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AND

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP STRATEGY

FOR

THE REPUBLIC OF PERU

FOR THE PERIOD FY12-FY16

February 1, 2012

**Bolivia, Chile, Ecuador, Peru and Venezuela Country Management Unit
Latin America and the Caribbean Region**

**The International Finance Corporation
Latin America and the Caribbean Region**

Multilateral Investment Guarantee Agency

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ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities	TB	Tuberculosis
AFP	<i>Administradora de Fondo de Pensiones</i> (Pension Fund Administrator)	LAC	Latin America and the Caribbean
ALEGRAs	<i>Asistencia Legal Gratuita</i> (Free Legal Aid Centers)	LPIS	<i>Listado Priorizado de Intervenciones en Salud</i> (List of Priority Interventions)
APL	Adaptable Program Lending	MEF	<i>Ministerio de Economía y Finanzas</i> (Ministry of Economy and Finance)
AUS	<i>Aseguramiento Universal de Salud</i> (Universal Health Insurance)	MFI	Microfinance Institutions
BCRP	<i>Banco Central de Reserva del Perú</i> (Central Reserve Bank of Peru)	MIC	Middle-Income Country
BRT	Bus Rapid Transit	MIDIS	<i>Ministerio de Desarrollo e Inclusión Social</i> (Ministry of Development and Social Inclusion)
CAF	<i>Corporación Andina de Fomento</i>	MIGA	Multilateral Investment Guarantee Agency
CAPRA	Central American Probabilistic Risk Assessment	MIM	<i>Mejorando la Inversión Municipal</i> (Improving Municipal Investment)
CAT DDO	Catastrophes Deferred Drawdown Options	MIMDES	<i>Ministerio de la Mujer y Desarrollo Social</i> (Ministry of Women and Social Development)
CCT	Conditional Cash Transfers	MMR	Maternal Mortality Rate
CDD	Community Driven Development	MSMEs	Micro, Small and Medium Enterprises
CEA	Commodity Exchange Authority	MyPE	<i>Mediana y Pequeña Empresa</i> (Micro and Small Companies)
CIDA	Canadian International Development Agency	NCDs	Non Communicable Diseases
CNC	<i>Consejo Nacional de la Competitividad</i> (National Council for Competitiveness)	NGO	Non-Governmental Organization
COFIDE	<i>Corporación Financiera de Desarrollo</i> (Development Finance Corporation)	NLTA	Non-Lending Technical Assistance
CPC	Criminal Procedure Code	OECD	Organisation for Economic Co-operation and Development
CPI	Consumer Price Index	OEFA	<i>Organismo de Evaluación y Fiscalización Ambiental</i> (Office of Evaluation and Environmental Enforcement)
CPPR	Country Portfolio Performance Review	OSCE	<i>Organismo Supervisor de Contrataciones del Estado</i> (Peruvian National Procurement Authority)
CPS	Country Partnership Strategy	PAN	<i>Programa Articulado Nutricional</i> (Articulated Nutrition Program)
CPS PR	Country Partnership Strategy Progress Report	PARSALUD	<i>Programa de Apoyo a la Reforma del Sector Salud</i> (Improve Health Care for Poor Rural Populations)
CR	Completion Report	PCG	Partial Credit Guarantee
CSO	Civil Society Organization	PEFA	Public Expenditure & Financial Accountability
DB	Doing Business	PFM	Public Financial Management
DBR	Doing Business Rankings	PISA	Programme for International Student Assessment
DDO	Deferred Drawdown Option	PPP	Private Public Partnership
DFID	Department for International Development	PROINVERSION	<i>Agencia de Promoción de Inversión Privada</i>
DPL	Development Policy Loan	PRONASAR	<i>Programa Nacional de Agua y Saneamiento Rural</i> (National Rural Water Supply and Sanitation)
EFTA	European Free Trade Association	PSIA	Poverty and Social Impact Analysis
EITI	Extractive Industries Transparency Initiative	PSM	Public Sector Management
ENDES	<i>Encuesta Demográfica y de Salud Familiar</i> (Demographic and Familiar Health Survey)	RAAP	Rapid Assessment and Action Plans
EPS	<i>Empresas Prestadoras de Servicios de Saneamiento</i> (Sanitation Services Providers)	RBB	Results Based Budgeting
ESMAP	Energy Sector Management Assistance Program	SEIA	<i>Sistema de Evaluación de Impacto Ambiental</i> (Environmental Impact Assessment National System)
ESMID	Efficient Securities Markets Institutional Development	REACT	Results and Accountability in the Social Sectors
ESSALUD	<i>Seguro Social del Perú</i> (Social Security)	RECURSO	<i>Rendición de Cuentas para la Reforma Social</i> (Bringing Accountability to Social Reform)

ESW	Economic and Sector Work	SEACE	<i>Sistema Electrónico de Contrataciones del Estado</i> (Electronic System for Government Procurement)
EU	European Union	REDI	Recent Economic Developments in Infrastructure
FBS	Fee-Based-Service	SBS	<i>Superintendencia de Banca y Seguros</i> (Superintendence of Banks and Insurances)
FDI	Foreign Direct Investment	SERNANP	<i>Servicio Nacional de Areas Naturales Protegidas por el Estado</i> (National Service for Protected Areas)
FEF	<i>Fondo de Estabilización Fiscal</i> (Fiscal Stabilization Fund)	SFLAC	Spanish Fund for Latin America and the Caribbean
FIDECOM	<i>Fondo de Investigación y Desarrollo para la Competitividad</i> (Competitiveness Research and Development Fund)	SIAF	<i>Sistema Integrado de Administración Financiera</i> (Integrated Financial Administration System)
FINCYT	<i>Financiamiento para la Innovación, la Ciencia y la Tecnología</i> (Fund for Innovation, Science and Technology)	SIL	Specific Investment Loan
FIP	Forest Investment Program	SINADIS	<i>Sistema Integrado de Desarrollo Infantil</i> (National Development and Social Inclusion System)
FITEL	<i>Fondo de Inversión de Telecomunicaciones</i> (Telecommunications Investment Fund)	SINEACE	<i>Sistema Nacional de Evaluación, Acreditación y Certificación de la Calidad Educativa</i> (National System for Evaluation, Accreditation and Certification of Education)
FM&C	Fiscal Management and Competitiveness	SIS	<i>Seguro Integral de Salud</i> (Health Insurance System)
FTA	Free Trade Agreement	SME	Small and Micro Enterprise
FY	Fiscal Year	SNG	Sub-national Government
GAC	Governance and Anticorruption	SNIP	<i>Sistema Nacional de Inversión Pública</i> (National System of Public Investment)
GDFR	Global Debt Management and Fiscal Risk	SUNAT	<i>Superintendencia Nacional de Administración Tributaria</i> (National Superintendence of Tax Administration)
GDP	Gross Domestic Product	SWAP	Sector Wide Approach Project
GEF	Global Environment Facility	TA	Technical Assistance
GOP	Government of Peru	TAL	Technical Assistance Loan
GPF	Governance Partnership Facility	TF	Trust Fund
IADB	Inter-American Development Bank	UN	United Nations
IB	Institutional Births	US	United States
IBRD	International Bank for Reconstruction and Development	USAID	United States Agency for International Development
ICT	Information and Communication Technology	WB	World Bank
IDF	Institutional Development Fund	WBG	World Bank Group
IEG	Independent Evaluation Group	WBI	World Bank Institute
IFC	International Finance Corporation	WDR	World Development Report
IIRSA	<i>Iniciativa para la Integración de la Infraestructura Regional Suramericana</i> (Initiative for the Integration of Regional Infrastructure in South America)	WHO	World Health Organization
IMF	International Monetary Fund	WSP	Water and Sanitation Program
IMR	Infant Mortality Rate		
IT	Information Technology		
JSDF	Japan Social Development Fund		

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EXECUTIVE SUMMARY

- 1. Peru is an upper middle income country (MIC) with remarkable economic growth over the last decade.** Peru has been one of the best-performing economies in Latin America, as a result of prudent macroeconomic policies and a favorable external environment. Peru's GDP growth has been significant from a regional and historical perspective, averaging 6.3 percent between 2002 and 2010. This strong economic performance enabled a continuous recovery of Peru's income per capita, which increased by more than 50 percent during the decade, after almost 30 years of stagnation.
- 2. Peru faces the challenge of achieving more inclusive economic growth.** The effects of strong growth on employment and incomes have yielded an important decline in poverty rates –about 4 million people exited poverty between 2004 and 2010. However, disparities across the country still remain high, particularly between rural and urban areas. In 2010, while the national poverty rate was only 31 percent, it was around 61 percent in the highlands.
- 3. The Government launched an ambitious development agenda to overcome social gaps and boost productivity, under a solid macroeconomic framework.** President Humala started his new government in July 28, 2011 with a vision of keeping high rates of economic growth with a strong emphasis on improving equity. The Government's program aims to provide equal access to basic services, employment and social security, reduce extreme poverty, prevent social conflicts, improve the surveillance of potential environmental damages, and reconnect with rural Peru “from the bottom up and from the inside out” through an extended inclusion agenda.
- 4. This five-year World Bank Group Country (WBG) Partnership Strategy (CPS) focuses on supporting the Government in improving equity through social services, infrastructure and competitiveness, while continuing to preserve macro stability.** Peru needs more and better public infrastructure and social services, particularly for those living in poverty. In the context of a good fiscal position and access to capital markets, Peru's demand for Bank services is selective and focuses on scaling-up successful experiences of prior Bank strategies in the country, delivering innovative options to improve results in social services, and expand knowledge products in areas in which the Bank can contribute to modernize public sector institutions and management processes.
- 5. The CPS is closely aligned with the Government's strategic vision of strong economic growth with greater inclusion and is selectively concentrated in those fields in which the WBG can provide more value added to the country.** This support will be carried out through focused interventions distributed into four strategic objectives: (i) increased access and quality of social services for the poor; (ii) connecting the poor to services and markets; (iii) sustainable growth and productivity; and (iv) inclusive governance and public sector performance. The CPS also addresses cross-cutting issues such as those of governance and gender. The CPS is a result of extensive consultations with government and civil society.
- 6. The program relies largely on lessons learned from the previous CPS, with substantial continuity with the last strategy.** Since there is an ongoing portfolio that was approved towards the end of the previous phase, many of the early results for this CPS will rely on the successful implementation of these projects. As Peru is becoming a stronger MIC, demand for knowledge services is increasing. Demand for financing is relatively modest at this stage but flexibility has been built in to respond to any possible increased demands both in terms of amounts and in terms of new

projects, as the new government consolidates its program. Further to this, there is a strong demand for implementation support for programs and projects from the government.

7. **The World Bank Group intends to continue working in an integrated manner, pursuing further the potential synergies between International Finance Corporation (IFC), the International Bank for Reconstruction and Development (IBRD) and the Multilateral Investment Guarantee Agency (MIGA).** IFC has had a successful program of investment and advisory services in Peru, implemented in coordination with the IBRD program. As a result, IFC's investment program over the years has become one of the ten largest in terms of single country exposure. IFC expects to continue responding to a growing private sector demand with innovative and competitive financial and advisory products. The main objective will be to foster greater entrepreneurship and investment climate. Investment would be focused on infrastructure development, clean energy, and finance and insurance.

8. **Several risks have been identified, but mitigation measures are available.** On the external side, Peru could be negatively affected by a global economic downturn. Peru's economy is dependent on commodity exports, concentrated in a few markets, and sensitive to changes in commodity prices. Peru's stellar performance of recent years could be affected with GDP slowing down significantly or even falling into recession if the global crisis is severe. The government understands these risks and is relatively well positioned to address a moderate external shock, but a prolonged and deeper global crisis could have important effects on the economy. The Government is already implementing a fiscal stimulus program, as lessons from the 2008-09 crisis indicate that it takes between 6-12 months to see the effects of additional spending in the economy. On the internal side, a challenge for the Government will be addressing social conflicts, particularly those linked to the extractive industries. The new law on prior consultation is expected to promote greater dialogue and agreement between the different negotiating parties.

I. INTRODUCTION

1. This CPS covers FY 2012 to FY 2016 which coincides with the administration of President Ollanta Humala (July 2011 - July 2016). The CPS has been designed to support selected areas of the Government's program. The new Government has established a vision of continuity with respect to macroeconomic policies and the promotion of investments that increase productivity. Further to this, the Government has set the inclusion agenda as the critical challenge to be addressed through the implementation of new and restructured social and productive programs for the poor.

2. The CPS builds on the positive experience from the implementation of the previous strategy and on the Regional and WBG strategies for MICs. Thus, the CPS has been designed to be flexible and to respond to the demands of a sophisticated client that, albeit its recent success, still faces some major development challenges. Current demands for financing are relatively limited, given the strong fiscal stance. Still, some flexibility has been built in to respond to possible increased needs in financing or possible new areas of support that might arise as the new Government consolidates its program. On the other hand, the Government has expressed a strong demand for knowledge and implementation support services.

II. COUNTRY CONTEXT

A. Political Context

3. President Ollanta Humala took office on July 28, 2011. After a tight political campaign, President Humala won the run-off with 51.5 percent of votes. He was elected on a platform that focused on reducing poverty, maintaining economic stability and generating more inclusive growth. In addition, his program highlighted the need to fight corruption, improve competitiveness, increase tax collections, close the infrastructure gap, and generate employment.

4. The new Government is highly committed to tackling the country's major challenge of achieving more inclusive growth. Peru's economic growth, which has been remarkable in the last decade, has helped reduce poverty rates significantly. Yet, an important proportion of the population does not have proper access to basic social services. In particular, most social indicators in rural areas lag behind those in urban areas. Significant investments, particularly in extractive industries, have fueled some social conflicts centered on the competing use of natural resources. In particular, water has been the source of conflict since it is scarce and the extractive industries have a high demand for this natural resource. The Government is promoting open dialogue to address and resolve these conflicts, in the short term. In the longer term, the Government is committed to reducing the social gaps in Peru through a vision of ensuring continuous growth but with greater emphasis on social inclusion. This commitment is reflected in the ambitious social targets established for the end of its administration in 2016. This includes the elimination of chronic malnutrition, the implementation of universal access to pre-school education, as well as significant expansion of electricity, water and sanitation, and voice and data services to rural households. A new Ministry of Development and Social Inclusion (*Ministerio de Desarrollo e Inclusión Social - MIDIS*) has been created to lead the Government's inclusion strategy.

B. Recent Economic Developments

5. Peru has been one of the best performing economies in Latin America during the past decade. This is the result of prudent macroeconomic policies and a favorable external environment. Peru's GDP growth has been significant from a regional and historical perspective, averaging 6.3 percent between 2002 and 2010 (See Table 1). This strong economic performance enabled a continuous recovery of Peru's income per capita, which increased by more than 50 percent during the decade, after almost 30 years of stagnation. The effects of strong growth on employment and incomes have yielded an important decline in poverty rates and, for the first time, a small decline in inequality.

Table 1: Key Economic Indicators

	2004	2005	2006	2007	2008	2009	2010	2011*
In percent, unless otherwise stated								
National Accounts								
GDP growth rate	4.8	6.8	7.7	8.9	9.8	0.9	8.8	6.8
Growth of real domestic demand	3.9	5.8	10.3	11.8	12.1	-2.8	12.8	7.5
Population (millions)	27.0	27.3	27.6	27.9	28.3	28.8	29.3	29.7
Balance of Payments								
Current Account (% of GDP)	3.9	1.4	3.0	1.4	-4.2	0.2	-1.5	-1.5
Trade Balance (% of GDP)	4.3	6.7	9.7	7.9	2.0	4.7	4.3	5.0
Exports of goods (% of GDP)	18.4	21.9	25.8	26.1	24.4	21.2	22.6	21.7
Imports of goods (% of GDP)	14.1	15.2	16.1	18.2	22.4	16.5	18.3	18.9
NIR, US\$ Billion	12.8	14.1	17.3	28.6	32.2	33.1	44.2	47.6
NIR, in months of G&S imports	12.2	11.1	11.4	13.9	11.4	15.4	15.2	13.4
Terms of Trade (deterioration -); %age change	9.3	5.6	26.7	3.4	-14.4	-2.8	17.9	5.4
External Indicators								
Public External Debt (% of GDP)	35.7	28.1	23.8	18.7	15.2	16.2	12.7	11.8
Inflation								
Annual change of CPI (eop)	3.5	1.5	1.1	3.9	6.7	0.2	2.1	4.8
Fiscal Indicators								
NFPS balance(% of GDP)	-1.1	-0.4	2.3	3.0	2.3	-1.6	-0.5	1.6
Public Debt (% of GDP)	45.2	37.8	33.0	29.7	24.1	27.2	23.3	21.2
* projection								
<i>Source: Banco Central del Perú, Ministerio de Economía y Finanzas del Perú, World Bank estimates.</i>								

6. Improvement in economic performance coincides with greater macroeconomic discipline. Inflation has been throughout these years under strict control with an inflation targeting rule set at 1 - 3 percent, nevertheless 2011 ended above the ceiling.¹ The country embarked on a series of reforms of which fiscal consolidation, trade openness, exchange rate flexibility, financial

¹ The inflation rate registered in 2011 is explained mainly by the increase in commodity prices (namely food and fuels) throughout 2011 and internal climate factors which affected the supply of perishable foods, particularly during the last half of the year (Source: BCRP).

liberalization, higher reliance on market signals, and prudent monetary policy, including strong buildup of reserves, have been key components. Fiscal prudence was further buttressed in recent years by high commodity prices. Moreover, the recent period has been marked by a much lower volatility of growth, higher total factor productivity, increased private investment and more foreign direct investment. These developments can be traced back to the improvements in macroeconomic management.

7. Fiscal policy has been driven by a commitment to fiscal rules at national and sub-national levels. The most salient is the 1 percent of GDP maximum deficit for the consolidated public sector. Between 2009 and 2010 this rule was waived, and the maximum deficit was raised to 2 percent of GDP. This allowed the Government to pursue a countercyclical fiscal policy through a fiscal stimulus plan, in the face of the world economic crisis. After running a 1.6 percent deficit in 2009, in 2010 the deficit declined to 0.5 percent, and for 2011, with the original rule restored, fiscal balance showed a surplus of 1.6 percent of GDP. Moreover, by end-2011, the Fiscal Stabilization Fund accumulated US\$6.7 billion (3.5 percent of GDP), arising from previous fiscal surpluses, and constitutes an important source to finance countercyclical fiscal policies, if needed.

8. Peru's exports have grown largely as a result of both economic reforms and thanks to an increase in global demand. Exports have grown from an average of US\$6.3 billion in 1998-2000 to an average of US\$28.8 billion in 2007-09, i.e. an increase of almost five times in nominal terms over one decade. Both, traditional and non-traditional exports have increased rapidly, but while non-traditional exports growth was based on larger trade volumes, traditional exports growth was supported mainly by higher commodity prices, although volumes also increased. As a result, the latter grew faster and non-traditional exports, as percentage of total exports, shrank. Despite positive performance, there is need for further diversification of export baskets and destinations as commodity exports account for more than half of Peru's total exports. About 40 percent of Peru's exports are destined for China and the EU, evenly split between the two. As a result, Peru is sensitive to commodity price changes and to shocks from China and the EU.

9. Trade policy has made advances in both reducing barriers to trade unilaterally and entering into new free trade agreements. Following deep trade liberalization measures taken in the 1990s in goods, services and investment, in recent years there have been additional tariff reductions, which have set a weighted average tariff rate of just 1.2 percent. It is expected that all these benefits will be greater while taking advantage of free trade agreements that Peru has negotiated with different trade blocs and countries (e.g with United States - US, China, Chile, South Korea, Japan, European Free Trade Association - EFTA countries, EU, Mexico, Panama and Costa Rica).

10. Peru is sensitive to changes in commodity prices and their impact in natural resource revenue, but the country remains relatively less exposed to those revenues than other countries in the region. While commodity price increases have resulted in greater reliance on natural resource revenues, Peru's export basket of commodities is relatively diversified. The reliance on these revenues for Peru is to be expected given that Peru ranks as the first largest producer of silver, second largest copper and zinc producer, third largest tin producer, fourth largest lead producer and sixth gold producer. About 17.5 percent of total fiscal revenues come from commodities and the elasticity of these revenues to changes in commodity prices is high at around 2. A ten percent decline in commodity prices generates a fall in revenues equivalent to 3.5 percent (or about 0.7 percent of GDP). During the 2008-09 crisis export revenues fell by about 2 percentage points of GDP, but recovered rapidly in 2010. Despite this sensitivity to commodity prices, Peru remains relatively less exposed to those revenues than most other commodity exporters in Latin America and the Caribbean

Region (LAC) because it exports a variety of commodities with prices that are not highly correlated. The volatility of Peru's natural resource revenues is high but at the same time it has a natural hedging mechanism in the composition of those exports, not depending on a single commodity as in nearby countries like Chile, Ecuador, or Bolivia.

11. Public debt has declined significantly over the years and its sovereign debt has reached investment grade. The country's debt service profile and its currency and interest risks exposures continued to improve in 2010 as a result of active debt management policies which included: (i) increase in the public debt share in New Soles and the percentage of debt under fixed rates; (ii) reduction in the concentration of principal repayments over time to re-profile debt; and (iii) to promote the development of the domestic capital market, through the consolidation of the domestic public debt market. During 2010, there were three bond issuances, which followed the strategy guideline of re-profiling debt and replacing old by new debt under better financial conditions. In 2010, the public debt as share of GDP was 23.3 percent of GDP, including local government debt. However, the share of public external debt still represented 54 percent of total public debt in 2010. Still, in recognition of the lower risk that Peruvian sovereign debt represents, in recent months, Standard & Poors and Fitch raised their long-term foreign currency sovereign credit rating for Peru to 'BBB' from 'BBB-'; and confirmed the 'A-3' short-term foreign currency rating and the 'BBB+/A-2' local currency ratings.

12. Peru faced the 2008-09 global crisis at the height of its economic performance and while affected, came out of it rapidly and with no major structural damage. Peru was at the top of its performance growing at over 10 percent in mid-2008 when the global crisis hit its shores. Macro fundamentals were strong and its financial sector was not contaminated with risky investment instruments. As a result the country was in a good position to cope with the effects of the relatively short-lived crisis. Peru's authorities reacted rapidly by building a program of support that included countercyclical fiscal and monetary policies. They also acquired large lines of credit from the Bank and others to signal strength and react to any contingency. While private investment and economic performance slowed significantly during 2009 (with GDP growth falling to 0.9 percent), strong growth resumed rapidly and accelerated by early 2010. Most economic sectors only slowed down or entered into minor contraction levels during the crisis but none collapsed. This facilitated recovery as firms did not fire workers or close operations. Poverty also did not increase during that year.

C. Poverty Profile and Gender

13. Over the last decade, Peru has experienced unprecedented progress in poverty reduction, and for the first time in several decades, inequality declined, albeit modestly. In fact, Peru is one of the best performers in the region in improving welfare. Macroeconomic stability and record levels of sustained growth provided the space for improving income opportunities to Peruvians. At the same time, public and social policies have also contributed to this success, even though the low levels of social spending suggests that their role was more limited.

14. Between 2004 and 2010 about 4 million people exited poverty. The poverty rate fell by 17.3 percentage points, from 48.6 percent to 31.3 percent. During the same period, extreme poverty decreased by 43 percent to 9.8 percent (see Table 2). The decrease in the number of poor during the last 5 years ranks among the highest in the region – Peru only lags behind Argentina, Venezuela and Uruguay in this respect. During the same period, there was also a small decrease in inequality: the expenditure based Gini coefficient declined from 0.42 in 2004 to 0.39 in 2010. The income based Gini also fell during this period.

**Table 2: Poverty rates in Peru
(In Percentages)**

	Years							10-04 Change
	2004	2005	2006	2007	2008	2009	2010	
<i>Panel A : Total Poverty</i>								
National	48.6	48.7	44.5	39.3	36.2	34.8	31.3	-17.3
Urban Costa	37.1	32.3	29.9	25.1	23.4	21.4	21.1	-16.0
Rural Costa	51.2	50.0	49.0	38.1	34.8	40.6	34.8	-16.4
Urban Sierra	44.8	44.4	40.2	36.3	33.5	31.3	27.3	-17.5
Rural Sierra	75.8	77.3	76.5	73.2	68.8	65.6	61.2	-14.6
Urban Selva	50.4	53.9	49.9	40.3	31.3	32.5	27.4	-23.0
Rural Selva	63.8	65.6	62.3	55.3	49.1	57.4	45.6	-18.2
Lima metropolitana	30.9	32.6	24.2	18.5	17.7	14.1	12.8	-18.1
<i>Panel B : Total Extremen Poverty</i>								
National	17.1	17.4	16.1	13.7	12.6	11.5	9.8	-7.3
Urban Costa	5.6	4.0	3.0	2.1	2.4	2.3	2.7	-2.9
Rural Costa	13.8	13.4	14.4	10.5	7.9	9.2	7.7	-6.1
Urban Sierra	16.6	11.6	10.3	8.5	9.2	6.8	4.9	-11.7
Rural Sierra	44.0	46.6	46.5	40.8	37.4	33.2	28.5	-15.5
Urban Selva	18.7	22.5	18.1	11.0	7.2	8.8	6.7	-12.0
Rural Selva	30.4	28.0	24.6	23.4	20.7	23.8	17.8	-12.6
Lima metropolitana	1.3	2.0	0.9	0.5	0.7	0.2	0.6	-0.7

Source: INEI

15. Despite these impressive results, poverty rates in rural areas remain high. Six out of ten poor in Peru reside in rural areas, and extreme poverty is mostly a rural phenomenon. Over 60 percent of those living on the highlands are poor. Even though inequality has declined, it still remains high. In addition, the observed reduction has been driven by changes in inequality within geographic areas (e.g. within rural, urban) and not between regions. In fact, the trends seem to suggest that inequality between urban and rural areas is on the rise. Perhaps more worrisome, rural areas not only lag behind urban in these advances, but the prospects of further improvements are small in the absence of policy action. Poverty has been much less sensitive to growth in rural areas. For example, while 1 percentage point of growth corresponds to 2 percentage points decrease in poverty rate in Lima, in the rural jungle area (*Selva*) the corresponding number is below 0.5, a factor of 4. A key challenge for the Government is translating high growth rates into an improvement in living standards of the poor, particularly in rural areas.

16. The indigenous population, which accounts for one-third of Peru's population, shows higher rates of poverty than the national average. The majority live in the Andean Highlands (6,067 indigenous communities) and in the Amazon Rainforest (1,448 communities). In the Southern Highlands, about 73 percent of the indigenous Quechua and Aymara communities – more than 5 million people – live below the poverty line. Some other statistics point to the vulnerability of these groups; only 11 percent of the indigenous population between the age of 18 and 20 has access to higher education; 44 percent of children under one year of age in indigenous communities in the Amazon region lack birth certificates, a key instrument to ensure access to basic services. In addition, in regions where more than 25 percent of the population is indigenous, chronic child malnutrition rates are more than 25 percent.

17. Even though progress has been made to improve the legal and institutional framework to promote gender equality, gender gaps are still significant in endowments, economic opportunities and women's agency. Women's political participation and representation has increased over the last decades – women now hold 21.5 percent of the seats in the national parliament (2011) which is slightly below the average in LAC (23 percent in 2009). However the share of females among the adult illiterate population was 75 percent between 2005–2008². Indigenous women are twice as likely to drop out of school than non-indigenous women. In addition, returns to education seem to be low and the opportunity costs of education are higher for women than for men.³ Women's labor force participation increased to 62 percent (in 2009), above the LAC average of 55 percent in the same year, yet women still face higher probability of being unemployed (8.3 percent vs. 5.4 percent in 2008) especially when they are young (15-24 years of age: 15.5 percent of young women vs. 12.5 percent of young men in 2008). Women also continue to earn less on average than men: even when controlling for differences in educational levels and age, men's wages in Peru are 18 percent higher than women's. Gender gaps in wages have been highest among the most educated groups⁴.

18. One of the most serious concerns in terms of the gender situation in the country seems to be the high rates of violence against women. Data from a World Health Organization (WHO) multi-country study on violence against women (2005) show that 51 percent of women who had had a partner in Lima and 69 percent in Cusco had experienced physical or sexual violence by a partner⁵. The World Development Report (WDR) 2011 on violence and crime, indicates a trend of increasing violence as the economy grows. The latest statistics issued by Ministry of Women and Social Development (*Ministerio de la Mujer y Desarrollo Social - MIMDES*) show that Peru has had one of the highest increases in violence against women in the region. In 2003 the law on violence against women (*Ley contra la Violencia hacia la Mujer*) was approved and is being implemented through the "*Plan Nacional contra la Violencia Hacia la Mujer 2009-2015*". In addition, the Government is currently developing a gender strategy to be implemented across sectors and has approved a law that strongly penalizes murder of women in a family setting ("*feminicidio*").

D. Governance

19. During the last decade, the country has been working to strengthen institutions and promote greater transparency and accountability, but there are still some challenges ahead. In 2001, Peru faced a number of serious governance challenges⁶ which were the result of scandals and corruption and which required alliances between the government, private sector and civil society under the umbrella of a National Accord. Thanks to a number of efforts during this ten-year period, some results can be found, especially in improving the quality and professionalism of public administration and of public financial management in general. At the same time, the Government is deepening its efforts in several areas of the public sector such as performance-based management including civil service reform, results-based transfers to municipal governments, treasury systems, and public investment. Despite progress in these areas, public confidence in the efficiency and the effectiveness of many state institutions remains low. This includes those charged with ensuring

² The World's Women 2010

³ World Bank (2005). Peru Poverty Assessment

³ Nopo, Hugo 2009.

⁵ Please see an overview of key gender issues and resources in Peru in Annex 13.

⁶ For a detail overview of the governance challenges faced by the country in 2001 please see the World Bank Governance and Anticorruption Report. <http://go.worldbank.org/KJBY6K510>.

broad accountability. In addition, the decentralization process has not achieved its objective of bringing accountability closer to citizens. The justice system has not improved as much as desired, and Peru is lagging behind other countries in the region in strengthening the rule of law, although contract enforcement has generally improved. Finally, the checks and balance institutions such as the audit agency and the press are struggling to maintain their independence and effectively fulfill their functions.

E. Economic Outlook

20. Uncertainties linked to the worsening of the world economic environment and the Peruvian electoral process contributed to the deceleration of the economy during the first half of 2011. But confidence recovered as the new authorities established credibility among economic stakeholders. The Government's new economic program was announced, showing substantial continuity. In particular, the Government aims to continue sustaining the strong macro fundamentals, on which the country has slowly constructed its export orientation, and to generate strong growth and employment, as well as poverty reduction.

21. Peru's growth is expected to remain strong in future years, assuming good domestic and international environments prevail. The annual average growth rate of 6 percent in the last decade, which has placed Peru among the best performers in the region, can be sustained if prudent fiscal and monetary policies remain in place and there are gains in productivity. The Fiscal Responsibility and Transparency Law, the main policy instrument, sets clear fiscal rules and calls for a Fiscal Stabilization Fund (*Fondo de Estabilización Fiscal - FEF*), which has accumulated US\$6.7 billion, to date. In the case of the fiscal balance, the Peruvian economy went from a negative position in 2009 and 2010 (-1.6 and -0.5 percent, respectively) associated with the countercyclical fiscal policy implemented to address the effects of the 2008-09 crisis, to an expected surplus of 1.6 percent of GDP in 2011, and is anticipated to reach a 1.1 percent surplus in 2014.

22. Monetary policy is carefully coordinated with fiscal policy to maintain economic stability. The Central Bank is well-equipped with monetary policy instruments to implement countercyclical measures, having used them successfully during the last international economic crisis. The Central Bank is expected to continue to keep inflation under control, given both its legal mandate and also its outstanding record in doing so. International reserves are projected to continue growing in coming years, from around US\$47.6 billion in 2011 to US\$53.2 billion in 2014. And, the ratio of public debt to GDP is expected to fall to 17.4 percent of GDP in 2014, from 23.3 percent in 2010.

23. The relatively robust growth performance and the expectation of a moderate deterioration of the terms of trade should keep the current account showing manageable deficits. The assumption of an annual 6 percent growth rate for 2012-2014, will maintain imports demand relatively high. This, in conjunction with an assumed deterioration of terms of trade at an annual average of 3.5 percent, will result in negative current account balances, between 3.2 and 3.7 percent in that period (see Table 3).

Table 3: Peru Economic Prospects

In percent, unless otherwise stated		Estimate	Projections		
	2010	2011	2012	2013	2014
National Accounts					
GDP growth rate	8.8	6.8	6.0	6.0	6.0
Growth of real domestic demand	12.8	7.5	6.5	5.7	5.5
Population (millions)	29.3	29.7	30.2	30.7	31.2
Balance of Payments					
Current Account (% of GDP)	-1.5	-1.5	-3.2	-3.7	-3.7
Trade Balance (% of GDP)	4.3	5.0	2.7	2.3	1.3
Exports of goods (% of GDP)	22.6	21.7	21.7	22.0	22.5
Imports of goods (% of GDP)	18.3	18.9	19.3	19.5	19.7
NIR, US\$ Billion	44.2	47.6	49.2	51.1	53.2
NIR, in months of G&S imports	15.2	13.4	12.2	11.4	10.7
Terms of Trade (deterioration -); percentage change	17.9	5.4	-3.1	-2.7	-4.7
External Indicators					
Public External Debt (% of GDP)	12.7	11.8	11.1	10.3	9.4
Inflation					
Annual change of CPI (eop)	2.1	4.8	2.0	2.0	2.0
Fiscal Indicators					
NFPS balance(% of GDP)	-0.5	1.6	0.9	1.2	1.1
Public Debt (% of GDP)	23.3	21.2	20.6	19.0	17.4
Source: Banco Central del Perú, Ministerio de Economía y Finanzas del Perú, World Bank estimates.					

24. However, domestic policy might not be able to shield the economy from an extended external shock, should there be continued deterioration in the global environment. During the 2008-09 crisis, Peru's GDP growth declined significantly but remained positive. As a result, poverty did not increase during the crisis. The fall in Peru's GDP growth was the result of both a fall in foreign aggregate demand, as well as in domestic demand, particularly private investment, as private sector expectations took a turn for the worse while the Government was preparing its countercyclical policy package. The delay in its implementation negatively affected private sector expectation, reducing investment rapidly and, with it, domestic demand and GDP growth. Peru has learned from the 2008-09 crisis experience and has already launched the first steps of a countercyclical fiscal policy, to counteract any deterioration in domestic expectations. A moderate global crisis can bring GDP growth down to 1.3 percent in 2012 and 4.7 percent in 2013, while a more severe crisis (with perhaps China slowing down significantly) can put GDP growth in negative numbers (-4.3 percent in 2012), with a recovery in 2013 to 2.7 percent growth. These crises scenarios are at this point uncertain and dependent on developments in the Eurozone, US and China.

25. To avoid a fast deceleration of growth, the Government has introduced several temporary stimulus measures. The main ones are: (a) to accelerate procurement processes for

public investment projects; (b) the introduction of an efficiency incentive bond for 2012 public investment projects, with a S/. 400 million budget; (c) exceptional financing authorization for infrastructure projects in the education, urban and sanitation sectors; (d) the authorization of a supplementary budget of S/. 889 million to finance the implementation of new projects and maintenance of infrastructure; and (e) the temporary streamlining of government procurement processes for these targeted projects. Fiscal costs of these measures are reflected in projections shown in Table 3.

26. Lower global GDP growth could be reflected in lower external demand for Peruvian exports with a potential fall in commodity prices and export volumes of both traditional and non-traditional exports. Peru's exports are concentrated in commodities, and its exports destinations are primarily China, the EU, the US, and Canada. Fiscal revenues could be affected by lower commodity exports. Financing the current account deficit could be more costly, depending on how much Foreign Direct Investment (FDI) contracts and how much access Peru has to international capital flows, including from multilaterals. As in 2008-09, expectations will play a critical role to adjust private investment and domestic demand. All in all, a fully fledged global crisis could bring GDP growth rates down by several percentage points depending on the source, severity and duration of the shock.

27. Peru is nonetheless, relatively well prepared to cope with a moderate crisis and protect the advances made in poverty reduction in the past few years. The Government is well positioned to withstand a moderate global crisis and implement countercyclical fiscal and monetary policies to tone down its effects. Relative to 2008, Peru now has the capacity to bolster confidence of markets as it has a lower public debt burden, higher fiscal savings in the treasury, including US\$1.1 billion in World Bank Deferred Drawdown Options (DDOs), and higher levels of international reserves. While not immune, these factors are likely to make the country more resilient to the effects of a global crisis. Nonetheless, the final effects will depend on the severity and duration of the external shock, and how much expectations are affected by the decline in the global economic outlook. Uncertainty, however, is still high and market signals are still quite volatile so that the magnitude and duration of a global crisis.

III. DEVELOPMENT CHALLENGES AND GOVERNMENT PROGRAM

28. Macroeconomic stability is fundamental but not sufficient for inclusive and sustained economic growth. High growth rates and improved fiscal surpluses due to the commodity price boom provide a unique opportunity for Peru to lay the ground for future development. Peru is well-positioned to address gaps in infrastructure and in human capital, a critical ingredient to foster inclusive growth. Thus, it is critical to maintain high rates of investment infrastructure, social services, as well as an efficient public sector management of resources.

