengthening public financial management, although its support for broader improvements in public sector management yielded modest results. Consistent government commitment and effective management of the reform agenda were key factors underpinning positive WBG contributions over the review period. Positive outcomes of WBG support also reflected, among other things, the WBG's long-standing policy dialogue, maintenance of its reputation as a high-quality service provider, strong intellectual contributions, and consistent dialogue with civil society.

IEG recommends that the WBG: (i) tailor its strategy to support long-term integration of Peru's three distinct regions; (ii) seek opportunities to support large-scale infrastructure development; (iii) develop a more strategic approach to helping improve public sector management; (iv) seek further innovations in IBRD's instruments against a backdrop of declining demand for its financial resources; (v) seek to help develop a strategic planning function in Peru; (vi) build a close strategic partnership with development partners that provides concessional finance in the social sectors to optimize synergies with IBRD policy lending and analytic and advisory activities; (vii) develop a strategic focus for IFC around employment-generating industries in emerging sectors; (viii) maintain IFC's additivity by supporting lower-tier and more regionally dispersed private companies; and (ix) leverage the strong country presence of IBRD and IFC to enhance MIGA's marketing and risk assessment functions.



Vinod Thomas  
Director-General, Evaluation

This Peru Country Program Evaluation for the World Bank Group, 2003–2009 is part of IEG’s country program evaluation series. To date, IEG’s in-depth country evaluations have comprised IEG-WB Country Assistance Evaluations (CAEs) and IEG-IFC Country Impact Reviews. Both the CAEs and Country Impact Reviews have involved comprehensive evaluations of the respective institutions’ activities in a country. In a pilot approach, this evaluation was prepared by a single IEG team that looked at development interventions across the three WBG insti-

tutions. The evaluation draws on WBG documents, external literature, and on interviews with government officials, representatives of the private sector and civil society, nongovernmental organizations, bilateral and multilateral development partners, and Bank, IFC, and MIGA staff in Washington, DC and in Peru. An IEG mission visited Peru in September 2009. IEG also cooperated with the Evaluation Office of the Global Environment Facility which was conducting a parallel evaluation in Peru. A list of those interviewed is in annex D.

## PERU: Summary Ratings of the Outcome of World Bank Group Support

The Independent Evaluation Group’s (IEG) Country Program Evaluations (CPEs) assess and rate the outcomes (or results) of a given World Bank Group (WBG) country program relative to the stated program objectives. This differs from rating country outcomes or client performance. The central question underlying the table that follows is “To what extent did World Bank Group support achieve its relevant stated outcomes?” This central question can in turn be divided into two constituent ques-

tions: (i) To what extent were the expected outcomes actually achieved? and; (ii) To what extent were WBG interventions instrumental in achieving these outcomes? Distinct ratings and subratings are typically assigned to each strategic goal (or “pillar”) set out in the relevant WBG country strategy documents discussed by the Board of Executive Directors (see annex B for a more detailed description of IEG’s methodology).

Country goals	Objectives supported by the WBG <sup>a</sup>	Country outcome	Outcome rating of WBG support <sup>b</sup>
<i>Overall Assessment</i>	<ul style="list-style-type: none"> <li>Enhanced participatory and sustainable growth</li> <li>Enhanced human development</li> <li>Strengthened public institutions.</li> </ul>	Over the review period, Peru consolidated and advanced reforms begun in the 1990s, and has emerged with an open, diversifying, and rapidly growing economy. Good progress was achieved in furthering access to basic social services, although significant inequalities remain. Although continuing broad weaknesses persist in public institutions, islands of excellence have led development to date. Together, these achievements have made substantial inroads into reducing Peru’s pervasive poverty, which declined from 50 percent in 2003 to 36 percent in 2009.	<b>Satisfactory.</b> In the context of consistent government commitment and effective management by key agencies along with favorable external conditions, the WBG made important contributions to development in Peru over the review period. The WBG and the government shared a common vision for development in Peru. The WBG supported a broad-ranging, relevant set of objectives. WBG interventions helped Peru maintain macroeconomic stability and stimulate further diversification and growth in key productive sectors. The WBG also played a key advisory role in advancing difficult second-generation reforms to improve the quality of basic social service delivery and rationalize the social safety net, although its contributions were less than expected. The WBG made positive contributions to strengthening public sector management in several areas, although its contribution to realizing broader, sustainable improvements in public sector management was modest.

(continued on next page)

Country goals	Objectives supported by the WBG <sup>a</sup>	Country outcome	Outcome rating of WBG support <sup>b</sup>
<b>Pillar I: Enhancing Participatory and Sustainable Growth</b>			
<i>Maintaining macroeconomic stability and reducing vulnerability to shocks</i>	<ul style="list-style-type: none"> <li>Strengthened fiscal management through the ongoing decentralization process</li> <li>Effective government crisis response strategy.</li> </ul>	The objective of maintaining fiscal neutrality during decentralization was fully achieved. Strong fiscal management was a central component of Peru's ability to maintain macroeconomic stability. Peru has weathered the global financial crisis well.	<b>Satisfactory.</b> The International Bank for Reconstruction and Development's (IBRD's) focus on fiscal sustainability was highly relevant and its crisis response was substantial and timely. Outcomes supported by the WBG were substantially achieved and have had broad, positive impacts on the rest of the economy. While direct attribution of outcomes to the Bank is difficult, it played a positive role in helping define the reform agenda, garnering support among implementing agencies, and signaling that the government had adequate resources to respond to the crisis if needed.
<i>Deepening the financial system, including capital markets</i>	<ul style="list-style-type: none"> <li>Refined regulatory environment</li> <li>Expanded reach and diversification in the financial sector through support for small and medium enterprise (SME) finance, micro-finance, housing, leasing, and capital market development.</li> </ul>	Peru's financial sector has improved substantially. Banking supervision has strengthened and the private sector has taken important steps to expanding reach and diversifying products.	<b>Satisfactory.</b> The WBG adopted a relevant approach in the form of IBRD advisory support for the regulatory framework, and IFC investments in a range of private financial institutions. Complementing a strong supervisory authority and a dynamic private sector, WBG interventions helped add momentum to the microfinance industry; supported initial private capital markets transactions; and helped advance development of SME lending and mortgage finance.
<i>Supporting development of the tourism industry</i>	<ul style="list-style-type: none"> <li>Increased interest in tourism investment</li> <li>Broadened economic benefits of the sector</li> <li>Enhanced socially and environmentally sustainable growth.</li> </ul>	Since 2003, tourism has grown rapidly, although constraints persist to realizing Peru's full potential. Tourist arrivals doubled from 1 million in 2003 to 2 million in 2008. In 2008, tourism contributed 8 percent of gross domestic product (GDP) and employed 7 percent of the workforce.	<b>Moderately satisfactory.</b> The WBG made an effective contribution toward development of Peru's high-end tourism market through several IFC hotel investments, including one that helped develop ecotourism in the southern Amazon region. Regarding tourism-related transport, IFC and the Multilateral Investment Guarantee Agency (MIGA) supported two concessions that improved capacity and service quality, although some limitations in practice underline the need to enhance competition in monopolistic sectors. An IBRD investment project to support tourism development in the Vilcanota valley has had limited results to date.

Country goals	Objectives supported by the WBG <sup>a</sup>	Country outcome	Outcome rating of WBG support <sup>b</sup>
<b>Pillar I: Enhancing Participatory and Sustainable Growth (continued)</b>			
<i>Supporting development of agriculture/agribusiness</i>	<ul style="list-style-type: none"> <li>• Improved adoption of new technology</li> <li>• Improved irrigation management and access</li> <li>• Development of the agribusiness processing sector.</li> </ul>	Private sector engagement in research and extension as well as in irrigation management has increased in areas covered by Bank projects. However, given significant additional constraints, agricultural development in the Sierra region remains limited. Progress in agribusiness has been exceptional.	<b>Satisfactory.</b> The WBG supported the government's efforts to enable market signals and encourage the private sector in agricultural development without extensive direct public intervention. IBRD played an important role in helping shift toward a broader rural development strategy, although its efficacy is too early to assess. IFC investments in the agribusiness sector in the early 2000s were highly relevant and had positive demonstration effects in the still high-risk industry.
<i>Supporting development of the extractive industries sector</i>	<ul style="list-style-type: none"> <li>• Sustainable growth in mining and new investments in hydrocarbons</li> <li>• Mitigation of adverse environmental and social effects</li> <li>• Broadened benefits of the sector.</li> </ul>	Peru's extractive industries continued to grow substantially, including through new investments in hydrocarbons. The sector yielded a substantial increase in government revenues. However, continuing issues remain in ensuring adequate environmental and social standards. A key bottleneck in broadening benefits continues to be weak public expenditure capacity.	<b>Satisfactory.</b> IFC successfully supported investments in mining and hydrocarbons. Its investments as well as MIGA engagement in the mining sector helped enhance environmental and social standards, including establishing best practices in some areas. IFC demonstrated an effective means of expanding the benefits of the extractive industries sector through its municipal capacity-building work. Nonetheless, these measures have been inadequate to defuse rising social tensions arising from the extractive industries sector.
<i>Improving the regulatory framework for doing business</i>	<ul style="list-style-type: none"> <li>• Reduced regulatory barriers to doing businesses</li> <li>• Reduced informality.</li> </ul>	Substantial improvements have been made in several areas of the business regulatory environment—although rigid labor laws and cumbersome taxation systems remain obstacles to doing business and formalization.	<b>Moderately satisfactory.</b> The WBG's analytical work helped catalyze some reforms to reduce regulatory obstacles to doing business. IFC's business registration simplification program demonstrated an effective means of reducing cumbersome administrative procedures. However, although the WBG undertook a relevant set of diagnostic work, it aimed to help address only a narrow set of constraints. It did not engage in areas such as high tax rates, cumbersome procedures, and a restrictive labor code that discourages formal sector employment. IBRD's positive contribution to formalizing property rights in the early 2000s has been undermined by slow progress and some reversals since then.

(continued on next page)

Country goals	Objectives supported by the WBG <sup>a</sup>	Country outcome	Outcome rating of WBG support <sup>b</sup>
<i>Pillar I: Enhancing Participatory and Sustainable Growth (continued)</i>			
<p><i>Improving infrastructure, including transport, electricity, and water through both the public and private sectors</i></p>	<ul style="list-style-type: none"> <li>• Improved access to basic services, mainly in rural areas</li> <li>• Strengthened public institutions for effective decentralization</li> <li>• Greater private investment in infrastructure.</li> </ul>	<p>Over the review period, the government initiated important efforts in policy planning, intervention models and promoting private sector investment. Despite important progress, Peru still has inadequate provision of basic infrastructure compared to other countries with similar incomes. The estimated infrastructure investment gap is over US\$37 billion.</p>	<p><b>Highly satisfactory.</b> The WBG supported an ambitious program of rural and urban infrastructure development that helped introduce innovative and best-practice approaches to sustainable infrastructure development. The projects had high inherent risks, involving potentially high-profile environmental and social effects. The WBG appropriately accepted a degree of reputational risk to support projects that addressed a central constraint to development. Substantial institutional and policy changes in decentralized management of rural infrastructure were realized through IBRD projects. Although delayed by issues ranging from the need for community engagement to weaknesses in public sector performance, good progress was made toward the physical targets of IBRD projects in roads, water and sanitation, and rural electrification.</p> <p>IFC and MIGA helped realize several private concessions, including a toll-operated highway, a rail operation, electricity distribution, and private operation of Lima’s international airport. An IBRD-supported guarantee facility for political risk insurance was unsuccessful. The poor performance of the guarantee facility notwithstanding, IEG rates the outcome of WBG support for infrastructure development as highly satisfactory due to substantial progress on an ambitious agenda including: highly relevant rural and urban infrastructure development; introduction of best practices in sustainable infrastructure development; and effective engagement of the private sector through public-private-partnerships (PPPs).</p>

Country goals	Objectives supported by the WBG <sup>a</sup>	Country outcome	Outcome rating of WBG support <sup>b</sup>
<b>Pillar I: Enhancing Participatory and Sustainable Growth (continued)</b>			
<i>Ensuring the environmental sustainability of growth</i>	<ul style="list-style-type: none"> <li>• Mitigation of air and water pollution, particularly from urban development</li> <li>• Improved natural resource management</li> <li>• Enhanced conservation of biodiversity</li> <li>• Reduced vulnerability to natural disasters.</li> </ul>	The government took several steps to address environmental challenges, including key legislation and establishment of a Ministry of Environment. Notwithstanding reforms to date, however, Peru's environmental indicators show little improvement since 2003.	<b>Moderately satisfactory.</b> The WBG's emphasis on environmental management has been highly relevant. It has been one of the major players in promoting this agenda in Peru. WBG engagement in biodiversity protection helped pilot effective participatory approaches to balancing conservation with development. Although some WBG projects achieved their targets in containing air and water pollution and in improving water and sanitation, other projects in renewable energy and rural water supply did not. IFC/MIGA performance standards were largely effective in helping realize sound environmental and social practices, although there were some lapses in agribusiness projects.
<b>Pillar II: Enhancing Human Development</b>			
<i>Expanding access to high-quality health services</i>	<ul style="list-style-type: none"> <li>• Improved access of the poor to basic health services</li> <li>• Improved public expenditure on health</li> <li>• Reform and expansion of health insurance and contracting.</li> </ul>	Good progress was made in improving key health status indicators such as infant and maternal mortality and chronic child malnutrition. Increased insurance coverage and utilization of health-care services helped improve indicators. However, significant inequalities across regions, rural/urban areas, and income groups remain. Progress on human resource management was limited and remains a major constraint to further improvements in the health-care system.	<b>Moderately satisfactory.</b> WBG support for access by the poor to maternal and child health care services retained its relevance throughout the review period. IBRD-supported expansion of a basic health insurance plan to low-income citizens in the poorest regions that helped increase utilization of key maternal and child health care services. However, other second-generation reforms that IBRD supported through its policy lending proved politically unfeasible. Progress on expanding community-managed health clinics lost momentum during the review period.
<i>Expanding access to high-quality education services</i>	<ul style="list-style-type: none"> <li>• Improve quality of education</li> <li>• Improve access of the poor to preschool and secondary education</li> <li>• Build capacity in public institutions.</li> </ul>	Several positive initiatives were implemented including: removal of ghost teachers to improve efficiency; enhanced student assessment; and recent changes in teacher career structure and remuneration. Access continued to increase and primary completion rates grew fastest in rural areas. Toward the end of the evaluation period, learning achievement in the early grades of primary school began to increase. However, significant weaknesses in education quality and access inequalities remain.	<b>Moderately unsatisfactory.</b> IBRD's support for improving the quality of education remained relevant, although its contributions fell short of its objectives. The Bank made a positive contribution through analytic and advisory activities. In particular, although its message of accountability for results using a simple measure of student achievement roused considerable controversy, it helped stimulate a reform effort driven by the Ministry of Education. However, the Bank was not engaged in the subsequent reform effort. Its only ongoing investment project fell far short of targets, and additional planned investment projects did not materialize.

(continued on next page)

Country goals	Objectives supported by the WBG <sup>a</sup>	Country outcome	Outcome rating of WBG support <sup>b</sup>
<b>Pillar II: Enhancing Human Development (continued)</b>			
<i>Increasing the efficiency of social safety net programs</i>	<ul style="list-style-type: none"> <li>• Modernized pension systems</li> <li>• Rationalization of extensive social safety net programs to expand coverage of targeted groups while limiting fiscal costs.</li> </ul>	Good progress was made in pension reform. A high-cost civil servant pension scheme was rationalized and private pensions have expanded rapidly. The array of other social safety net programs was consolidated from 82 to 26 and some improved their targeting. However, some large and inefficient programs have proved politically difficult to reform due to resistance from vested interests. The overall impact of rationalization is nonevaluable at present. Program spending remains low by regional standards.	<b>Satisfactory.</b> WBG support for social protection represented a highly relevant area of second-generation reform. Consistent WBG engagement helped realize some difficult pension reforms with clear positive outcomes. In addition, WBG engagement helped maintain the momentum toward rationalizing other safety net programs, and formulate a strategy for urban and rural safety net programs.
<b>Pillar III: Strengthening Public Sector Management</b>			
<i>Strengthening public administration at both the central and decentralized levels</i>	<ul style="list-style-type: none"> <li>• Improved financial-management and planning processes</li> <li>• Improved rules and processes (fiscal control, devolution of responsibilities, participatory budgeting) for decentralization.</li> </ul>	Several national rules and systems were established including: establishment of integrated financial management systems, investment and procurement systems, and monitoring systems that have formed the basis for results-based budgeting. There has been less progress on improving non-financial aspects of public sector management. Some bottom-up initiatives helped strengthen performance in some agencies and local governments. However, outside of a few islands of excellence, the modest overall performance of Peru's public sector remains a key constraint going forward.	<b>Moderately unsatisfactory.</b> The WBG played a central role in helping establish rules and systems for effective financial management at both the central and decentralized levels. IFC had positive demonstration effects through its advisory services to strengthen municipal capacity. However, the WBG's interventions were unable to help realize a broad increase in public sector management capacity at different levels of government. The WBG did not elucidate a clear strategy toward nonfinancial aspects of public management such as organization, planning, and human resources. Multiple units within the WBG pursued independent initiatives toward these goals. In retrospect, the WBG missed an opportunity to use its knowledge base and its internal coordination mechanisms to develop a more strategic approach to helping improve public sector management.
<i>Improving the judicial system</i>	<ul style="list-style-type: none"> <li>• Improved administrative process</li> <li>• Improved access to justice services.</li> </ul>	Despite positive initiatives undertaken since 2003, surveys indicate that the quality of judicial services remains a problem.	<b>Satisfactory.</b> The WBG supported an effective pilot approach that made an important contribution to generating momentum in judicial reform. The initiative stands out as an example of successful capacity building in Peru.

Country goals	Objectives supported by the WBG <sup>a</sup>	Country outcome	Outcome rating of WBG support <sup>b</sup>
<b>Pillar III: Strengthening Public Sector Management (continued)</b>			
<i>Addressing corruption and transparency</i>	<ul style="list-style-type: none"> <li>Increased transparency in public financial management.</li> </ul>	<p>Over the review period, the government initiated several efforts to address corruption. Substantial progress was made on public financial management. In 2008, Peru ranked 11th out of 85 countries (and second only to Brazil in the Latin America and Caribbean region) in the Open Budget Index, a measure of budget transparency. However, perceptions of broad corruption remain.</p>	<p><b>Satisfactory.</b> IBRD played a limited role supporting transparent financial management at both the central and decentralized levels, but not in engaging in other governance and accountability efforts. In retrospect, although the WBG did not define a coherent strategy to help address corruption, its limited engagement was a relevant and realistic approach over the period. Improvement of the Ministry of Economy and Finance's controls on public expenditure has been an important step in reducing corruption and increasing transparency. The degree of transparency achieved has helped reduce the inappropriate use of funds, especially in areas outside Lima where effective oversight mechanisms were previously absent.</p>

a. See annex C for a matrix of specific WBG Country Assistance Strategy outcome targets for each pillar, as well as updated results.  
b. The WBG program outcome subratings and overall rating assess the extent to which the WBG achieved the results targeted in the relevant strategy documents and/or documents for individual operations. They are not a rating of country outcomes, client performance, or WBG performance.  
Source: WBG-supported objectives are drawn from two WBG Country Assistance Strategy documents (Peru-Country Partnership Strategy, FY07–11, December 2006; Peru-Country Assistance Strategy, FY03–06, August 2002; Peru-Country Partnership Strategy Progress Report for the Period FY07–09, January 2009; and Peru-Country Assistance Strategy Progress Report, November 2004).  
Notes: AAA = analytic and advisory activities; CAS = Country Assistance Strategy; GDP = gross domestic product; IBRD = International Bank for Reconstruction and Development; IEG = Independent Evaluation Group; IFC = International Finance Corporation; MIGA = Multilateral Investment Guarantee Agency; PPP = public-private partnerships; SME = small and medium enterprises; USD = United States dollar; WBG = World Bank Group.

## Summary

### Peru: Country Program Evaluation for the World Bank Group, 2003–09

In FY2003–09, the World Bank Group (WBG) played an active role in Peru, providing US\$3.9 billion in new International Bank for Reconstruction and Development (IBRD) lending and International Finance Corporation (IFC) financing, as well as a range of non-lending services. The WBG supported the three pillars of the government's poverty reduction strategy, including: (i) more inclusive economic growth; (ii) enhanced human development; and (iii) strengthened public institutions.

Over the review period, there was a convergence of views on the development agenda between the WBG and the government, which facilitated relevant WBG engagement. The WBG supported economic growth by helping improve fiscal management, developing infrastructure, and encouraging private investment in emerging sectors. Challenges remain, however, in making growth more inclusive, with differential poverty reduction across the country. In the social sectors, IBRD helped realize progress in difficult second-generation reforms, although achievements in some areas fell short of objectives. The WBG made an effective contribution in strengthening public financial management, although results in other areas of public sector management were modest. Consistent government commitment and effective management of the reform agenda underpinned positive WBG contributions. The positive outcomes of WBG support also reflected, among other things, the WBG's long-standing policy dialogue, maintenance of its reputation as a provider of high-quality services, its strong intellectual contributions, and its consistent dialogue with civil society.

The Independent Evaluation Group (IEG) recommends that the WBG: (i) tailor its strategy to support long-term integration of Peru's three distinct regions; (ii) seek opportunities to support large-scale infrastructure development; (iii) develop a more strategic approach to helping improve public sector management; (iv) seek further innovations in IBRD instruments, given declining demand for financial resources; (v) seek to support a strategic planning function in Peru; (vi) build a strategic partnership with development partners providing concessional finance in the social sectors; (vii) develop a strategic focus for IFC around employment-generating industries in

emerging sectors; (viii) maintain IFC's additionality by supporting lower-tier and more regionally dispersed private companies; and (ix) leverage the field capacity of IBRD and IFC to enhance the Multilateral Investment Guarantee Agency's (MIGA's) marketing and risk assessment functions.

#### Country Background

**Peru has substantial natural assets that offer strong economic growth potential.** Peru is highly endowed with natural resources. It is among the largest producers of

gold, copper, and silver in the world. It has significant oil and gas deposits and extensive fisheries' resources. Peru also has well-preserved historical sites and varied natural sites that make it an attractive tourist destination. It is one of the world's top 10 "mega-bio diverse" countries.

**At the same time, Peru faces a range of underlying development constraints.** These include the very difficult, rugged terrain in the Sierra region, and highly dispersed populations in the Sierra and Amazon regions that make cost-effective provision of basic infrastructure and services difficult. In addition, Peru is susceptible to earthquakes, floods, and other natural disasters. It has limited or highly seasonal water availability in many parts of the country. The country also has cultural and social barriers between groups that have evolved from centuries of colonial rule.

**Since 2003, Peru has emerged as an open, rapidly growing economy.** In the 1990s, Peru began a transformation from an inward-looking, public sector-dominated economy into an open, market-oriented economy. During the period under review, 2003–09, successive governments maintained policy platforms aimed at maintaining macroeconomic stability, furthering the private sector supply response, broadening participation in growth, improving social service delivery, and strengthening public institutions. There was a strong supply response, with private investment increasing sharply and the economy diversifying into new areas such as agribusiness. Gross domestic product (GDP) grew at nearly 7 percent a year in 2003–08. In 2008, Peru received sovereign investment grade ratings. Peru also weathered the global financial crisis well. With sustained economic growth, Peru's gross national income (GNI) per capita increased to US\$3,990, making it an upper-middle-income country in 2008.

**Poverty has declined sharply, although unevenly.** The strong growth along with progress in human capital development helped reduce the proportion of poor from 50 percent in 2003 to 36 percent in 2008. However, poverty reduction has been uneven across regions. The strongest achievements were achieved in the coastal areas, which dominate Peru's economy. These areas have a diverse range of activities, including manufacturing, services, agribusiness, and trade. In the Sierra, poverty reduction was significantly less. Along with basic agricultural production, the main economic activity in the Sierra is extractive industry, which has generated limited employment or linkages with the rest of the economy.

## World Bank Group Objectives and Engagement

**The WBG maintained an active presence in Peru over the review period.** The WBG aimed to support a wide range of the country's development objectives under three "pillars," namely: (i) support for broad-based economic growth that engaged more of the population; (ii) support for enhanced human development through improved social service delivery; and (iii) support for strengthened public sector institutions. IBRD had 37 projects worth US\$3.4 billion under implementation in 2003–09, mainly in economic management (40 percent), the social sectors (30 percent) and infrastructure (14 percent). This included a substantial increase in lending (US\$1.4 billion) in FY09 to support the government's global financial crisis response strategy. IFC increased its portfolio in Peru to one of its top 10 country exposures worldwide. It had active investments with 41 project companies, worth US\$1.1 billion, in extractive industries (38 percent), the financial sector (27 percent), and agribusiness (16 percent). MIGA did not have any new guarantees during the review period. At the end of FY09, it had one active guarantee in Peru that supported the Lima Airport concession.

## Relevance of World Bank Group Support

**The WBG pursued a broad set of objectives in Peru, but retained implicit divisions of labor between its constituent institutions.** There was a close convergence of ideas on the development agenda between the WBG and the government, which facilitated relevant overall engagement of the WBG. Although WBG engagement was spread widely across most sectors, within each sector, the WBG was relatively selective in the constraints it sought to address. The IBRD emphasis on policy lending built on strong ownership and capacity in key central agencies, making its program less dependent on project implementation capacity. There were also broad implicit divisions of labor within the WBG. IBRD's main areas of support were fiscal management, the social sectors, and public sector management. IFC's main areas of engagement were extractive industries, the financial sector, and agribusiness. Both institutions had substantial infrastructure investments, with the Bank funding commercially unviable public rural and urban infrastructure investments, and IFC developing several transactions in commercially viable private infrastructure development.

**The areas of focus of the respective WBG institutions remain relevant.** IBRD's focus on fiscal management

was fully relevant in the context of an inconsistent prior record of fiscal discipline in Peru, as well as a loss of fiscal control during decentralization processes in some other countries. Given a relatively strong regulatory framework and supervisory capacity in the financial sector, IFC appropriately led WBG support in helping deepen and expand the financial sector through the private sector. Regarding agriculture, the WBG, following government priorities, refrained from extensive public intervention, and instead promoted the role of the private sector and focused on rural infrastructure. The WBG's emphasis on environmental sustainability also remains highly relevant as a key area for second-generation reforms that had only received limited attention.

With respect to human development, the WBG adopted the relevant approach of helping increase the quality of education, given the relatively high existing levels of access. In addition, more comprehensive health objectives were adopted. Regarding social protection, an appropriate initial emphasis was placed on efficiency, although a looming agenda of adequately covering those most in need remains.

In public sector management, IBRD's focus on helping establish effective rules and systems in public financial management remains highly relevant, supporting both fiscal stability and increased transparency in the use of public funds. However, although the WBG identified the critical need to strengthen public sector management, it lacked a comprehensive and coordinated approach to address the issue.

## Efficacy of World Bank Group Support

**At the portfolio level, both IBRD and IFC project development outcomes were at or above average.** Eighty-one percent of IBRD projects evaluated had satisfactory outcomes, compared to a Bank-wide average of 78 percent. However, only 50 percent of projects had substantial institutional development impact, lower than regional and Bank-wide averages, reflecting a relative lack of success in capacity building. The development outcomes of IFC projects evaluated during the period were also above benchmarks, with 88 percent of projects having successful development outcomes compared to an IFC-wide average of 62 percent.

**Positive WBG contributions were made toward broad-based growth through achievements in fiscal management, the business enabling environment, infrastructure development, and IFC investments in emerging sectors.** The WBG played a close advisory role in helping consolidate early reforms, preventing back-sliding, and advancing an initial set of "second-generation" structural

reforms. IBRD support through a series of Development Policy Loans (DPLs) helped prudent expenditure management policies, which were a key element in Peru's maintenance of macroeconomic stability throughout the period under review. In the financial sector, IFC had positive signaling effects through investments in several underdeveloped sectors such as microfinance, capital markets, housing, and small and medium enterprise (SME) finance that supported the gradual ongoing expansion of financial services. IBRD helped introduce some best practices in sustainable infrastructure development, and IFC and MIGA supported several public-private-partnerships in infrastructure that helped relieve the investment burden on the public sector. WBG analytic and advisory services helped catalyze efforts to reduce regulatory constraints to doing business. IFC investments in agribusiness and tourism were also positive, helping build momentum in these sectors at a time when they remained risky and were not served by the banking sector. Although the country's environmental achievements were modest, some initial policy and institutional measures were undertaken, to which the WBG made an important contribution through substantive analytical work and largely effective IFC and MIGA roles in enhancing environmental and social practices in the private sector.

**In the social sectors, the WBG helped realize positive outcomes in difficult areas, although its achievements fell short of expectations.** In the health sector, IBRD interventions supported the expansion of basic health insurance, which increased health services utilization by low-income groups. This in turn contributed to improved health indicators, including falling infant mortality and delivery-related maternal deaths. IBRD analytical work and policy lending in health helped prioritize actions, engage the Ministry of Economy and Finance in reforms, and counteract pressure to fund more sophisticated, urban-based health services.

However, both the coverage and content of IBRD's health sector operations were scaled back and its ambitious initial objectives were not fully achieved. Regarding social protection, consistent Bank support through policy lending and analytic and advisory activities (AAA) helped the government advance several politically difficult reforms, including: rationalizing the high-cost civil servant pension program; consolidating Peru's array of social safety net programs; and expanding private pension systems. In the education sector, the Bank's engagement fell short of expectations. Its message of accountability for results using a simple measure of student achievement aroused much controversy. However, it helped stimulate a reform effort driven by the Ministry of Education that contributed to recent initial gains in learning achievement. The

Bank was not engaged in the subsequent reform effort and expected lending levels did not materialize. Its only ongoing investment project fell far short of its targets.

**The WBG made effective contributions in some areas of public sector management, although it lacked a coherent strategy to support broad, sustainable improvements.** Several WBG interventions made effective contributions to strengthening public institutions at various levels. These included IFC initiatives in building capacity in municipal governments, and Bank support for reform of the judiciary and establishing fiscal control systems. However, the WBG did not have a large impact on the decentralization process, which continues at a slow pace. Its approach to helping strengthen public institutions was characterized by multiple, fragmented activities. The WBG made no sustained contribution toward a strategy for reforming the civil service. On balance, although achievements in fiscal control and in piloting approaches to capacity development have made clear contributions, the WBG missed an opportunity to have a more significant impact in public sector management. This partly reflected the lack of a clear consensus on the need for and degree of systemic public sector reform in Peru, as well as the lack of a coherent strategy and approach to improving public sector performance within the WBG itself.

### Efficiency of World Bank Group Support

**IFC interventions were relatively efficient, and no significant and sustained inefficiencies on the part of the Bank were apparent.** IFC's development contribution is conditional on its realizing successful investment outcomes. If its projects are financially unsuccessful, then they are unlikely to be sustainable, thereby sending the wrong signals to private investors. The return to IFC also serves as a measure of efficiency in that IFC financially recovers its investment. IFC's investment outcomes in Peru have been above average. Both IFC's credit risk ratings and a sample of IEG-evaluated projects show a significantly higher rate of successful financial outcomes than IFC-wide averages. Regarding IBRD interventions, there are no reliable ways of measuring efficiency, given the difficulty of using cost-benefit analysis across a broad program of interventions. At the same time, the evaluation did not detect any significant, sustained inefficiencies among IBRD interventions during the review period.

### Development Outcome of World Bank Group Support

**IEG rates the outcome of WBG interventions in Peru between FY03–09 as satisfactory.** During the period under review, Peru consolidated and built on its first generation stabilization and structural reforms. It has

emerged as an open, rapidly-growing economy with improving social service delivery that is making substantial gains against the country's pervasive poverty. To a large extent, this was driven by consistent government policies, supported by favorable external conditions. In this context, the WBG made positive contributions in most areas of engagement. Although there were some shortcomings in the WBG's expected outcomes, the *satisfactory* rating is based on the strong progress in several critical areas supported by the WBG, including fiscal management, diversification of the sources of growth, rural and urban infrastructure development, and some improvements in social service delivery.

**The risks to the development outcomes achieved to date have been minimized by sustained government commitment to a relevant reform agenda.** The risk of backtracking on reforms receded significantly over the review period, and even with the 2009 global financial crisis, there were no setbacks that endangered the overall reform agenda. A few issues, nevertheless, potentially threaten Peru's progress to date. With relatively low tax revenues and extractive industries dominating exports, Peru's macroeconomic position is still vulnerable to movements in mineral commodity prices. Moreover, private sector analysts identify the main risk in Peru as "political" due to its still high levels of poverty and rising tensions that are perceived as possibly giving rise to "populist" policies.

### IFC Additionality

**IFC displayed a relatively high level of additionality through investments in high risk, emerging areas.** IFC's development contributions are conditional on their "additionality" in that if they crowd out the private sector, then their development contribution is undermined. In the case of Peru, IFC's activities reflected a relatively high degree of additionality, particularly during the early 2000s. At the time, Peru was emerging from a period of political instability. There were perceived risks of backtracking on reforms. Further, the financial sector had limited risk tolerance and was largely confined to providing short-term finance to upper-tier companies in well-established industries.

In this context, IFC's investments in areas such as agribusiness, microfinance, and tourism filled an important gap. Regarding capital markets, IFC engaged in several "first of kind" transactions, including the first direct bond issue by an international institution and support for the first bond issues by a microfinance institution and a private university. Its role in building capacity in municipal governments also exploited a unique IFC position as an investment partner of major mining firms, as well as a public institution and member of the WBG with the capacity to engage

in and support public sector governance. With continuing improvements in the financial sector and business environment, IFC will need to seek investments in undeveloped sectors as well as lower-tier and more regionally dispersed companies to maintain its additionality.

## World Bank Group Performance

**Several external factors significantly contributed to broadly positive WBG outcomes, but continuing weaknesses in the public sector undermined the implementation of some projects.** Consistent government commitment and effective management by key national agencies, along with favorable external conditions, were major factors in determining the WBG's positive contribution. Despite frequent changes at the ministerial level, Peru consistently implemented a reform agenda to advance its goals of sustaining and broadening economic growth and improving public service delivery. The government's pursuit of free trade agreements around the world also played an important role in prioritizing and stimulating key reforms. In addition, there were favorable external conditions until 2008, particularly with respect to liquid international financial markets and a rise in mineral prices. These conditions facilitated positive macroeconomic outcomes, enabled increases in public expenditure, and supported investment and growth in the private sector. At the same time, continuing weaknesses in the public sector undermined the implementation of some IBRD-funded projects. Regular changes in project decision makers and technical staff, for example, resulted in lack of continuity and changes in priorities that slowed project implementation.

**As for the WBG, positive outcomes also reflected its reputation as a provider of high-quality services, strong intellectual contributions, and consistent dialogue with civil society.** A strong confluence of WBG and government priorities facilitated a positive WBG contribution to Peru's development. To a large degree, this confluence was driven by a long-standing and broad-ranging WBG policy dialogue, significant AAA work, and close personal relationships between WBG staff and senior government officials that helped the government define its reform agenda.

Since the WBG's reengagement in Peru in the early 1990s, it has established a reputation as a provider of high-quality services. The positive public perceptions of the WBG facilitated government use of its policy lending, advisory services, and investment projects to garner domestic support for implementation of some difficult reforms. Several AAA products stand out as best-practice examples of WBG influence through knowledge and technical assistance. For example, the 2006 Policy Notes,

in particular, reflected an effective use of the Bank's knowledge to promote policy continuity during political transitions. The WBG is also recognized as engaging civil society groups in the design and implementation of both its public and private sector interventions. For example, in some cases, IFC engagement in a private sector project has been sought primarily because of its reputation in engaging and working with local communities. The non-lending technical assistance instrument has also shown promise in helping transfer knowledge and technical support in cases where the government has been unwilling to borrow for technical assistance. However, the sustainability of such interventions needs to be addressed.

**Within the WBG, the Country Assistance Strategies (CASs) reflected a relatively well-integrated strategy, although there was less cooperation in their implementation.** The two CASs produced by the WBG during the review period included constructive integration of IFC activities into a broader WBG strategy. While cooperation at the strategy development level was positive, less interaction and cooperation between the Bank and IFC at the operational level was apparent. Although the Bank and IFC are located in adjacent buildings in Lima, both IFC and Bank staff reported that they were often unaware of what project teams of the other institution working in the same sectors were doing. In some cases, such as IFC's engagement in municipal capacity development, closer Bank engagement might have helped enhance the program and its expansion. In other cases, Bank staff report concerns about the lack of IFC consultation with the Bank on proposed investments. The lesser degree of cooperation in implementation partly reflects differing organizational structures and incentive systems. At the Bank, the Country Management Unit is accountable for results achieved in the country, whereas at IFC, accountability for results is organized along regional and industry lines, implying that results may be achieved without the need to do business in any one particular country.

**Several areas stand out as good examples of effective synergy between WBG institutions.** There was only one case of joint financial participation in a project among WBG institutions. However, WBG engagement in several sectors reflected effective sequencing or complementarities among WBG instruments. For example, although IBRD helped establish appropriate regulatory environments and public oversight in the financial and extractive industry sectors in the 1990s, it was less actively engaged in these sectors over the review period. Instead, IFC took the lead by supporting private investment that helped further the WBG's objectives of helping stimulate growth, broadening participation in economic activities, and increasing attention to environmental and social issues. In

another case, there was positive WBG synergy between an IBRD project to formalize property ownership in urban areas and an IFC investment in a SME bank. The result was that the bank increased its lending through the use of the registered property as collateral. IFC's engagement in public sector capacity building at municipal levels through its advisory services reflected a supplemental rather than duplicative instrument available to the WBG in that the small initial scale of the interventions would likely have precluded IBRD engagement.

## Recommendations

**Notwithstanding Peru's substantial progress and upper-middle-income status, the WBG continues to have a valuable role in Peru.** Peru is still at a difficult stage of development characterized by: continuing high levels of poverty; social tensions arising out of higher expectations and continued inequality; trade-offs between development, environmental protection, and traditional ways of life; and perceptions of a possible return to "populist" policies. As such, continued active WBG support for Peru is warranted. Based on the findings of this evaluation, IEG recommends that:

- The WBG tailor its strategy to support long-term integration of Peru's three distinct geographical regions to help address the sharp disparities in economic activity, poverty reduction, and human development along the lines of the findings of the 2009 World Development Report.
- The WBG's positive current efforts in infrastructure be complemented by support for larger-scale infrastructure development through both public investments and PPPs.
- The WBG develop a more strategic approach to helping Peru realize viable, long-term improvements in public sector performance.
- IBRD seek further innovations in its instruments and internal processes to support technical assistance and knowledge transfer given the declining demand for financial resources that was evident in Peru prior to the 2009 global financial crisis.
- IBRD seek to help develop a strategic planning function in Peru that complements its current bottom-up approach to public investment.
- IBRD build a close strategic partnership with development partners who provide concessional investment finance in the social sectors to optimize synergies with IBRD policy lending and AAA in the social sectors.
- IFC develop a strategic focus around areas that can further economic diversification and offer high potential employment, such as tourism, the fisheries sector, and other manufacturing industries.
- IFC seek to maintain its additionality by engaging with lower tier and more regionally dispersed private companies in the context of an improving financial sector and business environment.
- MIGA better leverage the strong field capacity of other WBG institutions to support its marketing and risk assessment functions.

# Management Action Record

Major monitorable Independent Evaluation Group (IEG) recommendation requiring a management response	Management response
Recommendations for the World Bank Group (WBG)	
<p><b>WBG: Tailor its country strategy to support long-term integration of Peru’s three distinct geographical regions to help address disparities in economic activity, poverty reduction, and human development along the lines of the findings of the 2009 World Development Report (WDR).</b> The distinct circumstances and challenges of Peru’s three geographical regions have implications that can inform the WBG’s future strategy. The findings of the 2009 WDR suggest that distinct interventions to promote long-term integration are warranted based on specific characteristics such as distance to markets, population density, and the diversity of regions. For Peru, implications include the need for: urban planning and infrastructure development; secondary city development; and main connectivity infrastructure such as highways.</p>	<p>Noted. While the WBG has been working through different initiatives in all geographical regions of Peru, it is clear that greater emphasis needs to be placed on this issue in the next Country Partnership Strategy (CPS). On the other hand, we would like to note that, in order to carry out effective work in this area, greater involvement with subnational governments (SNG) is important. Although this is already occurring, the central government is very cautious in terms of greater involvement, particularly in supporting loans to SNGs.</p>
<p><b>WBG: Complement positive past experience in infrastructure development by seeking opportunities to support larger-scale infrastructure development through both public investments and public-private partnerships (PPPs).</b> Peru continues to have a substantial infrastructure deficit, which is among the most important constraints to broader participation in growth. Large-scale infrastructure development has been limited partly due to government concerns about the ability of public agencies to effectively implement such projects. As such, larger-scale infrastructure development remains a potential area for continued WBG financial and technical support in the medium term. IFC can also play an important role in helping develop PPPs in the infrastructure sectors. Given current long lead times and inherent complexities in developing PPPs, an important contribution for IFC might be to help standardize PPP frameworks in subsectors including roads, ports, small airports, and other infrastructure. The Multilateral Investment Guarantee Agency (MIGA) can help address perceptions of high political risk associated with some infrastructure PPPs without the need for a sovereign guarantee which undermined the past unsuccessful Bank-supported guarantee facility.</p>	<p>Noted. This is currently an area where both the International Finance Corporation (IFC) and the International Bank for Reconstruction and Development (IBRD) are working and intend to continue to do so.</p>
<p><b>WBG: Develop a more strategic and coherent approach to helping realize broad sustainable improvements in public sector management.</b> During Peru’s “first-generation” reforms in the 1990s, an “island” approach to building capacity in a few key agencies proved to be a viable and effective means to advance and sustain a set of core reforms. As Peru moved toward the “second-generation” challenges over the review period, however, the under-performance of the public sector has emerged as a major constraint to progress in a range of sectors. Although there are no clear or easy solutions to reforming a civil service that is overstaffed, underpaid, and poorly managed, the difficulty of the task calls for WBG support in helping develop solutions suited to Peru’s context. A more cohesive and strategic approach to capacity building than the past, piecemeal efforts by various WBG units is warranted.</p>	<p>Although we agree that the WBG needs to continue supporting Peru in the area of public sector management, we do not concur with the perception that there have been piecemeal efforts under a “bubble” approach. The use of the term “bubbles” of excellence is used to refer to agencies such as the Central Bank, the banking supervision authority and other regulatory agencies. This runs the risk of misleading the readers into thinking that the superior capacity attained in those institutions is not sustainable, which is not the case. The potential impact of the future work will depend on client demand and on having a favorable political and institutional framework in country, both of which were limited during the evaluation period.</p>

Major monitorable Independent Evaluation Group (IEG) recommendation requiring a management response	Management response
<b>Recommendations for IBRD</b>	
<p><b>IBRD: Seek further innovations in instruments and internal processes to support technical and knowledge transfer, given the declining demand for financial resources that was evident in Peru prior to the 2009 crisis.</b> Beyond the current financial crisis, IBRD faces a challenge in adapting its internal processes, incentives, and resource allocation norms that are currently biased toward lending interventions in order to better serve clients that have higher demand for knowledge than for finance. Expanded use of Non-Lending Technical Assistance (NLTA) as a means to support knowledge transfer and implementation of reforms is a promising resource transfer mechanism to support countries unwilling to borrow for TA, although possible cost sharing of these interventions to support long-term viability should be explored. The possibility of smaller Development Policy Loans (DPLs) that reduce government borrowing but convey benefits such as signaling effects, technical and advisory support, consensus building within government agencies, and enhanced program monitoring and implementation should also be explored.</p>	<p>We agree and are currently addressing new ways of working with Peru (for example, two sector-wide approaches (SWAs) under preparation, multiple NLTAs, and exploring fee-based services).</p>
<p><b>IBRD: Engage the government and seek to support development of a strategic planning function.</b> At present, Peru has a largely bottom-up approach to public investment that although containing some clear positive attributes, also leads to duplication, lack of synergies, and absence of a cohesive overall framework that best supports progress toward development goals. Over the review period, the WBG attempted, without success, to help build a central planning capacity to better match public investment with development goals. Creation of such a central planning capacity has been resisted, in part due to its association with centrally-planned production systems in socialist economies of the past. Part of the solution will therefore be in building a consensus around the need for a central public investment planning and coordination function that provides a framework to better guide sectoral and SNG investment strategies, but does not imply a reversal to centralized production planning.</p>	<p>We fully concur with the need for a strategic planning function within the government of Peru. There has been extensive dialogue in this area, but political and institutional frameworks in country have not been favorable, as there are strong groups inside and outside government that resist the building of planning capacity. Expectations in this area should not exceed what can be realistically implemented.</p>
<p><b>IBRD: Increase strategic coordination with bilateral development partners to develop synergies and enhance contributions in the social sectors.</b> Several bilateral and multilateral agencies have been engaged in the social sectors in Peru, mainly through concessional aid. IBRD meanwhile has been engaged in these sectors largely at the policy level through a succession of DPLs and with limited investment lending. Although there has been good coordination between IBRD and partner agencies at the project level, there has been limited coordination at the broader strategic levels in the social sectors. For example, IBRD does not participate in the bilateral agencies' education group. Closer strategic cooperation between IBRD and the other development partners in the social sectors may facilitate synergies between the Bank's policy interventions and the concessional investment flows of those agencies to enhance the overall contribution to social service delivery in Peru.</p>	<p>Although we agree that engagement with bilateral donors is important, we differ on the opinion that there has been only limited engagement with them in the social sectors. For example, the preparation of the Rural Education Project was prepared in coordination with the U.S. Agency for International Development (USAID), the U.K. Department for International Development (DFID), and the Canadian International Development Agency (CIDA), so much so that their models were used in the project design and implementation. The highly successful Accountability for Social Reform (RECURSO) AAA was carried out with financing from and under close coordination with DFID. In the case of nutrition, the Bank participated actively with the ad-hoc donor group on nutrition (which includes both financiers and practitioners), and the model currently being used in the Results for Nutrition Project is the one developed by the United Nations Children's Fund (UNICEF) in Peru. In the health sector, in addition to cofinancing of the Health Reform Projects with the Inter-American Development Bank (IADB), there was very close coordination with a USAID-financed project, Partners for Health Reform Plus (PHR+), in the development of the decentralization strategy for that sector.</p>

(continued on next page)

Major monitorable Independent Evaluation Group (IEG) recommendation requiring a management response	Management response
Recommendations for IFC	
<p><b>IFC: Develop a strategic focus around areas that further economic diversification and offer high potential employment, such as tourism, fisheries, and other manufacturing.</b> Although Peru has some diversification in its economy, a central challenge ahead remains to further the economic diversification into areas that can generate employment and engage a broader share of the population in economic growth. Although tourism has developed rapidly, it remains confined around a few major attractions, with substantial unrealized potential in other areas. At present, there remains only limited value added to Peru's extensive natural resources in fisheries. Other manufacturing sectors that might exploit Peru's access to world markets through Free Trade Agreements (FTAs) and offer strong employment-generating potential also warrant close attention. An IFC focus on supporting private investment in such areas is likely to enhance its contribution to employment generation and to broadening the benefits of economic growth.</p>	<p>We welcome IFC-related recommendations. Supporting employment-generating industries, and lower tier and more regionally dispersed companies are areas in need of support. Our strategic focus under the current CPS has been trying to address some of those needs. IFC's focus under the current CPS includes: (i) working to reduce Peru's high informality in its economy with technical assistance; (ii) investing in and developing projects that address bottlenecks in the provision of basic services and physical infrastructure; (iii) investing in industries with strong competitive advantages such as agribusiness and tourism; (iv) extending to new beneficiaries access to SME, housing, and tertiary education finance and building local government capacity to deliver services; and (v) supporting environmentally and socially sustainable growth, notably in extractive industries. Several of our investments and advisory services support the manufacturing, agribusiness, and tourism sectors. One of our key selection criteria is employment generation.</p>
<p><b>IFC: Enhance efforts to work with lower tier and more regionally dispersed private companies.</b> Although IFC demonstrated high additionality in the past by investing in emerging and risky sectors, improving conditions have reduced its potential value added among upper-tier companies. Although IFC's strategy to support access to finance through the local banking sector remains sound, several segments of the market—particularly smaller companies in the Sierra and Selva regions—are likely to remain too risky for the banking sector to reach in the medium term. A challenge therefore remains for IFC to help accelerate the goal of more broad-based participation in growth by supporting smaller and more regionally dispersed private companies. To date, IFC's use of equity instruments has been limited. Given its decreasing competitiveness with the local banking sector, greater use of equity instruments should be actively pursued.</p>	<p>One of IFC's main objectives is to reach underserved segments such as SMEs via credit lines and advisory services to local financial institutions, including in regions outside the capital city. Our ability to reach these segments depends also on improving the financial sector and business environment. As correctly pointed out in the paper, several of these improvements have occurred mainly around the capital city, thereby limiting IFC and its potential clients' ability to invest in underserved areas. We have adapted our strategic focus. IFC has been partnering with local financial institutions to reach SMEs for both economic and regional diversification, and supporting employment generation. Working with "Caja Municipales" we are reaching small municipalities. Our advisory services supporting SME formalization have a strong focus outside Lima. Furthermore IFC advisory services in extractive industries (revenue management mostly directed at smaller communities in rural areas) and tourism are reaching the provinces notably in the Sierras. Concerning equity, IFC will continue to pursue those opportunities where it can bring high value added and development impact.</p>

Recommendations for MIGA

**MIGA: Strengthen marketing and risk assessment functions by better leveraging the strong field presence of IBRD and IFC in Peru.** Given perceptions of political risk arising from rising social tensions and a possible return to “populist” policies, a potential role for MIGA exists to help ensure the continued flow of investment into Peru. MIGA’s guarantee pricing is partly driven by its country risk assessment which had not been closely reviewed for several years prior to November 2009. Given the limits on MIGA capacity to undertake frequent reviews of countries that it is not actively engaged in, it could benefit from leveraging the strong WB and IFC country presence and knowledge. For example, this might take the form of a quarterly structured telephone exchange or questionnaire with the World Bank Country Director and IFC Country Manager that could form the basis for adjustments in MIGA’s country risk assessments. In terms of marketing, the FY08 IEG Guarantee Evaluation recommended greater engagement of World Bank and IFC staff in promoting MIGA’s products and this has been piloted in some regions. Such efforts to engage the strong Bank and IFC field presence in Peru in marketing MIGA’s products and feeding leads to MIGA can help enhance its contribution to development in Peru.

Management agrees with IEG’s recommendation that MIGA can benefit from better leveraging the reach of the World Bank and the IFC, which have strong presences in Peru, for marketing purposes. MIGA’s outreach efforts are often constrained by its considerably smaller number of operational staff and lack of field offices. In terms of originating new business opportunities, both for projects within Peru as well as potentially with Peruvian investors seeking to go into other countries, MIGA expects that the business development partnerships with the IFC established in FY10 will provide greater access to new business opportunities.

Management agrees that continuous communication within the WBG is important. In fact, such communication takes place on a regular basis to discuss country risk both with IBRD and IFC, through established institutional settings in both organizations, so that the baseline understanding of country risk factors is broadly similar in each organization of the WBG. However, MIGA does not agree with the characterization that it is not closely monitoring all countries continuously. MIGA’s internal ratings are updated quarterly and more often if warranted by events and they are the basis not only for pricing decisions, but also for provisioning and for treaty reinsurance attachment levels. With respect to pricing, management notes that MIGA prices its guarantees to risk on a project-by-project basis, and would emphasize that the individual country ratings for all countries are routinely reviewed and updated. This applies equally for Peru as with any other country where MIGA is approached by a potential investor, and in any region. Furthermore, MIGA in many operations has to seek reinsurance from private partners and, therefore, faces a market test in terms of the comparability of its own pricing ranges with those of other market practitioners. For these reasons, the recommendations of IEG in terms of risk assessment and pricing are not relevant.

