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INTERNATIONAL FINANCE CORPORATION

AND

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF PERU

FOR THE PERIOD FY17-FY21

April 4, 2017

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

The Multilateral Investment Guarantee Agency

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CURRENCY EQUIVALENTS

(Exchange rate effective as of March 19, 2017)

US\$1 = 3.26 Soles

FISCAL YEAR

January 1 – December 31

PRINCIPAL ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics
BCRP	Central Reserve Bank of Peru (<i>Banco Central de Reserva del Perú</i>)
B40	Bottom 40 percent of the population
CAF	Latin American Development Bank (<i>Banco de Desarrollo de América Latina</i>)
CAT DDO	Catastrophe Deferred Drawdown Option
CPF	Country Partnership Framework
DPF DDO	Development Policy Financing with a Deferred Drawdown Option
ENAH0	Household Survey (<i>Encuesta Nacional de Hogares</i>)
EPSs	Water State Owned Enterprises (<i>Empresas Prestadoras de Servicios de Saneamiento</i>)
FDI	Foreign Domestic Investment
FIP	Forest Investment Program
GDP	Gross Domestic Product
GEF	Global Environment Facility
GoP	Government of Peru
IEG	Independent Evaluation Group
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation
INEI	National Institute of Statistics and Informatics (<i>Instituto Nacional de Estadística e Informática</i>)
MEF	Ministry of Economy and Finance (<i>Ministerio de Economía y Finanzas</i>)
MIGA	Multilateral Investment Guarantee Agency
MINEDU	Ministry of Education (<i>Ministerio de Educación</i>)
MSMEs	Micro, Small and Medium Enterprises
OECD	Organization for Economic Co-operation and Development
PPP	Private Public Partnership
PROINVERSION	Private Investment Promotion Agency (<i>Agencia de Promoción de Inversión Privada</i>)
RAS	Reimbursable Advisory Services
SIS	Integrated Health Systems (<i>Sistema Integrado de Salud</i>)
SCD	Systematic Country Diagnostic
SNIP	National System of Public Investment (<i>Sistema Nacional de Inversión Pública</i>)
SME	Small and medium-sized enterprises

SUNAT	National Superintendence of Tax Administration (<i>Superintendencia Nacional de Administración Tributaria</i>)
SWAP	Sector Wide Approach Project
PCM	Presidency of the Ministers Cabinet (<i>Presidente del Consejo de Ministros</i>)
T60	Top 60 percent of the population
TA	Technical Assistance
US	United States of America
WBG	World Bank Group
WSS	Water & Sanitation Services

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The Republic of Peru

FY17-FY21 COUNTRY PARTNERSHIP FRAMEWORK

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FY17-FY21 COUNTRY PARTNERSHIP FRAMEWORK FOR THE REPUBLIC OF PERU

I. Introduction

1. Peru's sound macroeconomic and structural policies, supported by favorable external conditions have rendered significant growth. Peru's economy advanced at close to 6 percent per year during the last decade and at 4.7 percent per year on average over the last two decades. Countercyclical fiscal and monetary policies during the commodity boom, underpinned by reforms, led to an increase in domestic savings, which complemented with Foreign Direct Investments (FDI) to the tune of 5 percent of Gross Domestic product (GDP) on average over the last ten years, transformed the landscape in mining, agribusinesses and commerce. Income per capita at market exchange rates tripled over the past fifteen years, reaching US\$6,206 in 2016.

2. Between 2004 and 2015, nine out of thirty million Peruvians escaped poverty. Moderate poverty fell by more than half from 58 to 22 percent of the population, while extreme poverty shrank from 16 to 4 percent. At the same time, the income of the poorest bottom 40 percent of households (B40) grew by 6.8 percent on average, well above the 2.5 percent improvement experienced by the top 60 percent (T60). The middle class expanded by 18 percentage points, outnumbering the poor in 2013. Higher labor incomes explain the lion's share of the poverty and inequality reductions, but non-labor incomes (cash payments from safety nets established over the past ten years) helped to alleviate extreme rural poverty.

3. However, the negative terms of trade shock, most notably in 2014, dislodged Peru from its fast-growth path by depressing exports, private investments and domestic consumption alike. The shock also revealed important structural weaknesses in Peru's economy—its low levels of productivity, its sharp geographical disparities in access and quality of basic public services, and its high vulnerability to climate change risks. The fall in commodity prices has narrowed the window of opportunity for people to escape poverty and exposed the emerging middle class to the risk of falling back into poverty. A prevalent exclusion and inequality across the income and ethnic ladders exacerbate these vulnerabilities.

4. The Government's ambitious program outlines a way forward. The current Administration took office in July 2016 and launched an ambitious modernization agenda through 2021—the year Peru will celebrate the 200th-year anniversary of its independence. Areas of focus include access to water and sanitation, the State's focus on citizens, promotion of public and private investments, formalization of the economy and the justice system. A technocratic approach to the program included the setting up of a monitoring unit and launching a strong dialogue with the country's regions. The priority areas emerging from the Peru Systematic Country Diagnostic (SCD) (Report No. 112694-PE) are highly consistent with the Government's program.

5. The proposed FY17-FY21 Country Partnership Framework (CPF) for the World Bank Group (WBG) is aligned with the Government's program and the priorities highlighted by the SCD. The CPF focuses on eight critical objectives structured across three pillars: (i) Productivity for growth; (ii) Services for citizens across the territory; and (iii) Natural resource and climate risk management. Effectiveness of public spending will be a crosscutting

issue along these three pillars. The framework will also aim to address gender and indigenous disparities.

6. Peru's path to reigniting growth depends on promoting productivity gains, which is also key to continue to reduce poverty and consolidate the country's emerging middle class. Peru's low levels of productivity are related to the lack of connectivity across the territory, high levels of informality, the inability of small- and medium-sized enterprises to embrace skills and new technology, and a potential slowdown in the pace of private investments.

7. Continued progress in poverty reduction and shared-prosperity requires a concerted effort to improve basic public services to citizens. In this regard, the Government's goals to improve water and sanitation services, to further modernize the delivery of health and nutrition services for the poor, and to increase the efficiency of key justice services are all important for regional and country-wide development. Since those services are unevenly provided across the territory, a "one-size" approach will not be ideal. Tailoring policies and interventions to address the various dimensions of regional disparities—urban/rural, intermediate cities vs. Lima, and within Lima, would therefore be important.