29. To overcome social gaps and boost productivity, the new Government is implementing a “growth with social inclusion” plan that targets the poor and excluded. The Government aims to: (i) provide equal access to basic services, employment and social security; (ii) reduce extreme poverty with emphasis in rural poverty; (iii) prevent social conflicts by restoring public institution credibility; and, (iv) improve the surveillance of potential environmental damages. The Government also intends to reconnect with the rural Peru “from the bottom up and from the inside out” by increasing competitiveness of local markets. The approval of a law regulating the right of indigenous peoples to prior consultation on matters affecting their collective rights and quality of life, the creation of *MIDIS*, and the prudent fiscal and monetary policies that have been announced have had a

positive impact in external and internal investors' confidence. These measures have helped to build positive expectations for economic growth for the Country Partnership Strategy (CPS) period. This section describes the Government's plan organized into the following groups: (i) growth with social inclusion to achieve greater equity; (ii) connecting the poor to services and opportunities; (iii) increased productivity and enhanced human capital; and (iv) a strengthened public sector through sustained high levels of fiscal revenues, improved efficiency of public spending; and a strengthened private pension system, capital markets and financial system.

Growth with Social Inclusion to Achieve greater Equity

30. The social protection system needs greater coherence and effectiveness. Despite moderate increases, the spending levels and coverage of the social protection system are still below other LAC countries. Weak coordination between the Conditional Cash Transfers (CCT) Program, *Juntos*, and the health and education sectors limits their impact on the ground. And finally, to better coordinate social programs, an integrated network based on the articulation of goals, information and service provision is needed. Social protection initiatives must be tailored to the needs of beneficiaries to be effective instruments to reduce exclusion, as well as to provide adequate and revised processes for accessing social programs.

31. To address high rates of chronic malnutrition rates in the country, the Government will deepen its strategy, introducing incentives within *Juntos* CCT and a targeted nutrition program. The chronic malnutrition (stunting) rate was stagnant until 2008 when it started falling from 28.5 percent to 23.2 percent in 2010. However, despite recent progress, much work remains to be done, particularly in rural areas where stunting rates triple those of urban areas with 40.3 percent and 14.2 percent respectively (*Encuesta Demográfica y de Salud Familiar, ENDES 2009*), and anemia rates persist in the order of 60 to 75 percent in children younger than 18 months. At the same time, overweight and obesity are becoming a serious public health problem, affecting more than 60 percent of the population older than 15, contributing to a serious increase of chronic diseases. The Ministry of Health is placing strong emphasis on improving diet quality and access to nutritious food to prevent further increases in overweight and obesity rates through the new initiative "*Peru Sabor y Nutricion*".

32. The Government has committed to enhance the effectiveness and inclusiveness of the social protection system. The vision for the upgraded system is to cover the whole life-cycle, from pre-natal and Early Child Development to old-age and pensions. For the youngest, the Government will implement the new early child development program *CUNA MAS*, and expand the Nutrition and the Maternal and Neonatal Health Programs. Intercultural education and rural schools will be expanded. The scholarship program, *Beca 18*, will cover post-secondary education, for 25,000 students. The new non-contributory pension program Pension 65 will cover 150,000 adults older than 65 years of age. In addition, the CCT Program *Juntos* will be expanded from, 646 to 856 districts, and be restructured so as to promote enhanced opportunities for its beneficiaries. The CCT will develop a strategy of progressive graduation from the CCT for the better-off while reaching out to those currently excluded from any safety nets. Finally, the new *MIDIS* will help coordinate across ministries and foster social services delivery at the territorial and family level, reaching out to the poorest populations and to the most remote areas. *MIDIS* has also been tasked to monitor key results in the social sectors. The construction of this new ministry will be a particular challenge, as could be expected of any new Ministry that has a coordinating role. To address this challenge, a strong technical team has been brought together and is currently working to build the capacity of the Ministry.

33. The Government has set three priority areas for the health sector. These focus on prevalent health issues and include: (a) increased access to maternal and child health services for the poor; (b) reducing communicable diseases; and (c) optimization of the health system with a focus on non-communicable diseases (NCDs). Reductions in the infant mortality rate (IMR) and maternal mortality rate (MMR) were substantial during the last decade, from 40.2 per 1,000 new born babies (nb) to 20 for IMR, and from 185 to 98 per 100,000 nb for MMR. Nevertheless, substantial differences by income quintiles persist (IMR is 9 per 1,000 nb in the richest quintile and 58 per 1,000 nb in the poorest one), and coverage for maternal health care (deliveries) is 98 percent in the richest quintile and 30 percent in the poorest one. In addition, health coverage of the highland and jungle areas is only at 67 percent and 62 percent respectively, and Peru continues to have the second highest rate of tuberculosis (TB) in the Americas (111 per 100,000) after Haiti (148). On the other hand, NCD's (cardiovascular, cancer, and diabetes diseases), are becoming the most important causes of morbidity and mortality as a consequence of the accelerated increase of risk factors in the population (obesity, sedentary life, tobacco, alcoholism, accidents and violence), and the health delivery system is not ready to address those challenges. In response, the GoP has decided to continue to: (i) expand health services for poor mothers and children in rural areas; (ii) strengthen the decentralization of service delivery; and (iii) improve the efficiency of the health insurance system (*Seguro Integral de Salud, SIS*). The Ministry of Health will also launch a health promotion and NCD's strategy that includes the strengthening of the Healthy Municipalities program, the restructuring of the health delivery model (integrated health networks with appropriate referral systems), and the expansion of the services financed by the *SIS* beyond maternal and child health.

34. The Government plans to establish programs to improve the quality and inclusiveness of education services. Learning outcomes for Peruvian students lag behind those of their peers in comparable countries in the region and worldwide. Less than a quarter of second grade students reach sufficiency in reading and almost half are unable to do basic math. These outcomes are far worse among children from rural, indigenous communities. In the latest Programme for International Student Assessment (PISA) results, Peru ranks second or third to last in all subjects worldwide, and last among LAC countries. On the other hand, Peru has achieved near universal coverage of primary education, and access to preschool education of children aged 3 to 5 has tripled in the past five years to reach 70 percent. Yet, half of the children in the poorest districts remain excluded from preschool services. With a net enrollment rate of 75 percent in secondary education, Peru is above LAC regional averages, but only 37 percent of the extreme poor graduate (compared to 84 percent of the non poor). Gender gaps in access to education have vanished in the last decade across the three levels of basic education (70.5% and 70.0% for girls and boys, respectively, in preschool education; 94.0% and 93.9% for girls and boys, respectively, in primary education; and, 79.4% and 79.1% for girls and boys, respectively, in secondary education). Notwithstanding, the second-grade assessment shows some gender disparities in achievement: while learning outcomes in reading are higher for girls, outcomes in math favors the boys. In this context, the priority objective of the new administration is to raise student learning by addressing the greatest challenges of the sector: inclusion and quality. For inclusion, the Government will develop specialized pedagogical models for ensuring learning for children and youths in rural, bilingual, and high-risk contexts, as well as assign more resources to the poorest schools, provinces and regions for education service provision. In the case of quality, the sector will focus on building better teachers through improved, articulated pre- and in-service training and mentoring programs, as well as a comprehensive performance evaluation system in the context of the new Teacher Career System. Finally, to support these strategies, it will strengthen the capacity for decentralized education management and promote results-based education financing mechanisms.

35. Peru is emphasizing improvements in access to justice, which has long been a significant challenge. While delays and backlog in the processing of cases and judicial corruption prevent access, reforms have also tried to address eliminating economic, gender, linguistic and cultural barriers. Peru's poor encounter several barriers in accessing basic justice services from a number of different sector agencies. For example, legal aid services provided by the Ministry of Justice are grossly insufficient to respond to the needs of the country. Such services only cover the equivalent about 45 percent of the population. Peru is a multicultural country, with more than five million indigenous peoples (*Quechua*, *Aymara*, and *Amazonian*, approximately 22 percent of the total population); unfortunately, language and cultural barriers as well as the complexities of the court system deter potential indigenous users. Many indigenous people pass through the sector's institutions without understanding Spanish or legal technicalities, and thus are not able to adequately explain their problems or fully exercise their rights. The Government has made investments to improve legal aid services, including mediation, increased numbers of interpreters and public legal education in indigenous languages. However, access to justice is also hampered by a lack of coordination between key agencies, most notably in criminal cases. As part of the relatively recent implementation of the Criminal Procedure Code - CPC (approved in 2006 with implementation in 2009-10), Peru seeks to enhance the sector's speed and transparency. The new roles and duties of police, prosecutors, judges, public defenders, forensic specialists and even civil society has represented a major investment from the public budget. Related areas to improve access to justice and anticorruption include the approval of shared information technology (IT) systems between the institutions offering services, such as linking social services ministries and judicial institutions.

Connecting the poor to services and opportunities

36. The Government has an ambitious agenda in the water and sanitation sectors to address the limited access to these services. Peru is one of the most unequal countries in LAC when measured against access to water and sanitation services. At the national level, while 78 percent of the non-poor have access to a water connection, only 45 percent of the poor are covered. In rural areas, only 28 percent of the poor have access to water connection (while 45 percent of the non-poor have access). Access to sanitation is even worse. The Government program aims to address the water, sanitation and housing agenda with a particular focus on the 808 poorest districts dispersed across the country, particularly in the *Selva* and *Sierra* regions. In addition the Government has set the following targets for this sector: to increase access to water and sanitation services in urban areas to 92 and 88 percent, respectively, and in rural areas to 57 and 45 percent, and to expand access to sanitation (latrine) for rural households from 22 to 60 percent.

37. The energy sector agenda emphasizes an increase in coverage and improved efficiency. The country possesses efficient and competitive private and public companies that mainly serve the urban areas. Tariffs include sectoral cross-subsidies to permit the poor to access modern energy. The picture in rural areas, on the other hand, has been strikingly different. While coverage levels still remain low, the country has made a huge leap in providing electricity service through massive investments, raising coverage levels to 55 per cent in rural areas and 82 per cent nationally by the end of 2010. In addition, as a consequence of the power sector reforms that Peru carried out in the 90's, the country dismantled its previous capacity for energy planning. There have been recent electricity shortages due to droughts that limited hydropower availability and delays in the construction of new infrastructure. The Government has identified four main priorities to integrate the energy agenda into its social inclusion and productive development agenda. These include: (i) expanding the electricity network and improvement of services to cover 85 percent of the rural population by 2016 to boost productive activities associated with the use of energy; (ii) ensuring a national energy

security through reliable, clean and affordable energy that supports economic growth; (iii) promoting an efficient use of the country energy resources primary based on hydropower and natural gas; and (iv) consolidating these actions within a socially and environmentally friendly framework, ensuring compliance with environmental safeguards and involving local communities through consultation and benefit sharing.

38. Building on progress made in the sector for the last three years, the Government strategy seeks to expand road infrastructure to promote inclusion. Rural populations in Peru, especially those in the highlands, do not have adequate access to services or markets. And, many urban workers spend approximately three hours per day to commute to their jobs. This is due, at least in part, to urban transport inefficiencies. The Government strategy includes: (i) extending the rural roads network particularly in landlocked regions; (ii) expanding and modernizing the road corridors within large cities as well as national connecting segments to foster fluidity in the movement of people and goods; (iii) consolidating and modernizing the sector institutions; and, (iv) providing services and promoting innovation and standardization through enhanced capacity-building within the sector.

39. The Government will continue making efforts to expand infrastructure services through Public Private Partnerships (PPPs). To address infrastructure gaps, the administration plans to foster PPPs, promote investment and strengthen regulatory agencies. A new wave of investment promotion will be led by PROINVERSION at the national and sub-national level, including the implementation of a fund to finance pre-feasibility studies, co-financing of investment in the education, health and sanitation sectors, standardization of concession contracts, and improvement in PPP financing through the capital markets. Regulatory agencies will be strengthened to improve the design of PPP. The Government will also continue with significant public investment in transport, electricity, and water and sanitation infrastructure, especially in the rural areas.

Enhancing human capital and increasing productivity

40. The Government recognizes that enhancing market-relevant skills matters, not only for social mobility but also for productivity and sustained growth. Enhancing skills for the job market forms an important part of the response to this challenge of low productivity. In addition to efforts to enhance the quality of education, the Government has committed to improve the quality and relevance of the higher education system. Specifically, the Government will continue the implementation of a strategy to increase the quality and relevance of education, involving the creation of the National System for Evaluation, Accreditation and Certification of Education (*Sistema Nacional de Evaluación, Acreditación y Certificación de la Calidad Educativa, SINEACE*). The Government has also set out to enhance the effectiveness of active labor market strategies for specific disadvantaged groups, such as undereducated youth in urban areas. While strong economic growth has improved employment conditions, employment creation, earnings and labor productivity have been distributed unevenly. Some segments of the labor force, particularly young people, continue to experience difficulties tapping new employment opportunities.

41. Small and Micro Enterprises (SMEs) are viewed as key instruments to increase productivity in an inclusive context. Peru faces a poor institutional environment for competitiveness which has resulted in excessive bureaucracy.⁷ These challenges have a direct and disproportionate impact

⁷ The World Economic Forum Global Competitiveness Report 2010-2011, page 34.
http://www3.weforum.org/docs/WEF_GCR_Highlights_2010-11.pdf

on SMEs that represent 76 percent of economically active workers in Peru⁸. SMEs contribute about 43 percent of Peru's gross domestic product (GDP).⁹ Moreover, those firms seeking access to global markets are further hampered by delays in time and expensive costs to process trade-related export and import procedures. With only 26 percent of the population having access to the formal financial sector and microfinance primarily characterized by short term working capital, there is much work still to be done to improve coverage and product diversification, particularly in rural areas. The *Superintendencia de Banca y Seguros (SBS)*, the banking and insurance regulatory agency, will work on a review of banking regulation aimed at increased service coverage and strengthening market competition, as well as product diversification. COFIDE (the Development Finance Corporation) is already working on the development of innovative programs on factoring for SMEs called *Mype Compradora*. This program is designed to improve micro and small enterprises to access finance through suppliers.

42. The Government seeks to improve productivity through the simplification of procedures for investment, increased financing of innovative technologies and use of Information and Communication Technologies (ICT), and support to better quality information systems and regulation to boost productive development. The National Council for Competitiveness (*Consejo Nacional de la Competitividad - CNC*) will be strengthened to facilitate business development (business registration, construction permits, etc.), new legislation will be issued to expand broadband and e-government services, a new National Quality System will be established, contestable funds for innovation will be strengthened (*Financiamiento para la Innovación, la Ciencia y la Tecnología - FINCYT* and *Fondo de Investigación y Desarrollo para la Competitividad - FIDECOM*), and public administrative procedures will be simplified, including procurement. Support to improve competitiveness in the agriculture sector will be also provided, including irrigation infrastructure.

43. The Government has started discussions to develop an effective public-private SME service platform that would be at the core of the productive development agenda. Competitiveness strategy and sectoral policies are already being taken care of by existing institutions. The Government plans to implement an additional public-private agency that would be in charge of providing services to SMEs on quality, standards, value chain and cluster development, and other programs to complement what will continue to be developed to reduce barriers to formality.

44. The development of the telecommunications sector in Peru has been a partial success in the last 15 years. Despite the exponential increase in telephone penetration (mobile penetration reached 96 percent as of June 2010), 73 percent of population centers that compose 12 percent of the population still do not have access to voice services. Moreover, as the sector evolved in the last decade, new technologies have not been fully supported and mainstreamed, limiting the opportunities that network convergence and access to broadband have created in the rest of the world, especially in rural and low income areas. In fact, Peru has one of the lowest broadband penetrations in the region, and the gap between the country and the rest of the region has been widening. Considering that the vast majority of the population and Micro, Small and Medium Enterprises (MSMEs) in Peru do not have access to financial services, significant efforts are still needed to reduce this gap.

⁸ Generally, the LAC Region has higher rates of female entrepreneurship and a smaller gap in participation between men and women entrepreneurs than other regions. However, in Peru (and Brazil) enterprise owners are more likely to be female, not poor, and to have secondary and even tertiary education (Women's Economic Opportunities in the Formal Private Sector – A Focus on Entrepreneurship, WB 2009). In Peru, a large proportion of these female-owned firms are micro-enterprises (44 percent) (Bruhn, 2009). Peruvian women may become entrepreneurs in order to achieve the higher rates of return to education, they cannot find in salaried employment despite their high educational achievement levels.

⁹ “The Cost of Resolving Small-Business Conflicts: The Case of Peru, Inter- American Development Bank.” Alvaro Herrero and Keith Henderson. 2003. Page 9

Underdeveloped or missing financial services infrastructure keeps transaction costs high and penetration of financial services to lower income and rural households low. Cost to serve is the single biggest obstacle when it comes to banking for the poor. Innovative mechanisms to expand access to finance are crucial to bring the poor closer to the financial sector and technology is increasingly making it viable for a wider range of players to provide financial services at the base of the pyramid.

45. With growing and competing demands, adequate water resources management is critical to improve agricultural productivity. Water is an important element of the Peruvian economy since agriculture (6.4 percent of GDP), mining (11.7 percent), and manufacturing (14.6 percent), are the main consumers of water. Moreover, 60 percent of electricity generation comes from hydroelectricity with a huge potential not being fully developed. A great part of agricultural production, either for domestic consumption or for exports, depends on irrigation. Irrigated agriculture represents about 30 percent of cultivated land, where two-thirds of the production goes to exports. The increased scarcity of water – 1.8 percent of fresh water (2,000m³/year/person) – in the Pacific Watershed – where most of the population live, the main important economic activities take place, and most of the irrigated area of Peru is located, is becoming a limitation to the country’s economic development and a source of conflict. Flooding and droughts, whose effects have been increasing due to climate change and the degradation of watersheds by human activity, cause substantial and increasing socio-economic losses. The GoP regards water resources management as critical to its growth and productivity agenda. The Government priorities focus on expanding the water storage, consolidating the institutional and regulatory framework through a basins management approach and strengthening of the national water agency and in building capacity at national and decentralized levels.

46. Peru is addressing environmental challenges to ensure sustainable economic growth and development. The Ministry of the Environment was created in 2008, together with two decentralized agencies, the National Service for Protected Areas (*Servicio Nacional de Areas Naturales - SERNANP*) and the Agency for Environmental Assessment and Oversight (*Organismo de Evaluación y Fiscalización Ambiental - OEFA*). In addition, the National Water Authority, ascribed to the Ministry of Agriculture was created in 2008. The Government aims to complete the implementation of the environmental impact assessment national system (*Sistema de Evaluación de Impacto Ambiental, SEIA*) and the environmental assessment and oversight national system *OEFA*.

47. The Government will continue with the implementation of adaptation and mitigation measures, biodiversity protection and disaster risk management. Peru is especially prone to climate change and the poor are at greater risk of being affected. The agenda includes: (i) consolidating existing policies to better integrate disaster risk management; (ii) strengthening institutional and technical capacity at different decision-making levels; and (iii) enhancing preparedness and resilience to climate-induced effects such as floods and droughts through better planning and prioritization of related investments.

Strengthened Public Sector

48. A key element for sustaining Peru’s future economic growth and social development includes improving public services at all levels of Government. The country has taken initial steps towards improving the efficiency of the public sector by transitioning to performance management throughout all branches of Government, including subnational levels, to enhance the results of nearly a decade of decentralization. Peru has adopted results-based budgeting through

twelve so-called “strategic” as well as “institutional programs” which (by end-2010) represented about 11 percent of public spending. In addition, Peru has formulated its first multi-year investment budget framework (as a first step towards the introduction of a full multi-year budget framework) which enhances planning and creates predictability. Coordination between the public sector, private sector, and international cooperation on administrative simplification will be strengthened through *TRAMIFACIL*, an initiative that will be led by the Public Sector Management Secretariat of the Presidency of the Council of Ministers.

49. The Government places a high priority on citizen participation and accountability, particularly as a tool to achieving more inclusive development. In recent years, Peru has introduced a large number of laws covering participatory budgeting, access to information, and laws creating local, regional and national consultative bodies. In addition, it pioneered a web-based portal to provide greater budget transparency (*Consulta Amigable*), which is well known in the region for providing fiscal data on all levels of government. This has served as a model for some other countries. Recent evaluations of participatory budgeting in Peru highlighted its role in improving the voice of the poor in investment decisions, leading to more pro-poor investments relative to control group communities. Currently 36 percent of local investments are determined via participatory budgeting processes. In addition, Peru has been part of the Extractive Industries Transparency Initiative (EITI) and, considering the improvements reflected on the second report and the response to remediation actions, it is likely that Peru may become a compliant country soon.

50. Moving from open government to greater accountability, transparency at all levels, and ultimately better development results is a complex process.¹⁰ Looking forward, the Government expects to strengthen and extend civic engagement beyond planning to monitoring budget execution, the quality of service delivery and the transparency and level of inclusion of the participatory budgeting process itself. In addition, the Government intends to set up several mechanisms to enhance transparency, improve justice services, and fight corruption. This commitment encompasses a set of legal and institutional measures, including the strengthening of the General Comptroller of the Republic and the reorganization of the *Organismo Supervisor de Contrataciones del Estado - OSCE*.

51. Greater efficiency of public spending is expected to be achieved through the improvement of the public financial management system, the introduction of a better targeting system for public expenditures, and the adoption of a territorial approach. The results of the 2009 Public Expenditure and Financial Accountability (PEFA) assessment, from the perspective of the six budget dimensions measured by the framework, concluded that the PFM system in Peru is functioning relatively well and is in line with international practices. The Ministry of Finance will: (i) expand the programmatic public budgeting coverage to 100 percent; (ii) improve information systems (particularly the new financial management system, *Sistema Integrado de Administración Financiera, SIAF*), to make more efficient and effective the public resources allocation; (iii) expand the accountability systems; (iv) strengthen the multiyear programmatic spending framework; and (iv) enhance the integrated territorial approach. To facilitate public investment, the National System of Public Investment will implement a strategic approach of its investment portfolio, including targeting areas with larger infrastructure gaps and introducing a monitoring and evaluation mechanism of public investment.

¹⁰ Peru has shown its interest and intent in joining the Open Government Partnership, committing to submit an action plan by March 2012 (<http://www.opengovpartnership.org/countries/peru>).

52. Public procurement is another critical area being addressed by the Government. Peru has made progress in the last few years, in particular with the extension and upgrade of the electronic procurement system, *SEACE* (“*Sistema Electrónico de Contrataciones del Estado*”) which is now largely used throughout the country. It has reformed the national procurement supervisory authority, *OSCE*, and its Tribunal (“*Tribunal de Contrataciones del Estado*”). Still, there are a number of critical flaws in the system, as well as an overall weak capacity of government entities, notably at the regional and municipal level. The Government is committed to remedy these deficiencies by implementing an action plan that was defined in 2009¹¹. The action plan calls for a system based on results with better efficiency, substantial reform of procurement mechanisms to promote open competition (Peru has suffered from an extremely low participation of bidders in government contracts), modernization of processes, and professionalization of procurement staff. To be effective, this plan will require a significant reform of the legal procurement framework that will need the support of all stakeholders interested in procurement.

53. To sustain high levels of fiscal revenues, the Government has adjusted mining taxation, improved and facilitated tax collection procedures, dealt with smuggling, limited tax exemptions and controlled tax evasion. The Government has successfully negotiated with the mining industry an increase of its tax contribution by about US\$1 billion per year. To reduce the high level of tax evasion (about 35 percent of the value added tax revenues and 50 percent of income tax) and smuggling (around 3 percent of imports), the Government will increase inspections, strengthen the *Superintendencia Nacional de Administración Tributaria (SUNAT)*, expand the coverage of customs services, simplify procedures for tax compliance, and revisit the tax code.

54. The Government seeks to reform the private pension system and increase competition among private pension funds (*Administradora de Fondo de Pensiones, AFP*)¹², develop local capital markets, and strengthen Microfinance Institutions (MFI) and Municipal Financing Agencies (*Cajas Municipales y Rurales*). A key objective sought by the Government in all areas of financial development is promoting inclusion of underserved population by reducing service costs and increasing coverage. For this purpose, an ad hoc commission has been created (including representatives from the Ministry of Finance, the supervisory agency, representatives from Congress and academics) to make recommendations to congress. In the area of Municipal Financing Agencies, COFIDE is developing alternatives for refinancing via support on bundling and monitoring mechanisms that would allow future securitization of their portfolios.

IV. WORLD BANK GROUP PARTNERSHIP STRATEGY

A. Lessons Learned from previous CPS and Stakeholder Feedback

55. The WBG’s performance in implementing the FY 07-11 CPS program is rated satisfactory in the Completion Report which is in line with the Independent Evaluation Group (IEG) Country Performance Evaluation¹³. The close alignment of the CPS with the Peruvian political cycle and with the former President Garcia’s administration development vision for Peru were important positive features of the CPS design, enabling continuity of objectives and program priorities over the entire CPS implementation period. These factors, together with the Government’s appreciation of the Bank’s role in providing access to implementation support, relevant knowledge,

¹¹ “Plan estratégico de contrataciones públicas del Estado Peruano”, Ministerio de Economía y Finanzas, OSCE, Abril 2009

¹² Four AFPs manage US\$ 76 billion (20% of the country's GDP) in retirement savings from 40% of the Peruvian labor force.

¹³ Peru, Country Program Evaluation for the World Bank Group, 2003-2009, IEG.

global experience and policy advice on difficult second-generation reform questions, put in place the foundations for largely successful CPS implementation.

56. The satisfactory design and implementation of the FY 07-11 CPS provided important lessons for this CPS. First, the Completion Report (CR) concludes that it is important to support the country's efforts with respect to its focus on results. Second, just-in time and multi-year programmatic analytical work are an important vehicle for building consensus on key reforms areas. The strong knowledge agenda and wide consultations and outreach to beneficiaries, NGOs, and other opinion-makers and stakeholders have helped to create broad reform constituencies, develop a national agenda, and underpin Bank-financed operations, particularly in the social sectors. Finally, the accuracy and relevance of the results framework can have a powerful effect in the capacity to monitor results and produce a fair evaluation of the contribution of the CPS. Strategic coordination in the implementation of complementary intervention by the Bank and IFC is a key element in improving CPS results. Evidence of this have been the joint efforts in the areas of competitiveness, SMEs strengthening, financial and capital markets, sustainable business and infrastructure development.

57. The Bank showed considerable flexibility during CPS implementation, especially by calibrating DPL lending volumes and loan products to mitigate the impact of the global financial crisis. This flexibility allowed the Government to respond with a strategy of securing access to contingent lines of credit with the aim of reassuring nervous markets in the form of development policy loans (DPL) and Deferred Drawdown Options including one that addressed Catastrophes (CAT DDO). The Government's reduced need for external funds was largely responsible for the shortfall in lending volume vis-a-vis the original CPS program. By and large, the Government's decision to reduce the size of loan amounts for individual operations (rather than drastically reduce the overall number of investment operations) is a testament to the high value that it placed on continued Bank knowledge, experience and supervision support both in designing programs and in ensuring the quality of their implementation.

58. Both the CPSCR and the IEG Country Program Evaluation provided recommendations for future WBG engagement in Peru. Challenges remain 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. IEG's main recommendations highlighted, first, the need for supporting large-scale infrastructure development through both public investments and PPPs. Second, IEG recommended the development of a more strategic approach to helping Peru realize viable, long-term improvements in public sector performance. Third, close strategic partnership with development agencies that provide concessional investment finance in social sectors was recommended in order to optimize synergies with IBRD policy lending and Analytic and Advisory Activities (AAA) in social sectors.

Stakeholder Consultations

59. The IBRD and IFC country teams undertook consultations for the preparation of the CPS with numerous State and Municipal clients, the private sector, congressmen and civil society, comprising approximately 343 direct interlocutors. As the Bank program is increasingly

at the sub-national level, consultations had a particular focus on regional and municipal government representatives and stakeholders.

60. The results from the consultations suggest that the WBG development support is very valued by most interlocutors. As detailed in Annex 10, counterparts see the WBG as a leading development institution and a key partner for the Government. Stakeholders recommended a focus on improved competitiveness through improvement in the quality of the education system and the development of adequate labor skills. The need for a second round of the modernization of the State was also identified in order to achieve a more efficient, accountable and transparent public administration. Another urgent priority is the need to strengthen subnational governments, with a focus on increasing their management capacities to improve their quality and targeting of their spending. Finally, participants stressed the need to undertake civil service reform to obtain stronger institutions and less incidence of corruption within them. There was also great concern in terms of protecting the environment, particularly in the importance of seeking a balance between the expansion of the mining sector and sustainable development. Stakeholders understand that the country has the opportunity to exploit their natural resources in a different way, taking into account the concerns of indigenous groups and other social and environmental safeguards to reduce the incidence of social conflicts related to exploitation of natural resources.

B. The Country Partnership Strategy

61. The WBG aims to support the Government’s plan of “growth with social inclusion” to overcome social gaps and boost productivity in Peru. The Government’s plan proposes maintaining sound macroeconomic policies while creating the conditions that generate better economic opportunities for those most vulnerable. The proposed areas of WBG engagement are fully aligned with the Government’s plan and focus selectively on those fields in which the Bank can provide more value added to the country. The CPS four strategic objectives are: (i) increased access and quality of social services for the poor; (ii) connecting the poor to services and markets; (iii) sustainable growth and productivity; and (iv) improved public sector performance for greater inclusion. Figure 1 summarizes the strategic objectives and expected results areas during CPS implementation covering FY12-FY16.

Figure 1
Peru Country Partnership Strategy (FY12-FY16)
Strategic Objectives and Results Areas

1. Increased Access and Quality of Social Services for the Poor	2. Connecting the Poor to Services and Markets	3. Sustainable Growth and Productivity	4. Improved Public Sector Performance for Greater Inclusion
1.1. A more inclusive and effective social protection system 1.2. A more equitable and results-oriented health and education systems 1.3. Enhanced access to justice services	2.1. Improved supply of water and sanitation services 2.2. Better transport and infrastructure to reduce inequality 2.3. Reliable energy and telecommunications	3.1. Promoting productivity through enhanced labor skills and SME's competitiveness 3.2. Sustainable rural development and water resources management 3.3. Strengthening environmental management 3.4. Improving disaster risk management and urban planning	4.1. Improved public sector management 4.2. Strengthening sub-national management capacity

Strategic Objective 1: Increased access and quality of social services for the poor

62. The Bank will support the creation of an institutional framework that fosters greater inclusion, improves the efficiency of social programs, and enhances mechanisms for better access to basic services. The Government’s priority is to implement an integrated, sound and effective social protection system in Peru, particularly in the rural areas where welfare improvements require strong and targeted policy actions to reduce inequality. *MIDIS* is the newly created institution to lead this national agenda. The Bank's dialogue with *MIDIS* has identified specific areas of support that build on: (i) substantial technical assistance and analytical work to expand coverage and quality of basic social services for the most vulnerable (including nutrition, social protection, justice services), (ii) improved results-based budgeting and accountability in social sectors; and, (iii) enhanced incentives to promote beneficiaries' participation. The Bank will also continue supporting the Ministries of Finance, Health, Education and Justice through existing and new lending operations, trust fund activities and analytical work. Figure 2 summarizes the three results areas and expected main outcomes in this strategic objective.

Figure 2

Strategic Objective 1. Increased Access and Quality of Social Services for the Poor		
1.1. A more inclusive and effective social protection system	1.2. A more equitable and results-oriented health and education systems	1.3. Enhanced access to justice services
<ul style="list-style-type: none"> • Recommendations to MIDIS on strategic planning and monitoring and evaluation systems of social programs fully implemented • <i>Juntos CCT program</i> strengthened • Improved coverage and quality of health and nutrition services in communities covered under <i>Juntos CCT Program</i> 	<ul style="list-style-type: none"> • Increased proportion of institutional births in rural areas • A national strategy for a more efficient and results oriented education system is implemented • An educational model, adjusted to most disadvantage context (e.g. rural, multigrade, bilingual) is implemented. • An integrated education management information system is implemented. 	<ul style="list-style-type: none"> • Increased number of legal services centers installed as part of the legal services network • Reduced number of days required in criminal justices processes in three judicial districts • Increased number of consultations in legal aid centers administered by the Ministry of Justice

Results Area 1.1: A more inclusive and effective social protection system

63. The Bank will support the Government’s commitment to coordinate design and implementation of social inclusion programs through *MIDIS* and the scaling up of efforts to improve nutrition outcomes. The Bank will support *MIDIS* in the initial steps of building its operational capacity. That support will include advice to enhance the impact of social programs, particularly for the *Juntos CCT Program*, *PRONAA* (National Food Assistance Program), and *Pension 65*, to strengthen the overall monitoring and evaluation systems for social programs, and to develop an integrated approach to social programs delivery at the family/household level to break the vicious circle of cumulated disadvantage. This support will also include enhancing *MIDIS'*

coordinating role across sectors and programs through *SINADIS* (National Development and Social Inclusion System). The Bank's support will be expanded when *MIDIS* becomes fully operational, possibly through a DPL, SWAp or an investment loan.

64. The Bank will continue supporting the Government's efforts to reduce chronic malnutrition rates, particularly in rural areas where the stunting rate (40 percent) is three times greater than those of the urban areas. The core intervention of the Government will continue to be the *Juntos* CCT Program and the *Programa Articulado Nutricional* (PAN). Bank support comes through the *Juntos* Results for Nutrition Sector Wide Approach Project (SWAp), which aims at improving the coverage and quality of the supply of basic preventive health and nutrition services in the communities covered under PAN. The intervention foresees increasing the number of children under 3 receiving comprehensive health check-ups in a timely manner. A Japan Social Development Fund (JSDF) trust fund will complement the *Juntos* Results for Nutrition SWAP with technical assistance and analytical work. In addition, the Bank will provide assistance to transfer the *Juntos* CCT program to *MIDIS* and the implementation of an exit strategy that protects those beneficiaries that no longer meet the criteria to participate in *Juntos* but still live in extreme poverty. Lastly, the Bank will assist in the expansion of the *Juntos* CCT Program to 200 districts.

Results area 1.2: A more equitable and results-oriented health and education systems

65. The Bank will continue supporting the GOP in improving access to and the quality of the health services for the poor. The Health Reform (*PARSALUD*) II Project will maintain its agenda aimed at improving health services for poor mothers and children in rural areas, particularly addressing the challenge of making health facilities culturally appropriate to rural environments. In addition, the project foresees advancing the decentralization of service delivery and improving the efficiency of the health insurance system, *SIS*. The Bank stands ready to provide technical assistance to the GoP's new strategy to broaden the menu of services financed by *SIS* beyond maternal and child health and for health promotion, prevention, and treatment. In turn, IFC would work with private sector agents with a proven track record and local/international know-how to promote investments in health. It has become doing so already, with *Grupo Salud*, which has a target affiliate base of circa 560,000. Multilateral Investment Guarantee Agency (MIGA) is expected to support growing needs for adequate services provided by the social security agency, *Essalud*, through a guarantee to the private sector in charge of developing four concession projects (two hospitals, an out-patient clinic and a distribution center).

66. The CPS program in education will support the national strategy to generate better outcomes in basic education. Coverage of primary education for both boys and girls is now universal, but learning outcomes are still low and unequal. The Government has requested the Bank to continue assisting the implementation of the Ministry of Education's efforts at improving learning outcomes, particularly addressing specific challenges for children from rural, indigenous communities. To this end, the Bank expects to deliver a SWAp operation aimed at putting in place a results-based strategy that closes the gaps in learning outcomes as well as a required student-centered, integrated monitoring system to improve decision-making to better allocate resources and bring greater accountability into the delivery of education services.

Result 1.3 Enhanced access to justice services

67. Ongoing support for the Government's efforts to increase access to and improve the quality of justice services for all will continue. The main instrument of support will remain the

Justice Services Improvement Project II Technical Assistance Loan (TAL) which aims to expand the coverage of legal services centers and expedite criminal justice processes. The project will continue working together with the Judiciary, the Ministry of Justice, the Attorney General's Office, the Judicial Council and the Judicial Academy. The Bank will remain engaged with other development partners in the technical debate about how to improve access to justice services in Peru. A recently approved JSDF trust fund will support the development of an integrated approach for free legal services for the poor beginning with the identification of the legal needs of the population through a survey that will provide a baseline.

Strategic Objective 2. Connecting the poor to services and markets

68. The CPS will help the authorities sharpen the focus on linking the poor to services and markets. A key priority of the Government is to improve the access of the poor to economic opportunities and public services through the expansion of integrated infrastructure both in rural and peri-urban areas. The Bank will build its support for this agenda through ongoing and new operations aimed at improving water and sanitation services, transport infrastructure and electrification. The Bank will assist the authorities in developing new approaches to territorial development that enhance the synergy across interventions. In addition, the WBG is well-positioned to support the Government’s commitment to expand coverage of telecommunications services in rural areas. Figure 3 summarizes the three results areas and expected main outcomes in this strategic objective.

Figure 3

Strategic Objective 2: Connecting the Poor to Services and Markets		
<p>2.1. Improved supply of water and sanitation services</p> <ul style="list-style-type: none"> • Increased coverage of potable water and sanitation services in rural areas • Improved systems efficiency in recording users' consumptions at the local/ community level (JASS) • Increased daily hours of water services provided in the Northern area of Lima • Reduced annual incidence of water pipe breakages and sewerage blockages in the Northern area of Lima network 	<p>2.2. Better transport and infrastructure to reduce inequality</p> <ul style="list-style-type: none"> • Increased portion of secondary road network that is in good condition • Reduced travel time and transport cost on rural roads for households and entrepreneurs • Increased participation of micro-enterprises that delivered quality routine maintenance on rural and provincial roads. 	<p>2.3. Reliable energy and telecommunications 1/</p> <ul style="list-style-type: none"> • Improved coverage of reliable energy in rural areas • Increased use of electricity for productive uses of electricity in rural areas • Increased investment in electricity distribution and/or renewable energy generation projects

1/ Outcomes for the telecommunications sector will be included in the CPS Progress Report.