# Chairperson's Summary: Committee on Development Effectiveness (CODE)

## Peru Country Program Evaluation for the World Bank Group 2003–2009

(Meeting of July 26, 2010)

On July 26, 2010, the Informal Subcommittee of the Committee on Development Effectiveness (CODE) considered an Independent Evaluation Group (IEG) report entitled *Peru Country Program Evaluation for the World Bank Group 2003–2009*.

### Summary

Members welcomed the comprehensive IEG report, noting that it is the first integrated evaluation reviewing World Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) operations at the country level and it involved extensive stakeholder consultations. Members commended the Bank Group for its high quality support and for successfully implementing the country strategy, and the government of Peru was congratulated for its commitment and ownership of the reforms critical to sustainable growth. They positively remarked on Bank Group efforts in conducting a policy dialogue with the government and civil society, while also observing the weaker progress in public sector management and the need for political consensus in this area. It was noted that management intends to continue focus on infrastructure development, integration of the varied regions in the country, and continue to address inequality and the high poverty rates in the Sierra region, as well as explore opportunities to increase its work in the small and medium enterprise sector.

### Recommendations and Next Steps

Management will take into account the findings and recommendations of the IEG report in the preparation of the new country assistance strategy. It will continue the policy dialogue and engage with the incoming administration that will be elected in 2011. IEG will look to disseminate the country program evaluation among stakeholders and interested parties, taking note of the request by the representative from the constituency to do so.

### Main Issues Discussed

**Country Program.** Members congratulated the Bank Group for successfully implementing the country strategy and for conducting a policy dialogue with the government and civil society. They also noted that economic progress in Peru was in part due to high commodity prices. Management added that economic success was also due to sound policies and that it was possible to converge on issues of development given the consistent policies of successive governments. Noting the variations in Bank lending volume over the years, interest was expressed as to how the Bank would align itself (that is, staff, resources) if a sudden drop in lending occurred in the near future.

**Bank Group Synergy.** Members welcomed IEG's comprehensive report that considered the synergy among the Bank Group in Peru. A few members sought more clarity on how the Bank and IFC are coordinating their work, to which IEG said that they had found good examples in which International Bank for Reconstruction and Development (IBRD) and IFC interventions had been well sequenced, in particular the financial sector. The importance of the Bank and IFC to regularly meet to discuss areas of interest and identify overlaps was noted. One member asked IEG to consider clarifying the differences in performance results between IFC and IBRD as they work with different clients (private sector versus public sector). In addition, there was a request for IEG to consider focusing more on capturing the Bank's additionality.

**Public Sector Reform.** Members commented on the limited progress in public sector management and recognized the need for political consensus to achieve further progress in the areas of education, the judiciary, and civil

service. They asked how the Bank would strengthen this process in light of the upcoming elections in 2011. Management responded that the Bank intends to continue providing knowledge support and maintain policy dialogue, including preparing policy notes and distributing them to all presidential candidates and their teams, as well as making them available to the public and the civil society.

**Development Policy Lending (DPL) vs. Investment Lending.** A member recognized the Bank's role in providing support to the government of Peru (that is, via DPL with a Deferred Drawdown Option) during the financial crisis. The same member also observed the need to develop capacity building and knowledge transfer platforms to strengthen the public sector, particularly in infrastructure projects that will require investment lending. A question was raised about whether or not subnational lending is a viable option in Peru. Management noted that IFC and the Bank have collaborated in the area of subnational finance within the water distribution and urban transport sectors where clients also benefit from technical assistance programs.

**Private Sector Role.** Management noted that the interaction with the government of Peru, the private sector, and other stakeholders has supported a process of stabilization which has led to improvements in the business envi-

ronment and a more diversified economy. Some members observed the limited progress in tax revenues; it was suggested that this may be in part due to current high revenues from extractive industries. Both IEG and the Bank considered tax administration an important issue and Bank Management noted that overall tax revenue had made gains (that is, from 12 percent to nearly 16 percent of GDP between 2002 and 2008) but still had room for improvement. Responding to a query related to labor rigidities, management remarked that it continues to provide advice in this area.

**Risk Insurance.** In response to a query on political risk insurance IEG noted that they had found that there was demand, especially in the infrastructure sector. It added that the strong presence of IFC and the Bank in Peru could further MIGA's business and marketing in Peru.

**Donor Coordination.** Regarding the International Monetary Fund's role, IEG noted that it had been active in Peru with a succession of Stand-By Agreements. Other members asked how the Bank would further enhance its collaboration with other donors. Management noted that it was part of a large contingent of donors and that it was working with other donors through the Coordinating Council.

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Giovanni Majnoni, *Chairperson*



# Chapter 1



Photo: Asita De Silva/World Bank

## Country Background and Developments Since 2003

**Peru is a diverse country with three distinct geographical regions:** the narrow and dry coastal areas (10 percent of the country); the high and rugged Sierra in the Andes (32 percent); and the expansive tropical Amazon Selva (58 percent). Peru's population of 29.5 million people is unevenly distributed across the geographical areas, with the coast accounting for 63 percent of the population, the Sierra 28 percent, and the Amazon 9 percent. The geographical variations have generated distinct development challenges in each region. In the Sierra, a high degree of rural poverty exists due to rugged terrain, a scattered population, and lack of infrastructure, which undermine opportunities for viable economic activity. The Amazon regions are posing an increasing challenge in balancing economic development with environmental degradation and traditional ways of life. In coastal areas, population growth and industrial development have raised challenges with respect to urban infrastructure and service delivery, pollution, and urban poverty.

**Peru has substantial natural resources that offer strong economic growth potential.** Peru is highly endowed with natural resources. Peru's extensive mineral deposits, including coal, iron, copper, gold, and silver have made it among the largest mineral producers in the world. In 2007, for example, Peru was the largest producer of silver in the world, the second largest copper producer, and the fifth largest gold producer.<sup>1</sup> Extensive fisheries' resources have made Peru among the largest fish producers in the world.<sup>2</sup> Continuing discoveries have indicated that Peru also has significant oil and gas deposits. In addition, Peru has several well-preserved ancient civilization sites, attractive natural sites (ranging from the Andes peaks to pristine Amazon rainforests). It has a varied culture (including a growing culinary reputation) that has yielded strong tourism potential. Peru's geographical variations make it one of the world's 10 "mega-biodiverse" countries, with one of the highest levels of biodiversity in the world.<sup>3</sup> It has 11 eco-regions, 84 of the world's 104 ecosystems, and 28 of the 32 climates on the planet.

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Peru's extensive mineral deposits, including coal, iron, copper, gold, and silver have made it among the largest mineral producers in the world.

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**At the same time, Peru also faces a range of underlying development constraints.** These include: the very difficult, rugged terrain in the Sierra region; highly dispersed populations in the Sierra and Amazon regions that make cost-effective provision of basic infrastructure and services difficult; susceptibility to earthquakes and other natural disasters; limited or highly seasonal water availability in many parts of the country; and cultural and social barriers between groups that evolved from centuries of colonial rule.

**Peru experienced a major economic transformation in the 1990s.** In 1990, Peru had a gross national income (GNI) per capita of US\$1,140, with 55 percent of the people living in poverty, including 75 percent in rural areas. In the early 1990s, Peru's economy was characterized by dominant state-owned agencies in the productive sectors, hyperinflation, an inward-looking protectionist regime, large fiscal deficits, and a distorted financial system. It had contracted by 1.5 percent a year over the prior decade. By 1990, Peru had defaulted on most of its international debt and was in arrears to both the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF). The Maoist *Sendero Luminoso* movement was engaged in a violent campaign to overthrow the government.

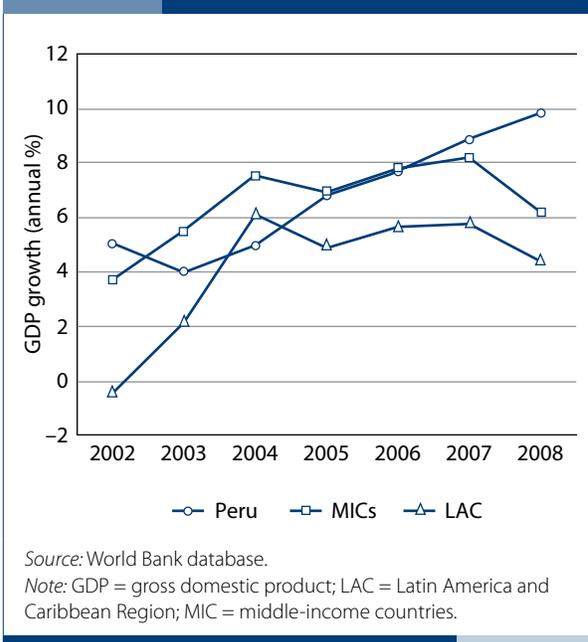
In the early 1990s, Peru's economy was characterized by dominant state-owned agencies in the productive sectors, hyperinflation, an inward-looking protectionist regime, large fiscal deficits, a distorted financial system.

Following the election of President Fujimori in 1990, the government implemented a range of reforms to stabilize and liberalize the economy, including trade and price liberalization, reduction of subsidies, privatization in key sectors, and a reduction in barriers to private investment. An aggressive response to the Maoist movement, although raising human rights concerns, resulted in a sharp reduction in violent activity that significantly improved safety and the environment for doing business in the country. The government also embarked on programs to improve basic infrastructure and social service delivery. Despite a series of adverse exogenous shocks between 1997–2001 (including *El Niño*, the financial crisis in the region, and lower mineral prices) as well as a period of political instability in 2000–2002, the economic reforms stimulated a strong supply response. Gross domestic product (GDP) grew 4.6 percent a year between 1993 and 2002 (figure 1.1). By 2002, GNI per capita had risen to US\$2,060 and the proportion of poor had declined to 50 percent. Social indicators had also improved with, for example, net primary school enrollment rising from 87 percent in 1991 to 90 percent in 2002, and infant mortality declining from 58/1,000 live births to 27/1,000.

In 2003, Peru continued to face a range of challenges to sustain progress in economic and social development and further reduce poverty.

**Progress notwithstanding, in 2003, Peru's situation was still fragile and half of the population remained in poverty.** In 2003, Peru continued to face a range of challenges to sustain progress in economic and social development and further reduce poverty. In rural areas, large segments of the population remained engaged in basic subsistence activities and had seen little improvement in their lives. Sixty percent of the rural population remained poor, in-

FIGURE 1.1 GDP Growth in Peru Since 2002



cluding 37 percent below the extreme poverty line. While access to basic health and education services had improved, high levels of inequality existed between income groups and between the rural and urban population. Increased concerns existed as to the quality of social services being delivered. An agenda of “second-generation” reforms existed to consolidate market reforms and further enhance the role of the private sector.

The slow down resulting from the series of external shocks in the late 1990s underlined the continued vulnerability of Peru's economy. Continued weaknesses existed in fiscal management, particularly in revenue generation. The quality of public sector management had also not improved outside of a few islands of institutional development. Toward the end of the Fujimori government, moreover, increased concerns had arisen as to the degree of centralization of authority, limited development of local and regional governments, the undermining of the rule of law, and increased perceptions of high levels of corruption.

**From 2003–09, Peru experienced sustained high growth, and is now classified as an upper-middle-income country.** Under President Toledo (2002–06) and continuing

under President Garcia (2006–present), the successive governments maintained a reform agenda aimed at furthering the private sector supply response, broadening participation in growth, improving social service delivery, and strengthening public institutions. Disciplined fiscal and monetary policies were consistently maintained. These policies were supported by favorable external conditions (including a sharp increase in mineral prices after 2005), that resulted in a stable macroeconomic environment, including fiscal surpluses, low inflation, a stable exchange rate, and a three-fold increase in international reserves. Further regulatory constraints to doing business were reduced, and access to world markets was enhanced through a succession of free trade agreements.

**Successive governments maintained a reform agenda aimed at furthering the private sector supply response, broadening participation in growth, improving social service delivery, and strengthening public institutions.**

A strong supply response resulted, with private investment rising from 15 percent of GDP to 22 percent in 2008. Foreign investment—concentrated in the mining, financial, and energy sectors—played an important role, rising from 12 percent of total investment to 22 percent. Exports increased sharply from 16 percent of GDP in 2002 to 32 percent in 2008. Overall, GDP grew by 6.9 percent a year in 2003–09, which was the third highest of 34 countries in the Latin America and Caribbean Region (after Trinidad and Tobago and Panama). In 2008, based on its strong macroeconomic management and diversi-

fying economy, Peru received sovereign investment grade ratings from major international credit-rating agencies. As discussed below, Peru has also weathered the current global financial crisis well. With sustained economic growth, Peru’s GNI per capita increased to US\$3,990 in 2008, making it an upper-middle-income country.<sup>4</sup>

**Poverty declined sharply, although poverty reduction has been uneven and a high proportion of Peruvians remain poor.** The strong growth and diversifying economy helped reduce the proportion of poor in Peru from 48 percent in 2004 to 36 percent in 2008. Extreme poverty declined from 27 percent to 18 percent (table 1.1). Good progress was also made toward the Millennium Development Goals (MDGs) across Peru, although the Amazon and Sierra regions continued to lag significantly behind coastal areas in several respects (table 1.2). The strongest achievements in poverty reduction came in the coastal areas, where poverty was reduced by 34 percent over the review period. These areas dominate Peru’s economy, accounting for 72 percent of GDP, and have a diverse range of activities, including manufacturing, service industries, agribusiness, trade, banking, transport, and construction. The Amazon regions, which account for 9 percent of the population, experienced a 32 percent reduction in the number of poor. Key economic activities in these areas include forestry, extractive industries (both small and large-scale), wood-processing, trading activities, as well as unrecorded illegal coca growing. The Sierra regions, however, had the least progress, with the number of poor declining by 15 percent. Other than the extractive industries sectors, economic activities in the Sierra remain dominated by activities such as basic agricultural production and government services. Although 25 percent of the population in

**TABLE 1.1 Poverty Reduction in Peru by Geographic Region Since 2003**

Region	Poverty 2004 (%)	Poverty 2008 (%)	Decline in number of poor since 2004 (%)	Share of GDP 2008 (%)	Share of population 2008 (%)	Share of poor 2008 (%)	Number of poor 2008 (millions)	Main economic activities 2008
Amazon	59	42	-32	5	9	11	1.1	Agriculture, mining, trade, other services
Coastal	39	25	-34	72	63	43	4.2	Manufacturing, other services; trade; construction; transport
Sierra	66	58	-15	13	28	45	4.4	Agriculture, mining, government services
<b>Total Peru</b>	<b>48</b>	<b>36</b>	<b>-26</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>9.7</b>	

*Source:* Government of Peru National Statistics Office (INEI).  
*Notes:* Data are based on a country-specific poverty line established by INEI and are therefore not comparable across countries. As discussed, the World Bank Group helped INEI refine its poverty measurement methodology in 2005.

**TABLE 1.2 Progress toward MDGs by Geographic Region Since the Early 2000s**

Region	Literacy rate (%)		Net primary enrollment (%)		Infant mortality (%)		Proportion of people with cellular phone in household (%)		Malnutrition prevalence (%)	
	2002	2008	2002	2008	2000	2009	2002	2008	2002	2009
Amazon	90	91	91	93	50	25	1	40	41	28
Coastal	92	93	92	97	29	Lima 11 Other 22	12	71	29	Lima 8 Other 13
Sierra	77	81	91	97	60	23	2	40	48	38

Source: Government of Peru (INEI).

the coastal regions was still poor in 2008, 58 percent of the population in the Sierra was poor, including 27 percent below the extreme poverty line. GDP per capita by department ranges from US\$567 (similar to Mali) in Apurimac in the Sierra region to US\$4,773 (similar to Colombia) in Moquegua on the southern coast.

**The strong growth and diversifying economy helped reduce the proportion of poor in Peru from 48 percent in 2004 to 36 percent in 2008.**

**A range of challenges remain to be overcome to sustain economic growth and further reduce poverty.** Notwithstanding the substantial progress seen since 2003, Peru still faces an array of challenges in sustaining and broadening participation in growth; addressing uneven access to quality; basic social services; ensuring the availability of an efficient social safety net to meet the needs of those not adequately benefitting from economic growth; and ensuring the environmental sustainability of growth. The uneven growth and poverty reduction to date have contributed to rising social tensions that have raised concerns as to the political sustainability of reforms. A 2009 Standard and Poor's risk assessment of Peru, for example, found that *"Peru's main vulnerability is political. A large, informal economy; widespread poverty; and significant income disparities make the country susceptible to populism."*<sup>5</sup> Constraints continue to hinder the environment for private sector investment. These include the lack of basic infrastructure in many parts of the country that inhibit the flow of people, goods, services, and information and raise the cost of doing business, as well as the continuing legal and regulatory obstacles to doing business, including inflexibilities in the labor code that discourage formal sector employment creation. The government has recognized these challenges and current priorities include stimulating further economic diversification into labor intensive activi-

ties, strengthening the rule of law, and enhancing social policies to address extreme poverty.

**The uneven growth and poverty reduction to date have contributed to rising social tensions that have raised concerns as to the political sustainability of reforms.**

**Specific development challenges exist in Peru's three distinct geographical regions.** The Sierra, which contains 45 percent of the country's poor, offers the greatest development challenges. Some 90 percent of Peru's rural population lives in dispersed settlements of less than 500 people. The highly scattered population along with rugged terrain raises the costs of infrastructure and social service provision. Moreover, limited opportunities exist for viable economic activities in many parts of the Sierra due to high altitudes, difficult terrain, and unfavorable climates. The large extractive industry activities have generated limited employment and linkages with the rest of the economy. Important environmental and social impacts of these activities also remain to be addressed.

**Among Peru's three distinct geographical regions, the sierra, which contains 45 percent of the country's poor, offers the greatest development challenges.**

In the Amazon regions, some trade-offs are emerging between economic development and environmental sustainability. Rapid increases in mining, logging, and slash and burn farming are degrading the environment and reducing biodiversity. Meanwhile, segments of the population continue to be largely unreached by basic social services and formal economic activities. Several areas in the Amazon are also sources of illegal drug trafficking.

In the coastal areas, although employment-generating manufacturing and service industries and access to basic social services have risen sharply, the rapid development and population growth have led to increasing urban development challenges. Low-income, “peri-urban” areas around Lima have expanded rapidly, and the districts around Lima still account for 17 percent of the poor in the country. Urban development challenges include in-

adequate transportation services, lack of affordable housing, high levels of pollution, and inadequate waste and water management. Infant mortality and primary school enrollment by region have been virtually equalized outside of Lima, but the quality of education, chronic child malnutrition, and interdepartmental and income-related disparities remain a challenge.



Photo: Asita De Silva/World Bank

# Chapter 2



# World Bank Group Objectives and Activities in Peru, 2003–09

**During the review period, the World Bank Group (WBG) supported a broad set of objectives aimed at helping Peru realize sustainable growth and poverty reduction.** The WBG's objectives in Peru were defined in two Country Assistance Strategy (CAS) documents presented to the Board in fiscal year (FY) 2003 and FY2007. Both CASs were joint International Bank for Reconstruction and Development (IBRD)/International Finance Corporation (IFC) documents, and included coverage of Multilateral Investment Guarantee Agency (MIGA) objectives in the country.<sup>1</sup> In addition, two CAS Progress Reports (CASPRs) were presented to the Board in FY05 and FY09.

## Country Development Objectives Supported by the World Bank Group

The CASs identified government development priorities and defined a derived set of objectives to be supported by the WBG (table 2.1). Three broad “pillars” were maintained over both CAS periods: (i) support for broad-based economic growth that engaged a broader share of the population; (ii) support for enhanced human development through improved social service delivery; and (iii) support for strengthened public sector institutions.

## Strategic Objectives of the World Bank Group Institution

### *IBRD Objectives*

**IBRD planned to engage across a broad range of sectors and placed a strong emphasis on policy lending.** The FY03 CAS was prepared in the context of a new national development strategy elucidated by the government of President Toledo (2002–06). The WBG planned to support each of the government's main strategic thrusts toward reducing poverty by: (i) enhancing economic competitiveness and employment generation; (ii) improving equity and social justice; and (iii) creating an efficient, transparent, and decentralized state. The Bank's areas of focus were to include macroeconomic management and structural reforms. The Bank would also continue its emphasis on social sector institutional reform, and renew its emphases on competitiveness, public sector management, and the environment.

The FY03 CAS indicated an increased Bank emphasis on adaptable program loans and development policy lend-

ing, and stronger partnerships with other international development agencies. In addition, the Bank sought to improve its efforts with respect to the implementation performance of IBRD's portfolio. The Bank planned to lend US\$920 million over the FY03–06 CAS period, including two sets of programmatic loans to support reforms in the social sectors and economic policy. In addition, three technical assistance loans in the social sectors, municipal development, and trade facilitation were included. Planned analytical and advisory activities (AAA) included a development policy review and sector reviews in rural infrastructure, poverty and vulnerability, indigenous peoples programs, and subnational fiscal policy (table 2.2).

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The World Bank Group planned to support each of the government's main strategic thrusts toward reducing poverty by:

(i) enhancing economic competitiveness and employment generation; (ii) improving equity and social justice; and (iii) creating an efficient, transparent, and decentralized state.

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**After 2007, IBRD maintained the same broad objectives and increased the flexibility of its lending program.** The FY07 CAS followed a period of strong economic growth in Peru and coincided with the beginning of the new administration under President Garcia (2006–present). The main priority of the new government was to expand the benefits

**TABLE 2.1 Country Development Objectives Supported by the World Bank Group in Peru Since 2003**

Development objectives supported by the WBG	IBRD	IFC	MIGA	Main agency
Overall Objective: Sustainable growth and poverty reduction	X	X	X	
<i>Pillar I: Enhancing participatory and sustainable growth through:</i>	X	X	X	
a) Maintaining macroeconomic stability	X			IBRD
b) Improving infrastructure	X	X	X	IBRD
c) Deepening the financial system	X	X	X	IFC
d) Improving the regulatory framework for doing business	X	X		IFC
e) Supporting growth in agriculture/agribusiness	X	X		IFC
f) Supporting growth in tourism	X	X	X	IFC
g) Supporting growth in extractive industries		X	X	IFC
h) Ensuring the environmental sustainability of growth	X	X	X	IBRD
<i>Pillar II: Enhancing human development through:</i>	X	X		
a) Expanding access to high quality health services	X	X		IBRD
b) Expanding access to high quality education services	X	X		IBRD
c) Increasing the efficiency of social safety net programs	X			IBRD
<i>Pillar III: Strengthening public institutions through:</i>	X	X		
a) Strengthening both central and sub-national public administration	X	X		IBRD
b) Improving the judicial system	X			IBRD
c) Addressing corruption and transparency	X			IBRD

*Source:* WBG Country Assistance Strategies/Country Assistance Strategy Progress Reports for Peru since FY03.

of economic growth to the poor. Toward this end, it proposed to give equal weight to economic and human development. The CAS indicated a range of areas of planned Bank engagement, including helping to: (i) reduce vulnerability to shocks; (ii) improve competitiveness; (iii) better engage the poor in growth, particularly the indigenous population in the Sierra; (iv) ensure environmental sustainability; (v) improve access to basic services and infrastructure for the poorest; and (vi) strengthen public sector management. The CAS provided for greater flexibility in the volume, timing, and content of lending operations in line with a broader shift in the Bank's approach in middle-income countries (MICs).

The Bank also intended to enhance partnerships with stakeholders. It sought to increase synergy among WBG institutions. In addition, emphasis was placed on results to support the government's interest in improving the quality of its public expenditure. The CAS envisaged a flexible base-case lending scenario of up to US\$700 million per year over the five year FY07–11 CAS period. Within this envelope, three investment projects and two Development Policy Loans (DPLs) per year were planned, with DPL coverage to include fiscal management, the social sectors, and environment. AAA was planned for issues such as public expenditure management, small and medium enterprises (SMEs) that operate outside the le-

gal and regulatory frameworks ("informality"), and addressing income inequality, among other areas.

### *IFC Objectives*

**IFC sought to invest in several sectors, increase its emphasis on social and environmental issues in the mining sector, and enhance advisory services.** Throughout the review period, IFC sought to support all three major CAS pillars through both its investments and Advisory Services (IFC-AS). IFC objectives included: (i) support for development of the extractive industries sector, with an increasing emphasis on environmental and social sustainability; (ii) deepening of the financial sector through support for modernization of the banking sector, increasing access to finance for micro- and small/medium enterprises (MSMEs), development of capital markets, and growth of housing finance; (iii) infrastructure development through support for private participation in infrastructure projects, particularly in "more difficult" subsectors; and (iv) development of other real sectors through potential investments in agribusiness, tourism, petroleum, manufacturing, and the social sectors. In the FY07 CAS, IFC also indicated its intention to continue support for reducing regulatory barriers to doing business, introduced in 2004, including helping reduce the high proportion of "informal" SMEs operating outside of the legal and regulatory framework. IFC also indicated its con-

**TABLE 2.2 IBRD Planned and Actual Lending FY2003–09**

Originally planned (fiscal year)	Actual approval (fiscal year)	Projects
<b>Supporting Participatory Growth</b>		
2003	2003	National Rural Water Supply and Sanitation
	2003	Trade Facility and Productivity Improvement (TA)
2004	2004	Lima Transport Project
	2005	Agriculture Research and Extension APL, Phase 2
	2006	Urban Property Rights (Real Property Rights II)
	2007	Sierra Rural Development
2005	2006	Regional Roads Decentralization
	2005	Programmatic Reform for Growth I (DECSAL II)
	2006	Regional Roads Decentralization
	Dropped	Export Competitiveness and Trade Facilitation Phase 2 (in CAS)
2006	2006	Rural Electrification
	2006	Programmatic Reform for Growth II (DECSAL III)
2007	2007	DPL Fiscal Management and Competitiveness I
	2007	Rural Transport Decentralization
2008	2009	DPL Fiscal Management and Competitiveness II
	2009	DPL Environment I
	Postponed	Water Sector Modernization (Rural Water Supply and Sanitation II)
	Dropped	Low-Income Housing
2009	2010	DPL Fiscal Management and Competitiveness III
	Dropped	Natural Disasters Management
	Dropped	Sub-National Infrastructure Investment Facility
Not planned	2003	Lima Water Rehab Additional Financing
	2004	Programmatic Decentralization and Competitiveness (DECSAL I)
	2005	Irrigation Subsector Supplement
	2005	Vilcanota Valley Rehabilitation and Management Project
	2009	Sierra Irrigation Project
	2009	Supplemental Financing Fiscal Management and Competitiveness (DPLII)
<b>Enhancing Human Development</b>		
2003	2003	Rural Education
	2003	Programmatic Social Reform Loan II
	2005	Social Reform TAL (Accountability For Decentralization in Social Sectors)
2004	2004	Programmatic Social Reforms III
2005	2009	Health APL, Phase 2
2006	Dropped	Rural Education and Teacher Development Plan (APL Phase 2)
2007	2007	DPL Social Sectors I (REACT I)
	Postponed	Nutrition Results
2008	Dropped	Quality of Basic Education
2009	2009	DPL Social Sectors II (REACT II)
Not planned	2005	Programmatic Social Reform Loan IV
<b>Strengthening Public Institutions</b>		
2004	2004	Justices Services Modernization Project
2005	2005	Institutional Capacity for Decentralization TAL
2006	Converted to NLTA	Governance Enhancement Program

Source: World Bank project database.

Notes: APL = Adaptable Program Loan; CAS = Country Assistance Strategy; DECSAL = Decentralization and Competitiveness Structural Adjustment Loan; DPL = Development Policy Loan; FY = fiscal year; NLTA = Non-Lending Technical Assistance; REACT = Results and Accountability; TA = technical assistance; TAL = Technical Assistance Loan

**TABLE 2.3 New and Existing World Bank Group Financial Operations in Peru by Sector for 2003–09**

Commitments	WBG total			IBRD			IFC			MIGA		
	No.	US\$ m	% of total	No.	US\$ m	% of total	No.	US\$ m	% of total	No.	US\$ m	% of total
Economic policy	6	1,029	21	6	1,029	30						
Social sectors	12	1,002	20	10	991	29	2	12	1			
Infrastructure	16	645	13	9	470	14	6	163	15	1	12	4
Finance	25	453	9				14	295	27	4	159	49
Agriculture/agribusiness	19	377	8	6	201	6	9	176	16			
Public sector management	5	375	8	5	375	11						
Environment	1	330	7	1	330	10						
Extractive industries	11	529	11				6	413	38	2	117	36
Tourism	5	68	1				3	34	3	1	34	11
Manufacturing/service industries	2	8	0				1	7	1	1	1	0
<b>Total</b>	<b>102</b>	<b>4,816</b>	<b>100</b>	<b>37</b>	<b>3,395</b>	<b>100</b>	<b>41</b>	<b>1,099</b>	<b>100</b>	<b>9</b>	<b>322</b>	<b>100</b>

Source: WBG project databases.

Notes: Operations include all projects/guarantees that were active during the period 2003–09. MIGA volumes represent guarantee values. IFC numbers reflect the number of project companies (some of which had multiple projects). This table excludes WBG non-lending services.

tinuing support for strengthening the capacity of municipal governments to better use royalties from the extractive industries sector, which it had begun in 2005. An enhanced role for IFC-AS in Peru was also envisioned in the FY07 CAS, with the 2005 establishment of a dedicated IFC-AS facility for the Latin America and Caribbean Region, based in Lima.

### *MIGA Objectives*

**MIGA sought to catalyze foreign investment into Peru's main productive sectors as well as promote economic diversification.** Although MIGA does not present formal country strategies to the Board, each of the CASs identified MIGA's main expected areas of engagement based on its assessment of demand in the country. MIGA aimed to catalyze additional foreign investment in mining, tourism, and infrastructure, as well as other sectors to promote economic diversification in the country. Emphasis was placed on supporting south-south investments, in line with MIGA's broader corporate goals. Given its active engagement in the mining sector, MIGA also sought to support good governance and transparency practices in its client companies, in collaboration with local governments. MIGA also sought to strengthen investment promotion activities in mining and tourism through technical assistance (TA) until its TA functions were transferred to the Foreign Investment Advisory Service (FIAS) in 2007.

**Between FY2003–09, 102 WBG loans, investments, and guarantees were active in Peru for a total committed value of US\$4.8 billion.**

## World Bank Group Activities in Peru Since 2003

**The WBG maintained a significant presence in Peru during the review period.** Between FY2003–09, 102 WBG loans, investments, and guarantees were active in Peru for a total committed value of US\$4.8 billion (table 2.3). Of the total value of active operations, IBRD accounted for US\$3.4 billion (70 percent), IFC for US\$1.1 billion (23 percent), and MIGA for US\$0.3 billion (7 percent). WBG activities were in four broad areas that accounted for 65 percent of the value of active operations: economic policy; the social sectors; infrastructure; and extractive industries.

Substantial new financial operations were undertaken in FY2003–09: US\$3.9 billion, compared to US\$1.6 billion in the prior seven-year period. These comprised IBRD and IFC investments, but no new MIGA guarantees during the review period. The total value of new WBG financial operations amounted to US\$146 per capita, significantly higher than the US\$66 per capita in the prior period in Peru, as well as higher than in other regional countries in FY2003–09 with the exception of Argentina and Colombia (table 2.4).

### *IBRD Activities*

**IBRD had a large lending program, bolstered by its global financial crisis response lending in 2009.** IBRD largely realized its expected lending program (see table 2.5). Of the 34 proposed operations identified in the CASs, 25 were realized, 2 were postponed, 1 was converted into a non-lending technical assistance (NLTA), and six were dropped. In addition, the Bank approved a

**TABLE 2.4 New World Bank Group Financial Operations in Peru and Comparator Countries, FY2003–09**

	Peru 1996–2002	Peru 2003–09	Argentina 2003–09	Bolivia 2003–09	Brazil 2003–09	Chile 2003–09	Colombia 2003–09	Ecuador 2003–09
Number of WBG Projects Approved	35	59	73	28	158	30	73	22
WBG Financial Operations Value Approved (\$m)	1,643	3,945	9,095	522	14,822	908	7,199	695
Population (m)	25	27	39	9	187	16	43	13
WBG Financial Operations per capita (\$) (annual average)	9	21	33	8	11	8	24	8
WBG Financial Operations share of GDP (%) (annual average)	0.4	0.7	0.7	0.8	0.2	0.1	0.7	0.3

Source: WBG project databases.

further six operations that were not identified in the CASs. Seven projects approved prior to FY03 also remained active during the review period. Altogether, IBRD had 37 active projects worth US\$3.4 billion in 2003–09.

Prior to 2009, the government had indicated its intention to reduce its IBRD borrowing and in 2008, no new loans were approved. In 2009, however, to support its crisis re-

sponse strategy, the government sharply increased its borrowing, with IBRD providing US\$1.4 billion in Deferred Drawdown Option Development Policy Loans (DDO-DPLs). The Bank's FY09 crisis response lending accounted for 44 percent of new approvals between FY2003–09. Bolstered by this lending, the volume of new IBRD lending in FY03–09 was 50 percent higher than in the preceding seven-year period (FY1996–2002). With

**TABLE 2.5 New IBRD Lending in Peru and Other Latin American and Caribbean Countries, FY2003–09**

	Peru 1996–2002	Peru 2003–09	Argentina 2003–09	Bolivia 2003–09	Brazil 2003–09	Chile 2003–09	Colombia 2003–09	Ecuador 2003–09	Total 2003–09
Number of projects approved	15	30	35	18	68	11	38	11	210
Net commitment (\$m)	1,414	3,126	7,645	370	11,755	443	6,202	530	29,987
Average project size (\$m)	94	104	218	21	173	40	163	48	143
Lending per capita (\$)	57	115	197	40	63	27	145	41	111
<i>By Lending Instrument (percent of total)</i>									
Development policy lending	48	79	23	35	53	59	58	38	49
Investment lending	52	15	77	65	47	41	42	62	51
Guarantee instrument	—	6							1
<i>By Sector (percent of total)</i>									
Economic management	13	40	15	4	8	12	25	28	17
Social sectors	31	29	42	33	23	59	40	46	33
Infrastructure	24	14	33	23	22	26	12	13	22
Environment		11	3		5		14		7
Agriculture/rural development	11	2	6	20	14		1	9	8
Energy and mining		2	1	5	0				1
Financial sector	21	—		8	4		8		3
Public sector mgmt.	2	1	1	7	23	3		4	9

Source: World Bank. Volumes are IBRD committed amounts.

**TABLE 2.6 New IFC Investment Operations in Peru and Other Latin American and Caribbean Countries, FY2003–09**

	Peru FY1996– 2002	Peru FY2003– 09	Argentina FY03–09	Bolivia FY03–09	Brazil FY03–09	Chile FY03–09	Colombia FY03–09	Ecuador FY03–09	Total FY2003– 09
Number of projects committed	20	29	38	10	90	19	35	11	232
Net commitment (\$m)	229	819	1,450	152	3,067	465	997	165	7,114
Average project size (\$m)	10	28	38	15	34	24	28	15	31
Investment per capita (\$)	8	30	37	17	16	29	23	13	21
<i>By Investment Type (percent of total)</i>									
Net loans approved	93	90	94	100	96	91	68	100	91
Net equity approved	7	10	6		4	9	32		9
<i>By Sector (percent of total)</i>									
Extractive industries	7	40	25	33	5	5	2		13
Finance	17	29	33	27	56	8	49	51	43
Infrastructure	16	22	6	40	14	78	14		18
Agribusiness	48	7	27		11	1	5	49	13
Tourism	5	3							
Social sectors	3	1			2	6			1
Industrial/ manufacturing	3		1		9		24		8
Funds			1		1	2	2		1
Trade			6		1		5		2

Source: World Bank/IFC databases.

Note: The number of projects reflects IFC financial operations with distinct project numbers. In some cases, several projects apply to the same project company.

traditional DPLs supplemented by the DDO-DPLs, policy lending was the dominant IBRD instrument, accounting for nearly 80 percent of new commitments.

IBRD lending was concentrated in two broad areas: economic policy (35 percent) and the social sectors (31 percent). IBRD also maintained an active AAA program, preparing over 30 economic and sector studies, and nine NLTA activities. Formal AAA was supplemented by informal advisory services, based on individual relationships between Bank staff and government officials in Peru.

### *IFC Activities*

**Peru has become one of IFC's top 10 countries in terms of exposure.** IFC also had an active investment portfolio in Peru over the review period, comprising 41 investment project companies worth US\$1.1 billion. It realized investments in all the areas identified in the CASs, except for the health sector. Overall, IFC committed US\$819 million through 29 new projects (some with the same project companies) in FY2003–09, mainly in: extractive industries (40 percent); finance (29 percent); and infrastructure (22 percent) (table 2.6). In addition, 27 projects committed prior to FY03, worth US\$320 million, were

active in IFC's portfolio, primarily in the extractive industries and financial sectors. The volume of new IFC investments was three times higher than the preceding seven-year period during which US\$229 million in new investments were made.

At present, IFC's outstanding investment portfolio in Peru is its 10th largest in the world and 4th largest in the Latin America and Caribbean Region. Twenty-nine IFC Advisory Services projects were also undertaken since FY03 for US\$11 million. This was a substantial increase over the preceding seven-year period during which seven projects were undertaken for US\$0.5 million. The main sectors of IFC-AS engagement were: municipal development (38 percent); the business enabling environment (17 percent); and the financial sector (11 percent).

### *MIGA Activities*

**No new MIGA guarantees were approved during the review period.** In 2002, Peru was the third-largest host country in MIGA's guarantees portfolio, with nine guarantee projects for a gross exposure of US\$300 million that accounted for 5.6 percent of MIGA's global portfolio of outstanding guarantees (table 2.7). About half of these

**TABLE 2.7 Guarantee Portfolio in Peru, FY2000–09**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Overall MIGA portfolio (US\$ bn)	4.4	5.2	5.3	5.0	5.2	5.0	5.3	5.3	6.5	7.3
LAC Region (percentage share of overall)	52	57	54	43	33	24	20	28	20	17
Peru (US\$ m)	330	271	298	154	148	102	79	49		7
Peru (percentage share of overall)	7.6	5.2	5.6	3.0	2.9	2.0	1.5	0.9	0.1	0.1
Relative importance of Peru in MIGA's portfolio	3rd	3rd	3rd	10th	12th	19th	25th	33rd	50th	53rd
Number of active guarantee projects in Peru	8	9	9	5	5	4	3	3	1	1
Mining	1	1	1	1	1	1	1	1		
Financial	3	3	4							
Manufacturing, services, tourism	3	4	3	3	3	2	1	1		
Infrastructure	1	1	1	1	1	1	1	1	1	1

*Source:* MIGA Guarantee Database.  
*Notes:* bn = billion; LAC = Latin America and Caribbean Region; m = million; MIGA = Multilateral Investment Guarantee Agency

guarantees were in the financial sector, with 36 percent in extractive industries, and eleven percent in tourism. Since 2003, no new guarantees were issued and MIGA's outstanding portfolio in Peru declined sharply following termination or expiry of most of the guarantee contracts.

As of the end of FY09, MIGA had one active guarantee in Peru, which supported a private concession for the rehabilitation and operation of the international airport in Lima. A second phase of this airport concession was under consideration for support in FY10. Its exposure as of June 2009 was US\$7.3 million, which represented 0.1 percent of MIGA's overall portfolio. Although this trend has been consistent with an overall decline in MIGA projects in the Latin America and Caribbean Region, which dropped from 52 percent of MIGA's portfolio in 2000 to 17 percent in 2009, factors internal to MIGA also account for the drop in business in Peru (discussed below). Through its association with projects in the mining sector, MIGA also provided support to enhance good governance and transparency practices in one of its large mining company clients. In support of its broader objective of

enhancing south-south investment, MIGA also provided coverage for an outbound Peruvian investor in FY06.

### Other Major Development Partner Activities

#### **IBRD financial support comprised 28 percent of total development aid flows to Peru between 2003 and 2008.**

Over the review period, more than 30 development partners provided assistance to Peru, including 10 multilateral and 23 bilateral partners. Of total aid commitments of US\$8.2 billion in 2003–08, IBRD accounted for 28 percent (table 2.8). Multilateral institutions accounted for 58 percent of total commitments, 95 percent of which were provided as nonconcessional loans. Bilateral partners provided 87 percent of their support as concessional assistance.

The five largest development partners in terms of financial commitments were IBRD (28 percent), the Inter-American Development Bank (IADB) (25 percent), the United States (16 percent), Germany (7 percent), and Spain (5 percent). Aid flows from other partners (excluding the WBG) were concentrated in: social sectors (28

**TABLE 2.8 Total Development Aid Flows to Peru, 2003–08**

Commitments (USD millions, current)	2003	2004	2005	2006	2007	2008	Total
Official development funds	1,293	1,121	1,157	1,405	1,536	1,713	8,225
Bilateral	385	487	450	629	851	639	3,442
Multilateral	908	633	707	775	685	1,074	4,783
As a percent of total							
Official development assistance (ODA) (%)	35	46	41	49	32	37	39
Other official flows (OOF) (%)	65	54	59	51	68	63	61

*Source:* Development Database on Aid Activities: Creditor Reporting System (CRS) online, Organization for Economic Co-operation and Development (OECD).  
*Note:* Total Development Aid Flows include Official Development Assistance (ODA) plus other Official Flows (OOF). Loans to the private sector are not included due to confidentiality reasons. Export credit loans are also excluded.

percent); infrastructure (20 percent); and economic policy and public sector management (20 percent).

IADB's strategy in Peru was built around the same three pillars of: (i) competitiveness and growth (ii) improved social service delivery; and (iii) strengthened public institutions. Its broad assistance program included an emphasis on water and sanitation, and transportation infrastructure, as well as support for strengthening public institutions, secondary education, and housing. About 25 percent of IADB's total commitments to Peru since 2002 have been to private sector clients, particularly in

the financial sector and extractive industries, including the Peru Liquefied Natural Gas (LNG) Project.

The United States Agency for International Development (USAID) support included programs in the social sectors, agriculture, small and medium enterprise (SME) development, governance, and combating illegal drug trafficking. German aid focused on the water and sanitation sector, governance, and civil society participation. Spain also sought to address governance and civil society issues, and devoted the largest share of its financial support to the social sectors, mainly education.





# Chapter 3



# The World Bank Group's Contribution to Enhancing Participatory and Sustainable Growth

## **In 2003, Peru faced continuing weaknesses in fiscal and monetary management.**

By 2003, following reforms implemented in the 1990s and improvements in the external environment, the economy had stabilized, with low inflation, a stable exchange rate, and increasing international reserves. Nevertheless, continuing weaknesses existed in its macroeconomic position, including: (i) a high degree of financial dollarization in the banking sector (80 percent of bank lending) that reflected a continuing lack of confidence in the economy; (ii) high levels of public and corporate debt, mostly denominated in foreign currency, that made both the public and private sectors vulnerable to external shocks; (iii) concerns that the planned decentralization process would lead to loss of fiscal control, as experienced by other countries such as Colombia and Brazil; and (iv) continuing weaknesses in revenue management, including very low tax revenues. Moreover, the government remained under some social and political pressure to address the inequitable growth, and the possibility of back-tracking on reforms already implemented was a concern.<sup>1</sup>

## Maintaining Macroeconomic Stability and Reducing Vulnerability to Shocks

### *Country Developments Since 2003*

**In 2003–09, macroeconomic stability was maintained and vulnerability to external shocks was substantially reduced.** The government maintained strong macroeconomic management throughout the review period. The central bank adopted an inflation targeting regime and consistently met its target of about 2 percent. The exception was in 2008 when inflation rose to 6 percent, driven by higher world oil and food commodity prices (table 3.1). Banking sector supervision was strengthened and measures to encourage lower dollarization along with broader confidence in the economy helped reduce dollarization in the banking sector from 80 percent to 53 percent. International reserves rose from US\$9.7 billion in 2002 to US\$31 billion in 2008.

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**The government maintained strong macroeconomic management throughout the review period.**

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On the fiscal side, substantial progress was achieved in debt reduction, with total public debt declining from 48 percent of gross domestic product (GDP) in 2003 to 24 percent in 2008. The government firmly established an effective fiscal control regime. At sub-national government (SNG) levels, measures were established to enhance transparency, contain borrowing, and ensure the quality of public spending. Fiscal prudence, along with improved revenues derived from both better collection as well as higher mineral prices after 2005, helped record fiscal surpluses in 2006–08. At the same time, however, continuing weaknesses remained that were partly overshadowed by favorable external conditions. In particular, despite the increase in revenues from the mining sector, tax revenue is less than 16 percent of GDP. This remains low compared to other middle-income comparator countries and exposes Peru to mineral price declines. The current account balance is also vulnerable to commodity price fluctuations, with extractive industries still accounting for 65 percent of exports.

**Although Peru was adversely affected by the ongoing worldwide financial crisis, it has weathered crisis effects relatively well.** Economic activity slowed sharply

after the onset of the global economic crisis in late 2008. The slowdown was particularly acute in export-oriented industries, reflecting weaker external demand. Industrial output decreased by 30 percent in the first quarter of 2009. The overall impact on employment was limited, however. While employment in manufacturing decreased by 5.7 percent between July 2008 and July 2009, total urban employment increased by 0.5 percent.<sup>2</sup> Moreover, following a draw-down of stocks, several sectors, including agribusiness, recovered by the second half of 2009. The banking system, which was mainly funded by local deposits, remained healthy. No banks were at risk of failing. Only a slight increase in non-performing loans (NPLs) occurred. Adequate liquidity and capital adequacy ratios were maintained.

**Peru's strong initial conditions and measured response enabled it to weather the crisis better than other countries in the region.**

In late 2008, the government initiated a crisis mitigation strategy comprising: (i) substantial government contingency borrowing from international financial institutions (IFIs) to signal that it had adequate resources to intervene in the economy if necessary; (ii) loosening of monetary policy through reduction of interest rates, creation

of liquidity facilities, and lower reserve requirements; (iii) intervention in the foreign exchange market to smooth fluctuations in the exchange rate; and (iv) fiscal expansion through a “stimulus package” of about US\$4 billion in planned infrastructure and social sector investments. Peru's strong initial conditions and measured response enabled it to weather the crisis better than other countries in the region. Although real GDP in the Latin America and Caribbean Region declined by 2.3 percent in 2009, Peru grew by 1 percent. Indeed, Peru is projected to grow at over 5 percent in 2010, well above the Latin America and Caribbean regional average.<sup>3</sup>

**WBG Engagement**

**WBG support for macroeconomic stability focused on fiscal management.** The WBG sought to support macroeconomic stability primarily by helping strengthen fiscal management, particularly through the ongoing decentralization process. As identified in both the FY03 and FY07 CASs, IBRD interventions emphasized: fiscal control, including public debt management; strengthened budget reporting and planning; results-based budgeting; and improved tax policy and administration. The WBG was not engaged in monetary policy, where the IMF was the leading external partner.

**TABLE 3.1 Indicators of Macroeconomic Stability, 2002–08**

Indicator	2002	2003	2004	2005	2006	2007	2008
Inflation, consumer prices (annual %)	0.2	2.3	3.7	1.6	2	1.8	5.8
Real exchange rate (% change over prior year average)	-1.8	2.4	1	1	1.8	0.6	-4
Total reserves (US\$ billion)	10	10	13	14	17	28	31
Current account balance/GDP	-2.0	-1.5	0.0	1.4	3.1	1.1	-3.3
Fiscal balance/GDP	-2.3	-1.7	-1.0	-0.3	2.1	3.1	2.1
Total revenues/GDP	17.1	17.5	17.5	18.3	19.9	20.7	20.8
Tax revenue/GDP	12.1	12.8	13.1	13.6	15.0	15.6	15.6
Local government current revenue/GDP	2.1	2.2	2.3	2.5	2.6	3.5	3.3
Total expenditures/GDP	17.3	17.2	16.7	17.0	16.3	16.0	17.3
Capital expenditures	2.7	2.7	2.7	2.7	2.8	3.0	4.1
Local government expenditures/GDP	2.0	2.1	2.2	2.2	2.6	2.6	3.7
Total public debt/GDP	47	47	44	38	33	30	24
External public debt/GDP	37	37	35	28	24	19	15
External debt service (% of exports of goods & services)	34	29	24	30	20	24	13.6

Source: Central Bank of Peru.

IBRD activities included policy dialogue and lending conditions in two successive series of DPLs in FY02–06 and FY07–09. IBRD also undertook several AAA tasks, including a Public Expenditure Review (2002), a Country Economic Memorandum (2005), a Financial Sector Assessment Program (FSAP) Update (2005), and a Public Expenditure and Financial Assessment (2009). In 2009, the Bank substantially increased its lending to support the government’s crisis response strategy. The government requested US\$330 million in contingency financing through a supplemental credit to an on-going DPL in August 2008. This was followed by three additional DDO-DPLs between January–June 2009. The domestic financial sector remained healthy throughout the crisis. There was no request for IFC crisis-response interventions other than from a medium-sized private bank to join IFC’s Global Trade Finance Program to help enhance its trade financing. There were also no requests for MIGA guarantees during the crisis.

#### *Outcome of World Bank Group Support*

**IBRD’s focus on fiscal sustainability was relevant, and its crisis response was substantial and timely.** Despite weaknesses in monetary management, IBRD’s focus on fiscal management was appropriate given: a history of inconsistent expenditure management in Peru; the loss of fiscal control experienced in Brazil and other countries during decentralization processes; and the active engagement of the IMF on monetary policy. The IMF provided a succession of Stand-By Arrangements in 2002, 2004, and 2007.

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#### *The Bank’s Development Policy Loan series reflected a broad consensus among other development partners.*

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The Bank’s Development Policy Loan series also reflected a broad consensus among other development partners and was prepared with the participation of other agencies, including: the Inter-American Development Bank, European Union (EU), the UK’s Department for International Development, German Technical Cooperation (GTZ), and the U.S. Agency for International Development. IBRD’s crisis response lending in 2009 also reflected a substantial and timely response to supporting a measured government crisis mitigation strategy that included substantial government contingency borrowing from IFIs to signal to markets that it had adequate resources to intervene in the economy, if necessary. IBRD’s crisis lending also indirectly supported the government’s long-term fiscal “stimulus package” of US\$4 billion planned in infrastructure and social sector investments. Although the package was more of a long-term investment plan rather than a shorter-term “stimulus,” it was

an appropriate response in the context of lower aggregate demand mainly from external sources rather than domestic demand. The response was also appropriate given large unmet investment needs in infrastructure and the social sectors.

**Most of the targets established in the Bank’s DPLs in support of macroeconomic stability were achieved.** The government maintained strong macroeconomic management throughout the review period. Most of the lending triggers and specific actions under the Bank’s DPLs were achieved or surpassed. The objective of maintaining fiscal neutrality during decentralization was fully achieved, with all program indicators for tax administration, fiscal transfers, regional and local borrowing, and debt reduction fully met. Measures to encourage lower dollarization along with broader confidence in the economy helped reduce dollarization in the banking sector. Effective fiscal control measures were established at both central and SNG levels.

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#### *The strong achievements in fiscal management have placed Peru in a good position to further its decentralization agenda with less risk of fiscal instability.*

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IBRD finance was also used to replace higher cost external debt, which supported the government’s substantial progress in debt reduction. One area targeted by IBRD experienced less progress. Partly overshadowed by rising external revenues after 2005, expected reforms in reduction in tax exemptions were not pursued. Nevertheless, there was a steady increase in tax revenues from 12 percent to 16 percent over the review period. Positive achievements in maintaining fiscal control were, to some extent, at the cost of more effective decentralization, which was a key objective of WBG-supported public sector management reforms.

In retrospect, the relative priority of fiscal control was appropriate. The strong achievements in fiscal management have placed Peru in a good position to further its decentralization agenda with less risk of fiscal instability. Some elements of capacity building to support effective decentralization are of a long-term nature. The counterfactual of ineffective decentralization and loose fiscal control would have placed Peru in a significantly worse position.

**IBRD’s crisis response lending made a positive immediate contribution to the government’s signaling efforts, although its longer-term outcome remains too early to evaluate.** Peru’s strong initial conditions in both macroeconomic management and the financial sector helped it weather the crisis better than other countries in the region. The government also developed a measured

response that included substantial contingency borrowing from IFIs to signal to markets that it had the capacity to intervene if needed. Within this context, IBRD played a useful role. The Bank was quick to respond with large lending volumes that contributed to the government's signaling effects.