8. Natural resource and climate change risk management is another key challenge for shared prosperity. Peru's poor are highly vulnerable to climate change directly (e.g., floods, landslides) and indirectly (e.g., through the impact that global warming has on water availability, and on crops and associated jobs). In this context, it is crucial for Peru to continue to strengthen the management of natural resources.

9. The WBG is well placed to help Peru in addressing the above three areas, given the significant country experience acquired through past and ongoing engagements. The WBG's long-term engagement in Peru, with proven efficiency according to Independent Evaluation Group (IEG) reports, provides a solid base upon which to support these three pillars. To build on this strength, the WBG is committed to provide Peru with integrated solutions, combining both global knowledge and smart financing—all designed against the backdrop of the country's need to increase the efficiency in the use of public resources. Still, the CPF focuses only on a selected set of activities, some driven by the portfolio, most increasingly driven by new lending and the knowledge program. The impact of the CPF's three pillars and eight objectives will be monitored closely through a selected set of indicators that includes, to the extent possible, the impact that interventions will have also on gender and indigenous groups (Annex 1).

10. During the CPF implementation period the emphasis of the program is likely to shift from lending to knowledge. As the current substantive portfolio of operations phases out, and given the foreseen limitations on new lending, the structure of the WBG program in Peru will likely shift to a very selective set of lending operations and to knowledge products. The program will also need to emphasize even more leveraging private resources through innovative designs and financial instruments. In addition, a number of DPF operations with Deferred Drawdown Options are in place and can be used during the CPF period as warranted, consistent with their intended objectives.

II. Country Context and Development Agenda

A. Political Context

11. President Pedro Pablo Kuczynski took office on July 28, 2016, having won the election on a razor-thin electoral margin. At the same time, citizens gave control of Congress to the opposition parties. The election also renewed Parliament, with first time parliamentarians now accounting for almost three-quarters of the total. In response to its minority position, the Administration has made efforts to forge partnerships with key political forces – including the subnational authorities elected in 2014. The Administration is also making a concerted effort to anchor key reforms on global agendas and with support from multilateral institutions.

12. The Government and the main opposition party have similar policy agendas, but strong consensus will be needed in key areas. Agreement is particularly strong on the need to improve the business environment and accelerate investments in physical and human capital. There also seems to be consensus for carrying out challenging institutional reforms: Parliament has already supported (by granting legislative powers) a series of reforms taken by the Government to boost economic activity.

13. An incomplete decentralization process requires a proactive management to ensure the effectiveness of large investment projects – something that the Government is aware of. Conflicts around environmental issues, such as the dispute over water rights between communities and businesses (and within different sectors of production) may affect the pace of reforms and needed job creation. Limited coordination might slow reforms that are designed at the central level but that require implementation by subnational authorities. In March 2017, the Government created a new structure under the Prime Minister’s Cabinet to actively manage dialogue and coordination with subnational governments.

B. Recent Economic Developments and Outlook

14. Peru’s growth over the past decade was one of the fastest in Latin America, but as in the rest of the region its pace has slowed. Between 2004 and 2013, GDP grew at an average annual rate of 6.2 percent on the back of prudent macroeconomic policies, structural reforms, large foreign direct investments and a favorable external environment. The end of the commodity boom, the economic slowdown of key partners (especially China) and other factors resulted in a growth slowdown to 2.4 and 3.3 percent in 2014 and 2015, respectively (Table 1 and Annex 2).

15. GDP growth accelerated moderately in 2016 on the back of higher mining export volumes. Several large mining projects came on stream and others reached full capacity. Higher growth in mining export volumes was partially attenuated by lower dynamism in domestic demand, as public spending receded and investment continued to decline.

16. The current account deficit (CAD) is narrowing and it is mainly financed by foreign direct investment (FDI). The CAD was around 4.9 percent of GDP in 2015 mainly due to the deterioration of the terms of trade and a temporary stagnation of export volumes, both

partially offset by lower imports. However, it closed below 3 percent of GDP in 2016 due to a recovery of mining exports and a further drop in imports. FDI has been 4.3 and 3.5 percent of GDP in 2015 and 2016, respectively, down from 5 percent of GDP in 2013, mainly due to a slowdown in mining investments, which account for about half of the total FDI. International reserves fell slightly from US\$66 to US\$62 billion between 2013 and 2016, but remain at very comfortable levels of 32 percent of GDP or 21 months of imports. Increasing exports of goods and services in a context of a gradually improving terms of trade should allow further reductions of the current account deficit.

Table 1: Key Economic Indicators, 2012-18

	2012 ^A	2013 ^A	2014 ^A	2015 ^A	2016 ^P	2017 ^F	2018 ^F
Real economy							
GDP growth (percent change)	6.0	5.8	2.4	3.3	3.9	3.3	3.8
Nominal GDP (local currency, billion)	499	535	576	613	659	696	745
Per Capita GDP (In US\$ Atlas Method)	5,519	5,765	5,823	5,935	6,087	6,209	6,367
Fiscal Accounts (percent of GDP)							
Expenditures	20.8	22.0	22.6	22.3	21.0	21.5	21.1
Revenues	23.1	22.9	22.2	20.2	18.5	18.9	18.7
Non-financial Public Sector Balance	2.3	0.9	-0.3	-2.1	-2.6	-2.7	-2.5
Balance of Payments (percent of GDP)							
Current Account Balance	-2.8	-4.7	-4.4	-4.9	-2.8	-2.3	-2.3
Imports	25.6	25.4	24.1	23.7	22.2	22.9	22.6
Exports	27.6	24.6	22.4	21.0	22.1	22.8	22.6
Foreign Direct Investment	6.2	5.0	2.2	4.3	3.5	3.1	4.0
Memo items:							
Nominal GDP (US\$ billion)	189	198	203	192	195	210	223
Gross Public Debt (percent of GDP)	20.8	20.0	20.1	23.3	23.8	24.8	25.8

^A: Actual; ^P: Preliminary; ^F: Forecast

Source: INEI, MEF, BCRP and World Bank staff estimations and projections for 2017-2018 (annex 2).