Results area 2.1: Improved supply of water and sanitation services

69. The Bank will continue working on expanding the availability of sustainable water and sanitation services in peri-urban and rural settings. The Bank will build on its extensive experience in Peru to assist attainment of the Government’s objective to providing water services to at least 90 percent of the population in urban areas and 55 percent in rural areas. The ongoing Rural

Water and Sanitation Project (PRONASAR) will support this agenda in the rural areas. In the peri-urban areas of Metropolitan Lima, the current Optimization of Lima Water and Sewerage project will continue supporting *SEDAPAL*'s program to promote access to water and sanitation services to poorer groups at lower cost. In addition, the Bank's Water and Sanitation Program (WSP) will implement US\$7 million in technical assistance to create sanitation services for the poor in eight regions and to help improve the efficiency of small and medium-size urban water utilities (EPS). The Bank will continue applying gender equity good practices in water and sanitation projects.

Results area 2.2: Better transport and infrastructure to reduce inequality

70. The CPS will continue to foster the movement of people and goods with attention to extending rural roads networks and connecting critical segments of the national network. The Bank will continue supporting both the national and sub-national governments through existing rural, departmental, and urban transport projects (which could include follow-on projects). The Bank's engagement will retain a focus on the rehabilitation and maintenance of rural and departmental roads, improving planning, program consolidations (e.g. national roads/*Proyecto Peru*) and urban transport systems, as well as promoting micro-enterprise participation and female participation in routine maintenance of rural and provincial roads.¹⁴ A potential project is envisaged to support the national program for bridges rehabilitation and additional support is under discussion for a new bus line under the successful bus rapid transport (BRT) system in Metropolitan Lima. The Bank will mainstream road safety activities in potential lending operations. IFC, in turn, expects to contribute to this strategy through advice on PPPs for the network of roads to be managed under the concessions program, as well as by continuing to support private sector participation in ports, airports, rail and road projects.

Results area 2.3: Reliable energy and telecommunications

71. The CPS will support interventions that assure a cost-effective and reliable supply of energy for households, businesses, and public services and expand electricity services to rural areas. Availability of electricity in rural areas for both households and business is expected to increase considerably with the support of the two phases of the ongoing Rural Electrification Project and ESMAP-financed work in the energy sector. In addition, discussions are ongoing about possible support for new initiatives aimed at: (a) investment in new distribution lines and rehabilitation of existing lines; (b) elaboration of feasibility studies and environmental and social assessments for several hydropower plants and implementation of public-private partnerships for building them; and (c) technical assistance for the development of an integrated national energy strategy. The strategy would also include the strengthening of public electricity distribution companies to reduce losses, the expansion of transmission systems, small-scale liquefied natural gas applications for natural gas distribution, and feasibility studies for refining and commercialization of heavy petroleum reserves, and bio-diesel market and its potential for electrification. The Bank and the IFC would contribute to these fronts, through analytical work, potential investment operations, and potential support to the public and private sector in developing renewable energy.

72. As part of the Government's plan to reduce the infrastructure gap in the country, the Ministry of Transport and Communications will boost public and private investment in rural telecommunications. To bridge the telecommunication gap and integrate the poor in the digital twenty-first century, the Government has established targets for rural telecommunications and

¹⁴ For reference on the gender dimension in Peru's rural transport project see <http://www.oecd.org/dataoecd/50/60/47561694.pdf>.

broadband coverage. The Government’s plan to expand the broadband system in rural and low income areas foresees the use of existing funds in the Telecommunications Investment Fund (*Fondo de Inversión de Telecomunicaciones, FITEL*) as well as state participation in Public-Private Partnerships projects with high social returns. The ongoing dialogue with the Ministry of Communications centers on possible advisory services for: (i) optimizing existing communication networks, and, (ii) increasing transparency, accountability and citizens’ participation in service delivery.

Strategic Objective 3: Sustainable growth and productivity

73. The CPS supports the Government’s commitment to boost productivity, and address environmental challenges as the basis for sustainable development. Peru has posted major gains in total productivity, but it still lags behind other middle-income countries. The Bank will remain engaged in improving tertiary education to enable youth to profit from employment opportunities. The Bank and the IFC will promote productive inclusion and transformation of SMEs, particularly to help them improve their access to financial services and the capacity to respond to the challenges of competition through innovation. IFC clients already reach over 1,000 mainly rural MSMEs. Support for rural development will target agriculture and business development for small organizations. To address environmental challenges, the Bank will continue supporting the further development of the environmental regulatory framework and biodiversity protection as well as a better integration of disaster risk management criteria in public investment. Figure 4 summarizes the four results areas and expected main outcomes in this strategic objective.

Figure 4

Strategic Objective 3: Sustainable Growth and Productivity			
<p>3.1. Promoting productivity through enhanced labor skills and SME’s competitiveness 1/</p> <ul style="list-style-type: none"> Increased number of higher education programs and institutions with accreditation 	<p>3.2. Sustainable rural development and water resources management</p> <ul style="list-style-type: none"> Increased net value of production of families covered under the sierra rural development project Better management of water resources management and irrigation systems 	<p>3.3. Strengthening environmental management</p> <ul style="list-style-type: none"> Strengthened environment regulation National protected areas system expanded and conservation activities implemented within ecological corridors 	<p>3.4. Improving disaster risk management and urban planning</p> <ul style="list-style-type: none"> Policy and regulation framework for safe public health and education infrastructure approved and consolidated Investment projects pipeline generated for structural reinforcement of public education and health infrastructure in Metropolitan Lima.

1/ Outcomes in the area of SME’s competitiveness will be included in the CPS Progress Report.

Results area 3.1 Promoting productivity through enhanced labor skills and SME’s competitiveness

74. On labor productivity, the Bank will support the implementation of the Government’s strategy on tertiary education and job programs. An investment loan will support the implementation of a quality assurance system for higher education: the number of programs and institutions undertaking self and external evaluations will increase and a comprehensive higher education information system will enhance transparency of quality and performance. Similarly, IFC plans to support education projects by partnering with strategic clients in order to increase access to

quality education in the country. The Bank could potentially support the Government's efforts to generate employment opportunities for low-income and low-skilled youth in urban areas, through *Jovenes a la Obra* program that focused on reducing search costs and provide complementary training. Likewise, support can be provided for the skill certification program, *Vamos Peru*, which aims to improve the employability of adults in rural areas.

75. The WBG program will seek to strengthen the productive capacity of small and micro enterprises, which employ 76 percent of economically active workers in Peru. The Bank will continue implementing an Efficient Securities Markets Institutional Development (ESMID) program, which supports the development of capital markets and financial institutions aimed at improving financial access to SMEs. In the next five years, the program expects an increase of non-government bond issuance by US\$80 million in Peru. The Bank will continue supporting COFIDE in the development of an innovative factoring scheme focused on SMEs and expects to provide further assistance along the implementation phase. In addition, IFC expects to assist the GOP in areas related to public-private SME competitiveness services platform, product diversification, and incorporation of local SMEs into the supply chain of extractive companies, and implement a LAC regional initiative that address barriers to the rapid deployment of mobile solutions for banking the poor.

Results area 3.2: Sustainable rural development and water resources management

76. The support of the WBG for a more sustainable business rural development will focus on increasing the productivity in regions where the poor are concentrated through improved access to water and other inputs. The strategy of the Government to promote rural development in all regions of the country emphasizes enhancing productivity through innovation in poor regions. The Bank will help scale-up successful experiences in providing sustainable business opportunities for small organizations in rural areas, drawing on the lessons from the implementation of the Rural Development Project. In addition, the Bank would support the Ministry of Agriculture in its strategy of strengthening the agricultural innovation system and IFC expects to support sustainable agribusiness investments by the private sector with a focus on high value-added and export oriented products or segments of their supply chain. Given the high level of water scarcity in the country and especially in the poor areas, the continued implementation of the Water Resources Management Project as well as the Sierra Irrigation Project will allow the Bank to help improve water availability through the introduction of comprehensive river basin management approaches.

Results area 3.3: Strengthening environmental management

77. The Government and the WBG are exploring cooperation options to address environmental vulnerabilities and the impact of climate change. The Bank has provided technical support to the implementation of the institutional framework governing the management of environmental issues through a programmatic series of Environmental DPLs and extensive trust fund activities. The CPS will continue further developing this agenda through existing trust funds to strengthen environment regulation and institutional capacity of the environmental authority, enhancing the biodiversity conservation system, and providing lessons from adaptation to climate change pilot projects. The Bank in dialogue with the Government is exploring new technical assistance and possible lending operations to consolidate and expand the reforms initiated through the programmatic Environmental DPLs in areas of air quality, particularly the regulation of the supply of clean diesel (50 ppm or less), and the fishing sector. Support for the knowledge agenda could include updating estimates about the economic cost of environmental degradation in Peru;

strengthening of environmental management capacity in the Amazon regional governments; and promoting South-South cooperation between Brazil and Peru. In biodiversity, potential activities would include a more effective inclusion of biodiversity conservation into national and regional development plans, and support to coastal and marine protected areas through a GEF operation for the Guano Islands. In the forestry sector, activities might be oriented towards land tenure and planning in the Amazon region and the national forest investment strategy within the framework of forest and climate change.¹⁵

78. The IFC foresees a pro-active role in engaging the private sector in the implementation of the national agenda to face the challenges of climate change. The IFC will rely on the LAC regional initiative on clean energy to identify opportunities for development of clean energy sources that increase access to energy in rural areas of Peru. Such an initiative will seek to combine dual objectives of climate change mitigation and access to productive assets in the rural areas. IFC is also exploring opportunities to improve irrigation systems and water use efficiency and increase use of improved hybrids.

Results area 3.4. Improving disaster risk management and urban planning

79. The CPS will continue working on building institutional capacity to prepare for and manage the impact of disasters. Peru is a disaster prone country ranking 20th among the world's nations most vulnerable to multiple natural hazards.¹⁶ During this CPS, the Bank will assist the government building institutional capacity for disaster management as well as financial resources for emergency expenditures through ongoing policy dialogue in the DPL with a CAT DDO and trust fund-financed technical assistance. The Bank work will endeavor to help build a strong linkage between a comprehensive disaster risk management strategy at the national level and the capacity of local governments to address disaster risk and implement activities to reduce vulnerability. In addition, the Bank will assist in the design of policies and regulations for building safe infrastructure at all levels of government and the WSP will continue supporting the scaling-up of risk management practices among urban water utilities (EPS) in Peru.

Strategic Objective 4: Improved public sector performance for greater inclusion

80. While Government effectiveness in Peru has improved, the current level is still below what is needed to assure a continuous transformation of the country and achieve greater inclusion. The Bank will deepen the technical support provided to the Government in previous years and will emphasize interventions to improve social inclusion and to help reduce the country's vulnerability to a potential global crisis or commodity prices swings. Thus, the support of the Bank during this CPS will comprise strengthening tax revenue mobilization, better fiscal risk and debt management, improved public expenditure management with focus in results, and strategic support to sub-national governments and business regulation enhancement to promote inclusive growth. The engagement under this strategic objective will assure continuity of the strong support that the Bank

¹⁵ Peru is a member of the Forest Carbon Partnership Facility (FCPF), and a pilot country of the Forest Investment Program, which is part of the Climate Investment Fund. The Bank is trustee of these two initiatives, which aim at assisting countries in their readiness process to Reduce Emissions from Deforestation and Forest Degradation (REDD+).

¹⁶ World Bank, Natural Disaster Hotspots, 2005, Table 7.2: Countries at Relatively High Economic Risk from Multiple Hazards, p. 89.

has provided in Peru in advancing good governance and mitigating corruption. Figure 5 summarizes the two results areas and expected main outcomes under this strategic objective.

Figure 5



Results Area 4.1: Improved public sector management

81. The WBG support to enhance the management capacity in the revenue authority *SUNAT* is intended to help the Government in achieving its tax revenue collection target of 18 percent of GDP by 2015. The Bank program of support will build on the joint analysis of the tax administration and the customs agency performed in 2010 and 2011 that has identified potential areas for improving revenue capacities of *SUNAT*. In the case of revenue collection, the areas include the upgrade of information systems and the use of risk analysis to control evasion, the reduction of compliance costs, and improving enforcement capacity. In the area of customs, the emphasis will be on strengthening controls and contraband prevention. The Bank’s support would be carried out through knowledge or Fee-Based-Service (FBS), as well as through an IFC Trade Logistics project focused on strengthening IT capacities and processes at customs.

82. The Bank will continue its collaboration with the Government to strengthen its risk management. In coordination with the Ministry of Finance, the Bank will design a three-year advisory services program funded by the Global Debt Management and Fiscal Risk Trust Fund (GDRF) to cover debt management, contingent liabilities and the exposure to risks due to the volatility of commodity prices. The Bank will also provide technical assistance to the Ad Hoc Commission created by the Government for the implementation of a thorough reform of the private pension system. The reform would include creating room for more competition focused on asset management, promoting lower operation costs, adjusting commission structure, and improving risk management.

83. The Government of Peru aims to continue enhancing the quality and impact of public spending through better expenditure management practices. The Bank support will build on the achievements and lessons of past assistance to improve the performance and accountability of public spending and procurement. During this CPS, the Bank will move from targeted interventions to a comprehensive program aimed at strengthening management capacity at all levels of government and consolidating successful experiences such as the development of the first multi-year investment budget and the introduction of performance-informed budgeting and decentralized internal control and audit systems. While there is clear demand for support, the Government program is still

evolving. Bank support will be better defined once this dialogue matures but it is expected to focus on strengthening the management framework both at national and local level to balance the need to maintain quality control of investment with accelerated expenditure execution. This support is expected to materialize through a DPL program.

84. IFC will support the modernization of the public sector to reduce the regulatory costs of doing business. The activities of IFC engagement would include: (a) improved inspection processes for business operation and construction licenses as well as reduced transaction costs for all firms (SMEs and larger companies); b) streamlined procedures to obtain key licenses, permits, and inspections to create and operate tourism-related businesses, particularly SMEs offering these services; c) improved trade logistics systems and services by facilitating faster import and export processes and developing a modern risk management system to reduce and standardize cargo inspections.

85. The Bank aims to support the Government's objective of fighting corruption to achieve a more efficient and transparent public sector. To advance this objective and foster trust in government and institutions, activities will aim at broadening engagement with civil society to identify and strengthen mechanisms of social accountability in critical areas. These can only be achieved through strengthening transparency and accountability systems at all levels of government to increase citizens' political awareness and promote public demand for better and more equitable public services. The Bank would support Peru in developing and implementing an anti-corruption strategy by broadening the implementation of the Governance and Anticorruption (GAC) agenda through: (i) activities related to the open data initiative already launched by the National Statistics Institute and the Municipality of Lima, and potential activities related to future engagement of Peru in the Open Government Initiative; (ii) the strengthening of the procurement system, initially through an Institutional Development Fund (IDF) for a training program for procurement officials; and (iii) the provision of technical assistance, through a Governance Partnership Facility (GPF), to the executive and the Controller General's Office on the monitoring of corruption-related risks.

Results Area 4.2: Strengthening sub-national management capacity

86. The agenda to help strengthen local government and advance further the decentralization agenda will focus on removing systemic constraints. In recent years, the rate of implementation of public investment projects at all levels of government has not improved. Sub-national administrations face systemic hurdles in procurement, human resources, financial management, and public investment systems. The Bank will support the Government's efforts with instrument that would include technical guidance to strengthen sub-national capacity for enhanced investment performance including an initial diagnosis stage (short term) involving the implementation of the Rapid Assessment and Action Plans (RAAP) methodology to different sets of sub-national governments. This intervention would allow a quick and comprehensive identification of key bottlenecks associated with different capacities and needs in Peru's sub-national governments (according to their characteristics, size and location). A proposal of quick-win actions to speed up execution rates of public investment will follow.

87. IFC will continue to work on strengthening the demand for good governance at the local level that increases the responsiveness, responsibility and accountability of local governments. The ongoing *MIM (Mejorando la Inversión Municipal, Improving Municipal Investment)* Project aims to enable communities and civil society organizations to exercise their rights to ensure that authorities are responsive and accountable in their use of royalties. Currently

reaching 20 municipalities in 5 regions, the project will continue until the end of 2014 expanding its reach to 30 local governments in 8 regions. In addition, IFC is implementing a 4-year capacity building program that will reach 30 local governments receiving vast amounts of transfers for financing local investments (mainly canon). The purpose is to improve sub-national governments' investment efficiency and thus, increase access to public services on the part of the local population. The work is progressing in close coordination with the Ministry of Finance, with an aim to introduce tested tools and methodologies as standards for strengthening sub-national governments' investment management.

Proposed Program of Lending and Non-Lending Activities

88. The WBG institutions (IBRD, IFC and MIGA), will work together to deliver an integrated package of financial products, guarantees and knowledge services based on relative comparative advantages. Building on the lessons learned, the WBG institutions will work in a complementary fashion in order to generate synergies. Various areas have been already identified, including advisory work on pensions reform, support to the development and implementation of PPPs, the development of the sub-national agenda. As the CPS program matures, the WBG institutions will seek to identify potential areas for collaboration.

89. Given the strong degree of continuity from the previous CPS, implementation of the current IBRD portfolio will be crucial to achieving CPS outcomes for the FY12-16 period. The current Bank program includes a portfolio of thirteen on-going operations. In addition there are three DPL-DDOs and one DPL with a CAT DDO open and two GEF grants. All these operations amount to a total of US\$1.95 billion. Seventy six percent of the current portfolio is undisbursed, including US\$1.1 billion in DDOs (See Annex 8). Six out of seventeen active operations were approved in FY11.¹⁷

90. Program performance improved significantly over the FY07-FY11 CPS period and currently there are no commitments at risk. Frequent performance portfolio reviews (three times per year) jointly with the Ministry of Finance and the Implementing Agencies have resulted in greater responsiveness from all parties to solve operational issues. The disbursement rate of investment operations more than doubled between FY07 and FY11, from 10.2 to 25.1 percent (with a peak of 37.8 percent in FY10). The implementation progress of all active investment projects (13) is rated moderately satisfactory (MS) or satisfactorily (S). On average, fiduciary risk is rated as moderate and, in general, mitigating measures are adequately implemented.

91. Despite a satisfactory performance, there are some areas that may require further strengthening and follow-up in the portfolio review. As it relates to financial management, project implementation has gradually moved and benefitted from PFM improvements in budget preparation and execution through the integrated financial management system SIAF-SP. During the current CPS program, the Bank will continue seeking opportunities to deepen the use of country systems, mainly in the areas of financial reporting and treasury. The technical MoU with the Auditor's General Office has been revised to include some specific measures that can help to minimize delays in the

¹⁷ These comprised: the first CAT DDO (US\$100 million), Sierra Irrigation (US\$20 million), Second Justice Improvement (US\$20 million), Results in Nutrition (US\$25 million), Lima Optimization of Water Systems (US\$54.5 million), and Second Rural Electrification Project (US\$50 million). In addition, three DPLs were approved and fully disbursed in FY 11: Third Environmental DPL (US\$75 million), Fourth Fiscal Management and Competitiveness DPL (US\$100 million), and Third Results and Accountability in Social Sectors DPL (US\$50 million),

appointment of external auditors.

92. IFC's current committed portfolio in Peru is US\$835.1 million composed of loans, equity, guarantees, and risk management products. Senior loans are the most common product and represent 70.9 percent of the total portfolio, while equity, quasi equity products and guarantees also represent an important share of the current committed portfolio (17.1 percent, 6.0 percent and 5.7 percent, respectively). In terms of industries, Oil, Gas & Mining holds 46.4 percent of the current committed portfolio, followed by Infrastructure and Financial Markets, each holding an amount equivalent to the 19.5 percent of the total committed portfolio. The current portfolio has also investments in the Manufacture, Agribusiness, Health & Education, Sub-national Finance and Investment Funds industries.

93. The Bank program will focus on the selected areas of support and will be flexible to respond to possible changes in demand from the Government. Financial and knowledge services will be managed as a comprehensive package of support under each CPS strategic theme to deliver timely and flexible development solutions. There are no deliverables expected for FY12 given that there is a new Government, and a review of the proposed work was carried out during the early months of this administration. The indicative lending program is expected to be relatively small at about US\$250 million per annum, given that the Government is mostly interested in the policy reform support under DPL operations and in implementation support, through the investment lending program. At this point, interest in access to more traditional IBRD lending products is limited given the positive economic context of the country. As a result, much of the investment lending operations would support relatively large Government funded programs, where external financing tends to be the lesser fraction of the overall program. This is the case of the on-going Health Reform Program, the Water Resources Management Project, the Rural Water Supply and Sanitation Project, among others. Building on the existing portfolio the Bank will gradually adapt its program offering new or additional financing when deemed appropriate as well as using the range of instruments to respond to Government's demands. The confirmed program will be included in the CPS Progress Report. The CPS outcomes reflect the overall results of the programs supported by the Bank through both financial and knowledge services. Table 4 shows an indicative list of activities that would be initially supported during this period. Actual delivery of the lending program will depend on IBRD lending capacity, overall country demand as well as demand from other borrowers, global economic developments, and country access to the markets and available administrative budget.

94. Trust funds will continue to be a significant part of the Bank's engagement with Peru. As trust fund resources are not predictable for the purpose of the CPS, the WBG will ensure that activities financed by trust funds follow the thrust of this strategy, in agreement with the Government counterparts. Existing grants are also expected to provide valuable AAA and technical assistance (TA) during this CPS period (Annex 8B). They support the harmonization and alignment of funding from various development partners behind core government programs. The WBG's Trust Fund (TF) portfolio (currently over US\$39 million) has been expanding significantly, and the range and variety of TF arrangements have increased the supervision needs. In this regard, the WBG is taking a more proactive TF monitoring which includes portfolio reviews carried out twice a year jointly with the Ministry of Finance and the implementing agencies, and simultaneously with the regular Country Portfolio Performance Review (CPPRs).

Table 4: Indicative World Bank Program (FY12-16)

Social Inclusion with continued Growth¹⁸			
Strategic Objectives	Current Portfolio, FY12-16	Proposed Lending, FY13-15	Knowledge Services, FY 12-15
1. Increase access and quality of social services for the poor	<ul style="list-style-type: none"> • Health Reform Program II (APL) • Results Nutrition for Juntos SWAp (SIL) • Justice Services Improv. II (TAL) • Real Property Rights II (SIL) 	<ul style="list-style-type: none"> • Health Program • Basic Education SWAp • Social Inclusion DPL • Social InclusionTAL 	<ul style="list-style-type: none"> • Advisory Education Sector • HD Support to Lima Municipality • Recurso V • Gender and Agency Study • Programmatic Poverty NLTA Series • Programmatic Knowledge for Social Protection
2. Connecting the poor to services and markets	<ul style="list-style-type: none"> • Decentralized Rural Transport Project (SIL) • Regional Transport Decentralization (SIL) • Optimization of Lima Water & Sewerage (SIL) • National Rural Water Supply and Sanitation + Add. Financing(SIL) • Rural Electrification, (SIL) • Second Rural Electrification (SIL) 	<ul style="list-style-type: none"> • Decentralized Rural Transport Project, Add. Financing • Regional Transport Decentralization Add. Financing • Optimization of Lima Water & Sewerage Add. Financing, • Bridges and Road Safety 	
3. Sustainable growth and productivity	<ul style="list-style-type: none"> • Sierra Rural Development Project (SIL) • Water Resources Management (SIL) • Sierra Irrigation (SIL) 	<ul style="list-style-type: none"> • Sierra Rural Development Project Add. Financing • Water Resources Management, Add. Financing • Agricultural Innovation • Higher Education Quality Assurance • Cuzco Regional Development Project 	<ul style="list-style-type: none"> • SME Finance • Financial Sector Work • Trade Competitiveness and Growth • Amazon Management Framework NLTA • Irrigation Sector Note
4. Improved public sector performance for greater inclusion		<ul style="list-style-type: none"> • Performance Management and Fiscal DPL 	<ul style="list-style-type: none"> • Programmatic Governance & Governability NLTA Series • Pension Reform NLTA

¹⁸ The Trust Fund portfolio is included in Annex 8. The Proposed Lending and the Knowledge Services listed in Table 4 are indicative. The latter includes only those AAA which are currently programmed. It is expected that additional activities will occur as the dialogue with the client progresses.

95. Knowledge partnership will be key to the successful implementation of the CPS and, in some areas, the most important vehicle for WBG engagement, in line with experience in other MICs. The CPS will build on the WBG's existing AAA and TA program, which currently includes: (i) analysis that supports Government's development agenda (e.g. poverty assessments, public expenditure efficiency at the subnational level); (ii) policy notes, think pieces for knowledge generation and background papers; and (iv) hands-on TA and programmatic, multi-year knowledge services. While the Bank expects to continue providing AAA services, some of the knowledge services will be carried out through Fee-Based-Services, given that these are now allowed under Peruvian law. In addition, the WBG will continue using South-South learning, as it has been the case in the transport and education sectors.

96. IFC's Advisory Services will work closely with the World Bank on national and subnational policy. These efforts will include policy advice, assessments and technical assistance. In all its efforts, IFC will look to incorporate the voice of the private sector into the policy discussion. The IFC's Advisory Service Program is an increasingly important part of IFC's engagement in Peru and for this CPS it expects to manage project funds of approximately US\$10 million, of which US\$8million will be donor funded, to provide policy advice, consultation, and technical assistance in support of sustainable and broad-based economic growth.

Monitoring and Evaluation

97. The WBG intends to monitor CPS results via: (a) regular project/program implementation support; (b) CPPRs, carried out three times per year; (b) reviews of the recipient-executed TF portfolio, twice per year; (d) client demand and feedback, in particular with respect to knowledge services; (e) Bank internal independent evaluations; and (f) the mid-term CPS Progress Report.

Partnerships

98. The Bank expects to continue collaborating with development partners in a similar fashion to the previous CPS. Coordination with Inter-American Development Bank (IADB) is expected to continue, both through the co-financing of projects as well as through joint knowledge services efforts. In addition, the Bank will continue to participate in various cooperation groups and subgroups operating in the country. To avoid duplication of actions, the Bank is being particularly active in the subgroups of Justice, Decentralization and the monitoring of PEFA initiative with the Ministry of Economy and Finance. For the next few years, the WBG is expected to continue coordinating with the different donor agencies especially in those areas in which agendas coincide, for example, social inclusion, increased competitiveness and governance.

V. RISKS

99. Weak external environment, volatile commodity prices, fall in fiscal revenues and deterioration of external financial conditions. The economy will continue to be vulnerable to a potential global crisis as well as to commodity prices swings affecting primarily gold and copper export earnings, as well as fiscal revenues. Peru is sensitive to a fall in commodity prices and its impact on fiscal revenues. Fiscal revenues generated from the taxation of commodities are around 17.5 percent of total fiscal revenues. With an elasticity of fiscal revenues to commodity prices at around two, a fall in commodity prices of ten percent is associated with a decline of fiscal revenues of about 3.5 percent. However, Peru exports a number of commodities whose prices are not highly correlated, thus generating a natural hedge against a price or volume fall. While this reduces the

impact of a fall in commodity prices, the government also mitigates the potential effect through fiscal savings of about US\$6.7 billion in its fiscal stabilization fund which can be used to implement a countercyclical fiscal policy if required. Tighter global financial conditions would also lower inflows of private capital envisaged in macroeconomic projections; and public external financing conditions also could be affected. The Government is well aware of these risks and is already attempting to improve its capacity to respond to these shocks by running countercyclical fiscal policies to ensure that GDP growth does not decline much, as well as other policies to make sure that inflation remains low and within the targeting bands, and that currency does not suffer sharp movements that may cause confidence and the economy to deteriorate. The CPS program is supporting the strengthening of tax revenue collection, fiscal risk and debt management, and overall efficiency of public expenditure management. In addition, Peru has about US\$1.1 billion of precautionary line of credit from the World Bank (DDO).

100. Social conflicts may challenge political stability. There has been opposition from rural and poor communities to new extractive projects that jeopardize their livelihoods and environment. The Ombudsman Office reported about 220 social conflicts around the country (Nov. 2011). The current Government is taking steps to mitigate these risks. A new law regulating the right of indigenous communities to prior consultation on matters affecting their collective rights and quality of life was approved a month before the new administration took place. This regulation will strengthen the state's mediation capacity in such conflicts to harmonize social and environmental concerns with business interests. Another source to ease this tension has been the agreement between this Government and the mining companies to establish a new taxation scheme, allowing the central Government to capture more resources and redistribute them among the SNGs. The Government will have to complement these efforts by measures to expand social services and to strengthen the justice and governance framework. In addition, there is also a possibility that social conflict risk may arise in connection with Bank operations. The Bank will advise the government to set up grievances mechanisms in said Bank supported operations.

101. While the risk of corruption affecting WBG projects and portfolio is considered to be relatively low, a possible lack of political will and government commitment to improve GAC standards still persists. While the country has undertaken considerable efforts to deal with the legacy of corruption dating back at least two decades – mostly by way of criminal prosecution and the recovery of assets – overall governance indicators have not significantly improved since the 1990s as shown by the World Bank Institute (WBI). The WBG will continue to support the GOP through a lending portfolio with a strong focus on governance and accountability, building and expanding on improvements achieved in the areas of financial management and the budget process.

102. The lack of continuity of personnel in counterpart agencies can undermine the Government's efforts to implement the growth with social inclusion agenda. Facing the lack of a civil service system, there is always a risk that turnover of public sector employees will result in implementation delays. The Government has announced the institutionalization of the National Center of Public Employment in the Ministry of Labor to reorganize several public hiring regimes and allow for the creation of a civil service system based on meritocracy. The Bank will support the Government's efforts in implementing Peru's growth with the social inclusion agenda through concrete support to *MIDIS* with lending operations and substantial technical assistance.

Annex 1: Peru FY12-FY16 CPS Results Matrix

Development Challenges and Issues	Outcomes Directly Influenced by the Program	Milestones	WBG Instruments
Strategic Objective 1: Increase Access and Quality of Social Services for the Poor			
Results Area 1.1: A more Inclusive and Effective Social Protection System			
<p>National poverty rate is still high (over 30 percent) and trends seem to suggest that inequality between urban and rural areas is on the rise. Prospects of further welfare improvements, particularly in the rural areas, are small in the absence of policy action.</p> <p>High levels of chronic child malnutrition rates (overall 23.2 percent in 2010), particularly in rural areas (40.3 percent in 2009).</p>	<ul style="list-style-type: none"> ❖ Recommendations on strategic planning, targets, and monitoring and evaluation systems of social programs fully incorporated in MIDIS. ❖ Strengthened <i>Juntos</i> CCT Program, as evidenced by: <ul style="list-style-type: none"> ✓ The program is expanded by at least 200 districts; ✓ A graduation and “exit” strategy for beneficiaries are designed and have started implementation ❖ Improved coverage and quality of the supply of basic preventive health and nutrition services in the communities covered under the PAN including <i>Juntos</i> as evidenced by: <ul style="list-style-type: none"> ✓ Children under 36 months with timely and comprehensive health check-ups (CRED) in <i>Juntos</i> districts located in the areas of intervention targeted by the SWAp operation increased from 10.7 percent (2011) to 40 percent (2014). 	<ul style="list-style-type: none"> ❖ MIDIS’ organizational and management rules enacted. ❖ Agencies, programs or projects are transferred from sectors to MIDIS, including <i>Juntos</i> CCT Program, Foncodes, and Pronaa. ❖ The national registry of beneficiaries of <i>Juntos</i> CCT Program is functioning. ❖ SINADIS is launched and operating as the inter-sectoral coordinating agency for social sectors (2012). ❖ <i>Juntos</i> beneficiaries under 24 months whose CRED information matches SIS data within 45 days of attention increased from 30 percent (2011) to 70 percent (2013). ❖ Mother beneficiaries with children under 36 months that have attended at least one demonstrative session in the <i>Juntos</i> districts located in the areas of intervention of the SWAp increased from 0 percent (2011) to 25 percent (2014). 	<p><i>Ongoing Lending:</i></p> <ul style="list-style-type: none"> • Juntos Results for Nutrition Project SWAp (SIL, FY11-FY16) • Second Results & Accountability in Social Sectors (DPL/DDO, FY09-FY13) <p><i>Indicative Lending</i></p> <ul style="list-style-type: none"> • Social Inclusion DPL (FY13-14) • Social Inclusion TAL (FY13) <p><i>Ongoing Trust Funds:</i></p> <ul style="list-style-type: none"> • National Results Based Monitoring, Evaluation and Information (IDF) • Participatory intervention model to improve child nutrition (JSDF) • Peru: Scaling Up Nutrition (SUN) • Assessing the Distributional impacts of Peru's social programs decentralization (PSIA) <p><i>Recent and Planned AAA:</i></p> <ul style="list-style-type: none"> • Recurso V: Understanding accountability: Can better parental knowledge help improve basic childhood development outcomes? (ESW, FY12) • Support Metropolitan Municipality of Lima in its <i>Igualdad</i> Strategy (NLTA, FY12) • Programmatic Knowledge Service for Social Protection (ESW, FY13) • Programmatic Poverty (NLTA, FY12-14) • Peru Gender and Agency (ESW, FY12)

Results Area 1.2: A more equitable and results-oriented health and education systems			
<p>Weak access and low quality of health care services for the poor: children, mothers, and population affected by chronic diseases.</p> <p>Peruvian students lag behind their peers in comparable countries in the region and worldwide and experience the deepest inequities in learning outcomes. Less than a quarter of second grade students reach sufficiency in reading and almost half are unable to do basic math.</p>	<ul style="list-style-type: none"> ❖ Increased proportion of institutional births in rural areas in the 9 poorest regions from 44 percent (2005) to 80 percent (2015). ❖ A national strategy for a more efficient and results oriented education system is fully implemented by 2016. ❖ Disadvantaged schools (rural, multigrade, bilingual, and inner city) implemented a student-centered educational model that promotes active, autonomous, cooperative learning, engages families and communities, and is pertinent to their context by 2016. ❖ An Integrated Education Management Information System (EMIS) is implemented for acquisition, processing, dissemination, and reporting data on students, teachers, schools, system administration, results and performance by 2016. 	<ul style="list-style-type: none"> ❖ About 450 Maternal Waiting Homes (MWHs) in operation throughout the country (2014). ❖ About 30 percent of health facilities in rural areas of two regions are culturally adequate to provide vertical deliveries (2014). ❖ Results-based management systems for the allocation, execution and accounting of public resources (SIGA-MEF) and for monitoring and evaluation of intervention strategies (SIGMA-MED) consolidated for the Strategic Program for Learning Outcomes (PELA) activities. ❖ Inform policy debate on educational models that provide students with better quality, more engaging learning opportunities, particularly in the most disadvantaged context (rural, multigrade, bilingual, and inner city). 	<p><i>Ongoing Lending:</i></p> <ul style="list-style-type: none"> • Health Reform Program II (APL, FY09-FY15) <p><i>Indicative Lending:</i></p> <ul style="list-style-type: none"> • Basic Education Project SWAp, (SIL, FY13) • Health Reform Program III (FY14) <p><i>Ongoing Trust Funds:</i></p> <ul style="list-style-type: none"> • Strengthening Accountability and Results-Based Management in Education (SFLAC) <p><i>IFC activities:</i></p> <ul style="list-style-type: none"> • Possible financing for private sector education providers • Potential IFC direct investment and/or support for PPP health services programs <p><i>MIGA activities:</i></p> <ul style="list-style-type: none"> • Potential operation in health sector
Results Area 1.3: Enhanced Access to Justice Services			
<p>The quality of service delivery of the Judicial system and access to justice is still inadequate.</p>	<ul style="list-style-type: none"> ❖ At least 6 legal services centers installed as part of the legal services network by 2015. ❖ Number of days required in criminal justice processes in 3 judicial districts decreased from 835 (2011) to 209 (2015). ❖ Increased number of consultations in legal aid centers administered by the Ministry of Justice from 100,000 (2011) to 250,000 (2015). 	<ul style="list-style-type: none"> ❖ Legal services demand identified using data from a survey on legal demand to be implemented by 2013. ❖ Program to promote and increase the public awareness on legal rights implemented (2013). ❖ Youth anti-violence network program implemented (2013). 	<p><i>Ongoing Lending:</i></p> <ul style="list-style-type: none"> • Justice Services Improvement II (TAL, FY11-FY16) <p><i>Ongoing Trust Fund:</i></p> <ul style="list-style-type: none"> • Enhancing Integrated Legal Strategies for the Poor (JSDF)

Strategic Objective 2: Connecting the Poor to Services and Markets

Results Area 2.1: Improved Supply of Water and Sanitation Services

<p>Water services coverage is still low, particularly for the poor population living in peri-urban and rural areas.</p>	<ul style="list-style-type: none"> ❖ Number of daily hours water services provided in the Northern area of Lima increased from 16 to 24 (from 2011 to 2016) ❖ Annual incidence of water pipe breakages per km of water supply network and sewerage blockages per km of sewerage network in the Northern area of Lima decreased from 0.21 to 0.11 and 8.75 to 4.38, respectively (from 2011 to 2016) ❖ Increased coverage of potable water and sanitation services in rural areas, as evidence in: <ul style="list-style-type: none"> ✓ Number of rural people having access to potable water increases from 158,000 (2010) to 256,000 (2013). ✓ Number of rural people having access to hygienic sanitation increases from 142,000 (2010) to 242,000 (2013). ❖ Improved systems efficiency in recording users' consumption at the local/community level, as evidence by: <ul style="list-style-type: none"> ✓ Number of JASS operating and maintaining the systems with updated records of users showing monthly households payments increased from 157 to 489 (from 2010 to 2013). 	<ul style="list-style-type: none"> ❖ Number of communities with households demonstrating adequate hand-washing practices increased from 283 to 400 (from 2010 to 2013) 	<p><i>Ongoing Lending:</i></p> <ul style="list-style-type: none"> • National Rural Water Supply and Sanitation + AF (FY03-FY14) • Optimization of Lima Water & Sewerage (SIL, FY11-FY17) <p><i>Indicative Lending:</i></p> <ul style="list-style-type: none"> • Optimization of Lima Water and Sewerage Project Add. Financing (SIL, FY14) <p><i>Ongoing Trust Funds:</i></p> <ul style="list-style-type: none"> • Water and Sanitation Program (WSP) <p><i>IFC Activities:</i></p> <ul style="list-style-type: none"> • Direct investments in private sector water and sanitation programs, and/or through subnational administrations where possible • Advisory services support for PPP programs water and sanitation programs, subject to government policies
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Results Area 2.2: Better Transport Infrastructure to Reduce Inequality