The Bank's substantial and rapid response derived mainly from an existing pipeline of policy loans that were then accelerated and enhanced with additional financing. The contingent nature of the DDO-DPL financing made it an appropriate instrument to support market confidence. It allowed for a flexible government response, and limited costs to the government. Beyond the initial signaling effect, however, it is too early to assess the effectiveness of the Bank response. In the longer term, the use of contingent lending that is not disbursed represents an opportunity cost of using Bank funds elsewhere. As of the end of the review period, the government had only disbursed US\$70 million of the US\$1.4 billion approved since August 2008. As the "signaling" effect becomes less relevant and if the loans are not disbursed, having served their short-term purpose, early cancellation of the loans may be the best course for the Bank and the government.

**While attribution of outcomes to the WBG is difficult to establish, IBRD made positive contributions through its policy advice, technical support, and signaling effects.** To a large extent, Peru's success in maintaining macroeconomic stability can be attributed to consistent government policies, as well as to the sharp increase in mineral prices since 2005, which substantially supported positive macroeconomic outcomes.<sup>4</sup> The Central Bank of Peru and the Ministry of Economy and Finance are both strong institutions that developed and implemented appropriate policy reforms. Policy reforms and technical improvements were internally driven rather than made to meet the Bank's lending conditions.

Within this context, the Bank made clear positive contributions to the government's efforts to maintain stability as well as to manage the financial crisis. In particular, as acknowledged by members of both current and past governments: (i) the Bank's role as an impartial advisor and conveyor of worldwide best practice in macroeconomic management played an important role in defining the reform agenda of successive administrations in Peru; (ii) the technical advice, due diligence AAA, and policy matrices that accompanied the DPLs were highly valued by government counterparts and contributed to timely implementation and better monitoring of programs; (iii) the Bank's presence helped add leverage to implementing reforms among different government agencies; (iv) the Bank's TA directly contributed to improvements in budget planning and execution; (v) the Bank's crisis

response lending effectively signaled to markets that the government had adequate reserves to respond to the country's needs; and (vi) WBG support for development of the extractive industries sector indirectly contributed to positive macroeconomic outcomes.

**Outcome Rating.** IEG rates the outcome of WBG support for maintaining macroeconomic stability and reducing vulnerability to shocks as *satisfactory* (see annex 3 for IEG's ratings scale and definitions).

## Deepening and Broadening the Financial System

### *Country Developments*

**Good progress was made in the financial sector in the 1990s, although key challenges remained in 2003 to ensure stability and broaden access to financial services.** By 2003, Peru had established an appropriate regulatory environment and public oversight over the financial sector. Capital adequacy ratios had improved to within prudential norms. Several foreign banks had entered the system. Yet, concerns persisted in several areas. First, four large banks accounted for 75 percent of banking assets. Second, a high level of dollarization (80 percent of bank lending) exposed local firms to foreign exchange risks. Third, cautious practices among banks had resulted in a decline in lending to the private sector. Regarding microfinance, although Peru had one of the world's leading microfinance industries, it accounted for just 2 percent of banking assets. Just 12 percent of Peru's estimated 3 million microenterprises had access to formal credit.

Notwithstanding growth since the 1990s, the expansion of larger loans to (SMEs) was hindered by: inadequate recording of titles; weaknesses in realizing collateral; limited project finance lending by banks; and a culture of non-repayment in the rural sector derived from past state agriculture lending. The capital market remained undeveloped and dominated by public debt, with very limited participation by the private sector. Peru's housing finance industry had a market penetration of just 2 percent, hindered by a: lack of access to cost-effective financing; lack of a secondary mortgage market; an inadequate stock of affordable housing; and weaknesses in the land titling and legal recourse framework.

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**Risks in the financial sector (since 2003) declined substantially, with improving capital adequacy ratios, strong liquidity positions, and declining non-performing loans among banks.**

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**After 2003, Peru's financial sector improved substantially.** Risks in the financial sector (since 2003) declined substantially, with improving capital adequacy ratios, strong liquidity positions, and declining non-performing loans among banks. Commercial bank lending grew by 23 percent a year and dollarization dropped to 58 percent. The reach of the banking sector also improved, with the number of borrowers from banks and microfinance institutions (MFIs) rising by over 50 percent (table 3.2).

Peru ranked first out of 55 countries in the “2009 Microscope Index,” a pilot index by the Economist Intelligence Unit that assessed business conditions for microfinance.

According to the 2010 WBG Doing Business (DB) report, Peru ranked 15th out of 183 economies in the “getting credit” index, the highest in the region after Guatemala. Regarding microfinance, Peru ranked first out of 55 countries in the “2009 Microscope Index,” a pilot index by the Economist Intelligence Unit that assesses business conditions for microfinance.<sup>5</sup> Several mainstream banks began microfinance operations. The sector has remained profitable and financially sound. In 2008, microfinance accounted for 9 percent of banking assets. During the review period, the private sector entered the capital market and private bond issues rose to about 4 percent of GDP in 2008, among the highest in the region. Housing finance expanded threefold, and the proportion of dollar-denominated mortgages declined to 32 percent. The banking system has also weathered the financial crisis

well, containing the number of NPLs and maintaining prudential capital adequacy and liquidity positions.

Access to credit is also concentrated in Lima and the coastal areas, and lending in the *sierra* (38 percent of the population), comprises just 7 percent of total credit.

**Despite progress to date, challenges remain in further increasing access to finance.** Progress in the financial sector in Peru reflects a sharp improvement since the early 2000s, and the stability achieved has set a sound basis for progress on broadening access to financial services. However, there are still challenges to be overcome. The four largest banks continue to hold 80 percent of total assets. Access to credit is also concentrated in Lima and the coastal areas, which account for 90 percent of total lending (with 63 percent of the population), and lending in the Sierra (38 percent of the population), comprises just 7 percent of total credit. Although the microfinance sector has expanded and remains healthy, large gaps remain in reaching the dispersed rural population. Meanwhile, commercialization and competition are causing an increase in larger loans and borrowers by MFIs.<sup>6</sup> Despite the expansion in mortgage lending, the sector remains nascent, with penetration limited to four banks in the market.<sup>7</sup> Bond market transactions are also limited to a few major entities, with five companies responsible for 77 percent of corporate bonds. Although the proportion of households using banks increased from 20 to 28 percent during the evaluation period, Peru is still well below other countries in the region such as Chile, which has a ratio of 70 percent.<sup>8</sup>

**TABLE 3.2 Peru — Financial Sector Indicators, 2003–08**

Financial sector indicators	2002	2003	2004	2005	2006	2007	2008	LAC	MIC
Domestic credit to private sector (% of GDP)	23.0	20.5	18.4	19.4	17.8	21.0	25.1	38.5	61.2
Bank Non-performing loans to total gross loans (%)	7.6	5.8	3.7	2.1	1.6	1.3	1.3	2.3	3.1
Administrative expenses / Operational assets (%)	4.9	4.9	4.7	4.6	3.4	4.5	4.3	n.a.	n.a.
Return on assets (ROA) (%)	0.8	1.1	1.2	2.2	2.2	2.5	2.6	n.a.	n.a.
Bank capital to assets ratio (%)	10.1	9.3	9.8	7.7	9.5	8.8	n.a.	10.2	9.6
Bank capital to weighted assets (Basel II)	8.0	7.5	7.1	8.3	8.0	8.5	8.4	n.a.	n.a.
Bank liquid reserves to bank assets ratio (%)	22.8	21.5	23.4	31.6	29.9	33.0	32.9	10.4	11.1
Liquidity ratio in local currency	23.5	32.9	44.8	38.6	43.1	57.3	26.3	n.a.	n.a.
Liquidity ratio in foreign currency	49.3	43.9	44.3	49.2	45.0	37.0	53.0	n.a.	n.a.
Dollarization of credit (%)	79.7	77.9	75.7	71.5	65.5	61.8	57.5	n.a.	n.a.
Total number of banks	15	14	14	12	11	13	16	n.a.	n.a.

Sources: World Bank database. Banking Supervision Authority (SBS), World Bank. Data for LAC/MIC are for 2007/08. The Basel II minimum capital requirement (the percentage of risk-weighted assets to be held as capital) is 8 percent.

## *World Bank Group Engagement*

**WBG support in the financial sector sought to expand private sector activity.** The CASs did not contain any direct WBG outcome indicators for the financial sector. Instead, they indicated that the Bank would seek to identify and address obstacles to sustainable financial deepening, and that IFC would seek investments to help the private sector expand its reach and diversify its range of financial products, including development of capital markets, mortgage finance, and leasing.

IFC had 13 active investments in its portfolio in 2003–09 totaling US\$295 million for SME banking, microfinance, insurance, leasing, mortgage finance, and capital markets. Three investments were in mainstream commercial banks, five in microfinance institutions, two in insurance companies (including one that entered the micro-insurance industry), and three in specialized leasing companies. IFC supported mortgage lending through its commercial bank investments and support for a securitization company. IFC also issued the first of two capital market bonds by a multilateral institution in the country in 2004–05.

No direct IBRD lending in the financial sector was planned or made. IBRD used its policy advice and technical support through the Trade Facilitation Technical Assistance Loan (TAL) and conditions in the two DPL series to help improve access to export financing, strengthen regulation of non-bank financial institutions, and improve contract enforcement and dispute resolution. Several IBRD AAA tasks also addressed issues in the sector, including a study on microeconomic constraints to growth, a financial sector assessment update, the 2006 policy notes, and studies on mortgage and SME financing.<sup>9</sup> A parallel WBG intervention to support property registration in urban areas also indirectly facilitated financial sector development because registered properties could then be used as collateral to access finance.

## *Outcome of World Bank Group Support*

**The WBG's support for financial sector development reflected a relevant mix of advisory services for the public sector and private sector investment.** WBG interventions in the sector remain relevant to refining the regulatory environment to support stability and stimulating the private sector as the main driver of diversification, growth, and the expanded reach of financial services. Given Peru's relatively open, private sector-led environment and adequate supervisory capacity, significant IBRD intervention was not warranted. IFC appropriately identified potential roles in helping the private sector diversify its products and expand its reach.

The approach reflected an appropriate sequencing of IBRD and IFC instruments. In the 1990s, IBRD had pro-

vided direct lending to support financial sector development. As the regulatory environment and supervisory capacity improved and the banking sector consolidated and expanded, IBRD did not provide any direct lending in the financial sector over the review period. Instead, it limited its engagement to policy advice and technical assistance. IFC provided the main instruments to address WBG objectives in supporting diversification and the expanded reach of the financial sector, including investing in several private financial institutions. The World Bank Group approach in the financial sector over the last decade represents an appropriate, sequenced engagement with the Bank initially taking the lead to support the establishment of a favorable regulatory environment, followed by increased IFC activity to help catalyze private investment.

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*The World Bank Group approach in the financial sector over the last decade represents an appropriate, sequenced engagement with the Bank initially taking the lead to support the establishment of a favorable regulatory environment, followed by increased IFC activity to help catalyze private investment.*

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**The WBG made a positive contribution to the development of the microfinance industry.** IBRD supported regulatory changes that allowed supervised MFIs to collect deposits, thereby reducing their dependence on external funding. Meanwhile, IFC made five investments in MFIs between 2001 and 2007 that helped the industry broaden its sources of finance and expand access to finance. IFC's 2001 investment in Peru's first fully-regulated commercial MFI, Mibanco, came on the heels of a major crisis in Peru's financial system, and when the company had limited access to commercial credit. Since then, Mibanco has established itself as a leading MFI, with 18 percent of the market. It has access to commercial financing as well as a deposit base, and has established a broad network of agencies across the country. IFC's initial engagement helped open access to commercial markets and the company's subsequent access to commercial markets was a key element of its growth.

In the case of Edyficar, IFC facilitated the company's access to capital markets by guaranteeing the first bond issue by an MFI, which helped attract institutional investors. IFC also helped Edyficar transition to a fully-regulated MFI, which enabled it to raise deposits. The company has since grown substantially at nearly 10 percent a year, and it currently has 5 percent of the market. In micro-insurance, IFC invested in the first specialized micro-insurance company in 2008. The company aims

to expand its provision of life insurance on loans, life insurance for micro-entrepreneurs' spouses, accident insurance, and retirement annuity products in a largely unserved market segment. However, the company's results in its initial year of operations were below expectations. It was partly hindered by lack of legislation enabling early retirement. The overall micro-insurance industry remains undeveloped.

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IFC issued two successive direct local currency bond issues in 2004/05, the first by a multilateral agency, followed by several guarantees that supported private sector bond issues.

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**Positive results were also seen in WBG interventions in capital markets, although results in housing and self-standing insurance companies were lower than expected.**

With respect to capital markets, IBRD supported legislation that gave private pension fund managers more flexibility in the composition of their investment portfolios. This legislation stimulated capital market development. IFC issued two successive direct local currency bond issues in 2004–05, the first by a multilateral agency, followed by several guarantees that supported private sector bond issues. Regarding mortgage finance, IBRD provided technical assistance that helped facilitate the conversion of the MiVivienda public housing subsidy program to local currency denominated mortgages to reduce dollarization. TA also helped standardize mortgage contracts and tax treatment. IFC invested in two banks that entered the mortgage lending market and both institutions have had positive results, increasing their mortgage portfolios beyond expected benchmarks and maintaining low NPL levels. However, as indicated in the 2007 CAS, IFC also intended to stimulate the local mortgage market by developing a mortgage-backed securitization program for the secondary market. With ensuing worldwide events, the timing was not opportune and this did not take place.

IFC's investments in leasing companies, which were made in the 1990s when the sector was initially emerging, were negatively affected by the dominance of commercial banks (the three largest banks control 75 percent of the market) and unfavorable market conditions between 1999 and 2003, during which the market shrank. Latino Leasing for example, which was then the third largest specialized leasing company, was eventually liquidated in 2003. Another IFC investment client, America Leasing, expanded its services to SMEs, as well as its market share among specialized leasing companies. However, due to the increased competition of banks, it has experienced an overall decline in market share.

Regarding SME finance, along the lines of its corporate strategy, IFC aimed to help expand the reach of financial services through investments in local banks that supported expanded SME lending rather than direct IFC lending to SMEs. The approach had some success in helping expand SME access to finance, although the strategy remains a long-term one, with the risk/reward perspective of commercial banks still inhibiting outreach to the higher risks and smaller individual loan sizes characteristic of the SME market.

**The WBG's interventions supplemented strong government efforts in banking supervision and had important demonstration effects in the private sector, although improving access to finance remains a long-term process.** Although the WBG made positive contributions, improvements in the banking sector can be largely attributed to strong government policies and actions to strengthen banking supervision as well as improved corporate management and dynamism in the private sector. Over the review period, Peru's banking supervision authority, (Superintendencia de Bancos y Seguros or SBS), which supervises banks and MFIs, was reorganized and strengthened. The agency's salary scales remained outside civil service norms and it was able to attract and retain a cadre of qualified and capable staff. Along with improved banking supervision, other factors influencing performance of the financial sector included entry of several large foreign banks, significant improvements in credit information systems, and growing capacity and skills in Peru's private financial sector.

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Although the financial sector is stable and there has been initial progress in expansion and diversification, much remains to be done before an adequate degree of access to finance is achieved.

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IFC played an important risk-reducing role in the early 2000s, and its investments served to support the diversification of financial services. However, although the financial sector is stable and there has been initial progress in expansion and diversification, much remains to be done before an adequate degree of access to finance is achieved. To a large extent, however, the pace of these improvements will be a private sector- and market-driven process. There will be less need for direct public interventions in the financial sector and more need for indirect interventions such as maintenance of macroeconomic stability, containing government borrowing, reducing isolation of population groups and infrastructure gaps, and facilitating entry of new institutions to enhance competition.

**Outcome Rating.** IEG rates the outcome of WBG support for deepening and broadening the financial system as *Satisfactory*.

## Improving the Business Regulatory Framework

### *Country Developments*

**Continuing regulatory barriers to doing business inhibited broader participation in growth at the start of the review period.** By 2003, although market reforms and reduction of entry barriers had generated a strong private sector supply response, challenges remained in improving the environment for doing business, particularly to facilitate broader participation in growth. Although good progress had been made in formalizing property rights in urban areas, an estimated 60 percent of GDP was produced by an informal sector in which unregistered firms lacked access to formal credit, property rights, contract enforcement through the judicial system, or other public services. Weaknesses in the regulatory environment for doing business included: (i) uncertainty in the policy environment, with for example, multiple changes in labor and tax laws occurring each year; (ii) high costs and difficulties in registering businesses and obtaining operating licenses and permits; (iii) onerous labor regulations that added to the cost of hiring and firing through mandatory non-wage compensation and restrictions on termination; and (iv) cumbersome tax payment procedures along with high corporate and individual tax rates.<sup>10</sup>

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Most Doing Business indicators (other than taxation and labor regulations) compare favorably with other Latin America and Caribbean countries.

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**Since 2003, improvements have been made in several areas of the business regulatory environment, although rigid labor laws and cumbersome taxation systems remain obstacles to doing business and business formalization.** A range of reforms were introduced to reduce regulatory barriers to doing business. Peru's ranking for the "ease of doing business" in the Doing Business (DB) reports improved substantially. Most Doing Business indicators (other than taxation and labor regulations) compare favorably with other Latin America and Caribbean countries. For example, the average time to start a business was reduced from 98 days in 2004 to 41 days in 2009, below the Latin America and Caribbean regional average of 62 days.

Other business environment indicators also show improvements in recent years. Peru's Institutional Investor Country Credit Risk (IICCR) rating improved from 38 (medium risk) in 2003 to 59 (low risk) in 2009. Peru has

also maintained a liberal foreign investment regime, with few restrictions on capital transactions or repatriation of profits. Municipal level reforms eased business registration and license procedures. In 2008, changes were also introduced to allow more flexible labor regulations and tax rates for micro- and small enterprises.

Despite improvements in the business environment, informality remains high. Although the costs of registering a business have declined, other factors continue to inhibit formal registration, including taxation and formal employment rigidities. No major improvements were made to the labor code over the review period, and rigid formal employment conditions continue to be identified as a main constraint to business activity in enterprise surveys. For example, the 2009–10 Global Competitiveness Report identified restrictive labor regulations as the most problematic factor for doing business in Peru. In the 2010 DB Report, Peru ranked 119th in "ease of employing workers." Peru's "difficulty of redundancy index" at 60 is well above the regional average of 24. Cumbersome tax regulations and high tax rates also continue to be identified as important obstacles to doing business in enterprise surveys.

### *World Bank Group Engagement*

**The WBG sought to help reduce regulatory barriers to registering businesses and business informality.** Over the review period, the WBG produced a wide range of studies that diagnosed and recommended changes to the regulatory and administrative environment to doing business. These included: studies on an investment promotion strategy (2003); microeconomic constraints to growth (2004); administrative barriers to investment in the Municipality of Lima (2003); administrative barriers to investment in the regions of Peru (2005); and the DB Reports since 2004. However, the FY03 CAS did not identify any specific WBG objectives or interventions to help address regulatory constraints to doing business. In 2004, in response to a request from the Municipality of Lima, IFC prepared an advisory operation to help simplify business registration and licensing procedures. Based on the success of this project, the simplification process was subsequently expanded across Peru.

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Issues such as the restrictive labor code and cumbersome tax administration that both discourage formalization as well as the establishment of new businesses have remained unaddressed.

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The FY07 CAS formalized the WBG's approach by identifying improving the Business Enabling Environment (BEE) as an objective. An indicator on improving Peru's standing in the DB rankings was added to the results

matrix. IBRD subsequently supported the business registration simplification process through targets in its DPL programs. The Bank also produced a series of analytical reports in 2007–08 on informality that provided a comprehensive review of the factors behind informality. To address the large numbers of settlers on properties in the outskirts of major urban areas without formal property titles, IBRD supported the government’s large scale property registration efforts through an FY1998–2004 Urban Property Rights Projects and a second Real Property Rights Consolidation Project in FY06.

### *Outcome of World Bank Group Support*

**The WBG produced a highly relevant array of diagnostic work, but aimed to help address only a narrow set of constraints.** During the 1990s, the main sector to respond to the first-generation stabilization and liberalization reforms was the mining sector. By the early 2000s, a key challenge remained to stimulate a supply response in other sectors, particularly among the SMEs. In addition, a large “informal sector” of unregistered business activity was perceived to be at a disadvantage. The multiple studies undertaken by the Bank since the early 2000s were highly relevant to addressing these challenges. IFC’s work with the municipality of Lima responded to government interest at the time, and was based on diagnostic studies that identified some of the most binding constraints to registering a business. However, IBRD did not have an explicit role in addressing other regulatory barriers to doing business, which in retrospect might have formed part of the policy dialogue on the series of DPLs aimed at improving Peru’s competitiveness. In particular, issues such as the restrictive labor code and cumbersome tax administration that both discourage formalization as well as the establishment of new businesses have remained unaddressed. In 2010, IBRD initiated an analysis of the costs and benefits of the different tax regimes. Regarding property rights, the Bank-supported mass registration efforts in the late 1990s had proved highly successful and justified further efforts to consolidate the process.

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The range of diagnostic studies produced by the World Bank Group on the business environment since 2003 are still recognized as providing the first comprehensive reviews and recommendations to reduce regulatory barriers to doing business.

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**The WBG’s analytical work had a catalytic role in reforms to reduce regulatory obstacles to doing business.** The range of diagnostic studies produced by the World Bank Group on the business environment since 2003 are still recognized as providing the first comprehensive re-

views and recommendations to reduce regulatory barriers to doing business. The initial Foreign Investment Advisory Service (FIAS) studies on investment promotion in 2002–03 helped guide the development of Peru’s recently established investment promotion agency, Proinversion, which has emerged as a well-managed and effective institution. The Micro-Economic Constraints to Growth Studies were also highly influential in helping set the government’s reform agenda to facilitate broader participation in growth. The Doing Business Reports have been the most visible since 2004, drawing high level government attention and catalyzing a range of specific actions to improve the business environment. Although a recent IEG evaluation identified some weaknesses in the DB methodology and suggested that it should not be taken as a comprehensive measure of the business environment in a country, the high-profile attention that it received helped spur momentum toward addressing BEE issues.<sup>11</sup>

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IFC and IBRD studies have indicated that, although simplification of registration procedures has a positive effect on reducing informality, simplification of procedures in themselves can be insufficient.

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The WBG’s two informality studies in 2007–08 also provided a comprehensive and detailed analysis on the causes and consequences of informality. It produced clear recommendations on areas in need of reform. Although the reports did not receive broad dissemination partly due to government objections to their findings on the minimum wage, they helped generate additional commitment to reducing informality in the country. In 2008, President Garcia set a target of reducing informality by one-third by 2011. The World Bank Group’s AAA on BEE issues helped stimulate what some observers describe as a “cultural shift” in perceptions of the role of the government as an obstacle to rather than a facilitator of private sector development.

**IFC’s business registration simplification program demonstrated an effective means of easing cumbersome administrative procedures.** The 2004 IFC project with the Lima Municipality helped realize a substantial reduction in the time and steps involved in obtaining business licenses and construction permits in Lima. The number of days needed to obtain a license was reduced from 60 to 6, and the number of days to receive a construction permit was reduced from 320 to 20. These improvements contributed to a five-fold increase in registered businesses in Lima. The success of the project led to the IFC-supported National Plan for the Simplification of Business Registration, under which the project was replicated in municipi-

palties across Peru. IFC also replicated the project in over 100 municipalities in ten countries across the region.

Based on both the successful and unsuccessful efforts in various municipalities, key success drivers included: (i) consistent high-level support for the reforms, regardless of changes in administrations and individual leaders; (ii) adequate pre-study and diagnosis that allowed the simplification process to focus on a few critical procedures removing the main bottlenecks; (iii) the use of the media to communicate simplified procedures to the public; (iv) an emphasis on establishing effective monitoring systems; and (v) encouragement of an active public-private dialogue and broad stakeholder ownership regarding the simplification procedures. However, IFC and IBRD studies have indicated that, although simplification of registration procedures has a positive effect on reducing informality, simplification of procedures in themselves can be insufficient. From a firm-level perspective, there are few perceived benefits of formalization, although potential costs such as taxation and adherence to formal labor regulations are high.<sup>12</sup>

**IBRD's positive contribution to formalizing property rights in the early 2000s has since been undermined by considerably slow progress and back-tracking on the agenda since then.** The FY1998–2004 Urban Property Rights Project, which was rated “highly satisfactory” by IEG, made a substantial contribution to the large-scale registration of informal settlers. The Bank-funded project helped: introduce information management systems; develop a cost-effective registration process; and play a critical role in building capacity in the two national agencies responsible for the effort.<sup>13</sup> Notwithstanding the achievement in mass registration, however, the legal framework for property rights continues to be complex. Some 1,800 regulations on property rights issued by an array of entities create duplication, gaps and inconsistencies, resulting in confusion for users and an arbitrary application of standards.

Since the project's completion, moreover, there has been substantial weakening in the capacity of the key implementing agencies. In addition, some reforms have been reversed. For example, procedures designed to streamline registration no longer apply since the use of notary services for registration of titles was reintroduced. Other reports indicate that: “75 percent of the registered properties do not have updated information in the central registry either because new houses were built up in registered empty land or because an addition to the existing edification was built.”<sup>14</sup> A 2006 follow-on Bank project was designed to help consolidate and expand the formalization process, and further strengthen institutions. However, the project has suffered from design flaws and substantial implementation delays due to high staff turn-

over, resource constraints, and poor communication between implementing agencies.

**Outcome Rating.** IEG rates the outcome of WBG support for improving the business regulatory framework as *moderately satisfactory*.

## Supporting Growth of the Tourism Industry

### *Country Developments*

**During the 1990s, tourism emerged as a major growth sector in Peru.** The country's tourism sector experienced rapid growth after the liberalization of the economy, reduction of barriers to investment, a decrease in violence in the 1990s, and the privatization of public hotel and transport services. Tourist arrivals increased from 200,000 in 1992 to 1 million in 2003. Tourists were drawn to Peru largely due to its archaeological and cultural heritage, particularly Machu Picchu, and as well as by its attractive natural sites from panoramic mountains, to pristine tropical jungles, to Pacific beaches.

**Yet, in 2003, a range of constraints remained that undermined further growth.** These included: inadequate transportation and utility infrastructure and services in many parts of the country; limited hotel infrastructure; and extensive time and procedures involved in obtaining licenses and permits. Concerns also existed as to the environmental and social sustainability of tourism, particularly the preservation of natural and cultural assets. There was a need to broaden its benefits by better engaging local communities, as well as a need to supplement Peru's largely “backpacker” tourism that involved high volumes, but low revenues with higher yielding markets.

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### Annual tourist arrivals doubled from one million in 2003 to two million in 2008.

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**Since 2003, tourism has continued to grow rapidly, although constraints persist to realizing Peru's full potential.** Since 2003, macroeconomic stability, further reductions in restrictions on investment, increasing integration of Peru with world markets, and proactive government policies to promote tourism and stimulate private investment have yielded strong growth in the industry. Annual tourist arrivals doubled from 1 million in 2003 to 2 million in 2008, and tourism revenues increased by 19 percent a year, reaching US\$2.4 billion in 2008. In 2008, tourism contributed 8 percent of GDP and employed 7 percent of the workforce (both directly and indirectly).

However, there is continued room for growth. In 2008, Peru's ratio of arrivals to population was 7 percent, lower than countries such as Argentina (12 percent), Chile (16 percent), and Mexico (21 percent). A 2008 government

study identified several constraints to further growth, including: (i) unsatisfied hotel demand due to limited investment outside major established destinations; (ii) difficult transportation and connectivity, including limited international air connections, inadequate local airports, and poor road infrastructure; (iii) continued long waiting periods for permits; (iv) increased security concerns, including crime, street protests, and roadblocks; and (v) poor institutional capacity in the public sector to address sector constraints.

### *World Bank Group Engagement*

#### **The WBG sought to support growth, sustainability, and the broadening of benefits in the tourism sector.**

WBG objectives to support sustainable growth in tourism were to help: (i) attract interest in tourism through improvements in infrastructure and hotel stock, (ii) broaden the economic benefits of the sector, through employment and linkages; and (iii) ensure that growth was socially and environmentally sustainable. The WBG's intended interventions as stated in the CASs were limited to IFC investments. Neither MIGA nor IBRD had defined roles. The FY07 CAS contained one outcome indicator related to tourism: an increase in the number of tourists from 1.3 million to 2 million.

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*The tourism sector represents an area of high potential growth, employment creation, as well as the ability to stimulate broad linkages with other sectors such as transport, restaurants, tour operators, and suppliers.*

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Over the review period, five IFC investments, two existing MIGA guarantee projects, and one Bank investment loan were made in the tourism sector. IFC operations included three investments in Peru Orient Express Hotels, a joint venture between Orient Express Hotels, a leading international hotel and leisure operator, and local investors. The projects supported Orient Express Hotels' investments in five high-end hotels in Cusco, Machu Picchu, and Lima. IFC also invested in an ecotourism lodge in the southern Amazon. In 2001, MIGA provided a guarantee to support development of the Marriot Hotel in Lima. Three infrastructure investments included: (i) IFC and MIGA support for a private concession to rehabilitate and operate Lima's international airport; (ii) an IFC investment in Peru Rail (also managed by Orient Express Hotels), the private railroad concession linking Cusco with Machu Picchu; and (iii) an IBRD project to develop local infrastructure to support tourism in the Vilcanota valley in the Cusco region. IFC also engaged in IFC-AS linkages and local community development programs associated with its hotel and Peru Rail investments.

### *Outcome of World Bank Group Support*

**The WBG's limited interventions in tourism remain relevant given the engagement of other donors in broader sector policy issues.** The tourism sector represents an area of high potential growth, employment creation, and has the ability to stimulate broad linkages with other sectors such as transport, restaurants, tour operators, and suppliers. In this context, a key government objective was to attract higher-end tourism to increase average tourist expenditures. As such, the WBG's support for high-end hotels and tourism infrastructure was fully relevant.

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*The Orient Express Hotels and Marriot hotels made an important contribution to supplementing Peru's image as a "backpacker" destination with a high-end, luxury market segment.*

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The WBG did not engage in broader issues such as sector strategy formulation or public institutional capacity development. The IADB played a major role in tourism by: i) helping the government to implement the national strategic plan for tourism; ii) implementing regional tourism promotion programs; and iii) enhancing micro- and small and medium enterprise (MSME) competitiveness in tourism. Moreover, USAID worked with the Ministry of Tourism in helping introduce information and communications technology to enhance development of the industry. Nevertheless, given the strong potential impact on employment generation and linkages in the tourism sector, a more strategic WBG diagnosis and strategy were warranted. Although IFC made positive contributions in tourism, its activities were concentrated in one major corporate sponsor, thereby limiting its broader role and contribution to overcoming risks in the sector.

**The WBG made an effective contribution to developing Peru's high-end tourism market.** IFC's first investment in Peru Orient Express Hotels in 2000 came at a time of political uncertainty in the country when there were few high-end hotel operators in the industry. The project supported Orient Express Hotels' first investment in Peru, with IFC providing long-term finance that was then unavailable in the local market. MIGA provided a political risk guarantee to support Orient Express Hotels' investment in a five-star hotel in Lima. The Orient Express Hotels and Marriot hotels made an important contribution to supplementing Peru's image as a "backpacker" destination with a high-end, luxury market segment. IFC also helped transform a heavily indebted, loss-making ecotourism hotel into a profitable operation that is now renowned for its conservation and biodiversity efforts. The

hotel helped pioneer ecotourism as an effective balance between development and conservation. Its success has prompted about 30 other hotels to replicate the concept in the southern Amazon region. The proprietor of the company accords IFC significant credit in helping the company “survive” through financial support as well as advice to the company.

Both the Orient Express Hotels and ecotourism hotels are linked to local communities through the purchase of goods and services. As high-end hotels, both companies have relatively high employee-per-room ratios, and increased their direct employment. Both have also invested in staff development, with the ecotourism lodge, for example, sending some of its trail guides for training in well-established safari hotels in east and southern Africa. The hotels have also generated broad indirect employment, in areas such as transport services, food and beverage outlets, tour operators, and souvenir industries.<sup>15</sup>

**Two WBG-supported concessions helped improve tourism-related transport services, although some limitations underlined the need for enhancing competition in monopolistic sectors.** In transport, IFC invested in the Orient Express Hotels–sponsored Peru Rail, a concession agreement for the operation of the Cusco–Machu Picchu rail network. The concession substantially increased passenger transfer capacity and enhanced service quality. However, it has remained a monopoly since inception, user charges have been high, and Peru’s anti-monopoly office found it guilty of blocking competition. Recent concessions to allow two additional operators are expected to add competition and reduce tariffs.

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Both the Peru rail and airport concessions illustrate the critical need to encourage competition as much as possible, and to develop optimal concession agreements that compensate for lack of competition in monopolistic sectors.

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Both IFC and MIGA supported a concession to upgrade Lima’s international airport. The resulting increased handling capacity has helped Peru cope with substantially increased traffic volumes and, at the same time, maintain service quality. However, an IEG evaluation of the project found that the concession undermined competition in that the operator was given a 40 year concession, the longest in the Latin America and Caribbean Region. The operator also charges the highest fees in the region. It was given the right to compete with subcontractors on cargo operations and airport services, thereby conferring an unfair advantage. The project has also not yet resulted in

the expected development of a second runway, which remains a main capacity constraint.

Both the Peru rail and airport concessions illustrate the critical need to encourage competition as much as possible, and to develop optimal concession agreements that compensate for lack of competition in monopolistic sectors. The Bank-financed Vilcanota Valley project aimed to help enhance sustainable tourism in the region through investments in visitor services, historic preservation, and cultural education for local residents and tourists. However, the project experienced substantial delays and has not yet met its objectives due to an over-ambitious initial project design and lack of local capacity to implement the project. The project has recently been restructured and the scope substantially reduced to raising tourism awareness and conducting feasibility studies.

**Outcome Rating.** IEG rates the outcome of WBG support for growth in the tourism sector as *moderately satisfactory*.

## Supporting the Development of Agriculture and Agribusiness

### Country Developments

**Increasing the incomes of the agriculture-dependent poor remained a major challenge in 2003.** The agriculture sector in Peru comprises: (i) the modern export-oriented agribusiness sector; (ii) the medium-size traditional crop agriculture mainly oriented to internal markets; and (iii) smallholder subsistence agriculture. Following liberalization in the 1990s, particularly the removal of price controls and government marketing monopolies, the sector had grown at 4 percent a year from 1996–2002. In 2003, agriculture accounted for 8 percent of GDP and employed 30 percent of the labor force. However, the sector was characterized by low productivity and low farmer incomes. An estimated 80 percent of the extreme poor worked in traditional agriculture and fisheries.

Despite being one of the largest fish producers in the world, fisheries accounted for just 1 percent of GDP, indicating limited value added. A range of constraints to increased productivity and income in traditional agriculture included: (i) small and decreasing land holding size as a result of both past government land distribution policies and the subdivision of land within families; (ii) high margins among intermediaries; (iii) difficulties in getting products to markets; (iv) dependence on precipitation levels for adequate water supply in some areas; (v) and inadequate plant and animal health standards that restricted access to international markets. Regarding agribusiness, the sector was still nascent. Although it had re-

ceived increased investment, it was perceived as a high-risk venture, vulnerable to weather, market, and disease risks.

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Growth in agribusiness has been a substantial achievement in Peru. The industry represents high value addition to local raw materials, and has contributed to employment generation.

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**Since 2003, agribusiness has grown rapidly, although limited improvements were made in rural development in the Sierra.** The agriculture and livestock sector grew 4.2 percent a year, compared to overall GDP growth of 7 percent. Benefitting from government investment in irrigation drip technology in the dry coastal areas in the 1990s, the agribusiness sector has emerged as a leading industry. Peru is now a world leader in the export of several agribusiness products, including the largest exporter of asparagus in the world. Growth in agribusiness has been a substantial achievement in Peru. The industry represents high value added to local raw materials, and has contributed to employment generation. It maintains linkages to small-farmer suppliers. In addition, it has stimulated associated packaging, transport, and other service industries. Finally, it offers strong growth potential due to its competitiveness in world markets.

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The proportion of subsistence agriculture remains high, with a range of constraints discouraging change, particularly inadequate infrastructure that hinders the flow of goods and services, raises food insecurity, and hinders market access and information.

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With respect to supporting traditional agriculture, the government implemented programs to improve technological innovation, sanitation, and information services. Despite these efforts, however, agriculture and rural development in the Sierra had limited progress. Traditional agriculture for the domestic market grew at 4 percent a year in 2006–08, compared to 11 percent for non-traditional export processing. The proportion of subsistence agriculture also remains high, with a range of constraints discouraging change, particularly inadequate infrastructure that hinders the flow of goods and services, raises food insecurity, and hinders market access and information. During the review period, the government initiated a move toward a broader rural development strategy aimed at enhancing basic infrastructure and services to encourage both agricultural and non-agricultural activities.

### *World Bank Group Engagement*

**The WBG aimed to support productivity improvements in traditional agriculture, a broader rural development approach, and development of agribusiness.** Bank studies in the late 1990s suggested that more effective poverty reduction in rural areas could be achieved through growth in agriculture (and construction). Among the range of constraints to agricultural productivity and development identified, the Bank initially focused on helping improve technology to assist farmers in adapting their production to new market incentives. In addition, it focused on irrigation development to reduce dependency on precipitation levels.

The FY03 CAS included outcome indicators related to the establishment of regional research and extension programs, and increased farmer incomes due to adoption of new technologies. Later in the review period, the Bank emphasized a broader rural development approach rather than a more limited focus on agriculture. Four IBRD lending operations in the sector included two adaptable program loans (APLs) in agricultural research and extension (FY2001–09); an irrigation project (FY1999–2009); and the Sierra Rural Development Project (approved in FY07). Bank AAA that addressed agriculture and rural development issues included an FY02 study on rural development in the Sierra and sections on agricultural competitiveness, and sections in the Peru Policy Notes (FY06) on territorial development and water resources.

IFC identified agribusiness as a key area for potential investments in the FY03 CAS, indicating that it remained a high-risk sector and that local firms lacked industry-specific knowledge. It played an active role in the sector, with nine investment operations totaling US\$183 million in the export-oriented fruit and vegetables, traditional sugar, and food-processing and distribution sectors.

### *Outcome of World Bank Group Support*

**The WBG's role in agriculture followed a relevant government approach to expand the role of markets and the private sector, although a greater IFC role in the fisheries sector may have been warranted.** The Bank's two main interventions in agriculture were both geared to enhancing the role of the private sector in agriculture—in both research and extension and irrigation management. The 2002 AAA on a rural development strategy in the Sierra concluded that agriculture alone would be insufficient to raise poverty in the Sierra. Based on this, the Bank subsequently made a positive effort to encourage a broader rural development strategy that went beyond agriculture. IFC's focus on agribusiness was fully relevant. The 2003 CAS identified agribusiness as a still high-risk sector with limited sector knowledge

among local firms, but with strong potential. In retrospect, IFC might also have also identified investments in value-added fisheries industries as a potential area of engagement. Although Peru was the third largest fish producer in the world in 2007 (after India and China), the contribution of fisheries to GDP has remained at about 1 percent, indicating low value added in the sector. The bulk of Peru's fish catch is processed into low-grade fish meal for livestock feed. In 2008, just 10 percent of the catch was for higher-value human consumption.

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**Bank support in agriculture was conditioned by a government emphasis on market forces and the role of the private sector in agriculture rather than public investment.**

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**IBRD helped realize a positive shift toward a more integrated rural development strategy, although its contributions in traditional agricultural were undermined by the persistence of additional broad constraints.** Bank support in agriculture was conditioned by a government emphasis on market forces and the role of the private sector in agriculture rather than public investment. The Bank's two main interventions in agriculture both supported an increased role of the private sector. Regarding irrigation, the Bank helped establish and finance decentralized, autonomous user management of irrigation systems that reduced the role of the state in irrigation management. In agricultural research, the Bank helped develop competitive grant schemes that increased the role of the private sector in research and extension. Impact studies on both initiatives indicate positive effects on farmer incomes, although improvements were generally conditioned on the presence of other factors as well, such as infrastructure.

In retrospect, although the Bank's interventions were relevant and made positive contributions, they were insufficient to make a substantial contribution to the desired outcome of higher incomes from agriculture. The Bank's 2005 Poverty Assessment concluded that for the rural poor to escape poverty, they would have to either "dramatically" improve their productivity or abandon agriculture and engage in other activities. The dramatic improvements required have not been achieved due to the persistence of a range of binding constraints such as: market access; the flow of goods and services that can improve food security; transport and communication infrastructure; and inherently difficult conditions for agricultural production in high altitude and arid areas in the *sierra*. Later in the review period, the Bank promoted and helped generate a consensus involving several ministries as well as regional and local governments regarding

the initial implementation of a broader approach to rural development. Within the Ministry of Agriculture, the Bank helped consolidate nine disparate agricultural development programs into a single program.

**IFC's early investments in agribusiness helped generate momentum in the sector.** IFC had active investments in eight agribusiness projects during the review period. The projects were approved from FY1999–2008. Five of the seven projects reviewed by IEG were successful, although two projects failed. IFC played a key role through its agribusiness projects in helping finance expansion in the sector at a time of tight international credit markets, and at a time when the local banking sector had strict limits on exposure to the agriculture sector. In the sugar sector, in 1998 and in 2000, IFC invested in two formerly state-owned, loss-making sugar companies. The IFC investments helped turn both companies around at a time of uncertain prospects and some political risk in the sector. They both emerged as profitable enterprises, employing several thousand staff, and purchasing some raw materials from small farmers. The success of these companies had important demonstration effects, with several other investments in privatized sugar companies subsequently occurring.

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**IFC played a key role through its agribusiness projects in helping finance expansion in the sector at a time of tight international credit markets, and at a time when the local banking sector had strict limits on exposure to the agriculture sector.**

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IFC's FY99 investment in Alicorp provided long-term finance to a diversified food processor and distributor at a time of crisis in the banking sector. The investment enabled the company to upgrade its plant and equipment and consolidate its position as a leading food processor. A 2000 IFC investment in a loss-making, three-year-old asparagus and grape exporter also came at a time when the local banking sector had strict limits on exposure to agribusiness. The company has since consolidated its financial position and diversified its product range.

**Although agribusiness investments have had strong positive effects, there have been some weaknesses in environmental compliance and linkages.** IFC's agribusiness investments reflect the range of positive effects of broader development of the sector in Peru. For example, several companies have backward linkages with small farmers and have extended technical and advisory services or credit, to small farmers to help improve their productivity and output. In such cases, small farmers around the processing plants have shifted their production away from traditional

crops toward higher value products for the agribusiness firms. Direct employment in processing plants as well as indirect employment among contractors and service industries has also been substantial.

In comparison to traditional agriculture, agribusiness employs 40 times the number of workers per hectare. However, some of IFC's agribusiness clients have established integrated operations, with limited backward and forward linkages, with outside parties. They produce raw materials on their own land, process, package, and then export directly. Among IFC's clients, two firms have such integrated operations.

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Several of the largest mining operations in the world, such as the Yanacocha gold mine and the Antamina copper mine, were established in Peru.

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Some environmental issues are apparent. For example, one sugar company is still open-burning plastic pesticide containers 10 years after IFC's investment. In the case of an asparagus exporter, the company has persistently failed to improve industrial wastewater treatment, potable water for employees, or occupational health programs. Moreover, its use of local groundwater led to violent local protests and complaints to the Compliance Advisor/Ombudsman Office. There are also questions about the sustainable use of water in Peru, and IFC did not include a shadow price of water in its economic appraisals. In the case of Alicorp, however, the company's adoption of IFC's recommended Cleaner Production Program led to an industry best practice.

**Outcome Rating.** IEG rates of the outcome of WBG support of growth of the agriculture and agribusiness sectors as *Satisfactory*.

## Supporting the Development of the Extractive Industries Sector

### Country Developments

**The extractive industries sector has been a key driver of growth in Peru.** The extractive industries sector was the first sector to respond following macroeconomic stabilization and liberalization in the 1990s. Mining, in particular, had high levels of private investment. Several of the largest mining operations in the world, such as the Yanacocha gold mine and the Antamina copper mine, were established in Peru. Although the sector had emerged as a key driver of growth by 2003, a range of issues remained to be addressed. These included the need to: (i) sustain mining growth by reducing perceptions of regulatory risk; (ii) strengthen public regulatory and

oversight institutions; (iii) stimulate investment in hydrocarbons; and (iv) mitigate adverse social and environmental impacts of development in the sector.

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Although extractive industries activities account for 8 percent of GDP, they employ just 1 percent of the labor force.

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Since 2003, the government has undertaken several measures to sustain private investment in the extractive industry sectors including: provisions for legal stability; reduced royalty payments; establishment of production-based royalty schemes; and an easing of the laws on local consumption of natural gas. Combined with favorable external conditions, including sharp rises in mineral and hydrocarbon prices, free trade agreements, and liquid international markets, these efforts helped promote sustainable investment in mining and encourage investment in the oil and gas sector. The extractive industries sector grew 5 percent a year, and in 2008 accounted for 8 percent of GDP and 58 percent of exports. The government also passed legislation covering environmental management in the extractive industries sector, established a Ministry of Environment, and subscribed to the Extractive Industries Transparency Initiative to help promote sustainable development of the sector.<sup>16</sup>

**Although the sector yielded a substantial increase in government revenues, issues remain in ensuring adequate environmental and social standards and a broadening of benefits.** Growth in the extractive industries sector along with the rise in mineral prices after 2005 raised the sector's contribution to 18 percent of government tax revenues, largely accounting for the fiscal surplus realized from 2006–08. However, the sector has generated very limited employment. Although extractive industries activities account for 8 percent of GDP, they employ just 1 percent of the labor force. Moreover, extractive industries operations have had weak backward and forward linkages with the rest of the economy, particularly after major construction works are completed.

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There is an inadequate environmental and social regulatory framework and enforcement capacity covering the extensive small and medium scale “artisanal” mining operations, resulting in high levels of pollution and environmental degradation and poor worker conditions in these enterprises.

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The main benefit to the economy has been in increased government revenues, which in turn, has depended on how well the increased public revenues have been used.

Significant weaknesses exist in public expenditure capacity. The distribution of revenues among local and regional governments has also generated a sense of inequality between regions.<sup>17</sup> Weaknesses also persist in the management of adverse environmental and social effects. Although the large extractive industries operations comply, for the most part, with international performance standards and have developed community outreach programs, the industry still faces difficult relationships with local communities and creates occasional environmental hazards.

However, there is an inadequate environmental and social regulatory framework and enforcement capacity covering the extensive small- and medium-scale “artisanal” mining operations, resulting in high levels of pollution and environmental degradation and poor worker conditions in these enterprises.<sup>18</sup> The limited benefits of the extractive industries sector realized by the population along with the social and environmental costs have led to rising expressions of social discontent.

### *World Bank Group Engagement*

**WBG support increasingly focused on environmental and social sustainability, and broadening the benefits of the extractive industries sector.** WBG engagement in the extractive industries sector was mainly through IFC investment and advisory services, with some involvement of the Bank and MIGA. Activities included: (i) five IFC investments; (ii) seven IFC advisory service operations; (iii) two MIGA guarantees; and (iv) a 2005 Bank study on environmental and social issues in the mining sector.

IFC objectives were initially to help ensure sustainable growth in mining and promote new investments in hydrocarbons. Over the review period, it subsequently shifted its emphasis toward helping mitigate adverse environmental and social effects and broaden the benefits of the sector. IFC was approached by some of its mining company clients to help local governments better spend their mining revenues, and alleviate social discontent and pressure from local communities. IFC responded with a series of IFC-AS programs aimed at building capacity in municipal governments. MIGA provided political risk insurance to support the Antamina copper mine (effective 1998–2008) and a zinc mine (effective 1996–2006). Measured by investment amount, the most significant activity was IFC’s investments in hydrocarbons. Measured by the number of activities, the emphasis was on broadening the benefits of the sector and in mitigating the environmental and social cost of extractive industries.

### *Outcome of World Bank Group Support*

**The WBG’s objectives in the extractive industries sector were largely appropriate, although a greater focus**

**on strengthening capacity in public regulatory institutions was warranted.** Peru’s substantial extractive industries resource base represented a significant source of growth in government revenues. It warranted efforts to catalyze investment in the sector, while helping mitigate adverse environmental and social effects. The WBG’s goal of helping sustain investment and growth in the sector along with efforts to mitigate adverse social and environmental effects and broaden the benefits of the sector were highly relevant.

There had been limited investments in hydrocarbons. IFC engagement in the extractive industries sector had the potential to help enhance environmental and social practices given limited government enforcement capacity in the sector. The WBG’s engagement in helping strengthen capacity in municipalities was also a highly relevant initiative in that, given limited employment generation and linkages, the primary benefit to the country of the extractive industries sector was in effective expenditure of public revenues from the sector.

Although these objectives were appropriate, the WBG’s strategy lacked a focus on regulatory reform—despite a diagnosis in the FY03 CAS that sustainable mining growth could only be achieved through clarification of roles and responsibilities and addressing weaknesses in public regulatory and oversight institutions. Lack of regulatory authority and enforcement capacity over extensive small and medium mining activity in particular remains a key weakness in mitigating adverse environmental impacts of the sector. In addition, a comprehensive regulatory framework in the hydrocarbons sector was absent until it was later addressed with IADB support.

**IFC investments and MIGA guarantees helped mitigate risk and enhance environmental and social standards.** The Yanacocha, Antamina, and Cajamarquilla mining operations supported by IFC and MIGA are among the largest taxpayers and exporters in Peru. Together, they accounted for over 18 percent of government tax revenues from 2003–08. IFC also supported the government’s goal of encouraging new investment in oil and gas through several investments, including in the Peru liquefied natural gas (LNG) pipeline, which is the largest private sector investment in Peru.

In 2006, IBRD helped establish a working group of industry, state, and civil society representatives to support Peru’s adherence to the Extractive Industries Transparency Initiative (EITI) principles, targeted for 2010. Each of the WBG’s client companies in the extractive industries sector has undertaken adequate environmental mitigation measures and substantial local community outreach programs. In particular, the Antamina project,

benefitting from close MIGA engagement and advice, established social and environmental standards that had demonstration effects across the industry.

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The extractive industries sector proved to have inherently limited linkages with the broader economy, particular after the construction phase.

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However, improved environmental and social standards, in themselves, have been inadequate to defuse social tensions. IFC-AS activities to improve the capacity of municipal governments in areas around extractive industries projects addressed a critical bottleneck in broadening the benefits of growth in the sector. However, the efforts remain confined to a few areas. Many other areas with extractive industries continue to be untouched by extractive industries development due to weak public expenditure performance. IFC's linkages initiatives to integrate extractive industries activities with the rest of the economy also showed limited results. The extractive industries sector proved to have inherently limited linkages with the broader economy, particular after the construc-

tion phase. The Peru LNG project has been subject to significant public controversy due to perceptions that the gas should be retained for the domestic market rather than exported (see box 3.1). Despite significant environmental and social measures by WBG client firms, there has been increasing social unrest arising from the extractive industries sector due to continued dissatisfaction among local populations that they are not benefitting from extraction of their resources, lack of employment and linkage opportunities, dissatisfaction with revenue distribution, and periodic accidents that cause environmental damage.<sup>19</sup>

**Outcome Rating.** IEG rates the outcome of WBG support for growth of the extractive industries sector as *Satisfactory*.