17. Inflation is expected to converge to within the target band by 2017. The average headline inflation reached 3.6 percent in 2016, above the upper limit of the target range (3 percent) for a third straight year: supply-side shocks on food prices offset weak domestic demand. Nevertheless, the Central Bank (*Banco Central de Reserva del Perú*, BCRP) kept its lending rate at 4.25 percent since inflation expectations for 2017 remain well-anchored within the target range. The BCRP also implemented measures to reduce the level of dollarization of the economy that supported a slight decline in the credit dollarization rate.

18. The banking sector remains profitable, well-capitalized, and resilient to external shocks. The ratio of capital to risk-weighted assets remained stable at 15 percent as of December 2016. The banking system's return on equity reached 19.9 percent in December 2016, among the highest in the Latin America and Caribbean region (LAC), perhaps highlighting limited competition pressures. The non-performing loans (NPLs) ratio was only 2.9 percent for banks and 3.1 percent for the financial system as a whole—including banks, municipal credit unions, and

other lending institutions (except cooperatives). The ratio of provisions to overdue loans for banks remains high at 161 percent.

19. A countercyclical fiscal stance has contributed to the stabilization of the economy. Fiscal policy remains prudent, even as deficits have increased over the last years. The higher deficit stems from a decline in revenues that came with the economic slowdown, the 2014 tax reform and increases in recurrent expenditures in recent years, especially for goods and services and wages. In the context of supporting the economy as mining production levels off, the authorities are expected to more aggressively increase public investment in 2017, thus maintaining or marginally increasing the 2016 deficit level. The Government expects to phase out current fiscal deficits gradually over the medium term on the back of expenditure efficiency measures and plans to improve tax collection. At 24 percent of GDP, Peru's gross public debt remains one of the lowest in the region and the net debt is even lower at approximately 8 percent of GDP. Markets have recognized Peru's prudent macroeconomic policies by continuously upgrading its sovereign debt ratings.

20. Given the global outlook, GDP growth is expected to converge to its potential rate, but could increase in subsequent years as Government's efforts to boost productivity payoff. For 2017, GDP is expected to slow slightly due to the leveling off in the mining sector and still weak private investment— the latter affected by adverse global conditions and the uncertainty related to corruption scandals in projects signed in past years. For 2018-2019, growth will likely pick up as the recovery in copper prices takes hold and large infrastructure projects resume and accelerate implementation. Growth over the medium term should also be supported by the positive impact of the Government's ongoing reforms to boost productivity, particularly in areas of connecting infrastructure and formalization. Moreover, the implementation of the ongoing structural reforms improving human capital, infrastructure, and competition in product and labor markets could further boost productivity, raising potential output growth.

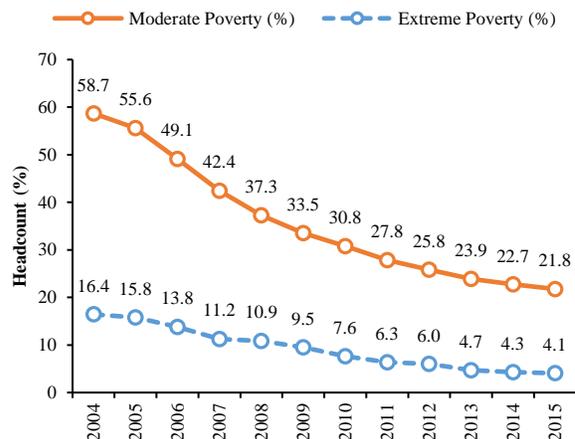
C. Poverty Profile

21. Peru's growth has been strongly pro-poor and equitable. Nine million Peruvians escaped poverty between 2004 and 2015, and moderate poverty fell by more than half (from 58 to 22 percent). Extreme poverty also fell from 16 to 4 percent (Figure 1). Shared prosperity was strong, as incomes of households in the B40 increased by an average of 6.8 percent per year, against 2.5 percent per year for the T60. As a result, inequality declined by 16 percent over the period, and the middle class expanded by 18 percentage points and outnumbered the poor. Urban inequality has declined substantially (the Gini coefficient reached 0.40 in 2015), but rural inequality has declined only modestly.

22. In absolute numbers, the poor are evenly distributed between urban and rural areas and across the country's 24 regions. Metropolitan Lima is home to the largest number of poor (1.2 million), almost double the number of poor in Cajamarca, the second largest region in terms of population in poverty (0.7 million). The number of poor is also high in the regions of Piura, Puno, and la Libertad (each housing about 0.5 million poor households). Poverty rates are higher in the Highlands and the Amazon, where the country's Indigenous population is concentrated, than

in the Coast (Figure 2). Although eighty percent of the extreme poor reside in rural areas, they account for about three percent of the population.

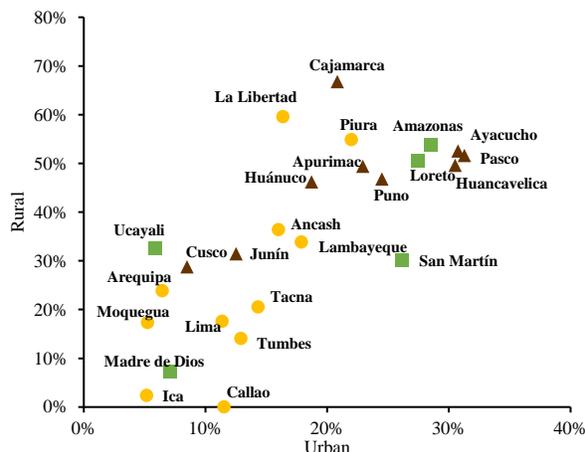
Figure 1: Extreme and Moderate Poverty Rates 2004-2015



Source: ENAHO various years and WB estimates.

Color code: **Green square**, Amazon region; **Brown triangle**, Highland regions; and **yellow circle**, Coast regions.

Figure 2: Moderate Poverty Rates per Region 2015



23. The poor have fewer opportunities, lower quality services, and are more exposed to risk than the non-poor. Only 70 percent of poor and 56 percent of extreme poor households have access to water, against close to 90 percent for non-poor households. An even larger gap exists in access to sewerage: less than half of households in the B40 have access to sewerage (45 percent), well behind the 85 percent for households in the T60. Poor urban households typically live in precarious housing, in areas with the highest crime rates, and they have limited access to justice services. Many of the urban areas along the coast, including Lima, where the poor live are prone to floods. For those in rural areas, conditions are much worse and, in addition, exposure to climate risk is high. The poor have on average only half the educational attainment of the non-poor (4.8 years of schooling vs. 9.5), and almost 40 percent of the poor have incomplete primary education. Similarly, two-thirds of the employed poor are either self-employed or unpaid workers, a situation that is closely related to low-quality jobs and exclusion from basic government services. Furthermore, less than 10 percent of the poor ever transition to formal jobs.