<p>Rural populations do not have adequate integrated transport infrastructure to access local markets and services</p> <p>The regional investment and maintenance interventions on transport infrastructure do not respond to strategic planning and budgeting.</p> <p>Urban transport systems lack efficiency increasing the day-to-day costs of transportation.</p>	<ul style="list-style-type: none"> ❖ Increased portion of secondary road network that is in good condition. ❖ Travel time and cost on rural roads is reduced by improving access to rural households and entrepreneurs to goods, social services, and income generating opportunities. ❖ <i>Follow-up projects are under discussion with the Government. Concrete outcomes will be included in the CPS Progress Report.</i> 	<ul style="list-style-type: none"> ❖ Rural road lengths of about 3,350 km are rehabilitated; 7,500 km are maintained periodically; and 2,360 km on non-motorized tracks are rehabilitated at project standards. (2013) ❖ Approximately 150 Provincial Road Institutes are fully operational. (2013) ❖ A number of 24 participatory regional road plans are approved and adopted. (2013) ❖ Regional road lengths of about 1,780 	<p><i>Ongoing Lending:</i></p> <ul style="list-style-type: none"> • Decentralized Rural Transport Project (SIL, FY07-FY12) • Regional Transport Decentralization (SIL, FY06-FY12) <p><i>Indicative Lending:</i></p> <ul style="list-style-type: none"> • Decentralized Rural Transport Project Add. Financing (SIL, FY14) • Regional Transport Decentralization Add. Financing (SIL, FY13) • Bridges and Road Safety (SIL, FY15)
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		<p>km are rehabilitated; 2,200 km are maintained periodically; and 2,545 km are under routine maintenance. (2013)</p> <ul style="list-style-type: none"> ❖ At least 670 qualified micro-enterprises are delivering quality routine maintenance on rural roads. (2013) ❖ About 80 qualified micro-enterprises are delivering quality routine maintenance on provincial roads. (2013) 	<p><i>IFC Activities:</i></p> <ul style="list-style-type: none"> • Advisory services for PPP programs to expand networks and potential financing support for port, airport, rail or road projects
Results Area 2.3: Reliable Energy and Telecommunications			
<p>Coverage of electricity services in rural areas remains low (55 percent) limiting the expansion of economic activities</p> <p>Recent years have seen risks of electricity supply interruptions while investment in distribution and development of renewable energy, including hydropower, has been limited.</p> <p>The country has one of the lowest broadband penetration in Latin America and universal access to telecommunications services has not been achieved limiting the opportunities of using technologies for the poor.</p>	<ul style="list-style-type: none"> ❖ Increased coverage of electricity services in rural areas to 85 percent by 2016, as reflected by: <ul style="list-style-type: none"> ✓ 84,000 new household electricity connections in rural areas (2015) ❖ Increased use of electricity for productive uses of electricity in rural areas as part of social inclusion, as reflected by: <ul style="list-style-type: none"> ✓ MWh/year of electricity for productive uses in targeted rural areas increased by 8,000 (2015) ✓ Productive units adopting electricity equipment increased by 10,000 (2015) ❖ Increased investment in electricity distribution and/or renewable energy generation (including hydropower) projects. ❖ <i>Outcomes for the Telecommunications sector will be included in the CPS Progress Report.</i> 	<ul style="list-style-type: none"> ❖ Improved reliability of rural distribution and public/private partnerships in renewable electricity generation. ❖ Inform policy discussion on Public-Private Participation in rural telecommunications investment. 	<p><i>Ongoing Lending:</i></p> <ul style="list-style-type: none"> • Rural Electrification (SIL, FY06-FY13) • Second Rural Electrification (SIL, FY11-FY16) <p><i>Ongoing Trust Funds</i></p> <ul style="list-style-type: none"> • Peru Rural Electrification Project (GEFIA) • Support Productive Uses Promotion Peru (ESMAP) <p><i>IFC Activities:</i></p> <ul style="list-style-type: none"> • Potential IFC financing support to investments in renewable energy
Strategic Objective 3: Sustainable Growth and Productivity			
Results Area 3.1: Promoting Productivity through Enhanced Labor Skills and SME's Competitiveness			
<p>Unemployment rate among tertiary graduates is higher than the national average and about one-third of those who are employed do not work in their line of specialization.</p>	<ul style="list-style-type: none"> ❖ Increased number of higher education programs and institutions with accreditation (according to standards) in key disciplines: Education, Medicine, Other Health Sciences, Law, and Engineering, at the University level; and Health, Education, and Technological, at non-university higher education institutes (IESNU) level. 	<ul style="list-style-type: none"> ❖ CONEAU and CONEACES make first accreditation decisions on Education programs (2012) ❖ The Quality Improvement Fund (FEC) is underway, including a first round of Improvement Plans under implementation. (2013) 	<p><i>Indicative Lending:</i></p> <ul style="list-style-type: none"> • Higher Education Quality Assurance (SIL, FY13) <p><i>Ongoing Trust Funds</i></p> <ul style="list-style-type: none"> • Strengthening the national System for Evaluation and Quality Assurance of Education (IDF)

<p>Poor institutional environment for competitiveness affects disproportionately SMEs (contribute about 43 percent of GDP). Delays in time, excessive costs of procedures and limited access to formal financial services hampers entrepreneurship and expansion of small and medium businesses</p>	<p>✓ <i>A lending operation in this area is under preparation. Concrete outcomes will be included in the CPS Progress Report.</i></p> <p>❖ <i>Outcomes related to SME's competitiveness will be included in the Progress Report.</i></p>	<p>❖ A comprehensive higher education information system, including both "Higher Info" and "Professional Future Observatory" is functioning. (2015)</p> <p>❖ Inform policy debate with recommendations on enhancing active labor public programs.</p> <p>❖ Support to private sector to increase access to finance.</p> <p>❖ Web-based platform offering expert advised to SMEs established with training modules (2013)</p>	<p><i>Ongoing AAAs:</i></p> <ul style="list-style-type: none"> • SME Finance (NLTA, FY12) • Financial Sector Work (NLTA, FY12) • Trade Comp and Growth (ESW, FY12) <p><i>IFC activities</i></p> <ul style="list-style-type: none"> • Possible financing for private sector technical education providers • Potential financing of SMEs and development of the securities market • Local sourcing platform project
<p>Results Area 3.2: Sustainable Rural Development and Water Resources Management</p>			
<p>Limited access to financing support and technical assistance for rural population reduces productivity growth</p> <p>The rising lack of water, particularly in the Pacific Watershed where most of the population live and activities take place, is becoming a restriction to the country's economic development and an increased source of conflict</p>	<p>❖ Net value of production of families participating in the Sierra Rural Development project increased, as evidenced by:</p> <ul style="list-style-type: none"> ✓ Composite index increased by 20 percent for at least 18,000 families by 2014. <p>❖ Better management of water resources and irrigation systems as evidence by:</p> <ul style="list-style-type: none"> ✓ 3 River Basin Councils created by project and operated by 2015, linked to the WRM project ✓ 3 participatory, integrated, basin- scale plans approved by 2015, linked to the WRM project ✓ About 750 producers benefited from improved on-farm irrigation management carried out by the Sierra Irrigation Project (2016) 	<p>❖ 26,000 families increased the value of their animals, agriculture products, & infrastructure.</p> <p>❖ River basin management plans formulated.</p> <p>❖ National water quality strategy designed.</p>	<p><i>Ongoing Lending:</i></p> <ul style="list-style-type: none"> • Sierra Rural Development Project (SIL, FY07-FY13) • Sierra Irrigation Project (SIL, FY11-FY16) • Water Resources Management Project (SIL, FY10-FY15) <p><i>Indicative Lending:</i></p> <ul style="list-style-type: none"> • Sierra Rural Development Project Add. Financing (SIL, FY14) • Water Resources Management Project Add. Financing (SIL, FY14) • Agricultural Innovation (SIL, FY14) <p><i>Ongoing AAAs:</i></p> <ul style="list-style-type: none"> • Irrigation Sector Note (ESW, FY12) <p><i>IFC activities</i></p> <ul style="list-style-type: none"> • Potential financing support for private sector agribusiness investments

Results Area 3.3: Strengthening Environmental Management

<p>Institutional capacity governing the management of environmental issues is still incomplete. Peru is especially prone to climate change effects and the poor population is at greater risk of being affected.</p>	<ul style="list-style-type: none"> ❖ Recommendations provided to the Ministry of Environment to strengthen environment regulation and institutional capacity of the environmental authority. ❖ Ecological representativeness of the country's Protected Areas System expanded and conservation activities implemented at various levels within ecological corridors as evidenced by: <ul style="list-style-type: none"> ✓ 125,000 hectares of natural protected areas created or expanded between 2012 and 2016. ✓ 3 conservation corridors established between 2012 and 2016. ✓ 5 administration contracts for management of natural protected areas negotiated between 2012 and 2016. 	<ul style="list-style-type: none"> ❖ Assessment of Peru's legal environmental framework, planning and organizational structure of the Ministry of Environment completed (2012). ❖ Workshops on environmental management tools with <i>Consejo Interregional Amazonico</i> conducted (2012). ❖ Use of management tools by beneficiaries of the <i>Consejo Interregional Amazonico</i> to reduce the environmental cost produced by infrastructure projects in the Amazon. ❖ Two pilot projects on adaptation to climate change, with activities on the water, agricultural, forestry and knowledge sectors implemented (2013). ❖ Lessons from adaptation to climate change pilot projects have been extracted and delivered to Ministry of Environment to better inform decision making under the national adaptation portfolio. ❖ Key regulation for integrated management of national, regional, and local natural protected areas approved (2014). ❖ Communication strategy to promote environmental public awareness designed and implemented (2013). ❖ Participatory management tool to improve effectiveness in managing key eco-systems designed (2013). 	<p><i>Ongoing Lending:</i></p> <ul style="list-style-type: none"> • First Programmatic Environmental (DPL/DDO, FY09-FY13) <p><i>Indicative AAAs:</i></p> <ul style="list-style-type: none"> • Amazon Management Framework (NLTA, FY13) <p><i>Ongoing Trust Funds:</i></p> <ul style="list-style-type: none"> • Technical Assistance for Strengthening Institutional Capacity of Ministry of Environment (IDF) • Peru Environmental Governance and Mainstreaming in Key Sectors Project (SFLAC) • Strengthening Biodiversity Conservation through the National Protected Areas Program (GEF) • Peru Forest Investment Program (FIP) • Peru Forest Carbon Partnership Facility (FCCP) • Adaptation to the Impact of Rapid Glacier Retreat in the tropical Andes (GEF, PHRD) <p><i>Indicative Trust Funds:</i></p> <ul style="list-style-type: none"> • Strengthening Sustainable Management of the Guano Islands, Islets and Capes National Reserve System Project <p><i>IFC activities</i></p> <ul style="list-style-type: none"> • Potential IFC financing support to clean energy private sector initiatives
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Results Area 3.4: Improving Disaster Risk Management and Urban Planning			
<p>Peru ranks 20th among the world's economies most vulnerable to multiple hazards. The country lacks a comprehensive disaster risk management strategy at the national level and local governments' capacity to address disaster risk and implement activities to reduce vulnerability needs to be strengthened.</p>	<ul style="list-style-type: none"> ❖ Policy and regulation framework for safe public health and education infrastructure approved (by Ministry of Health and Ministry of Education, respectively) and consolidated. (2013) ❖ Investment projects pipeline generated for structural reinforcement of public education and health infrastructure in Metropolitan Lima. (2014) 	<ul style="list-style-type: none"> ❖ Needs assessment conducted on reducing seismic vulnerability in public education and health infrastructure in Metropolitan Lima. (2013) ❖ Inform policy debate on disaster risk reduction, risk financing and reconstruction at national and sub-national government levels. 	<p><i>Ongoing Lending:</i></p> <ul style="list-style-type: none"> • CAT DDO (FY11-FY14) <p><i>Indicative Lending:</i></p> <ul style="list-style-type: none"> • Cusco Regional Development Project-PRODER (SIL, FY13) <p><i>Ongoing Trust Funds:</i></p> <ul style="list-style-type: none"> • Integration of Disaster Risk Information in Peru's Planning System (IDF) • Integration of Disaster Risk in Peru Spatial Information System (CAPRA)
Strategic Objective 4: Improved Public Sector Performance for Greater Inclusion			
Results Area 4.1: Improved Public Sector Management			
<p>National tax collection remains relatively low in Peru</p> <p>Peru has been making an effort to introduce results-based budgeting with mixed results. National government needs to continue strengthening key public sector areas in order to improve public expenditure management both at national and sub-national level.</p>	<ul style="list-style-type: none"> ❖ Enhanced fiscal risk and debt management at the Ministry of Finance (2016). ❖ Improved performance-based management as evidenced by: <ul style="list-style-type: none"> ✓ The implementation of sub-national roll-out of performance based management instruments. ✓ The national procurement system is automatically linked to SIAP, thereby allowing a timely reporting and monitoring of execution rates of sub-national public investment expenditures. ❖ Improved administrative procedures to speed up public investment, as evidenced by: <ul style="list-style-type: none"> ✓ Improved procedures for completing technical security inspections in three sub-national governments and the National Institute for Civil Defense (INDECI). ✓ Improved procedures to create and operate tourism related businesses in Cusco, as evidenced by a decrease in the number of days to comply with business regulatory processes at the sub-national government of Cusco. 	<ul style="list-style-type: none"> ❖ Signing of a strategy or agenda for implementing Performance Informed Budgeting, including institutional and strategic programs. Introduction of performance measures for the 2013 Budget. ❖ Planning platforms to separate and coordinate inputs of different levels of government to public services have been established and are being used. Elaboration of frameworks for service delivery agreement. ❖ Develop a new risk classification system for technical security inspections. ❖ Design and implement a technology tool to streamline the inspection procedures. ❖ Corruption risk maps are identified for at least three sector or government institutions by 2013. 	<p><i>Ongoing Lending:</i></p> <ul style="list-style-type: none"> • Second Programmatic Fiscal Management & Competitiveness (DPL/DDO, FY09-FY15) <p><i>Indicative Lending:</i></p> <ul style="list-style-type: none"> • Performance Management and Fiscal DPL I & II (FY13 and 14 respectively) <p><i>Ongoing Trust Funds:</i></p> <ul style="list-style-type: none"> • Improving the Quality and Efficiency of Public Expenditure Management (IDF) • Strategy for the Implementation of High-level Procurement Training Program (IDF) • Improving Prevention, Oversight and Accountability to Increase Transparency and Curb Corruption in Peru (GPF) • Operationalizing open data access in Peru and improving quality, relevance and accessibility of Peru's national statistics system (TFSCB) <p><i>Ongoing/ Indicative AAAs:</i></p> <ul style="list-style-type: none"> • Programmatic Governance & Governability (NLTA, FY12-14)

	<ul style="list-style-type: none"> ❖ <i>Policy dialogue with the Government is ongoing. Concrete outcomes in this area will be included in the CPS Progress Report.</i> 		<ul style="list-style-type: none"> • Peru Pension Reform (NLTA, FY13) <p><i>IFC activities</i></p> <ul style="list-style-type: none"> • Improving technical security inspections project under TRAMIFACIL • Improved investment climate for tourism in Cusco. • Trade Logistics project
Results Area 4.2: Strengthening Sub-national Management Capacities			
<p>Spending capacity of sub-national governments needs to be strengthened to increase the efficiency of public investment design and implementation</p>	<ul style="list-style-type: none"> ❖ Improved public investment execution in sub-national governments as evidenced by: <ul style="list-style-type: none"> ✓ 30 municipalities improved public investment execution (2015). ✓ Sub-national pilots to improve public investment execution in Apurimac, Ayacucho and Huancavelica completed (2013). ❖ Key recommendations from Action Plans are implemented to improve procurement systems, human resources, financial management or revenues management at selected sub-national governments. ❖ <i>Policy dialogue with the Government is ongoing. Concrete outcomes in this area will be included in the CPS Progress Report.</i> 	<ul style="list-style-type: none"> ❖ 30 municipalities received technical assistance on effective investment management (2013). ❖ Local institutions in 30 municipalities received technical assistance to promote greater accountability (2013). ❖ Rapid Assessment and Action Plans (RAAPs) are completed for at least 3 sub-national governments. 	<p><i>Ongoing Trust Funds:</i></p> <ul style="list-style-type: none"> • On-site Expert Support to Improve the Implementation of Sub-national Public Investments in the regions of Apurimac, Ayacucho, and Huancavelica (SFLAC) <p><i>IFC activities</i></p> <ul style="list-style-type: none"> • Promoting greater accountability and good governance at the local level (MIM Peru project) • Supporting the improvement of municipal investment (MRI Peru project)

Annex 2: PERU CPS COMPLETION REPORT FY07 – FY11

1. *This report is a self-evaluation by the World Bank (WB) of the experience in implementing the World Bank Group (WBG) Country Partnership Strategy (CPS) in the Republic of Peru.* The main purposes of the report are three-fold: (i) To review the performance of the CPS program in terms of the progress achieved in furthering country development goals; (ii) To assess the performance of the World Bank in delivering the CPS program; and (iii) To derive lessons from the implementation of the CPS program that could help guide the design and implementation of the new CPS for FY12-FY16.

2. *The joint Bank - International Finance Corporation (IFC) report is based on an extensive review of Bank project documents, analytical work and evaluations of specific programs undertaken by International Bank for Reconstruction and Development (IBRD), IFC, Government, and other external partners during the CPS period.* It is also informed by interviews with several government officials (from ministries and other public sector institutions), relevant civil society representatives, external partners and Bank staff. Finally, given the significant overlap with the CPS period, key analysis and conclusions of Independent Evaluation Group's (IEG) Peru Country Program Evaluation 2003-2009 were taken into account in considering developments over the first half of the FY07-FY11 CPS. The overall WBG performance for the CPS period of FY07-11 was found to be satisfactory across the various pillars and clusters, as discussed in the following sections.

I. PROGRESS TOWARDS ACHIEVING COUNTRY GOALS

3. *Peru achieved good progress over the period of the CPS (2007-mid 2011) on the three overarching objectives of its broad development agenda: (i) faster, more diversified and sustainable economic growth, (ii) social development, and (iii) strengthening of public institutions.* Building on the efforts of the previous administration to instill sound macroeconomic management, the Garcia Administration, which took office in mid-2006 for a five-year term, continued to foster Peru's transformation to an open, market-oriented and more diversified economy through maintenance of prudent macroeconomic policies and appropriate policy reforms. In the run-up to the global crisis of 2009, Peru experienced a rapid rise in real GDP growth -from an already-high 6.4 percent in 2005 to 9.8 percent by 2008 – fueled both by rising commodity prices and buoyant private sector-led domestic demand. Private investment rose from 15 to 22 percent of GDP between 2005 and 2008 and annual foreign direct investment (FDI) flows from 3.2 to 5 percent of GDP over the same period. Strong capital inflows built-up foreign reserves and placed downward pressure on the exchange rate.

4. *Sound macro policies during the boom years afforded fiscal space for appropriate counter-cyclical measures.* In September 2008, following the onset of the global crisis, uncertainty about the short-term outlook soared, private investment all but halted and the weak international market negatively affected exports. GDP growth dropped from double digits in the first three quarters of 2008 to 6.5 percent for the last quarter and averaged just 0.9 percent in 2009. In response, Government (at end-2008) launched a two-year, US\$4.8 billion (3.5 percent of GDP) economic stimulus plan, focused on increased public spending in areas congruent with medium-term priorities (such as infrastructure). In parallel, the Central Bank eased monetary policy, bringing its discount rate to 1.25 percent by August 2009, for a cumulative easing of 525 basis points from the beginning of 2009. These measures were followed by a rebound in

private investment and domestic demand, in turn, enabling the achievement of a growth rate of 8.8 percent in 2010. With the recovery underway, authorities began to control the pace of public spending as well as to raise interest rates. A lower public external debt and degree of dollarization reduced further vulnerabilities. As a result of the adoption of, and adherence to, a comprehensive debt management strategy, Peru was able to lower the proportion of foreign currency-denominated public debt, extend the maturity of public debt overall and smooth out its debt service profile. Bond spreads declined and the country achieved investment grade ratings for sovereign debt by Fitch, Moody's and Standard and Poors (S&P).

5. ***Peru also made notable progress in creating a hospitable investment climate for private business and ensuring sustainable growth through greater attention to environmental regulation and governance.*** The Doing Business (DB) rankings of Peru rose consistently over the CPS period, going from 68th out of 175 countries to 36th out of 183 between 2006 and 2010; the country was ranked among the top ten reformers worldwide in the 2011 DB Report. Progress across the board included simplification of requirements associated with business start-up¹⁹, securing of construction permits, property registration and foreign trade. The negotiation and ratification of Free Trade Agreements (FTAs) with important trading partners (e.g., FTAs were concluded with the US, MERCOSUR, China, Singapore and others) and significant investments in infrastructure (e.g., Lima Metropolitano, PLNG pipeline, *Iniciativa para la Integración de la Infraestructura Regional Suramericana - IIRSA*) improved the environment for investment and business growth. In parallel, recognizing that unfettered growth can aggravate Peru's already-growing environmental challenges, Government began to put in place an appropriate policy, legal and institutional framework for environmental management and biodiversity conservation. Moreover, environmental sustainability criteria were successfully mainstreamed in the development agendas of key sectors including mining, fisheries, urban transport and energy.

6. ***Notable social gains included a drop in poverty and extreme poverty rates - from 48.7 and 17.4 percent of the population to 31.3 and 9.8 percent respectively between 2005 and 2010 -- but spatial disparities still persist.*** The measured drop in Peru's poverty rates is remarkable in view of the high food price inflation and economic slowdown in 2009. Access to basic infrastructure, including safe water, sanitation and electricity improved, as did social services. Education, health and nutrition outcomes also registered gains over the CPS period. A concerted effort to establish national goals for education, including clarification of standards and establishment of a strong accountability system, paid important dividends with respect to student achievement in reading and mathematics in the early grades. Expansion of health insurance increased the use of health care services and there were steady reductions in chronic malnutrition among children under five years old. However, despite these improvements and a concerted effort to focus basic infrastructure and social programs in the poorest areas, substantial spatial differences in poverty and welfare persist. Rural areas generally lag behind urban ones on nearly all welfare indicators, and there are major disparities between the better-off Coastal region (inhabited by 63 percent of the population) and the poorer Amazon (9 percent) and Sierra (28 percent) regions.

¹⁹ The 2010 Doing Business report showed that starting a business took 9 procedures and 41 days, while in 2005, it took 10 procedures and 98 days. The reforms to achieve these reductions were implemented under the IFC project National Plan Peru.

7. ***While Peru's efforts to modernize public sector institutions and management processes also met with some success, there is still some way to go.*** A main focus of the Government's efforts in public sector management (PSM) over the CPS period was a two-track initiative to increase the effectiveness of ongoing decentralization efforts with the aim of improving key services. This involved: (i) continuing to strengthen core central control processes while ensuring their adaptability to a more decentralized environment; and (ii) building the capacity of sub-national governments (SNGs) to deliver services in an efficient and accountable manner. Progress over the past few years include – inter alia - introduction of participatory budgeting, devolution of greater authority for investment projects to SNGs and organizational reforms at the SNG level. Still, there are continuing problems with effective budget execution, continued SNG capacity constraints to plan and implement projects and considerable variability in the delivery of services.

II. CPS DESIGN AND PROGRAM PERFORMANCE

8. ***The CPS was well aligned both with the Peruvian political cycle and with the priorities of the incoming Garcia administration.*** The preparation by the Bank of a set of Policy Notes towards the end of the previous (Toledo) administration set the stage for the CPS by enabling a broad dialogue with political parties, civil society groups and external partners on Peru's needs and the potential role of the World Bank Group in helping to address development challenges. The high degree of congruence between the diagnosis and recommendations contained in the Policy Notes and the priorities identified by the new Peruvian Government in turn helped establish a productive dialogue from the outset and paved the way for the smooth preparation of the CPS which was presented to the Bank's Board in early 2007, about six months into President Garcia's five-year term.

9. ***The CPS program identified a flexible lending program within an indicative base lending envelope of up to \$3.5 billion over the five-year CPS period; the program covered a wide range of sectors, but activities within each sector were well-defined and focused in areas where the Bank could add value.*** CPS activities were organized into the three main pillars drawn from the Government's agenda and structured within these pillars around six clusters.²⁰ An indicative program of lending operations was identified within each of the clusters but Analytic and Advisory Activities (AAA) and Non-Lending Technical Assistance (NLTA) were not specifically defined, leaving room for just-in-time response to Government priorities and as-needed analytical underpinning for lending operations. CPS implementation was clearly helped by the Government's strong commitment to its goals, as well as by focusing on outcomes while being flexible on instruments. The partners faced several implementation challenges, of which the impact of the 2008/2009 global slowdown was the most important.

10. ***By and large, CPS performance was satisfactory across each of its pillars and clusters, with outcomes in some areas surpassing original expectations while delays were experienced in a few others.*** The CPS results matrix identified expected outcomes with respect to each of the clusters, which, as partially modified in the 2009 CPS Progress Report, form the basis for much of the evaluation contained in the remainder of this report. It should be noted that while most outcomes were well defined and measurable, a few called for data that is not

²⁰ (i) Maintaining macro-economic stability and reducing vulnerabilities; (ii) Accelerating growth and widening its base; (iii) Making growth more environmentally sustainable; (iv) Meeting basic needs; (v) Promoting and developing a new social contract in education, health and nutrition and (vi) Modernizing state institutions

regularly collected by any government (or other) agency making them hard to evaluate in some instances. In addition, in a few cases, the outcome indicator chosen did not appear to have a clear link to the WBG instruments implemented over the CPS period. Progress on outcomes is discussed in more detail below and summarized in the matrix (Table 1).

PILLAR I: ECONOMIC GROWTH

Cluster 1.1: Maintaining macroeconomic stability and reducing vulnerabilities (4 outcomes: all achieved)

11. ***The CPS program fully achieved, and sometimes even exceeded, the key outcomes identified under this cluster.*** When upgrading Peru to investment grade in 2010 all rating agencies noted major improvements in fiscal management. The Bank's Fiscal Management and Competitiveness (FM&C) Development Policy Loan (DPL) I-IV series and the related analytical work (Policy Notes, Public Financial Management Assessment, Recent Economic Developments in Infrastructure - REDI, PER, Informality, Labor, and Decentralization Economic and Sector Work - ESW, Tax Compliance Surveys, OECD-DAC Procurement Study - Public Expenditure & Financial Accountability - PEFA - and others) contributed directly to sound fiscal management and, in particular, to: (i) the design of the anti-cyclical fiscal stimulus to manage the impact of the global crisis; (ii) increased transparency of fiscal policy, budget management and public accounts; and (iii) advances in e-government, especially e-procurement. Noteworthy was the contribution of the FM&C DPL series and the Bank's close ongoing dialogue with Peruvian officials to the appropriate design of the 2009-2010 fiscal stimulus packages. By tilting the composition of the fiscal stimulus package towards investment expenditures, Peru avoided the risk that the additional expenditures would become entrenched. In addition, the package was accompanied by measures to broaden the tax base, particularly at the municipal level, to facilitate fiscal consolidation. Prudent fiscal management over the CPS period helped keep inflation within the targeted range. The cumulative inflation – excluding food and fuel -- for 2007-2011 is about 10.7 percent, nearly 2 percent below the outcome (12.5 percent) foreseen in the CPS.

12. ***Peru reduced the vulnerability of the economic by lowering the relative weight of its public debt and the dollarization of its financial sector.*** Strong revenue growth, prudent fiscal management and implementation of an active debt management strategy (the latter two supported by Bank lending and AAA, as noted in paragraph 10) combined to reduce Peru's public debt burden from 38 percent of GDP in 2006 to 22.7 percent in 2010, surpassing CPS goals, which had aimed for a reduction to 26 percent in the absence of external shocks and to 32 percent in the event of a major shock such as the 2009 global crisis. A further decline in the debt to GDP ratio in 2009 is expected. In addition, the structure of the public debt improved by (a) increasing the portion held in domestic currency and under fixed interest rate and (b) smoothing of repayment obligations, helped inter alia by the flexible terms of IBRD loans. The high dollarization of the economy--another source of vulnerability--was reduced spurred at least in part by Peru's enhanced macro stability and the strengthening of the Nuevo Sol. Banking deposits denominated in US dollars fell to 47 percent in 2010 from about 65 percent in 2007 and US dollar bank loans to the private sector fell from 70 percent in 2007 to 52 percent by 2010. Though not identified as a CPS outcome, the Catastrophic Risk Deferred Drawdown Option (DDO) (FY11) has also helped Peru reduce fiscal vulnerabilities in light of the frequent natural disasters to which the country is subject because of its exposure to earthquakes and the *El Niño* phenomenon.

Cluster 1. 2: Accelerating growth and broadening its base (7 outcomes: 4 achieved, 1 partially achieved, 1 not achieved, 1 non-observable)

13. ***Peru, with support from various CPS instruments, made important strides towards an improved business environment.*** The 2011 Doing Business rankings (DBR), ranked Peru 36th out of 183 countries, considerably higher than its ranking of 68th of 175 countries at the start of the CPS period (2007) and the expected ranking of the CPS--55th by 2011. The sustained attention of the authorities to the DBR annual reports incentivized reforms, which the IFC supported through *Tramifacil* TA. The TA promoted public-private dialogue to foster and coordinate efforts at simplifying municipal business regulations across Peru. So far *Tramifacil* has assisted over 170 municipalities and has supported Congress in passing two national laws simplifying procedures to obtain operating licenses and construction permits. The FM&C DPL series and related analysis and dialogue also supported improvements in competitiveness both within and beyond the areas covered by DBR, including the fiscal and debt policy consolidation already mentioned and the sustainable expansion of credit.

14. ***Investment in infrastructure expanded, through both public means and promotion of private investment.*** Central government spending on infrastructure investment nearly tripled from about 1.7 percent of GDP in 2006 to 5.7 in 2010, far exceeding the 3 percent target envisaged under the CPS. The Bank and IFC played complementary roles in moving this objective forward. The Bank, through its dialogue on growth and fiscal priorities as well as targeted analytical work such as the REDI, the National Gas Strategy and the Small Hydropower NLTA, worked with the Government to open space for public investment in infrastructure and to define the policy framework for sound use of Private Public Partnership (PPP) approaches. In addition, a number of CPS project interventions -- including for decentralized transport at the regional level and in rural areas, Lima urban transport, irrigation, water and sanitation, rural electrification and others -- supported infrastructure investment and helped introduce a greater role for private actors where appropriate. IFC, in turn, invested funds directly with the private sector on a number of transport projects through private concessions in roads, air transport and railways. Some of the most relevant Projects financed by IFC include a Guarantee that complemented the IBRD Loan to the Municipality of Lima for the construction of the Bus Rapid Transit System, the Norvial, the Lima Airport Partners and the FTSA/Perurail concessions that generate approximately 67.5 million per annum in revenues to the Government and approximately 1000 jobs. IFC also made major investments in the energy sector, including a US\$300 million participation in Peru LNG, a US\$4 billion liquefied natural gas export project, a US\$250 million loan to Cheves, a first IFC hydroelectrical project finance in the country, and US\$ 50 million in Calidda, a gas distribution company, generating US\$ 4.2 in tax revenues while providing initially 283 jobs.

15. ***Peru's growth strategy sought to put in place the skilled human capital required to spur innovation and technological adaptation.*** The CPS emphasized increasing the numbers of tertiary graduates with skills in science and technology. Available survey data show that there has been a 3-4 percent increase in the total numbers of individuals aged 25-30 years with tertiary education (from 20.2 percent in 2005 to 24.5 percent in 2009), suggesting commensurate increases in enrollments in science, technology and related disciplines. The Bank did not play a large role in this area except through its ongoing dialogue with the Government on competitiveness, education and innovation. A tertiary education project originally planned for FY10, is in its final stage of preparation. IFC provided a partial credit guarantee (PCG) for a first time ever private university bond issue in Peru to the largest private

university, *Universidad San Martin de Porres*, allowing it to access the capital markets to invest the proceeds in campuses outside of Lima, contributing in excess of 4,000 jobs and supporting more than 32,000 students.

16. ***The emphasis in the CPS on non-traditional exports (mainly the agribusiness sector) aimed at promoting deeper economic integration of poorer geographic regions, especially the neglected Sierra region.*** The CPS program effort to promote deeper integration by encouraging location of new exporting firms in developing regions was partially achieved. By early 2011, there were 31 new firms operating in the identified regions versus a CPS target of 39. CPS operations such as the Agriculture Research and Extension II project, the Irrigation Sub-sector Investment Program and the Sierra Rural Development Project were instrumental in promoting growth in agricultural productivity and agribusiness through increasing the role of the private sector (water users' associations, establishment of competitive grant mechanisms and use of Community Driven Development - CDD approaches) and by helping to increase coordination among disparate Ministry of Agriculture programs. IFC invested in *Sociedad Agricola Viru*, the largest exporter of canned produce in Peru, thus reaching more than 260 farmers and sustaining above 6,000 farming jobs and maintained investments in *Agrokasa*, among the largest fresh produce exporter in Peru, contributing in excess of 3,000 farming jobs. However, given the relatively small size of these operations, the Bank Group's role was limited in driving the increase in the value of non-traditional exports from US\$6.3 billion in 2007 to US\$7.6 billion in 2010 –an increase of about 5 percent per year.

17. ***The level of economic informality decreased during the CPS period.*** The CPS foresaw a reduction of the informality rate by 9 percentage points from 60 to 51 percent over the CPS period. Based on the criterion of workers' access to health or social security coverage, the CPS outcome indicator has been exceeded – by end-2009 about 60 percent of workers were working formally, i.e., with social protection coverage. The Bank supported formalization through AAA on Informality (FY07 and FY08) and Skills and Labor Policies for the Poor (FY10) as well as the FM&C DPL series, the Results and Accountability in the Social Sectors (REACT) DPL series (which, inter alia, extended health insurance coverage). The IFC support for microfinance initially contributed to the transformation of a number of Micro Finance Institutions into regulated deposit-taking entities; and, later to the rapid consolidation of the sector extending reach and product diversification.

18. ***The CPS supported tourism development as a means to help create semi-and low-skilled jobs.*** IFC invested in the Peru Orient Express Hotels holding hotels in Lima, Cusco, the Sacred Valley, Machu Picchu, and Colca Valley providing more than 500 direct jobs and having local goods and services procurement of more than US\$ 12 million p.a., and also in Inkaterra, an eco-tourism lodge in the Amazon region, and in infrastructure (Lima Airport and a railroad concession linking Cusco and Machu Picchu and Puno). These interventions helped develop a high-end tourism market, pioneer ecotourism and increase direct employment. The Bank's ongoing investment in the Vilcanota Valley Project (FY04) performed poorly until 2009, when it was restructured to transfer partial responsibility for implementation to the Government of Cusco to enable better inter-sectoral collaboration at the sub-national level. A Tourism Infrastructure project, proposed for FY10 was dropped responding to the Government's stand that tourism should largely be left to the private sector. Overall, WBG interventions were relatively narrow and complementary of broader support for the sector provided by Inter-American Development Bank (IADB), the United States Agency International Development (USAID) and other external partners. Therefore, the link between

the WBG's activities and the achievement of the results framework goal of increasing annual tourist visitors from 1.3 million annually to 2 million by 2011 is relatively weak.

Cluster 1.3: Making growth sustainable (7 outcomes: 6 achieved, 1 partially achieved)

19. ***Solid progress was made in laying the institutional and regulatory framework for environmental governance.*** A comprehensive Country Environmental Assessment (FY06) and focused studies on fisheries and mining provided a sound analytical basis for improving environmental governance. A programmatic Environmental DPL series comprising three loans in each of FY08, FY09 and FY11 helped implement the recommendations from this AAA. An achievement was the establishment, in 2008, of the Office of Evaluation and Environmental Enforcement (OEFA) with responsibility for regularly monitoring the implementation of environmental commitments of licensed businesses. OEFA has developed technical and legal criteria for undertaking post-licensing monitoring and is now fully operational. Similarly, to address longstanding institutional weaknesses in protected area management and biodiversity conservation, an autonomous National Service of Protected Areas (*Servicio Nacional de Areas Naturales Protegidas por el Estado - SERNANP*) was established with a clear mandate (and the staff and financial resources) to implement the Natural Protected Areas action plan, including the right to issue sanctions against violators and to promote private sector financing and management of NPAs. In addition, the Bank provided substantial support for biodiversity conservation through two Global Environment Facility (GEF) operations -- the Participatory Management of Protected Areas GEF project that closed in 2010 and the on-going GEF project for Strengthening Biodiversity Conservation through the National Protected Areas Program.

20. ***The bases have been set for improved management of the urban environment, with a focus on the five largest and most polluted cities – namely Lima-Callao, La Oroya, Arequipa, Chimote and Ilo.*** The Peruvian Government, with support from the DPL program, developed and approved environmental quality standards, including maximum permissible emission levels, for air and water. Additionally, it initiated public disclosure of the air and water quality monitoring data beginning with Lima and La Oroya. Beyond improving transparency, Lima and La Oroya made progress in the preparation of contingency action plans (or inclusion of contingency actions in existing Clean Air Action Plans) in the event that pollution levels exceed air quality standards. IFC, in turn, contributed to raising awareness about climate change by organizing a first ever Climate Change Event attended by over 200 participants and focusing on sustainable energy, water, land use and forestry and climate related insurance products.