## Improving the Provision of Infrastructure

### Country Developments

**Despite progress during the 1990s, by 2003, Peru still had severely inadequate provision of basic infrastructure.** During the 1990s, Peru undertook significant steps to enhance its basic infrastructure. Along with an in-

#### BOX 3.1 IFC's Largest Investment in Peru: Peru LNG

**The project.** Peru LNG, the largest foreign direct investment in the country's history, is a US\$4 billion liquefied natural gas export project. Peru LNG was seeking a financial partner with capacity and experience in environmental and social management and approached IFC for help. In 2008, IFC signed a US\$300 million loan to Peru LNG to finance part of the pipeline construction. The project includes a liquefaction plant and a marine loading terminal on Peru's central coast, as well as a new 408-kilometer pipeline that will connect to an existing pipeline network east of the Andes. The expected benefits of the project for Peru include: (i) monetization of its hydrocarbon assets; (ii) strengthening of the country's natural gas infrastructure; and (iii) contribution to regional and national economic growth over the coming decade through the generation of export revenues, taxes, and royalties.

**Enhancing environmental and social standards and community outreach.** An IEG environmental and social review of the project found that IFC has had an important influence in enhancing the environmental and social programs of the company. Peru LNG was the first large project to test IFC performance standards. An environmental management plan was developed to meet IFC performance standards, and two large contractors based their environmental management systems on IFC requirements. With IFC support, the company also prepared a detailed biodiversity survey and undertook extensive consultations with local communities along the pipeline route.

**Controversy over exports and pricing.** The Peru LNG project has been subject to significant public controversy that poses reputational risks for IFC. Controversies surround both the supply of gas as well as its pricing. Rapid economic growth as well as subsidized domestic gas prices has meant that domestic demand for gas has risen. Some studies estimate domestic demand for gas over the next 20 years will exceed current proven reserves, leading to arguments that Peru's natural gas reserves should be retained for domestic consumption rather than exported. In addition, the pricing formula and government royalties on gas exports fluctuate according to the world price of gas. With a sharp recent decline in the world price of gas, projected government revenues have declined accordingly, leading to arguments that the country is inadequately benefitting from the exports of its gas. The government and company are currently in discussions over how best to address these issues. An agreement has recently been reached under which Peru LNG will defer any use of gas from the fields that have been designated for domestic use for five years, with the expectation that new reserves will be unveiled during this period.

Source: IEG

**TABLE 3.3 Private Participation in the Infrastructure Sectors, 2003–07 (US\$ Millions)**

Sector	Peru	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Latin America and Caribbean Region
Energy	1.901	2.948	300	20.409	1053	805	431	32.598
Telecommunications	1.841	3.831	403	26.285	680	3.911	742	60.167
Transport	2.649	1.069	—	3.455	1.782	2.278	1.851	25.296
Water and sewerage	72	35	—	990	641	426	—	2.938
Total investment	6.462	7.882	702	51.140	4.157	7.421	3.024	120.999
Total investment per capita (US\$)	237	203	76	274	255	173	232	221

Source: World Bank and Public-Private Infrastructure Advisory Facility, Private Participation in Infrastructure Project Database.

crease in public infrastructure investments, the government privatized state holdings in telecommunications and electricity, and introduced reforms to establish competitive markets and autonomous regulatory agencies in the sectors. Nevertheless, lack of infrastructure remained a major constraint to development. Less than 1 percent of GDP was spent on infrastructure. Inadequate transport, in particular, was a significant bottleneck to diversification and growth in the private sector, accessing health and education services, enhancing productive activities in rural areas, and contributing to congestion and inefficiencies in major urban areas. Large parts of rural areas in the Sierra and Amazon regions continued to be without any access to improved water or sanitation facilities or electricity, undermining improvements in health and increases in income-generating activities.

**Inadequate transport, in particular, was a significant bottleneck to diversification and growth in the private sector, accessing health and education services, enhancing productive activities in rural areas, and contributing to congestion and inefficiencies in major urban areas.**

**Over the review period, the government enhanced its policy planning and intervention models and successfully attracted private sector investment in the infrastructure sectors.** From 2003–09, the government doubled public investment in infrastructure from less than 1 percent to 2 percent. Several functions in public infrastructure management were decentralized to regional and local governments. For the first time, planning tools based on surveys of existing infrastructure were developed at both central and decentralized levels in both the roads and water sectors. Actions in the energy sector included measures to prevent the risks of blackouts, as

well as to increase energy provision to dispersed rural populations.

New intervention models for investment in rural areas developed by *Provías Descentralizado* (roads), *Dirección de Fondos Concursables* (electricity), and Programa Nacional de Agua y Saneamiento Rural–PRONASAR (sanitation) represented important innovations from former practices in the country. The three cases helped increase the sustainability of rural infrastructure investments by including local stakeholders in decision making and promoting decentralized maintenance of assets. Significant work was also done to revise rate policies and standards for projects in regional roads, sanitation in small villages, and rural electrification. The government’s goal of engaging the private sector in the provision of infrastructure was also significantly advanced (table 3.3). Thirteen concession contracts were established in the transport sector, with committed investments amounting to over US\$3 billion. In the power sector, nearly the entire system of transmission lines was privatized. In the sanitation sector, a comprehensive concession process was initiated. In addition, two projects were initiated for the treatment of residual waters in Lima.

**Sharp differences in access to infrastructure continue to exist between rural and urban areas, between the coastal areas and the sierra, and between areas of the south and the north of the country.**

**Peru’s continuing infrastructure gap remains a major challenge to development.** Recent studies indicate that progress notwithstanding, basic infrastructure services are still deficient, with an estimated investment gap in Peru of some US\$37 billion. Coverage in the electric sector is only 80 percent, and some 6 million people have no access to electricity. In recent years, growth in demand has exceeded new generation, causing electricity reserves

**TABLE 3.4** Infrastructure Indicators in Peru, 2007

Indicators	Peru	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Latin America and Caribbean Region	OECD average
GNI per capita, Atlas method (current US\$ millions)	2,920	5,150	1,100	4,730	6,980	2,740	2,840	4,291	33,470
Access to electricity (% of population)	80	95	60	95	99	81	80	79	
Electric power consumption (kwh per capita)	459	1,968	419	1,776	2,617	817	665	1,310	8,769
Improved water source (% of population with access)	69	96	85	90	95	93	94	90	99
Improved sanitation facilities (% of population with access)	57	91	46	75	91	86	89	79	
Total telephone subscribers per 100 inhabitants	28	82	33	68	90	65	60	62	

Source: Data for Peru are from the National Statistics and Informatics Institute, Ministry of Housing, Construction and Sanitation, and World Bank; other data are from the Public-Private Infrastructure Advisory Facility Private Participation in Infrastructure Project Database.  
Notes: GNI = gross national income; kwh = kilowatt hour; OECD = Organisation for Economic Co-operation and Development.

to decline from 66 percent to 32 percent, reaching less than 10 percent in peak hours during 2000–2007.

Deficiencies in the transport system raise the cost of transporting goods with consequent detrimental effects on the broader economy. For example, the cost of transporting goods in Peru accounts, on average, for 40 percent of the total cost of the goods—although the regional reference cost is 20 percent. Only 14 percent of the country's roads are asphalted. During the review period, only modest progress was made in the water supply system. Water coverage at the national level declined from 74 percent to 69 percent between 2003 and 2007, although sewerage coverage remained at 57 percent (Peru National Statistics Institute (INEI); Peru Ministry of Housing, Construction, and Sanitation (MVCS). Sharp differences in access to infrastructure continue to exist between rural and urban areas, between the coastal areas and the Sierra, and between areas of the south and the north of the country. Studies estimate that Peru would need to increase its expenditure on infrastructure from 2 percent of GDP to 4–6 percent of GDP in order to meet all of its infrastructure needs.

#### *World Bank Group Engagement*

**The WBG supported an ambitious program of rural and urban infrastructure development over the review period.** Specifically, WBG interventions in the infrastructure sectors supported: (i) decentralization of regional road management; (ii) a multisector approach to rural infrastructure covering roads, sanitation, and electrification; (iii) the establishment of an efficient, reliable, cleaner, and safer mass rapid transit system in the poorer areas of Lima; (iv) an increase in coverage and sustainable use of water and sanitation services in Lima; and (v) further engagement of private investment in infrastructure provision, including in road, rail, and air transport.

The rural development initiative was to build on successful past Bank experiences in rural roads and water supply. To support sustainable infrastructure development, the WBG sought to strengthen public institutions, support innovative and more efficient practices in public infrastructure investments, and encourage development of planning instruments. WBG activities over the review period comprised seven IBRD lending operations, three IFC private sector projects, and one MIGA guarantee. In addition, IBRD approved a US\$200 million guarantee facility in 2006 to help mitigate political risks for private investors in the infrastructure sectors.

Specific IBRD interventions included: (i) pilot decentralized water supply and sanitation projects in rural areas through the Water and Sanitation Program; (ii) promotion of road safety and decentralized rural road management, maintenance, and improvement; and (iii) introduction of sustainable electrification of unserved rural areas using both the main grid and renewable energy sources. IFC projects comprised financing of private investments in rail transport, highways, and power distribution. MIGA provided a guarantee that supported a concession for the rehabilitation and expansion of the international airport in Lima.

#### *Outcome of World Bank Group Support*

**The WBG's ambitious program in infrastructure development was highly relevant.** As the policy environment for market-driven growth in Peru improved steadily since the early 1990s, the role of infrastructure as a binding constraint on growth became increasingly important. The WBG appropriately emphasized the need for both increased public and private investment in the sector, as well as significant changes in the institutional and policy framework governing the construction and maintenance

of infrastructure. The focus on rural infrastructure reflected the high concentration of poor in rural areas, and the need to increase access to basic social services and help create viable economic opportunities in these areas.

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By engaging in these public and private infrastructure projects, the WBG appropriately accepted a degree of reputational risk.

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IBRD's interventions built on successful past projects, including the first rural roads project that was rated "highly satisfactory" by IEG. The project is broadly recognized as introducing best practices in sustainable rural road development. Given the extensive financing needs in the sector, there was a clear need to attract private sector financing. IFC support for private engagement in complex public-private transactions in highways, rail operation, and electricity distribution remains highly relevant. Both the public and private infrastructure projects that the WBG engaged had high inherent risks, involving potential adverse environmental effects, population relocation, disruptions in ways of life, and other potentially high profile effects on local communities. By engaging in these public and private infrastructure projects, the WBG appropriately accepted a degree of reputational risk. It offered a valuable contribution in enabling projects that offered substantial long-term benefits and helped mitigate any potential adverse effects.

**IBRD's interventions supported substantial institutional changes in the decentralized management of rural infrastructure.** The multisectoral rural infrastructure initiative, which included investments in electrification, sanitation, and roads, helped introduce best practices in the management of rural infrastructure. Specifically, best practices involved participation of local stakeholders in decision-making processes, systematic planning, programming and prioritization methodologies, and creation of local microenterprises to maintain infrastructure. Based on past experience that indicated that improvement of roads in itself might not lead to greater economic opportunities, the rural roads project also introduced a "Local Development Window" to help identify and finance productive activities in areas where roads had been improved. The Local Development Window identified some 850 such initiatives in the 12 poorest provinces of Peru.

The projects also helped develop effective decentralized management of rural infrastructure through the creation of Provincial Road Institutes whose mandate was to design and implement province-wide road strategies. The Provincial Road Institutes proved an effective means to coordinate between district and local governments, private sec-

tor providers, NGOs, and local communities. Further, they helped overcome the constraint of weak financial and administrative capacity in municipalities to maintain roads. The concept has been replicated in other sectors, such as tourism and natural resource management, to further strategic planning and implementation across provinces.<sup>20</sup> Together these practices helped substantially increase the sustainability of public infrastructure investments.

**IBRD-financed transport interventions yielded substantial achievements, despite being slowed by a range of implementation problems.** The series of rural roads projects resulted in the rehabilitation and maintenance of 15,000 km of rural roads and 2,700 km of departmental roads. Various studies<sup>21</sup> showed substantial positive impacts of the improved roads, including a reduction in average travel time by over 50 percent, a 78 percent reduction in passenger travel fares and 18 percent reduction in freight costs, and increased access to education. From the documentation available, IEG estimates that as a result of the program the proportion of the current unpaved regional road network in good condition will increase from 12 percent to 21 percent.

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The rural electrification project helped achieve a significant shift in the allocation of funds toward rural areas and smaller villages.

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An IBRD intervention to help increase the effectiveness of regional transport management made an important contribution to the establishment of regional planning functions. However, the project had to be restructured because of the inability to bring some regional governments into the program, partly because of the availability of other financing resources with fewer requirements. Regarding urban transport, the IBRD-financed Lima rapid bus transit system project experienced considerable implementation delays arising from community and NGO concerns about environmental compliance and the implications of traffic detours caused by the project. Following mediation services financed by IBRD, the project, which is the first of its kind in the country, has fully completed its physical works and the system is expected to begin operation in mid-2010.

**IBRD's water and electrification projects achieved wide coverage in underserved rural areas of Peru.** The rural electrification project helped achieve a significant shift in the allocation of funds toward rural areas and smaller villages. An estimated 160,000 families living in over 2,000 rural communities benefitted from access to electricity under the program. From 2006–08, the rural sanitation project financed nearly 500 subprojects in

eight regions that benefitted 290,000 people with access to improved water and sanitation facilities.

However, the final phase of the rural sanitation project has experienced considerable implementation delays, partly due to high project staff turnover. In the case of the Sedapal urban water and sanitation project, the IBRD lending and AAA services helped introduce a range of management, administrative, and technical improvements; supported the construction of meters and installation of new water control devices in over 50 percent of the network; and helped expand service coverage to over half a million low-income people.

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IFC participation in the highway concession project encouraged the concessionaire to play a proactive role in the process of relocating families and businesses affected by the project, as well as in the direct acquisition of their lands.

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**IFC- and MIGA-supported private concession projects helped improve the coverage and quality of infrastructure, and reduce the burden on public finance.** IFC's long-term financing played an important role in enabling successful private concession transactions in roads (Red Vial N° 5), air transport (Jorge Chávez Airport), and railways (Ferrocarril del Sur). According to the private investor, MIGA's political risk insurance to support the Lima airport concession was considered a necessary element for this high visibility and risk project to move forward. IFC participation in the highway concession project encouraged the concessionaire to play a proactive role in the process of relocating families and businesses affected by the project, as well as in the direct acquisition of their lands. The railway project improved connections and service quality between Cuzco and Macchu Picchu, between Cuzco and Puno, and between Puno and Arequipa in the southern areas of the country—although the de facto monopoly of the concessionaire undermined the overall benefits of the transaction.

The Bank's FY06 Guarantee Facility intended to provide political risk insurance to private companies investing in infrastructure was unsuccessful and did not issue a single guarantee. It is currently in the process of being cancelled. An internal Bank review of the project found weaknesses in the project's design in balancing the conflicting objectives of making the facility cost-effective and agile, as well as ensuring that adequate due diligence standards are met for each transaction. The government also proved reluctant to provide counter guarantees for the facility that would be considered as contingent debt by the IMF and rating agencies.

**Outcome Rating.** The lack of success of the guarantee facility and implementation delays in some projects notwithstanding, IEG rates the outcome of WBG support for infrastructure development as *highly satisfactory*. It merits this rating because of: substantial progress on an ambitious agenda of highly relevant rural and urban infrastructure development, introduction of a range of best practices in sustainable infrastructure development, and effective support for several complex public-private partnerships (PPPs) in infrastructure.

## Ensuring the Environmental Sustainability of Growth

### *Country Developments*

**Over the review period, Peru has faced environmental challenges arising from air and water pollution, the unsustainable management of natural resources, and vulnerability to natural disasters.** A 2005 Bank study estimated the cost of environmental degradation in Peru at 3.9 percent of GDP in 2003, of which 74 percent was due to the health impacts of *air and water pollution*.<sup>22</sup> High levels of air and water pollution caused by poorly-regulated large industrial and mining activities, rapid urbanization, inadequate sanitation infrastructure, and use of solid fuels for cooking and heating, among other factors, were adversely affecting the health of the population.

Peru also faced major *natural resource management* challenges including overfishing, deforestation, and degradation of soil and water bodies due to the advancement of the agricultural frontier, logging, and mining activities, and poorly managed water resources in coastal and Sierra regions where water is scarce.<sup>23</sup> Peru also has a high incidence of *natural disasters*, including earthquakes, *el Niño* climate patterns, flash floods, and accelerated glacier retreat linked to climate change.<sup>24</sup>

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A 2005 Bank study estimated the cost of environmental degradation in Peru at 3.9 percent of GDP in 2003, of which 74 percent was due to the health impacts of *air and water pollution*.

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**Although the government took important steps to address environmental challenges, major weaknesses remain.** Key measures included the National Environmental Management System Law in 2004, the General Law of the Environment in 2005, the phase-out of leaded gasoline, and the development of a National Environmental Agenda. In May 2008, the government created the Ministry of Environment, which was a major step toward addressing the fragmented institutional framework. Its

creation reflected rising government commitment to environmental issues. A further important step was the establishment of a centralized repository for environmental indicators within the Ministry of Environment to help guide policy analysis and priority setting.

However, significant institutional weaknesses remain. The Ministry of Environment has limited resources and weak capacity. It is only responsible for setting environmental policies and standards. Responsibility for environmental management and enforcement remains in the hands of diverse sector agencies, with attendant conflicts of interest. Public awareness and government prioritization of environmental problems are still relatively weak.<sup>25</sup> In natural disaster management, the current framework remains reactive rather than preventive.

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Although the adverse impacts of the major mining companies have attracted the most attention, pollution and deforestation from small and medium “artisanal” mining remains largely unmonitored and unregulated.

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**Notwithstanding reforms to date, Peru’s environmental situation has improved little since 2003.** There was some progress in solid waste management in Lima, where the share of solid waste being appropriately disposed in sanitary landfills rose from 40 percent in 2002 to 85 percent in 2007. However, other environmental indicators do not show substantial improvements; some have deteriorated since 2003. The incidence of acute respiratory disease and diarrhea, two of the most important environmental impacts, both increased (by 21 and 6 percent respectively). Air pollution in Lima has remained high, at over five times permissible levels. Water service coverage has not improved. Environmental issues arising out of the extractive industries sector remain unresolved as indirectly illustrated by a sharp increase in social conflicts from 14 in 2005 to 132 in 2009 arising from environmental issues. Although the adverse impacts of the major mining companies have attracted the most attention, pollution and deforestation from small and medium “artisanal” mining remains largely unmonitored and unregulated.

#### *World Bank Group Engagement*

**Supporting the environmental sustainability of growth was a key area of emphasis for the WBG.** Country objectives supported by the WBG since 2003 include: (i) mitigating air and water pollution, particularly from urban development; (ii) improving natural resources management; (iii) conserving biodiversity; and (iv) reducing vulnerability to natural disasters. WBG instruments included several major AAAs, an IFC/MIGA emphasis on

mitigating environmental costs in the extractive industries sector, safeguards in relevant investment projects in both the public and private sectors, and a recently started DPL series focused on environmental management. The Peru environmental DPL followed an increasing use of such environmental DPLs; some 14 have been approved in the Latin America and Caribbean Region to date.

Overall, the WBG had 65 operations that contained either proactive environmental management components or significant environmental safeguard conditions. Five major AAA studies, including a 2007 Country Environmental Analysis, recommended improvements in several areas including: (i) clarification of institutional responsibilities; (ii) capacity building in key agencies; (iii) the importance of stakeholder engagement; (iv) the need for a strong comprehensive water rights system; and (v) the need for restructuring and strengthening of environmental assessment practices in the mining sector.<sup>26</sup>

**Along with broad policy advice, a range of specific WBG activities supported improved environmental management.** In supporting the reduction of *air and water pollution*, Bank projects included investments in mass transit and improved water supply and sanitation in Lima; three carbon-offset projects; and measures in the FY09 Environmental DPL to strengthen the framework for air and water quality standards and permissible emission levels.

With respect to promoting *sustainable natural resources management*, IFC/MIGA activities included social and environmental safeguards in extractive industries projects as well as proactive advisory services; conditions in the Environmental DPL for the adoption of fishing quotas (along with social protection measures for displaced fishing fleet workers); and promotion of improved irrigation technologies (for example, sprinkler and drip irrigation) in IFC agribusiness projects and Bank agriculture and irrigation projects in order to improve water use efficiency.

Regarding the *conservation of biodiversity*, the WBG made substantial investments through five biodiversity protection projects, mainly funded through Global Environment Facility (GEF) grants.

To help *reduce vulnerability to natural disasters*, the Bank, among other donors, has promoted a more proactive, preventive approach, although there has been no direct lending or interventions in this area to date. In addition to projects with specific environmental objectives, the WBG also supported environmental sustainability through the implementation of its social and environmental performance standards in all of its investments in infrastructure and the productive sectors.

### *Outcome of World Bank Group Support*

**The WBG's emphasis on environmental management has been highly relevant, and it has been one of the major players in promoting the agenda in Peru.** Several factors have led to increased attention to environmental management, including growing media coverage and public awareness of the need for stronger environmental management (particularly in the extractive industries sector), international pressures arising in the context of free trade agreements, and the active engagement of other international agencies. In this context, the WBG played an important role in providing the analytical underpinnings for progress in the sector, raising awareness, and supporting specific actions to improve environmental management. The prominence of the WBG increased during the second CAS period, especially through the publication of the unusually detailed and well-researched Country Environmental Analysis and policy notes and the preparation of the Environmental DPL. The Bank's analyses and

IFC and, to a lesser extent, MIGA played an important role in assisting some large private sector projects in critical sectors, such as mining and agribusiness, comply with international social and environmental standards. Through its environmental safeguard policies, the WBG also opened up entry points for civil society and community engagement in project-related environmental and social-related decision making.

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**IEG's evaluations of the Yanacocha gold mining project and Peru LNG gas pipeline project, both highly prominent and visible category A projects, found that environmental and social performance was satisfactory.**

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**The results of specific Bank activities addressing environmental challenges have varied.** In *reducing air and*



Photo: Asita De Silva/World Bank

recommendations were used for the preparation of the important environmental legislation, the creation of the Ministry of Environment, and ongoing efforts to prepare future regulations, guidelines, and institutional reforms. The WBG's environmental and social performance standards also had important demonstration effects.

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**The Bank's analyses and recommendations were used for the preparation of the important environmental legislation, the creation of the Ministry of Environment, and ongoing efforts to prepare future regulations, guidelines and institutional reforms.**

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*water pollution*, the three carbon offset projects are delivering emission reductions at expected rates. The Lima Transport Project is on track to achieve its objective of reducing air pollution in Lima's main transport corridor by 20–25 percent. The Lima Water Rehabilitation Project has mostly achieved its target of providing water and sanitation services to 130,000 poor households in Lima.<sup>27</sup>

As to *natural resource management*, Bank irrigation and rural development projects helped improve irrigation and agricultural practices, as well as soil conservation and reforestation at the micro-catchment level. In the fisheries sector, the recent Environmental DPL supported long overdue policies to regulate and enforce fishing quotas.

During the period FY2003–09, the Global Environment Facility (GEF) played an active role in supporting natural resource management in Peru. With the World Bank and the IFC serving as implementing agencies, the GEF financed two World Bank/GEF blend operations, 3 GEF medium-size projects, 2 GEF full-size projects, a regional project, and four IFC Advisory Service projects.

The WBG/GEF approach to biodiversity conservation focused on fostering participatory approaches to the management of protected areas, combined with the development of alternative livelihoods. In one GEF-financed project, IFC complemented its Inka Terra investment with technical assistance to help establish a replicable model for the private sector to achieve financial sustainability for biodiversity conservation. In the transport and electrification sectors, GEF/World Bank projects addressed climate change mitigation objectives, supporting the reduction of greenhouse gas emissions.

As part of this evaluation, a joint evaluation mission from IEG and the GEF Evaluation Office visited several GEF/World Bank project sites. The GEF evaluation (forthcoming) found that WBG-implemented GEF projects have been key contributors to biodiversity conservation in and around protected areas in Peru. GEF/World Bank-funded projects contributed to the establishment and sustainability of the long-term financing mechanism for Peru's Natural Protected Areas System, the replication and expansion of the participatory model for protected areas' management (especially establishing and supporting management committees and co-administration contracts), and increasing the understanding of how local communities (including indigenous peoples) can benefit from biodiversity conservation activities to improve their livelihoods. Overall, the replication and sustainability of the alternative economic activities model developed and applied in the GEF/World Bank-funded projects was met. It is also likely to continue at the national level.

However, limited evidence was found regarding the achievement of intended improvements in biodiversity in the areas visited. Most monitored indicators of biodiversity in these sites have been decreasing. Although perceptions on the health of biodiversity elements including natural resources and ecosystems vary, the overall perception appears to be negative. At the national level, IEG was unable to make a conclusive assessment due to the lack of an established national baseline or coordinated research and monitoring programs to track overall progress.

Source: IEG/GEF Evaluation Office.

However, some areas of engagement fared less well. For example, the renewable energy component of the rural electrification project is not on track to achieve its objectives. The Rural Water Supply Project is supporting improved hygiene practices that are especially relevant for reducing the health risks from water pollution, but has completed only a quarter of its expected sewerage connections after seven years of implementation.

The WBG did not engage in any specific activities aimed at *natural disaster mitigation*, but has maintained an open dialogue with the government and a project is under preparation.

**The WBG's performance standards have been effective in helping realize sound environmental and social project implementation practices, albeit with some gaps.** According to the most recent Implementation Status and Results Reports and Implementation Completion Reports, compliance with applicable safeguards has been satisfactory for all Bank projects. IFC projects in the extractive industries sector have also been compliant with IFC performance standards.

IEG's evaluations of the Yanacocha gold mining project and Peru LNG pipeline project, both highly prominent and visible category A projects, found that environmental and social performance was satisfactory. IFC made an important contribution in supporting the development of constructive relationships between its clients and their neighboring communities. These projects also served as models to help establish national standards and address social conflicts.<sup>28</sup>

There was less success in agribusiness, where environmental and social effects' ratings indicate that only three out of the nine projects received satisfactory ratings, with most having performance issues related to incomplete monitoring and reporting by clients. Nevertheless, the Performance Standards Framework has guided IFC's support for more efficient water resource management in the sector, with clearly positive contributions. MIGA also played an important role in helping Antamina, among the largest copper mines in the world, develop and implement a community outreach program, although the company has continued to struggle with community relations.

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Although the need for improved environmental management had long been recognized, the World Bank Group did not support comprehensive policy and institutional reform until the 2009 Development Policy Loan.

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**WBG engagement in biodiversity protection helped pilot effective participatory approaches to balancing conservation with development.** The WBG's support for biodiversity conservation through GEF projects (see Box 3.2) helped foster a participatory approach with local stakeholders in the management of protected areas, combined with the development of alternative livelihoods. For example, the Project for Indigenous Management of Protected Areas in the Peruvian Amazon brought together 120,000 indigenous and local people in five protected areas to discuss and develop co-management schemes. Similar models were followed in the ongoing Participatory Management of Protected Areas Project, and the three GEF medium-sized projects in the Northwest Biosphere Reserve, Vilcabamba, and Nanay River protected areas. Results to date have been positive. For example, at the Participatory Management of Protected Areas Project site in northern Peru, a community association has promoted both conservation and alternate economic activities such as tree nurseries and shrimp farming. It has also helped reduce solid waste pollution, logging, and excess extraction of mangrove resources.

**WBG interventions were undermined by the lack of a comprehensive approach and uneven governmental prioritization of the environmental agenda.** Although the need for improved environmental management had long been recognized in the CASs and AAAs, the WBG did not support comprehensive policy and institutional

reform until the 2009 DPL. None of the Bank's other policy loans over the review period contained measures supporting environmental management reform. Instead, the WBG's efforts comprised a range of individual activities that addressed specific elements of the country's environmental problems. It is apparent that more comprehensive WBG support was precluded by lack of government prioritization of environmental management as well as limited WBG financial leverage.<sup>29</sup>

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Although IFC agribusiness investments promoted more efficient use of water, IFC did not consider the shadow price of water in its economic appraisal of the projects.

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Although individual WBG projects produced some clear benefits, the weak and fragmented policy and institutional environment undermined a broader contribution to addressing the countries' environmental challenges. For example, whereas an IFC investment supported development of the ecotourism industry in an area concessioned to the project in the Amazon area, the sustainability of the operation was undermined by a parallel concession granted to a third party for the mineral rights beneath the same land. Although IFC agribusiness investments promoted more efficient use of water, IFC did not consider the shadow price of water in its economic appraisal of the projects.<sup>30</sup> In the case of the environmental DPL, the timing of the loan during the global financial crisis was such that the Bank's financial leverage was increased. As such, an opportunity existed to encourage stronger policy measures in environmental management than were included in the DPL.

**Outcome Rating.** IEG rates the outcome of WBG support for the environmental sustainability of growth as *Moderately Satisfactory*.

# Chapter 4



# The World Bank Group's Contribution to Enhancing Human Development

**By 2003, although health outcomes in Peru had improved substantially, major challenges remained in further raising outcomes and in expanding access to the poor.** With the emphasis in the 1990s on expanding basic health care services, key health indicators had improved substantially by the early 2000s. For example, life expectancy at birth had increased from 66 years in 1990 to 71 years in 2002. Infant mortality dropped from 54 deaths per 1,000 live births to 27 over the same period.

## Expanding Access to High-Quality Health Services

### *Country Developments*

However, health indicators remained below those of other countries with comparable income levels. The maternal mortality rate, even after declining, was still 185 per 100,000 live births, twice the Latin America and Caribbean average. Chronic child malnutrition was extremely high at about one-third of all children. Outcomes were also significantly worse for the poor, rural dwellers, and the indigenous population. For example, rural infant mortality was 45 per 1,000. Access to health care services also remained both partial and highly unequal. For example, only 62 percent of the population—and only one-third of the poor—who fell ill received professional help.<sup>1</sup> Access in rural areas was complicated by the difficult terrain and highly dispersed population. Some 90 percent of the rural population was estimated to live in settlements of less than 500 people each.

Prior to 2003, the health care industry was organized, financed, and run through five separate, vertically integrated suppliers (*Seguro Integral de Salud*—Integral Health Insurance [SIS]), which catered mostly to the poor, the insurance system Social Security in Health of Peru, formal sector health insurance program (EsSALUD) for formal sector workers, one system each for the armed forces and the police, and a growing universe of private for-profit and charitable providers). In 2003, SIS covered 20 percent of the population and EsSALUD 17 percent, although some 60 percent of the population had no health insurance. Each of the suppliers had its own separate policies, funding and facilities, failing to exploit economies of scale or pool risks.

**Since 2003, good progress has been made in health services, although significant inequalities remain.** Continued improvements in the provision of health services, along with economic growth and rising income levels, have helped further improve health status indicators. Key measures included an increase in the coverage of insurance schemes aimed at the poor, integration of independent health programs into coordinated services for specific age groups, progress on decentralization of responsibility, and the recent development of a national strategy on chronic malnutrition.

Life expectancy rose further to 73 years in 2008. The infant mortality rate declined to 20/1,000 in 2009. The maternal mortality rate also declined rapidly to 103/100,000 births in 2009. Chronic malnutrition (stunting) among children under age 5 declined from 31 percent in 2000 to 24 percent in 2009. Also, tuberculosis incidence fell by 25 percent. The proportion of institutional births increased from 58 percent in 2000 to 82 percent in 2009.

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**Continued improvements in the provision of health services, along with economic growth and rising income levels, have helped further improve health status indicators.**

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However, the incidence of childhood respiratory and diarrheal diseases has changed very little from 2000. Major disparities among regions and income levels persist. For example, even after a narrowing of differentials during the decade, infant mortality still ranges from 10 to 49/1,000 across departments, and from 5/1,000 to 30/1,000 across income quintiles. Similarly, chronic child malnu-

trition still shows a huge variation from 2 to 54 percent across departments, and from 4 to 45 percent across income quintiles.

Although health service coverage is 93 percent in urban areas, it has reached only 59 percent in rural areas, even after large increases in coverage. The sharp disparities in both access and outcomes are attributed to living conditions, affordability of health care services, and the lack of available medical personnel in more remote areas.

Health expenditures increased considerably in absolute amounts but remained at about 5 percent (3 percent public expenditures and 2 percent private) of GDP during the review period.

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**Although health service coverage is 93 percent in urban areas, it has reached only 59 percent in rural areas, even after large increases in coverage.**

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Health insurance coverage rates rose substantially between 2003 and 2009, with SIS coverage rising from 20 percent of the population to 37 percent, and EsSALUD from 17 percent to 21 percent, leaving about 40 percent still uninsured.

#### *World Bank Group Engagement*

**The WBG sought to support broad achievements in healthcare quality and access through substantial sector policy lending.** The WBG sought to: (i) help improve access of the poor to basic health services as well as to support “second generation” reforms, such as the expansion of health insurance; (ii) encourage the role of the private sector; (iii) strengthen management contracts for health provision; (iv) reform the formal sector health insurance program (EsSALUD) and public hospital management; and (v) build public institutional capacity in the sector.

Bank lending comprised: (i) four social sector DPLs implemented between FY2001–05 that supported increased public spending on health services, improved targeting of public expenditures, and modernization of health insurance institutions; (ii) a FY2000 Health Reform Project Adaptable Program Loan (APL) that focused on maternal and child health care services for the poor; and (iii) a second series of DPLs in FY2007–09 to support further expansion of health insurance, development of targets,

monitoring, and management of parental expectations in nutrition and health, and further measures to address maternal mortality and chronic malnutrition.

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**The expansion of Integral Health Insurance (SIS) contributed to an increase in access to and utilization of health services by reducing economic barriers to utilization, although physical access continues to be a binding constraint in rural areas.**

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The Health Reform APL was expected to include a follow-up, Stage II in FY2005. However, the APL was redesigned and delayed to FY09, and a planned intervention in nutrition did not take place. As a result, the Bank had no new investment lending in the health, nutrition and population sector between FY2000–09. AAA interventions included coverage of health, nutrition and population in the Accountability for Social Reform Project (RECURSO) (see section on education below), which emphasized the need for measurement and accountability of health outcomes. Also included was a study on human resources in the health and education sectors (FY06), and a study on Socio-Economic Differences in Health, Nutrition and Population (FY07). IFC did not have any health operations in Peru. It competed unsuccessfully for an investment with a major private hospital group, and is currently engaged in a proposed large public-private partnership (PPP) for new hospitals to serve lower-middle-income areas in Lima.

#### *Outcome of World Bank Group Support*

**WBG support for access to maternal and child health care services by the poor retained its relevance throughout the review period and helped achieve important gains.** Key Bank contributions included support for the consolidation and targeted expansion of the SIS, a basic health insurance plan targeted to low-income citizens, and for expansion of community-managed health clinics (CLAS) that deliver a package of basic health services. SIS beneficiary numbers exceeded targets countrywide and the proportion of the population covered by SIS rose from 20 percent to 37 percent. The program was relatively well targeted, with over 60 percent of beneficiaries belonging to the bottom two income quintiles.<sup>2</sup> The expansion of Integral Health Insurance (SIS) contributed to an increase in access to and utilization of health services by reducing

economic barriers to utilization, although physical access continues to be a binding constraint in rural areas.

The proportion of basic health care clinics under CLAS management increased (until about 2005) to about one-third of health facilities, providing more than 8 million people with higher quality basic health services. Surveys showed promising results in falling infant mortality and delivery-related maternal deaths in areas covered by the clinics.<sup>3</sup> However, after 2005, less political support for the CLAS model along with changes in staff contracts limited any further expansion.

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**The Bank's Accountability for Social Reform (RECURSO) analytical work on accountability in the social sectors proved influential, and led to the adoption and dissemination of new technical norms covering nutrition standards.**

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Progress was also made in decentralization of functional responsibility in the health sector, with the appointment of regional directors who reported to regional governments, the transfer of primary health care facilities to regions, and the establishment of annual sub-national government (SNG) performance targets agreed with the center. The Bank's Accountability for Social Reform (RECURSO) analytical work on accountability in the social sectors proved influential, and led to the adoption and dissemination of new technical norms covering nutrition standards. IBRD's policy lending proved an effective instrument. It helped prioritize actions, engage the Ministry of Economy and Finance in supporting and overseeing implementation of reforms, and counteract continuing pressures for the funding of more sophisticated services in major urban hospitals.

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**There was also little progress on the issue of health professional pay and incentives which continues to undermine further progress in improving health outcomes.**

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**However, some initial expectations on overcoming vested interests to advance other reforms proved too optimistic.** Some initial expectations and commitments under the Public Sector Reform Loan program proved too optimistic with regard to the government's willingness and ability to overcome deeply entrenched interests in several areas, including reform of EsSALUD and better targeting of health subsidies. EsSALUD, for example, declined to give up running its hospitals and limit itself to purchasing health services. Further, it secured passage of a law giving it complete autonomy.

The Health APL, as originally designed, also proved overly ambitious and was eventually scaled back to cover a smaller geographical area, and a number of topics originally included (such as child health, communicable diseases) were eliminated. There was also little progress on the issue of health professional pay and incentives. The issue continues to undermine further progress in improving health outcomes.

During the review period, CLAS professionals under contract were converted to civil servant status that made them more independent of health facility management and more mobile. This weakened the CLAS model and helped stall its further expansion. Continuing weaknesses in public sector management have had a broad detrimental effect on accelerating progress across the social sectors as well as in other areas of the economy.

**Outcome Rating:** IEG rates the outcome of WBG support for expanding access to high-quality health services as *Moderately Satisfactory*.

## Expanding Access to High-Quality Education Services

### *Country Developments*

**During the 1990s, Peru made substantial progress toward achieving universal access to primary education. However, there are continuing challenges in improving access to secondary and tertiary levels, and in improving quality and efficiency.** By the early 2000s, educational attainment was relatively high in Peru and ahead of most Latin America and Caribbean Region countries. Primary school net enrollment was 90 percent. Half of Peru's children attended preschool. Sixty-five percent of urban youth were likely to finish secondary schools, and a relatively high percentage of urban youth attended tertiary educational institutions.

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**In rural areas, in particular, both access and quality of education services were hampered by the widely dispersed population and difficult terrain, lack of infrastructure, and difficult living conditions that led to an under-supply of teachers in remote areas.**

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However, education access remained highly unequal, with sharp differences between urban and rural areas. High absenteeism and drop-out rates in rural areas persisted, due in part to high family demand for children's labor. Only 24 percent of rural youth completed secondary school.

Since the publication of student achievement data in the early 2000s (that had been suppressed under the Fujimori regime), the quality of education has also been an increasing concern. More than half of Peru's first and second graders could not read, and students fared poorly on international tests.<sup>4</sup> Education quality was being undermined by a number of factors including: poor teacher skills, lack of teacher supervision, low teacher motivation, and the need for teachers to take second jobs because of low salaries.<sup>5</sup>

In rural areas, in particular, both access and quality of education services were hampered by the widely dispersed population and difficult terrain, lack of infrastructure, and difficult living conditions that led to an under-supply of teachers in remote areas. The system also remained inefficient. The teacher cadre acted as a safety net for secondary school graduates. Of the 350,000 teachers, 30 percent did not have official teaching positions.<sup>6</sup> High levels of leakage also existed through "ghost teachers."<sup>7</sup> Improvements were being inhibited by unclear responsibilities between the central government and SNGs. There was also a lack of school level autonomy in planning or expenditure, as well as strong resistance to reforms from vested interests, particularly the teachers union.

**Several positive educational initiatives were implemented over the review period.** The Ministry of Education placed a priority on improving the *quality of education*, focusing on teacher quality. In 2006, a law was passed creating a National System for Evaluation and Accreditation of Educational Quality (*Sistema Nacional de Evaluación y Acreditación de la Calidad Educativa*). In 2009, another law was passed defining a new teacher career structure and remuneration guidelines designed to raise teacher standards, develop a quality teaching force through merit-based promotion, and ensure deployment of quality teachers to rural areas. Additional measures to improve quality included: an increase in hours devoted to reading, a laptop computer program for teachers and students, a national teacher training program, and assessments of both teachers and students.

The government also implemented a partial decentralization of the sector. Regional directors were appointed by and reported to regional governments, and responsibility for primary and secondary schools was passed to regional governments. Almost 900 million nuevos soles have been allocated to school directors over the last three years under the education infrastructure program. Teacher payroll, however, remained centrally determined. To improve *efficiency*, the Ministry of Education gave special importance to removing "ghost" teachers and controlling total numbers and expenditures. Public expenditure on education

increased considerably in absolute amounts, but remained steady at about 3 percent of GDP. Among educational sub-sectors, however, there were major changes, with the share for primary education rising from 34 to 41 percent, and for secondary education from 28 to 36 percent, in line with governmental priorities. To compensate for the increases in primary and secondary education, the share of public expenditure on tertiary education was decreased.

**Although some improvements have been made, significant weaknesses remain with respect to the educational system's quality, efficiency, and access.** Some indication of *education quality* improvement is apparent. Although results of a sample test in 2004 and more recent universal tests are not directly comparable, the difference in the proportions of students with "zero" reading performance (46 percent in 2004 versus 30 percent in 2007) suggested some quality improvements in response to increased government attention to education. To take another example, the latest student assessments indicated an increase in the proportion of students reading at or above grade level from 16 percent in 2007 to 23 percent in 2009. These included 18 percent of students in state schools compared to 43 percent in non-state schools, and 29 percent of students in urban areas compared to 12 percent in rural areas.

Illiteracy remains high, however, at 23 percent of students in 2009. Regarding mathematics, the proportion of students performing at grade level rose from 7 percent in 2007 to 14 percent in 2009 (with 11 percent at state schools performing at grade level compared to 23 percent at non-state schools, and 17 percent at grade level in urban areas compared to 7 percent in rural areas). However, 49 percent of students overall were still performing at unacceptably low levels.

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#### *Access to education also showed improvement, partly due to significant increases in private sector provision.*

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Some improvements in *efficiency* were also made, with the reduction of "ghost teachers," and the increase in the proportion of teachers within the universal payroll system rising from 50 to 98 percent. Repetition rates in primary education declined from 10 percent to 8 percent.

*Access to education* also showed improvement, partly due to significant increases in private sector provision. The pre-primary net enrollment ratio increased from 49 percent in 2002 to 64 percent in 2008. Primary completion rates rose much faster in the rural areas of each region (5–7 percent per annum in 2004–08) than in the urban areas, narrowing rural-urban differentials. Secondary education net enrollment rates increased from 68 percent

to 74 percent, and tertiary gross enrollment rates rose from 32 percent to 35 percent in 2006. The role of the private sector has been significant. The private sector's share of primary school enrollments rose from 14 percent to 19 percent, and its share of secondary enrollment increased from 17 percent to 26 percent. However, large differences between urban and rural secondary enrollment ratios remained.

### *World Bank Group Engagement*

**The WBG supported the education sector through several policy loans, although less investment lending took place than expected.** In the early 2000s, the WBG developed a broad strategy to support the education sector. The strategy aimed at improving access, quality, efficiency, and supporting policy and institutional reform. The approach appropriately drew lessons from the strategy of the 1990s that building schools, printing textbooks, and providing some teacher training were alone inadequate to ensure high-quality education for all. There was recognition that more emphasis was needed on management and institutional reform.

The WBG expected to provide support through policy lending, AAA, and a series of investment loans. Over the review period, however, its actual support consisted mainly of improvements in educational quality through AAA and policy lending. Conditions related to policy lending were contained in the Programmatic Social Reform Loan I-IV (PSRL I-IV) series (FY2001–05) designed to help protect pro-poor social expenditures in the context of fiscal stringency and reforming of the human resources system in the Ministry of Education, including incentives for teachers in rural areas. These loans were followed by the Results and Accountability (REACT) I-II series in FY2007–09 that supported improvements in the quality of education through a process of measuring results and accountability. The FY2003 Rural Education Project, the only active investment loan, aimed to help improve basic education access and quality in rural areas, improve teacher quality and motivation, and strengthen education management.

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**RECURSO's contention was that education quality in Peru was stuck in a low-level equilibrium in which none of the parties had an incentive to change, and that a shock to the system was needed to create a new culture of results and accountability.**

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The FY06 Education APL2 was expected, but did not materialize. A FY08 Quality of Basic Education Project was subsequently planned, but was postponed following limited interest by the government. A FY10 Higher Educa-

tion Project is also under preparation, for which there is high interest. Although it was a CAS objective, the WBG did not contribute to pre-primary school development. IFC made its second education investment in Peru during the review period, namely the FY05 *Universidad San Martin de Porres* bond issue.

**The WBG also undertook significant AAA work in the education sector during the review period.** Throughout the past decade, the WBG has consistently maintained a program of detailed research-based diagnostics in the education sector. A key Bank intellectual product in the social sectors was the RECURSO multisectoral programmatic AAA series begun in 2006.<sup>8</sup> The first phase focused on primary education and adapted the framework of the 2004 World Development Report *Making Services Work for Poor People*. This framework emphasized quality improvements through accountability derived from interrelationships in a triangle of government, providers, and users (parents). RECURSO's contention was that education quality in Peru was stuck in a low-level equilibrium in which none of the parties had an incentive to change, and that a shock to the system was needed to create a new culture of results and accountability. The study proposed to mobilize user (parental) demand for quality via a simple measurement of student learning achievement, that is, second grade children reading at least 60 words per minute.

In order to disseminate its message, the Bank prepared a video showing children failing to read. The WBG also produced a series of other studies on education including an IFC market study on student loan programs (FY04), Bank studies on human resources in health and education (FY06), the quality of education for indigenous students (FY07), tertiary education (FY08), measuring reading skills (FY09), and a case study of education management in the Junin region (FY09) that suggested several types of improvements that regional governments can make even within the current limited decentralization of education management and financing.

### *Outcome of World Bank Group Support*

**The Bank's primary focus on the quality of education remained relevant, and positive results were seen in some areas.** Given the relatively high levels of access to education, the Bank's focus on improving the quality of education was highly relevant. The Bank also supported improvements in education management, efficiency, and only selected access gaps. Positive contributions included support under the Bank policy lending (PSRL) series to rebuild the teacher database and establish a unified payroll system which were important elements of reducing the numbers of "ghost teachers" and helping to increase

transparency. This series also helped protect key education spending from budgetary cuts in the context of overall fiscal austerity early in the period, although actual spending lagged behind budgetary allocations.

IFC made a useful contribution in the tertiary education sector through support of a bond issue by the University of San Martín de Porres, the largest private university in Peru. The bond issue helped the university access capital markets at favorable terms, upgrade and expand existing infrastructure in Lima, establish a campus outside Lima, and broaden access by targeting the lower-middle income segment of the student market.

Under the Rural Education Project, the Bank helped develop models for bilingual, multi-grade, and secondary distance education that initially had little impact. However, some of them have eventually been used by the government as inputs for expansion of these initiatives. In the second half of the review period, the REACT I-II DPL series advanced the results agenda by helping establish clear learning standards and institutionalizing annual student assessments and the accreditation process. Among the social sectors, the education sector had the most progress in terms of REACT benchmarks.

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**Notwithstanding the lack of Bank support as well as continuing opposition from the teachers union, the government persisted with its agenda to rationalize teacher management, and in 2009 passed a new law designed to improve teacher quality.**

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**Although the Bank's RECURSO initiative was controversial, it made a positive intellectual contribution that helped stimulate reforms.** The RECURSO messages—standards, measurement, accountability, and support—aroused both support and opposition in Peru. Critics felt that existing assessment systems were being pushed aside, and that the proposed measure of achievement was oversimplified. They also thought that the expected process of change was unrealistic and would first require a new culture in Peru where low-income and uneducated parents recognized that they had rights to a good education for their children and were willing to confront more-educated teachers. In addition, there were concerns that the messages promoted conflict rather than cooperation between teachers and parents.

Despite the controversies, however, the government fully embraced the main RECURSO messages. In his inauguration speech in 2006, President García announced the government's determination to assess and redress teacher

quality. Annual universal testing of students began in 2006. The regime of universal testing has been a significant achievement. Despite a government request, the Bank decided not to support the proposed teacher testing element of the reform agenda. Notwithstanding the lack of Bank support, as well as continuing opposition from the teachers union, the government persisted with its agenda to rationalize teacher management, and in 2009 passed a new law designed to improve teacher quality. The RECURSO framework was also adopted by some NGOs and other development partners to measure student achievement and motivate teachers at the local levels.

**However, the WBG's contribution to education was lower than expected.** In the key area of education quality, progress was modest relative to the objectives. In this respect, although a shock to the system was needed, given the political sensitivity of reforms and strong vested interests, further efforts to build a broader consensus around a reform agenda were warranted. For almost the whole review period there was no improvement in learning achievement and the recent advances, although positive, have been limited. The Bank did not sustain its early engagement in the reform of teacher pay and incentives. As in the health sector and other areas of the economy, underlying weaknesses in public sector performance had detrimental effects and were a critical factor in undermining improvements in education quality. The Bank's contribution to increased access was also limited.

The Rural Education Project experienced substantial implementation delays and fell short of its objectives due to its complex structure against a backdrop of weak financial and managerial capacity in the Ministry of Education. Only 27 percent of the expected infrastructure rehabilitation took place, and both access and quality achievement indicators fell far below target. Based on the project's poor performance, the Ministry of Economy and Finance closed it, despite proposals by the Ministry of Education and the Bank to restructure and extend it. No further Bank investment lending took place in the sector.

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**In retrospect, the World Bank Group's contribution in education was undermined by limited progress on institutional reform as well as its difficult relationship with the Ministry of Education.**

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After 2006, the Ministry of Education pursued teaching reform without the assistance of the WBG or other international agencies. In the private sector, the promising demonstration effect of IFC's bond issue with a private

university was undermined by the onset of the global financial crisis, which preempted any further transactions.

From an institution-building perspective, the Bank's interventions had limited impact on capacity, management, and coordination in and among the Ministry of Education, regional government departments, and local offices.<sup>9</sup> In retrospect, the World Bank Group's contribution in education was undermined by limited progress on institutional reform as well as its difficult relationship with the Ministry of Education. Although there was coordination with other development partners at the project level, there was no overall strategic coordination in the sector to optimize synergies among donor contributions.

**Outcome Rating.** IEG rates the outcome of WBG support for expanding access to high quality education services as *Moderately Unsatisfactory*.



## Increasing the Efficiency of Social Safety Net Programs

### *Country Developments*

**By the early 2000s, Peru had established a range of social safety net programs, although challenges remained in improving their efficiency and reach.** In 2003, Peru's *pension system* remained inefficient, and was not meeting its main goal of providing income security to the elderly. Only 15 percent of the labor force contributed to existing programs, and less than 25 percent of the elderly received a benefit—although nearly 40 percent were below the poverty line.

In 2004, Peru's public pension system enrolled about 300,000 persons employed in the formal sector. Some 400,000 civil servants were under another scheme, *Cedula Viva*, which had overgenerous terms and threat-

ened fiscal stability. Private pensions (introduced in 1992 with Bank assistance) had 3 million participants. The public system required 85 percent budget financing, amounting to 2.6 percent of GDP. The government had no lead agency to deal with pensions. The challenges were to control the costs of the *Cedula Viva* (the government's priority), lower the costs of affiliation, and expand coverage in the long term, especially for the poor.

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**In one of the large social safety net programs, *Vaso de Leche* ("Glass of Milk"), direct beneficiaries received only 29 cents out of every dollar spent, with the balance going to administrative and other costs.**

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Regarding *social safety net programs*, Peru had a range of food distribution programs, costing the equivalent of some 0.75 percent of GDP. A small number of these programs accounted for the great majority of spending. Although there was some degree of targeting in social safety net programs, the system remained highly inefficient. Significant leakage existed, with 35–45 percent of beneficiaries being nonpoor. For example, in one of the large programs, *Vaso de Leche* ("Glass of Milk"), direct beneficiaries received only 29 cents out of every dollar spent, with the balance going to administrative and other costs. The programs were also stretched across large numbers of beneficiaries, resulting in small individual benefits that had little impact on the consumption deficit of poor households. There was no single government unit responsible for social transfers, and no quantitative objectives or strategies. The various responsible program agencies had weak coordination, management, and procurement systems. The government's priority was to rationalize the programs and improve targeting to contain fiscal costs.

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**The private pension system experienced rapid growth, increasing its coverage to 4.4 million by 2009.**

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**Good progress has been made since 2003, although some large programs have proved politically difficult to reform.** The government prepared a strategy and action plan for *pension reform* and centered implementation responsibility in the Ministry of Economy and Finance. The public social insurance system minimum pension was increased, collection of contributions was improved, and benefits were rationalized. The numbers participating in the public social insurance system were also contained at roughly 0.3 million through 2008. A constitutional amendment helped rationalize the high-

cost civil service pension scheme, new enrollment was closed, and total beneficiaries declined to 300,000.