24. There are still marked regional and demographic differences in human development outcomes. Peru has reduced both child malnutrition and stunting significantly through a combination of economic growth, a comprehensive results-budgeting approach implemented through the Articulated Nutrition Program (*Programa Articulado Nutricional*, PAN) and targeted social assistance through the conditional cash transfer program “*Juntos*”, among others. Efforts to reduce anemia have yielded less impressive, but still positive results. However, substantial disparities in these outcomes remain: anemia and stunting rates continue to be higher in rural areas, especially in the Highlands and the Amazon, and among the indigenous and the poorest populations. In addition to geographic disparities, there are also ethnic and gender disparities.

25. Indigenous people represent around one-quarter of Peru's population, if measured by the language spoken at home. They are highly concentrated in two of Peru's poorest areas, comprising a higher share in both the Highlands and the Amazon regions. Indigenous households are on average poorer than non-Indigenous (31 vs. 18 percent), and this difference has widened over the past decade as poverty has fallen relatively less for indigenous as compared to non-Indigenous households. Whereas living in rural areas explains most of the difference in incomes between indigenous and non-indigenous, location alone does not explain differences in all outcomes. For instance, the stunting rate of children under five years old is three times higher for urban indigenous children than for non-indigenous urban children, and 10 points higher between rural indigenous and rural non-Indigenous. At the same time, Indigenous children show lower access to education and learning outcomes and are subject to worse job conditions and lower wages. Both deficits in housing quality and access to services are also higher for indigenous households, whether urban or rural. There is evidence that discrimination is a factor that results in fewer opportunities for indigenous people. Studies show that indigenous and female job seekers are discriminated against in the metropolitan Lima labor market. Access to finance is also more limited for the indigenous, as non-indigenous customers are more likely to receive better information and financial services than indigenous customers.

26. Although women present similar socioeconomic human development outcomes to those of men, female-headed households account for one in five of the poor and one in four of the non-poor. In the labor market, men earn on average 30 percent more per hour than women of comparable characteristics in similar jobs. Further, about one in four women (vs. one in ten men) were low earners in 2015 (i.e., full time workers earning below the poverty line). There is limited data regarding ownership of assets by gender, but the gap in access to an account in a financial institution is high, at only 22 percent for women vs. 36 percent for men. In addition, land-titling reforms in the 1990s expanded women's legal access to land ownership, but lack of data makes it difficult to assess the impact of these reforms. There is evidence that greater control over income (such as the cash transfers from the *Juntos* program) has a positive impact on women's ability to assert their opinions within the household. Most importantly, domestic violence affects a large number of families, not only the poor, with serious individual and social consequences. In 2015, 71 percent of women reported abuses by their partner, including psychological or verbal (67 percent), physical (32 percent), and sexual (8 percent).

D. Drivers of Poverty and Development Challenges

27. As highlighted in the SCD, higher labor income was the primary driver of the reduction in poverty over the 2004-2015 period. It was followed by changes in dependency ratios and in non-labor income. In rural areas, transfers played an important role in poverty reduction, in particular during the last five years. As for economic activity, agriculture and services generated the largest income increases for the poor. The contribution of agriculture has been stronger in extreme poverty reduction, whereas labor income from services played a more dominant role in moderate poverty reduction. Moreover, labor income from agriculture, mining, and utilities, together with transfers (especially public transfers), contributed to push down inequality over the past decade. The SCD highlights several conditions that if implemented would enable Peru to continue making serious strides towards the twin goals.

III. World Bank Group Partnership Strategy

A. Government Program and Medium-Term Strategy

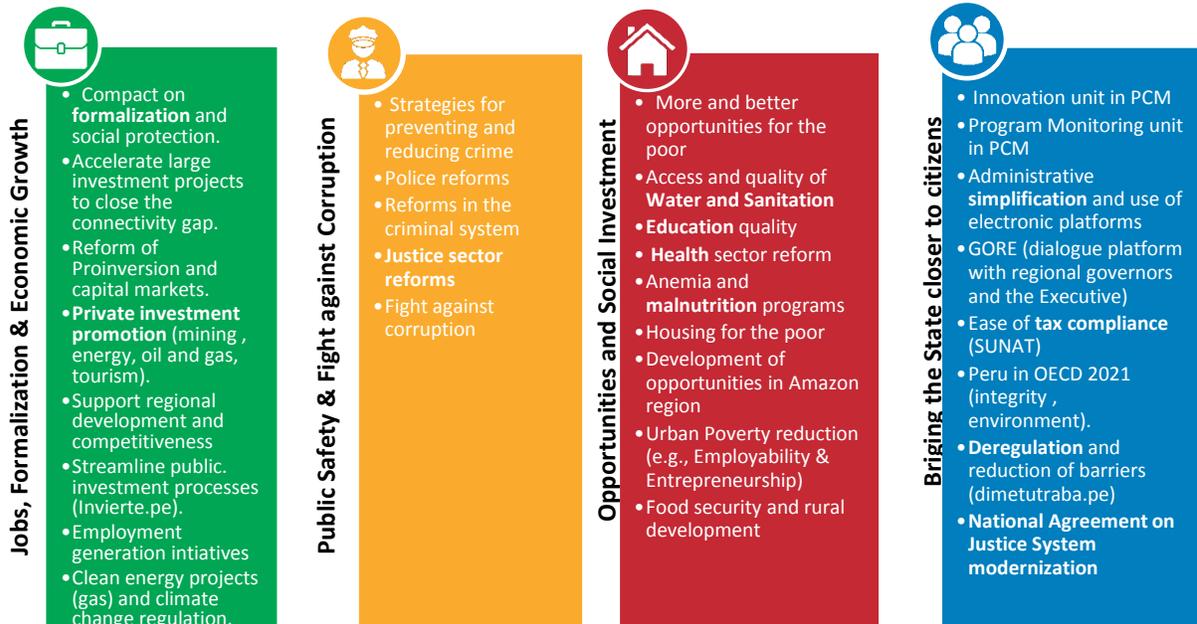
28. The Government's National Plan for the 2016-2021¹ period focuses on four strategic areas and respective goals (Figure 3), including:

- **Jobs, Formalization & Economic Growth:** The Government outlined a plan to boost economic activity, including the following: (i) accelerating the implementation of large investment projects (public and private) to close the infrastructure gap, including by promoting infrastructure finance and capital markets development (the country's agency to structure private participation in infrastructure, *Proinversión*, has been given a special focus); (ii) increasing public investment execution rates from 78 to 90 percent of the total allocated budget between 2015 and 2018; and (iii) implementing a comprehensive package to promote formalization of workers and enterprises aimed at boosting the country's productivity –where the goal is to increase labor formality from 27 to 40 percent between 2016 and 2021.
- **Public Safety & Fight Against Corruption:** The Government is promoting a comprehensive approach to reduce crime, including a further modernization of the National Police and the launching of a strategy to protect at risk youth from crime or violence. In addition, to address the increase in non-violent crime rates in large cities -- where 32 percent of the population reports to have been a victim of a crime last year, the Government outlined a deep and comprehensive reform of the crime prevention and control systems, focused on the full chain of this service: prevention-police/intervention-prosecution-court-jails. This includes an institutional reform of the justice administration to increase its efficiency, expand access, and promote transparency, integrity and accountability. The goal is to reduce the victimization rate to 25 percent by 2021. On the fight against corruption, a Presidential Commission to advise on integrity issues was created, and several measures have been taken to disqualify corrupt individuals or firms from working with the State.
- **Opportunities and Social Investment:** The Government aims to improve access to and quality of water and sanitation, bringing access to 99 percent of the population by 2021 in urban areas, while ensuring 24-hour availability of water in areas already serviced. The Government is also committed to continue health sector reforms to improve access and quality of services and will continue to support reforms in education. The Amazon region has been prioritized, with the goal of providing a basic package of services to at least 80 percent of its communities (*centros poblados*) by 2021.
- **Bring the State Closer to the Citizen:** The Government aims at fully modernizing public institutions at the national and subnational levels with a view to simplifying administrative processes and offering tailored public services that match citizens' needs through the re-engineering of processes and the use of e-service platforms. The Government also plans to accelerate efforts to improve the efficiency, equity, transparency and accountability of the justice systems –as mentioned earlier. Peru's institutional achievements and challenges are also

¹ <http://www.presidencia.gob.pe/plan-de-gobierno>

expected to be peer-reviewed by members of the Organization for Economic Cooperation and Development (OECD) through the Peru-OECD Country Program, which is sponsoring 18 reviews (e.g., Center or Government, Territorial Development, Simplification and Evidence Based Policy Making), in addition to inviting Peru to subscribe to key OECD standards.

Figure 3: Government's Strategic Priorities in the National Plan 2016-21



Source: World Bank staff design based on presentation by the Prime Minister, the Minister of Economy and Finance, line ministries and the 100 Days Report (*CADE Ejecutivos*, December 2016).

29. A technocratic approach to the implementation of these goals is being followed. The Prime Minister (who is also the Chairman of the Council of Ministers) has established clear milestones with timetables and responsible entities for each of these goals. With support from the United Kingdom, the Government has also set up a monitoring unit at the Cabinet level. Formal discussions have been launched semi-annually between the Executive and the regional governors on concrete ways to collaborate in the implementation of these goals.

30. After only nine months in office, the Government has prepared over 100 legal initiatives (with Parliament's pre-approval) that have substantially laid out the groundwork for the implementation of its National Plan. Two decrees, for instance, launched major initiatives for modernizing the management of public investments, including a simplification of the way investment projects funded directly by the budget are processed, and an overhaul of the institution responsible for structuring public-private partnerships. These initiatives were approved under Congress' delegation of legislative powers to the Government that in September 2016 streamlined approval on matters of economic recovery and State efficiency.

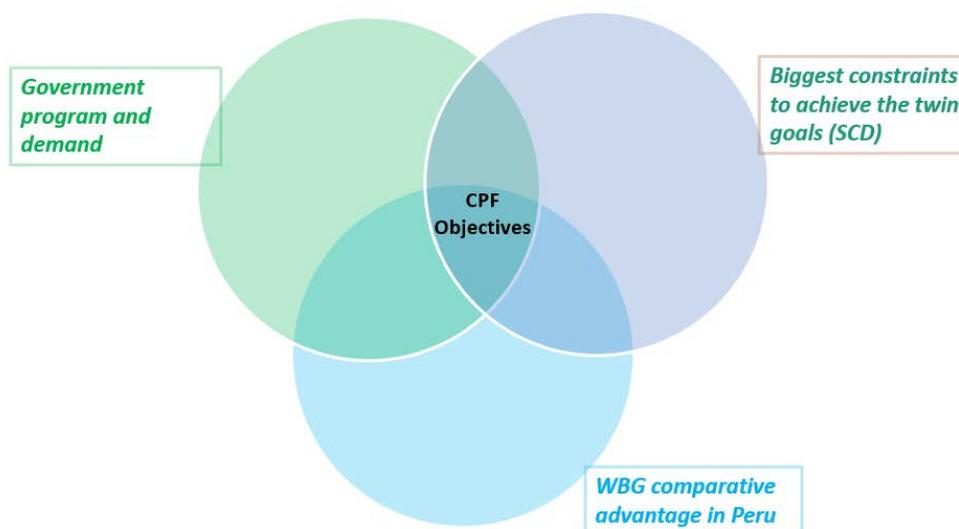
31. The Government also recently launched an agenda "Formalization, Productivity and Welfare" aimed at building a national consensus around difficult reforms. The agenda seeks to combat the two root-causes of informality: (i) the "exclusion" of workers from critical State benefits; and (ii) the voluntary decision to "exit" the formal sector due to cost-benefit

considerations (for instance SMEs that remain informal to avoid onerous regulations). A first set of reforms was included in the above-mentioned legal initiatives (mainly dealing with simplifying tax laws, facilitating compliance, and strengthening enforcement), and additional reforms were launched in mid-March of this year to promote youth employment and their early insurance registration. An Expert Commission has been created to advise on further reforms in these areas.