21. ***Actions have been taken to mainstream the principles of sustainable development in three key sectors, namely mining, fisheries and urban transport.*** The Government mandated application of an up-to date methodology (developed under a Peruvian-Canadian cooperation program) for the identification and prioritization of all mining environmental legacies. To date, 5,500 mining legacies have been identified, of which 119 have been prioritized as demanding immediate attention. The Government also approved norms to regulate and promote participatory environmental monitoring and surveillance in mining. Up to March 2011, about 40 initiatives of environmental participatory monitoring were under execution – about 1/3rd short of the 60 initiatives that had been targeted in the results framework. The CPS also contributed to reduce the environmental pressures facing Peru's fisheries sector. As part of the DPL supported program, the Government in December 2008 adopted a decree (now under implementation) that regulates *anchoveta* fishing by establishing maximum catch limits by vessel; also, the decree creates a social compensation fund to reduce impact on workers through

financing early retirement, training and incentives to move to new economic activities. Finally, the CPS sought to improve air quality in urban areas through better regulation of vehicle inspection and maintenance systems implemented in Lima and other cities, promotion and implementation of vehicle conversion to natural gas and supply of diesel with 50 ppm of sulphur content in Lima and Callao since January 2010.

PILLAR II: SOCIAL DEVELOPMENT

Cluster 2.1: Meeting Basic Needs (3 outcomes: all achieved)

22. ***Marked progress was recorded in meeting the population's basic needs over the CPS period.*** By 2010, the Index of Unmet Basic Needs, representing the proportion of households facing a deficiency in at least one of these 5 basic services, stood at 26 percent for the Peruvian population as a whole and at 47 percent for the rural population – substantially surpassing CPS targets of 36 and 62 percent, respectively. Steady economic growth and Government investment in basic (especially rural) infrastructure drove these improvements. The contribution of the Bank came through the National Rural Water Supply and Sanitation Project and Additional Financing, *Programa Nacional de Agua y Saneamiento Rural (PRONASAR)* (FY03 and FY11), and Rural Electrification (FY06), and the REACT DPL series (FY07, FY09, and FY11) that focused on social services. Performance in water and sanitation exceeded targets: data from a recent Health and Demographic survey indicates that by 2010, 91.5 percent of households had access to treated water and 85.3 percent had basic sanitation facilities. Furthermore, the *PRONASAR* project helped improve rural water supply and sanitation by removing an existing urban bias from financing policies and technical standards. Regarding rural electrification, the Ministry of Energy and Mines reports that 55 percent of rural households had access to electricity in 2010 versus only 30 percent at the start of the CPS period. The support of the Bank through the Rural Electrification Project also helped establish a model for rural electrification, co-financed with the electricity distribution companies, an official tariff for regulated electricity service with solar photovoltaic systems, and successfully pioneered promotion of productive uses of electricity in Peru.

Cluster 2.2: Developing a new social contract in education, health and nutrition (4 outcomes: 2 achieved, 2 partially achieved.)

23. ***A stronger focus on results and higher accountability characterize service delivery in education, health, and nutrition.*** The Bank's programmatic analytical work, Recurso, and the REACT DPL series were key factors in helping Government: (i) define standards and set goals for the outcomes that families should expect from social services, (ii) develop robust monitoring systems, and (iii) provide individualized data for parents on the learning, health and nutrition status of their children. These actions to stimulate informed demand, together with improvements on the supply side, had important outcome impacts.

24. ***Education quality improved, albeit at a slower pace than had been targeted in CPS.*** The National Census for 2nd grade shows a commendable improvement in education test scores in 2010 compared with those reported in 2007. The proportion of children lagging below level 1 declined from 30 and 57 percent respectively in reading and math to 24 and 53 percent within three years. Over the same period, the proportion of students reaching level 2 increased from 16 and 7 percent in reading and math to 29 and 14 percent respectively. These impressive outcomes suggest that the original goals included in the CPS may have been overly ambitious.

25. **Coverage of health care increased, especially for the poor and rural population.** The proportion of institutional births (IB), a tracer indicator for health services overall, rose steadily at an average annual rate of 3.4 percent (2.5 percent urban and 4 percent rural). By mid-2010, IB coverage reached 58 percent for rural areas as a whole and 72 percent in the 10 poorest regions, which were the focus of Government efforts. Moreover, Health Insurance System (*Seguro Integral de Salud - SIS*) enrolments had increased by over 50 percent by 2008 in the ten poorest regions and by a similar percentage when measured nationwide. Increased *SIS* spending, by 42 percent in real terms, financed the growing coverage and a reformulation of the benefit plan to expand the list of priority interventions (*Listado Priorizado de Intervenciones en Salud, LPIS*) through a new Universal Health Insurance (AUS) law, passed in 2009. The Bank provided continuous support for this process. IFC invested US\$20 million in *Grupo Salud*, a first time private sector health investment in Peru that is to become a premier oncology and cardiology center with near in 200 beds and with a broad reach through its related *Oncosalud* health insurance company.

26. **After 10 years of stagnation, nutrition in Peru is improving.** The drivers of these improvements include more comprehensive health registration systems, the dissemination of nutritional indicators through social marketing, support for nutrition counseling by health workers, stronger integration of nutrition initiatives through the *CRECER* strategy and the creation of the Articulated Nutrition Program, a strategic program of the Result Based Budgeting Initiative which aims at concentrating efforts (budgetary, logistical, and organizational) in those regions with the highest malnutrition rates. The drop in chronic malnutrition by 5 percentage points over the CPS period was in line with the Government's target of a "5-point reduction in 5 years". Bank support came through the REACT DPL series and through the *Juntos* for Nutrition NLTA. Delays in the preparation the complementary *Juntos* Nutrition Results project, due to concerns with the proposed inclusion of soft-investments, motivated a redesign towards a results based Sector Wide Approach Project (SWAP) that was approved in FY11 (the original proposed date was FY07). This SWAP is the first operation of its kind in the country and is expected to open doors to a new lending modality in Peru, removing hurdles for preparation of social sector lending. Already, *Ministerio de Economía y Finanzas (MEF)* has led modifications of the Indebtedness law and the Fiscal Balance law to formally introduce the new figure of "Indebtedness for Results" (*Endeudamiento por Cumplimiento de Metas*).

27. **Comprehensive sector work helped develop the gender agenda even if it was not mentioned explicitly by the CPS.** First, women have been active participants in community organizations, in road maintenance enterprises (rehabilitation of rural roads *Provias*), in economic productive associations (rural development of the *Sierra "Aliados"*), in the administration of water users *JASS (Pronasar)* and *JUNTAS de Agua (Sierra Irrigation)*. Second, project implementation units have developed tools for gender equity tracking such as *MASC* in the *Sierra* project, or a checking list in *PRONASAR*, or a registration of results (rural *Provias*). Third, the projects have developed the registration on good practices, in *Incagro* they developed a video and brochures for dissemination; publications of a training module (*Provias rural*); a training course on line (*Sierra "Aliados"*).

PILLAR 3: MODERNIZATION OF INSTITUTIONS

Cluster 3.1: Modernizing state institutions (4 outcomes: 3 achieved, 1 non-observable)

28. ***The Government modified its decentralization model to both better reflect the country's diversity and to accommodate the variety in institutional capacity at sub-national levels.*** The Bank's Fiscal Decentralization TA project, the FM&C DPL series and the REACT DPL series supported the fine-tuning of the decentralization approach, beginning with the decision in 2007 to cease formally accrediting SNGs as the basis for transferring resources and responsibilities. Instead, the focus shifted to training in standards for municipal borrowing, budget planning and execution and M&E. Results from these efforts include: (i) extension of the Integrated Financial Administration System (*Sistema Integrado de Administración Financiera - SIAF*) to virtually all municipalities (about 1800) enabling uniform standards and on-line, and real time monitoring of local government contracts and disbursements; (ii) training of over 80 percent of SNGs on public financing forecasts, sub-national borrowing and strategic debt management; and (iii) design and implementation of incentives and mechanisms to increase the efficiency of public expenditures.

29. ***IFC partnered with Canadian International Development Agency (CIDA), USAID and Department for International Development (DFID) to implement the Canon Management and the Improving Municipal Investment – Mejorando la Inversión Municipal (MIM) Peru programs in five regions.*** Starting December 2007, the Canon Management Program helped local governments improve their capacity to invest mining, oil and gas royalties for their development. An on-line platform, "*Municipio al Día*", now provides information and real-time support to improve the skills and management practices of municipal officers and authorities. As a result, 1,115 municipalities had access to information, and 15,883 inquiries from local officials were resolved. The *MIM* Peru is enabling communities and civil society organizations to exercise their rights in ensuring that authorities be responsive and accountable in their use of royalties. As a result, 163,174 people were empowered with improved understanding of royalties and municipal investment; 15 out of 18 municipalities showed increased accountability (80 percent success rate); and, access to information on royalties increased from 37.4 percent to 50.0 percent.

30. ***Introduction of Results Based Budgeting (RBB) has been one of the most relevant and innovative public policy reforms undertaken during the CPS period.*** Bank support came through the Governance and Governability NLTA, the Fiscal Decentralization TA project and the FM&C and REACT DPL series among others. In 2008, RBB began as a pilot in five strategic programs. Since then, it was expanded, step-wise, to nine programs in 2009, 15 in 2010 and 24 for 2011. RBB is now an integral part of the budget cycle in Peru. Monitoring information identifies gaps and results bottlenecks as the basis for designing actions to overcome obstacles to better results. The *MEF* is currently reviewing and revising the RBB methodology with the aim of streamlining the RBB process before mainstreaming it throughout the national budget. A complementary initiative has been the implementation of participatory budgeting monitoring in all municipalities and regions, and increasing use of participatory budget planning. IFC provided technical assistance support to 18 SNGs located in the areas of influence of mining projects, including capacity building for participatory budgeting oversight committees to effectively monitor the advances of the agreements made in the local participatory budgeting processes and monitoring. However, while participatory budget monitoring is universal, a recent evaluation, carried out by the Bank at Government's request, found that only about 36 percent of the budgets are allocated through the participatory process.

31. ***The ongoing Justice Services Improvement Project (FY04) has been assisting the reform of the justice system, long perceived by users as one of the country's weakest and least***

responsive group of institutions. After a slow beginning, the project helped in generating reform momentum aided by strong commitment in both the executive and judicial branches to moving beyond the politically motivated reforms between 1992 and 2000. The project design focused on well-defined, relatively narrow interventions and allowed for operational flexibility, resisting the temptation for a comprehensive overhaul of the system. The key areas included: (a) introducing performance-based management and decentralization to specific districts of the Judiciary; (b) improving human resource management to ensure independence, transparency and integrity through merit-based evaluations; and (c) enhancing access to justice for Peruvian society, in particular the poor, through legal aid centers called *ALEGRAs* (*Centros Asistencia Legal Gratuita*) which targeted marginalized groups. Outcomes according to user perceptions were positive with the vast majority of *ALEGRA* users surveyed in 2009 expressing satisfaction with the services they received (78 percent). The project helped lay the basis for long-term reform and a follow-on project was prepared and approved in FY11.

III. WORLD BANK GROUP PERFORMANCE

32. *The World Bank Group's performance in implementing the CPS program was satisfactory overall, and helped further strengthen the World Bank role in supporting Peru's development efforts.* The close alignment of the CPS with the Peruvian political cycle and with the Garcia administration's development vision for Peru were positive features of the CPS design that enabled continuity of objectives and program priorities over the entire CPS implementation period. These factors, together with the Government's appreciation of the Bank's role in providing access to relevant knowledge, global experience and policy advice on difficult second-generation reform questions, put in place the foundations for largely successful CPS implementation. In this regard, and although difficult to quantify, it is worth noting that the Bank's strong in-country presence, its flexibility and its timely responses to requests were frequently cited by Government officials as important factors that helped nurture and strengthen already-productive relationships across a wide range of sectors.

33. *Lending fell below the national envelope as the country's need of external financing declined over the CPS period.* Although the programmed lending operations were implemented largely as foreseen in the CPS in terms of numbers of operations, lending volume was \$2.7 billion over this CPS period, substantially lower than the \$3.5 billion limit established at the outset. This reduction was agreed with Government during the preparation of the CPS PR and was due in part to the higher demand for policy-based rather than investment lending, which in turn affected the ratio of DPL to investment loans and caused a lowering by the Bank of the overall lending limit. Moreover, a large proportion of the funds borrowed, about \$1.5 billion, were in the form of Deferred Drawdown Options (DDOs), of which \$1.15 billion remain largely undisbursed at this time.

34. *The CPS partners (the Government and the WBG) kept the focus on the results while they adjusted and recalibrated the lending program to accommodate changing circumstances -- not least to mitigate the impact of the global financial crisis.* The original CPS program envisaged annual lending of two DPLs (for around US\$400 million). After FY2007, when the program was implemented as planned, Peru's need for external financing was sharply reduced by a rapid growth in fiscal revenue. FY08 DPL operations were deferred, while more resources went into meeting Government's demand for stepped-up ESW and NLTA in priority areas such as budget management. With the escalation of the global crisis in the last quarter of 2008, the Bank supported Government efforts to secure access to contingent lines of credit and by

accelerating preparation of the FM&C DPL II, the REACT DPL II and the Environment DPL I as DDOs. Together, the three operations provided contingent financing of US\$1.03 billion, which was later increased to US\$1.36 billion through a US\$330 million supplemental DDO associated with the FM&C II operation. As the need for financing declined, loan amounts for DPLs processed in FYs 10 and 11 (FM&C IV, React III and Environment II and III) were reduced to US\$275 million in total over the 2 years, while the depth and pace of reforms continued as originally planned with minor refinements. To help address fiscal vulnerabilities associated with natural disasters, a CAT DDO, for US\$100 million, was also approved in FY11. The volume of investment lending was well below the CPS indicative program, with new commitments amounting to about US\$313.4 million over the entire period, only about 1/5th the level provided for in the original CPS, but closer to the adjusted level of US\$400 million in the CPS Progress Report. In terms of numbers of operations, the difference was much smaller, however: 12 new investment operations (11 projects plus an AF for Rural Water and Sanitation) were approved during FY07-11, versus a proposed maximum of 15 projects included in the CPS. A complete list of the projects (both investment and quick-disbursing) is shown in Table 2 of this report.

35. *As of June 2011, the active portfolio consisted of 20 active projects, with total commitments of US\$ 1,953.4 million, of which about US\$1,519.5 million remained available for disbursement.* These comprised fourteen investment loans, three DPL/DDOs, one CAT DDO and two GEF grants. Thus far, Government has drawn down only a relatively small proportion of the DDOs (including CAT DDO) provided – about US\$310 million of the total US\$1.46 billion approved – preferring to use the continued availability of the DDO funds as a means of further strengthening market confidence and be ready to face coming global developments. The portfolio was relatively healthy with the proportion of commitments at risk of not meeting their stated development objectives at 1.3 percent, which compared favorably with LCR averages (10.1 percent). Of the two projects at risk, the Sierra Rural Development Project was restructured to address identified weaknesses. After restructuring, the Vilcanota Valley Rehab & Mgmt Project was still rated moderately unsatisfactory both in terms of progress in project implementation, and in terms of progress towards its stated development objectives, due to relative inexperience of the Cusco local government in implementing Bank-financed projects. Implementation progress of all other projects is rated moderately satisfactory (MS) to satisfactory (S).

36. *The Bank's flexible program of analytical studies, complemented with just in time capacity building in the form of NLTA, played a key role in country relations and positioned the Bank to respond quickly when the Government stepped up its demand for borrowing (e.g., in FY09).* An extensive AAA program, generally of high quality, often served as a vehicle for coordination with other donors/external partners, engagement with diverse sectors of Peruvian society (political parties, academics, think-tanks, NGOs, SNGs, program beneficiaries) beyond the central government, and was influential in shaping policy decisions and program directions even in the absence of accompanying lending operations. One example of the influence of AAA is the NLTA which helped modernize the national procurement commission, CONSUCODE (today *Organismo Supervisor de Contrataciones del Estado, OSCE*), into an institution that responds better to the need for independence, professionalism and fairness of the procurement process. The AAA activities undertaken over the CPS period (Table 3) included: (i) large multi-product AAA programs such as Recurso, Governance and Governability NLTA, often co-financed by external partners through Bank-executed grants, (ii) major reports such as the Financial Sector Review, the Labor Market Review or the REDI; and

(iii) just-in-time studies to support policy-making by Government or underpin lending, particularly in the areas of poverty analysis, institutional building for decentralization, RBB in health, the gas development strategy, and skills and employability.

37. ***The Bank was also able to support Peru through administering an extensive program of grant support provided through the Bank by a number of bilateral and multi-lateral partners (see Table 4).*** Grant funding committed in support of the CPS amounted to nearly US\$56, of which about US\$24 million was disbursed during FYs07-11. Over US\$32 million of GEF support went for biodiversity conservation and rural electrification. Other grants ranged in size from \$2 million to \$20,000 and were primarily used for analytical work, feasibility studies or pilot interventions. Grant-funding served as an important vehicle for cooperation with external partners and provided necessary resources for wide consultations within Peruvian society through workshops and consultations at national and sub-national levels (see below).

38. ***One of the strongest features of the Bank's performance over the CPS period was the systematic attention paid to consultation and outreach with diverse stakeholders in Peru.*** The wide dissemination of the 2007 Policy Notes and the feedback from participants fed into the design of the Government program and the CPS interventions. On a programmatic level as well, the Government, with Bank support, reached out to stakeholders from across the spectrum of national and sub-national government, the political opposition, think-tanks, Civil Society Organizations (CSOs), academia, service providers, program beneficiaries and the private sector. This was especially apparent in the design of the social sector reform program (supported through the REACT DPL series), biodiversity conservation efforts as well as many aspects of the programs to improve basic infrastructure. Similarly, the development of the performance budgeting initiative involved consultations through a planned series of "dialogue" sessions and workshops with more than 2000 representatives of relevant Peruvian institutions as well as a number of external partners.

39. ***The CPS program implementation was enhanced by effective cooperation between the Bank and IFC, especially with regard to infrastructure development and support for competitiveness.*** The Bank and IFC worked in line with their respective comparative strengths and mandates to help Government realize key goals in infrastructure. The Bank, in part through effective use of Public-Private Infrastructure Advisory Facility (PPIAF) grants, helped Peru put in place a modern policy framework for promoting PPPs in infrastructure as well as supported direct public investment in rural basic infrastructure, which was critical to poverty reduction but unlikely to attract private investment. In turn, IFC took equity positions in, or provided long-term financing for, a number of high priority private sector infrastructure projects (e.g., Lima airport, Peru LNG pipeline, tourist infrastructure, renewable energy generation, natural gas distribution, water utility, municipal transport financing and regional government transport) thereby strengthening investor confidence in the country, providing longer term financing and improving adherence to environmental and social safeguards requirements within the projects themselves.

40. ***Complementary work was also carried out by IFC Peru in order to enhance the business climate, broaden SME access to finance, and strengthen the capacity of key stakeholders operating in extractive industry areas.*** IFC advisory services helped to reduce regulatory bottlenecks for starting and operating businesses as well as reduced market barriers as a result of the *Tramifacil* TA discussed above. On the Small and Micro Enterprise (SME)

front, IFC advisory services projects with FIs was primarily focused on reducing the serious gap that still persists in Peru's financial sector coverage. It is important to highlight that in recent years IFC's work in frontier regions has expanded to nearly 50 percent of its project expenditures in FY11 alone²¹. Lastly, IFC is making direct investments in a range of sectors and Bank dialogue and operations are helping to strengthen the broad macroeconomic policy environment and supporting reforms in trade, taxation and other areas of importance for private investment.

IV. LESSONS AND SUGGESTIONS FOR THE NEW CPS

The satisfactory design and implementation of the FY07-FY11 CPS presents several important lessons that can feed into the design of the new CPS.

41. ***Keeping a focus on results that are aligned with government priorities while being flexible on instruments can help deliver a CPS program.*** One of the main reasons for the overall success of the FY07-FY11 CPS was the strong ownership by Government of the CPS program and the Bank's willingness to remain flexible with respect to the size, timing and content of key operations in order to maintain alignment with emerging circumstances. That flexibility meant adjusting lending amounts and relying in quality AAA rather than dropping the objectives of the engagement. As a result, the partners found that DPL operations can be effective instruments to drive policy reform regardless of their contribution to the budget, a fact that is highly relevant for the next CPS, as about \$1.15 billion in DDO financing is yet to be drawn down. In addition, a robust AAA program substituted at times for lending keeping the momentum of reform going, while the lending program was adjusted. Given the recent amendment to the Peruvian Indebtedness Law to enable Government to buy for knowledge services, AAA work can be further enhanced in Peru through fee-for-service arrangements with the Bank.

42. ***Relevant, timely and widely disseminated analytical work can contribute to the development of the national agenda and in underpinning Bank-financed operations.*** Both just-in-time studies and multi-year programmatic AAA were an important vehicle for building consensus on key reform areas with Peruvian domestic actors and also helped coalesce cooperation with key external partners (IMF, IDB, CAF, the UN system and bilateral cooperation agencies) in supporting Government achieve its development objectives.

43. ***Systematic attention to participation and outreach can enhance the sustainability of reform initiatives.*** During this CPS, the wide consultation and outreach to NGOs, other opinion-makers, program beneficiaries, service providers and relevant stakeholders at both central and sub-national levels has contributed to creating broad reform constituencies. Perhaps most notable is the innovative example set in the social sectors where, by design, the achievement of outcomes was inextricably linked to the empowerment of program beneficiaries, thus making the empowerment of communities through knowledge dissemination, consultation and the strengthening of existing participatory mechanisms a fundamental part of program design. Similar emphasis on outreach in other programs included results-based budgeting, participatory biodiversity conservation efforts, air quality monitoring, rural water and sanitation and others.

²¹ FY10 Frontier Region expenditures in Peru reached 43.7 percent of total project expenditures in the country. For FY11, Frontier Region expenditures reached 47.78 percent.

44. ***Focusing Bank-IFC cooperation on specific outcomes around their core competencies improves effectiveness.*** Strategic coordination in the implementation of complementary interventions by the Bank and IFC was a critical element in achieving CPS goals in areas such as enhancing competitiveness and the business climate, SMEs broadening access to financial markets and developing capital markets, sustainable oil, gas & mining activities and infrastructure development both with the private sector and at the municipal level.

45. ***Addressing major development challenges such as reducing regional disparities in living standards requires continued attention and better coordination across interventions.*** While the last few years saw substantial improvements in living standards (lower income poverty, better access to basic and social service) across Peru, the disparities between the Coastal, Sierra and Amazon zones are still large, with the Sierra region lagging far behind on important indicators of population welfare. The several programs under the FY07-FY11 CPS that focused on improving conditions in the poorest districts or regions could have been better coordinated from the standpoints of complementarity among projects, sequencing, or geographic focus. Greater impact under the next CPS can be achieved by focusing lending and analytical inputs more clearly towards the reducing spatial disparities in living standards.

46. ***“Smart” program design can help by-pass hurdles and constrains to achieve development objectives.*** The relatively strict definition of what constitutes investment under the *Sistema Nacional de Inversión Pública (SNIP)* made it difficult to move forward important development programs that do not have large “bricks and mortar” components (*viz.* Juntos Nutrition Results). Results-focused instruments enabled the Bank to support government programs complementing ongoing efforts to implement results-based budgeting throughout the Peruvian public sector. Results-based instruments can continue to play an important role in the next CPS.

47. ***The quality, accuracy and relevance of the results framework can have a powerful effect in the capacity to monitor results and produce a fair evaluation of the contribution of the CPS.*** The FY07-FY11 CPS not always established clear linkages between the outcomes sought and Bank-supported activities (e.g., in the areas of tourism, and informality) and in some cases did not specify relevant outcome such as in the area of non-traditional exports. Monitoring and evaluation should be strengthened in the next CPS, including through giving more prominence to the results discussion in the dialogue with Government during the early stages of CPS design. The new CPS should explicitly set out the mechanisms for monitoring the results framework, the responsibilities for reporting on progress towards achievement of CAS outcomes, and the use of evaluation information for decision-making.

Appendix 1: Summary of CPS Program Self-evaluation

Cluster of outcomes and outcome indicators	Status and evaluation summary	Lending and non-lending activities that contributed to the outcome	Lessons and suggestions for the new CPS
PILLAR I: ECONOMIC GROWTH			
Cluster 1.1: Maintaining macro stability and reducing vulnerabilities			
Outcome 1.1.1: Consolidated macroeconomic framework			
<p>Indicator: Achievement of rating of Investment Grade (upgrade from current grade BB+ to investment grade BBB)</p> <p>Indicator: Accumulated inflation (excluding food and fuels) of 12.5 percent or below from 2007 to 2011.</p>	<p>Achieved. Peru achieved Investment Grade by Fitch, Standard & Poor's and Moody's by 2010. The main factors underlying the upgrades were: (i) the reduction in Peru's fiscal and external vulnerabilities; (ii) low inflation; and (iii) strong macro fundamentals. The effective use of countercyclical fiscal policies to absorb adverse external shocks and avoid a "hard landing" was specifically cited by Moody's which upgraded its rating in 2010.</p> <p>Achieved. Cumulative inflation, excluding food and fuels, reached 8.7 percent between December 2006 and January 2011. Inflation (excluding food and fuels) for 2011 is projected to be ± 2 percent, implying cumulative inflation well within the 12.5 percent target for the 2007-2011 period.</p>	<p>Lending Operations:</p> <ul style="list-style-type: none"> -Fiscal Management and Competitiveness DPLs I-IV (FY07-11) -Capacity Bldg. for Fiscal Decentr. TA (FY05-FY11) <p>Non-lending:</p> <ul style="list-style-type: none"> -Policy Notes (FY07) -Public Expenditure Review (FY11) -Tax Compliance Survey (FY09) -Tax Compliance Study (FY11-12) -Review of Progress with FTAs (FY11) -Capital Markets for Growth (FY08) 	<p>The FM&C DPL series and its associated analytical work was extremely helpful in supporting Government's efforts to strengthen fiscal management by defining a multi-pronged strategy with sufficient flexibility to respond to the 2009 slow-down while preserving medium-term goals and directions. The Bank's DDO lending gave Peru an important cushion in late 2008-early 2009 when reserves and private investment declined sharply.</p>
Cluster outcome 1.1.2: Reduced Macro vulnerabilities			
<p>Indicator: Reduced public debt (as percent of GDP) from 38 to 26 percent if no adverse external shocks or 32 percent if some external shocks.</p> <p>Indicator: Reduced dollarization of the financial system from 65 to 52 percent.</p>	<p>Achieved. In 2010 outstanding public debt as a percent of GDP was 22.7. The public debt to GDP ratio is expected to decline further (slightly) by end 2011. This reduction in public debt was achieved despite the impact of the 2009 global financial crisis. As a result of implementation of an active debt management strategy, the structure of public debt also improved over the CPS period including (i) a significant increase in local currency denominated debt; (ii) a higher proportion of debt subject to fixed vs variable interest rates; and (iii) a reduction in the lumpiness of repayment obligations.</p> <p>Achieved. The share of banking deposits in US dollars decreased to 47 percent in 2010. In addition, the stock of US dollar-denominated loans to the private sector had declined to 52 percent of the total by 2010.</p>	<p>Lending Operations:</p> <ul style="list-style-type: none"> -Programmatic Fiscal Management and Competitiveness DPLs I-IV (FY07-11) -Capacity Bldg. for Fiscal Decentr. TA (FY05-FY11) <p>Non-lending:</p> <ul style="list-style-type: none"> -Public Expenditure Review (FY11) -Tax Compliance Survey (FY09) -Tax Compliance Study (FY11-12) -Financial Sector Review (FY11) 	<p>The flexibility of the repayment terms of the Bank's lending instruments was a key factor in enabling Government in its effort to smooth its debt profile.</p>

Appendix 1: Summary of CPS Program Self-evaluation

Cluster of outcomes and outcome indicators	Status and evaluation summary	Lending and non-lending activities that contributed to the outcome	Lessons and suggestions for the new CPS
Cluster 1.2: Accelerating growth and widening the base of growth.			
Outcome 1.2.1: Improved economic infrastructure and business environment.			
<p>Indicator: Improvement in Doing Business Ranking from 68th to 55th out of 175th.</p> <p>Indicator: Increased public investment in infrastructure to from less than 1 percent to 3 percent.</p>	<p>Achieved. Peru was ranked 36th out of 185 countries in the 2011 Doing Business Rankings. In addition, the country was included among the top 10 reformers – in 4th position -- in the 2011 Doing Business Report.</p> <p>Achieved. Investment expenditures on sectors whose investment budget (SNIP) corresponds almost exclusively to infrastructure (i.e. Transport, Education and Culture, Sanitation, Health, and Agriculture) increased from 1.66 percent of GDP in 2006 to 5.74 percent in 2010.</p>	<p>Lending Operations:</p> <ul style="list-style-type: none"> -Fiscal Management and Comp. DPLs I - IV (FY07-FY11) -Urban Property Rights II (FY05) -Regional Transp. Decentr (FY06) -Decentr. Rural Transp. (FY07) -AF Lima Transp. Project (FY10) -Agric. Rsrch & Ext II (FY05) -Incagro III (FY11) -Sierra Rural Dev. I (FY07) -Irrigation Investment Program (AF FY06) -Rural Electrification (FY06) - Rural Water Supply and Sanitation II, (FY11) <p>Non-lending:</p> <ul style="list-style-type: none"> -Small Hydropower NLTA (FY08) -National Gas Strategy (FY09) -Review of Public Private Partnerships (FY09) -Recent Economic Development in Infrastructure (REDI) (FY09) - Doing Business Ranking <p>IFC Investments: Tramifacil TA (FY07)</p> <ul style="list-style-type: none"> - Peru OEH (FY07), Lima Jorge Chavez International Airport (FY07), Perurail (FY07), BPZ (FY07, FY08, FY 09, FY 10), Maple Energy (FY08), Peru LNG (FY08), Arequipa Region (FY 11), Municipality of Lima Guarantee (FY 10), Sedapal (FY 10), Enfoca (FY 10), Chevez (FY 11), Calidda (FY 10) 	<p>Strong governmental commitment to creating a business-friendly environment and the high-level attention accorded to the DBR rankings provided a powerful impetus for addressing identified issues. IFC's <i>Tramifacil</i> TA was key.</p> <p>WBG cooperation in supporting Peru's infrastructure is an excellent model for the future. The IFC invested in major, commercially-viable projects where it could clearly add value (through long-term financing, attention to safeguards etc) while the Bank appropriately concentrated on policy issues and direct financing of the infrastructure needs in disadvantaged regions as well as activities to benefit the urban poor.</p>

Appendix 1: Summary of CPS Program Self-evaluation

Cluster of outcomes and outcome indicators	Status and evaluation summary	Lending and non-lending activities that contributed to the outcome	Lessons and suggestions for the new CPS
Outcome 1.2.2: Improved human capital and innovation.			
<p>Indicator: Increased enrolment and graduation rates in science, technology, innovation and related disciplines at the tertiary level.</p>	<p>Non-observable. No agency (public or private) collects aggregate data on university enrolment and graduation rates by discipline. However, survey data shows that the proportion of people with tertiary education has increased. Individuals aged 22-24 with tertiary education increased from 13.4 percent in 2005 to 15.3 percent in 2009; and among those aged 25-34 years, the percentage increased from 20.2 percent in 2005 to 24.5 percent in 2009. To the extent that the proportion of graduates schooled in science, technology and related disciplines is likely to have increased or at least remained stable over the period, it is likely that enrolment and graduation rates in science, technology and related disciplines has risen, or at least remained stable in the last years.</p>	<p>Lending Operations: -Higher Education Qual. Ass. (FY12)</p> <p>Non-lending: -Peru: <i>En el umbral de una nueva era</i> (Policy Notes FY11)</p> <p>IFC: Universidad San Martin de Porres PCG (FY8)</p>	<p>More care needs to be taken at the CPS design stage to ensure that indicators chosen to measure outcomes can be assessed with available data or with data that can be collected at reasonable cost.</p>
Outcome 1.2.3: Deeper economic integration.			
<p>Indicator: Increase in non-traditional exports from 25 percent to 40 percent of total exports.</p> <p>Indicator: Increase the number of new exporting firms located in developing regions²² from 24 to 39.</p>	<p>Not Achieved: Non-traditional exports grew steadily –by over 20 percent -- during the CPS period, increasing in value from US\$ 6,313 mill in 2007 to US\$ 7,641 in 2010. Strictly speaking, however, the CPS outcome with respect to non-traditional exports was not achieved as it had been defined in the results matrix in terms of the weight of non-traditional exports within total exports. Thus, although non-traditional exports grew at a rapid pace, the phenomenal rise in the world prices of Peru’s traditional exports over the same period meant that the share of non-traditional exports actually fell over the CPS period, from 25 percent in 2007 to just over 22 percent by 2011.</p> <p>Partially achieved. The number of new exporting firms located in developing regions was 31 as of February 2011.</p>	<p>Lending: -Vilcanota Valley Rehab (FY04) -Fiscal Management and Comp. DPLs I - IV (FY07-FY11) -Agric. Rsrch & Extension II (FY05) -Incagro III (FY11) -Irrigation sub-sector Investment Program (additional financing, FY06) -Sierra Rural Dev.Project I (FY07) -Water Sector Modernization (replaced by Rural Water Supply and Sanitation II (FY11)</p> <p>IFC: - Agrokaasa (FY06), SAV (FY08)</p>	<p>Solid results over the CPS period in expanding non-traditional exports were not captured because the outcome indicator was couched in terms of a proportion of total exports. Given that prices of traditional exports were not (expected to be) influenced in any way by CPS activities, it would have been preferable to set a target more exclusively focused on non-traditional exports.</p>
Outcome 1.2.4: Broad-based economic growth and access to labor markets for low income families.			
<p>Indicator: Reduce informality rate from 60 to 51 percent.</p>	<p>Achieved: There has been a decrease in informality (as measured by lack of social protection coverage for workers) to 40 percent in 2010.</p>	<p>Lending: -Programmatic Fiscal Management and Competitiveness DPLs I-IV -Vilcanota Valley Rehab (FY04)</p>	<p>The Informality AAA helped shape amendments to a law on Special Labor regimes for micro-enterprises which alleviated the burden of hiring</p>

²² Puno, San Martin, Madre de Dios, Huancavelica, Amazonas, Ayacucho, and Apurimac.