Meanwhile, the private pension system experienced rapid growth, increasing its coverage to 4.4 million by 2009. This increase was facilitated by a new law, supervisory regulations, and reductions in pension managers' costs, such that premiums fell to the lowest levels in Latin America and the Caribbean.

Several *social safety net* programs were consolidated or closed, reducing the number from 82 as late as 2006 to 26 in 2009. The remaining programs were in nine economic and social sectors and had a total budget of US\$1.9 billion in 2009. Thirty-eight percent of households (18 percent of the population) were beneficiaries of at least one food program. Still, spending remains low by regional standards. Targeting of some programs improved. However, two large and inefficient programs (*Vaso de Leche* [Glass of milk] and *Comedores Populares* [Community Dining Halls]) proved politically difficult to reform.

Two new kinds of programs were also introduced during the period: a countercyclical employment program (*A Trabajar*) with urban and rural components, and a conditional cash transfer program (*Juntos*) now covering almost 0.5 million households. Early evidence indicates that *Juntos* has already led to significant increases in utilization of health services with modest effects on incomes, consumption, poverty, nutritional intakes, and school attendance. The government is compiling information on every individual household as a tool Household Targeting System (SISFOH) to overcome both undercoverage of programs and leakage of benefits to those not eligible, though implementation may prove difficult. The Ministry of Economy and Finance is currently evaluating some of the major programs, but the overall economic and social impact of the rationalization of the social safety net programs is not yet evaluable. Finally, the government is implementing results-based budgeting for an increasing number of the major social safety net programs.

### *World Bank Group Engagement*

**The WBG maintained an active presence in social protection reform through substantial policy lending and AAA work.** With respect to social protection, the WBG sought mainly to help increase the efficiency of the system through support for: (i) modernization of *pension systems* through improving the efficiency of public programs and expanding the coverage of private programs and (ii) rationalization of the extensive *social safety net* programs by consolidating food and nutrition programs, reallocating resources away from inefficient programs, improving targeting, and institutional reform. WBG in-

struments comprised social protection measures in both sets of DPLs as well as in AAAs.

In supporting *pension reform*, the PSRL series and accompanying technical assistance (TA) loan supported a series of actions to make private pensions more attractive, reform the *Cédula Viva* (civil service pension scheme), create a focal point on pensions within the government, and create a national pension strategy. Regarding *social safety net* programs, the PSRL series sought to help rationalize programs, improve targeting of the poor, start a new countercyclical employment program, and start a conditional cash transfer program.

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### **The Bank was directly involved in the successful reform of *Cédula Viva*, a breakthrough not anticipated at the start of the Programmatic Social Reform program.**

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Under the REACT series in the second half of the period, there was further support for the rationalization of programs, plus a focus on a national strategy against malnutrition and the role of *Juntos*. The Bank also undertook a much larger AAA program than was originally planned. With respect to *pensions*, the Bank prepared a report on old age security, and a Non-Lending Technical Assistance (NLTA) on second-generation pension reforms. As for *social safety nets*, the Bank's FY02 Public Expenditure Review studied the large and inefficient *Vaso de Leche* program. The FY05 study addressed targeting issues in the nutrition programs. The FY06 RECURSO focused on accountability in social protection. The FY08 report reviewed social safety net programs in Peru and recommended a consistent urban/rural strategy. Finally, in FY09, an early impact evaluation of *Juntos* was conducted, and a study was recently completed on undocumented children that addresses eligibility for social safety net programs.

### *Outcome of World Bank Group Support*

**The WBG consistently pursued a relevant second generation reform agenda in social protection, and helped realize some difficult pension and safety net reforms.** Regarding *pensions*, WBG interventions helped prepare a strategy for pension reform and center implementation responsibility in the Ministry of Economy and Finance, which helped ensure adequate resources and attention to the agenda. The Bank was directly involved in the successful reform of *Cédula Viva*, a breakthrough not anticipated at the start of the Programmatic Social Reform program. Using the TA loan that had accompanied the PSRLs, the Bank helped prepare background studies for this difficult reform, which had previously

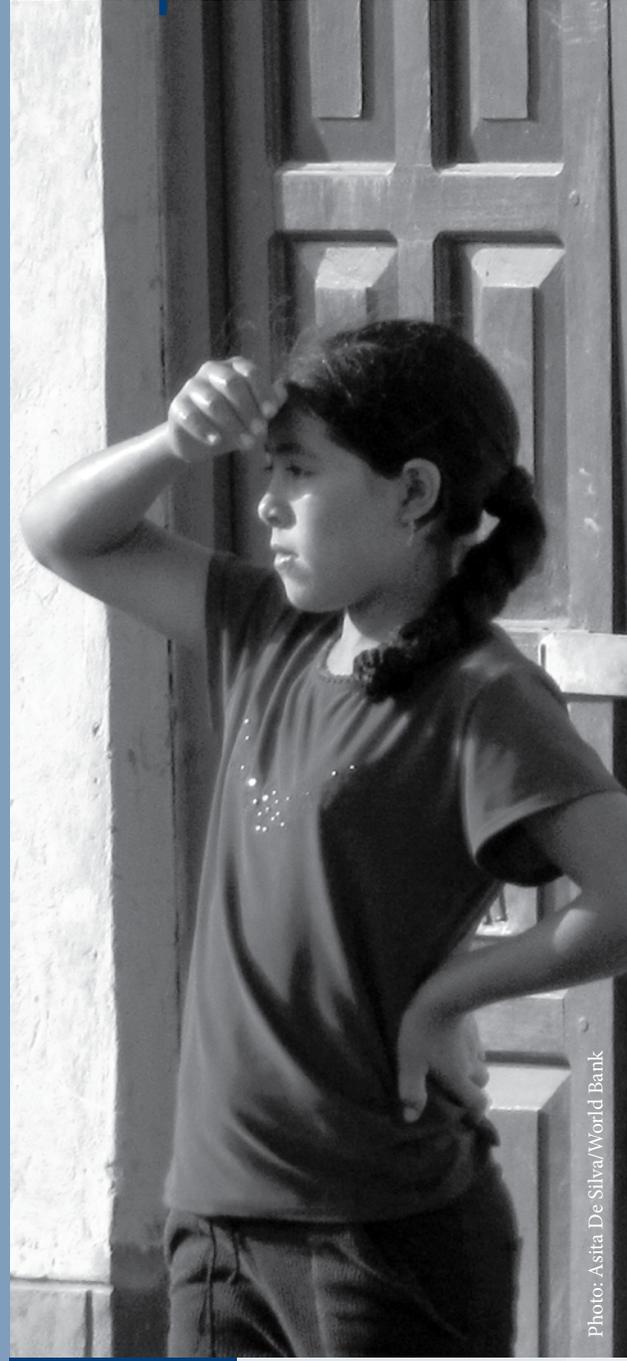
proved to be politically unviable. The PSRL series also supported measures that substantially improved and promoted the private pension system, which grew by 23 percent a year, rising from 8 percent of GDP in 2002 to 13 percent in 2008.

With respect to *social safety nets*, consistent WBG policy dialogue and the DPL helped rationalize the social safety net and reduce the number of programs from 82 in 2006 to 26 in 2009. However, the economic and social impact of this rationalization is not yet evaluable. The Bank also helped adapt international experience in establishing a countercyclical employment program and a conditional cash transfer program (*Juntos*). However, it was unsuccessful in helping increase the pro-poor targeting or re-

form of some large and inefficient programs, such as *Vaso de Leche* and *Comedores Populares*, where reform has been strongly resisted by interest groups of producers and beneficiaries. In retrospect, initial expectations as to the ability to overcome deeply entrenched interests in these areas proved too optimistic. Finally, the Bank made an important intellectual contribution through the FY08 study that provided some clear messages on an overall social safety net strategy. The government has already adopted some of these recommendations, such as the restructuring of *Juntos* to combat malnutrition.

**Outcome Rating.** IEG rates the outcome of WBG support for improving the efficiency of social protection programs as *Satisfactory*.

# Chapter 5



# The World Bank Group's Contribution to Strengthening Public Sector Management

**Peru managed the economic reform process in the 1990s through “islands” of good management rather than through broader improvements in public sector management.**<sup>1</sup> During the economic reform program of the 1990s, public sector management reform was not a focal point. The government did not tackle civil service reform nor did it attempt any decentralization. Instead, it deliberately—and realistically—chose to build a few islands of good management that would support the first-generation stabilization and liberalization reforms.

## Strengthening Capacity in Public Institutions

### *Country Developments*

By the early 2000s, Peru had established several strong institutions, including the Ministry of Economy and Finance, the Central Bank, the *banking supervision authority*, other regulatory agencies, and a social fund (FONCODES). However, broad weaknesses in capacity, management, organization, accountability, and motivation at many public agencies (at both the central and sub-national government [SNG] levels) contributed to poor public service delivery in many areas of the economy. Moreover, toward the end of the 1990s, concerns increased about the degree of centralized decision making, an unresponsive justice system, and rising perceptions of corruption. A key obstacle to improved public service delivery was political: “young” democracies such as Peru have had difficulty creating effective, politically-channeled demand that would lead to a more efficient and effective public sector response.<sup>2</sup>

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**A key obstacle to improved public service delivery was political: “young” democracies such as Peru have had difficulty creating effective, politically-channeled demand that would lead to a more efficient and effective public sector response.**

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**Since 2003, the government has consistently stated its intention to improve public sector management, and good progress was achieved in some areas.** The administrations of both President Toledo and President Garcia clearly acknowledged and emphasized the need to create a more efficient and transparent public sector, decentral-

ize functions and responsibility, and strengthen democracy and the rule of law.<sup>3</sup> Key objectives over the period included: (i) rationalizing central public administration in order to provide better public services, particularly for the poor; (ii) enhancing public service delivery by decentralizing responsibility and authority to SNGs and maintaining fiscal control; and (iii) later in the period, managing substantial increases in SNG resources as a result of the mineral export boom.

With respect to the two broad components of public sector management—establishing rules and systems (that is, policies, administrative procedures) and capacity building—Peru has made some progress toward the former, but less toward the latter. Several national rules and systems were established or refined, including the creation of integrated financial management systems, investment and procurement systems, and the development of monitoring systems that helped lay the basis for introducing results-based budgeting. There has also been substantial, although uneven, “bottom-up” progress on the part of some agencies and local governments in undertaking reforms and making substantial advancement in strengthening capacity (including through the use of consultants). Information technology and better communications have also helped strengthen the performance of public sector institutions.

**However, even with improvements and islands of excellence, significant weaknesses remain in Peru’s public sector capacity and performance.** With respect to capacity building, Peru maintained and enhanced the performance of several key agencies, including the central bank, the banking supervision authority, and other regulatory agencies. These institutions have substantial legal and ad-

ministrative autonomy and have been able to attract and retain qualified staff with salary scales outside civil service norms. However, weaknesses persist in the capacity and management of other public sector institutions in Peru.

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Several well-performing institutions have substantial legal and administrative autonomy and have been able to attract and retain qualified staff with salary scales outside civil service norms.

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There was no sustained initiative to reform the civil service. Inefficiencies, disorganization, duplication of functions, and poor interagency coordination remain problematic. Civil service salary ceilings and cuts have had a negative effect on the motivation and retention of qualified personnel. There has been a lack of a clear consensus on the rationale, methods, and degree of public sector management reform needed. Strong vested interests at both political and bureaucratic levels have militated against change. The lack of effective capacity development has had broad implications for public service delivery. The Ministry of Economy and Finance, for example, adopts a very cautious attitude toward expenditure through line ministries and government agencies on the grounds that inadequate capacity exists to ensure effective development expenditure.

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Decentralization has remained a contentious issue, with no clear consensus on the rationale and expected pace.

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In 2008, an experimental initiative was begun to create a cadre of well-qualified senior civil servants in national and SNG agencies across Peru by recruiting qualified individuals on three-year performance-based contracts outside civil service salary scales.<sup>4</sup> Early indicators show some promise, such as increased realization of budgeted expenditure in areas where program staff have been deployed.

**A cautious approach to decentralization helped maintain fiscal control, although the benefits of decentralization have been undermined by limited capacity in SNGs.** A 2002 constitutional amendment created 25 autonomous regions and effectively committed the government to decentralization. However, decentralization has remained a contentious issue, with no clear consensus on the rationale

and expected pace. Moreover, based on adverse experiences in other countries such as Brazil and Colombia—and the high priority placed on maintaining macroeconomic stability—decentralization was strongly conditioned upon the need to maintain fiscal neutrality. As a consequence, although various functions were decentralized, the central government maintained close control over SNG revenue and expenditure policies. This led to some dysfunction, with budget allocations to SNGs not necessarily matching devolved functions. SNGs have had limited direct revenue generation and at present over 90 percent of SNG resources are transferred from the central government. Expenditure policies have been decentralized and through the process, SNGs have increased their share of total public expenditure from 12 percent in 2002 to 21 percent in 2008. Some central government controls remain.

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Absence of a central strategic planning function has undermined potential exploitation of synergies and a more coherent overall approach to development expenditure.

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All SNGs need to have “participatory” development plans and expenditure budgets that are approved by the Ministry of Economy and Finance. Each project over 10 million *nuevo soles* needs to be cleared through the centralized National Public Investment System (SNIP), which seeks to ensure adequate returns on development projects. Although there have been positive results, continuing SNG capacity limitations have undermined their ability to more effectively deliver services to the public. In addition, although some SNGs have made organizational reforms enabling them to improve performance, budget execution levels in SNGs remain generally low. Local capacities to prepare effective projects have been unable to keep up with the large increase in local revenues that resulted from the commodity price boom.

**The absence of a national strategic planning capacity has undermined development of synergies in development expenditures.** The need for a central strategic planning function has been controversial, with some arguing that it represents a reversal to “planning” associated with public sector-dominated economies of the past. Yet, the absence of a central strategic planning function has undermined potential exploitation of synergies and a more

**TABLE 5.1 World Bank Group Objectives and Activities Supporting Strengthened Public Administration at Central and Sub-national Levels**

Area of public sector management	WBG objectives	WBG activities	Results
Central public administration	<ul style="list-style-type: none"> <li>• Improvement in financial management</li> <li>• Improvement in planning processes</li> <li>• Emphasis on results-oriented public expenditure</li> <li>• Capacity development.</li> </ul>	<ul style="list-style-type: none"> <li>• Lending: Three DPLs (DECSAL I to III) (FY2003–05); Fiscal TAL (FY04)</li> <li>• AAA: Studies on municipal debt (2006); budget instruments (2009); CPAR (2005); PEFA (2009); IDF (2009); policy notes (2006).</li> </ul>	<ul style="list-style-type: none"> <li>• Advances in fiscal control (financial management systems, investment control, procurement, debt limits) have affected all levels of government.</li> <li>• Selective progress on budget reform (effectiveness, efficiency).</li> <li>• Limited progress on sustainable capacity development or civil service reform.</li> </ul>
Decentralization	<ul style="list-style-type: none"> <li>• Improved rules and processes for fiscal control, devolution of responsibilities, and participatory budgeting.</li> <li>• Selective devolution of responsibilities (that is, health and transport)</li> <li>• Capacity development in SNGs.</li> </ul>	<ul style="list-style-type: none"> <li>• Lending: Three DPLs (DECSAL I to III) (FY2003–05)</li> <li>• AAA: Six IFC capacity-building activities in selected municipalities (FY2005–09); IFC TA (FY07); three urban strategy NLTA (FY2003–05); NLTA to support financial management of regional governments (FY09).</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing local use of national systems for internal management (for example, SIAF, SNIP)</li> <li>• Some tasks and resources devolved, but lack of clarity remains regarding roles.</li> <li>• SNG capacity remains poor, though this varies across SNGs.</li> <li>• Participatory budgeting has become widespread.</li> </ul>

Source: WBG Country Assistance Strategy and project documents; IEG.

Notes: AAA-Analytic and Advisory Services; CPAR = Country Procurement Assessment Report; DECSAL = Decentralization and Competitiveness Structural Adjustment Loan; DPL = Development Policy Loan; FY = fiscal year; IDF = Institutional Development Fund; IFC = International Finance Corporation; NLTA = Non-Lending Technical Assistance; PEFA = Public Expenditure and Financial Accountability; SIAF = System of Integrated Financial Management; SNG = Sub-National Government; SNIP = National System for Public Investment; TA = Technical Assistance; WBG = World Bank Group.

coherent overall approach to development expenditure. Central government agencies and SNGs currently prepare their own development plans toward which resources are allocated. However, the absence of an overarching framework has led to disjointed strategies, duplicative efforts, and failure to take advantage of potential synergies. Also, with resources to the SNGs transferred directly by the Ministry of Economy and Finance to municipal governments, there is limited coordination between regional governments and municipal governments within their own regions.

Development projects are approved on the basis of adequate development returns under the SNIP, regardless of their conformity with broader strategic priorities. Some stakeholders interviewed by IEG indicated that this approach might bias public investment toward some types of projects over others, that this practice favors SNGs and agencies that have better project appraisal capacities, and that it favors smaller rather than larger projects—which may or may not be the most relevant interventions from a broader strategic point of view.

#### *World Bank Group Engagement*

**The WBG aimed to help reform national public financial rules and systems, as well as build capacity in pub-**

**lic institutions.** The WBG sought to help improve public sector management through reforming national rules and systems for public sector management, and through capacity building at both the central and decentralized levels (table 5.1). IBRD focused on financial management rules and systems at both the central and decentralized levels to support the reform of national rules and systems. It did this primarily through components in the three Decentralization and Competitiveness Structural Adjustment Loans (DECSALs) (FY2003–05). Support for capacity building was provided through: (i) IRBD TA, Institutional Development Fund (IDF) grants and NLTA operations that covered a range of institutions; (ii) a series of IFC activities aimed at municipal capacity building that arose out of requests from IFC mining company clients to help nearby municipalities better utilize their mining sector revenues; and (iii) a range of other Bank operations outside public management that also aimed at building capacity in public institutions (for example, in social sectors at both central and decentralized levels). An indirect WBG goal in public sector management was to help generate public demand for better public services or social empowerment. This was also present across a range of Bank interventions.

**IBRD AAA for public sector management focused more on fiscal management than on broader capacity building.** WBG AAA work included the Peru Policy Notes (2006) that proposed an ambitious “systems” approach to improving public sector management, including strengthened budgetary oversight capacity in Congress, introduction of results-based budgeting, merit-based civil service reform, public pension reform, and completion of decentralization by emphasizing results-based management.

Other AAA included studies on municipal debt, budget instruments, a Public Sector and Financial Accountability (PEFA) report, and an Institutional Development Fund (IDF) on regional government. Some AAA that was planned was not undertaken, including work on SNG fiscal policy. Many of the AAA studies were localized (for instance, the study on SNG debt management was addressed primarily to the Ministry of Economy and Finance) rather than broadly disseminated. AAA also did not substantially address capacity issues, focusing more on fiscal management and control.

In 2009, a number of WBG analytical pieces (as well as TA that can yield analytical insights) were initiated on decentralization and performance management, although coordination within and among Bank units as well as with IFC and other partners appears to be limited. Regarding decentralization, three simultaneous but separate pieces of AAA are under preparation, and performance-management work is stretched across six different, apparently uncoordinated, tasks (two AAA, three IDFs, and one NLTA).

#### *Outcome of World Bank Group Support*

**Although the WBG objectives in public sector management were relevant, the WBG lacked a clear strategy and approach toward capacity building.** Although the CASs identified public sector management challenges and government programs, neither the text nor the program matrices of either CAS provided a clear statement of the Bank’s strategic approach to improving public sector management, or a clear logical framework on which to base its activities. IBRD’s DPLs focused primarily on national rules and systems governing public financial resources, but not on other rules or systems, such as those governing public human resources.

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**The WBG stopped short of helping develop a road map or strategic, politically feasible approach to civil service reform.**

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Although the WBG’s policy notes advocated the need for civil service reform, the WBG stopped short of helping develop a road map or strategic, politically feasible approach in this area. In retrospect, given the broad detri-

mental effects of continuing weaknesses in public sector capacity, the WBG missed an opportunity to use its knowledge base and internal coordination mechanisms (especially the CAS) to develop a more strategic approach to decentralization and capacity building.

**Use of IFC’s advisory services to strengthen municipal capacity had positive demonstration effects.** In 2004, IFC was approached by some of its mining company clients for assistance in helping municipal governments better spend their revenues in order to alleviate pressure from local communities on broadening the benefits of the mining operations. IFC responded with a series of capacity-building initiatives in municipal governments to help better manage public expenditures. These small projects aimed to help improve financial management and a network of citizen-oversight bodies. Results in several areas were very positive although in others less so. Regarding areas of success, the overriding success factor was political will and commitment: where there was a genuine desire among municipal leaders to improve public expenditure performance, this was done.

IFC is now trying to institutionalize its approach by creating a common platform so that more local governments can avail themselves of these services, and encourage a local market of consultants. IFC’s role in this area reflected a relatively unique position as a partner of the major mining companies who had a vested interest in seeing municipal governments spend more effectively. It also reflected IFC’s role as a public institution and member of the WBG that had the capacity to approach and work with municipal governments. IBRD was not engaged, and it was unlikely to have done so given the small size of the initial interventions. With the success of several programs, however, greater IBRD engagement in integrating lessons from these initiatives into a broader capacity building effort is warranted.

**Although the WBG played a key role in helping establish rules and systems governing financial resources, its contribution to broad capacity building at different levels of government was limited.** Key achievements supported by the WBG under the DECSAL series included expansion of the SNIP investment process to SNGs, application of the Law of Fiscal Responsibility and Transparency to SNGs, and rationalization of the civil service payroll system.

IBRD also made a useful contribution to the national statistical agency’s poverty measurement and reporting capacity. IBRD helped create an advisory council to the statistical agency that helped resolve methodological issues as well as raise public perceptions about the objectivity and accuracy of poverty reporting.

Regarding financial management, although progress was made in developing monitoring and evaluation systems, implementation of results-based budgeting has been, if promising in some areas, slow and uncoordinated. It presently covers only about 12 percent of the budget.

As to decentralization, the stated objective was less important in the execution than in the plan. Although the Bank initially supported a more expansive approach, there was resistance from the Ministry of Economy and Finance. The Bank then supported the Ministry of Economy and Finance's more conservative line on fiscal policy.

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**Training and advisory services provided under both Bank and IFC-AS projects have been undermined by high staff turnover and weaknesses in organization, administration, and motivation.**

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With the exception of the few cases in which IFC Advisory Services (AS) had successful programs, WBG capacity building activities had limited impact on the ability of SNGs to better formulate and execute development plans and improve public service delivery. The FY05 Fiscal Decentralization Technical Assistance Loan (TAL), for example, had limited progress toward goals of strengthening capacity for fiscal decentralization, with extensive delays and ineffective project management.

At the central level, the FY03 IDF to support “Creation of a National Strategic Planning Function” also failed to have a lasting impact. Training and advisory services provided under both Bank and IFC-AS projects have also been un-

dermined by high staff turnover and weaknesses in organization, administration, and motivation. At the municipal level, for example, in several cases, a change in mayor was associated with a turnover of key trained and qualified personnel.

**Several factors limited progress in capacity building.** Both the Bank and the government were aware of fiscal problems that decentralization had caused in other countries. The priority on fiscal control outweighed the capacity aspects of decentralization. Civil service reforms also remained highly politically sensitive. Various groups opposed a unified regime for all public servants, civil servant performance evaluations, overall reductions in the levels of public sector employment, and the financial cost and budgetary implications associated with redundancy and other termination payments. Strong vested interests slowed reforms, such as results-based budgeting and decentralization of functions. The government also proved reluctant to borrow from the IBRD for technical assistance and capacity-building efforts, and designated the IADB as the leading donor in civil service reform.

The WBG pursued a clear strategy in terms of subordinating decentralization to maintaining fiscal discipline. However, in other areas of public management, it pursued a disparate, non-cohesive approach. It did not elucidate a clear strategy toward improving organization, planning, management, and human resources in the public sector. Multiple units within the WBG pursued independent initiatives toward these ends. Although its AAA recognized the need for and constraints to civil service reform, the WBG did not engage in helping develop a road map or solutions through further AAA that might have been relevant in Peru's context.<sup>5</sup> This partly reflects the lack of a coherent working recipe and technical solutions within the WBG for large improvements in public administration.

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**To this day, capacity-building work is not being coordinated either within different Bank departments engaged in capacity-building or between the Bank and IFC.**

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Although Bank efforts in decentralization were limited by the government's emphasis on fiscal control, its contributions were also undermined by the lack of a comprehensive strategy identifying key constraints and feasible solutions.<sup>6</sup> The major analytical pieces on decentralization largely tended to address the fiscal aspects, but not the capacity aspects of decentralization. Capacity issues were addressed by the urban cluster in the Bank, by IFC TA, and in an even more fragmented way, by ad hoc ac-

tivities outside the public-management area. To this day, capacity-building work is not being coordinated (in the sense of building analytical frameworks and sharing experiences) either within different Bank departments engaged in capacity-building or between the Bank and IFC.

**Outcome Rating.** IEG rates the outcome of WBG support for strengthening capacity in public institutions as *Moderately Unsatisfactory*.

## Supporting Judicial Reform

### *Country Developments*

**In the early 2000s, weak performance of the judiciary undermined public confidence in state institutions and was a key constraint to doing business.** During the 1990s, the Fujimori administration dismantled the existing judicial system and initiated various efforts to rebuild it into an effective institution. The efforts had limited success, however, and by the early 2000s, the judiciary was still perceived as ineffective, unable to service most of the population, corrupt, politicized, and lacking in independence. Long procedural delays added to the cost of judicial services and inadequate legal aid or public defense services effectively undermined access to justice for the poor.

Weak judicial services were also identified as a key factor undermining the business environment. In a 2003 survey of manufacturing firms, for example, 46 percent of respondents disagreed with the statement that “the judicial system will uphold my property rights in the event of a dispute.”<sup>7</sup> The 2002–03 Global Competitiveness Report ranked Peru 75th out of 80 countries for the prevalence of bribery in the judicial system. Perceptions among firms were that judicial processes were slow and costly, enforcement of judicial decisions was very weak, and Peru’s commercial and bankruptcy laws were not enforced through the judicial system.

**Despite positive initiatives undertaken since 2003, surveys indicate that the quality of judicial services remains a problem.** Following the political transitions in the early 2000s, a renewed emphasis was placed on improving the judicial system. A cautious reform path was initiated to improve the performance and efficiency of the system and expand access to justice to the poor. A Special Commission was set up by the Congress in 2004 to guide the reform process and both the Toledo and Garcia administrations emphasized the need for reform. A notable effort was also made to increase prosecution of human rights violations.

In 2004, the government also launched a pilot initiative that established seven commercial courts in Lima (funded by the United States Agency for International Develop-

ment [USAID]). The courts helped reduce the duration of commercial litigation by 70 percent, and the time to enforce decisions was reduced from 36 months to 3–6 months.<sup>8</sup> There are ongoing efforts to replicate the experience outside Lima and strengthen existing commercial courts so that they can deal with the increased demand. At the same time, however, the government has resisted calls for more radical reform, partly because of resistance from judicial institutions that felt that some proposals represented an effort to compromise their constitutional autonomy. Overall, no substantial improvements have been achieved in judicial performance as yet.

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Perceptions among firms were that judicial processes were slow and costly, enforcement of judicial decisions was very weak, and Peru’s commercial and bankruptcy laws were not enforced through the judicial system.

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A 2006 public survey found that only 3.6 percent of those asked thought the judiciary worked “well” or “very well.” The judiciary is perceived as being corrupt, subject to excessive external influence, inefficient, and inaccessible to many people. According to the *2009–10 Global Competitiveness Report*, Peru ranked 100 out of 133 countries in the efficiency of the legal framework in settling disputes. According to the World Governance Indicator Rule of Law Index, Peru’s rank declined from 34 in 2004 to 26 in 2008. The *2010 Doing Business Report* found that enforcing a contract in Peru involved 41 procedures (42 in 2004), took an average of 428 days (549 in 2004), and cost approximately 36 percent of the claim. The country ranked 114 out of 181 countries, the second worst Doing Business indicator for Peru.

### *World Bank Group Engagement*

**The WBG cautiously reengaged in the judicial sector during the review period.** In 1997, the Bank approved a project to support the Fujimori administration’s judicial reform efforts. However, following a series of government measures that were broadly perceived to have compromised the independence of the judiciary, the Bank cancelled the project prior to effectiveness. A central message of this experience is that judicial reform is unlikely to occur without meaningful and sustained commitment to judicial independence and reform by the government.<sup>9</sup>

In this context, following requests from the government and judicial institutions after the year 2000, the Bank cautiously reengaged in the sector. It undertook detailed sector studies funded by a Policy and Human Resources Development grant from Japan in 2003. In FY04, the Bank approved the Justice Service Modernization Proj-

ect, its second effort at helping improve the judicial system. The project downplayed “ambitious objectives or optimistic assumptions” and aimed to initiate a long-term process of institutional reform in the sector. Key measures included capacity building in key sector institutions to lead the reform process, establishing human resource management systems that encouraged merit-based selection and promotion of judicial employees, and initiating a policy of progressive decentralization of functions to regional administrative offices. The Bank also endorsed and supported the government’s pilot program with commercial courts through the Decentralization and Competitiveness (DESCAL) series.

### *Outcome of World Bank Group Support*

**The WBG-supported pilot approach made an important contribution to generating momentum in judicial reform.** Although the Justice Service Modernization Project started slowly, it has since picked up and stands out as an example of successful capacity building in Peru. Key achievements include: (i) the establishment of an effective coordination mechanism among the four key sector institutions (the Judiciary, Ministry of Justice, Judicial Council, and Judicial Academy), through which measures to improve merit-based human resource management in the sector have been initiated; (ii) training of administrative staff from 10 judicial districts, including all the presidents of the Superior Courts to support decentralization of administrative functions; and (iii) the establishment of 15 free legal aid and education centers for marginalized populations that have expanded access to justice for low-income groups.

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Although the Justice Service Modernization project started slowly, it has since picked up and stands out as an example of successful capacity building in Peru.

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Although the project has not reached all aspects of the judicial system, it has made substantial progress toward its objectives of helping lay the basis for long-term reform in the sector. At the request of the government, a follow-on Bank project to expand project coverage is under preparation. Key success factors to date include aligning the four main institutions in the sector under a common decision-making framework. The use of pilots rather than sweeping reforms in human resource management have helped mitigate opposition to reform from vested interests and allowed for considerable operational flexibility. Finally, strong project management and public relations activities have helped in making the project a success. The project has also benefited from a broader post-Fujimori political sentiment favoring a better, more honest court system. As

to commercial litigation, Bank objectives under the DPL series were also achieved.

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High levels of bribery and leakage of public funds were associated with state institutions, including the police, army, some state-owned enterprises, and the judiciary.

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**Outcome Rating.** IEG rates the outcome of WBG support for supporting judicial reform as *Satisfactory*.

## Addressing Corruption and Transparency

### *Country Developments*

**Although moderate by regional standards, perceptions of corruption continued to be widespread in Peru in the early 2000s.** Toward the end of the Fujimori period, perceptions of high-level corruption were widespread. Indeed, a corruption scandal eventually ended the Fujimori government in 2000. By the early 2000s, in comparative regional terms, Peru faced moderate corruption, ranking below Chile and Brazil in the World Governance Indicator 2003 “control of corruption” rankings, but above most other countries in the region, including Argentina, Bolivia, Colombia, and Ecuador. Several Bank studies in the early 2000s also found that although a range of weaknesses existed, the risk of misuse of Bank project funds was moderate.<sup>10</sup>

Nevertheless, high levels of bribery and leakage of public funds were associated with state institutions, including the police, army, some state-owned enterprises, and the judiciary. Particular concerns also existed about corruption at the sub-national level, reflecting the lack of transparent and participative mechanisms governing public expenditure. According to a 2003 survey of manufacturing firms, nearly 60 percent of respondents rated corruption as a “major” or “severe” constraint on business operation and growth, with SMEs in particular reporting it as a problem.

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In 2008, Peru ranked 11th out of 85 countries (and second only to Brazil in Latin America and the Caribbean) in the Open Budget Index, a measure of budget transparency.

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**Over the review period, the government initiated several efforts to address corruption, with some positive results.** Since 2003, various offices and commissions to combat corruption were established and several public education and “moralization” campaigns were launched. The Ombudsman’s Office became an active campaigner against corruption, although its work has been under-

mined by limited resources and inconsistent government support. The primary regulator for procurement, CONSUCODE, was strengthened, an e-procurement system was established, amendments were made to the procurement law, and all SNG budgets and expenditures are currently available to the public.

In 2008, Peru ranked 11th out of 85 countries (and second only to Brazil in Latin America and the Caribbean) in the Open Budget Index, a measure of budget transparency. The Bank's FY06 Country Procurement Assessment Report (CPAR) found that "while not all planned anticorruption initiatives have been implemented and a more comprehensive anticorruption strategy needs to be developed, the Government is more transparent than ever . . ." It also found that freedom of the press had increased "dramatically," and was playing an important role in enhancing transparency.

### *World Bank Group Engagement*

**The WBG did not undertake direct "anti-corruption" activities, but supported increased transparency in fiscal management.** Both Country Partnership Strategies (CPSs) nominally targeted corruption as one of the main areas of engagement under the theme of strengthening public institutions, but described no strategy and very few specific actions under the corruption heading. The WBG did, however, undertake several indirect activities aimed at improving transparency in public financial management and procurement, including technical work on financial management (including anti-money-laundering) and procurement. Activities included a Country Procurement Assessment Report (2005) prepared jointly with IADB, a Country Financial Assessment Update Report (2006), and an FY08 IDf grant-funded Strengthening Congressional Budget Oversight Capacity Project aimed at strengthening the Peruvian Congress' Budget Commission's capacity to monitor and evaluate the quality of budget formulation and execution. The Programmatic Social Reform Loan (PSRL) series also sought to improve financial accountability with steps to strengthen the system and initiate an anti-corruption program included as triggers of the operations.

### *Outcome of World Bank Group Support*

**IBRD's limited focus on transparent financial management was a realistic and appropriate approach during the review period.** The WBG did not present a clear diagnosis or strategy for supporting anti-corruption and transparency actions during the CAS period. In retrospect, however, its indirect and relatively limited engagement in helping address corruption was a more relevant and realistic approach.

Several other development partners were actively engaged in broader governance and anti-corruption programs, including the United Nations Development Programme (UNDP), USAID, IADB, the Spanish International Cooperation Agency, and DFID. As part of IBRD's strong engagement in fiscal management, enhancing transparency and control in public financial management was a realistic goal that had the potential to make an important contribution to reducing the misuse of public funds. Bank support in strengthening congressional budget oversight was relevant in that it sought to implement recommendations of the Country Financial Accountability Assessment. However, it overlapped with the work of several other donors in congressional oversight, and the degree of coordination with these other programs is unclear.

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*The fiscal controls designed to limit public spending and improve its efficiency, especially in the context of decentralization, also served as key instruments in transparency and anti-corruption.*

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**Bank-supported financial management reforms helped increase transparency and reduce the opportunities for corruption.** Improved Ministry of Economy and Finance controls on public expenditure that were supported by IBRD technical advice and policy lending proved an important step in addressing corruption. The DECSALs supported the adoption of transparent budget planning and execution frameworks at SNG levels. The Ministry of Economy and Finance now publishes budget allocations and executions at all levels of government, as well as information on all public investment projects and government contractors. The PSRL II also supported implementation of key Country Financial Accountability Assessment recommendations, including strengthening legislative oversight of public financial management, increasing the independence of the Controller General, and expanding coverage of the integrated financial management system.

The fiscal controls designed to limit public spending and improve its efficiency, especially in the context of decentralization, also served as key instruments in transparency and anti-corruption. This was particularly the case with investment controls (the SNIP) and the integrated financial management system. These measures have helped reduce the inappropriate use of funds, especially in many areas outside Lima where effective oversight mechanisms were previously absent.

**Outcome Rating.** IEG rates the outcome of WBG support for addressing corruption and transparency as **Satisfactory**.



# Chapter 6



# World Bank Group Performance Assessment

**The WBG pursued a broad set of objectives in Peru, but retained implicit divisions of labor between its constituent institutions.** There was a close convergence of ideas on the development agenda between the WBG and the government, which facilitated relevant overall engagement of the WBG. The objectives supported by the WBG form part of a coherent logical framework for growth and poverty reduction in Peru (see table 6.1).

## Summary Development Effectiveness Assessment

### *Development Outcome of World Bank Group Support to Peru, 2003–09: Satisfactory*

#### 1) *Relevance*

Although World Bank Group activities were spread broadly across most sectors, within each sector, the World Bank Group was relatively selective in the constraints it endeavored to address. The emphasis on policy lending by IBRD built on strong ownership and capacity in key central agencies. Therefore, its assistance program was less vulnerable to project implementation capacity constraints. Moreover, there were broad implicit divisions of labor within the WBG. IBRD's main areas of support were macroeconomic stability, the social sectors, environmental management, and public sector management. IFC's main support areas were extractive industries, the financial sector, and agribusiness. Both institutions had substantial infrastructure investments, with the Bank focused on rural and urban infrastructure development that was largely commercially unviable, and IFC focused on developing several investments in commercially viable private infrastructure development.

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Although World Bank Group activities were spread broadly across most sectors, within each sector, the World Bank Group was relatively selective in the constraints it endeavored to address.

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**The areas of focus of the respective institutions remain relevant.** IBRD's focus on fiscal management was appropriate in the context of both Peru's inconsistent record in fiscal discipline, and the loss of fiscal control apparent during decentralization processes in other countries. IFC

interventions led WBG support in deepening and expanding the financial sector. The relatively smaller IBRD role was appropriate given adequate market reforms and regulatory oversight in place. IFC also led the WBG's direct efforts to help diversify and enhance Peru's productive base, including support for extractive industries, agribusiness, and tourism. Regarding agriculture, in line with the government's priorities, the WBG refrained from extensive public interventions, instead promoting the role of the private sector and focusing on rural infrastructure. The WBG's emphasis on environmental sustainability also remains highly relevant as a key area for second-generation reforms.

With respect to education, the WBG adopted an approach of helping increase quality given relatively high existing levels of access. It also adopted more comprehensive objectives in health. As for social protection, an appropriate initial emphasis was placed on efficiency, although a looming agenda of adequately covering those most in need remains.

Regarding public sector management, IBRD's focus on helping establish effective rules and systems in public financial management remains highly relevant, and includes support for both fiscal stability and increased transparency in the use of public funds. Although the WBG identified the critical need to strengthen capacity, it lacked a comprehensive and coordinated approach to addressing the issue.

**Within some sectors, a greater WBG focus on some issues may have enhanced its contribution to development.** In retrospect, there were a few areas that the WBG addressed in AAA but did not support in implementation, and that were not supported by other development partners, that may have enhanced the WBG's outcomes, particularly given the extensive use of policy lending. Given Peru's relatively scarce and highly seasonal water availabil-

TABLE 6.1 Achievement of World Bank Group-Supported Country Objectives in Peru			
Country goal	<b>SUSTAINABLE REDUCTION IN POVERTY AND INCREASE IN LIVING STANDARDS</b> Country Progress: Substantial (decrease in poverty from 50 percent, but still high at 36 percent) Outcome of WBG Support: Satisfactory		
	<i>Income through returns to capital and labor</i>	<i>Consumption of basic social services</i>	<i>Income through transfers</i>
Strategic objectives	<b>SUSTAINABLE GROWTH IN THE PRODUCTION OF GOODS AND SERVICES</b> Expected Sectors: Agriculture and agribusiness; tourism; mining, non-traditional exports. Country Progress: Substantial Outcome of WBG Support: Satisfactory	<b>UNIVERSAL ACCESS TO QUALITY BASIC SOCIAL SERVICES</b> Cost-effective; Public provision additional to that of private sector Country Progress: Moderate Outcome of WBG Support: Moderately Satisfactory	<b>SOCIAL SAFETY NET FOR THE POOREST AND MOST VULNERABLE</b> Fiscally sustainable Country Progress: Moderate Outcome of WBG Support: Satisfactory
	<i>Private Investment</i>		
Intermediate objectives	<b>STABLE MACROECONOMIC ENVIRONMENT</b> Fiscal policy; Monetary policy Country Progress: Substantial Outcome of WBG Support: Satisfactory	<b>IMPROVED REACH OF BASIC SOCIAL SERVICE DELIVERY</b> Country Progress: Substantial Outcome of WBG Support: Moderately Satisfactory	<b>OPTIMIZED COVERAGE</b> Maximized coverage of needy; minimized coverage of non-needy. Country Progress: Moderate Outcome of WBG Support: Satisfactory
	<b>MARKET ALLOCATION OF RESOURCES</b> Country Progress: Substantial Outcome of WBG Support: Satisfactory	<b>IMPROVED QUALITY OF BASIC SOCIAL SERVICE DELIVERY</b> Country Progress: Moderate Outcome of WBG Support: Moderately Satisfactory	<b>COST-EFFECTIVE TRANSFER DELIVERY MECHANISMS</b> Country Progress: Moderate Outcome of WBG Support: Satisfactory
	<b>DEVELOPED FINANCIAL SERVICE SECTOR</b> Adequate regulation, depth, reach. Country Progress: Substantial Outcome of WBG Support: Satisfactory	<b>IMPROVED EFFICIENCY OF SERVICE DELIVERY</b> Country Progress: Moderate Outcome of WBG Support: Satisfactory	
	<b>UNIVERSAL COVERAGE OF BASIC INFRASTRUCTURE AND SERVICES</b> Country Progress: Moderate Outcome of WBG Support: Highly Satisfactory	<b>TARGETED INCREASE IN ACCESS FOR THE MOST DEPRIVED</b> Country Progress: Moderate Outcome of WBG Support: Satisfactory	
	<b>OPTIMAL REGULATORY ENVIRONMENT FOR PRIVATE SECTOR</b> Country Progress: Moderate Outcome of WBG Support: Moderately Satisfactory		
	<b>OPTIMAL NATURAL RESOURCE MANAGEMENT</b> Country Progress: Limited Outcome of WBG Support: Moderately Satisfactory		
	<b>EFFECTIVE LEGAL SYSTEM</b> Country Progress: Limited Outcome of WBG Support: Satisfactory		
Public resource inputs	<b>GOOD GOVERNANCE, ECONOMIC MANAGEMENT, AND PUBLIC INVESTMENT</b> Decentralization; rationalized public administration; reduced corruption and increased transparency. Country Progress: Moderate Outcome of WBG Support: Moderately Unsatisfactory		
<i>Source: IEG</i>			

ity, for example, a clear need over the past decade has been to establish a regulatory regime that could best balance commercial and household use and reduce wastage.

Although the Bank was involved in establishing the regulatory environment in the mining sector in the 1990s, a clear gap has persisted in the regulation of small and me-

dium artisanal mining, which pose significant environmental and safety hazards.

As fisheries represents a source of potential value added, employment generation, and linkages to small suppliers, IFC might have sought a greater role in supporting higher value addition in the sector.

**TABLE 6.2 Development Outcomes of World Bank– and IFC–Evaluated Projects**

WORLD BANK PROJECT OUTCOMES									
	Peru	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Latin America and Caribbean Region	World Bank
Outcome (% Satisfactory)	81	81	55	89	100	84	71	83	78
Inst. Dev. Impact (% Substantial)	50	39	19	80	100	73	22	57	55
Sustainability (% Likely)	86	81	50	91	100	90	71	81	79
Total no. of evaluated projects	16	37	22	58	7	33	18	368	1,621
IFC PROJECT DEVELOPMENT OUTCOMES									
(percentage of projects with successful outcomes)	Peru	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Latin America and Caribbean Region	IFC-wide
Development outcome	88	53	100	77	100	100	50	71	62
Project business success	82	48	89	67	67	80	50	60	51
Economic sustainability	88	55	100	79	89	100	50	75	66
Environmental & social sust.	63	75	67	67	75	44	75	69	67
Private sector development	94	68	100	85	100	100	50	81	73
Total evaluated (No. of projects with XPSRs)	17	32	9	39	9	10	4	207	725
IFC DOTS ratings (% Satisfactory Development Outcome)	94	45	78	71	71	100	75	69	67
IFC DOTS ratings (No. of projects with ratings)	16	29	9	48	7	9	4	207	853

*Source:* World Bank/IFC databases.  
*Notes:* Ratings are by number of projects. Ratings for IBRD reflect projects exiting the portfolio and evaluated during the review period. Ratings for IFC reflect evaluations of an IEG sample of mature projects that were active. DOTS = Development Outcome Tracking System; XPSR = Expanded Project Supervision Report.

## 2) Efficacy

**At the portfolio level, both IBRD and IFC project development outcomes have been above average.** Of the 16 IBRD projects evaluated during the review period (some of which were approved prior to 2003), 81 percent had satisfactory outcomes, which is comparable to the Latin America and Caribbean regional average (83 percent) and the Bank-wide average (78 percent) (table 6.2). The proportion of projects likely to be sustainable was higher than regional and Bank-wide averages. However, only 50 percent of projects had substantial institutional development impact, which is lower than regional and Bank-wide averages, reflecting the relative lack of success in capacity building mentioned above.

The development outcomes of a sample of 14 IFC projects evaluated during the review period were above benchmarks, with 88 percent of projects having successful development outcomes compared to a Latin America and Caribbean regional average of 71 percent and an IFC-wide average of 62 percent. IFC outcomes were above average in three of the four subcomponents of development outcome: Project Business Success, Private Sector Development, and Economic Sustainability. However, the proportion of IFC projects with successful environmental and social outcomes was slightly below regional and IFC benchmarks,

due largely to lack of reporting compliance by two agribusiness client companies.

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**The WBG helped Peru consolidate early reforms and prevent reversals, advance an initial set of “second-generation” reforms, and invest in both public and private sector activities that together have helped realize substantial progress in economic growth and poverty reduction.**

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One MIGA project was evaluated during the review period—the Lima airport concession. It was found to be partly unsatisfactory on the grounds that although the project helped improve capacity and service quality, the monopolistic position of the concessionaire and long (40-year) concession agreement discouraged greater private participation in the sector.

**Positive WBG contributions were made toward broad-based growth through support for macroeconomic stability, improvements in the business enabling environment (BEE), as well as IFC investments in emerging sectors.** The WBG helped Peru consolidate early reforms and prevent reversals, advance an initial set of “second-generation” reforms, and invest in both public and private

sector activities that together have helped realize substantial progress in economic growth and poverty reduction.

IBRD support through a series of DPLs played an important role in introducing and entrenching prudent fiscal management policies, which were a critical factor in Peru's achievement of macroeconomic stability throughout the period under review. In the financial sector, the WBG made useful contributions through IFC investments in several underdeveloped sectors, including microfinance and capital markets. These investments supported the private sector's ongoing expansion of financial services and market reach. WBG support for simplifying business registration and formalizing property rights contributed to an improved business environment, although substantial progress remains to be made on other aspects of the BEE agenda. Support for agribusiness and tourism through IFC investments helped build momentum in these sectors by investing at a time when the sectors remained risky and were not fully served by the banking sector. Although the country's recent environmental achievements have been modest, some progress was achieved. The WBG made an important contribution through detailed and high quality AAA and support for institutional reform. IFC and MIGA played effective roles in ensuring minimum environmental and social performance standards in the extractive industries sector.

**In the social sectors, the WBG helped realize positive outcomes in difficult areas, although its achievements fell short of expectations.** Regarding health, IBRD support to expand basic health insurance and community management of health clinics contributed to an increase in access to and utilization of health services for low-income groups. This in turn contributed to improvements in national health indicators, such as falling infant mortality and delivery-related maternal deaths.

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Although the RECURSO messages of accountability for quality aroused much controversy, they stimulated implementation of teacher reforms driven by the Ministry of Education.

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Bank AAA and policy lending led the government to adopt and disseminate new technical standards, and prioritize actions. It engaged the Ministry of Economy and Finance in support of reforms, and helped counteract pressure to fund more sophisticated, urban-based health services. At the same time, the Bank's initial sector reform and physical goals were overly ambitious, and both the coverage and content of its operations were scaled back. The Bank also did not address the issue of pay and incentives for health

professionals, which remains a major constraint to further progress in improving health outcomes.

Regarding social protection, consistent Bank support through policy lending and AAA helped the government achieve good progress on reforms, including some that were politically very difficult. These included rationalizing and limiting the high-cost civil servant pension program, enabling expansion of private pension systems, consolidating Peru's array of social safety net programs, and introducing new types of programs including conditional cash transfers. However, the WBG was unable to help rationalize some of the larger inefficient safety net programs, partly due to strong resistance from vested interests.

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On balance, although achievements in fiscal control and in piloting approaches to capacity development have made clear contributions, the Bank missed an opportunity to have a more significant impact in public sector management.

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In the education sector, the Bank's level of engagement was less than expected, in part due to a difficult relationship with the Ministry of Education. The Bank made positive contributions through policy lending and AAA. In particular, although the RECURSO messages of accountability for quality aroused much controversy, they stimulated implementation of teacher reforms driven by the Ministry of Education. However, the Bank was not engaged in the subsequent reform effort. Its only ongoing investment project fell far short of its targets, and additional expected investment projects did not occur. IFC's private university bond issue was successful but could not have a demonstration effect because of the global financial crisis.

**The WBG made effective contributions in some areas of public sector management, although its contribution to broader capacity development was limited.** Several WBG interventions made effective contributions to public sector capacity development at various levels. These included IFC's initiatives in building capacity in municipal government, Bank support for reform of the judiciary, and Bank assistance in establishing fiscal and financial control systems.

However, the WBG's interventions made only modest contributions to the broad country agenda of "modernizing the state" and building capacity at various levels in the public sector. The WBG did not leave a large mark on the decentralization process, which continues at a slow pace. Its approach to capacity building was characterized by multiple, fragmented activities. The Bank also made no sustained contribution toward a strategy for reform-

ing the civil service. On balance, although achievements in fiscal control and in piloting approaches to capacity development have made clear contributions, the Bank missed an opportunity to have a more significant impact in public sector management. To a large degree, this reflected lack of a clear consensus on the need for and degree of systemic public sector reform in Peru, strong vested interests that resisted change, and lack of a coherent strategy and approach on sustainable capacity building within the WBG itself.

### 3) Efficiency

**IFC interventions were relatively efficient, and no extraordinary inefficiencies were apparent in IBRD interventions.** IFC's development contribution is conditional on its realizing successful investment outcomes. If its development contributions are not accompanied by positive investment outcomes, they are unlikely to be sustainable and will send the wrong signals to private investors. The investment return to IFC also serves as a measure of efficiency in that IFC financially recovers its investment. In the case of Peru, IFC's investment outcomes have remained above Latin America and Caribbean regional and IFC-wide averages, with nearly 82 percent of evaluated projects having successful financial outcomes, compared to a Latin America and Caribbean regional average of 71 percent and an IFC-wide average of 64 percent (table 6.3). IFC's credit risk ratings also indicate that the current portfolio

remains healthy. As of the end of June 2009, 71 percent of IFC's active loan projects were classified as low risk, compared to both Latin America and Caribbean Region and IFC-wide averages of 55 percent.

According to IEG's 2005 evaluation of IFC's Investment Climate Activities, investment operations, particularly in strategic sectors such as infrastructure and financial markets can have positive demonstration effects that indirectly influence the business climate. A positive indirect contribution to the business environment can therefore be inferred from IFC's maintaining positive investment outcomes, and at the same time maintaining a high level of additionality.

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**IFC's activities reflected a relatively high degree of additionality, particularly during the early 2000s.**

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Regarding IBRD interventions, there are no reliable ways of measuring efficiency, given difficulties in cost-benefit analysis across a broad program of interventions. At the same time, the evaluation did not detect any significant sustained inefficiencies in IBRD interventions during the review period.