B. The WBG Country Partnership Framework

32. In designing the WBG Country Partnership Framework, the three standard selectivity filters were applied, as follows: (i) alignment with the Government’s own National Plan and requests for WBG support to date; (ii) a focus on priority areas identified by the SCD; and (iii) comparative advantage and experience of the WBG globally and, most importantly, capacity to apply such experience in a relevant way to Peru’s challenges (Figure 4).

Figure 4: CPF Selectivity Analysis



33. Selectivity Filter 1: Alignment with Government Program. Four strategic pillars provide the foundation of the Government’s National Plan for the 2016-2021 that encompasses at least 30 components (See paragraph 28 and figure 3 above). Strong dialogue with the Ministry of Economy and Finance (*Ministerio de Economía y Finanzas*, MEF), line ministries and four subnational governments during the CPF preparation process helped distill the Government’s priorities and identify areas where the WBG’s support can be most effective. In particular, Government’ key priorities include: (i) closing the infrastructure gap; (ii) increasing formalization and social protection; (iii) increasing access to water and sanitation services; (iv) promoting private investments and accelerate public ones; (v) improving the efficiency of the justice system; and (vi) launching a health sector reform.

34. Selectivity Filter 2: SCD Priority Areas. The SCD identified priority constraints to sustainable economic growth and inclusion of the poor and the B40 grouped under six priority

areas: (i) improving connectivity; (ii) raising human capital (iii) reducing factor rigidities; (iv) right-sizing the fiscal envelope; (v) improving government coordination, capacity and law enforcement; and (vi) reducing environmental risks (Table 2). There are strong synergies across the SCD and the Government’s National Plan regarding water and sanitation, health, education, barriers to competition, labor and tax regulations, tax revenue mobilization, justice, and the interphase between the public and the private sector. The emphasis differs in some themes, however. The SCD is more forceful in highlighting the lack of urban planning, the low tax revenue mobilization (size of the State as opposed to its efficiency), the unfinished decentralization process and the high exposure to climatic risks and natural disasters. The Government’s National Plan stresses more than the SCD public safety and the fight against corruption, as well as sustaining if not increasing the flow of investments, both in the public and private sectors, including improving key elements for infrastructure finance.

Table 2: Peru’s SCD - Priority Areas and Key Bottlenecks

Priority Areas	Key Bottlenecks
Improving connecting infrastructure and public services	1. Large gaps in access to water and sanitation
	2. Lack of urban planning and cadasters
	3. Large gaps in connecting infrastructure
Raising human capital	4. Fragmented coverage and quality of services in health
	5. Low quality of services in education
	6. Inefficiencies across social services
Reducing factor and product market rigidities	7. Labor and tax regulations that hamper productivity and formalization
	8. Regulatory barriers to competition (at the subnational level) that hamper productivity and formalization
Right-sizing the fiscal envelope	9. Low efficiency of public spending
	10. Low tax revenues
	11. Unfinished decentralization process
Improving government coordination, capacity, and law enforcement	12. Weak enforcement of the rule of law in the justice system
	13. Weak enforcement of regulations
	14. Low level of government coordination and red tape
	15. Low levels of trust and social capital (citizen-government)
Reducing environmental risks	16. High exposure to climatic risks and natural hazards
	17. Reactive and loosely coordinated natural resources management

Source: Peru’s SCD (112694-PE).

35. Selectivity Filter 3: WBG Comparative Advantage in the context of Peru. The WBG’s long-term engagement in Peru provides a solid basis for future support in a wide range of areas. The Bank has designed and implemented integrated solutions, which combine global knowledge and smart financing. Infrastructure finance provides an example where the dialogue started with analytical services, it was followed by support to policy dialogue through a Development Policy Financing with a Deferred Drawdown Option (DPF-DDO), and is currently supported through a knowledge sharing activity with funding from the Swiss cooperation (a joint activity for five middle-income countries including Colombia, South Africa, Indonesia and Vietnam, in addition to Peru). This combination of timely and relevant analytical work that contributes to the national agenda and underpins WB-financed operations and leverages financing

from other development partners stands out as a good example of the WBG's value added in an upper middle-income country like Peru.

36. Knowledge sharing, both from Peru to other countries and from other countries to Peru, has been likewise central to the WBG's recent engagement. As an example, Peru's recent social assistance reforms supported by the WBG have offered lessons to similar efforts elsewhere in the LAC region and in other regions, as well. The WBG has been adapting global knowledge in its support to Peru in a wide range of areas, including connectivity, project financing and environmental management. On financing aspects in Peru, the WBG has proven experience in leveraging the impact of its interventions with other public resources. In almost all financing operations the WB financing covers only a relatively small portion of projects' total costs, with other multilaterals or the government itself footing the majority of the project cost.

37. The proposed CPF program is well-aligned with both the SCD and the Government's National Plan and will gradually become highly selective during the implementation. The focus on Productivity for Growth and Services for Citizens, respectively, are fully aligned with the driving themes of the Government's National Plan and priority areas in the SCD. The emphasis on enhancing the environment for sustainable private investments also responds to a high priority of the Government. Finally, the focus on the management of natural resources aligns with the SCD, responds to an important agenda for the country and, like the other two pillars, builds on the WBG's comparative advantage in Peru (Annex 3).