Appendix 1: Summary of CPS Program Self-evaluation

Cluster of outcomes and outcome indicators	Status and evaluation summary	Lending and non-lending activities that contributed to the outcome	Lessons and suggestions for the new CPS
<p>Indicator: Increase in the number of tourists that visit Peru annually from 1.3 million to 2 million.</p>	<p>Achieved. Annual tourist visitors to Peru increased from 1.7 million in 2006 to 2.1 million by 2009 (2010 numbers are not yet available).</p>	<p>Non-lending: -Informality I (FY07), II (FY08) -Skills and Labor Policies for the Poor (FY10) -Peru: <i>En el umbral de una nueva era</i> (Policy Notes FY11)</p> <p>IFC Investments: -Peru Orient Express Hotels (FY07), Perurail (FY07), Lima Airport (FY08), AgroKasa (FY06), Laredo (FY07), SAV (FY08), Mi BANCO (FY06, 07, 08), Nuestra Gente (FY09, 11), Edyficar (FY08), Confianza (FY07), Protecta (FY09, 10, 11), PHMC (FY07, 09, 10, 11), Amerika Financiera (FY08), B. Continental (FY07, 08, 11), BIF (FY07, 09, 10, 11), Cartones America (FY07, 09), AAQSA (FY10, 11), Antares (FY10)</p>	<p>workers on formal contracts. This was a good example of how just-in-time and well-targeted AAA can directly influence policy even in the absence of related lending.</p>
<p>Cluster 1.3: Making growth sustainable</p>			
<p>Outcome 1.3.1: Improved management of natural resources.</p>			
<p>Indicator: Implementation of post-license monitoring system by the Ministry of Environment.</p> <p>Indicator: Strengthened institutional and legal framework for biodiversity conservation.</p>	<p>Achieved. In 2008, Government established the <i>Organismo de Evaluacion y Fiscalizacion Ambiental (OEFA)</i> with responsibility for continuously monitoring the implementation of environmental commitments of licensed businesses.</p> <p>Achieved. Over the CPS period the Government established the autonomous National Service of Protected Areas (<i>Servicio Nacional de Areas Naturales Protegidas por el Estado, SERNANP</i>) and approved a Supreme Decree establishing SERNANP's key functions. The Decree provides the overarching institutional and policy framework for biodiversity conservation including enabling SERNANP to issue sanctions on violators. Further, a financial strategy and detailed action plan for the Natural Protected Areas System have also been established.</p>	<p>Lending: -DPL Environment I (FY09), II (FY10), III (FY11) -Strengthening Biodiversity Conservation through the National Protected Areas Program (FY11) -Water Resources Management (FY10)</p> <p>Non lending: -Sustainable Fisheries (FY05) -Wealth and Sustainability: The Environmental and Social Dimensions of the Mining Sector in Peru (FY05) -Country Environmental Assessment</p>	<p>The Country Environmental Assessment and the DPL series helped consolidate past (somewhat piecemeal) efforts in the environment area by putting in place a comprehensive, coordinated and sequenced approach to institutional development, biodiversity conservation and remediation of existing environmental issues in key sectors. The DPL instrument was an appropriate choice because it helped focus the attention of high-level actors</p>

Appendix 1: Summary of CPS Program Self-evaluation

Cluster of outcomes and outcome indicators	Status and evaluation summary	Lending and non-lending activities that contributed to the outcome	Lessons and suggestions for the new CPS
<p>Indicator: Air quality data for the Lima-Callao Metropolitan Region is widely published and disseminated.</p> <p>Indicator: Air quality contingency plans are developed and implemented in the 5 most polluted cities.</p> <p>Indicator: 10 priority mining environmental legacies are identified using technical criteria.</p> <p>Indicator: Environmental participatory monitoring undertaken in at least 60 mining polluting sites.</p> <p>Indicator: Improved regulation of <i>anchoveta</i> fishing quotas.</p>	<p>Achieved. Daily air quality monitoring data for the cities of Lima and La Oroya is published and disseminated through SENAMHI's (Peruvian National Service of Meteorology and Hydrology) and DIGESA's (Office of Health Management) websites.</p> <p>Achieved. Contingency actions have been included in Air Quality Improvement plans for Lima-Callao, La Oroya, Arequipa, Chimbote and Ilo (in progress).</p> <p>Achieved The Government approved a Directorial Resolution that mandates application of PERCAN's methodology for the identification and prioritization of all mining environmental legacies. It also approved a 3-year plan to identify, rank, and manage mining environmental legacies. To date, 5,500 mining legacies have been identified, of which 119 have been prioritized as demanding immediate attention given health risks for the population.</p> <p>Partially achieved. The Government approved norms to regulate the process of participatory environmental monitoring and surveillance in mining exploitation activities. Up to 2011, at least 40 initiatives of environmental participatory monitoring have been executed.</p> <p>Achieved. Anchoveta fishing quotas by vessel and a social compensation fund for fisheries were implemented.</p>	<p>(CEA) (FY06) Economics of Avoided Deforestation/ REDD in Peru (FY10)</p> <p>IFC investments: -Agrokasa (FY06), Laredo (FY07), SAV (FY08)</p>	<p>in both line and central ministries. Moreover, the policy, regulatory and institutional issues needing attention could not effectively have been handled through investment lending.</p>
PILLAR II: SOCIAL DEVELOPMENT			
Cluster 2.1: Meeting basic needs			
Outcome 2.1.1: Progress in spreading the benefits of growth by meeting basic needs.			
<p>Indicator: 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.</p>	<p>Achieved: The Unmet Basic Needs Index decreased to 26 percent for the entire population and to 47percent for the rural population in 2010.</p> <p>One measure of overall welfare, the <i>Unmet Basic Needs Index</i>, measures household welfare on the basis of five indicators including income, school attendance by children, physical condition of dwelling, household overcrowding, and availability of</p>	<p>Lending: -Rural electrification (FY06) -Water Sector Modernization (replaced by Rural Water Supply and Sanitation II, FY11) -Results and Accountability - REACT I (FY07), II (FY09), III (FY11)</p>	<p>While this evaluation estimates that several of the outcomes were achieved or partially achieved, reliably tracking progress is complicated by: (i) the uncertain quality of the data in some instances; and (ii) the fact that some indicators are not</p>

Appendix 1: Summary of CPS Program Self-evaluation

Cluster of outcomes and outcome indicators	Status and evaluation summary	Lending and non-lending activities that contributed to the outcome	Lessons and suggestions for the new CPS
<p>Indicator: Increased percentage of households with adequate water from 76 to 85 percent and sanitation services from 57 to 65 percent.</p> <p>Indicator: Increased access to electricity in rural areas from 30 to 42 percent.</p>	<p>sanitation services.</p> <p>Achieved: Data from a recent Health and Demographic survey indicates that by 2010 91.5 percent of households had access to treated water and 85.3 percent had basic sanitation facilities.</p> <p>Achieved. The percentage of rural households with access to electricity increased to 58.5 percent in 2010.</p>	<p>Non-lending:</p> <ul style="list-style-type: none"> -Poverty, Monitoring and Information System NLTA (FY09) -Effectiveness of Antipoverty Intervention NLTA (FY09) -RECURSO study (FY06) -Programmatic RECURSO II (FY08), III (FY09), RECURSO IV (FY10), V (FY 11) -Peru: <i>En el umbral de una nueva era</i> Policy Notes (FY11) <p>IFC TA:</p> <ul style="list-style-type: none"> -Water Monitoring (FY09) <p>IFC investments:</p> <ul style="list-style-type: none"> -Grupo Salud (FY 11), Enfoca (FY 10), Sedapal (FY 10) 	<p>continuously produced or definitions are changes. Giving greater prominence in the CPS dialogue to the importance of regularly measuring CPS outcome indicators could help ensure the stability of data collection and hence allow for better measurement of outcomes in the next CPS.</p>
<p>Cluster 2.2: Promoting and developing a new social contract in education, health and nutrition</p>			
<p>Outcome 2.2.1: Strengthened accountability, support systems and results orientation in provision of basic social services, and more efficient social protection system.</p>			
<p>Indicator: 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.</p> <p>Indicator: Increase in SIS affiliation rate for women of childbearing age in the ten poorest regions by 10 percentage points and in these 10 regions by</p>	<p>Partially achieved: National Census of 2nd grade shows that by 2010 there was a sizable improvement in test scores compared with those reported in 2007. In 2010, the proportion of students lagging “below level 1” decreased to 24 percent in reading and to 53 percent in math. The proportion of students reaching “Level 2” increased to 29 percent in reading and to 14 percent in math. No numbers are available for 2011.</p> <p>Achieved: <i>Seguro Integral de Salud (SIS)</i> affiliation rose to 5.22 million (2008) in the ten poorest regions²³; and to 10.5 million nationwide. Both figures increased by 50 percent since 2007. The SIS budget increased from S/.267 million in 2006 to S/.420 million in 2008. This represented an increase of 42 percent in real terms.</p>	<p>Lending:</p> <ul style="list-style-type: none"> -Health reform program APL II – PARSALUD II (FY09) -Results and Accountability - REACT I (FY07), II (FY09), III (FY11) -Accountability for Decentralization in Social Sectors (FY05) -Results in Nutrition SWAP (FY11) <p>Non-lending:</p> <ul style="list-style-type: none"> -RECURSO study (FY06) -Programmatic RECURSO II (FY08), III (FY09), RECURSO IV (FY10), V (FY11) -Education Sector NLTA (FY11) -Decentralization in Social Sectors 	<p>Devoting a major portion of the CPS program to advancing a “new” results/accountability culture in social services delivery was a risky proposition which has paid off. Although not all the results were fully achieved, the DPL series has had a major, likely non-reversible, impact on Voice, compact and client power. Factors which contributed to overall success include: (i) true government ownership of the agenda; (ii) flexible program design enabling adaptation to</p>

²³ The included regions were Amazonas, Apurimac, Ayacucho, Cajamarca, Huancavelica, Huánuco, Loreto, Piura, Puno and Tacna.

Appendix 1: Summary of CPS Program Self-evaluation

Cluster of outcomes and outcome indicators	Status and evaluation summary	Lending and non-lending activities that contributed to the outcome	Lessons and suggestions for the new CPS
<p>20percent in real terms in 2006-2008.</p> <p>Indicator: Increase coverage of IBs in the 10 poorest regions to reach 75 percent and nationwide rural coverage to reach 58 percent.</p> <p>Indicator: Reduction in national chronic malnutrition from 24 to 15 percent in 5 years.</p>	<p>Achieved. During the last ten years, the coverage of institutional births (IBs) has continued to rise steadily, with an annual average growth rate of 3.4 percent (2.5 percent in urban areas and 4 percent in rural areas. In mid-2010, IB coverage reached 58 percent for rural areas as a whole and 72 percent in the 10 poorest regions^o (implying that coverage is on track to reach the 75 percent targeted for the end of the CPS period).</p> <p>Partially achieved. As a result of the adoption of new World Health Organization (WHO) standards, the baseline of 24 percent in 2006 was adjusted to 28 percent; and, Government adopted a new national target of 23 percent by 2010. This new target has been achieved. However, the 23 percent figure is estimated to be equivalent to about 18 percent under the old standard, implying that progress fell somewhat short of the 15 percent originally targeted in the CPS.</p>	<p>NLTA (FY10) -Nutrition NLTA – JSDF Grant (FY11) -Health RBB NLTA (FY11)</p>	<p>lessons of experience; (iii) widespread consultation at all levels including with beneficiaries; (iv) careful calibration of analytical work with policy design needs; (v) close partnerships with other donors; and (vi) systematic attention to matching budget/financing modalities with desired service outcomes (performance-based budgeting)</p>
PILLAR III: MODERNIZATION OF INSTITUTIONS			
Cluster 3.1: Modernizing state institutions			
<i>Outcome 3.1.1: Consolidation of decentralization processes.</i>			
<p>Indicator: Increase in number of local and regional governments accredited from 310 to 600.</p>	<p>Non-Observable: Over much of the CPS period, the Government made continuous efforts to recalibrate its decentralization model in an effort to design a system that was flexible enough to accommodate Peru’s diversity and the variable institutional capacity of SNGs. As a result of these design changes, a decision was taken to cease formally accrediting SNGs, although efforts continued to provide training in standards for municipal borrowing, budget planning and execution and M&E. Significant progress was achieved in these areas.</p>	<p>Lending: -Institutional Capacity for Decentralization Technical Assistance Loan - TAL (FY05) -Results and Accountability - REACT I –III (FY07-FY11) -Capacity Bldg. for Fiscal Decentr. TA (FY05-FY11)</p> <p>Non lending: -The Decentralization Process and its Links with Public Expenditure Effectiveness (FY10) -PEFA I, to be included in PER (FY09) -Governance and Governability Enhancement NLTA (FY09-11) -Joint Governance Program in the Andes (FY09)</p>	<p>Decentralization in Peru is still a work in progress, which would benefit from sustained Bank support. Continuing challenges which the Bank could consider supporting through a new CPS include institutional design questions given: (i) decisions by Government to abandon some coordination institutions in light of implementation experience; (ii) lack of clarity w respect to functions and (iii) limited coordination</p>

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Cluster of outcomes and outcome indicators	Status and evaluation summary	Lending and non-lending activities that contributed to the outcome	Lessons and suggestions for the new CPS
		<p>-NLTA to CONSUCODE on Procurement (FY09) -Municipal Serv. Assess. (FY10) -Sub-national Pilots NLTA (FY10) -Social and Distributional Impact Analysis of the Participatory Budget in Peru (FY10)</p> <p>IFC TA: -Canon Mgmt. Project (FY09) -BPZ (Regional Government of Tumbes, FY09) -Canon Monitoring Project (FY08) Chinalco (FY09), Peru LNG Royalties (FY10), Vale (FY10)</p>	
Outcome 3.1.2: Improved public sector management.			
<p>Indicator: Introduction of Results-Based Budgeting (RBB) as a tool to improve the efficiency of public spending.</p> <p>Indicator: Increase in the number of regional and local governments preparing budgets following participatory budgeting norms from 425 to 725.</p>	<p>Achieved. <i>Ministerio de Economía y Finanzas (MEF)</i> established the results-based budget (RBB) for five strategic pilot programs in 2008, expanding to 24 in 2011. RBB is now an integral part of the budget cycle. The MEF is currently revising the RBB methodology aiming at streamlining the results-based budgetary process and mainstreaming its application throughout the national budget.</p> <p>Achieved. As a result of the implementation of the Participatory Budget Law, currently 100 percent of SNGs follow participatory budget norms in the preparation of the investment budget.</p>	<p>Lending: -Programmatic Fiscal Management and Competitiveness - FMCDPL I (FY07), II and Supplemental (FY09), III (FY10), IV (FY11 – FY13) -Results and Accountability - REACT I (FY07), II (FY09), III (FY11) -Capacity Bldg. for Fiscal Decentr. TA (FY05-FY11)</p> <p>Non-Lending -Programmatic RECURSO II –V (FYs08-11) -JSDF Grant: Giving Voice to the Poor in Influencing, Planning, and Eval. Service Delivery. (FY 2008) - Eval. of the Participatory Budget and its Relation to Performance Based Budget (FY10)</p>	<p>Although the Results Based Budgeting (RBB) program had some stops and false starts, it is beginning to show real results. Key factors in achieving this positive result are (i) the sustained commitment of both the Government and the Bank to staying with the program while adapting it in the light of experience; and (ii) The Bank’s willingness to step back and let the Government “own” and take the lead on program design even in cases of differing technical positions with respect to the way forward.</p>
Outcome 3.1.3: Improved perceptions of the rule of law and access to justice.			
<p>Indicator: 55 percent of the clients are satisfied within the jurisdictional institutions</p>	<p>Achieved. According to a 2009 evaluation, 78 percent of users evaluated the project service delivery model, ALEGRA, favourably with respect to the adjudication and conflict resolution services</p>	<p>Lending -Justice Services Improvement Project II (FY10)</p>	

Appendix 1: Summary of CPS Program Self-evaluation

Cluster of outcomes and outcome indicators	Status and evaluation summary	Lending and non-lending activities that contributed to the outcome	Lessons and suggestions for the new CPS
that are implementing management improvements.	provided by the Conciliators. 77 percent of respondents also provided a favourable evaluation of aspects related to the physical environment and physical access.		

Appendix 2: Planned Lending Program and Actual Deliveries
(FY07 - FY11)

CPS PLANS 2007			STATUS	
FY	Project	IBRD (US\$M)		IBRD (US\$M)
FY07	Fiscal Management and Competitiveness DPL I	200	Approved/disbursed	200
	Results and Accountability (REACT) DPL I	150	Approved/disbursed	150
	Decentralized Rural Transport Project	50	Approved/effective	50
	Sierra Rural Development Project I	20	Approved/effective	20
	Results in nutrition for <i>Juntos</i>	25	Slipped to FY11	
	Health Reform Program APL II	15	Slipped to FY09	
FY08	Fiscal Management and Competitiveness DPL II	370	Slipped to FY09	--
	Environment DPL I	330	Slipped to FY09	--
	Rural Water Supply and Sanitation II - PRONASAR II (replaces Water Sector Modernization)	30	Converted to Additional Financing and slipped to FY11	--
	Low Income Housing	--	Dropped	--
	Quality of Basic Education	--	Slipped to FY13	--
FY09	Fiscal Management and Competitiveness DPL III	150	Slipped to FY10	---
	Results and Accountability (REACT) DPL II (DDO)	330	Approved/effective	330
	Natural Disasters Management	--	Converted to CAT DDO and slipped to FY11	---
	Governance Enhancement Program	--	Converted into NLTA Programmatic Governance and Governability	---
	Sub National Infrastructure Investment Facility	--	Converted to Sub-National Pilots NLTA	---
			<i>Slipped from previous FY:</i>	
			Fiscal Management and Competitiveness DPL II (DDO)	370
			Environment DPL I (DDO)	330
			Health Reform Program APL II	15
			<i>Additional projects:</i>	
		Supplemental Financing Fiscal Management and Competitiveness DPL II (DDO)	330	
Subtotal FY2007-2009		1,670	Subtotal FY2007-2009	1,795

Appendix 2: Planned Lending Program and Actual Deliveries (continued)
(FY07-FY11)

PROGRESS REPORT PLANS 2009			STATUS	
FY10	DPL Fiscal Management and Competitiveness IV	100	Slipped to FY11	--
	Environment DPL II	50	Approved/disbursed	50
	Quality Assurance in Tertiary Education	---	Slipped to FY12	--
	Infrastructure for Sustainable Tourism	--	Dropped	--
	Doing Business Enhancement Program	--	Dropped	--
	Water Resources Management	10	Approved/effective	10
	Additional Financing Lima Transport Project	---	Slipped to FY13	--
			<i>Slipped from previous FY:</i> Fiscal Management and Competitiveness DPL III	150
			<i>Additional projects:</i> Safe and Sustainable Transport Project (but cancelled in FY11)	150
FY11	Results and Accountability (REACT) DPL III	50	Approved/disbursed	50
	DPL Fiscal Management and Competitiveness V	--	Merged with DPL Fiscal Management and Competitiveness IV	---
	Sierra Development II	--	Slipped to FY13	---
	Health Reform Program APL III	--	Dropped	---
	Sierra Irrigation Project	20	Approved/effective	20
	Justice Services Improvement Project II	20	Approved/effective	20
			<i>Slipped from previous FY:</i> Juntos Results for Nutrition	25
			National Rural Water Supply and Sanitation Project - Additional Financing	30
			DPL Fiscal Management and Competitiveness IV	100
			CAT DDO (former Natural Disasters Management)	100
		<i>Additional projects:</i> DPL Environment III	75	
		<i>Optimization of Lima Water and Sewerage Systems</i>	54.5	
		<i>Second Rural Electrification Project</i>	50	
Subtotal FY2010-2011		250	Subtotal FY2010-2011	
TOTAL		1,920	TOTAL	
				2,679.5

**Appendix 3: Non Lending Services and Actual Deliveries
(FY 2007 – 2011)**

CPS PLANS		STATUS
2007	Not defined	<i>Additional Products</i> Rural Electrification Informality I Peru SOE Assessment Lima (Perú) City Poverty Strategy
2008	Not defined	<i>Additional Products</i> Capital Markets for Growth Small Hydropower NLTA PPP Law Recurso II
PROGRESS REPORT PLAN		STATUS
2009	Poverty, Monitoring, and Information System NLTA Public Expenditure Review National Gas Development Strategy Tax Compliance Survey Recurso III Governance and Governability NLTA Recent Economic Development in Infrastructure (REDI) NLTA to CONSUCODE on National Procurement System and Strategy Joint Governance Program in the Andes (LC6)	Actual Completed in FY 11 Completed in FY10 (Title changed to Natural Gas Study) Completed in FY10 (Title changed to Tax Compliance Cost Surveys) Actual Actual Completed in FY11 Converted to IDF approved in FY12 (Title changed to Strategy for the Implementation of High-level Procurement Training) Underway (to be completed in FY13, Title changed to Institutional Strengthening of Andean Supreme Audit Institutions-IDF) <i>Additional Products</i> (CCH) Overcoming Barriers to Hydropower Improving SME access to Capital Markets
2010	Skills and Labor Policies for the Poor The decentralization process and its links to public expenditure efficiency Effectiveness of Antipoverty Intervention NLTA Growth and Labor Trends in Peru Economics of Avoided Deforestation/RE DD in Peru Recurso IV Decentralization in Social Sectors Municipal Services Assessment Sub-National Pilots NLTA Social and Distributional Impact Analysis of the Participatory Budget in Peru	Completed in FY11 (Title changed to Skills and Access to Urban Labor Markets) Completed in FY11 Completed in FY11 Actual (Title changed to Labor Market Review) Converted to TA Peru FCPF REDD Readiness preparation. . Actual Actual Merged in Governance and Governability NLTA IV, Completed in FY11 Completed in FY 11 Actual <i>Additional Products</i> IT and IT Enabled Services Strategic Plan for the Telecommunications Investment Fund
2011	Review of Progress with FTAs CEM Financial Sector Review	Dropped To be Completed in FY12 (Title changed to CEM - Trade Comp and Growth) Completed in FY10

<p>Poverty NLTA Recurso V Education Sector NLTA Nutrition NLTA Health RBB NLTA Governance and Governability NLTA</p>	<p>Completed in FY10 (Title changed to Poverty-Effectiveness Monitoring I) Completed in FY 12 Actual Completed in FY10 Completed in FY 11 (Title changed to Universal Insurance Health Reform) Actual <i>Additional Products</i> Insolvency and Creditor Risk ROSC Natural Resources Land Use and Environment Financial Crisis Simulation Assessment of CC in Hidrology Strength Private Sector Accounting and Auditing Poverty-Effectiveness Monitoring II</p>
---	---

Appendix 4: Trust Funds delivered in FY07-FY11

Fund Name	Fund Status	Closing Date	Grant Amount	Total Disbursed in CPS Period
Pillar I: Economic Growth				
GEF PPG - Republic Of Peru: Grant for the Preparation of the Strengthening Biodiversity Conservation through the National Protected Areas Program	LCLS	06/15/2009	152,548	152,548
Strengthening Biodiversity Conservation through the National Protected Areas Program	ACTV	05/31/2015	8,891,000	579,247
First: Peru - 8086 Financial Crisis Simulation Program	LCLS	12/30/2010	200,280	200,280
GEF3 FSP-Peru: Participatory Management of Protected Areas (PROFONAPE II) Project	ACTV	12/31/2010	14,800,000	8,672,657
Peru Environmental Governance and Mainstreaming in Key Sectors Project	ACTV	03/31/2013	250,000	0
Innovative Institutional and Technological Solutions to Reduce Vulnerability to Resource Degradation and Climate Shocks in LCR	ACTV	12/31/2012	500,000	41,126
Peru Forest Investment Program (FIP)	ACTV	12/30/2011	35,000	20,474
PE Natural Gas Study	LCLS	11/20/2009	99,326	99,326
PE: Assessment of CC Impacts in Power	LCLS	12/31/2009	205,109	205,109
Peru Sierra Region Country Partnership Strategy (CPS)	LCLS	10/30/2009	190,274	190,274
Peru CDM Project Portfolio Consolidation Project	LCLS	12/30/2009	138,214	138,214
PE Overcoming Barriers to Hydropower Inv	LCLS	12/31/2009	186,411	186,411
JSDF-Peru: Lima Rapid Empowerment Fund	LCLS	03/31/2007	1,091,219	749,523
Pillar II: Social Development				
PHRD-Peru: Rural Electrification Project	LCLS	11/15/2006	223,748	119,448
Peru Accountability in Social Sectors	LCLS	12/31/2006	583,032	35,671
JSDF-Peru: Capacity Building for Behavioral Change: Reducing Diarrhea in Poor Children	LCLS	09/09/2008	848,447	384,822
JSDF-Peru: Cap. Bldg. for Behavioral Change: Reducing Diarrhea in Poor Children (Bank-Exe TF To Cover Incr. Bank Costs of TF054228)	LCLS	09/09/2008	26,596	0
PHRD-Peru: Results and Accountability (REACT) Development Policy Loan II	LCLS	10/08/2009	852,295	852,295
Strengthening Accountability and Results-Based Management in Education	ACTV	01/31/2013	50,000	0
IE - Water Rights in Peru	ACTV	07/31/2011	195,000	64,756
PHRD-Peru: Decentralized Rural Infrastructure	LCLS	06/18/2007	208,278	208,278
GEF FSP-Peru: Rural Electrification Project	ACTV	06/30/2013	10,000,000	2,574,270
Round 23 - Peru - Enhancing Integrated Legal Strategies for the Poor	PEND	03/15/2014	1,120,040	0
Round 23 - Peru - Enhancing Integrated Legal Strategies for the Poor	PEND	03/15/2014	110,773	0
Participatory Intervention Model to Improve Child Nutrition	ACTV	10/22/2014	1,901,660	300,000
Participatory Intervention Model to Improve Child Nutrition (Bank-Executed)	ACTV	10/22/2014	58,000	0
Cusco +10 - Challenges of Rural Water and Sanitation after a Decade	LCLS	08/31/2010	46,763	46,763
Peru: Scaling Up Nutrition	ACTV	03/31/2012	75,900	38,305
IDF: Peru-Strengthening the National System for Evaluation and Quality Assurance of Education	ACTV	07/23/2013	396,540	79,897

Fund Name	Fund Status	Closing Date	Grant Amount	Total Disbursed in CPS Period
JSDF-Peru: Lima Rapid Empowerment Fund (Bank-Exe TF For Covering Incremental Bank Costs Of TF052877)	LCLS	06/30/2007	31,071	16,929
GEF3 FSP-Peru: Lima Urban Transport Project	LCLS	06/30/2010	7,354,080	5,451,010
Peru RBI Replication in the ALIADOS Project	ACTV	09/30/2011	50,000	17,500
Women Agricultural Producers And Irrigation In The Peruvian Sierra: Enhancing their Leadership and Recognition in the Water Users Organizations of Chonta and Maschon (Cajamarca Region).	LCLS	12/31/2009	21,974	21,974
Local Financing Of Utilities Phase 2 - Improving Capacity of Peruvian Water Utilities to Access Local Financing	ACTV	06/30/2011	52,800	41,806
Peru - Agricultural Drainage - Maintenance Equipment And Rehabilitation Needs in Selected Valleys	ACTV	06/30/2011	41,270	39,879
Support Productive Uses Promotion Peru	ACTV	06/30/2011	119,706	77,079
Supporting Integrated, Participatory, Basin-Scale Wrm In Peru	ACTV	10/30/2011	90,000	64,509
Rapid Response: Effective Urban Traffic Management Program for Historic Districts in the Metropolitan Municipality Of Lima	ACTV	12/31/2011	125,000	57,750
Peru Vilcanota II Project Preparation	ACTN	12/31/2011	625,000	0
Gender Differentiated Impact in the Incagro Project	LCLS	10/31/2010	39,973	39,973
Gender Mainstreaming in the Peru Sierra Irrigation Project	LCLS	12/31/2010	29,740	29,740
Empowering Women And Improving Gender Balance for Irrigation and Water Management in the Andean Region of Peru	ACTV	05/31/2011	35,000	32,393
Pillar III: Modernization Of Institutions				
Peru: Towards A Results Oriented Participatory Budget (PB) - Piloting Mechanisms to Increase PB Results Orientation And Support Participatory Monitoring in Health and Nutrition Services	ACTV	06/30/2011	49,500	13,193
JSDF-Peru: Civil Society And the Rule of Law	LCLS	01/28/2009	560,088	560,088
Peru: Assessing the Distributional Impacts of Peru's Social Programs Decentralization	ACTV	06/30/2012	80,000	23,125
IDF Grant For Technical Assistance For Strengthening Institutional Capacity	ACTV	01/12/2012	223,620	30,000
On-Site Expert Support to Improve the Implementation of Sub-National Public Investments in The Regions of Apurimac, Ayacucho, and Huancavelica	ACTV	09/24/2013	400,000	80,000
Peru National Results Based Monitoring, Evaluation and Information	ACTV	10/01/2013	311,350	80,000
Peru - Improving Coverage, Quality, and Timeliness of Peru's Vital Statistics	PEND	10/19/2012	250,000	0
Integration of Disaster Risk Information in Peru's Planning System	PEND	03/30/2013	310,000	0
IDF: Peru-Improving the Quality And Efficiency of Public Expenditure Management	ACTV	11/12/2012	150,000	50,000
Peru – TA for Strengthening Private Sector Accounting and Auditing (# 7088)	LCLS	06/30/2010	199,463	199,463
Peru-IDF Grant for Strengthening Congressional Budget Oversight Capacity Project	ACTV	06/03/2011	493,500	203,312
PPIAF-SNTA: Peru: Access to Commercial Bank and Capital Markets (Phase II)	ACTV	06/30/2011	499,776	449,620
Supervision of TF096160 (GFR4317): Preparation for the Peru Vilcanota II Project	ACTV	12/29/2011	31,250	0
Peru: Vilcanota Valley Project	ACTV	12/31/2011	260,000	234,782

Fund Name	Fund Status	Closing Date	Grant Amount	Total Disbursed in CPS Period
		Total	55,870,614	23,579,721

SAP Data as of 06/01/2011

Notes:

LCLS=Legally Closed

PEN=Pending

ACTV=Active

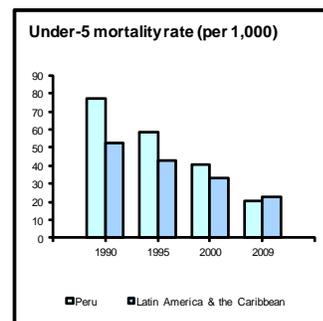
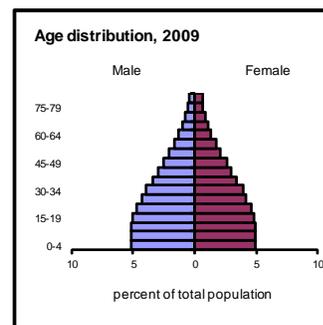
ACTN=Active But Not Disbursing

Annex 3

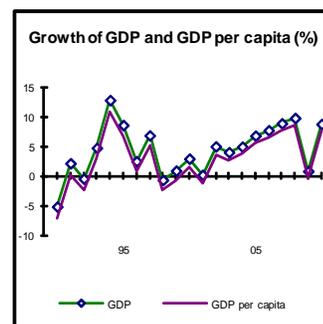
Peru at a glance

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Key Development Indicators	Peru	Latin	Upper
		America & Carib.	middle income
(2010)			
Population, mid-year (millions)	29.1	572	1,002
Surface area (thousand sq. km)	1,285	20,394	48,659
Population growth (%)	1.1	1.1	0.9
Urban population (% of total population)	72	79	75
GNI (Atlas method, US\$ billions)	136.7	4,011	7,515
GNI per capita (Atlas method, US\$)	4,700	7,007	7,502
GNI per capita (PPP, international \$)	8,120	10,286	12,440
GDP growth (%)	8.8	-1.9	-2.6
GDP per capita growth (%)	7.6	-3.0	-3.4
(most recent estimate, 2004–2010)			
Poverty headcount ratio at \$125 a day (PPP, %)	6	8	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	15	17	..
Life expectancy at birth (years)	74	74	72
Infant mortality (per 1,000 live births)	15	19	19
Child malnutrition (% of children under 5)	5	4	..
Adult literacy, male (% of ages 15 and older)	95	92	94
Adult literacy, female (% of ages 15 and older)	85	90	91
Gross primary enrollment, male (% of age group)	109	118	111
Gross primary enrollment, female (% of age group)	109	114	110
Access to an improved water source (% of population)	82	93	95
Access to improved sanitation facilities (% of population)	68	79	84



Net Aid Flows	1980	1990	2000	2010 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	202	397	397	442
<i>Top 3 donors (in 2008):</i>				
United States	53	79	92	104
Spain	0	6	19	100
Germany	59	60	34	80
Aid (% of GNI)	1.0	1.6	0.8	0.4
Aid per capita (US\$)	12	18	15	15
Long-Term Economic Trends				
Consumer prices (annual % change)	..	..	..	5.4
GDP implicit deflator (annual % change)	65.9	6,836.9	3.7	6.9
Exchange rate (annual average, local per US\$)	0.0	0.2	3.5	2.8
Terms of trade index (2000 = 100)	..	126	100	145
Population, mid-year (millions)	17.3	21.7	25.9	29.1
GDP (US\$ millions)	20,661	26,294	53,290	157,053
<i>(% of GDP)</i>				
Agriculture	11.7	8.5	8.5	8.3
Industry	42.8	27.4	29.9	34.3
Manufacturing	23.5	17.8	15.8	16.6
Services	45.5	64.1	61.6	57.5
Household final consumption expenditure	57.5	73.7	71.4	62.7
General gov't final consumption expenditure	10.5	7.9	10.6	10.0
Gross capital formation	29.0	16.5	20.2	24.4
Exports of goods and services	22.4	15.8	16.0	25.1
Imports of goods and services	19.4	13.8	18.2	22.2
Gross savings	..	19.3	20.2	22.8



1980–90 1990–2000 2000–10
(average annual growth %)

Note: Figures in italics are for years other than those specified. 2010 data are preliminary. Group data are for 2009. .. indicates data are not available.
a. Aid data are for 2009.

Development Economics, Development Data Group (DECDG).

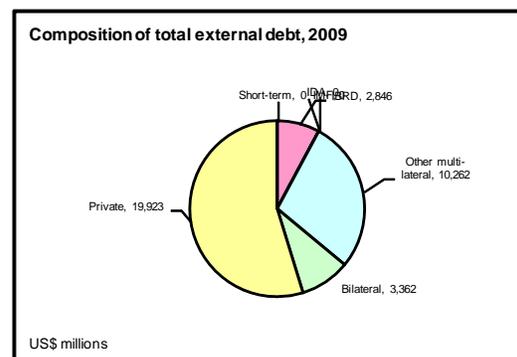
Balance of Payments and Trade	2000	2010
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	6,955	32,673
Total merchandise imports (cif)	7,358	24,191
Net trade in goods and services	-1,138	4,713
Current account balance as a % of GDP	-1.546	-2.315
Workers' remittances and compensation of employees (receipts)	718	2,378
Reserves, including gold	8,563	44,150

Central Government Finance

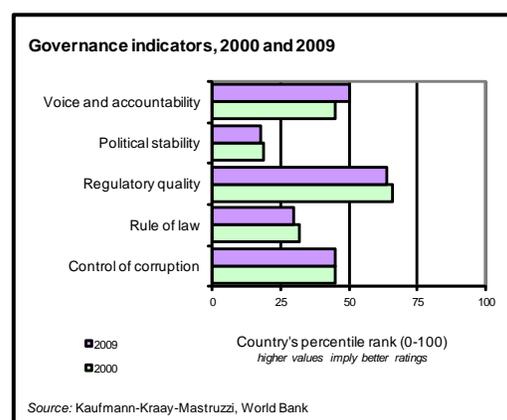
	2000	2010
<i>(% of GDP)</i>		
Current revenue (including grants)	14.9	16.8
Tax revenue	12.2	14.5
Current expenditure	15.1	12.7
Overall surplus/deficit	-2.8	0.0
Highest marginal tax rate (%)		
Individual	30	30
Corporate	30	30

External Debt and Resource Flows

	2000	2010
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	28,632	36,271
Total debt service	2,571	6,784
Debt relief (HIPC, MDR)	-	-
Total debt (% of GDP)	53.7	23.1
Total debt service (% of exports)	25.8	15.7
Foreign direct investment (net inflows)	810	4,760
Portfolio equity (net inflows)	123	47



Private Sector Development	2000	2010
Time required to start a business (days)	-	27
Cost to start a business (% of GNI per capita)	-	13.6
Time required to register property (days)	-	7
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
Anticompetitive or informal practices	..	22.1
Tax administration	..	17.9
Stock market capitalization (% of GDP)	19.8	63.6
Bank capital to asset ratio (%)	9.1	10.0



Technology and Infrastructure	2000	2009
Paved roads (% of total)	13.4	13.9
Fixed line and mobile phone subscribers (per 100 people)	12	95
High technology exports (% of manufactured exports)	3.6	2.6

Environment

Agricultural land (% of land area)	17	17
Forest area (% of land area)	54.1	53.1
Terrestrial protected areas (% of land area)	..	..
Freshwater resources per capita (cu. meters)	60,377	56,685
Freshwater withdrawal (billion cubic meters)	19.3	..
CO2 emissions per capita (mt)	1.2	1.5
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	11.8	15.4
Energy use per capita (kg of oil equivalent)	468	510

World Bank Group portfolio	2000	2009
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	2,590	2,846
Disbursements	266	379
Principal repayments	93	245
Interest payments	189	107
IDA		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Total debt service	0	0
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	292	760
Disbursements for IFC own account	157	538
Portfolio sales, prepayments and repayments for IFC own account	70	216
	10	64
MIGA		
Gross exposure	329	7
New guarantees	40	0

Note: Figures in italics are for years other than those specified. 2010 data are preliminary.
.. indicates data are not available. - indicates observation is not applicable.

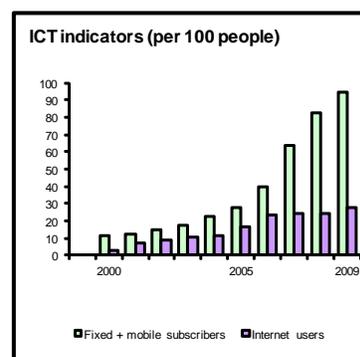
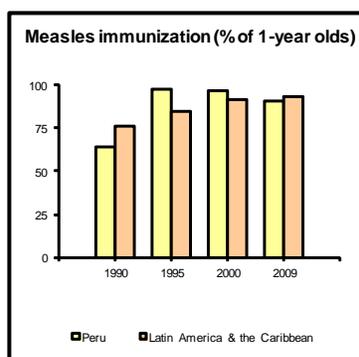
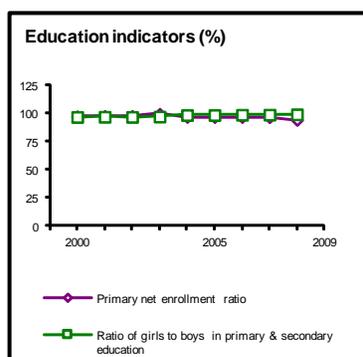
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Millennium Development Goals

Peru

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Peru			
	1990	1995	2000	2009
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	<2	8.6	15.1	5.9
Poverty headcount ratio at national poverty line (% of population)	..	42.7	48.4	31.3
Share of income or consumption to the poorest quintile (%)	5.6	4.4	3.3	3.9
Prevalence of malnutrition (% of children under 5)	8.8	5.7	5.2	5.4
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	92	89	98	94
Primary completion rate (% of relevant age group)	..	89	102	101
Secondary school enrollment (gross, %)	67	70	85	89
Youth literacy rate (% of people ages 15-24)	..	95	..	97
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	96	96	97	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	31	33	38
Proportion of seats held by women in national parliament (%)	6	11	11	28
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	78	59	41	19
Infant mortality rate (per 1,000 live births)	55	43	31	15
Measles immunization (proportion of one-year olds immunized, %)	64	98	97	91
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	250	220	160	98
Births attended by skilled health staff (% of total)	80	56	59	83
Contraceptive prevalence (% of women ages 15-49)	59	64	69	73
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.4	0.5	0.5	0.4
Incidence of tuberculosis (per 100,000 people)	317	242	184	113
Tuberculosis case detection rate (% , all forms)	55	78	81	97
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	75	77	79	82
Access to improved sanitation facilities (% of population)	54	59	62	68
Forest area (% of land area)	54.8	..	54.1	53.1
Terrestrial protected areas (% of land area)	..	..	..	..
CO2 emissions (metric tons per capita)	1.0	1.0	1.2	1.5
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	10.0	11.6	11.8	15.4
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	2.6	4.6	6.6	10.2
Mobile phone subscribers (per 100 people)	0.0	0.3	4.9	84.7
Internet users (per 100 people)	0.0	0.0	3.1	27.7
Personal computers (per 100 people)	..	1.5	4.0	10.1



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

15/12

Development Economics, Development Data Group (DECDG).