### 4) IFC Additionality

**IFC displayed a relatively high level of additionality.** IFC's development contributions are also conditional on

TABLE 6.3 IFC Investment Outcomes									
INVESTMENT OUTCOMES OF EVALUATED IFC PROJECTS ACTIVE IN FY2003–09									
(percentage of projects with successful outcomes)	Peru	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Latin America and Caribbean Region	IFC-wide
Investment outcome	82	47	100	77	67	90	75	71	64
Loan	85	56	100	90	80	100	75	82	77
Equity	80	50	100	39	60	86	100	53	47
CREDIT RISK STATUS OF IFC'S OUTSTANDING PORTFOLIO (AS OF JUNE 2009)									
<b>Loan Risk:</b>									
Good (%)	71	38	27	66	73	76	27	55	55
Watch list (%)	23	33	55	14	27	24	64	29	29
Poor (%)	6	29	18	20	0	0	9	16	16
Total number of investments	35	45	11	88	15	25	11	392	1,576
<b>Equity Risk:</b>									
Good (%)	40	20	29	51	69	82	20	39	39
Watch list (%)	40	10	71	29	15	9	60	31	31
Poor (%)	20	70	0	20	15	9	20	30	30
Total number of investments	20	20	7	41	13	22	5	226	1,093

Source: IFC databases.  
 Note: Ratings are by number of projects. For each dimension, percentages include only evaluated projects for which a rating was available. It excludes projects without ratings in specific dimensions due to non-applicability, or for projects for which an opinion was not possible.

their “additionality.” If they crowd out the private sector, then their development contribution is undermined. In the case of Peru, IFC’s activities reflected a relatively high degree of additionality, particularly during the early 2000s. At the time, Peru was emerging from a period of political instability, and there were perceived risks of reversing reforms. The financial sector was emerging from a crisis and demonstrated very limited risk tolerance. It was largely confined to providing short-term finance to upper-tier companies in well-established industries.

**IFC’s role in building capacity in municipal governments also exploited a unique IFC position as an investment partner of major mining firms, as well as a public institution and member of the WBG with capacity to engage in and support public sector governance.**

In this context, IFC’s investments in areas such as agribusiness, microfinance, and tourism filled an important gap. Agribusiness, for example, was still considered a high-risk sector, vulnerable to weather, disease, and market shocks. In the tourism sector, IFC’s investment in ecotourism was made at a time when the market was still untested and the company’s financial outlook was highly uncertain. Regarding microfinance, IFC’s early investments had demonstration effects that helped the microfinance industry (MFI) gain full access to diverse sources of financing. In the mining sector, IFC’s investment in Yanacocha came at a time when there was still a high regulatory risk in the sector. IFC provided comfort in the difficult investment environment, helped strengthen corporate governance, and introduced best practices in environmental and social safeguards.

**Consistent implementation of the economic reform program and policy continuity had broad positive impacts.**

In the capital market, IFC engaged in several “first of kind” transactions, including the first direct bond issues by an international institution in Peru, and support for the first private bond issues by a microfinance institution and a private university. Its role in building capacity in municipal governments also exploited a unique IFC position as an investment partner of major mining firms, as well as a public institution and member of the WBG with capacity to engage in and support public sector governance. In the case of the Lima airport, the exiting sponsor had tried to sell its shares unsuccessfully for over 18 months until IFC made its equity investment. IFC’s overall investments per capita in Peru compare favorably with its investments in countries with a similar level of risk (table 6.4).

### External Factors Influencing the Outcome of World Bank Group Support

**Strong commitment and effective management by key national agencies along with favorable external conditions were major contributing factors in the WBG’s positive impact.** Consistent implementation of the economic reform program and policy continuity had broad positive impacts. Despite frequent changes at the ministerial and local levels, Peru consistently implemented a reform agenda to advance its goals of sustaining and broadening economic growth and improving public service delivery. Although progress has been uneven, with strong achievements in some areas, such as macroeconomic management, and less progress in others, such as strengthening capacity in the public sector, the government’s consistent

**TABLE 6.4 IFC Investment in Countries with Similar Levels of Risk FY2003–09**

Country	Average IICCR 2003–08	Population (millions)	IFC investments (millions)	IFC investment per capita
Algeria	46.4	34	121	4
El Salvador	47.0	6	140	23
Egypt	47.2	82	526	6
Colombia	48.0	45	959	22
Peru	48.7	29	733	25
Costa Rica	50.1	5	40	9
Romania	50.1	22	658	31
Brazil	50.5	192	2,036	11
Morocco	51.1	31	280	9

Source: Institutional Investor Country Credit Risk (IICCR); IFC data.

policy framework sent the right signals to the private sector. It helped to gradually address long-standing development constraints in Peru. Even with the 2009 global financial crisis, there were no setbacks over the review period that endangered the overall reform program.

The government's pursuit of free trade agreements around the world also played an important role in prioritizing and stimulating key reforms. In addition, the review period was marked by favorable external conditions until 2008, particularly liquid international financial markets and a sharp rise in mineral prices after 2005. These factors facilitated positive macroeconomic outcomes, enabled increases in public development expenditures, and supported investment and rapid growth in the private sector.

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The government's pursuit of free trade agreements around the world also played an important role in prioritizing and stimulating key reforms.

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**However, continuing weaknesses in public sector capacity undermined the implementation of some IBRD-funded investment projects.** At the project implementation level, regular changes in high-level governmental decision makers and technical staff resulted in lack of continuity and changes in priorities that slowed implementation of Bank-funded investment projects, including in rural roads, basic health, basic education, property rights, and Sierra development projects.

The government also decided to reduce reliance on Project Implementation Units and absorb project implementation functions into mainstream ministries. While this is a fully appropriate long-term approach, in the short term, difficulties in transition have undermined Bank-funded project implementation. This was the case, for example, in the education sector when the government merged the Project Implementation Unit into the mainstream Ministry of Education organization, without ensuring adequate transfer mechanisms, causing the project to come to a complete stop.

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The World Bank Group's Policy Notes during the 2006 elections, in particular, proved to be a highly effective means of disseminating key sector challenges and policy priorities to the candidates, and eventually helped shape the incoming administration's policies.

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Stringent implementation of the National Public Investment System (SNIP) has also complicated implementation of Bank-funded projects by requiring all project-

level changes to go back to the central decision-making authority in the Ministry of Economy and Finance for approval. This has meant that even small changes in project design during implementation require a lengthy reapproval process that discourages flexibility and adaptation. Several Bank-funded projects were also undermined by difficulties in attracting and retaining qualified staff due to broad weaknesses in the civil service.

## World Bank Group Performance

**The WBG's positive experience in Peru reflects a confluence of ideas on the reform agenda, partly driven by strong WBG intellectual contributions and close personal relationships.** There was a strong confluence of WBG and government priorities, with broad agreement on the diagnoses and the reform agenda across sectors that largely facilitated the WBG's positive contribution to Peru's development. To a significant degree, this confluence was driven by long-standing WBG policy dialogue in the country, significant AAA work, and close personal relationships between WBG staff and senior government officials that had a substantial impact on helping the government define its reform agenda. Representatives of both government administrations since 2003 were interviewed by IEG. They acknowledged the important role the WBG played in both helping prioritize and set the reform agenda across sectors, and in developing and implementing solutions. The WBG's Policy Notes during the 2006 elections, in particular, proved to be a highly effective means of disseminating key sector challenges and policy priorities to the candidates, and eventually helped shape the incoming administration's policies. Regarding the Policy Notes, President Garcia publicly stated that "*I believe this is an invaluable text . . . it is the most serious effort that any institution has ever done regarding our country. It is not simply a historical, generic sociological account, but a very concrete diagnosis, a proposal of solutions with which we have enormous coincidences.*"<sup>1</sup> The resulting convergence of ideas facilitated a close working relationship between the WBG and the government, as well as effective WBG engagement, particularly through policy lending. The government also strongly encouraged IFC's presence in the country, facilitating IFC's active engagement in both investment and advisory service operations.

**The WBG has developed a reputation as a provider of high-quality services.** Since the WBG's reengagement in Peru in the early 1990s, it has built a substantial presence and reputation in Peru. Its reputation as a provider of high quality services, in particular, supported positive outcomes over the review period. With a few exceptions, there has been limited contention of WBG policy advice or interventions. Views expressed by parties interviewed

by IEG—including government officials and representatives of the private sector, NGOs, academia, and the press—reflected a consistent high regard for the quality of the WBG’s services.

The WBG is credited with being a key partner in Peru’s dramatic transition since the early 1990s and a provider of sound advice to the government that has helped keep Peru on track. WBG staff opinions are frequently sought by and quoted in the press. The relatively positive public perception of the WBG helped the government use its conditionality, policy advice, and project engagement as a means to garner support among vested interests to aid implementation of some difficult reforms. The continuing emphasis on quality is well reflected in IBRD’s supervision reports for projects under implementation in Peru, which consistently reflect frank assessments of implementation progress and issues that need to be addressed.

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**Traditional TA loans proved relatively ineffective, in part because of low government commitment and unwillingness to borrow for TA at a time when grant funding was available from other sources.**

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**High quality IBRD AAA made significant contributions in several areas.** Several AAA products stand out as best practice examples of WBG influence through knowledge and technical assistance. The 2006 Policy Notes, in particular, reflect an effective use of the Bank’s knowledge to promote policy consistency during political transitions. The Bank also played an important role in helping Peru to develop an effective national statistical and data gathering system, which has reduced the perception that government-issued data are politically motivated.

In the case of the environment, the WBG, as the major international financial institution (IFI) in the sector, played a key role in providing the intellectual underpinnings for a policy and institutional reform agenda to better ensure the environmental sustainability of growth. Development of the NLTA instrument has also showed promise for future use in middle-income countries (MICs).

However, traditional TA loans proved relatively ineffective, in part because of low government commitment and unwillingness to borrow for TA at a time when grant funding was available from other sources. The proposed TA loan to accompany the environmental DPL, for example, was refused by the Ministry of Economy and Finance. The Bank responded by enhancing its NLTA, which enabled it to help prioritize and advance the agenda in key areas. NLTA has proved an effective means of knowledge trans-

fer and implementation support in cases where the government has been unwilling to borrow.

**IBRD’s emphasis on development policy lending had clear benefits, although prior to the 2009 crisis, the relevance of large volumes was rapidly declining.** With the strong confluence of ideas on the development agenda, de-



velopment policy lending proved an effective instrument. The DPLs adhered to best practices, including country ownership, harmonization with other development partners, customization to local conditions, and transparency in monitoring.<sup>2</sup> The deferred drawdown option (DDO)-DPLs also proved to be a highly suitable instrument during the global financial crisis by providing Peru with a contingency fund to draw against if needed at relatively low cost.<sup>3</sup>

However, although early in the period the Bank’s DPL financing was used to replace high-cost external debt, as the review period progressed, the financial added-value of the DPLs declined (until the 2009 crisis), as the government’s mining revenues increased and it gained access to financial markets.

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**In both development of its Country Assistance Strategies and projects and in both the public and private sectors, the World Bank Group made positive efforts to consult with and engage a broad range of stakeholders.**

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In 2008, the government decided not to pursue the second phase of the fiscal management DPL series, and no IBRD lending took place during the year. Yet, the government’s demand for the technical advice and consensus building roles of the DPLs continued. In the absence of the financial

crisis, IBRD would have faced a decision as to whether to continue the DPLs at substantially lower volumes or discontinue use of the instrument, despite continued government demand for the nonfinancial aspects of the DPLs.

The DPLs helped develop relatively coherent and well-coordinated sector programs and ensured that the Ministry of Economy and Finance had full ownership of sector reforms. However, there was less direct dialogue and technical and knowledge transfer with the line ministries than might have been the case with investment lending. The lower volume of investment lending also undermined a greater potential IBRD knowledge-transfer contribution to addressing Peru's unmet investment needs (such as in infrastructure) that exist partly due to the limited capacity to develop and supervise public sector investment projects.

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There have been some exceptions to good consultative practice, however, such as the first phase of the Bank's RECURSO work, which generated a high degree of controversy in part due to inadequate stakeholder consultations.

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**The WBG made significant positive efforts to engage in dialogue with civil society groups.** In both development of its CASs and projects and in both the public and private sectors, the WBG made positive efforts to consult with and engage a broad range of stakeholders. The Bank has had a full time Civil Society Country Officer dedicated to civil society interaction and consultation since 2001. The Country Office also established a "Voces Nuevas," comprising a group of young people, representing organizations and municipalities as an advisory group to the Country Office. This was recognized as a model by the Bank's *Civil Society Sourcebook* in 2007.

The perspective of key government officials and other stakeholders interviewed by IEG is that IFC is a positive influence on the private sector, particularly in terms of enhancing environmental and social standards, as well as in developing innovative private sector transactions. Representatives of the Peru LNG project, for example, identified IFC's reputation of working with local communities as its main attraction.

There have been some exceptions to good consultative practice, however, such as the first phase of the Bank's RECURSO work, which generated a high degree of controversy in part due to inadequate stakeholder consultations. Although there were some reported cases of arrogant approaches by WBG staff that some interlocutors

found unacceptable, the WBG is broadly regarded as willing to consult and listen.

**Although there has been good WBG coordination with other development partners at the project level, there has been less interaction and coordination at the policy level.** IBRD demonstrated positive coordination with other donors through both its policy and investment operations. For example, other development partners were engaged in the multiple DPL loans, as well as Bank-funded projects in education, health, and rural infrastructure. However, there has been less interaction among external development partners in terms of broader strategy at both the country and sector levels. There are only infrequent meetings between resident heads of missions. In the education sector, for example, donors have been somewhat "entrepreneurial," approaching different departments of the Ministry of Education in an uncoordinated fashion. In the health sector, there was no formal aid coordination.

To some extent, the government has favored a "bilateral" pattern whereby the Ministry of Economy and Finance, the sector ministry, and one donor meet to discuss requests for respective donor assistance. These arrangements maintain government leadership, but do not allow all interested parties to develop a sector overview, coordinate among donors, or optimize assistance.

**Within the WBG, the CASs reflected a relatively well-integrated strategy.** The two CASs produced by the WBG included IFC objectives and activities into the broader WBG strategy. IFC activities were integrated into the three main pillars of WBG engagement, and included in the CAS results matrices. The integration reflected appropriate treatment of IFC lending and advisory services as additional WBG instruments in helping further common objectives. The areas of focus were largely distinct (although not explicitly stated so), with the Bank focusing on fiscal management and the social sectors and IFC focusing on the financial and real sectors. The main areas of overlap were in infrastructure, agriculture/agribusiness, and public sector management. Regarding infrastructure, the two institutions pursued distinct but complementary strategies. The Bank focused on rural transport, water, and power infrastructure that are largely commercially unviable and remain in the public sphere. IFC, for its part, engaged in several PPPs in urban transport, power, and telecommunications. In the agriculture sector, although there was little interaction at the project level, IFC and the Bank made parallel contributions to the government's goal of enabling market forces in the sector, with IFC investing in several successful agribusiness companies and the Bank helping introduce private participation in irrigation management and research. In the public sector management

area, IFC engaged in several areas that were not initially anticipated in the FY03 CAS and, as discussed below, greater cooperation may have enhanced the WBG's outcomes. On the other hand, MIGA was treated as a separate institution in the CAS, rather than as an enhancement to the WBG's array of products.

**Several areas stand out as examples of effective synergy between WBG institutions.** In implementing the WBG strategy over the period, there was only one case of two WBG agencies participating in the same project: IFC/MIGA participation in the Lima Airport concession project. However, WBG engagement in several sectors reflected an effective sequencing of WBG instruments. For example, although IBRD helped establish appropriate regulatory environments and public oversight in the financial and extractive industry sectors in the 1990s, it was not actively engaged in these sectors over the review period. Instead, IFC took the lead in furthering WBG objectives in these areas. IFC supported private investment in these sectors, encouraged increased access to finance and product diversification in the financial sector through its clients, and helped enhance environmental and social measures in the extractive industries sector.

Good WBG synergy also occurred between the Bank's Property Registration Project and IFC's investment in Mibanco. The Bank project supported large-scale property registration in urban areas, which then enabled Mibanco to expand its lending in these areas through use of property collateral. IFC's Advisory Services (IFC-AS) engagement in municipal government capacity building, which might have been perceived as the Bank's "domain," reflected a supplemental instrument available to the WBG that enabled its engagement. In the absence of the IFC-AS project, it is unlikely that the WBG would have made the contribution it did, as the small initial scale of the interventions is likely to have precluded IBRD engagement.

**However, in some areas, greater operational interaction between IFC and Bank teams may have enhanced the overall contribution of the WBG.** Although cooperation at the country strategy development level was strong, there was less interaction and cooperation between the Bank and IFC at the operational level. Although the Bank and IFC are located in adjacent buildings in Lima, both IFC and Bank staff reported that they were often unaware of what project teams in the same sectors were doing. In the case of IFC support for municipal capacity development, the initial efforts yielded several good practices that had significant potential for expansion, which was beyond IFC's capacity. The Bank was not engaged in this initiative. Closer Bank engage-

ment in this area where the Bank has extensive worldwide experience might have helped enhance the initial program, as well as build on and expand such efforts.

A similar missed opportunity was in IFC's business simplification processes with municipal governments, where there was little Bank-IFC interaction both in the initial pilot operation in Lima as well as the subsequent efforts to expand the initiative nationally. Both cases represented small-scale or limited-objective IFC interventions in public sector management that effectively served as pilots, with expansion potential. More systematic use of small-scale IFC interventions to pilot approaches as part of a broader approach to expand successful operations might be warranted.

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### Notwithstanding development of an integrated Country Assistance Strategy for Peru, the Country Assistance Strategy is still not seen as a meaningful strategic document among IFC staff.

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In other cases, Bank staff report only limited IFC exchange of information on proposed or pending IFC investments. In the case of the Bank's Guarantee Facility, the project would have benefitted from greater MIGA and IFC input into its concept and design. A simple measure such as quarterly joint staff meetings between the Bank and IFC might have helped address some of these issues.

**Although cooperation in developing an integrated WBG CAS was positive, the lack of better cooperation in implementation partly reflects differing organizational structures.** According to staff interviews, notwithstanding development of an integrated CAS for Peru, the CAS is still not seen as a meaningful strategic document among IFC staff. To some degree, this reflects the differing organization and accountability structures in the two institutions. In the Bank, the Country Management Unit is accountable for results achieved with IBRD resources in that country, and the CAS results framework has some meaning. IFC's organization around regional and industry lines imply a different accountability framework. IFC's regional directors are accountable for objectives and targets, such as a certain investment volume, in that region. However, this can be achieved by investing in any country in the region, not necessarily the individual CAS country. Even if IFC does no business in the CAS country, it can still meet its regional targets by working in other countries. Industry directors are accountable for achieving objectives and targets in that sector worldwide. Again there is no need to do business in the CAS country.

The accountability for achieving CAS outcomes is therefore less present in IFC than in the Bank, with consequent implications for cooperation in strategy implementation. This message reinforces findings from several recent IEG evaluations regarding the implications of differing institutional objectives and approaches among WBG institutions.

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The area of public sector performance management exemplifies the lack of internal Bank coordination in a “new” area where there is no consensus on the technical solutions.

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**The WBG’s lack of a strategic approach and internal coordination regarding capacity building is evident.**

The area of performance management exemplifies the lack of internal Bank coordination in a “new” area where there is no consensus on the technical solutions. Although several philosophies have been expressed among the Bank and the government, not enough was done to confront these ideas within the WBG teams to see whether a common approach would emerge. A large part of the problem may stem from the “silo” nature of sectoral groups within the WBG, which then work with their equivalent ministry “silos” in Peru. It is also possible that the failure to coordinate and confront reflects a certain downgrading of studies (and strategizing) in the public-management area in favor of projects.

**Several positive attributes underpin IFC’s successful overall experience in Peru, although there are continued issues with slow response and cumbersome procedures.** IFC had a positive overall experience in Peru during the review period. IFC built its Peru portfolio to its 10th largest in the world, maintained high portfolio quality, reflected a relatively high degree of additionality, and led the WBG’s contributions to several CAS objectives.

Although rapidly improving conditions in Peru facilitated successful outcomes for IFC, several factors within IFC also supported these outcomes. IFC built up a cadre of capable local staff in both investment and advisory services. In 2002, IFC did not have an office in Peru. An IFC office was opened in 2003, and in 2005 the IFC Latin America and Caribbean Regional Facility was established and located in Lima. At present, IFC has 6 investment staff and over 30 IFC-AS staff located in the country. High-level IFC regional and corporate management attention to the country also facilitated IFC’s active engagement. IFC-AS has also put in place an effective monitoring and evaluation system that provides timely feedback with respect to ongoing initiatives. In the recent case of the large Peru LNG Project, IFC-AS appointed one lead IFC-AS officer to coordinate four advisory services pro-

grams that would otherwise have involved four team leaders communicating with the client. The approach also facilitated coordination between IFC investment and advisory services staff working with the same client.

However, both IFC staff and clients identify a generally slow and cumbersome institutional response to clients as a detriment to IFC operations and potential contributions. Factors include cumbersome multi-layered approval procedures, a bottleneck at the legal review and clearance stage that has added substantial time to project processing, and weaknesses in internal communications that have led some parts of the region to be unaware of strategy and activities in other parts, particularly across business lines.

**There is some trade-off between breadth and depth for IFC-AS.** In the case of IFC’s BEE work, following the successful pilot of the Lima Simplification Project, IFC replicated the project across the region. This has had benefits in that IFC has helped disseminate a successful model for simplifying business registration procedures, and has shown that IFC’s direct engagement could help ensure satisfactory implementation of a project.

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The question for IFC remains, whether its optimal contribution will be in replicating a successful model or in innovating solutions to new problems.

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At the same time, however, the focus on a limited intervention has absorbed resources that might otherwise be devoted to developing solutions to other BEE problems in Peru and other countries. An alternate strategy might be to focus on disseminating the know-how of the BEE simplification model, or on wholesaling the approach, rather than direct IFC involvement in projects, with IFC devoting its resources to developing solutions to other challenges in the BEE. The direction IFC has taken can be partly attributed to internal procedures in IFC, whereby a successful model attracts funding for replication. However, the question for IFC remains: Is its optimal contribution replicating a successful model, or innovating solutions to new problems?

**Although MIGA played an important role in lowering the perceived political risk at the beginning of the decade, it missed some opportunities to support projects during the review period.** MIGA played a central role in enhancing the flow of investment in Peru in the 1990s and early 2000s, but its role has declined significantly since 2003. There were no new guarantees issued and only one guarantee remained active at the end of the review period.

The lack of activity in Peru mirrored an overall decline in MIGA’s presence in Latin America and the Caribbean, with

its regional guarantees dropping from 57 percent of its total portfolio in 2001 to 17 percent in 2009. To some extent, absence of new MIGA business in Peru reflected external factors. The policy stability maintained in Peru and substantially improving business environment reduced perceptions of political risk for some investors. At the same time, however, some demand for political risk insurance (PRI) in Peru continued over the review period, and other political risk insurance providers, both public and private, had significant activity. Some internal factors may therefore also explain the lack of MIGA activity in Peru.

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**Demand for political risk insurance (PRI) in Peru continued over the review period, and other political risk insurance providers, both public and private, had significant activity.**

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According to staff interviews, MIGA's pricing was perceived as high and was a factor in several transactions

that were not realized. In some cases, the investors found alternate sources of political risk insurance, but in other cases, the projects have not yet been realized. MIGA's pricing partly reflects its risk assessment for the country. MIGA presently conducts formal ratings assessments once every quarter for all countries. However, MIGA does not have the capacity to undertake detailed, field-based reviews of its country risk assessments on a frequent basis for all countries. Instead, it concentrates on countries that have active guarantee portfolios. As such, a detailed country risk assessment for Peru was not conducted for five years, until a review in November 2009.

In addition, the decline in MIGA's Latin America and Caribbean portfolio coincided with an internal reorganization in MIGA that shifted operations from a regional to a sectoral structure. The sectoral structure has focused MIGA's limited complement of staff on certain regions that has, to some extent, been driven by individual MIGA staff expertise.



# Chapter 7



Photo: Asita De Silva/World Bank

# Lessons and Recommendations

## Lessons

- **In Peru, as in other MICs, the WBG faces the challenge of supporting a country that has less demand for financial support, but continuing strong demand for technical and advisory services.** Prior to the global financial crisis, the WBG saw a drop in demand for IBRD financial support. Yet, there was a continued strong demand for WBG technical and advisory services. Although Peru has reached upper-middle-income status, it is presently going through a somewhat precarious development phase in which rapid growth has led to higher expectations, more visible inequality, and conflicts requiring balancing development with preserving traditional ways of life and mitigating environmental degradation. The challenge for IBRD remains in adjusting its instruments to meet these needs, as they now are biased toward transferring knowledge and technical advice through lending operations. In the case of IFC, as well, an enhanced role for its advisory services is apparent. In some IFC extractive industry investments, for example, the primary reason for clients seeking IFC engagement was IFC's experience in dealing with local communities and the stamp of approval associated with IFC's social and environmental performance standards.
- **In developing and implementing “second-generation” reforms, the WBG’s role is increasingly that of a partner in developing solutions rather than in transmitting best practices.** In the case of “first-generation” reforms in transitioning from a public sector-dominated economy to a market-driven economy, such as Peru undertook during the 1990s, the WBG group had an important role in transmitting best-practice solutions based on worldwide experience, such as market liberalization, macroeconomic management and so on. However, in the case of the “second generation” reform agenda—such as sustainable capacity development in the public sector, expanding affordable and high-quality health and education services, or balancing environmental sustainability with growth—there are few ready-made solutions. Potential solutions involve more difficult and complex trade-offs. As such, the WBG’s role becomes much more that of a partner in developing solutions tailored to local conditions rather than simply transmitting tested worldwide best practices. In this context, the role of “conditionality” in IBRD lending becomes significantly less relevant than an interactive partnership to develop solutions.
- **Non-lending TA has proved an effective instrument in transferring knowledge when the government does not want to borrow for TA.** Over the review period, the government became increasingly reluctant to borrow for technical assistance, but expressed a strong demand for WBG technical and advisory services. As a response, the WBG developed and expanded its use of NLTA to supplement its traditional AAA and support implementation of reforms. Although this means additional costs to the Bank, it reflects an effective means of knowledge resource transfer to member countries.
- **The WBG can play an important role in MICs by helping pilot approaches in difficult areas.** In several cases over the review period, the WBG supported development of pilot approaches. Although the pilot approaches in themselves did not resolve sector constraints, they produced models that could then be expanded and replicated. IFC's engagement in SNG capacity building, for example, had positive effects in individual municipalities and efforts are now ongoing to replicate and expand the approach both within Peru and in other Latin America and Caribbean countries. Similarly, the WBG helped demonstrate innovative approaches to biodiversity conservation that emphasized the involvement of local stakeholders in the management of protected areas and the creation of alternate economic livelihoods. An important potential contribution for the WBG in MICs is support for small interventions that test solutions that can then be expanded and replicated.
- **The WBG experience in Peru demonstrated a valuable potential role in promoting policy continuity during government transitions.** During the 2006 elections, WBG Policy Notes that identified constraints and recommended solutions across all sectors in Peru, along with personal interaction between the candidates and WBG staff, helped generate understanding and build a consensus around key policies and approaches. Although the successful replication of this experience is likely to depend on individual country circumstances, personalities, and timing, the broad

potential benefits, as witnessed in Peru, warrant close WBG attention. The WBG policy notes played an influential role in Peru because of the high degree of political uncertainty, and the fact that a leading candidate who had had a bad prior experience in managing the economy and was open to advice. Based on the Peru experience, the WBG should work to ensure that its analytical work and policy recommendations are of the highest quality, perceived as politically impartial, and communicated in a manner that can be readily understood by election candidates and political advisors.

- **Weaknesses in public sector management remain a constraint that affects public service delivery across sectors, but for which there are no clear solutions.** In Peru, weak outcomes in several sectors can be traced to underperformance of the public sector. Lack of qualified and capable individuals in key positions or lack of comprehensive policy and institutional frameworks remain key factors in undermining public sector functions in a rapidly growing market economy. This was the case, for example, in improving the quality of public health and education service delivery, in ensuring better environmental management, in better utilizing mining revenues to benefit local populations, and in improving public project implementation across all sectors. Although there are no clear solutions, the importance of the constraint calls for continued efforts to develop workable solutions. The government has recently embarked on a promising experimental approach to capacity building in the civil service. Notwithstanding the weak capacity of much of the public sector, Peru has, in fact, a number of examples of success stories on which reformers can draw. The WBG might endeavor to derive lessons from what has worked in Peru's public administration, and prudently combine this with lessons derived from foreign experience.
- **IFC faces an increasing challenge of being additional in the context of an improving business environment and a well-performing financial sector.** In the early 2000s, Peru was still emerging from a period of political instability and financial crisis. A range of IFC investments at the time reflected a positive risk-taking approach by IFC and high additionality. Since then, however, the local banking sector is performing well and the major growth sectors are able to access

financing without the need for IFC. Its portfolio in Peru is now dominated by top-tier companies. A central challenge for IFC will be to maintain its relevance and contribution by seeking areas of high additionality. Potential areas of focus include larger infrastructure PPPs on both the design and financing sides, increasing access to finance outside Lima and the major urban areas, and investments in new manufacturing industries that have the potential for significant employment creation.

- **The recent financial crisis revealed an important role for the WBG in countries with strong macroeconomic management.** IBRD can still be relevant in supporting macroeconomic stability in a country that has strong macroeconomic fundamentals and is capable of formulating appropriate policies. The relevance of IBRD stems from its ability to help maintain policy continuity, garner support among various government agencies, send positive signals to markets in turbulent times, and help the government diversify its sources of finance.

## Recommendations

**Peru's rapid progress and upper-middle-income status notwithstanding, there is a valuable potential role for the WBG in Peru.** Since the 1990s, the WBG has played a central role in helping Peru transition from a weak, public sector-dominated economy to a rapidly growing, upper-middle income country. Over the review period, the WBG continued to play an important role, including helping advance some difficult "second-generation" reforms." Yet Peru remains at a precarious stage of development, with continuing high levels of poverty, social tensions arising from higher expectations and continued inequality, and trade-offs arising among development, environmental protection and traditional ways of life. The private sector sees a potential return to "populist" policies that can reverse progress to date as a conceivable risk in the future. As such, a continued active WBG presence in Peru is warranted in helping advance the broad remaining agenda to realize further poverty reduction. To inform the development of the WBG's future partnership strategy in Peru, based on the findings of this evaluation, IEG recommends that:

## *The World Bank Group*

- **The WBG tailor its strategy to support long-term integration of Peru's three distinct geographical regions.** Peru's three distinct geographical regions have some challenges that can be clearly distinguished. The coastal regions, for example, have emerged as areas of concentrated economic activity and are seeing increased urban congestion, pollution, and water management challenges. The Amazon region faces a trade-off between development and environmental protection and traditional ways of life. The Sierra continues to face major challenges in terms of infrastructure development, creation of economic opportunities, and access to quality basic social services. It has also experienced increased migration into towns and villages in the valleys as well as to the coast and Amazon areas. The distinctions have implications that can inform the WBG's future strategy to promote long-term integration, along the lines of the findings of the 2009 *World Development Report* that suggests that distinct interventions to connect regions are warranted based on specific characteristics such as distance to markets, population density, and the diversity of regions. For Peru, implications include: (i) the need for urban planning, infrastructure, and service development; (ii) secondary city development; (iii) main connectivity infrastructure such as highways; (iv) integration of environmental protection with development in the Amazon; and (v) the need to limit rural infrastructure investments in areas that have fundamentally limited economic potential due to altitude or adverse climatic conditions.
- **The WBG complement its positive past experience in infrastructure development by seeking opportunities to support larger-scale infrastructure development through both public investments and PPPs.** Peru continues to have a substantial infrastructure deficit, which is among its most important constraints to sustained growth and development. Large-scale infrastructure development has been limited partly due to government concerns about the ability of public agencies to effectively implement such projects. As such, larger-scale infrastructure development remains a potential area for continued WBG financial and technical support in the medium-term. A comparative advantage for WBG support for larger-scale infrastructure development arises from (i) the significant resource requirements involved; (ii) the long project gestation periods and the necessity for long-term financing; (iii) the WBG's successful track record in the past; and (iv) the WBG's potential to support effective implementation through its technical know-how, close supervision, and transmission of world-

wide experience. The WBG can also play an important role in helping develop PPPs in the infrastructure sectors. Given the complexity and long lead times involved in developing PPPs, an important potential contribution for the WBG is to help standardize PPP frameworks in subsectors including roads, ports, small airports, and other infrastructure sectors that can be then replicated with ease. MIGA can help address perceptions of high political risk associated with some infrastructure PPPs, without the need for a sovereign guarantee, which undermined the previous unsuccessful Bank-supported guarantee facility.

- **The WBG develop a more strategic and coherent approach to helping realize broad sustainable improvements in public sector management.** During Peru's "first-generation" reforms in the 1990s, an "island" approach to building capacity in a few key agencies proved to be a viable and effective approach to advance and sustain a set of core reforms. As Peru moved toward "second-generation" challenges over the review period, however, lack of broader capacity in the public sector emerged as a major constraint to progress in a range of sectors of the economy. There are no clear or easy solutions to reforming a civil service that is overstaffed, underpaid, and poorly managed, given the social and political implications. However, the difficulty and lack of clear solutions call for greater WBG engagement in helping develop viable solutions suited to Peru's context. A more cohesive and strategic approach to enhancing capacity in the public sector than the piecemeal efforts of various WBG units in the past is warranted.

## *IBRD*

- **IBRD seek further innovations in its instruments and internal processes to best support technical and knowledge transfer to Peru, in a context of declining demand for financial resources.** With the onset of the current global financial crisis, liquidity in international markets has substantially declined, and it is possible that Peru will continue to seek IBRD financial support in the near term. Beyond the crisis, however, Peru's trend toward lower borrowing from IBRD is likely to resume. IBRD faces a challenge in adapting its internal processes, incentives, and resource allocation norms (that are currently biased toward lending interventions) to serve clients that have higher demand for knowledge than for finance. Expanded use of NLTA as a means to support knowledge transfer and implementation of reforms is a promising resource transfer mechanism to support countries unwilling to borrow for TA. The government of Peru has also expressed interest in much smaller DPLs that can convey the benefits of DPLs

while limiting government borrowing. The key benefits of DPLs are perceived as: (i) their signaling effects that programs are on track (ii) IBRD's technical and advisory support; (iii) their use in consensus building within government agencies; and (iv) enhanced monitoring and more timely implementation of programs. However, provision of high-quality and substantive DPLs of, for example, US\$20 million to an upper-middle-income country, will require policy and cultural shifts in IBRD in terms of internal incentives and resource allocation.

- **IBRD seek to support the development of a strategic planning capacity within the Peruvian government.** At present, Peru has a largely bottom-up approach to public investment that, although containing clear positive elements, also leads to duplication, lack of synergies, and the absence of a cohesive overall framework that optimizes progress toward development goals. Over the review period, the WBG attempted, without success, to help build a central strategic planning capacity to better match public investment with development goals. Creation of such a central planning capacity has been resisted, in part due to its association with centrally-planned production systems of the past. Therefore, part of the solution will be building a consensus around the need for a central public investment planning and coordination function that provides a framework to better guide sectoral and SNG investment strategies, but does not imply a reversal to centralized production planning.
- **IBRD increase its strategic coordination with development partners providing concessional finance in the social sectors to develop synergies with its policy lending and AAA.** Several bilateral and multilateral agencies have been engaged in the social sectors in Peru, mainly through concessional aid. IBRD has been engaged in these sectors largely at the policy level through a succession of DPLs and AAA, with limited investment lending. Although there has been good coordination between IBRD and partner agencies at the project level, there has been limited coordination at the broader strategic levels in the social sectors. For example, IBRD does not participate in the bilateral agencies' education working group. Closer strategic cooperation between IBRD and the other development partners in the social sectors may facilitate synergies between the Bank's policy interventions and the concessional investment flows of those agencies to enhance the overall contribution to social service delivery in Peru.

#### *IFC*

- **IFC develop a strategic focus around areas that further economic diversification and offer potentially**

**high employment creation, such as tourism, fisheries, and manufacturing.** Although Peru has had some diversification in its economy, a central challenge remains to further the economic diversification into areas that can generate employment and engage a broader share of the population in economic growth. Although tourism has developed rapidly, it remains confined around a few major attractions, with substantial unrealized potential in other areas. There is only limited value addition to Peru's extensive fisheries resources. Other manufacturing sectors that might exploit Peru's access to world markets through its free trade agreements and offer strong employment-generating potential also warrant close attention. An IFC focus on supporting private investment in such areas is likely to enhance its contribution to employment generation and broaden the benefits of economic growth.

- **IFC enhance its efforts to work with lower-tier and more regionally dispersed private companies.** Although IFC demonstrated high additionality in the past by investing in emerging and risky sectors, improving conditions have reduced its potential additionality among upper-tier companies. IFC's strategy to support access to finance through the local banking sector remains sound. However, several segments of the market—particularly SMEs in the Sierra and Selva regions—are likely to remain too risky for the banking sector to reach in the medium term. A challenge therefore remains for IFC to help accelerate the goal of more broad-based participation in growth by supporting smaller and more regionally dispersed private companies. To date, IFC's use of equity instruments has been limited. Given IFC's decreasing competitiveness with the local banking sector, greater use of equity instruments should be actively pursued.

#### *MIGA*

- **MIGA strengthen its marketing and risk assessment functions by better leveraging the strong field presence of IBRD and IFC in Peru.** Given perceptions of political risk arising from growing social tensions and a possible return to "populist" policies, a potential role for MIGA exists to help ensure the continued flow of investment into Peru. MIGA's guarantee pricing is partly driven by its country risk assessment that was not closely reviewed for several years prior to November 2009. Although MIGA presently conducts formal country risk ratings assessment once every quarter for all countries, it does not have the capacity to undertake regular detailed (field-based) reviews of countries in which it is not actively engaged. In this context, MIGA could benefit from leveraging the strong Bank and IFC

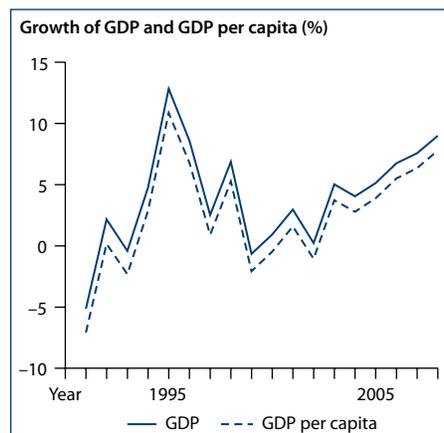
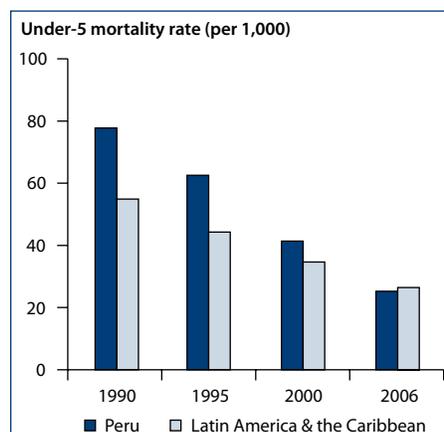
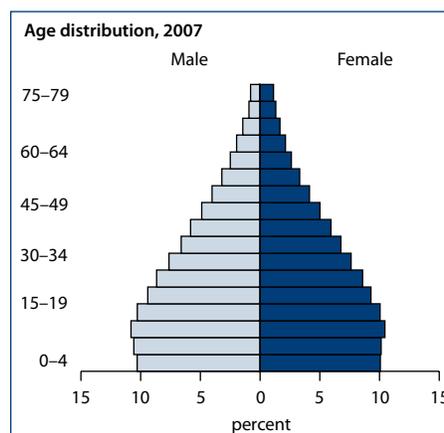
field presence and country knowledge to inform its risk assessment exercise. For example, this might take the form of a quarterly structured telephone exchange or questionnaire with the Bank Country Director and IFC Country Manager as a source of information. In terms of marketing, the FY08 IEG Guarantee Evaluation rec-

ommended greater engagement of Bank/IFC staff in promoting MIGAs products, and this has been piloted in some regions. Such efforts to engage the strong Bank and IFC field presence in Peru in marketing MIGAs products and in feeding leads to MIGA can help enhance its contribution to development in Peru.

# Annex A: Statistical Support

**Annex Table 1: Peru at a Glance**

Key Development Indicators (2007)	Peru	Latin America and Caribbean	Lower-middle income	
	Population, mid-year (millions)	27.9	563	3,437
Surface area (thousand sq. km)	1,285	20,421	35,510	
Population growth (%)	1.1	1.2	1.0	
Urban population (% of total population)	71	78	42	
GNI (Atlas method, US\$ billions)	96.2	3,118	6,485	
GNI per capita (Atlas method, US\$)	3,450	5,540	1,887	
GNI per capita (PPP, international \$)	7,240	9,320	4,544	
GDP growth (%)	9.0	5.7	9.7	
GDP per capita growth (%)	7.8	4.5	8.6	
<i>(most recent estimate, 2000–2007)</i>				
Poverty headcount ratio at \$1.25 a day (PPP, %)	..	8	..	
Poverty headcount ratio at \$2.00 a day (PPP, %)	..	18	..	
Life expectancy at birth (years)	71	73	69	
Infant mortality (per 1,000 live births)	21	22	41	
Child malnutrition (% of children under 5)	5	5	25	
Adult literacy, male (% of ages 15 and older)	94	91	93	
Adult literacy, female (% of ages 15 and older)	82	89	85	
Gross primary enrollment, male (% of age group)	116	120	112	
Gross primary enrollment, female (% of age group)	117	116	109	
Access to an improved water source (% of population)	84	91	88	
Access to improved sanitation facilities (% of population)	72	78	54	
<b>Net Aid Flows</b>				
	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2007<sup>a</sup></b>
<i>(US\$ millions)</i>				
Net ODA and official aid	201	397	398	468
<i>Top 3 donors (in 2006):</i>				
United States	53	79	92	187
Spain	..	6	19	69
European Commission	1	22	24	54
Aid (% of GNI)	1.0	1.6	0.8	0.6
Aid per capita (US\$)	12	18	15	17
<b>Long-Term Economic Trends</b>				
Consumer prices (annual % change)	..	..	..	0.4
GDP implicit deflator (annual % change)	65.9	6,836.9	3.7	2.6
Exchange rate (annual average, local per US\$)	0.0	0.2	3.5	3.1
Terms of trade index (2,000 = 100)	..	126	100	158
Population, mid-year (millions)	17.3	21.8	25.7	27.9
GDP (US\$ millions)	20,661	26,294	53,290	109,088
	<i>(% of GDP)</i>			



**1980-90 1990-2000 2000-07**  
(average annual growth %)

2.3	1.6	1.2
-0.1	4.7	5.4

Source: Development Economics, Development Data Group (DECDG).

## Annex Table 1: Peru at a Glance (continued)

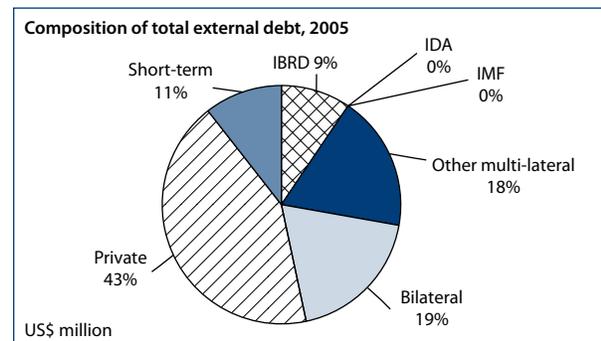
Balance of Payments and Trade	2000	2007
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	6,955	32,775
Total merchandise imports (cif)	7,358	21,854
Net trade in goods and services	-1,146	5,684
Workers' remittances and compensation of employees (receipts)	718	2,100
Current account balance	-1,557	3,299
as a % of GDP	-2.9	3.0
Reserves, including gold	8,563	24,971

### Central Government Finance

<i>(% of GDP)</i>		
Current revenue (including grants)	14.9	15.6
Tax revenue	12.6	14.4
Current expenditure	15.1	15.1
Overall surplus/deficit	-2.8	0.8
Highest marginal tax rate (%)		
Individual	20	30
Corporate	30	30

### External Debt and Resource Flows

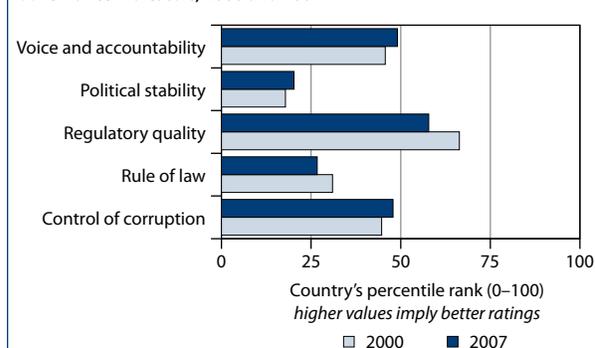
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	28,661	28,174
Total debt service	2,573	3,746
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	53.8	30.2
Total debt service (% of exports)	25.8	12.9
Foreign direct investment (net inflows)	810	3,467
Portfolio equity (net inflows)	123	182



### Private Sector Development

	2000	2008
Time required to start a business (days)	-	65
Cost to start a business (% of GNI per capita)	-	25.7
Total disbursed and outstanding portfolio	292	324
Time required to register property (days)	-	25.7
Ranked as a major constraint to business	2000	2007
Portfolio sales, prepayments and (% of managers surveyed who agreed)		
Anticompetitive or informal practices	..	22.1
Tax administration	..	17.9
Stock market capitalization (% of GDP)	19.8	97.1
Bank capital to asset ratio (%)	9.1	8.6

### Governance indicators, 2000 and 2007



Source: Kaufman-Kraay-Mastruzzi, World Bank.

### Technology and Infrastructure

	2000	2007
Paved roads (% of total)	13.4	14.4
Fixed line and mobile phone subscribers (per 1,000 people)	12	65
High technology exports (% of manufactured exports)	3.6	2.0

### Environment

Agricultural land (% of land area)	17	17
Forest area (% of land area)	54.1	53.7
Nationally protected areas (% of land area)	..	16.9
Freshwater resources per capita (cu. meters)	..	59,250
Freshwater withdrawal (% of internal resources)	1.2	..
CO <sub>2</sub> emissions per capita (mt)	1.1	1.2
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	11.4	12.8
Energy use per capita (kg of oil equivalent)	488	506

### World Bank Group portfolio

	2000	2007
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	2,590	2,649
Disbursements	266	256
Principal repayments	93	241
Interest payments	189	150
<b>IDA</b>		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Total debt service	0	0
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio	292	324
of which IFC own account	157	311
Disbursements for IFC own account	70	148
Portfolio sales, prepayments and repayments for IFC own account	10	24
<b>MIGA</b>		
Gross exposure	329	8
New guarantees	40	0

Source: Development Economics, Development Data Group (DECDG).

Note: Figures in italics are for years other than those specified. 2007 data are preliminary.

.. indicates data are not available. - indicates observation is not applicable.

Notes: cif = cost, insurance and freight; CO<sub>2</sub> = carbon dioxide; fob = free on board; GDP = gross domestic product; GNI = gross national income; HIPC = Highly-Indebted Poor Country; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; IFC = International Finance Corporation; MDRI = Multilateral Debt Relief Initiative; MIGA = Multilateral Investment Guarantee Agency; ODA = official development assistance; PPP = purchasing power parity.

ANNEX TABLE 2A Peru: Economic and Social Indicators, 1990–2008

Series Name	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Growth and Inflation</b>																			
GDP growth (annual %)	-5.1	2.2	-0.4	4.8	12.8	8.6	2.5	6.9	-0.7	0.9	3.0	0.2	5.0	4.0	5.0	6.8	7.7	8.9	9.8
GDP per capita growth (annual %)	-7.1	0.1	-2.3	2.8	10.8	6.7	0.7	5.1	-2.3	-0.7	1.4	-1.2	3.5	2.6	3.6	5.5	6.4	7.6	8.6
GNI per capita, PPP (current international \$)	3,120	3,120	3,230	3,340	3,790	4,110	4,280	4,580	4,580	4,610	4,750	4,820	5,060	5,260	5,500	5,920	6,370	7,070	7,980
GNI per capita, Atlas method (current US\$)	720	1,090	1,370	1,530	1,780	1,990	2,190	2,340	2,220	2,100	2,050	1,970	2,030	2,160	2,380	2,660	2,930	3,340	3,990
Inflation, consumer prices (annual %)	7,481.7	409.5	73.5	48.6	23.7	11.1	11.5	8.6	7.2	3.5	3.8	2.0	0.2	2.3	3.7	1.6	2.0	1.8	6.6
<b>Composition of GDP (%)</b>																			
Agriculture, value added (% of GDP)	8.5	8.4	8.5	9.0	9.2	8.8	9.2	8.7	9.0	8.8	8.5	8.2	7.8	7.6	7.3	7.2	7.0	6.6	6.6
Industry, value added (% of GDP)	27.4	27.1	27.9	29.4	31.2	31.0	30.2	30.7	29.7	29.6	29.9	29.6	30.4	30.8	33.0	34.3	37.0	37.0	38.1
Services, etc., value added (% of GDP)	64.1	64.4	63.6	61.5	59.6	60.3	60.6	60.7	61.3	61.7	61.6	62.2	61.8	61.5	59.7	58.5	56.0	56.4	55.3
Gross fixed capital formation (% of GDP)	16.1	16.6	16.5	18.3	21.2	24.1	22.4	23.8	23.6	21.7	20.2	18.6	17.5	17.8	17.9	18.3	19.3	21.6	25.9
Gross domestic savings (% of GDP)	18.4	15.4	14.5	15.5	18.8	19.2	18.0	19.9	18.2	18.7	18.0	16.5	17.7	18.7	21.6	23.8	28.7	29.4	29.4
<b>External Accounts</b>																			
Exports of goods and services (% of GDP)	15.8	12.6	12.8	12.2	12.2	12.6	13.3	14.4	13.1	15.0	16.0	15.7	16.1	17.7	21.5	25.1	28.5	28.9	29.0
Imports of goods and services (% of GDP)	13.8	14.5	15.6	16.0	15.7	18.3	18.2	18.6	18.5	17.5	18.2	17.8	17.3	17.8	17.8	19.2	19.9	22.4	26.7
Current account balance (% of GDP)	-5.4	-4.4	-5.2	-7.1	-6.0	-8.6	-6.5	-5.7	-5.9	-2.7	-2.9	-2.2	-2.0	-1.5	0.0	1.4	3.0	1.4	..
External debt (% of GNI)	78.6	64.1	58.2	71.0	61.7	60.3	53.7	51.7	54.9	57.9	55.2	52.2	51.2	50.8	47.9	39.0	33.7	32.6	..
Total debt service (% of GNI)	1.9	3.6	2.9	8.3	2.7	2.4	5.4	6.0	3.9	5.0	5.0	4.2	6.2	4.4	4.2	7.8	4.4	8.9	..
Total reserves in months of imports	3.8	5.8	5.9	6.3	9.6	8.2	10.6	10.1	9.4	10.2	8.8	9.5	10.0	9.3	9.2	8.1	7.8	9.8	..
<b>Social Indicators</b>																			
<b>Health</b>																			
Life expectancy at birth, total (years)	65.8	..	66.7	..	..	68.3	..	69.3	..	..	70.7	..	71.6	..	..	72.5	72.8	73.1	73.3
Immunization, DPT (% of children ages 12–23 months)	72.0	71.0	83.0	87.0	87.0	90.0	94.0	90.0	92.0	93.0	91.0	90.0	95.0	94.0	91.0	89.0	94.0	80.0	..
Improved sanitation facilities (% of population with access)	55.0	..	..	..	..	60.0	..	..	..	..	65.0	..	..	..	..	..	..	..	..
Improved water source (% of population with access)	75.0	..	..	..	..	79.0	..	..	..	..	81.0	..	..	..	..	..	..	..	..
Mortality rate, infant (per 1,000 live births)	57.9	..	..	..	..	50.0	..	..	..	..	32.5	..	..	..	..	20.7	18.9	17.3	..
<b>Population</b>																			
Population, total (million)	21.8	22.2	22.7	23.1	23.5	23.9	24.4	24.8	25.2	25.6	26.0	26.4	26.8	27.1	27.5	27.8	28.2	28.5	28.8
Population growth (annual %)	2.1	2.0	1.9	1.9	1.8	1.8	1.8	1.7	1.7	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.2	1.2	1.1
Urban population (% of total)	68.9	69.2	69.5	69.7	70.0	70.3	70.4	70.5	70.5	70.6	70.7	70.8	70.9	70.9	71.0	71.1	71.2	71.3	71.4
<b>Education</b>																			
School enrollment, preprimary (% gross)	..	30.1	..	..	..	..	..	..	56.0	54.9	59.9	61.1	59.5	59.5	63.3	65.9	67.6	72.5	..
School enrollment, primary (% gross)	118.9	118.1	..	..	..	122.3	..	..	122.0	121.9	120.8	119.9	119.3	117.7	116.8	116.4	116.4	117.1	..
School enrollment, secondary (% gross)	67.5	67.0	..	..	..	70.5	..	..	82.2	84.0	86.7	89.6	90.3	91.3	92.1	92.4	94.5	98.0	..