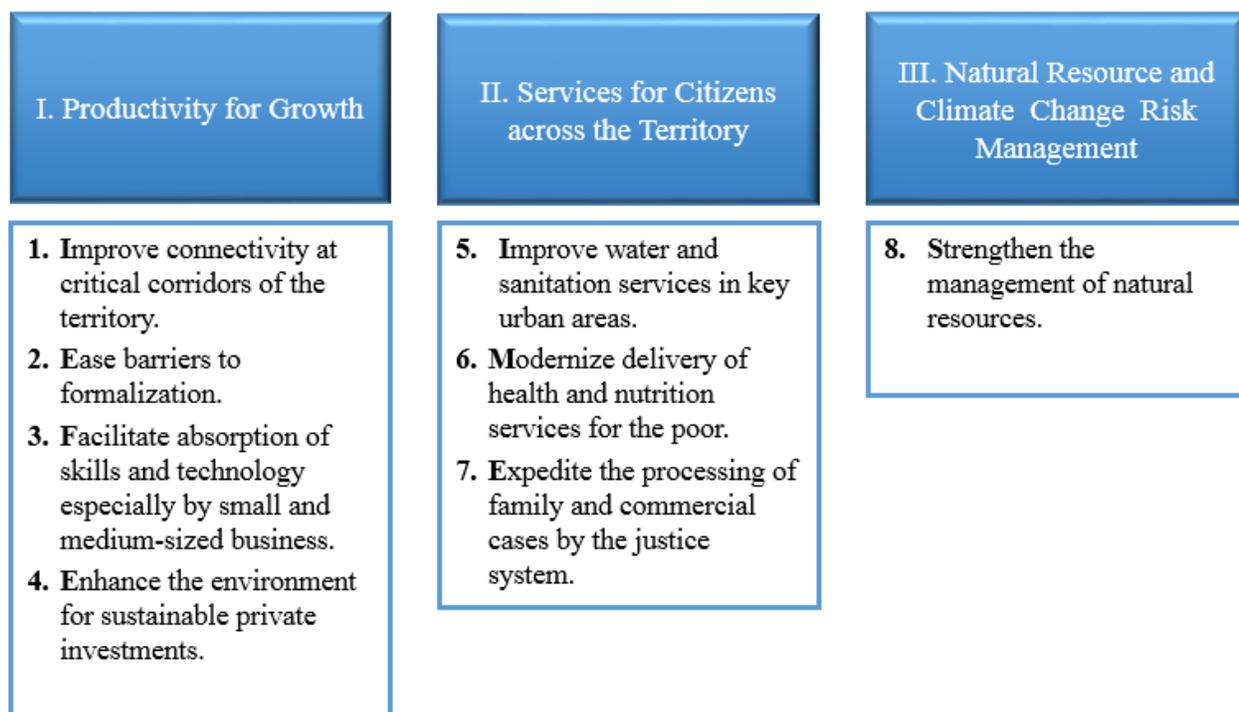
38. The CPF will continue to implement a broad program supported by the current portfolio of 15 operations in areas ranging from connectivity across the territory, basic social service delivery, and management of natural resources. This broad program will become more selective as a number of operations will be closing and the group's engagement will be phasing out in areas, such as in social inclusion and rural electrification. In addition, given the Government's cautious approach to decentralization, the CPF will adopt a pragmatic approach towards this agenda. The CPF will also be selective in some of the constraints identified in the SCD including education, and improving government coordination, capacity, and law enforcement. Further, a careful dialogue with the Government authorities has resulted in more selectivity with regard to some of the initiatives under the Government's National Plan, which will be supported by other development partners. Based on this dialogue, the CPF will not address public safety issues, which is an area where the Government will be supported by the Inter-American Development Bank (IDB), employment generation initiatives and the innovation unit in the Presidency of the Ministers Cabinet (*Presidente del Consejo de Ministros*, PCM). The CPF, however, does prioritize support for enhancing the environment for investments, which is high on the Government's agenda and seen as a necessary precondition for accelerating infrastructure improvements and boosting growth.

C. Objectives Supported by the World Bank Group Program

39. The FY17-FY21 CPF for the WBG will support Peru under three pillars (Figure 5). The focus of the first pillar is on productivity and covers four objectives relevant for supporting Peru to continue to increase income per capita and achieve greater shared prosperity. A strong agenda is advanced to help close the nationwide *connectivity gap* that the SCD identifies as a

critical bottleneck. The CPF also supports the Government’s objective to ease the barriers to *formalization of production, credit, property and labor*, that is linked with the separate objective of facilitating *access to skills and technology* and better management practices. Finally, in view of the recent decline in the overall level of investment and its relevance for growth, the CPF accompanies a broad effort to enhance the *sustainability of private investment*, a key priority of the Government and an area in which the WBG is currently actively engaged. The second pillar covers services for citizens across the territory, and centers on three objectives, which are priorities under the SCD and the Government’s National Plan. *Water and sanitation* stands as the Government’s flagship priority, and the CPF supports selected aspects of that agenda, building on strong accumulated engagement in Peru’s water and sanitation sector. The objective on *health and nutrition* centers on improving the delivery of services to the B40 and the poor. Finally, the quality of *justice services* received prominent attention in both the Government’s National Plan and the SCD, and focuses on the efficiency of the courts in addressing civil cases, which are a source of uncertainty for the population, especially the B40 that often lack the means to pay for legal services. The CPF’s third pillar focuses on natural resource and climate change risk management, a theme that the SCD highlights. The Government is conscious of the need to *improve management in both of these areas*, especially in light of recent floods and catastrophes that affected particularly both the poor and vulnerable.

Figure 5: CPF’s Pillars and Objectives



40. Each of the three pillars incorporates gender and indigenous disparities when feasible. Gender- and indigenous-informed initiatives are already common in the WBG’s portfolio, and there is one WB intervention exclusively focused on indigenous communities. The challenge for the FY17-FY21 is to develop opportunities for Indigenous- and gender-specific

support under each of the relevant objectives (e.g., gender and urban transport, gender and justice, justice for Indigenous). The Results Matrix in Annex 1 outlines the Key Results Indicators.

41. The WB and IFC country teams carried out joint consultations with a wide range of key stakeholders at the national and local levels during preparation of the proposed CPF. Common themes emerged during the consultations with private and public sector audiences in Iquitos (Amazon region), Cuzco (Highlands region), and Trujillo and Lima (Northern and Center Coast regions, respectively) that, to the extent feasible, have been reflected under each of the three pillars and eight objectives. In addition to these consultations, the WBG organized specific meetings to hear directly from different civil society organizations, including those working with indigenous communities, about the development challenges they face and their priorities and proposals for overcoming these challenges. Participants expressed appreciation for the opportunity to engage substantively with staff of the WBG and acknowledged the WBG's endeavor of maintaining a consistent dialogue throughout the implementation of the CPF. Participants repeatedly highlighted connectivity, water, sanitation, and better performance of public administration as key aspects for regional development. (Annex 3).