Annex 4

PERU

Selected Indicators* of Bank Portfolio Performance and Management

As Of Date 1/5/2012

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation ^a	17	18	18	18
Average Implementation Period (years) ^b	3.9	3.9	3.1	3.6
Percent of Problem Projects by Number ^{a, c}	11.8	5.6	5.6	0.0
Percent of Problem Projects by Amount ^{a, c}	1.8	0.5	1.0	0.0
Percent of Projects at Risk by Number ^{a, d}	23.5	5.6	5.6	0.0
Percent of Projects at Risk by Amount ^{a, d}	3.2	0.5	1.0	0.0
Disbursement Ratio (%) ^e	27.8	38.0	13.9	10.3
Portfolio Management				
CPPR during the year (yes/no)	yes	yes	yes	yes
Supervision Resources (total US\$)	1842	1572	1133	737
Average Supervision (US\$/project)	108	87	63	41

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	76	8
Proj Eval by OED by Amt (US\$ millions)	4,921.4	314.8
% of OED Projects Rated U or HU by Number	39.2	25.0
% of OED Projects Rated U or HU by Amt	17.0	10.5

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 5

Peru Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2003-09	Latin America & Carib.	Upper-middle-income
POPULATION					
Total population, mid-year (millions)	19.5	23.9	29.2	572.5	1,001.7
Growth rate (% annual average for period)	2.4	1.9	1.2	1.2	0.9
Urban population (% of population)	66.9	70.3	71.5	79.0	74.9
Total fertility rate (births per woman)	4.4	3.3	2.5	2.2	2.0
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	34.8	..	..
Urban headcount index	..	..	21.1	..	..
Rural headcount index	..	..	60.3	..	..
INCOME					
GNI per capita (US\$)	960	1,990	4,200	7,007	7,502
Consumer price index (2000=100)	0	65	113	123	127
Food price index (2000=100)	0	77	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	44.9	48.0	..	..
Lowest quintile (% of income or consumption)	..	4.9	3.9	..	..
Highest quintile (% of income or consumption)	..	50.4	52.6	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	2.4	2.7	3.9	3.8
Education (% of GDP)	2.7	..	2.7	4.0	4.3
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	96	89	94	94	93
Male	93	90	94	94	93
Female	89	89	95	93	92
Access to an improved water source					
<i>(% of population)</i>					
Total	..	77	82	93	95
Urban	..	89	90	97	98
Rural	..	50	61	80	86
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	53	98	91	93	93
DPT	48	90	93	92	93
Child malnutrition (% under 5 years)	12	9	5	4	..
Life expectancy at birth					
<i>(years)</i>					
Total	63	68	73	74	72
Male	61	66	71	71	69
Female	65	71	76	77	75
Mortality					
Infant (per 1,000 live births)	76	51	19	19	19
Under 5 (per 1,000)	101	62	21	23	22
Adult (15-59)					
Male (per 1,000 population)	287	228	162	190	201
Female (per 1,000 population)	229	173	100	103	122
Maternal (modeled, per 100,000 live births)	..	220	98	86	82
Births attended by skilled health staff (%)	..	80	83	89	96

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 15 April 2011.

Annex 6

PERU – Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	7	7	7	7	8	8	8	8	7
Industry	34	37	37	37	35	34	34	33	33
Services	58	56	56	56	57	57	59	59	60
Total Consumption	76	71	70	73	76	73	73	74	73
Gross domestic fixed investment	18	19	22	26	23	25	24	24	26
Government investment	3	3	3	4	5	6	6	6	6
Private investment	15	16	18	22	18	19	18	18	20
Exports (GNFS) ^b	25	29	29	27	24	25	27	27	27
Imports (GNFS)	19	20	22	27	20	22	24	25	26
Gross domestic savings	24	29	30	27	24	27	27	26	27
Gross national savings ^c	19	23	24	23	21	23	22	22	22
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	79385	92304	107233	126823	126923	157053	175682	192020	208370
GNI per capita (US\$, Atlas method)	2680	2950	3370	4010	4170	4730	..	..	..
Real annual growth rates (% , calculated from 94 prices)									
Gross domestic product at market price	6.8	7.7	8.9	9.8	0.8	8.8	6.5	6.0	6.0
Gross Domestic Income	8.0	13.1	9.5	5.8	0.3	12.1	7.3	5.3	5.5
Real annual per capita growth rates (% , calculated from 94 prices)									
Gross domestic product at market price	5.6	6.6	7.7	8.7	-0.2	7.6	..	..	..
Total consumption	3.9	5.4	6.7	6.8	2.7	5.4	..	..	..
Private consumption	3.4	5.3	7.2	7.6	1.2	4.8	..	..	..
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	19657	26490	31246	34667	30607	39521	47338	50893	55582
Merchandise FOB	17368	23830	28094	31018	26962	35565	43129	46242	50385
Imports (GNFS) ^b	15205	18241	23935	34154	25800	34809	42767	48389	53715
Merchandise FOB	12082	14844	19591	28449	21011	28815	36067	40994	45685
Resource balance	4452	8249	7312	514	4807	4713	4572	2505	1867
Net current transfers	..	..	..	..	..	..	..	..	..
Current account balance	1148	2854	1460	-5318	211	-2315	-4396	-6233	-7705
Net private foreign direct investment	2579	3467	5425	6188	5178	7113	8546	8950	9512
Long-term loans (net)	-2030	-410	612	1171	2501	2745	4932	5454	1992
Official	-1931	-392	-2316	-89	-574	-1369	8	-770	-514
Private	-99	-18	2928	1260	3075	4114	4925	6225	2506
Other capital (net, incl. errors & omissions)	-68	-3158	2916	1466	-5950	3648	-5958	-6672	-1847
Change in reserves ^d	-1628	-2753	-10414	-3507	-1939	-11192	-3124	-1499	-1953
<i>Memorandum items</i>									
Resource balance (% of GDP)	5.6	8.9	6.8	0.4	3.8	3.0	2.6	1.3	0.9
Real annual growth rates (YR94 prices)									
Merchandise exports (FOB)	..	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..	..
							<i>(Continued)</i>		

**PERU – Key Economic Indicators
(Continued)**

Indicator	Actual			Estimate			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public finance (as % of GDP at market prices)^e									
Current revenues	15.7	17.4	18.1	18.3	15.9	16.8	19.9	20.9	21.0
Current expenditures	14.7	14.1	14.2	13.8	13.9	12.7	13.6	14.1	13.7
Current account surplus (+) or deficit (	1.0	3.3	3.9	4.5	2.0	4.1	6.3	6.8	7.3
Capital expenditure	1.9	2.0	2.2	2.4	3.8	4.3	5.6	6.0	6.2
Foreign financing	..	..	..	..	..	-0.6	0.1	0.5	0.0
Monetary indicators									
M2/GDP	10.8	11.2	13.1	15.1	16.3	29.3	28.9	28.8	28.6
Growth of M2 (%)	27.2	20.0	29.4	28.1	10.8	109.2	8.3	7.6	7.6
Private sector credit growth / total credit growth (%)	186.1	-101.9	770.3	305.2	28.3	-332.9	-95.5	-77.5	-16.7
Price indices(YR94 =100)									
Merchandise export price index	..	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real interest rates									
Consumer price index (% change)	1.6	5.7	0.4	5.3	5.5	5.4	5.5	3.7	3.3
GDP deflator (% change)	3.0	7.2	1.9	0.7	2.2	6.9	3.0	2.0	2.0

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Annex 7

PERU – Key Exposure Indicators

Indicator	Actual			Estimated			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US\$m) ^a	29352	29133	32073	34559	36393	36271	35716	33870	32630
Net disbursements (US\$m) ^a	..	..	..	..	..	..	..	..	..
Total debt service (TDS) (US\$m) ^a	..	..	..	..	..	..	..	..	..
Debt and debt service indicators (%)									
TDO/XGS ^b	135.1	99.2	91.7	88.7	105.6	83.9	69.5	61.3	54.3
TDO/GDP	37.0	31.6	29.9	27.2	28.7	23.1	20.3	17.6	15.7
TDS/XGS	..	..	..	..	..	..	..	..	..
Concessional/TDO	11.2	10.8	9.6	10.8	10.7	9.9	9.9	10.1	9.8
IBRD exposure indicators (%)									
IBRD DS/public DS	..	..	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	..	..	..	..	..	..	..	..	..
IBRD DS/XGS	1.4	1.2	1.1	0.9	1.0	0.7	0.7	0.7	0.6
IBRD TDO (US\$m) ^d	2816	2633	2649	2712	2846	2965	3206	2933	2962
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	2	2	2	2	3	3	3	3	3
IDA TDO (US\$m) ^d	0	0	0	0	0	0	0	0	0
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex 8

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 1/5/2012

Closed Projects 113

IBRD/IDA*

Total Disbursed (Active)	454.90
of which has been repaid	5.87
Total Disbursed (Closed)	1,822.34
of which has been repaid	2,087.14
Total Disbursed (Active + Closed)	2,277.23
of which has been repaid	2,093.01
Total Undisbursed (Active)	1,469.28
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	1,469.28

Active Projects

Project ID	Project Name	<u>Last PSR</u>			Fiscal Year	<u>Original Amount in US\$ Millions</u>			<u>Difference Between Expected and Actual Disbursements^{a/}</u>			
		<u>Supervision Rating</u>				IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>	Rating								
P101590	PE 2nd Prg Fiscal Mgmt & (S		S	✓	2009	700				480		
P095570	PE Decentralized Rural Trai S		S	✓	2007	50				7.197861	7.197861	
P101471	PE First Prog. Environ DPL S		S	✓	2009	330				310		
P095424	PE GEF Natl Protected Are S		S	✓	2010			8.891		4.746438		
P110752	PE Justice Services Improv S		HS	✓	2011	20				18.65468		
P065256	PE NATIONAL RURAL WA MS		MS	✓	2003	80				36.40768	6.40768	6.40768
P117293	PE Optimization of Lima W S		S	✓	2011	54.5				54.5	1.3E-07	
P078894	PE Real Property Rights II S		S	✓	2006	25				5.228164	5.228164	3.00352
P078813	PE Regional Transport Dec S		S	✓	2006	50				25.96836	25.96836	
P117310	PE Results Nutrition for Jun S		S	✓	2011	25				25		
P090116	PE Rural Electrification S		S	✓	2006	50				1.484641	0.092975	-3.11213
P090110	PE Rural Electrification MS		S	✓	2006			10		7.10161	6.893277	
P117864	PE Second Rural Electrifica S		S	✓	2011	50				50		
P079165	PE Sierra Rural Developme S		S	✓	2007	20				6.083772	6.083772	2.137105
P107666	PE Water Resources Mgmt S		MS	✓	2010	10				8.63138	-1.368617	
P095563	PE- (APL2) Health Reform IS		S	✓	2009	15				11.52486	5.258197	
P101177	PE-2nd Results & Accnt.(RI S		S	✓	2009	330				310		
P104760	PE-Sierra Irrigation MS		MS	✓	2011	20				18.59667		
P120860	PERU CAT DDO S		S	✓	2011	100				100		
Overall Result						1929.5		18.891		1481.126	-205.1315	8.436177

Annex 8B: Trust Funds Overview

Program	Fund	Fund Name	Grant Type	Closing Date	Grant Amount
CSCFIA	TF098688	Peru Forest Investment Program (FIP)	BE	12/31/2012	35,000
ESMAP	TF097910	Support Productive Uses Promotion Peru	BE	06/30/2012	160,896
ESMAP	TF011473	Technical Assistance for Energy Planning in Peru	BE	12/06/2012	85,000
GEFIA	TF091712	Adaptation to the Impact of Rapid Glacier Retreat in the Tropical Andes Project	RE	09/30/2012	7,940,000
GEFIA	TF056023	Peru: Rural Electrification Project	RE	06/30/2013	10,000,000
GEFIA	TF097155	Strengthening Biodiversity Conservation through the National Protected Areas Program	RE	05/31/2015	8,891,000
GFDRR	TF058206	Vilcanota Valley Project	BE	12/31/2011	260,000
IDF	TF092745	Technical Assistance for Strengthening Institutional Capacity	RE	01/12/2012	223,620
IDF	TF094136	Institution Strengthening Of Andean Supreme Audit Institutions	RE	09/02/2012	489,900
IDF	TF095180	Improving the Quality and Efficiency of Public Expenditure Management	RE	11/12/2012	150,000
IDF	TF096586	Strengthening the national System for Evaluation and Quality Assurance of Education	RE	07/23/2013	396,540
IDF	TF096843	Peru National Results Based Monitoring, Evaluation and Information	RE	10/01/2013	311,350
IDF	TF099051	Integration of Disaster Risk Information in Peru's Planning System	RE	08/16/2014	310,000
JSDf	TF096419	Participatory Intervention Model to Improve Child Nutrition	RE	10/22/2014	1,901,660
JSDf	TF096475	Participatory Intervention Model To Improve Child Nutrition (Bank-executed)	BE	10/22/2014	58,000
JSDf	TF099277	Enhancing Integrated Legal Strategies For The Poor	RE	09/30/2015	1,120,040
JSDf	TF099279	Enhancing Integrated Legal Strategies For The Poor	BE	09/30/2015	110,773
PHRD	TF090328	Adaptation to Rapid Glacier Retreat in the Tropical Andes (Bolivia, Ecuador, Peru)	RE	09/30/2012	865,000
PHRD	TF011294	Mainstreaming Inclusive Design & Universal Mobility In Lima (Bank Supervision)	BE	12/31/2013	125,000
PHRD	TF011295	Mainstreaming Inclusive Design And Universal Mobility In Lima	RE	12/31/2013	2,500,000
PSIA	TF097239	Assessing the Distributional impacts of Peru's social programs decentralization	BE	06/30/2012	80,000
SFLAC	TF099500	Supervision of TF096160 (GFR4317): Preparation for the Peru Vilcanota II Project	BE	12/29/2011	31,250
SFLAC	TF095895	Rapid Response: Effective Urban Traffic Management Program for Historic Districts in the Metropolitan Municipality of Lima	BE	12/31/2011	125,000
SFLAC	TF096160	Peru Vilcanota II Project Preparation	RE	12/31/2011	625,000
SFLAC	TF095953	Integration of Disaster Risk in Peru Spatial Information System - CAPRA	BE	12/15/2012	300,000
SFLAC	TF098992	Strengthening Accountability and Results-Based Management in Education	BE	01/31/2013	50,000
SFLAC	TF099273	Peru Environmental Governance and Mainstreaming in Key Sectors Project	BE	03/31/2013	250,000
SFLAC	TF096018	On-site Expert Support to Improve the Implementation of Sub-national Public Investments in the regions of Apurimac, Ayacucho, and Huancavelica	RE	09/24/2013	400,000
SIEF	TF096538	IE - Water Rights in Peru	BE	07/31/2011	195,000
SOUTH	TF011088	Study-tour for high-ranking Peruvian officials to learn from the Escuela Nueva model in Colombia	BE	06/30/2012	49,000
SUN	TF096400	Peru: Scaling Up Nutrition	BE	03/31/2012	75,900
TFESSD	TF097837	Innovative Institutional and Technological Solutions to Reduce Vulnerability to Resource Degradation and Climate Shocks in LCR	BE	12/31/2012	500,000
TFSCB	TF099184	Improving Coverage, Quality, and Timeliness of Peru's Vital Statistics	RE	10/19/2012	250,000
TFSCB	TF011183	Operationalizing Open Data Access In Peru And Improving Quality, Relevance And Accessibility Of	RE	12/02/2014	240,000

Program	Fund	Fund Name	Grant Type	Closing Date	Grant Amount
		Peru's National Statistics System			
WPP	TF095581	Supporting Integrated, Participatory, Basin-Scale WRM in Peru	BE	11/30/2011	90,000
WPP	TF097066	Peru - Agricultural drainage - maintenance equipment and rehabilitation needs in selected valleys	BE	11/30/2011	41,270
TOTAL					39,286,199

SAP Data as of 12/05/2011

BE= Bank Executed / RE= Recipient Executed

Annex 8C: Water and Sanitation Program

Donor	Fund	Fund Name	Project Name	Closing Date	Grant Amount USD
CIDA	TF093027	WSP-CIDA Peru Post-Earthquake Planning	Disaster Risk Management in WSS	07/31/2012	3,000,000
DFID	TF098440	Pe/61 Utilities Customer-oriented Management	Peru/61 Utilities Customer-oriented Management	10/31/2013	480,000
DFID	TF098345	Per/49 Creating Sanitation Markets	Per/49 Creating Sanitation Markets	10/31/2013	784,000
SDC Peru	TF093813	SDC Peru - Phase 3	Support Decentralization	04/30/2013	525,202
GATES	TF070692	EWDLAC/Gates Handwashing Peru	Scaling Up Handwashing Behavior Change*	02/28/2013	3,652,852
TOTAL					8,442,054

(* This project is in the Monitoring and Evaluation phase (last phase)

Annex 9 International Finance Corporation

Peru
Committed and Disbursed Outstanding Investment Portfolio
As of 12/31/2011
(In USD millions)

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
1993/ 1997/ 2000/ 2001/ 2010/ 2011/ 2012	AAQSA	0	52.76	0	0	0	0	52.73	0	0	0
2000/ 2006	Agrokasa	4.09	0	0	0	0	4.09	0	0	0	0
2008/ 2012	Amerika Fin.	10	0	0	5.72	0	10	0	0	0	0
2011	Arequipa Region	0	0	0	1.51	0	0	0	0	1.55	0
2007/ 2008/ 2011	B.Continental	66.22	0	0	0	46	66.22	0	0	0	46
2007/ 2009/ 2010/ 2011	BIF	15	0	18	5	0	15	0	18	5	0
2007/ 2008/ 2009/ 2010	BPZ	0	31.17	9.94	0	0	0	31.17	9.94	0	0
2010	Calidda	40	0	10	0	0	36.13	0	9.03	0	0
2004/ 2007/ 2009	Cartones America	0	0	0	0.62	0	0	0	0	0.42	0
2011	Cheves	70	0	0	0	180	0	0	0	0	0
2004/ 2005/ 2008	EDYFICAR	0	0	0	2.22	0	0	0	0	2.22	0
2010	Enfoca	0	14.99	0	0	0	0	4	0	0	0
2011	Grupo Salud	25	0	0	0	0	0	0	0	0	0
2002/ 2003	ISA Peru, SA	8.68	0	0	0.08	0	8.68	0	0	0	0
2000/ 2007	Laredo	13.2	0	0	1.23	0	13.2	0	0	0.97	0
2007	Lima JCIAirport	0	20	0	0	0	0	13.41	0	0	0
2010	Lima Muni	0	0	0	21.36	0	0	0	0	21.36	0
2002/ 2006/ 2007/ 2008/ 2012	MIBANCOPERU	17.8	9.64	7	0	24.97	14.97	9.64	7	0	24.97
2008	Maple Energy	0	1.58	0	0	0	0	1.58	0	0	0
2000	Milkito	0	0	0	0	0	0	0	0	0	0
2005	Miraflores	3.12	0	0	0	0	3.12	0	0	0	0
2003	Norvial S.A.	12.06	0	0	0	0	12.06	0	0	0	0
2009/ 2011	Nuestra Gente	9.23	12.41	0	0	0	9.23	12.4	0	0	0
2007/ 2009/ 2010/ 2011	PHMC	0	0	0	0.21	0	0	0	0	0.21	0
2001/ 2007	Peru OEH	0.87	0	0	0	0	0	0	0	0	0
2008	Peru LNG	286.54	0	0	0	0	286.54	0	0	0	0
2009/ 2010/ 2011/ 2012	Protecta	0	2.41	0	0	0	0	2.41	0	0	0
2008/ 2012	SAV	4.67	0	5	0	20	4.67	0	5	0	0
2005	USMP	0	0	0	0.57	0	0	0	0	0.57	0
1994/ 1995/ 2000	Yanacocha	0	0.33	0	0	0	0	0.33	0	0	0
Total Portfolio		586.49	145.30	49.94	38.51	270.97	483.93	127.66	48.97	32.30	70.97

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

Annex 10: CPS Consultation

The current CPS was developed through a participative consultation process including Government representatives and non-governmental actors. This Annex provides a brief summary of the main results from the consultations carried out from June to December 2011.

Overview of the Consultation Process

The consultation process for the new CPS in Peru was designed in a participatory and decentralized approach. The concept of the consultation was strategically planned including three levels of intervention: (i) Micro level (Ayacucho-Huamanga), community and district level, (ii) Mezzo level (Cusco), regional level; and (iii) Macro level (Lima), national level including. Between April and December 2011, a total of 9 formal consultation sessions were held with approximately 320 representatives of civil society, NGOs, academic institutions, faith groups, grassroots organizations, indigenous peoples, business sector, women's organizations, and think-thanks, among others. Of these, one consultation was particularly focused on issues related to the World Bank's GAC strategy, and another one had a particular view on social conflicts related to extractive industries. Participants expressed appreciation of being able to engage with members of the Bank directly and underlined the importance of maintaining similar periodic dialogue sessions throughout the implementation of the CPS.

The objectives of the consultation process were: (i) listen to participants' feedback on Peru's main challenges; (ii) learn from the good practices engaged by the civil society and other stakeholders; and, (iii) receive feedback about the role that the World Bank could play in the national agenda. The consultation process involved initially a session in which the Bank presented its structure, vision, performance of active portfolio and overall description and highlights of the new CPS. Subsequently dynamic sessions were carried out where information was collected, and participatory techniques were used to summarize and generate recommendations.

The consultation process was designed around four thematic areas: (i) economic growth with social inclusion; (ii) competitiveness and decentralization; (iii) open government, access to information, and anti-corruption; and, (iv) rural development and environment. In addition to the formal consultation process, the WB team carried out a series of meetings and interviews with Ministers and technical staff in the new administration, including the Ministry of Economy and Finance (*Ministerio de Economía y Finanzas, MEF*).

Summary of Participants' Opinions and Recommendations

The dialogue was fluid and allowed for a good environment of knowledge sharing and recommendations for action. The conversation started with a rapid diagnosis on: regional and local perspectives on issues related to growth with inclusion, rural development, competitiveness, open government and dialogue, followed by priorities for the next five years. The team also carried out a special event in Huamanga (Ayacucho) to discuss issues related to gender.

Table 1. Top priorities identified by participants

Macro consultation (86 participants from academia, NGOs, private sector, and faith groups)	<ul style="list-style-type: none">• Include growth with equity and social justice into the national agenda• Develop more transparent and less corrupt public institutions• Develop a land management strategy with sustainable criteria• Listen to the voice of indigenous communities and understand the impact of the extraction of natural resources in their lives
--	---

<p>Mezzo consultation (59 representatives from Arequipa, Apurimac, Cusco, Madre de Dios and Puno)</p>	<ul style="list-style-type: none"> • Incorporate sociopolitical and economic contexts of the regions when designing public policies • Develop strategies to improve local and regional management capacities • Strengthen civil society capacities to improve dialogue among institutions and citizens • Promote a land use plan to reduce social conflicts • Integrate language, traditional practices and customs in the provision of social services • Promote capacity building of civil society organizations in participation at SNGs, local and regional institutions
<p>Micro-consultation (21 leaders, women and men, of NGOs, local businessmen and municipal authorities, and a second day with 58 community leaders, women and men, from San Francisco - VRAE [Valley of the Rio Apurimac and Ene], Huamanga, Cangallo, Vilcashuaman, Samugari, and Victor Fajardo)</p>	<ul style="list-style-type: none"> • Improve local governments capacity • Improve access to basic services (especially health and education) for the most vulnerable population, particularly indigenous people and women • Invest in high quality education and promote citizens' leadership skills to improve Peru's competitiveness • Promote the participation of women in public and private sector • Undertake measures to eliminate domestic violence against women

In virtually all consultation sessions, participants recognized that Peru has shown strong economic development and now needs to develop economic policies to improve living standards of its citizens. Stakeholders pointed out that opportunity gaps among Peruvian citizens remain high. They agreed that enhancing the quality of education at all levels and developing a strategy to improve competitiveness are key factors to achieve the vision of inclusive growth.

Participants expressed strong concern over the low quality of education in Peru. They suggested adapting the curricula according to the cultural context of the student, linking the education program to the social and economic needs of the region. Participants also recommended the strengthening of the intercultural basic education program (implementing bilingual education in those areas where the population speaks a language other than Spanish) and increasing investment in secondary and higher education to improve employment opportunities for young people. Moreover, they agreed that it is necessary to train young people in leadership and entrepreneurship.

There is also a clear demand to incorporate an intercultural and inclusive attention model in the health sector. Even though there have been improvements in the delivery of health services, health professionals still lack adequate methods to engage indigenous women. Participants also stated that child nutrition programs need further strengthening.

Participants also indicated that a balance needs to be sought between the expansion of the mining sector and sustainable development. Civil society representatives argued that it is necessary to involve indigenous groups and environmental safeguards in order to reduce the social conflicts related to exploitation of natural resources. Private sector representatives also agreed that the consultation process needs to be integrated into their business plan. To promote social inclusion and reduce social conflicts, they also identified the following challenges: (i) enhance institutional capacity of SNGs to increase Peru's competitiveness; (ii) increase spending capacity of local governments; (ii) introduce mechanisms

for investment control; (iii) improve labor market skills; (iv) improve quality of education; and, (v) close infrastructure gaps.

There was great concern about the redistribution and management of public resources and the use of revenue from the tax linked to excess-earnings in the mining sector. The attendees proposed looking for an imaginative tax proposal that allows making an association between the benefits of mining activity and an improvement of living conditions. Also, they identified the need to continue providing technical support to local governments to optimize the use of resources from mining royalties through the Bank instruments.

Participants indicated that decentralization is necessary to consolidate regional governments and strengthen their capacities, especially in their ability to identify priorities and spend better. Even though the GoP has implemented some improvements in terms of institutional reforms, especially in fiscal management, a new stage of phase in the modernization and decentralization of government is needed to achieve a more efficient use of resources and build more efficient, accountable and transparent institutions. Participants stressed the need to undertake a civil service reform as a previous step to obtain stronger institutions and reduce corruption. The participants encouraged the Bank to promote the dialogue for the creation of macro-regions.

Participants also highlighted WB's support to *SIAF*, and Results Based Budgeting (RBB). They also considered that both systems have helped to improve accountability and civil society vigilance. Participants also addressed that Bank's role in disseminating best practices for access to information, but they also noted that now it is necessary to provide the tools to use such information for the decision making process.

According to participants, Peru is ready to migrate to a more developed information system that allows public in general to monitor the performance of the public administration. Peru has successfully started to develop more accountable information systems (e.g. *SIAF*) but there is need to move further. For instance, the political cycle is not aligned with the provision of social services indicators produced by INEI (i.e nutrition targets in rural areas) leading to a lack of citizen monitoring of electoral promises. In sum, public information systems still do not yield adequate indicators related to public sector management and performance.

Participant recommended that the Bank work further in promoting Open Government and transparency policies. Citizens are now better informed and qualified than they were in 2000 when Peru initiated its Access to Information Policy. It is necessary to make the information accessible and user-friendly for citizens in order to allow them to generate their own information products.

There is a need to integrate a GAC strategy into a national public policy agenda. In order to build up this strategy, public sector representatives noted that it would be necessary to request additional WB technical assistance to strengthen managerial and technical capacity, especially at the sub-national level. Given that GAC is a multisectoral issue and involves all levels of government, stakeholders suggested that the Bank could develop a role as accredited "mediator", given the institution's international experience.

Participants also prioritized the reduction in the gender gap to achieve social inclusion with growth. Women and men expressed their interest and commitment to gender topics. During the Micro Consultation, participants discussed about their community problems (rapid diagnosis), voted for the four main issues that require action in the next five years, analyzed male and female status, and proposed an action plan in gender equity to improve their communities. Seven issues were discussed:

(i) access to education, health and justice services; (ii) environment; (iii) dialogue with local governments; (iv) productive projects; and, (v) skills training for competitiveness.

Looking ahead, participants discussed on ways to achieve greater inclusion and equity. The men concluded that they need to change themselves, eliminate chauvinism and domestic violence, share domestic work, respect women's participation in decision making, more dialogue with their partner, and promote women's participation in politics. The women addressed the need for self affirmation, more training workshops for capacity building, the need to introduce gender equity in basic education; and more opportunities for public participation.

CIVIL SOCIETY CONSULTATION			
	Macro Consultation	Mezzo Consultation	Micro Consultation
Objective	Receive feedback on the immediate and medium term challenges that faces the Country, and which role could develop the World Bank		
Target	Stakeholders from Academia, Faith Groups, NGOs and businessman, at national level	Stakeholders from Academia, Faith Groups, NGOs and businessmen, at the regional level (six regional sites from the Southern Macroregion). Also Regional and local authorities from Cusco	Indigenous peoples leaders from Ayacucho and Cusco communities (especially from the River Apurimac and Ene Valley), local authorities and NGOs representatives from Ayacucho-Region
Dates	June 21, 22 & 24,	October 26 & 27	December 12 & 13
Participants	86	65	79
Issues pointed out	Improved competitiveness, quality of the education system, development of adequate labor skills, more efficient, accountable and transparent public administration, management capacities at SNGs, sustainable exploitation of natural resources, rural development, gender		

OTHER NON GOVERNMENT CONSULTATIONS			
GAC II Consultation	Mining Sector Meeting	Congressmen Meeting	Informal GAC Meeting
Receive stakeholder inputs for the World Bank GAC Strategy II. The contributions received are valuable to the CPS	Receive inputs from a key economic sector in the Peruvian economy: extractive industries	Develop an oversight framework for an effective collaboration between the Budget and General Account Commission at the Congress, the Supreme Audit Institution (Contraloria General de la Republica - CGR), and the Ministry of Finance	Identify challenges and opportunities on Governance and Anticorruption
Public sector and relevant actors from civil society, including NGOs, universities and business	Selected representatives of major mining companies in Peru	Congressmen and advisers	Public sector and relevant actors from civil society, including NGOs, universities and business
April 7 & 8	July 4	July 18 & 19	October 3 & 4
28	8	45	18
Civil service, transparency and accountability, fight against corruption, management capacities at SNGs, social conflicts, social inclusion, institutionality			

Complete reports on the consultation Macro, Mezzo and Micro are published in web site www.bancomundial.org.pe

Annex 11 Governance and Anti-Corruption

Country Context

Peru has implemented a set of important measures to improve its governance, especially in all concerned on fight against corruption. The country is still living the heritage of the Fujimori-Montesinos regime (1990-2000), when an unprecedented degree of corruption occurred. Subsequently, in 2008, the eruption of another scandal (called *Petrogate* due to the audios in which high public officials were discussing petroleum extraction contracts) led to the launching of a new national anti-corruption plan, under the office of the then Prime Minister Yehude Simón. This plan was prepared by a technical committee in record time. The plan presented a long list of anti-corruption measures to be implemented by a broad range of actors and institutions and was grouped under seven objectives ranging from institutional strengthening to corporate social responsibility and participation of media and civil society. The prime minister also announced the creation of a new high-level anti-corruption commission to articulate the plan which included representatives from the Supreme Court, the national and regional governments and some representative organizations from civil society.

Even though Peru has undertaken considerable efforts to deal with the legacy of corruption dating back at least two decades, overall governance indicators have not significantly improved since the last 1990s. Figure 1 shows the World Bank Institute (WBI) governance indicators²⁴ for Peru. Indices are relatively low for political stability and rule of law, both ranking far below the Latin American average. The only one of the six indicators that shows significant improvement is the one on voice and accountability at slightly above the 50th percentile. The country's regulatory quality performs as the best of the six indicators.

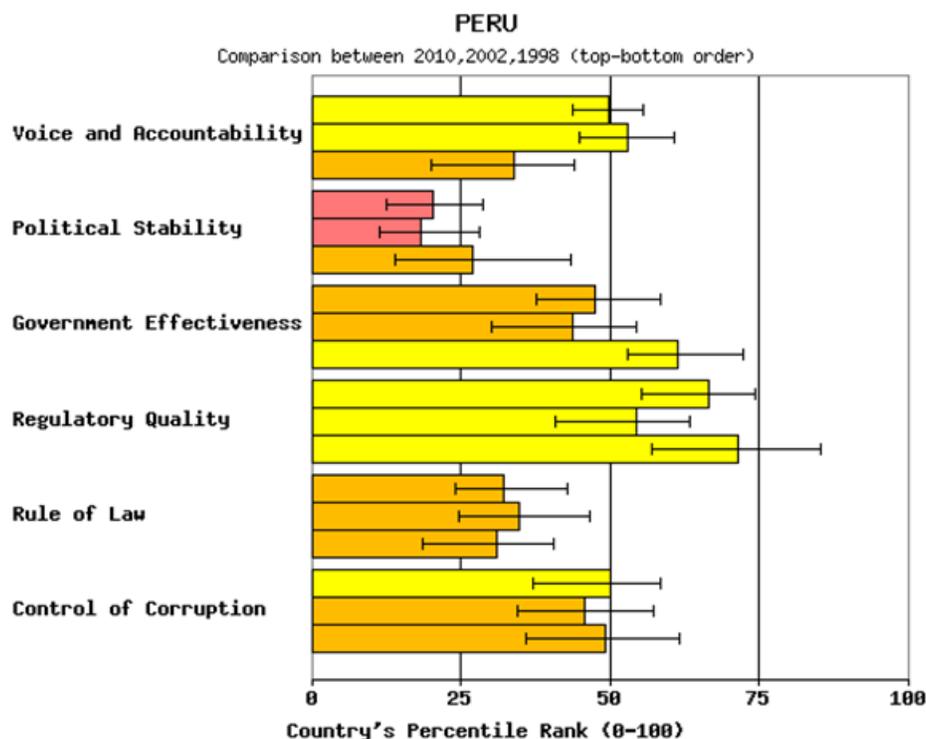
Peruvians are among the most pessimistic when it comes to perceiving progress in the fight against corruption, compared with other Latin Americans²⁵. According to Proética²⁶, the Peruvian chapter of Transparency International, one-third of the population feels that the country is very corrupt. The Ombudsman and the Catholic Church are the institutions that people trust the most when it comes to fighting corruption, whereas the Congress and political parties are the least trusted. Fifty-one percent of respondents believe that corruption is the main problem of the country, ahead of crime (41 percent), and only 1 in 5 people believes the situation will improve in the next five years.

²⁴ WGI represent perceptions of businesspeople, citizens and experts in industrial and developing countries. While they do not identify whether countries have similar governance systems, they do give an indication of how countries compare to each other with respect the quality of their governance (<http://info.worldbank.org/governance/wgi/index.asp>).

²⁵ Latinobarómetro: Informe 2010.

²⁶ Proética: Sexta Encuesta Nacional Sobre Corrupción (2010).

Figure 1



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

Moreover, there is evidence that the problem of corruption is exacerbating inequalities among Peruvians. Some studies²⁷ evidence that poorer users are disproportionately penalized by paying bribes that represent a greater share of their income and, in addition, paying a bribe does not necessarily translate in better quality of the service received. Each form of corruption is associated to a different institutional weakness and calls for a targeted policy solution. The studies also recommend that recruiting and merit-oriented promotion system be improved, and that the civil service remain independent from political changes.

The key elements identified to fight corruption are transparency, accountability and civil society monitoring. Better monitoring and accountability can be achieved by facilitating an effective open access to information and by stimulating the commitment in this area from government, private sector and civil society. Linked to that, the GoP has recently signed a pledge to join the Open Government Partnership. In order to materialize its involvement in this partnership, the country needs to prepare an action plan, jointly with civil society, in anticipation of the Summit, scheduled for March 2012 in Rio de Janeiro, Brazil. Also the Ombudsman is pursuing the implementation of the Law of Transparency and Access to Information, a pioneer in Latin America but with some shortcomings in terms of guaranteeing rights of access.

²⁷ Kaufmann, Recanatini (eds.): *Voices of the Misgoverned and Misruled: an Empirical Diagnostic on Governance, Rule of Law and Corruption of Peru* (2001).

The Government has indicated that the fight against corruption will be a priority. The Government intends to set up several mechanisms to enhance transparency, improve justice services, and fight corruption. The GoP's *frontal attack on corruption* proposes to implement a set of legal and institutional measures, among which is the strengthening of the General Comptroller of the Republic and the reorganization of the Supreme Organism for Public Procurement (OSCE). The lack of trust of Peruvians in their public institutions is one of the main concerns for the new Government, particularly because governance problems tend to ignite social conflicts, which in turn could pose risks to economic growth in the long run.

The World Bank GAC Strategy in Peru

Sustained growth rates require strong institutions. GAC support has been a key element in the performance of the World Bank. As an innovator in the demand side of incorporating governance into development operations, the Bank needed (and needs) a strategy for dealing with cases of corruption that, at the same time, was consistent with its mission of fight against poverty. In this context, GAC Strategy I provided several tools to strength the Bank's response capacity to demand from the client for increased support in Governance and Anticorruption.

The World Bank selected a group of countries as pilot countries (CGAC), which included Peru as a MIC representative. The Bank has been working on GAC issues through strengthening capacities of implementing units through the improvement of control systems and provision of transparency mechanisms for greater accountability. As part of the CGAC program, since 2008, the Bank has intensified its GAC activities and has begun its support to the country by using tools that go beyond the traditional Bank instruments.

In this context, the World Bank has strongly supported anti-corruption initiatives from the GoP through a GPF grant. With an amount of US\$ 450.000 and embedded in *Peru's Anti-Corruption Action Plan the Improving Prevention, Oversight and Accountability to Increase Transparency and Curb Corruption in Peru* grant, now under implementation, aims to support the Government of Peru in the prevention of corruption through the identification and monitoring of key vulnerable sectors to corruption, and to increase transparency and accountability in public sector accounts. A Corruption Risk Map is being developed to promote the creation and consolidation of a National Observatory for Governance. The grant also seeks to establish a technical unit in the Congressional Budget Commission to better control public finances and strengthen the role of the General Comptroller of the Republic.