Source: WB World Development Indicators (September 2009 update) for all indicators excluding those noted.

Notes: DPT = diphtheria, pertussis, and tetanus; GDP = gross domestic product; GNI = gross national income; PPP = purchasing power parity.

ANNEX TABLE 2B Peru and Comparators: Key Economic and Social Indicators, Average 2003–08

Series Name	Peru	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Middle income	Latin America and Caribbean
<b>Growth and Inflation</b>									
GDP growth (annual %)	7.0	8.5	4.5	4.1	4.7	5.3	5.1	7.0	4.8
GDP per capita growth (annual %)	5.7	7.5	2.6	2.9	3.6	3.9	3.9	5.8	3.6
GNI per capita, PPP (current int'l \$)	6,350	11,067	3,845	8,652	11,372	7,312	6,547	4,992	8,798
GNI per capita, Atlas method (current US\$)	2,910	5,015	1,180	4,750	6,610	3,303	2,782	2,270	4,899
Inflation, consumer prices (annual %)	3.0	9.3	6.7	6.9	3.9	5.8	4.5	...	...
<b>Composition of GDP (%)</b>									
Agriculture, value added (% of GDP)	7.0	9.7	14.1	6.4	4.5	9.5	7.0	10.1	6.4
Industry, value added (% of GDP)	35.0	35.1	33.9	28.7	42.5	33.9	35.9	36.9	32.9
Services, and so on, value added (% of GDP)	57.9	55.2	51.9	65.0	53.1	56.6	57.1	53.0	60.6
Gross fixed capital formation (% of GDP)	20.1	20.7	13.5	16.7	21.1	23.2	21.6	25.6	19.1
Gross domestic savings (% of GDP)	25.3	27.4	20.1	19.6	31.1	18.6	21.7	29.7	22.6
<b>External Accounts</b>									
Exports of goods and services (% of GDP)	25.1	24.9	37.0	14.8	42.3	17.3	31.1	31.6	23.9
Imports of goods and services (% of GDP)	20.6	18.2	30.4	12.3	32.2	21.0	32.5	29.4	22.1
Current account balance (% of GDP)	0.9	3.3	7.3	0.6	1.6	-1.8	1.0	...	...
External debt (% of GNI)	40.8	84.1	63.0	27.5	46.3	30.2	50.1	28.2	32.2
Total debt service (% of GNI)	5.9	7.9	5.2	7.3	9.7	7.1	10.3	4.9	6.6
Total reserves in months of imports	8.8	6.9	8.1	7.4	4.1	5.6	1.7	10.6	6.2
<b>Social Indicators</b>									
<b>Health</b>									
Life expectancy at birth, total (years)	73.0	75.0	65.2	72.1	78.3	72.6	74.8	68.4	72.9
Immunization, DPT (% of children ages 12–23 months)	89.6	93.6	81.0	97.4	93.6	89.2	94.0	77.5	91.6
Improved sanitation facilities (% of population with access)	72.0	91.0	43.0	77.0	94.0	78.0	84.0	58.0	78.3
Improved water source (% of population with access)	84.0	96.0	86.0	91.0	95.0	93.0	95.0	87.6	91.4
Mortality rate, infant (per 1,000 live births)	19.0	15.5	49.8	20.7	8.1	17.6	21.0	42.9	23.5
<b>Population</b>									
Population, total (million)	28.0	38.9	9.3	187.0	16.4	43.1	13.1	4,527.0	549.4
Population growth (annual %)	1.2	1.0	1.9	1.2	1.0	1.3	1.1	1.1	1.2
Urban population (% of total)	71.2	91.5	64.4	84.4	87.7	73.8	63.9	46.8	77.7
<b>Education</b>									
School enrollment, pre-primary (% gross)	65.8	64.4	49.4	65.0	53.4	40.1	84.1	40.2	62.7
School enrollment, primary (% gross)	116.9	112.9	110.9	136.9	103.3	115.2	117.3	108.1	117.8
School enrollment, secondary (% gross)	93.7	85.1	84.3	103.3	89.9	78.7	64.6	65.6	88.0

Source: World Bank World Development Indicators (September 2009 update).

Notes: DPT = diphtheria, pertussis, and tetanus; GDP = gross domestic product; GNI = gross national income; PPP = purchasing power parity.

**ANNEX TABLE 3 Total Net Disbursements of Official Development Assistance and Official Aid, 1990–2007 (in current US\$ million)**

Donor	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total 1990–2007
<b>Bilaterals</b>	..	..	..	0.08	0.08	0.08	..	..	0.04	..	0.1	0.02	..	..	..	..	0.18	0.24	0.82
Australia	0.43	0.4	0.79	0.65	0.78	0.59	0.75	0.89	0.76	0.75	0.47	0.5	0.53	0.55	0.47	0.89	0.58	1.01	11.79
Austria	3.84	2.66	3.82	3.44	2.82	4.69	2.07	3.22	3.75	3.42	2.77	2.3	6.35	6.45	9.58	15.96	16.82	15.44	109.4
Belgium	23.19	10.3	30.78	19.58	13.68	24.08	18.69	17.33	15.59	7.7	8.75	9.47	7.86	11.05	14.24	15.38	14.48	20.09	282.24
Canada	1.87	0.85	0.15	1.77	2.08	3.47	1.91	2.23	3.14	4.16	1.94	1.85	2.12	-0.04	-1.21	0.95	0.28	-0.44	27.08
Denmark	2.75	7.47	3.99	1.99	0.16	2.93	0.6	0.22	0.22	0.67	1.2	1.37	1.6	1.62	2.04	2.89	2	2.34	36.06
Finland	6.52	7.14	7.8	24.27	12.48	22.64	11.6	17.43	21.29	7.47	6.26	3.16	4.85	8.96	12.78	6.41	11.39	6.21	198.66
France	60.42	54.97	40.85	142.7	51.69	45.59	42.37	85.09	50.36	11.3	33.97	24.17	24.32	24.28	19.74	38.98	25.11	7.58	783.49
Germany	..	..	..	..	..	..	..	..	0.05	..	0.27	0.14	0.01	0.01	0.01	0.01	0.01	0.22	0.73
Greece	0.12	0.07	0.03	0.06	0.08	0.09	0.04	0.16	0.31	0.39	0.5	0.5	0.49	0.82	1.25	0.95	0.66	2.13	8.65
Ireland	80.6	18.68	34.96	34.01	21.74	8.42	7.22	1.97	0.56	-9.9	-17.75	-11.49	4.78	-9.03	6.26	1.24	3.43	4.19	179.89
Italy	39.79	352.85	154.8	130.6	54.55	66.14	56.37	38.42	80.13	189.13	191.68	156.52	119.58	104.9	89.8	43.47	-0.48	39.81	1908.06
Japan	0.29	0.7	0.65	0.69	0.89	0.73	0.42	1.48	1.2	0.7	0.47	0.34	1.24	2.48	0.95	1.57	1.18	4.1	20.08
Luxembourg	29.97	10.97	35.7	27.64	25.81	29.01	31.45	29.78	36.54	12.44	9.2	24.52	12.86	15.68	18.1	13.49	-0.32	-0.09	362.75
Netherlands	0.1	0.05	0.03	0.06	0.09	0.06	0.03	0.09	0.16	0.15	0.04	0.21	0.11	0.28	0.17	0.21	1.2	1.16	4.2
New Zealand	1.43	1.18	1.6	1.22	1.86	2.3	2.25	2.39	2.05	1.66	1.39	2.15	1.43	9.02	1.25	3.34	1.41	94.39	132.32
Norway	..	..	..	..	..	..	..	..	..	..	..	0.05	0.06	..	..	0.01	..	0.06	0.18
Portugal	6.27	23.28	4.75	7	5.05	13.77	30.2	22.05	25.68	32.64	18.54	29.08	31.86	44.42	56.15	65.53	69.37	109.35	594.99
Spain	1	3.98	5.79	3.62	3.88	8	3.94	4.64	3.12	3.37	3.69	2.68	3.94	3.48	4.55	3.59	4.03	5.77	73.07
Sweden	10.72	19.79	15.94	7.15	6.59	8.76	12.59	10.76	9.94	8.08	6.43	8.93	10.91	15.7	20.04	15.28	14.12	14.57	216.3
Switzerland	2.12	2.71	3.35	6.93	5.17	4.65	4.18	7.09	5.74	6.92	10.41	7.47	84.43	2.68	5.26	3.33	22.14	-250.97	-66.39
United Kingdom	79	82	32	100	85	81	51	119	120.96	123.98	92.34	161.63	143.62	204.36	177.91	155.19	187.26	94.08	2090.33
United States	350.43	600.05	377.78	513.46	294.48	327	277.68	364.24	381.59	405.03	372.67	425.57	462.95	447.67	439.34	388.67	374.85	171.24	6974.7
<b>DAC Countries, Total</b>	..	..	..	..	..	..	..	..	..	0.06	0.07	0.12	0.08	0.27	0.26	0.36	0.49	0.92	2.63
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0.01
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0.01
Korea, Rep. of	..	0.24	0.22	0.54	0.31	0.39	0.64	0.6	0.97	0.48	1.8	0.75	0.98	2.09	3.06	2.84	4.49	10.22	30.62

(continued on next page)

**ANNEX TABLE 3 Total Net Disbursements of Official Development Assistance and Official Aid, 1990-2007 (in current US\$ million) (continued)**

Donor	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total 1990-2007
Poland	..	..	..	..	..	..	..	..	0.05	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.29
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	..	0.01	0.01	0.01	..	..	..	0.33
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0.03	..	0.01	0.12	0.16
Other Donor Countries, Total	..	0.02	0.07	0.01	0.09	..	..	0.46	0.52	0.55	0.55	0.43	1.32	0.83	0.62	1.57	0.96	2.23	10.23
Non-DAC Countries, Total	..	0.26	0.29	0.55	0.4	0.39	0.64	1.06	1.54	1.11	2.44	1.32	2.4	3.21	3.99	4.78	5.96	13.93	44.27
<b>Multilaterals</b>																			
Arab Agencies	0.22	0.02	0.02	0.34	0.07	-0.25	-0.25	-0.15	2.77	3.05	2.84	1.34	0.89	-0.64	-1.29	-1.17	-1.17	-1.17	5.47
EC	21.9	35.44	37.84	31.91	40.67	35.17	37.32	22.02	94.85	40.02	24.1	21.38	16.08	41.65	13.62	42.15	54.05	65.2	675.37
GEF	..	..	..	..	..	..	..	..	0.07	0.03	0.83	0.45	1.9	4.82	3.73	6.24	5.99	3.58	27.64
Global Fund	..	..	..	..	..	..	..	..	..	..	..	..	..	3.52	10.42	17.75	12.73	12.23	56.65
IDB Spec. Fund	-0.07	-54.65	-29.55	-12	-12.34	-14.83	-2.8	-9.1	5.19	-11.91	-11.12	-7.4	-6	-9.22	-9.7	-9.75	-0.22	-6.77	-202.24
IFAD	4.33	0.98	-1.52	1.36	0.36	-0.64	0.83	-1.07	-1.02	-0.41	-2.24	..	-1.9	-2.02	-2.38	-2.53	-2.24	-2.01	-12.12
UNAIDS	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0.34	0.19	0.31	0.84
UNDP	2.65	2.71	6.53	9.91	-6.71	-1.08	0.68	5.22	2	-3.81	-0.23	0.57	0.66	0.71	0.82	0.66	0.87	0.81	22.97
UNFPA	1.25	0.78	0.68	1.59	2.18	2.39	2.41	3.09	2.02	2.88	1.39	1.59	6.39	1.56	1.54	1.25	1.27	1.49	35.75
UNHCR	0.05	0.06	0.14	0.16	0.07	0.09	0.1	0.1	0.14	0.01	..	..	..	..	..	..	..	..	0.92
UNICEF	4.48	4.78	2.79	2.9	6.7	8.81	8.16	2.86	2.14	1.06	1.18	0.97	0.97	0.91	1.23	1.72	1.48	1.37	54.51
UNTA	1.18	1.79	1.82	2.32	1.69	2.58	1.72	1.86	2.14	2.67	1.95	2.09	2.19	2.54	2.38	2.24	2.25	2.09	37.5
WFP	10.66	18.3	8.76	11.32	6.12	11.31	1.23	3.04	4.51	5.01	3.86	1.33	2.11	1.86	1.23	3.47	0.61	0.71	95.44
Multilateral Agencies, Total	46.65	10.21	27.51	49.81	38.81	43.55	49.4	27.87	114.81	38.6	22.56	22.32	23.29	45.69	21.6	62.37	75.81	77.84	798.7
<b>All Donors, Total</b>	<b>397.08</b>	<b>610.52</b>	<b>405.58</b>	<b>563.82</b>	<b>333.69</b>	<b>370.94</b>	<b>327.72</b>	<b>393.17</b>	<b>497.94</b>	<b>444.74</b>	<b>397.67</b>	<b>449.21</b>	<b>488.64</b>	<b>496.57</b>	<b>464.93</b>	<b>455.82</b>	<b>456.62</b>	<b>263.01</b>	<b>7817.67</b>

Source: OECD DAC online database, table 2a. Destination of Official Development Assistance and Official Aid—Disbursements, as of 12/07/09.

Notes: DAC = Development Assistance Committee (Organization for Economic Co-operation and Development); EC = European Commission; GEF = Global Environment Fund; IDB = Inter-American Development Bank; IFAD = International Fund for Agricultural Development; UNAIDS = Joint United Nations Programme on HIV/AIDS; UNDP = United Nations Development Programme; UNFPA = United Nations Population Fund; UNHCR = United Nations High Commissioner for Refugees; UNICEF = United Nations Children's Fund; UNTA = United Nations Programme for Technical Assistance; WFP = World Food Programme.

ANNEX TABLE 4A Peru—World Bank Lending by Sector Board, FY1996–FY2009 (Commitment amounts in US\$ million)															
Sector Board	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Agriculture and Rural Development		136			14.6					35.26		20			205.86
Economic Management		183						20	150	100	150	200		700	1503
Education								52.5							52.5
Energy and Mining											50				50
Environment														330	330
Financial Sector				300											300
Health, Nutrition, and Population					80					7.8		150		345	582.8
Public Sector Governance			22.5						12	8.8					43.3
Social Protection		250				100		100	150	104.98					704.98
Transport	90		150			50			45	200	50	50			635
Urban Development				38								25			63
Water								70							70
<b>Total</b>	<b>90</b>	<b>569</b>	<b>172.5</b>	<b>338</b>	<b>94.6</b>	<b>150</b>	<b>0</b>	<b>242.5</b>	<b>357</b>	<b>456.84</b>	<b>275</b>	<b>420</b>	<b>0</b>	<b>1,375</b>	<b>4,540.44</b>

Source: World Bank.

ANNEX TABLE 4B Peru—World Bank Lending by Sector Board, FY1996–FY2009 (Number of Projects)															
Sector Board	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Agriculture and Rural Development		2			2					2		1			7
Economic Management		1						1	1	1	1	1		2	8
Education								1							1
Energy and mining											1				1
Environment														1	1
Financial Sector				1											1
Health, Nutrition, and Population					1					1		1		2	5
Public Sector Governance			1						1	1					3
Social Protection		2				1		1	1	2					7
Transport	1		1			1			1	1	1	1			7
Urban Development				1							1				2
Water								2							2
<b>Total</b>	<b>1</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>0</b>	<b>5</b>	<b>4</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>5</b>	<b>45</b>

Source: World Bank.

**ANNEX TABLE 5 Peru—List of IBRD Approved Projects, 1996–2009**

Proj ID	Project name	Approval FY	Sector board	IBRD amount	Latest DO	Latest IP	Latest risk rating	Project status	Date, rev closing	IEG outcome	IEG sustainability	IEG ID impact	IEG risk to DO rating
<b>Active Projects</b>													
P082588	Agric. Research and Extension—APL2	2005	Agriculture and Rural Development	25	S	S		Active	12/31/2010				
P079165	Sierra Rural Development Project	2007	Agriculture and Rural Development	20	MS	MS		Active	12/31/2012				
P088809	Inst. Capacity for Decent. TAL	2005	Economic Policy	8.8	MS	MS		Active	9/30/2010				
P101590	2nd Prtg Fiscal Mgmt & Comp. DPL/DDO	2009	Economic Policy	370	S	S		Active	1/16/2012				
P115120	Suppl 2nd Prog Fisc. Mgmt & Comp DPL	2009	Economic Policy	330				Active					
P090116	Rural Electrification	2006	Energy and Mining	50	S	S		Active	12/31/2011				
P101471	First Prog. Environ. DPL/DDO	2009	Environment	330	HS	S		Active	9/8/2012				
P088923	(CRL2) Guarantee Facility	2005	Financial and Private Sector Development	200				Active					
P095563	Health Reform Program—APL2	2009	Health, Nutrition and Population	15	S	S		Active	1/31/2015				
P073438	Justice Services Improvement	2004	Public Sector Governance	12	HS	HS		Active	3/31/2010				
P078894	Real Property Rights II	2006	Public Sector Governance	25	U	U		Active	12/31/2011				
P078953	(CRL1) Account. F/ Decent. Soc. Sctr	2005	Social Protection	7.8	MS	MS		Active	12/31/2009				
P101177	2nd Results and Accountability (REACT) DPL/DDO	2009	Social Protection	330	S	S		Active	9/8/2012				
P035740	Lima Transport Project	2004	Transport	45	S	MS		Active	6/30/2010				
P078813	Regional Transport Decentralization	2006	Transport	50	MU	MU		Active	6/30/2010				
P095570	Decentralized Rural Transport Project	2007	Transport	50	S	MS		Active	3/31/2012				
P082625	Vilcanota Valley Rehab & Mgmt Project	2005	Urban Development	4.98	MS	MS		Active	6/30/2011				
P065256	National Rural Water Supply and Sanitation	2003	Water	50	MS	MS		Active	12/31/2010				
<b>Closed Projects</b>													
P008037	Irrigation Subsector Project	1997	Agriculture and Rural Development	85	S	S		Closed	6/30/2009	Satisfactory	Likely	Substantial	
P042442	Sierra Natural Resources Management	1997	Agriculture and Rural Development	51				Closed	3/30/2004	Satisfactory	Likely	Modest	
P047690	Research & Extension	2000	Agriculture and Rural Development	9.6				Closed	1/31/2005	Moderately Satisfactory	Likely	Modest	
P094152	Irrigation Sub-Sector Supplement	2005	Agriculture and Rural Development	10.26				Closed					
P101335	Prg Fiscal Mgmt & Competitiveness DPL	2007	Economic Policy	200	S	S		Closed	12/31/2007				



**ANNEX TABLE 6 Peru—Analytical and Advisory Work, FY 2003–09**

Delivery fiscal year	Project ID	Project name	Output type	Report type
<b>Economic and Sector Work</b>				
2004	P077063	MICROCONSTRAINT	Report	PSD, Privatization and Industrial Policy
2004	P078897	Subnational Management	Conference/Workshop	Not assigned
2004	P078961	Pension: Restoring Multiple Pillars	Report	Other Social Protection Study
2004	P080010	CCGPP: Peru Country Assessment	Report	Corporate Governance Assessment (ROSC)
2004	P081220	Investment Climate Assessment	Report	Investment Climate Assessment (ICA)
2004	P084927	Sustainable Fisheries	Policy Note	Not assigned
2004	P086345	Peru ROSC	Report	Accounting and Auditing Assessment (ROSC)
2005	P078737	Peru Rural Infrastructure Strategy	Report	Other Infrastructure Study
2005	P079948	Environmental Mgt: Mining Hydrocarbons	Report	Other Environmental Study
2005	P083855	Poverty Assessment	Report	Poverty Assessment
2005	P089811	CEM Growth and Trade	Report	Country Economic Memorandum (CEM)
2005	P090012	CPAR	Report	Country Procurement Assessment (CPAR)
2005	P092670	FSAP Update Peru	Report	Financial Sector Assessment Program (FSAP)
2006	P078973	Education Sector Review	Policy Note	Not assigned
2006	P079949	Country Environmental Analysis (formerly Environmental Health)	Report	Country Environmental Analysis (CEA)
2006	P088043	(CRL1) Evaluation & Design of Concessions	Report	Economic Updates and Modeling
2006	P088373	Accountability in Social Sectors	Report	Other Social Protection Study
2006	P094276	Municipal Debt	Report	Other Financial Accountability Study
2006	P094883	Policy Notes	Policy Note	Not assigned
2007	P100333	CCGPP: Peru SOE Assessment	Report	Corporate Governance Assessment (ROSC)
2007	P101334	Informality Study	Report	General Economy, Macroeconomics, and Growth Study
2008	P104262	RECURSO II	Report	Other Health Study
2008	P106731	Informality Study II	Report	General Economy, Macroeconomics, and Growth Study
2008	P106743	(SCL) Capital Markets for Growth	Report	Other Financial Sector Study
2009	P106739	(SCL) Gov. & Governability Enhancement	Report	General Economy, Macroeconomics, and Growth Study
2009	P106943	RECURSO III	Report	Other Social Protection Study
<b>Non Lending Technical Assistance</b>				
2003	P071842	PPIAF: Tariff Setting Capacity-OSITRAN	"How-To" Guidance	
2003	P082306	Aguas Calientes: Urban Protect/Revital.	"How-To" Guidance	
2004	P082983	Local Governance & Delivery of Services	"How-To" Guidance	
2004	P085512	FSE: Pension—2nd Generation Reforms	Institutional Development Plan	
2005	P085337	City Poverty Strategy	"How-To" Guidance	
2007	P081481	CA: Lima (Peru) City Poverty Strategy	Institutional Development Plan	
2007	P093486	Rural Electrification	Model/Survey	
2008	P103422	Small Hydropower	Client Document Review	
2008	P110749	PPP Law	"How-To" Guidance	
2009	P103116	Poverty Monitoring and Info Systems	Client Document Review	
2009	P105450	FIRST #289: Improving SME access	"How-To" Guidance	
2009	P113841	Poverty Monit. & Info. System II	Client Document Review	

Source: World Bank, 2009.

Notes: CEA = Country Environmental Analysis; CEM = Country Economic Memorandum; CPAR = Country Procurement Assessment; FSAP = Financial Sector Assessment Program; FSE = financial sector; ICA = Investment Climate Assessment; OSITRAN = Organization of Public Transportation Infrastructure Investments; PPIAF = Public-Private Infrastructure Advisory Facility; PPP = public-private partnership; PSD = private sector development; RECURSO = Accountability for Social Reform; ROSC = Report on Observance of Standards and Codes; SME = small and medium enterprise; SOE = State-owned enterprise.

**ANNEX TABLE 7A Peru Project Ratings for Peru and Comparators, FY2003–09**

Country/Region	Total evaluated		Outcome % satisfactory		Inst. dev. impact % Subst		Sustainability % likely	
	\$M	No.	\$	No.	\$	No.	\$	No.
	Peru	1,055.0	16	87.7	81.3	70.9	50.0	99.8
Argentina	7,999.9	37	60.9	81.1	20.0	38.9	35.1	81.3
Bolivia	653.0	22	57.2	54.5	19.8	18.8	64.4	50.0
Brazil	7,260.4	58	89.0	89.3	73.2	80.0	88.2	91.2
Chile	522.3	7	100.0	100.0	100.0	100.0	100.0	100.0
Colombia	2,995.6	33	95.4	84.4	58.0	72.7	91.1	90.0
Ecuador	417.7	18	53.2	71.4	11.8	22.2	44.8	71.4
Latin America and Caribbean	31,603.5	368	80.7	82.7	55.0	56.7	73.3	81.4
World Bank	110,029.8	1,621	83.7	78.3	59.3	54.7	82.6	78.9

Source: World Bank, 2009.

**ANNEX TABLE 7B Peru Portfolio Status Indicators, Peru and Comparators, FY2009**

Country	Number of projects	Net commitment amount (US\$ millions)	Number of projects at risk	% At risk	Commitments at risk (US\$)	% Commitments at risk
Peru	16	1,720.5	4	25.0	56.6	3.3
Argentina	31	5,724.5	7	22.6	1,480.0	25.9
Bolivia	11	302.8	5	45.5	142.4	47.0
Brazil	49	7,978.5	7	14.3	200.5	2.5
Chile	7	193.8	1	14.3	4.8	2.5
Colombia	15	1,857.5	2	13.3	130.0	7.0
Ecuador	1	15.3	0	0.0	0.0	0.0
LAC	263	25,683.7	64	24.3	3,201.9	12.5
World Bank	1,408	128,471.6	310	22.0	19,539.0	15.2

Source: World Bank.

Note: LAC= Latin America and Caribbean Region.

ANNEX TABLE 8 Peru Bank Budget by Cost Category, FY 1996–2008 (in US\$million)																
Country/region	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average	Total 1996–2008	Budget Distribution %
<b>PERU</b>																
Supervision	0.7	0.8	0.9	0.9	0.9	1.1	1.2	1.1	1.4	1.7	2.0	2.4	2.7	1.4	17.6	34.5
Lending	1.4	0.8	1.0	1.1	1.1	0.6	1.5	2.2	2.3	2.0	1.2	1.7	1.7	1.4	18.5	36.3
AAA	0.4	0.2	0.6	0.8	0.6	0.6	0.6	0.8	1.2	1.6	1.0	0.9	2.0	0.9	11.2	22.1
Other	0.0	0.1	0.1	0.1	0.2	0.5	0.9	0.5	0.4	0.3	0.2	0.3	0.1	0.3	3.6	7.1
<b>Total</b>	<b>2.5</b>	<b>1.8</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>	<b>4.2</b>	<b>4.6</b>	<b>5.2</b>	<b>5.5</b>	<b>4.4</b>	<b>5.2</b>	<b>6.4</b>	<b>.9</b>	<b>50.9</b>	<b>100.0</b>
<b>LAC</b>																
Supervision	19.8	19.3	21.4	24.0	27.3	24.0	26.7	28.6	31.3	30.4	35.5	35.6	36.0	27.7	359.8	37.5
Lending	20.1	17.7	18.4	15.7	20.5	15.8	20.0	21.3	25.5	27.5	26.6	23.5	25.7	21.4	278.3	29.0
AAA	7.0	5.4	7.9	11.2	14.7	12.1	19.3	22.3	23.1	22.4	21.8	22.4	26.6	16.6	216.1	22.5
Other	1.0	2.5	3.0	2.7	6.5	8.1	10.0	10.0	11.8	10.8	13.7	13.1	13.1	8.2	106.5	11.1
<b>Total</b>	<b>47.9</b>	<b>44.9</b>	<b>50.8</b>	<b>53.7</b>	<b>69.0</b>	<b>60.0</b>	<b>76.0</b>	<b>82.2</b>	<b>91.6</b>	<b>91.1</b>	<b>97.5</b>	<b>94.7</b>	<b>101.3</b>	<b>73.9</b>	<b>960.7</b>	<b>100.0</b>
<b>WORLD BANK</b>																
Supervision	109.2	118.7	124.2	127.6	158.8	136.4	152.3	160.1	166.9	177.9	189.7	198.7	217.0	156.7	2,037.6	32.4
Lending	134.2	113.5	119.0	110.4	124.4	102.5	123.6	121.0	157.2	152.0	156.2	150.1	148.0	131.7	1,712.0	27.3
AAA	60.7	53.4	70.8	83.1	107.4	88.2	129.7	150.6	154.7	158.1	169.0	162.6	187.4	121.2	1,575.8	25.1
Other	16.8	28.1	31.1	42.0	65.1	74.7	85.0	91.0	106.1	100.2	103.6	105.0	105.4	73.4	954.0	15.2
<b>Total</b>	<b>320.9</b>	<b>313.6</b>	<b>345.0</b>	<b>363.1</b>	<b>455.8</b>	<b>401.8</b>	<b>490.7</b>	<b>522.7</b>	<b>584.8</b>	<b>588.3</b>	<b>618.4</b>	<b>616.4</b>	<b>657.8</b>	<b>483.0</b>	<b>6,279.4</b>	<b>100.0</b>

Source: World Bank, 2009.

Notes: AAA= analytic and advisory activities; LAC= Latin America and Caribbean.

ANNEX TABLE 9 Peru—Millennium Development Goals					
	1990	1995	2000	2005	2008
<b>Goal 1: Eradicate extreme poverty and hunger</b>					
Employment to population ratio, 15+, total (%)	58	61	64	67	68
Employment to population ratio, ages 15–24, total (%)	45	47	50	50	52
GDP per person employed (annual % growth)	–4	6	0	4	7
Income share held by lowest 20%	5.6	4.4	3.1	3.7	3.9
Malnutrition prevalence, weight for age (% of children under 5)	8.8	5.7	5.2	..	..
Poverty gap at \$1.25 a day (PPP) (%)	1	3	4	2	2
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	2	9	13	8	8
Prevalence of undernourishment (% of population)	28	20	..	15	..
Vulnerable employment, total (% of total employment)	36	36	44	42	40
<b>Goal 2: Achieve universal primary education</b>					
Literacy rate, youth female (% of ages 15–24)	..	94	..	96	97
Literacy rate, youth male (% of ages 15–24)	..	97	..	98	98
Persistence to last grade of primary, total (% of cohort)	..	..	81	85	90
Primary completion rate, total (% of relevant age group)	..	90	103	100	104
Total enrollment, primary (% net)	..	..	100	99	99
<b>Goal 3: Promote gender equality and empower women</b>					
Proportion of seats held by women in national parliaments (%)	6	11	11	18	29
Ratio of female to male enrollments in tertiary education	..	..	97	102	106
Ratio of female to male primary enrollment	97	97	99	101	101
Ratio of female to male secondary enrollment	94	..	93	102	104
Share of women employed in the nonagr. sector (%)	28.9	30.3	33.3	37.5	36.4
<b>Goal 4: Reduce child mortality</b>					
Immunization, measles (% of children ages 12–23 months)	64	98	97	80	99
Mortality rate, infant (per 1,000 live births)	58	50	33	21	17
Mortality rate, under-5 (per 1,000)	78	65	40	24	20
<b>Goal 5: Improve maternal health</b>					
Adolescent fertility rate (births per 1,000 women ages 15–19)	..	71	65	57	55
Births attended by skilled health staff (% of total)	80	56	59	71	71
Contraceptive prevalence (% of women ages 15–49)	59	64	69	71	71
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	240	..
Pregnant women receiving prenatal care (%)	64	67	84	91	91
Unmet need for contraception (% of married women ages 15–49)	16	12	10	8	8
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>					
Children with fever receiving anti-malarial drugs (% of children under age 5 with fever)	..	..	..	..	..
Condom use, population ages 15–24, female (%)	..	..	9	..	..
Condom use, population ages 15–24, male (%)	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	317	242	184	140	126
Prevalence of HIV, female (% ages 15–24)	..	..	..	0.3	0.3
Prevalence of HIV, male (% ages 15–24)	..	..	..	1	1
Prevalence of HIV, total (% of population ages 15–49)	0.1	0.2	0.4	0.4	0.5
Tuberculosis cases detected under DOTS (%)	..	102	88	89	93
<b>Goal 7: Ensure environmental sustainability</b>					
CO <sub>2</sub> emissions (kg per PPP \$ of GDP)	0.3	0.2	0.2	0.2	..
CO <sub>2</sub> emissions (metric tons per capita)	1	1	1.1	1.3	..
Forest area (% of land area)	55	54	54	54	..

(continued on next page)

**ANNEX TABLE 9 Peru—Millennium Development Goals (continued)**

	1990	1995	2000	2005	2008
Improved sanitation facilities (% of population with access)	55	60	65	72	72
Improved water source (% of population with access)	75	79	81	84	84
Marine protected areas, (% of surface area)	..	..	..	0	..
Nationally protected areas (% of total land area)	..	..	..	13.7	13.7
<b>Goal 8: Develop a global partnership for development</b>					
Aid per capita (current US\$)	18	15	15	16	9
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	7	13	24	22	22
Internet users (per 100 people)	0	0	3.1	16.5	24.7
Mobile cellular subscriptions (per 100 people)	0	0	5	20	73
Telephone lines (per 100 people)	3	5	7	8	10
<b>Other</b>					
Fertility rate, total (births per woman)	3.8	3.3	2.9	2.7	2.6
GNI per capita, Atlas method (current US\$)	720	1,990	2,050	2,660	3,990
GNI, Atlas method (current US\$) (billions)	15.7	47.8	53.3	74.1	115
Gross capital formation (% of GDP)	16.5	24.8	20.2	17.9	27.2
Life expectancy at birth, total (years)	66	68	71	73	73
Literacy rate, adult total (% of people ages 15 and above)	..	87	..	88	90
Population, total (millions)	21.8	23.9	26	27.8	28.8
Trade (% of GDP)	29.6	30.8	34.2	44.3	55.7

Source: World Development Indicators database as of 12/07/09.

Notes: AIDS = acquired immunodeficiency syndrome; CO<sub>2</sub> = carbon dioxide; DOTS = directly observed treatment short-course; GDP = gross domestic product; HIV = human immunodeficiency virus; IMF = International Monetary Fund; PPG = public and publicly-guaranteed debt; PPP = purchasing power parity.

**ANNEX TABLE 10 Peru—World Bank's Senior Management, 2003–09**

Year	Vice President	Country Director	Country Manager
2003	David de Ferranti	Marcelo M. Giugale	John Newman
2004	David de Ferranti	Marcelo M. Giugale	John Newman
2005	Pamela Cox	Marcelo M. Giugale	John Newman
2006	Pamela Cox	Marcelo M. Giugale	John Newman
2007	Pamela Cox	Carlos Felipe Jaramillo	
2008	Pamela Cox	Carlos Felipe Jaramillo	
2009	Pamela Cox	Carlos Felipe Jaramillo	

Source: World Bank Directories 2003–09.

**ANNEX TABLE 11 Peru—IFC Senior Management, 2003–09**

Year	Regional Director	General Manager—Latin America and Caribbean Advisory Services	Country Manager
2003			Paolo Martelli
2004	Atul Mehta	Luke Haggarty	Paolo Martelli
2005	Atul Mehta	Luke Haggarty	Marcene Broadwater
2006	Atul Mehta	Luke Haggarty	Marcene Broadwater
2007	Atul Mehta	Luke Haggarty	Roberto Albisetti
2008	Atul Mehta	Luke Haggarty	Roberto Albisetti
2009	Atul Mehta	Luke Haggarty	Roberto Albisetti

Source: World Bank Directories 2003–09.

## Annex B: Guide to IEG–WB’s Country Program Evaluation Methodology

This methodological note describes the key elements of Independent Evaluation Group–World Bank IEG–WB’s Country Program evaluation (CPE) methodology.<sup>1</sup>

### *CPEs rate the outcomes of Bank assistance programs, not the overall development progress of the client country.*

A Bank assistance program needs to be assessed on how well it meets its particular objectives, which are typically a subset of the client’s development objectives. If a Bank assistance program is large in relation to the client’s total development effort, the program outcome will be similar to the client’s overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a client’s economic development by development partners, stakeholders, and the government itself. Regarding CPEs, IEG–WB rates only the outcome of the Bank’s program, not the client’s overall development outcome, although the latter is clearly relevant for judging the program’s outcome.

The experience gained in CPEs confirms that Bank program outcomes sometimes diverge significantly from the client’s overall development progress. CPEs have identified Bank assistance programs that had:

- Satisfactory outcomes matched by good client country development;
- Unsatisfactory outcomes in client countries that achieved good overall development results, notwithstanding the weak Bank program; and,
- Satisfactory outcomes in client countries that did not achieve satisfactory overall results during the period of program implementation.

### *Assessments of assistance program outcome and Bank performance are not the same.*

By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clear once the Bank’s contribution to the outcome of its assistance program is considered as only part of the story. The assistance program’s outcome is determined by the *joint* impact of four agents: (a) the client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (for example, events of nature, international eco-

nomie shocks, and so on.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

IEG–WB measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank’s lending interventions, the scope, quality and follow-up of diagnostic work and other analytic and advisory activities, the consistency of the Bank’s lending with its non-lending work and with its safeguard policies, and the Bank’s partnership activities.

### Rating Assistance Program Outcome

In rating the outcome (expected development impact) of an assistance program, IEG–WB gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words: Did the Bank do the right thing, and did it do it right? Programs typically express goals in terms of higher-order objectives, such as poverty reduction. The Country Assistance Strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG–WB’s task is to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator’s task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

For each of the main objectives, the CPE evaluates the relevance of the objective, the relevance of the Bank’s strategy toward meeting the objective, including the balance between lending and non-lending instruments, as well as the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank’s program achieved

a particular objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other development partners, the government, and exogenous factors.

Evaluators also assess the degree of client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences in dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

## Ratings Scale

IEG-WB utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

<i>Highly Satisfactory:</i>	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.
<i>Satisfactory:</i>	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
<i>Moderately Satisfactory:</i>	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
<i>Moderately Unsatisfactory:</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives, or make acceptable progress on all of them, but either: (a) did not take into adequate account a key development constraint; or (b) produced a major shortcoming, such as a safeguard violation.

*Unsatisfactory:* The assistance program did not make acceptable progress toward most of its major relevant objectives, and either: (a) did not take into adequate account a key development constraint; or (b) produced a major shortcoming, such as a safeguard violation.

*Highly Unsatisfactory:* The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, and also produced at least one major shortcoming, such as a safeguard violation.

The **institutional development impact (IDI)** can be rated at the project level as: *high, substantial, modest, or negligible*. IDI measures the extent to which the program bolstered the client's ability to make more efficient, equitable, and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program include:

- The soundness of economic management
- The structure of the public sector, and, in particular, the civil service
- The institutional soundness of the financial sector
- The soundness of legal, regulatory, and judicial systems
- The extent of monitoring and evaluation systems
- The effectiveness of aid coordination
- The degree of financial accountability
- The extent of building capacity in nongovernmental organizations
- The level of social and environmental capital.

IEG is, however, increasingly factoring IDI impact ratings into program outcome ratings, rather than rating them separately.

**Sustainability** can be rated at the project level as *highly likely, likely, unlikely, highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country program over time, taking into account eight factors:

- Technical resilience
- Financial resilience (including policies on cost recovery)
- Economic resilience
- Social support (including conditions subject to safeguard policies)
- Environmental resilience
- Ownership by governments and other key stakeholders

- Institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness)
- Resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

At the program level, IEG is increasingly factoring sustainability into program outcome ratings, rather than rating them separately.

**Risk to Development Outcome.** According to the 2006 harmonized guidelines, sustainability has been replaced with a “risk to development outcome,” defined as the risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). The risk to development outcome can be rated at the project level as *high, significant, moderate, negligible to low, non-evaluable*.

## Annex C: Peru CPE Progress Results Matrix

Pillar I: Enhancing broad-based and sustainable growth			
Cluster <sup>a</sup>	Issues and Obstacles	Expected Outcomes <sup>b</sup> (at the end of CPS period)	Indicators/Progress to Date <sup>c</sup>
<p>Maintaining macro-economic stability and reducing vulnerabilities.</p> <p><i>Consolidate the macroeconomic policy framework, reduce vulnerabilities of natural disasters and social conflicts.</i></p> <p><b>Clusters in CPE</b></p> <ul style="list-style-type: none"> <li>Maintaining macroeconomic stability and reducing vulnerabilities</li> </ul>	<p>Low tax collection due to evasion, proliferation of exemptions, special treatments, relatively high tax rates, and changes to the tax laws.</p> <p>Rigid public expenditure and low public investment.</p> <p>Vulnerabilities due to dollarized economy, high concentration of exports, and presence of social conflicts.</p> <p>Risks of reduction of commodity prices, exogenous shocks associated with occurrence of El Niño weather phenomenon, and earthquakes.</p>	<p><u>Consolidated macroeconomic framework as evidenced by:</u></p> <p>a) Achievement of rating of Investment Grade (upgrade from current grade BB+ to investment grade BBB) (<i>CPS 2007</i>).</p>	<p><b>Achieved.</b> Peru received investment grade ratings in the first half of 2008.</p>
		<p>b) Accumulated inflation (excluding food and fuels) of 12.5 percent or below from 2007 to 2011. (<i>CPS 2007</i>)</p>	<p><b>Achieved.</b> Accumulated inflation of 9.6 percent (2003–07) and 7.6 percent (2008–09).</p>
		<p><u>Reduced vulnerabilities as evidenced by:</u></p> <p>a) Reduced public debt (as percent of the GDP) from 38 to 26 percent if no adverse external shocks or 32 percent if some external shocks (<i>CPS 2007</i>).</p>	<p><b>Achieved.</b> Public debt/GDP of 24 percent as of 2008.</p>
		<p>b) Reduced dollarization of the financial system from 65 to 52 percent (<i>CPS 2007</i>).</p>	<p><b>Mostly Achieved.</b> Dollarization of lending 57.5 percent as of 2008. Indicator moving in the right direction and goal will be most likely achieved.</p>
		<p>c) No more than five active conflicts (<i>CPS 2007-dropped</i>).</p>	<p><b>Not achieved.</b> Social conflicts arising out of environmental issues increased from 14 in 2004 to 132 in 2009.</p>
<p><b>Accelerating growth and widening the base of growth</b></p> <p><i>Improve economic infrastructure and business environment, deepen integration through FTAs, increase the contribution of lagging regions to GDP and exports, reduce informality and open new areas of growth.</i></p> <p>Improve access to water, sanitation, housing, and electricity services. Expand land titling.</p> <p><b>Clusters in CPE</b></p> <ul style="list-style-type: none"> <li>Improving infrastructure, including transport, electricity, and water through both the public and private sectors, particularly for the poorest.</li> </ul>	<p>Weak business environment, high costs of enforcing contracts, delay in licenses, and cumbersome labor regulations.</p> <p>Low commercial penetration and high concentration of export markets.</p> <p>Low public investment in physical infrastructure.</p> <p>Low technological standards and low quality of tertiary education system (university and non-university).</p> <p>Limited access to and poor quality of infrastructure and financial services in the rural areas.</p> <p>Small, modern agriculture and underdeveloped tourism sector.</p> <p>Rampant informality.</p> <p>Inadequate access to labor market opportunities for low income families.</p> <p>Weak water management, low water service coverage, and poor quality of services.</p>	<p><u>Improved economic infrastructure and business environment as evidenced by:</u></p> <p>(i) Increased rank of Peru in the world competitiveness rating from 65 to 48 out of 75 countries by 2006 (<i>CAS 2003</i>).</p>	<p><b>Mostly Achieved.</b> Peru 78 out of 133 as of 2009 (Global Competitiveness report 2009–10. World Economic Forum). Peru 37 out of 57 as of 2009 (IMD World Competitiveness yearbook 2009). Indicator moving in the right direction.</p>
		<p>(ii) Improvement in <i>Doing Business</i> rankings from 68th to 55th out of 175th (<i>CPS 2007</i>).</p>	<p><b>Achieved.</b> Peru 56th as of 2009 (<i>Doing Business 2010 Report</i>). Indicator moving in the right direction.</p>
		<p>(iii) Increased public investment in infrastructure from less than 1 percent to 3 percent (<i>CPS 2007</i>).</p>	<p>Achieved.</p>
		<p><u>Improved human capital and innovation, as evidenced by:</u></p> <p>(i) Increased enrollment and graduation rates in science, technology, innovation, and related disciplines at the tertiary level (<i>CPS 2007-added 2009</i>).</p>	<p>Too early to tell.</p>
		<p><u>Deeper economic integration as evidenced by:</u></p> <p>(i) Increase in non-traditional exports (doubling from 2001 to 2006) (<i>CAS 2003</i>); (ii) Increase in non-traditional exports from 25 percent to 40 percent of total exports (<i>CPS 2007</i>).</p>	<p><b>Achieved.</b> NT exports tripled from USD 2.6 billion in 2003 to 7.5 billion in 2006. Share of total is a less relevant indicator due to sharp increase in mineral prices. TAs approved with U.S.A., Singapore, China, and Canada.</p> <p><u>2003 2004 2005 2006 2007 2008</u> 2,620 3,479 4,277 5,279 6,303 7,543</p> <p>Central Bank.</p>
		<p>(b) Increase the number of new exporting firms located in developing regions<sup>d</sup> from 24 to 39 (<i>CPS 2007</i>).</p>	<p>No data.</p>

Pillar I: Enhancing broad-based and sustainable growth (continued)																								
Cluster <sup>a</sup>	Issues and Obstacles	Expected Outcomes <sup>b</sup> (at the end of CPS period)	Indicators/Progress to Date <sup>c</sup>																					
<ul style="list-style-type: none"> <li>Deepening the financial sector.</li> <li>Improving the regulatory framework for businesses, including informality and strengthening property rights.</li> <li>Supporting trade reform and growth of non-traditional exports.</li> <li>Support growth of agriculture/agribusiness,</li> <li>Support growth of tourism industry.</li> <li>Support growth of extractive industry.</li> </ul>	<p>Low rural electrification rates and low investment in the sector.</p> <p>Inadequate supply of formal new middle- and low-income housing.</p> <p>Limited public resources and short supply of serviced land for low-income housing.</p>	<p><u>Broad-based economic growth and access to labor markets for low-income families as evidenced by:</u></p> <p>a) Reduce informality rate from 60 to 51 percent (CPS 2007).</p>	No data.																					
		<p>b) Increase in the number of tourists that visit Peru annually from 1.3 million to 2 million (CPS 2007).</p>	<b>Achieved.</b> Tourist arrivals increased to 2 million in 2008																					
		<p>c) Increase the proportion of the population in the rural highlands with access to credit from 13.8 to 19 percent (CAS 2007–dropped).</p>	No data.																					
		<p><u>Progress in spreading the benefits of growth by meeting basic needs as seen by:</u></p> <p>a) Reduction in the Unmet Basic Needs Index from 42 to 36 percent for the entire population and from 72 to 62 percent for the rural areas (CPS 2007).</p>	<b>Achieved.</b> Reduction in the Unmet Basic Needs (At least 1 unmet basic needs service) declined from 36 in 2004 to 31 in 2008 for the entire population and from 64 in 2004 to 54 percent in 2008 for the rural areas (CPS 2007) (Source: ENAHO, INEI).																					
		<p>Increased (i) percentage of homes with access to safe water; and (ii) increased percentage of homes with access to sanitation (CAS 2003).</p> <p>b) Increased percentage of households with adequate water from 76 to 85 percent and sanitation services from 57 to 65 percent (CPS 2007).</p>	<p><b>Partially Achieved.</b></p> <table border="1"> <thead> <tr> <th>(%)</th> <th>2003</th> <th>2004</th> <th>2005</th> <th>2006</th> <th>2007</th> <th>2008</th> </tr> </thead> <tbody> <tr> <td>Water</td> <td>68.5</td> <td>68.0</td> <td>67.2</td> <td>68.6</td> <td>69.3</td> <td></td> </tr> <tr> <td>Sanit.</td> <td>49.4</td> <td>50.9</td> <td>51.3</td> <td>52.2</td> <td>53.3</td> <td>55.8</td> </tr> </tbody> </table> <p>(Source: ENAHO, INEI).</p>	(%)	2003	2004	2005	2006	2007	2008	Water	68.5	68.0	67.2	68.6	69.3		Sanit.	49.4	50.9	51.3	52.2	53.3	55.8
		(%)	2003	2004	2005	2006	2007	2008																
		Water	68.5	68.0	67.2	68.6	69.3																	
		Sanit.	49.4	50.9	51.3	52.2	53.3	55.8																
<p>c) Increased access to electricity in rural areas from 30 to 42 percent (CPS 2007, updated 2009, originally from 30 to 65 percent).</p>	<p><b>Achieved.</b></p> <table border="1"> <thead> <tr> <th>(%)</th> <th>2004</th> <th>2005</th> <th>2006</th> <th>2007</th> <th>2008</th> </tr> </thead> <tbody> <tr> <td>Rural</td> <td>32.8</td> <td>35.3</td> <td>40.7</td> <td>46.4</td> <td>51.2</td> </tr> </tbody> </table> <p>(Source: ENAHO, INEI).</p>	(%)	2004	2005	2006	2007	2008	Rural	32.8	35.3	40.7	46.4	51.2											
(%)	2004	2005	2006	2007	2008																			
Rural	32.8	35.3	40.7	46.4	51.2																			
<p>(i) Extreme poverty rate reduced from 24.4 percent in 2001 to 18 percent by 2006 (ENAHO 2006); (CAS 2003).</p>	<b>Achieved.</b> According to Central Bank data, extreme poverty was 13.7 percent in 2008.																							
<p>(ii) Proportion of the population below the poverty line reduced from 54.8 percent in 2000 to 45 percent in 2006 (CAS 2003).</p>	<p><b>Achieved.</b></p> <table border="1"> <thead> <tr> <th>(%)</th> <th>2004</th> <th>2005</th> <th>2006</th> <th>2007</th> <th>2008</th> </tr> </thead> <tbody> <tr> <td>Nat'l</td> <td>48.6</td> <td>48.7</td> <td>44.5</td> <td>39.3</td> <td>36.2</td> </tr> <tr> <td>Rural</td> <td>69.8</td> <td>70.9</td> <td>69.3</td> <td>64.6</td> <td>59.8</td> </tr> </tbody> </table> <p>(Source: ENAHO, INEI).</p>	(%)	2004	2005	2006	2007	2008	Nat'l	48.6	48.7	44.5	39.3	36.2	Rural	69.8	70.9	69.3	64.6	59.8					
(%)	2004	2005	2006	2007	2008																			
Nat'l	48.6	48.7	44.5	39.3	36.2																			
Rural	69.8	70.9	69.3	64.6	59.8																			
<p>(iii) Monthly income of the poorest quintile of the economically active population increased by 20 percent in real terms in 2006 (CAS 2003).</p>	No data.																							
<p><b>Making growth sustainable</b></p> <p><i>Management of water resources, biodiversity conservation, and forest cover, controlling air and water pollution, and sustainability of extractive industries.</i></p> <p><u>Clusters in CPE</u></p> <ul style="list-style-type: none"> <li>Ensuring the environmental sustainability of growth</li> </ul>	<p>Lack of an institutional and legal framework for the environmental sector.</p> <p>High costs of environmental degradation.</p> <p>Low public and private environmental expenditure.</p> <p>Weak institutional capacity for environmental and forest management and lack of capacity for environmental planning.</p>	<p><u>Improved management of natural resources as evidenced by:</u></p> <p>Reduced number of critically endangered species from 23 to 18 (CPS 2007–dropped).</p>	<p><b>No new information.</b> 23 species (2005) No new info. available</p> <p>Source: Universidad Agraria La Molina and INEI</p>																					
		<p>Decrease the maximum fish catch from 200,000 metric tons (MT) to below 150,000 MT (CPS 2007–dropped).</p>	<b>Achieved.</b> 2009 Adoption of Law 1084 that regulates anchoveta fishing quotas by vessels																					
		<p>Reduce the annual rate of deforestation below 150,000 ha (current estimate is 150,000 ha annually) (CPS 2007–dropped).</p>	<b>No data.</b> The National System of Environmental Information (SINIA) contains a 2000 estimate of the rate of deforestation of 261,000 hectares/year. The 2007 CAS, however, has a target of “reducing the annual rate of deforestation below 150,000 ha (current estimate is 150,000 ha annually)”. The WBG needs to take the availability of statistics into account when identifying monitoring indicators.																					