The Bank, in partnership with key institutions of civil society, has promoted citizen oversight as a tool to control the proper use of public resources in rural Peru. Through the PARSALUD project, more than 200 people have been trained in the last year as *overseers* to monitor the adequate delivery of medical equipment to health facilities. Guidelines have also been produced for citizen oversight and for trainers which are being distributed in some regions. Likewise, the Bank has provided support to the dissemination of good practices in public sector management to all provincial, regional and national institutions. The Bank has also collaborated with Proética in financing of the National Survey on Corruption, which is a key instrument to determine the perception and attitude of Peruvians toward corruption. As a CGAC Country, the Peru team produced a note on the challenges and opportunities in this area.²⁸

Governance was an explicit focus of the previous CPS and led to the preparation of various operations and AAA. The issues of transparency, accountability and institutional strengthening have been reinforced as a crosscutting priority in all areas of engagement. Thus, the Bank has supported the

²⁸ Peru's CGAC Experience: Challenges, Achievements and Opportunities.

application of traditional fiduciary tools (PEFA, OECD–DAC procurement indicators) in order to facilitate the evaluation of the country under international benchmarks. Also, the *Justice Services Improvement Project II* is focusing its major components on the improvement of service delivery from the participating institutions in the national Justice system, strengthening human resources management, and enhancing access to justice with a specific anti-corruption dimension. Finally, the Bank has been investing heavily on building capacities of national and SNGs through AAA services and NLTA (budgeting process, results based budgeting, procurement, accountability framework from the social sectors, strengthening capacities of regional governments, among others).

This CPS proposes to implement governance as a crosscutting theme, in support of the Government of Peru. Discussions with government and civil society counterparts have indicated that there will be continued demand for support in this area. The challenge for the Bank lies in taking advantage of the windows of opportunities in terms of government commitment, while being realistic in terms of the scope of reforms that Peruvian institutions are able and willing to go through. The Bank will continue to ensure that GAC measures are taken into account in the portfolio. In addition a number of studies, including those supported by the above-mentioned GPF, will contribute to the policy debate.

Annex 12: Gender Issues

I. Overview

This Annex presents an overview of key gender issues in Peru, which can provide initial guidance on gender integration in particular areas of the World Bank's country assistance.

The integration of gender considerations into World Bank engagement involves an understanding of the relationship between men and women in society, in terms of the roles they play, the relationship of power between them, their differential access to resources and their specific and often differential development outcomes. Thus, understanding gender roles and relations can draw out key factors that can improve Bank operations by (i) anticipating the impact of gender dynamics on the effectiveness of operations and (ii) anticipating the impact of operations on the relative status and well-being of men and women.

In Peru, gender intersects with other social variables. Outcomes for Peruvian women and men in terms of labor markets, education and health are heavily influenced by their ethnic as well as geographic background. Thus, when analyzing the status of gender issues in Peru, considering ethnicity and location (in addition to age, life-cycle and family status) is very important. As observed in other Latin American countries with large indigenous populations, there are remarkable differences between rural and urban areas and between indigenous²⁹ and non-indigenous populations in Peru, with rural indigenous women being generally more disadvantaged in all dimensions³⁰. Being indigenous increases the probability of being poor, even controlling for other observable characteristics³¹. Generally, indigenous households are underrepresented in the richest strata and have less access to public and private goods and services³².

Besides ethnicity, rural or urban background has a decisive influence on women's and men's opportunities in Peru. It is important to analyze differences within the country that are overlapping gender-dimensions, since national aggregates ignore such differences between sub-groups. However, the lack of recent data or no data at all disaggregated by rural/urban or ethnic origin limits the discussion in this annex.

II. Formal Legislative and Institutional Framework

Peru ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW, 1982) and the Optional Protocol under CEDAW (2001). The Peruvian Government has made efforts to implement the Convention through the adoption of laws, policies, plans and programs. Over the last few years, particular pieces of legislation were amended or passed in order to promote women's empowerment and gender equality. The Constitution of Peru upholds the principle of equality between men and women.

In July 2002, the structure of the former Ministry of Promotion of Woman and Human Development (PROMUDEH, created on October 29, 1996) was modified and the Ministry of Woman Affairs and Social Development (MIMDES) was created. The law establishing MIMDES states that this institution designs, proposes and executes policies of social and human development, oriented to the promotion of gender equality and equal opportunities for women, children, the third age

²⁹ In Peru in 2001, while 32 percent of the population had an indigenous mother tongue, 41 percent self-identified as indigenous (Hall and Patrinos 2005).

³⁰ If not mentioned specifically otherwise – data used in this paragraph stem from The World Bank: World Development Indicators.

³¹ World Bank Poverty Assessment 2005.

³² Hall and Patrinos 2005.

and populations in poverty and extreme poverty conditions, the discriminated and the excluded³³. As part of its mandate, MIMDES has been executing the following national programs: Wawa wasi, FONCODES, PRONAA, INABIF, CONADIS, and “Contra la violencia Familiar y Sexual” (*Against domestic and sexual violence*).

Gender equality is a goal of national development plans and policies, such as the Plan Bicentenario, El Peru hacia 2021, and previous governments introduced two key laws to promote gender equality:

- The “Ley de Igualdad de Oportunidades entre Mujeres y Hombres” (Ley Nr. 28983, 2007) establishes responsibilities for all levels of government, http://www.cepal.org/oig/doc/Per_LeyIgualdadMujeresHombres_2007.pdf. The executive power and local and regional government are called upon to promote the economic, social and political participation of rural, indigenous and Afro-Peruvian women and those from the Amazon region³⁴.
- The Ley contra la Violencia hacia la Mujer (Ley Nr. 26260) from 1993 is being implemented through the ‘Plan Nacional Contra la Violencia Hacia la Mujer 2009-2015’.

The current Government has emphasized the commitment of reducing inequity to promote growth with social inclusion. A key measure to ensure the inclusion of the gender view into the political agenda includes enhancing MIMDES. A National System of Monitoring of Gender Equity will be created in all regions. In addition, the current administration will establish a Decentralized Multisectoral National System to combat all forms of violence against women. Moreover, the Government has included creation of Women Emergency Center in 195 provinces at the end of 2016. In 2012, 25 Centers will be implemented and the establishment of the remainder will be finalized in 2014. The Government will develop a concerted national plan with the Prosecutor’s Office and the Judiciary to confront femicide.

In October 2011, the Ministry of Development and Social Inclusion (MIDIS) was created to target vulnerable populations and promote social inclusion and equality. As part of its mandate, MIDIS will administrate all social programs currently under MIMDES (Wawa wasi, FONCODES, PRONAA, INABIF, CONADIS, and “Contra la violencia Familiar y Sexual”) and others such as Pension 65 and Juntos. With these changes, MIMDES is expected to strengthen its role to oversee the integration of gender view into sector Ministries strategies, such as education, economy and finance, transport and communication, health, labor and employment as well as in the sub-national strategies³⁵.

Since September 2011 MIMDES is drafting the Plan Nacional de Género 2012-2017 (*National Gender Plan*) which aims to organize national policies to reduce gender inequality and promote economic, political and social development of women. The plan has been designed around eight main policies and has been consulted with the Central Government, Regional and Local Governments, civil society, women organizations, international cooperation, among others. The Plan will be presented to the National Council of Ministers for approval during the first quarter of 2012.

Even though the Peruvian Government has taken those legislative and institutional steps to protect and promote women’s rights and gender equality, women in Peru still face a reality different from what these laws promise as will be shown in the following sections.

³³ JICA 2007. Please see also: http://www.mimdes.gob.pe/index.php?option=com_content&view=article&id=118&Itemid=189

³⁴ ECLAC 2010 ..

³⁵ APCI, Agencia Peruana de Cooperacion Internacional, Report on **Módulo Facultativo: Igualdad de Género**, 2011.³⁵ Zapata Zapata 2011.

The WDR 2012 on Gender Equality and Development report's framework shows that gender outcomes are the product of four interconnected spheres: markets, formal institutions, informal institutions and the household. Altogether, those spheres influence the three main dimensions of gender equality:

- the accumulation of *endowments* (education, health, and physical assets)
- the use of those endowments to take up *economic opportunities* and generate incomes, and
- the application of those endowments to take actions, or *agency*, affecting individual and household well-being.

III. Endowments

In Peru, most progress on gender equality and women's status has been achieved in several dimensions subsumed here under (human capital) endowments. However, there are still challenges that need to be approached by policy makers.

Education

Today, **women in Peru have similar education levels to men.** Female primary and secondary school enrollment rates have caught up with boys' (education enrollment ratio female to male was 0.99 in 2008 for both primary and secondary enrollment). In tertiary education, there is a slight gap in favor of girls (1.06 female to male tertiary enrollment ratio, 2006).

Advances in educational coverage have been accompanied by significant changes in mean years of schooling of different groups benefiting both men and women, but with a more substantial impact on women. The expected years of schooling for girls (13.98 years) were slightly higher than for boys (13.33 years) on average in 2009 compared to 8.8 for girls and 10 for boys in 1970. In terms of repetition rates, girls are better off than boys with 6.9 percent of girls compared to 7.4 percent of boys having to repeat at primary level, and 4.6 percent of girls and boys repeating during secondary schooling in 2008. On the other hand, girls in female-headed households are less likely than boys to enroll in school, particularly secondary school, compared to their counterparts in male-headed households (irrespective of income)³⁶.

According to Cunningham et al (2008), **ensuring that girls finish school, especially in rural areas**³⁷ **continues to be a challenge.** Gender-specific differences can still be observed among children in low-income households and among those residing in rural areas: Rural girls seem to still face disadvantages in access to and quality of education, leading to lower achievements and higher school desertion rates if compared to boys³⁸. Rural Peru seems not to reflect the Latin American trend of higher secondary school attendance rates for girls. Cunningham et al (2008) partially attribute the common pattern amongst Latin American countries to social expectations that assume that boys should start working early and that schools are greater protective environments for girls than for boys. However, girls in rural Peru say parents' prejudice against girls' learning and the expectation they should marry and leave the household is the main reason for leaving school early³⁹. On the other hand, while **indigenous households continue to have less educational achievement than non-indigenous households**,⁴⁰ the

³⁶ World Bank 2005a.

³⁷ Cunningham et al (2008). This may apply to secondary education, since data from Genderstats states that the average persistence to grade 5 is almost equal for females and males: 87.76 for girls versus 86.72 for boys (% of cohort) in 2007.

³⁸ JICA 2007.

³⁹ Dasso 2006; IDDI 2006.

⁴⁰ Mean years of schooling for indigenous adults is 6.4 years compared to 8.7 years for non-indigenous people. Indigenous female household heads have 4.6 years less schooling than their non-indigenous counterparts (Source: Hall and Patrinos 2005, based on the National Household Survey - ENAHO 2001-IV).

differences in access to primary education between indigenous and non-indigenous people have decreased. On the other hand, inequality between indigenous and non-indigenous households in access to secondary and tertiary education seems to have increased⁴¹.

Although women still lag behind men in terms of the adult literacy rate, the gap has narrowed over the last three decades. Female adult literacy increased from 74 percent in 1981 to 85 percent in 2007, while male literacy increased from 90 percent to 95 percent. Among the young, female literacy increased from 90 percent in 1981 to 96.7 percent in 2007 and is nowadays almost as high as for males (98 percent, 2007). But women still account for the majority of illiterates in the country: they constitute 75 percent of the **adult illiterate population**⁴².

Health

General health indicators have been improving in Peru over the last decades so that life expectancy at birth has increased for both, females and males, reaching 76.25 years for women and 70.97 years for men (2009) compared to 62.08 for women and 58.04 for men in 1980.

Women's access to and use of contraceptives has increased from 41 percent (1981) to 73.2 percent (2009),⁴³ as evidenced by a drop in the fertility rate from 5 births per women in 1980 to 2.54 in 2009. Information on contraception and family planning was high (99 percent in 2007) and has increased decisively since 1986 (23 percent). This is particularly true for rural women: while only 8 percent of them were aware of modern contraception methods in 1986, 97 percent knew about them in 2007⁴⁴.

Despite such progress, **Peru still lags behind regional averages in several indicators of reproductive and sexual health.** Notably, Peru has relatively **high rates of maternal deaths** (98 of 100,000 live births in comparison to LAC average of 86 in 2008) – only Haiti, Bolivia, El Salvador and Ecuador show higher rates. Rural women living in poverty conditions and with a low educational level have a disproportionate risk of maternal death⁴⁵.

One of the most critical interventions for safe motherhood is to ensure care provided by skilled professionals during pregnancy and childbirth. The skilled birth attendance-rate in Peru is also slightly behind the regional average: 82.5 percent of births were attended by skilled personnel in 2009 compared to the regional average of 89 percent. There are large disparities in access to skilled birth attendance between urban and rural areas: In 2004/2005, skilled attendance at delivery in urban environments was 89.1 percent compared to 42.9 percent in rural areas⁴⁶. Women's income level is also a determinant of skilled birth attendance: lower income women were four times less likely to have access to skilled care than their richest counterparts⁴⁷.

The **HIV/AIDS prevalence** was estimated to be less than 1 percent (2010)⁴⁸. According to the Ministry of Health, the male/female ratio for AIDS diagnoses in 2009 was 3.02 to 1. Men who have sex with men (MSM) account for a large proportion of HIV incidence (55 percent) in Peru. Among female sex

41 World Bank 2005a.

42 The World's Women 2010: Data refer to the latest year available in the given interval 2005-2008.

43 LAC average was 74.7 percent in 2009.

44 WHO Peru Country Profile: Making Pregnancy Safer. Data come from different years: the DHS conducted between 1986-2004 (DHS Peru, 1986 - 2004); United Nations, Department of Economic and Social Affairs, Population Division (2007); World Population Prospects: The 2006 Revision. Access online at: http://www.who.int/making_pregnancy_safer/countries/per.pdf

45 JICA 2007.

46 WHO Peru Country Profile: Making Pregnancy Safer

47 WHO Peru Country Profile: Making Pregnancy Safer

48 USAID 2010.

workers prevalence remains low (less than 1 percent) but transsexuals who are sex workers are the most affected population, with an estimated prevalence between 32 and 45 percent⁴⁹.

IV. Economic Opportunities

At 62.2 percent, Peru's **female labor force participation (FLFP)** rate is higher than the average in Latin America (55.42 percent in 2009)⁵⁰. However, average FLFP rates in Peru hide differences across different groups of women. Exploring participation rates by educational levels and motherhood status, Piras (2005)⁵¹ shows that female participation rates increase with education and decline with family responsibilities. Thus, 63 percent of women with tertiary education and without children participate in the labor force, while only 38 of women with less than high school education and without children do so. For both women with high school and women with college education, labor force participation rates decrease if they are mothers of children less than 7 years old.⁵²

Also, it seems noteworthy that 30.5 percent of all adult females had **no income of their own**, with higher rates amongst the rural female population (38.1 percent versus 27.1 percent amongst the urban population)⁵³.

The quality of female labor force participation continues to be an issue of concern. Women are more likely to be unemployed than men, 8.3 percent versus 5.4 percent (2008), and even more when considering only the population between ages 15-24, where the unemployment rate is 15.59 percent (females) versus 12.51 percent (males) (2008).

Peru also has **one of the highest rates of informality in the world**, with 56.3 percent of men and 71.7 percent of women estimated to be in the informal sector (2007)⁵⁴. In fact, the majority of the country's urban poor either own or are employees in small, informal businesses⁵⁵. Even in formal firms, individuals are frequently hired through temporary and informal contracts⁵⁶.

Generally, the LAC Region has higher rates of female entrepreneurship and a smaller gap in participation between men and women entrepreneurs than other regions. Only in Peru and Brazil however, women are more likely to be entrepreneurs than men⁵⁷. Enterprise owners in Peru are more likely to be female, not poor, and to have secondary and even tertiary education⁵⁸. But the majority of these female-owned firms are micro-enterprises (44 percent⁵⁹). It has been argued that one of the reasons for women being that active in entrepreneurship is the low returns to education in salaried work. This might be true in Peru as well: Peruvian women may become entrepreneurs in order to achieve higher rates of return to education, returns they cannot find in salaried employment despite their high educational achievement levels. Gender-specific segregation of the labor market, which has been observed for other economies in the region, is also obvious in Peru, where almost two-thirds of **working**

⁴⁹ USAID 2010.

⁵⁰ The male labor force participation rate was 76% at the same time.

⁵¹ Using data from the 2000 Encuesta Nacional de Hogares (ENH).

⁵² Piras (2005) also shows an impact of motherhood on wages: Peruvian mothers of children younger than 7 face a penalty here.

⁵³ CEPAL Gender Observatory

⁵⁴ CEDLAS and the World Bank: SEDLAC– Informality definition: Informal=salaried workers in small firms, non-professional self-employed and zero-income workers

⁵⁵ World Bank 2005a.

⁵⁶ However, this seems to have begun to change with new regulations taking effect in 2009 (World Bank 2009).

⁵⁷ Global Entrepreneurship Monitor (Allen, 2007), cited from World Bank 2009.

⁵⁸ World Bank 2005a.

⁵⁹ Bruhn 2009.

women are concentrated in two sectors: primary activities (29.2 percent) and commerce (33.1 percent).⁶⁰

Both in the region and in Peru, gender wage differentials remain an important barrier for female economic advancement. Atal, Ñopo, and Winder (2009) estimate that, in Latin America as a whole, men on average earn 10 percent more than women, though there is significant variation among countries and sectors. In Peru the **unexplained component of the gap is almost equal to the original gap:** Women earn 18.3 percent less than men and 19.4 if controlling for age and education⁶¹. In a separate publication, Ñopo shows that gender gaps in wages were highest among the most educated groups⁶². There are many potential explanations for this pattern in LAC, including cultural or social factors such as differential preferences between men and women, the implications for labor supply and training, discrimination in the market and societal expectations that limit women's access to labor markets. The sectors chosen by girls often represent an extension of domestic tasks and of the traditionally reproductive role of women (thus being both, a reflection and a reinforcement of culturally defined roles) and at the same time account for lower incomes and less perspective for professional career. Thus, women tend to be confined in low-paying segments of labor market.

Young women's labor market prospects in Peru are generally bleaker than young men's. For instance, the school-to-work transition period for Peruvian young men begins at 13.5 years and ends at 19. For young women, school-to-work transition starts at the same age, but transition to work only ends by the age of 23, thus taking 4 years longer than for boys (9.5 versus 5.5 years)⁶³. This pattern differs between poor and non-poor, indigenous and non-indigenous, urban and rural youths, with poor, indigenous and rural populations starting the transition at an earlier age on average. Still, the difference by gender is larger than between poor and non-poor populations as shown by Cunningham et al (2008). One of the reasons behind this is that women's role as wife and mother tends to start at the same time as labor force entry. This is supported by the fact that 20 percent of nonworking Peruvian women ages 19 to 24 state that they are not working because of their household responsibilities, compared with 6.6 percent of men of the same age⁶⁴.

V. Agency

Agency is about one's ability to make choices—and to transform them into desired actions. Following the World Development Report 2012 (Gender Equality and Development), women's agency influences their ability to build their human capital and take up economic opportunities. Women's agency also matters for the welfare of their children. Nevertheless, there are still heavy constraints to women's agency in both the private and public spheres.

Violence

A clear manifestation of the lack and even the negation of agency is gender-based violence. Women in particular are subjected to different forms of violence – physical, sexual, psychological and economic – both outside and within their homes.

The physical integrity of Peruvian women is an issue of great concern: Violence against women represents a widespread social problem and the Government has taken steps to reduce it. Peru was among the first countries in Latin America to adopt special legislation on domestic violence and in 1993

⁶⁰ Enaho, 2007

⁶¹Atal, Ñopo, and Winder 2009: Authors' calculations using Household Surveys circa 2005.

⁶² Ñopo, Hugo 2009.

⁶³ Source: Cunningham et al (2008), authors' calculations based on household and labor market surveys, various years.

⁶⁴ Cunningham et al (2008) – author's calculations based on Perú – Encuesta Nacional de Hogares [ENAHOG] 2001.

introduced the Ley 26260 de Protección frente a la Violencia Familiar⁶⁵. This law was strengthened in 1997. The amendment aimed among other things, to expand the definition of family violence, improve victims' access to forensic medical examinations, and further clarify police responsibilities and other procedures. The law stipulates punishments for both rape and spousal rape⁶⁶.

The **problem of violence against women remains widespread and prevalence of different forms of violence against women is very high**⁶⁷: 49 percent of ever-partnered women in Lima and 61 percent in Cusco reported physical violence by a partner at some time in their life. Twenty-three percent in Lima and 47 percent in Cusco reported sexual violence by a partner at some time in their life, while. 51 percent of ever-partnered women in Lima and 69 percent in Cusco had experienced physical *or* sexual violence by a partner⁶⁸.

When it comes to violence suffered during pregnancy, 15 percent of ever-pregnant women in Lima and 28 percent in Cusco reported having experienced physical violence during this period. Of these, one third in Lima and over half in Cusco were punched or kicked in the abdomen.

Physical violence from someone other than a partner was also high: 28 percent of all respondents in Lima and 32 percent in Cusco reported having experienced such form of violence since 15 years of age. The main perpetrators were fathers and relatives (both female and male).

In the majority of countries where the **relationship between household wealth and ever-experience of violence is significant**, it takes the shape of an inverted U, with a peak in reporting of violence in the third income quintile; this is also the case for Peru. Here, the odds of ever experiencing violence fall consistently with age at marriage, so that women who were first married at ages younger than 15 have the highest odds of ever having experienced violence and those married beyond age 24 have the lowest.

In many cases, violence against women ends in death: In 2009 the Observatorio de Criminalidad reported 1,343 victims of intentional homicides, of which 273 were female and 1,070 were male. Four out of 10 female victims had been killed by their partners, ex-partners or other family members⁶⁹.

Access to services for victims of gender-based violence seems to be difficult: As shown by the WHO Multi-Country Study (2005), only about one third of women who had experienced physical violence by a partner sought help from a service provider, mainly the police (25 percent) or health service (8 percent in Lima, 17 percent in Cusco).

Teenage pregnancy

Getting pregnant before the age of 20 has implications for a woman's and her child's opportunities in a society. Teenage pregnancy is often correlated with higher poverty rates and lower economic opportunities of the mother, as well as lower educational outcomes of the child. However, there is little empirical evidence on whether these correlations represent causal links and what is the

⁶⁵ For more information on the law, please see:

<http://webapps01.un.org/vawdatabase/searchDetail.action?measureId=32770&baseHREF=country&baseHREFId=1032>

⁶⁶ US Department of State 2008.

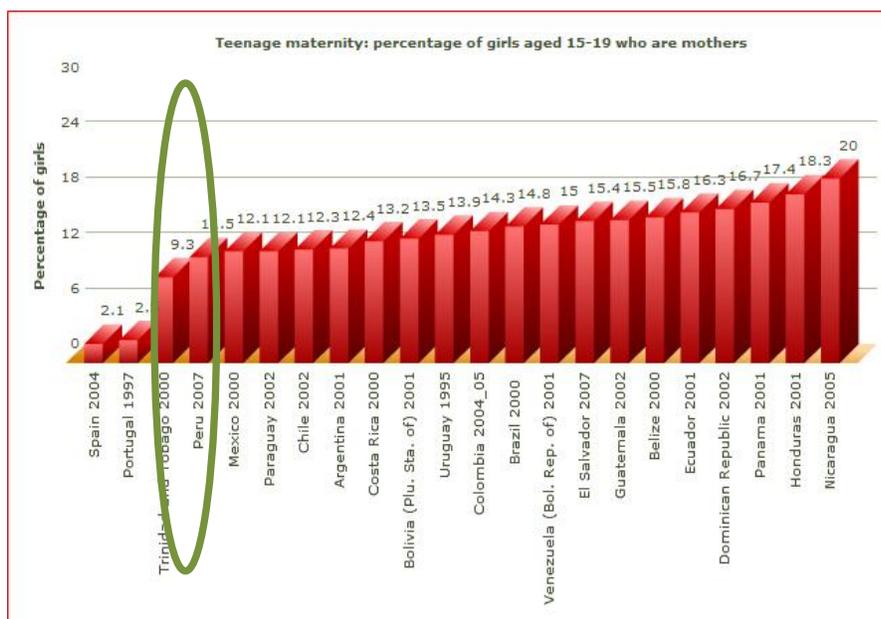
⁶⁷ All prevalence data used here stem from a WHO Multi-country study on Violence against women (2005).

⁶⁸ In the Study, the following definitions of partner violence were used. *Physical violence* meant the woman had been: slapped, or had something thrown at her; pushed, shoved, or had her hair pulled; hit with a fist or something else that could hurt; kicked, dragged or beaten up; choked or burnt; threatened with or had a weapon used against her. *Sexual violence* meant the woman had: been physically forced to have sexual intercourse; had sexual intercourse because she was afraid of what her partner might do; been forced to do something sexual she found degrading or humiliating.

⁶⁹ Zenaida Franco Mendoza 2011.

direction of causality. A regional study on teenage pregnancy and its implications for women and the next generation is currently being developed by LCSPP.

The **adolescent fertility rate in Peru** was 52.3 (births p/1000 women 15-19) and is thus **moderate** when compared to the 72.3 average in Latin America and the Caribbean (2009). Similarly, when observing the percentage of girls aged 15-19 who are mothers it shows that Peru accounts for a relatively low share of teenage pregnancies if compared to other countries in the region:



Political representation

The Government of Peru has made **efforts to increase the number of women participating in political decision-making**, through the establishment of quotas in 2002 mandating that at least 30 percent of candidates affiliated with any party for congressional, regional and municipal elections must be female⁷⁰. Below are the participation rates for women in different levels (and spheres) of political decision-making processes:

- The share of women in ministerial cabinet positions was 32.7 percent⁷¹ during the last period observed (2006-2011).
- The share of women holding seats in national parliaments is 21.5 percent and thus higher than the LAC average (23 percent, latest data 2009) (2011).
- The percentage of women judges in the highest court or Supreme Court was only 6 percent in 2009 and thus far below the average for the region which at the same time was 19 percent⁷².
- At the local level, the share of elected women town councilors of the municipal governments was 29.6 percent in 2009.
- However the share of female mayors is less encouraging, with only 2.7 percent of Peruvian mayors being women (2009)⁷³.

⁷⁰ Cited from World Bank 2009: Schmidt, Gregory D. (2003), "The Implementation of Gender Quotas in Peru: Legal Reform, Discourses and Impacts." International Institute for Democratic and Electoral Assistance."

⁷¹ ECLAC Gender Observatory.

⁷² ECLAC Gender Observatory.

⁷³ ECLAC Gender Observatory.

VI. Gender and the proposed CPS Program

The Bank's current portfolio for Peru has gender-sensitive activities, which will be adopted and continued as part of the new CPS. The current and upcoming portfolio also will build on the knowledge and experience on gender integration developed in Peru through the implementation of several gender pilots under the GAP trust fund.

For instance, good gender diagnoses for the **Sierra Irrigation Project** led to the development and implementation of activities to ensure greater gender balance in water users' organizations (WUOs). Similarly, the impact evaluation of the **Agricultural Research and Extension Project (INCAGRO)** focused on rural women's organizations and indigenous groups. A number of recommendations emerged from this initiative regarding the success of sub-projects in fostering communal ownership and identifying a collective goal.

The **Sierra Rural Development Project (ALIADOS)** not only includes a gender-diagnosis, but its training and capacity building also builds on a revised and customized version of the approach of the **Peru RBI pilot on Strengthening the Economic Empowerment of Women Micro-Entrepreneurs in Lima**. Under the RBI pilot project, women's entrepreneurial capacity and economic status was strengthened through a capacity building program that included training and individualized technical assistance in business management skills (including marketing), productive capacity, and personal skills in metropolitan Lima. The project's impact evaluation found increasing sales and revenues of women's enterprises as a result.

Another gender-informed operation is **Project on Lima Water and Sewerage Systems (SEDAPAL)**, where social interventions will complement physical investments. The intervention will include gender-tailored initiatives such as the provision of guidance to manage consumption in particular through the use of in-house water saving equipment. The Project's beneficiaries actively participate in all Project stages through a social component that has been designed using some specific gender consultations.

Gender issues are also well considered in the diagnostics of the **Project on Rural Water and Sanitation (PRONASAR)**, with regards to decision-making processes as well as gender-specific use and needs in water supply. The project incorporates stakeholders and direct beneficiaries in the decision-making processes throughout the extended project cycle. The project incorporates incentives to incentive women to participate on water administration.

A more gender-balanced decision-making process is also the focus of the gender component under the **Rural Roads Project (PCR, PROVIAS Descentralizado)**, where provincial road institutes have been created under the authority of provincial road boards. These institutes contract out road maintenance of the roads to micro-enterprises created by men and women from the poorest rural communities, and 30% of the workers have to be women. This approach has improved the efficiency of maintenance activities, and contributed to developing entrepreneurial capacity and reducing poverty in rural areas.

Based on a gender assessment done for the justice sector, the **Justice Services Improvement II Project** implements a gender action and inclusion plan, with specific metrics according to the specific components of the project.

Finally, an **ESW on Gender and Agency** will explore how agency, i.e., the capacity to make personal decisions and benefit from available opportunities (as defined in the WDR 2012), manifests itself in Peru and how different policies and programs can strengthen agency and the linkages to asset creation and opportunities. The study will focus on 4-5 initiatives being conducted as part of Bank-funded projects where evidence is available and lessons for policy design can be extracted.

Table 2. Gender Activities in the Active Portfolio

Project	Gender activities
<p>Project on Lima Water and Sewerage Systems (SEDAPAL)</p>	<ul style="list-style-type: none"> • There is a subcomponent on women’s economic empowerment: social interventions will complement the physical investments. These will include gender-tailored initiatives such as the provision of guidance to manage consumption in particular through the use of in-house water saving equipment. • The Project’s beneficiaries will actively participate in all Project stages through a social component, that has been designed using some specific gender consultations, and which includes activities to be carried out by contractors as part of the construction phase, civil society and interventions by SEDAPAL. • SEDAPAL will prepare a check list to track gender and social issues.
<p>Project on Rural Water and Sanitation (PRONASAR)</p>	<ul style="list-style-type: none"> • Gender issues considered in diagnostics: As is typical in communities deprived of water supply services, women and children bear the burden of fetching water. In the Andean region, women and children spend an average of two and a half hours per day fetching water. It is also very common that water availability decreases during parts of the year, which increases the difficulties of supplying water to the family. While community needs are commonly articulated by men, women (even when they are illiterate) typically play an important role in activities such as the safe keeping of money collected by the community for paying the operating cost of water supply systems. • The project incorporates stakeholders and direct beneficiaries in the decision-making processes throughout the extended project cycle. The participatory approach is a key element to ensure both project implementation and the sustainability of the services provided by the project's investments. Mechanisms have been built into the project to ensure proper gender focus.
<p>Rural Roads Project (PCR, PROVIAS Descentralizado)</p>	<ul style="list-style-type: none"> • Gender component: Improve the access of rural poor to basic services, market integrating infrastructure and income-generating activities with gender equity, to help alleviate rural poverty and raise the living standards of rural communities. • Unlock barriers for a real increase of the presence and participation of women in the process of the rural ways maintenance (decision making). • More than 500 micro-enterprises have been created, representing 5,700 employment opportunities for poor men and women (30% of the workers are women)
<p>Sierra Rural Development Project (ALIADOS)</p>	<ul style="list-style-type: none"> • Gender extensively included in diagnosis • National Plan for Undocumented People (2005-2009). In October 2004, the GoP launched a Special Commission to prepare a National Plan for Undocumented People (2005-09). The national policy targets the prevention of undocumented people and actions for providing national identification document (DNI) with due consideration to gender and ethnic equity, and civic rights. • One of the project goals: Promote social inclusion to improve equity in benefits for excluded indigenous people, undocumented farmers, women, and youth. • The PIU has developed a MASC <marco ambiental social cultural y de genero> the MASC is a tool for implementation. The PIU will report on the implementation of 1500 community and business projects. • There is a midterm review study that has included gender. The study includes extensive gender information.
<p>PSI- Sierra Irrigation Project</p>	<ul style="list-style-type: none"> • Gender subcomponent: The role of women in irrigation in the Sierra is important due to the temporal migration of men to the cities in order to generate a sufficient

Project	Gender activities
	<p>income for meeting the needs of the family. The Project will pay special attention to cater to the needs of female farmers in the Sierra, making sure that they benefit from the capacity building activities and encouraging the fair representation of women within Water User Organizations (WUOs). The final objective is the real inclusion of women in the institution in charge of the administration of lands.</p> <ul style="list-style-type: none"> • Two gender pilots were undertaken in Cajamarca and Arequipa as part of Project preparation. These pilots aimed to better position women to participate in water management and to improve their involvement in the different stages of the agricultural supply chain. The lessons learned from the gender pilots served to improve the approach that PSI will use for building the technical, management and financial capacities of prioritized WUOs in the Sierra. The capacity building activities under Component C will include awareness building and training with some targeting to youth and women. Social and gender issues will also be identified in rapid participatory diagnostics of WUOs. • Water associations and organizations of water users are traditionally male fashioned. A gender pilot developed in Cajamarca and Arequipa had great results, so that now water users organizations include women. The pilot received grants from the GAP.
Health Reform (APL2)	<ul style="list-style-type: none"> • Goal: Address high fertility and maternal mortality rates: reduce maternal and infant mortality rates in the nine poorest regions of the country (Amazonas, Huanuco, Huancavelica, Ayacucho, Apurimac, Cusco, Cajamarca, Ucayali and Puno). • PDO: (i) improve family care practices for women (during pregnancy, delivery and breast-feeding), and children under the age of three; (ii) strengthen health services networks with capacity to solve obstetric, neonatal and infant emergencies and to provide comprehensive health services to women (during pregnancy, delivery and breast-feeding) and children under the age of three; and (iii) support MINSA's governance functions of regulation, quality, efficiency and equity for improving the new health delivery model of maternal and child health care in a decentralized environment.
Justice Services Improvement II	<ul style="list-style-type: none"> • Gender Assessment for the justice Sector has been completed, project implementation informed by this gender assessment • Existing action gender plan and inclusion plan, with specific metrics according to the specific components of the project. • The Project entails gender as part of the domestic violence component. Gender is also broadly covered in the JSDF.

Appendix A: Facts and Figures – Gender indicators for Peru (July 2011)

Demography		LAC-Region	
Fertility Rate, (births per woman)*		2.53 (2009) 2.9 (2000)	2.26 (2009) 2.65 (2000)
Sexual and reproductive health and family planning			
Adolescent Fertility Rate (births p/1000 women 15-19)*		52.3 (2009) 65 (2000)	72.3 (2009) 83.1 (2000)
Life expectancy at birth in years (2009)*	Female Male	76.25 70.97	77.1 70.9
Maternal Mortality Rate (per 100.000 live births), 2008*		98 (2008) 160 (2000)	85.13 (2008) 110 (2000)
Pregnant women receiving prenatal care (2009)*		94.3%	95%
Skilled birth attendance (2009)*		82.5%	89.5%
Education			
Survival rate to final grade of primary, 2000–2007 ⁷⁴	Female Male	90% 90%	Chile: Female-98% Male-98% Mexico: Female-94% Male-91%
Education enrollment ratio female to male*	Primary Secondary Tertiary	0.99 (2008) 0.99 (2008) 1.06 (2006)	0.97 (2008) 1.08 (2008) 1.26 (2008)
Labor			
Labor force participation rate (share of population 15-64)* 2009		Female 62.2% Male 76.0%	55.42 % 83.0%
Unemployment rate* 2008		Female 8.3 % Male 5.4%	8.8% 5.4%
Unemployment by population between ages 15-24*, 2008		Female 15.59 % Male 12.51 %	17.9% 11.8%
Gender-specific labor market segregation, 2006*	Employees agriculture	Female 7.6% Male 14.5%	10.4% 21.6 %
	Employees industry	Female 42.9% Male 40.8%	15.7 % 28.3 %
	Employees services	Female 49.4% Male 44.7%	73.7 % 49.8 %
Political Participation			
Proportion of seats held by women in national parliaments*		21.5% (2010)	23% (2009)

*Genderstats, World Bank.

⁷⁴ UNESCO Institute for Statistics, correspondence in June 2009, cited from The World's Women 2010.

Appendix B: Gender-specific labor legislation in Peru⁷⁵

Peru has made significant progress in terms of labor law/regulations in favor of gender equality. Also, the country has introduced several mechanisms in order to conceal women's reproductive role with employment. The regulations can be grouped as follows:

Regulations regarding the period of pregnancy, birth-giving and lactation:

- Pregnant women may not be dismissed before and after confinement (Legislative Decree No. 728)⁷⁶.
- Government mandates paid maternity leave for women employees. The minimum length of paid maternity leave is 90 calendar-days. 100% wages is paid by the Government during maternity leave. (Law No. 26790 of May 17, 1990)
- The mandatory minimum length of paternity leave is 4 calendar days (Ley 29.409)
- Lactation is allowed for 1 hour daily until the child completes 1 year (Act. No. 27240)

Equality before the law:

- Women and men have equal capacity by law. (Constitution (Art. 2)
- Married men and married women have equal capacity by law. (Constitution Art. 2)
- Women and men have equal ownership rights over moveable and immovable property. (Constitution (Art. 2)
- Women and men have equal inheritance rights over moveable and immovable property. (Civil Code (Book IV))
- Women retire at the same age as men in the private/public sector (65 years) Law No. 26504 of July 18, 1995 (Art. 9)

Anti-discrimination:

- Women can work the same night hours as men, they can work in all industries. (Law No. 26790).
- Dismissal is null and void if motivated by the pregnancy or occurs at any time during gestation or within 90 days after delivery (Legislative Decree No. 728)⁷⁷

⁷⁵ If not mentioned otherwise, information as presented in this paragraph stems from Gender and Law Library, World Bank.

⁷⁶ ILO database of work and employment laws.

⁷⁷ ILO database of work and employment laws.

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