Pillar I: Enhancing broad-based and sustainable growth <i>(continued)</i>			
Cluster <sup>a</sup>	Issues and Obstacles	Expected Outcomes <sup>b</sup> (at the end of CPS period)	Indicators/Progress to Date <sup>c</sup>
	<p>Inadequate incentive framework at regional and local levels for improving long-term forest management</p> <p>Legacy of 850 mining polluting sites.</p> <p>Inadequate focus on long term climate change impacts.</p>	a) Implementation of post-license monitoring system by the Ministry of Environment ( <i>CPS 2007–added 2009</i> ).	Too early to tell.
		b) Strengthened institutional and legal framework for biodiversity conservation ( <i>CPS 2007–added 2009</i> ).	<b>Mostly Achieved.</b> Ministry of Environment has been created. National Service of Natural Protected Areas (SERNAP) is operational.
		Decrease the number of individuals that die prematurely each year from air pollution (current average is 39,000 individuals nationwide) ( <i>CPS 2007–dropped</i> ).	<b>Not achieved.</b> The incidence of acute respiratory disease increased by 21 percent. ( <i>Source: SINIA</i> ). SINIA reports the mortality of children under 5 from respiratory disease to have increased from 299 in 2002 to 640 in 2004, which points to the growing seriousness of this issue. Unfortunately, however, it is not possible to compare this data with the “current average of 3,900 individuals nationwide” referred to in the 2007 CAS, which was based on a background paper for the CAS.
		(c) Air quality data for the Lima-Callao Metropolitan region are widely published and disseminated ( <i>CPS 2007–added 2009</i> ).	<b>Achieved.</b> Information on air quality data is available at DIGESA’s website for the Lima-Callao Metropolitan Region.
		d) Air quality contingency plans are developed and implemented in the five most polluted cities ( <i>CPS 2007–added 2009</i> ).	<b>Partially Achieved.</b> Contingency plans for Arequipa, Ilo and La Oroya. Clean Air Action Plans for Iquitos, Chimbote, Trujillo and Ilo. Baseline value: Pollution contingency plans do not exist in Peru, except in La Oroya. Target: Contingency plans for Lima, Chimbote and Ilo.
		e) Ten priority mining environmental legacies are identified using technical criteria ( <i>CPS 2007–added 2009</i> ).	<b>Partially achieved.</b> Five MELs have been prioritized for 2010 in five watersheds (Mantaro, Llaucano, Apurimac, Ocona and Santa).
		f) Environmental participatory monitoring undertaken in at least 60 mining polluting sites ( <i>CPS 2007–added 2009</i> ).	<b>Too early to tell.</b> Baseline value: 35 community-based monitoring pilots are underway. Progress to date: Continuous monitoring of at least 40 sites as of September 2009.
g) Improved regulation of anchoveta fishing quotas ( <i>CPS 2007–added 2009</i> ).	<b>Achieved.</b> One hundred percent of anchoveta fleet now regulated under the quota system.		
<p>a. Text in italics indicates government’s own goals.</p> <p>b. Cluster outcomes have been adjusted to take into account the government’s revised social and economic targets. Some outcomes have been reformulated, some new ones have been introduced as reflected in the government’s plan, and some have been dropped because of lack of current relevance. New and reformulated outcomes introduced in this CPS progress report are especially related to improved management of natural resources, which reflects the government’s enhanced commitment to sustainable development. In addition, some new and reformulated outcomes have been included on economic and social development in order to reflect the introduction of results-based budgeting in public spending management, new standards of transparency of the Ministry of Education and the renewed efforts of the Ministry of Health to improve women and child health, especially in the poorest regions. When relevant, these are the outcomes reflected in the three DPL Programs (Fiscal, Social and Environmental).</p> <p>c. Milestones reported in this column, are those where progress has been made with respect to the original CPS. In some cases, milestones have been modified to reflect the new outcomes.</p> <p>d. Puno, San Martin, Madre de Dios, Huancavelica, Amazonas, Ayacucho, and Apurimac.</p>			

Pillar II: Enhancing human development

Cluster	Issues and Obstacles	Updated Cluster Outcomes (at the end of CPS period)	Indicators/Progress to Date																		
<p><b>Promoting and developing a new social contract in education, health, and nutrition</b></p> <p><i>Introduce standards and strengthen accountability mechanisms and support systems to improve results in education, health and nutrition</i></p> <p><u>Clusters in CPE</u></p> <ul style="list-style-type: none"> <li>• Expanding access to high-quality health services,</li> <li>• Expanding access to high-quality education services</li> <li>• Increasing efficiency of safety nets programs</li> </ul>	<p>Lack of sufficient and adequate human capital, and of initial support systems among the poor.</p> <p><u>Education:</u></p> <p>Low-quality, unequal, and deficient management and support systems, and lack of standards and mechanisms of accountability.</p> <p><u>Health:</u></p> <p>Maternal and child health indicators behind other Latin American countries, fragmented health system and limited access to health insurance and services.</p> <p><u>Nutrition:</u></p> <p>Persistently high malnutrition rates, particularly in poorest regions, and inefficient public nutrition programs.</p> <p><u>Social Assistance:</u></p> <p>Low expenditure in social assistance and inefficient social protection programs.</p>	<p><u>Strengthened accountability, support systems and results orientation in provision of basic social services, and more efficient social protection system.</u></p> <p>a) Reduce the proportion of students in “level 0” of national student census evaluation from 46 percent to 25 percent, and increase those in “levels 2 or 3” from 39 percent to 60 percent between 2004 and 2011<sup>a</sup> (<i>CPS 2007</i>).</p>	To be determined.																		
		<p>(i) Children completing primary and secondary education in 11 years or less increased from 20.9 percent in 2000 to 25 percent in 2006 (<i>CAS 2003</i>).</p>	<p><b>Achieved.</b> Percent of population completing secondary education (as percentage of population in age group):</p> <table border="1"> <thead> <tr> <th>Age group</th> <th>2005 (%)</th> <th>2008 (%)</th> </tr> </thead> <tbody> <tr> <td>17–19</td> <td>53.8</td> <td>60.7</td> </tr> <tr> <td>20–24</td> <td>67.1</td> <td>73.9</td> </tr> </tbody> </table> <p>Percent of enrolled students that are two or more years older than the established age for 5th (last) grade of secondary education:</p> <table border="1"> <thead> <tr> <th>School type</th> <th>2005 (%)</th> <th>2008 (%)</th> </tr> </thead> <tbody> <tr> <td>Public</td> <td>20.2</td> <td>16.4</td> </tr> <tr> <td>Private</td> <td>4.4</td> <td>3.6</td> </tr> </tbody> </table>	Age group	2005 (%)	2008 (%)	17–19	53.8	60.7	20–24	67.1	73.9	School type	2005 (%)	2008 (%)	Public	20.2	16.4	Private	4.4	3.6
		Age group	2005 (%)	2008 (%)																	
		17–19	53.8	60.7																	
		20–24	67.1	73.9																	
		School type	2005 (%)	2008 (%)																	
		Public	20.2	16.4																	
		Private	4.4	3.6																	
		<p>(ii) Children who are at the age-appropriate level in 6th grade increased from 51.3 percent in 2000 to 55 percent in 2006 (<i>CAS 2003</i>).</p>	<p><b>Achieved.</b> Percent of children with school delay (2 years or more) in 6th grade:</p> <table border="1"> <thead> <tr> <th>School type</th> <th>2005 (%)</th> <th>2008 (%)</th> </tr> </thead> <tbody> <tr> <td>Public</td> <td>23.4</td> <td>21.2</td> </tr> <tr> <td>Private</td> <td>3.1</td> <td>2.7</td> </tr> </tbody> </table>	School type	2005 (%)	2008 (%)	Public	23.4	21.2	Private	3.1	2.7									
		School type	2005 (%)	2008 (%)																	
Public	23.4	21.2																			
Private	3.1	2.7																			
<p>(iii) Sixty percent of ethnic minorities with access to bilingual education (<i>CAS 2003</i>).</p>	No data.																				
<p>Increase the percentage of 2nd graders that can read 60 words a minute (<i>CPS 2007–dropped</i>).</p>	No data.																				
<p>b) Increase in SIS affiliation rate for women of childbearing age in the ten poorest regions by 10 percentage points, and SIS expenditure on services in these 10 regions by 20 percent in real terms in 2006–08<sup>2</sup> (<i>CPS 2007</i>).</p>	No data.																				
<p>c) Increase coverage of IBs in the 10 poorest regions to reach 75 percent and nationwide rural coverage to reach 58 percent (<i>CPS 2007</i>).</p>	No data.																				
<p>Chronic malnutrition rate among children below age 5 reduced from 25 percent in 2000 to 20 percent in 2006 (<i>CAS 2003</i>); reduction in national chronic malnutrition from 24 to 15 percent in five years (<i>CPS 2007, updated 2009, originally from 24 to 19 percent</i>).</p>	<p><b>Achieved.</b> Chronic malnutrition rates have very recently decreased to 18.3 percent in 2009.</p>																				
<p>(i) Infant mortality rate reduced from 33/1,000 in 2000 to 24 per thousand in 2006; (<i>CAS 2003</i>).</p>	<p><b>Achieved.</b> Infant mortality declined to 17.3 births/1,000 births in 2007.</p>																				

Pillar II: Enhancing human development <i>(continued)</i>			
Cluster	Issues and Obstacles	Updated Cluster Outcomes (at the end of CPS period)	Indicators/Progress to Date
		(ii) Maternal mortality rate reduced from 185 in 2000 to 160/100,000 live births in 2006 ( <i>CAS 2003</i> ).	<b>Partially achieved.</b> Maternal mortality rate reduced to 164/100,000 births.
		(iii) Average of institutional births increased from 57.9 percent in 2000 to 61 percent in 2006 ( <i>CAS 2003</i> ).	<b>Achieved.</b> Institutional births reached 76 percent in 2007 and 79 percent in 2009. (%) <u>2000</u> <u>2005</u> <u>2006</u> <u>2007</u> <u>2008</u> <u>2009</u> 48.7 72.1 — 76 80.0 79.1
<p>a. The Ministry of Education has defined and publicized a transparent standard for second grade reading comprehension that comprises three levels of achievements. Baseline corresponds to 2004 education census evaluation.</p> <p>b. The Ministry of Health has targeted the SIS affiliation rate for women of childbearing age in the ten poorest regions as a strategic performance indicator. Baseline: 121,000 women, approximately 8 percent of the population, and S/30 mn in 2006.</p>			

Pillar III: Strengthening public institutions			
Cluster	Issues and Obstacles	Updated Cluster Outcomes (at the end of CPS period)	Milestones progress to date
<p><b>Modernizing state institutions</b></p> <p>Managing decentralization, strengthening public sector management, improving justice and reducing corruption</p> <p>Clusters in CPE</p> <ul style="list-style-type: none"> <li>• Strengthening public administration at both central and sub-national levels</li> <li>• Improving the judicial system.</li> </ul>	<p>Slow implementation of decentralization process and in transference of responsibilities</p> <p>Sub-national governments highly dependent on transfers from the central government, Fondo de Compensación Municipal (FONCOMUN)—Municipal Compensation Fund, and incomes derived from natural resources.</p> <p>Lack of coordination and/or standardization of public purchases.</p> <p>Existing channels of civil participation have no mandate to focus on accountability.</p> <p>High perception of corruption and judiciary's low technical capacity.</p> <p>Limited accountability, indicators of judicial productivity are not published.</p> <p>Economic, social, institutional and ethno-cultural barriers.</p>	<p><u>General improvement of social services:</u></p> <p>(i) Twenty percent improvement in the index of user perception regarding the quality of public services (<i>CAS 2003</i>).</p>	No data.
		<p>(ii) Index of public perception of transparency in public service improved by 20 percent (<i>CAS 2003</i>).</p>	No data.
		<p><u>Consolidation of decentralization processes as seen by:</u> a) Increase in number of local and regional governments accredited from 310 to 600 (<i>CPS 2007</i>).</p>	Achieved.
		<p>(i) Increasing percent of public investment and current expenditures implemented by the municipalities; (<i>CAS 2003</i>).</p>	Achieved.
		<p><u>Improved public sector management as evidenced by:</u></p> <p>b) Introduction of Results-Based Budgeting as a tool to improve the efficiency of public spending (<i>CPS 2007</i>).</p>	Partially achieved.
		<p>(iii) Increase in number of provinces with plans and budgets determined with community participation (<i>CAS 2003</i>).</p>	Achieved.
		<p>c) Increase in the number of regional and local governments preparing budgets following participatory budgeting norms from 425 to 725 (<i>CPS 2007</i>).</p>	Achieved.
		<p>(ii) Twenty percent improvement in the index of user perception regarding the quality and transparency of public services (<i>CAS 2003</i>).</p>	No data.
		<p><u>Improved perceptions of the rule of law and access to justice</u></p> <p>d) Fifty-five percent of the clients are satisfied within the jurisdictional institutions that are implementing management improvements (<i>CPS 2007</i>).</p>	No data.
		<p><u>Justice:</u> Average months of detention without trial is reduced (<i>CAS 2003</i>).</p>	No data.
<p>Notes: CPE = Country Program Evaluation; CPS = Country Partnership Strategy; DIGESA = General Directorate of Environmental Health; ENAHO = Annual Household Survey; FONCOMUN = Municipal Compensation Fund; FTA = free trade agreement; GDP = gross domestic product; IMD = International Institute for Management Development (Switzerland); IB = International Baccalaureate; INEI = National Statistics and Information Institute; SERNAP = Bolivian National Service for Protected Areas; SINIA = National Environmental Information System; SIS = Comprehensive Health Insurance System.</p>			

## Annex D: List of People Met

Name	Title/Organization
<b>GOVERNMENT</b>	
Vanessa Vereau	Viceministra Ministerio del Ambiente
Raul Dante Roca Pinto	Director General de Calidad Ambiental, Ministerio del Ambiente
Ysabel Montalvo Figueroa	Coordinadora en Gestion de Substancias Quimicas y Riesgo Ambiental, Ministerio del Ambiente
Jose Antonio Gonzalez Norris	Director de Cooperacion y Negociacion Internacional, Ministerio del Ambiente
Eduardo Durand López Hurtado	Director General de Cambio Climatico, Desertificacion y Recursos Hidricos, Ministerio del Ambiente
Maria Luisa del Rio	Director for Biological Diversity Ministerio del Ambiente
Fernando Leon Morales	Director General de Evaluacion, Valoracion y Financiamiento del Patrimonio Natural, Ministerio del Ambiente
Luis Alfaro	Director Servicio Nacional de Areas Naturales Protegida por el Estado SERNANP, Ministerio del Ambiente
Marcos Pastor	Director de Gestión del Areas Naturales Protegidas ANP
Walter García Arata	Presidente del Organismo de Evaluación y Fiscalización Ambiental
Huber Valdivia Pinto	Viceministro, Ministerio de Agricultura
Juan Carlos Viladegut	Asesor del Despacho Ministerial, Ministerio de Agricultura
Jorge Zuñiga Morgan	Director Ejecutivo (e), Programa Subsectorial de Irrigaciones, Ministerio de Agricultura
Jorge Mendoza Torres	Director de Infraestructura de Riego, Programa Subsectorial de Irrigaciones, Ministerio de Agricultura
Liliana Miranda	Jefa de Unid. De Medición de Calidad
Marco Umpire Lopez	Especialista de la Dirección de Agronegocios, Dirección General de Competitividad Agraria, Ministerio de Agricultura
Carmen Rosa Chavez	Especialista de la Dirección de Promoción de la Competitividad, Ministerio de Agricultura
Jose Fernando Barturen Torres	Dirección de Promoción de la Competitividad, Ministerio de Agricultura
Orlando Chirinos	Director de la Unidad de Inversión Sectorial, Ministerio de Agricultura
Arturo Pacheco Cárdenas	Jefe de la Unidad de Programas, Proyectos y Monitoreo—AGRORURAL, Ministerio de Agricultura
Carlos Herrera Santibañez	Jefe de la Oficina de Planificación—AGRORURAL, Ministerio de Agricultura
Rodolfo Beltrán Bravo	Director Ejecutivo AGRORURAL, Ministerio de Agricultura
Ismael Benavides Ferreyros	Former Minister of Agriculture
Abelardo de la Torre Villanueva Diaz	Jefe Administracion Nacional de Aguas (ANA)
Milton Monge	Director Ejecutivo ALIADOS
Javier Ramirez Gastón Roe	Director Ejecutivo INCAGRO
Ernesto Barreda Tamayo	Director General de Hidrocarburos, Ministerio de Energía y Minas

Roxana Pareja	Asesora del Despacho Ministerial Cooperacion Internacional, Ministerio de Energía y Minas
Guillermo Shinno	Gerente de Fiscalización Ambiental en Minería OSINERGMIN
Julio Salvador Jacome	Gerente de Fiscalización Ambiental en Gas Natural OSINERGMIN
Juan Alvites	Coordinador General de Saneamiento Rural PRONASAR Ministerio de Vivienda
Omar Quesada	Director Ejecutivo, COFOPRI
Cesar Berrios Ordóñez	Coordinador de Monitoreo y Evaluación, Proyecto Consolidación de los Derechos de Propiedad Inmueble, COFOPRI
Daniel Vera Ballón	Jefe de Proyecto PROVIAS NACIONAL Ministerio de Transportes y Comunicaciones
Horlando Terrones Salinas	Gerente de la Unidad Gerencial de Desarrollo Institucional, PROVIAS DECENTRALIZADO, Ministerio de Transporte y Comunicaciones
Edgar Quispe	Former Jefe de Proyecto PROVIAS, Ministerio de Transportes y Comunicaciones
Idel Vexler	Viceministro, Ministerio de Educación
Javier Vega Díaz	Jefe Oficina de Planificación Estratégica y Medición de la Calidad Educativa, Ministerio de Educación
José Luis Paco	Jefe Unidad de Programación, Oficina de Planificación estratégica y medición de la calidad educativa, Ministerio de Educación
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# Comments from the Government



PERÚ

MINISTERIO DE ECONOMÍA Y FINANZAS

DIRECCIÓN EJECUTIVA

"DECENIO DE LAS PERSONAS CON DISCAPACIDAD EN EL PERÚ"  
"AÑO DE LA CONSOLIDACIÓN ECONÓMICA Y SOCIAL DEL PERÚ"

Lima, 01 JUN 2010

MERCEDES ARÁDZ FERNÁNDEZ  
MINISTRA

OFICIO N° 593-2010-EE/10

Señor  
**ALI KHADR**  
Senior Manager  
**INDEPENDENT EVALUATION AND REGIONAL RELATIONS**  
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Asunto : Reporte "Peru: Country Program Evaluation for the World Bank Group, 2003-2009"

Referencia : Carta del IEG de fecha 12.05.2010

Tengo el agrado de dirigirme a usted con relación al documento de la referencia, mediante el cual solicite a consideración del Gobierno Peruano, el reporte "Peru: Country Program Evaluation for the World Bank Group, 2003-2009", elaborado por el Grupo de Evaluación Independiente (IEG) del Banco Mundial (WBG).

Al respecto, este Ministerio ha elaborado el Informe N° 089-2010-EE/55.10, el cual considera que las lecciones y las recomendaciones vertidas en el mencionado reporte, contribuirán de manera significativa en el aprendizaje de las entidades del WBG en el desarrollo de sus países miembros como el Perú. En nuestro caso, dichos resultados se conjugan positivamente con los intereses de desarrollo que tiene este país. Asimismo, se sugiere tomar las recomendaciones de la Dirección General de Asuntos de Economía Internacional, Competencia e Inversión Privada, Dirección Nacional de Endeudamiento Público y Dirección General de Asuntos Económicos y Sociales de este Ministerio, de tal manera que complemente lo expuesto en el reporte.

Sin otro particular, hago propicia la oportunidad para expresarle mi más alta y distinguida consideración.

Atentamente,



MINISTERIO DE ECONOMÍA Y FINANZAS  
DIRECCIÓN GENERAL DE ASUNTOS ECONÓMICOS Y SOCIALES

"DECENIO DE LAS PERSONAS CON DISCAPACIDAD EN EL PERÚ"  
"AÑO DE LA CONSOLIDACIÓN ECONÓMICA Y SOCIAL DEL PERÚ"

INFORME N° 089-2010-EE/55.10

A : Señor  
**CARLOS CASAS TRAGODARA**  
Viceministro de Hacienda

Asunto : Reporte "Peru: Country Program Evaluation for the World Bank Group, 2003-2009"

Referencia : Carta del IEG de fecha 12 mayo de 2010

Fecha : Lima, 01 JUN. 2010

Tengo el agrado de dirigirme a usted con relación a la carta de la referencia, mediante la cual el Grupo de Evaluación Independiente (IEG) del Banco Mundial (WBG) remite a este Ministerio el mencionado documento para comentarios y recomendaciones.

Al respecto, se informa lo siguiente:

## I. ANTECEDENTES

1. El IEG solicita recibir comentarios respecto a los resultados encontrados en el citado documento así como el rol del GBM en el Perú.
2. El IEG es un grupo independiente del Banco Mundial (BM) que reporta directamente al Directorio Ejecutivo del BM y que se encarga de reforzar evaluaciones de los programas de asistencia que el GBM implementa en un determinado país, así como también, evaluaciones del desempeño del GBM para el logro de los objetivos de dichos programas de asistencia, llamadas "Evaluación de Programa País".
3. De acuerdo a lo informado por el IEG, la Evaluación de Programa País tiene como objetivo proporcionar aprendizaje de la experiencia, proporcionar una base objetiva para evaluar los resultados del trabajo del GBM y designar responsabilidades en el logro de sus objetivos. También mejora el trabajo del GBM debido a que identifica durante las enseñanzas aprendidas y el estructurar recomendaciones que se sustentan en los resultados de las evaluaciones.
4. Cabe señalar que, la Evaluación de Programa País califica sólo el resultado del programa de asistencia del GBM y no describe las acciones de desarrollo general del País, si bien los últimos son muy pertinentes a la hora de juzgar los resultados del programa.

## II. ANÁLISIS

Al respecto, esta Dirección ha consolidado los comentarios y recomendaciones de la Dirección General de Asuntos de Economía Internacional, Competencia e Inversión Privada, y de la Dirección Nacional de Endeudamiento Público.

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MINISTERIO DE ECONOMÍA Y FINANZAS  
DIRECCIÓN GENERAL DE ASUNTOS ECONÓMICOS Y SOCIALES

"DECENIO DE LAS PERSONAS CON DISCAPACIDAD EN EL PERÚ"  
"AÑO DE LA CONSOLIDACIÓN ECONÓMICA Y SOCIAL DEL PERÚ"

## 1. Dirección General de Asuntos de Economía Internacional, Competencia e Inversión Privada (DGAIECIP)

Se evaluó las secciones C y H del capítulo 3 sobre el mejoramiento del clima de negocios y sobre la sostenibilidad ambiental del crecimiento, respectivamente:

- Con relación al mejoramiento del clima de negocios, esta Dirección no tiene comentarios que formular, dado que en este documento se describen las acciones que el Banco Mundial (BM) ha realizado en el país y como estas contribuyeron en mejorar el marco regulatorio.
- Por otro lado, la sostenibilidad ambiental del crecimiento, en el último párrafo del numeral 3.60 se concluye en lo siguiente: "While progress was made in expanding Protected Area (PA) coverage, Peru currently has just 19 million its 56 million hectares of forests under PA status, compared to a MINAM target of 54 million hectares."

Al respecto, el Ministerio del Ambiente (MINAM) priorizó la conservación de 54,8 millones de hectáreas de bosques del Perú, las cuales incluyen bosques en áreas naturales protegidas, Bosques en reservas territoriales puestas a disposición de comunidades nativas y campesinas, áreas de concesiones maderables y no maderables (como ecotono), y bosques de producción permanente disponibles para futuras concesiones. El compromiso del MINAM consiste en que estas zonas boscosas se mantengan como tal, evitando su cambio de uso para fines agropecuarios así como su deforestación para la realización de otras actividades (como minería o hidrocarburos), haciendo al bosque más atractivo y competitivo, asegurando su uso adecuado y prestando servicios ambientales globales como sumideros de carbono, conservación de biodiversidad y equilibrio de agua en cuencas altas. Por lo tanto, es un error considerar en el texto que el objetivo del MINAM es tener 54 millones de hectáreas bajo el status de Área Protegida.

Recomendación: eliminar el texto citado anteriormente entre comillas.

## 2. Dirección Nacional de Endeudamiento Público (DNEP)

Con relación a los resultados de la evaluación realizada por la IEG, esta Dirección considera que las calificaciones, secciones y las recomendaciones vertidas en el documento, contribuirán de manera significativa en el aprendizaje del GBM en beneficio de sus países miembros, toda vez que, en el caso, dichos resultados se conjugan positivamente con los intereses de desarrollo del Perú. En ese sentido esta Dirección Nacional continúa con su opinión favorable sobre el documento "Perú: Evaluación del Programa País del GBM".

Pág. 2 de 5

**3. Dirección General de Asuntos Económicos y Sociales**

Se evaluó el capítulo 3 del documento. Al respecto, el análisis macroeconómico y financiero de la economía local se encuentran en línea con lo considerado por esta Dirección.

**Recomendación:** En la página 17, el año correspondiente a la cifra de 24% de la deuda pública del país, no es el 2007 sino el 2008.

Con relación al Capítulo 4, se sugiere tomar en cuenta lo siguiente.

**"Sobre la expansión de los servicios de salud de calidad"**

Página 51 y 52.

1. Numerales 4.1 y 4.2. En general, se sugiere mejorar la presentación de la parte descriptiva de la evolución de los indicadores de salud, dado que se pierde la continuidad del análisis. Por ejemplo, en el caso del sistema de seguros de salud solo se los menciona para el periodo alrededor del año 2000 y no se hace seguimiento a partir del año 2003, más aún cuando al 2009 existe notables avances a la fecha en el nivel de asegurados entre la población (más del 60% de la población ya cuenta con algún seguro de salud).
2. Asimismo, en el numeral 4.1 se sugiere referirse al Seguro Integral de Salud (SIS) y no al Ministerio de Salud como el sistema de seguro público focalizado que forma parte del sector.
3. Se recomienda incorporar en el análisis del numeral 4.1 la importancia relativa del SIS y EsSalud (ver siguiente tabla) dado que estos representan el mayor porcentaje de población asegurada.

**Población asegurada en un seguro de Salud**  
(% de la población)

	2003	2009
Seguro Integral de Salud	20.0%	36.6%
EsSalud	17.3%	21.7%
No está afiliado a un seguro	36.6%	39.6%

Fuente: ENAHO INEI.

4. En el numeral 4.2 sobre la expansión de los servicios de salud, si bien se detallan un conjunto de indicadores que han tenido importantes avances, pero de manera desigual, no se mencionan los principales factores de estas mejoras; y sobre todo, en que zonas han ocurrido.
5. En el numeral 4.4 sobre los CLAS (Comités Locales de Administración de Salud), se sugiere mencionar su importancia relativa respecto del total de establecimientos de salud, así como cuál es su ámbito de intervención.

**"Sobre la expansión de los servicios educativos de calidad"**

Página 53 y 54

1. El numeral 4.7 en relación a la calidad de la educación primaria, se sugiere considerar los resultados de la Evaluación Censal a Estudiantes del Ministerio de Educación. Esta evaluación considera logros en comprensión lectora y en lógica matemática, de la cual se tienen resultados hasta el año 2009.

**Resultados de la ECE 2009**  
(%)

Comprensión lectora					
Nivel	Nacional	Estatal	No estatal	Urbano	Rural
Nivel 2: Logran los aprendizajes del grado	23,7	17,6	43,0	25,9	11,6
Nivel 1: En proceso del logro esperado	33,6	24,6	49,0	26,1	48,2
Debajo del Nivel 1	23,3	27,6	7,4	15,0	39,9
Matemática					
Nivel	Nacional	Estatal	No estatal	Urbano	Rural
Nivel 2: Logran los aprendizajes del grado	13,5	11,0	23,2	16,8	7,1
Nivel 1: En proceso del logro esperado	37,3	35,3	44,9	41,7	28,9
Debajo del Nivel 1	49,2	53,8	31,9	41,5	64,0

Fuente: UMC MINEDU 2009

2. En el numeral 4.7 sobre las mejoras en la infraestructura, se sugiere considerar que en los últimos 3 años mediante el Programa de Infraestructura Educativa se han asignado alrededor de S/ 868 millones de soles directamente a las instituciones educativas a ser administradas por el director de la institución. Además, sobre las mejoras de la calidad educativa, se vienen implementando el Sistema Nacional de Evaluación y Acreditación de la Calidad Educativa (SINEACE), la implementación de la carrera pública magisterial, el programa de alfabetización, el incremento de las horas lectivas, el programa de laptops para maestros y estudiantes, el programa de nacional de capacitación docente, las evaluaciones a alumnos y maestros, la implementación del Programa de Infraestructura Educativa, la recuperación de instituciones educativas emblemáticas.
3. En el numeral 4.8, sólo se menciona el gasto en educación como porcentaje de PIB, por lo que se sugiere incorporar que el gasto en educación ha tenido un importante incremento en el periodo de tiempo de análisis (del mismo modo, en salud). Asimismo, se menciona la educación superior de manera general; sin embargo, constituye un importante punto por mejorar en lo que se refiere tanto a acceso de la población como a calidad de la enseñanza. Se sugiere considerarlo en su análisis.

**"Eficiencia en las redes de protección social"**

Página 57 y 58

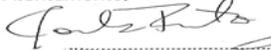
1. En el numeral 4.16 en los programas alimentarios y nutricionales solo se considera al Vaso de Leche; sin embargo, existen diversos programas cuya población objetivo es la maternidad infantil que podrían ser considerados en el análisis. Asimismo, no se mencionan los programas de empleo. En general, el análisis se podría ampliar en tanto solo considera algunos programas.
2. En el numeral 4.17 se sugiere incorporar al Sistema de Focalización de Hogares-SISFOH como herramienta para identificar adecuadamente a la población objetivo y potenciales beneficiarios a fin de reducir las filtraciones y subcobertura. Asimismo, se encuentra en proceso de implementación el Presupuesto por Resultados.

**En general.** Se sugiere la actualización de todos los indicadores del capítulo 1 y del capítulo 4 provenientes de la Encuesta Nacional de Demografía y Salud Familiar (ENDES) y de la Encuesta Nacional de Hogares (ENAHO) al 2009.

**III. CONCLUSIÓN**

En general, el reporte elaborado por la IEG sobre las calificaciones, lecciones y recomendaciones realizadas contribuirá con el aprendizaje del CSEM, en beneficio del Perú. Asimismo, se sugiere tomar en cuenta las recomendaciones de las diferentes direcciones de este Ministerio.

Atentamente,

  
**JUAN CARLOS PRIETO BALBUENA**  
 Director General de  
 Asuntos Económicos y Sociales

(UNOFFICIAL TRANSLATION)

REPUBLIC OF PERU

PERU Ministry of Economics and Finance

Office of the Minister

“DECADE OF PERSONS WITH DISABILITIES IN PERU”

“YEAR OF THE ECONOMIC AND SOCIAL CONSOLIDATION OF PERU”

Lima, June 1, 2010

*Mercedes Aràoz Fernández, Minister*

Official Communication No. 593-2010-EF/10

Mr. ALI KHADR

Senior Manager

COUNTRY EVALUATION AND REGIONAL RELATIONS

INDEPENDENT EVALUATION GROUP—THE WORLD BANK GROUP

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Washington DC 20433, USA

Fax: (202) 522-1642/ (202) 477-6391

Subject: Report “Peru: Country Program Evaluation for the World Bank Group, 2003–2009”

Reference: Letter from the IEG dated May 12, 2010

I am pleased to write to you with respect to the reference document by which you submitted for consideration by the Peruvian Government the report entitled “Peru: Country Program Evaluation for the World Bank Group, 2003–2009,” prepared by the Independent Evaluation Group (IEG) of the World Bank Group (WBG).

With respect to that report, this ministry has drafted Report No. 089-2010-EF/65.10, which considers that the lessons and recommendations presented in the aforementioned report will make a significant contribution to the learning process under way among the components of the WBG, which will benefit its member countries, such as Peru. In our case, those results dovetail positively with this country’s development interests. We also suggest that the recommendations made by this ministry’s Directorate General of International Economic Affairs, Competition, and Private Investment [*Dirección General de Asuntos de Economía Internacional, Competencia e Inversión Privada*]; National Directorate of Public Debt [*Dirección Nacional de Endeudamiento Público*]; and Directorate General of Economic and Social Affairs [*Dirección General de Asuntos Económicos y Sociales*] be taken into account, so that they complement what was stated in the report.

There being no further matters to discuss, I take this opportunity to express my highest consideration.

Very truly yours

[signed] Mercedes R. Aràoz

## REPORT NO. 089-2010-EF/65.10

To: Mr. CARLOS CASAS TRAGODARA  
Vice Minister of Finance  
Subject: Report: “Peru: Country Program Evaluation for the World Bank Group, 2003–2009”  
Reference: Letter from the IEG dated May 12, 2010  
Date: Lima, June 1, 2010

I am pleased to write to you with respect to the referenced letter, by which the Independent Evaluation Group (IEG) of the World Bank Group (WBG) forwarded the mentioned document to this Ministry for comments and recommendations.

In that respect, we wish to convey the following information

### **I. BACKGROUND**

1. The IEG requested comments on the findings in the mentioned documents, as well our views on the WBG’s role in Peru.
2. **The IEG is a group that is independent of the World Bank (WB)** and reports directly to the WB Board of Executive Directors. It is responsible for **evaluating the assistance programs that the WBG implements** in a given country, as well as for evaluating WBG performance in achieving the objectives of said assistance programs. Those are known as “Country Program Evaluations.”
3. According to the IEG, **the objective of the Country Program Evaluation is to foster learning from experience, provide an objective basis for assessing the results of WBG work, and identify the factors responsible for the achievement of its objectives.** It also enhances the work of the WBG, because it identifies and publicizes the lessons learned and organizes the presentation of the recommendations that are based on the findings of the evaluations.
4. It must be pointed out that the Country Program Evaluation rates only the outcomes of the WBG assistance program, not the results of the general development of the country, although the latter are very pertinent when it comes time to judge the results of the program.

### **II. ANALYSIS**

This Directorate has consolidated the comments and recommendations made by the Directorate General of International Economic Affairs, Competition, and Private Investment and the National Directorate of Public Debt.

#### **I. The Directorate General of International Economic Affairs, Competition, and Private Investment (DGAEICIP)**

This office evaluated **Sections C and H of Chapter 3 on improving the climate for business and on environmental sustainability of growth**, respectively.

- With respect to **improvement of the climate for business**, this Directorate has no comments, since the document describes the actions that the World Bank (WB) has taken in Peru and how these have helped improve the regulatory framework.
- On the other hand, with regard to **environmental sustainability of growth**, the final paragraph of paragraph 3.60 concludes that: “While progress was made in expanding Protected Area (PA) coverage, Peru currently has just 18 million of its 66 million hectares of forests under PA status, compared to a Ministry of Environment target of 54 million hectares.”

On this point, the Ministry of Environment has assigned priority to conservation of 54.8 million hectares of forests in Peru, including forests in natural protected areas, forests in territorial reserves made available to native and farming communities, areas of lumber-yielding concessions, non-lumber-yielding areas (such as those intended for ecotourism), and permanent production forests available for future concessions. The Ministry of Environment is committed to seeing that these forested zones be maintained as such by preventing changes in their use, whether for agricultural purposes or deforestation for pursuit of other activities (such as mining or hydrocarbon exploitation). This will make the forests more attractive and competitive, ensuring their appropriate use and enabling them to perform global environmental services as carbon sinks and as mechanisms for preservation of biodiversity and water equilibrium in high

basins. Therefore, **the statement in the text that the Ministry of Environment’s objective is to have 54 million hectares under Protected Area status is mistaken.**

**Recommendation:** delete the text quoted above, between commas.

2. **National Directorate of Public Debt (DNEP)**

With respect to the results of the evaluation by the IEG, this office believes that the ratings, lessons, and recommendations presented in the document will make a significant contribution to the learning process under way at the WBG, which will benefit its member countries, inasmuch as in our case those outcomes dovetail positively with Peru’s development interests. In this regard, this National Directorate wishes to inform the IEG of the WBG of its favorable opinion on the document entitled “Peru: Country Program Evaluation for the World Bank Group.”

3. **Directorate General of Economic and Social Affairs**

- **Chapter 3** of the document was evaluated. In this regard, the macroeconomic and financial analysis of the local economy was found to be in line with the positions of this Directorate.

**Recommendation:** On page 17, the year corresponding to the figure of 24 percent of the public debt of this country is not 2007, but 2008. [Text referred to: “On the fiscal side, substantial progress was achieved in debt reduction, with total public debt declining from 48 percent of GDP in 2003 to 24 percent in 2007.”]

- With respect to **Chapter 4**, we suggest taking the following into account:

**“Expanding access to high quality health care services.”**

Pages 51 and 52

1. Paragraphs 4.1 and 4.2. In general, we suggest improving the presentation of the portion that describes the trend in health indicators, since the continuity of the analysis has been lost. For example, in the case of the health insurance system, only the period around the year 2000 was mentioned. There was no follow-up after 2003—especially when by 2009 notable advances had been made in the percentage of insured persons among the population (more than 60% of the population now has some kind of health insurance).
2. Similarly, under paragraph 4.1 we suggest that the Comprehensive Health Insurance System [*Seguro Integral de Salud—SIS*] be mentioned instead of the Ministry of Health as a supplier in the sector.
3. It is recommended that the relative importance of the SIS and EsSalud systems be incorporated into the analysis of paragraph 4.1 (see table below), since these two represent the highest percentage of the insured population.

**Population Covered by a Health Insurance Policy**  
(% of the population)

	<b>2003</b>	<b>2009</b>
Comprehensive Health Insurance System—SIS	20.0%	36.6%
EsSalud	17.2%	21.1%
Not affiliated with an insurance policy	59.6%	38.8%

*Source:* CENAH O INEI.

4. Under paragraph 4.2 regarding expansion of health services, although details are provided on a group of indicators on which important progress has been made—albeit unequally so—the key factors behind these improvements are not mentioned nor, especially, are the regions identified in which they occurred.
5. Under paragraph 4.4 regarding the community-managed health clinics [*Comités Locales de Administración de Salud—CLAS*], we suggest mentioning their relative importance with respect to total number of health care establishments and indicating the scope of their intervention.

## “Expanding access to high quality education services”

Pages 53 and 54

1. In paragraph 4.7 pertaining to quality of primary education, we suggest considering the results of the census-based Evaluation of Students by the Ministry of Education [*Evaluación Censal a Estudiantes del Ministerio de Educación- ECE*]. This assessment measures achievement in reading comprehension and mathematical logic, and results are available up to 2009.

### Results of the 2009 ECE (%)

Reading Comprehension					
Level	National	Public	Private	Urban	Rural
Level 2: Achievement At Grade Level	23.1	17.8	43.0	28.9	11.6
Level 1: In Process Of Reaching Expected Achievement	53.6	54.6	49.6	56.1	48.5
Below Level 1	23.3	27.6	7.4	15.0	39.9

Mathematics					
Level	National	Public	Private	Urban	Rural
Level 2: Achievement at grade level	13.5	11.0	23.2	16.8	7.1
Level 1: In process of reaching expected achievement	37.3	35.3	44.9	41.7	28.5
Below Level 1	49.2	53.8	31.9	41.5	64.4

Source: UMC MINEDU 2009

2. Under paragraph 4.7 on infrastructure improvements, we suggest considering that in the past three years, through the educational Infrastructure Program, approximately S/. 868 million has been allocated directly to educational institutions. These funds are to be administered by the institution director. Furthermore, regarding improvements in educational quality, the country has been implementing a National System for Evaluation and Accreditation of Educational Quality [*Sistema Nacional de Evaluación y Acreditación de la Calidad Educativa-SINEACE*]. Other programs include a career structure for teachers, a literacy program, an increase in classroom hours, a program to provide laptops to teachers and students, a national teacher training program, a mechanism for evaluating student and teachers, the implementation of the Educational Infrastructure Program, and rehabilitation of emblematic educational institutions.

3. Under paragraph 4.8, mention is made of expenditures on education only as a percentage of GDP. Therefore we suggest including a statement that an important increase in spending on education occurred during the time frame being analyzed (and, similarly, in spending on health). In addition, higher education is mentioned in general terms; however, it is an important topic because of the improvement in both access by the population and quality of education. We suggest this be considered in your analysis.

## “Increasing the efficiency of social safety net programs”

Pages 57 and 58

1. Under paragraph 4.16, which discusses food and nutrition programs, the only one mentioned was the Glass of Milk [*Vaso de Leche*]. However, there are several programs that focus on mothers and young children that could be considered in the analysis. Similarly, no mention was made of the employment programs. In general, the analysis could be expanded, since only a few programs were considered.

2. Under paragraph 4.17, we suggest including the Focus on Homes System [*Sistema de Focalización de Hogares—SISFOH*] as a tool for properly identifying the target population and potential beneficiaries in order to reduce leakages

and under-coverage. In addition, the Performance Budgeting System [*Presupuesto por Resultados*] is in the process of implementation.

**In General.** We suggest that all indicators in Chapter 1 and Chapter 4 that were obtained from the National Survey of Demography and Family Health [*Encuesta Nacional de Demografía y Salud Familiar—ENDES*] and the National Survey of Homes [*Encuesta Nacional de Hogares—ENAHO*] be updated to 2009.

### **III. CONCLUSION**

In general, the report by the IEG about the ratings, lessons learned, and recommendations made will contribute to the learning process under way at the WBG, to the benefit of Peru. Likewise, we suggest taking into account the recommendations made by the different directorates of this Ministry.

Very truly yours

[signed] Carlos Prieto Balbuena, Director General of Economic and Social Affairs

## Chapter 1

1. United States Geological Survey, *2007 Minerals Yearbook*. The largest producer of copper was Chile. The four largest gold producers were Australia, South Africa, China, and the United States.
2. FAO. 2007. In 2007, Peru was the third largest fish producer in the world after China and India.
3. Ministry of Environment (Peru) 2008.
4. The World Bank currently classifies countries with a 2008 GNI per capita of \$3,856–\$11,905 as upper-middle-income.
5. Standard and Poor's, *Peru: Major Rating Factors*.

## Chapter 2

1. The FY07 strategy document was presented as a Country Partnership Strategy (CPS). Operations Policy and Country Services (OPCS) does not maintain a formal distinction between CPSs and Country Assistance Strategies (CASs), and in this review CPS is used interchangeably with CAS.

## Chapter 3

1. According to the World Bank Group 2003 CAS, for example, there were “strong social and political pressures throughout the country for . . . subsidies or special tax exemptions, larger social benefits, reinstating or compensation of workers fired from public entities, and an end to further privatization and concession of infrastructure and public services.”
2. Year-to-year changes in open unemployment rates also show that Peru has fared better than most countries. Open unemployment rates increased by about 10 percent in Peru compared to 50 percent in the United States and in the small open economies in Asia such as Singapore, Hong Kong SAR, China, and Taiwan (China). Chile and Mexico registered increases of less than 30 percent while Brazil, Colombia, and Uruguay showed unemployment increases of less than 10 percent.
3. Consensus Economics, “Consensus Forecast.”
4. For example, revenue from extractive industries increased from 5 percent of tax revenue in 2003 to 21 percent in 2008.
5. The 2009 Microscope Index is a pilot index developed by the Economist Intelligence Unit (EIU) with the support of IADB, the Corporación Andina de Fomento (CAF) (An-

dean Development Corporation), and IFC. The index consists of a scorecard weighing 13 indicators to measure conditions for microfinance. The indicators are grouped into three categories: regulatory framework, investment climate, and institutional development.

6. Conger, Inga, and Webb, *El Árbol de la Mustafa*.
7. As of May 2009, there were approximately 116,000 mortgages in Peru, compared to 837,000 in Chile, a country with roughly half the population of Peru (Peru Central Bank-SBS).
8. Visit ASBANC (Asociación de Bancos del Perú—Peruvian Banks Association) at [http://www.asbanc.com.pe/index2\\_2.htm](http://www.asbanc.com.pe/index2_2.htm).
9. Funded under the Financial Sector Reform and Strengthening (FIRST) Initiative, <http://www.firstinitiative.org>.
10. For example, in 2002, Peru's VAT rate at 19 percent was 4 percent higher than the Latin America and Caribbean average. Peru's corporate and individual income tax rates were both 30 percent, compared to Latin America and Caribbean averages of 20 percent for corporate tax and 26 percent for individual income tax.
11. IEG, *An Independent Evaluation of the World Bank/IFC Doing Business Indicators*, 2008.
12. World Bank, *Peru Trajectories toward Formality*. 2008.
13. See Endo, “Managing Investment Climate Reforms”: “Both COFOPRI and RPU [the national agencies responsible for the registration program] had to build the implementation capacity needed to carry out the national formalization program. COFOPRI was created as an ad hoc organization for the Program, and RPU was severely limited when the program was launched. The financial resources and technical assistance provided by the World Bank was critical to this end.”
14. Endo: “Mejora de la Calidad de las Instituciones Vinculadas a la Administración de Tierras en Perú. Implementación del Marco de Evaluación de la Gobernabilidad sobre la tierra.” *Administración del Territorio Consultores*, July 2009.
15. IFC, “Peru Orient Express Hotels: A Case Study of the Development Impact of Tourism Hotels in Peru.”
16. Peru is the first Latin American and Caribbean country to seek compliance with EITI principles.
17. In 2008, more than 44 percent of transfers were concentrated in just five regions that accounted for only 12 percent of the country's population.

18. There are an estimated 60,000–100,000 illegal and unregulated gold miners in the country.
19. As mentioned below, the number of social conflicts arising out of environmental issues rose from 14 in 2005 to 132 in 2009.
20. World Bank, “Building Roads to Democracy?”
21. (Cuanto, GRADE, World Bank).
22. World Bank, *Peru: Cost of Environmental Damage*.
23. According to MINEM (Ministerio de Energía y Minas. Ministry of Energy and Mining), while the coastal areas have 55 percent of the population, for example, they have only 2 percent of water resources.
24. World Bank, *Natural Disaster Hotspots*.
25. World Bank, “Second Programmatic Environmental Development Policy Loan Project.”
26. Other WBG AAA included studies on fisheries and on social and environmental aspects of mining.
27. The Project Appraisal Document presents both water supply and sewerage connections as key monitoring indicators, but the Implementation Status and Results Report only reports on water supply connections. For the objective of reducing water pollution, however, the progress of sewerage connections is more important.
28. IEG-IFC project evaluation and field validation reports.
29. As noted in IEG’s *Hazards of Natural Risks to Development*, for example, in highly vulnerable countries such as Peru, “far more attention to prevention, mitigation and risk management is needed, but client demand for such services is easily displaced by other development concerns.”
30. IEG found that IFC does not consider the opportunity cost of water for its economic analysis of agribusiness projects. This is a surprising omission, given the water intensity of the crops—for example, 1,000 tons of water needed per ton of sugar—and the fact that most projects are located in coastal areas where water use conflicts are growing and water rights are not tradable.

## Chapter 4

1. Information derived from Living Standards Measurement Survey, Demographic and Health Surveys, and so on.
2. An evaluation of large social programs found SIS to be the most efficiently targeted program in the health sector.
3. Surveys (albeit covering a short time period and based on small samples) indicated that the proportion of births in institutions in covered areas almost doubled from 28 percent to 51 percent, surpassing the target of 37 percent. The infant mortality rate in covered areas fell from 48 to 28 per 1,000, surpassing the original target of 34.
4. In the 2000 Programme for International Student Assessment (PISA), Peru came last of 15 non-OECD countries, well behind four others in Latin America.

5. World Bank, *Peru Rural Education Project*. Peru’s achievements in access were partly through reducing costs, and it spent relatively little on its primary education system. Its per pupil costs were among the lowest in Latin America, and its teachers were paid among the lowest in the region relative to per capita income and compared with other similarly educated professionals.
6. The pupil-teacher ratio in primary education in Peru was 23 in 2003, compared to 34 in Colombia.
7. According to a World Bank survey in 2002, in only 36 percent of schools surveyed did school personnel records match the official roster of teachers, indicating high levels of “ghost teachers” (Instituto Apoyo, *Public Expenditure Tracking Survey*).
8. RECURSO is the acronym for the Spanish term for Accountability for Results in the Social Sectors. RECURSO was intended as a one-off study, but was extended as annual programmatic AAA to further address issues of accountability for results in the social sectors.
9. See IEG, “Evaluation of the World Bank’s Assistance to Primary Education in Peru.”

## Chapter 5

1. In this report, “public management,” “public administration,” “institutionality,” and “public sector modernization” (the latter two are, respectively, the pillar headings under the CAS and the CSP) are used interchangeably.
2. A World Bank institutional and governance review for Peru in the early 1990s found a lack of continuity, arbitrariness, and lack of transparency in public policies that resulted from the centralization of power, underdeveloped political parties, and weak checks and balances.
3. Government priorities over the decade are stated in, *Acuerdo Nacional* of 2002 (the result of a broad national consultation process), *Plan de Gobierno* 2006–2011, and the WBG CASs.
4. See *The New Civil Service: A Transformation from Within*. National Authority of Civil Service (SERVIR). Peru.
5. For example, the SERVIR initiative represents a promising effort to improve capacity at senior levels of the civil service without comprehensive reform. In other cases, such as in health and education, there have been isolated efforts to change the status of public servants under contracts and create a parallel career or incentive systems to compensate for the rigidities of current civil service regulations.
6. The 2001 *Peru Institutional and Governance Review* (World Bank) was the last comprehensive exercise in assessing the constraints to public management reform.
7. World Bank, *Peru: Microeconomic Constraints to Growth*.

8. USAID, *Peru: Commercial Justice System Modernization Program*.

9. Human Rights First Group, “Building on Quicksand.”

10. In 2001, the Bank found overall risk to Bank’s portfolio as average, with key weaknesses being lack of effective procurement planning and monitoring tools for project implementation; lack of skilled and capable procurement staff within projects; and lack of local standard bidding documents for procurement of goods, works, and selection of consultants. The World Bank 2001 Country Financial Accountability Assessment (CFAA) found that investment lending operations in Peru had a good record in complying with WBG fiduciary requirements. Supervision and control of use of project funds was good, and findings from external auditors indicated very low incidence of funds misuse.

## Chapter 6

1. Statement by President Alan Garcia at the public presentation of the World Bank’s Peru Policy Notes, Lima, December 5, 2006.

2. World Bank, *Conditionality in Development Policy Lending*.

3. In March 2008, the Bank reduced the cost of DDOs by removing the commitment fee for undisbursed loan amounts and a surcharge for extended maturities.

## Annex B

1. In this note, *assistance program* refers to products and services generated in support of the economic development of a client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

## Photographs

- 1 Girl in the Ancash region, Peruvian highlands
- 6 The Cordillera Blanca range in the Peruvian Andes
- 7 Girl going to school, Ancash region, Peruvian highlands
- 15 Rural school in the Peruvian highlands
- 17 Girl with biscuits, Cajamarca region, Peruvian highlands
- 40 The Inca Trail near Macchu Picchu
- 43 Boy going to school, Ancash region, Peruvian highlands
- 50 Sunset at Punta Sal in the Tumbes region on the Pacific coast
- 53 Young girl at door, Cajamarca region, Peruvian highlands
- 58 Woman tending animals, Ancash region, Peruvian highlands
- 63 Child on cart, Cajamarca region, Peruvian highlands
- 71 Waste depositories near the Antamina copper mine in the Ancash region, Peruvian highlands
- 77 Girl working on road maintenance in the Cajamarca region



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