42. The existing portfolio will support progress towards the delivery of CPF objectives, especially during the early stages, and provide an important financial cushion in the event of adverse shocks. The WB portfolio includes 15 investment projects and a GEF grant totaling US\$960 million. These include three projects approved during FY17 (two in support of technology transfers and one in support of environmental management) that will support Objectives 3 and 8, respectively. Six of the 15 investment projects (US\$175 million) will be closing within the next two fiscal years including the social inclusion technical assistance loan, rural electrification and sierra rural development projects. In addition, Peru has access to four contingent lines of credit for US\$3 billion, including two DPF-DDOs and two Catastrophe Deferred Drawdown Option (CAT-DDO). These four operations support a strong policy program under Objective 4 (the Public Expenditure and Fiscal Management DPF), Objectives 2 and 3 (the Boosting Productivity for Human Capital DPF) and Objective 8 (the CAT-DDOs). The DDOs also represent an important fiscal buffer in the event of an adverse shock. (Annex 5, Annex 6.)

43. Ninety percent of the WB's ongoing portfolio is rated moderately satisfactory or satisfactory with two projects rated moderately unsatisfactory. Despite satisfactory performance, projects implemented at the subnational level, particularly in Cuzco, require intensive implementation support, continuous follow up, and tailored communication strategies to different stakeholders (Annex 5). As of February 2017, the disbursement ratio of investment projects for Peru is 12 percent, slightly below LAC's average of 14 percent. Commitments at risks are about one percent of total portfolio, well below LAC's average of 21 percent.

44. IFC knowledge and investment portfolio is also well aligned with the CPF. IFC's knowledge agenda is fully aligned with the Objective 2 (Ease barriers to formalization) and Objective 4 (Enhance the environment for sustainable private investments), while also supporting other objectives. In addition, IFC's outstanding portfolio of US\$718 million works with 20 institutions in the country and is well aligned with the Objective 1 (Improve connectivity at critical corridors), Objective 3 (Facilitate absorption of skills and technology) and Objective 4 (Enhance the environment for sustainable private investment). IFC's portfolio by industry includes

infrastructure (US\$243.2 million); oil, gas and mining (US\$225.7 million); financial institutions (US\$212.5 million); agribusiness (US\$2.2 million); education (US\$32.4 million); and communications (US\$2.0 million). The MIGA's outstanding portfolio is consistent with Objective 1 and includes one contract with a gross exposure of US\$6.2 million supporting the concession of Lima's international airport (Annex 7).

45. The Programmatic and Learning Review (PLR) will propose adjustments to the CPF program as the emphasis shifts from lending to knowledge. As the current substantive portfolio of operations phases out, and given the foreseen limitations on new lending, the structure of the WBG program in Peru will likely shift to a very selective set of lending operations and to knowledge products. The program will further emphasize the leveraging of private resources through innovative designs and instruments. However, the WB's financial support during the CPF period can still be significant, particularly in the wake of an internal or external shock, based on the existing contingent lines of credit in the portfolio.

46. Lessons from design and implementation of the FY12-FY16 CPS have informed the design and will accompany the implementation of the CPF. First, the WBG should continue to bring global knowledge to help the Peruvian authorities as the country face its greatest challenges of boosting prosperity and improving inclusion. This is important to remain relevant in Peru given the country's challenges. The combination of timely and relevant analytical work that contribute to the national agenda and underpin WB-financed operations remains a good example of the positive role the WBG can play in an upper middle-income country such as Peru. Technical advice through ASAs and Trust Funds (TFs) will continue to strengthen preparation of projects. In addition, Reimbursable Advisory Services (RAS) should provide flexibility to respond to both just-in-time demand and long-term collaboration in important areas of reform (e.g. urban development). Second, engagement focused at the sub-national level to address regional disparities should continue to be encouraged, given the decentralized setting of the country. Working at the central level of government is not always likely to effectively reach the needs of those targeted by WB interventions. In these cases, the WBG should emphasize supervision as operations at the subnational level pose additional challenges in implementation. IFC should continue the successful engagements with communities and the private sector, as they are critical for project success, buy-in, and ensuring social and environmental sustainability. Third, multi-sectoral work, including WB and IFC collaboration, should be encouraged to provide integrated packages of services at the national and sub-national levels. These integrated packages have provided a good source for innovation in terms of both content and process. Finally, the WBG should continue to contribute to Peru's efforts in positioning its development agenda in key global forums, including the Asian Pacific Economic Cooperation, the Pacific Alliance, and the OECD. These forums have proven to be an important driver of key reforms.

Pillar I. Productivity for Growth

47. Peru needs to act quickly to re-ignite economic growth, reduce poverty and continue the expansion of its middle class. Increasing labor force participation and capital accumulation in a context of high commodity prices placed Peru on a fast growth path over the past fifteen years. However, the negative terms of trade shock, most notably in 2014, dislodged Peru from its fast-

growth path, and revealed important structural weaknesses in the economy. Peru's path to reigniting growth depends on promoting productivity gains, which are also key to consolidate the country's emerging middle class. To this end, the CPF will support a selective set of the Government's interventions aimed at removing the brake that some policies and institutions are imposing on the economy today by: (i) helping to improve connectivity at critical corridors of the territory; (ii) helping to ease barriers to formalization, in particular those that impede the formalization of production, employment, property and credit; (iii) facilitating the absorption of skills and technology, particularly among informal small- and medium enterprises (SMEs); and (iv) helping to enhance the environment for sustainable private sector investments. To ensure that WB's interventions under this pillar generate efficiency in public spending, the WB will seek to maintain a Programmatic Public Expenditure Review engagement, funded through own resources, reimbursable or trust funds activities. The World Bank is also supporting Peru in areas such as, transparency, regulatory standards, and increasing the neutrality and efficiency of the tax system in cooperation with the OECD.

Objective 1: Improve connectivity at critical corridors of the territory.

48. Peru's productivity agenda requires shrinking economic distances to enhance access to public services and markets. Rural households have already benefited from public investment in connectivity: between 1999 and 2011, road infrastructure spending grew from 1.6 to 9 billion *soles* per year. As a result, the national road network increased from 90,000 to 130,000 km in only 15 years, and the proportion of roads paved reached 13 percent in 2011 (from about 8 percent in 1995). Regions with previously strong road deficits were able to develop connections and integrate their agriculture with other markets. In parallel, agricultural income grew 6.5 percent annually during the 1994 and 2004 decade, compared to only 2.5 percent between 1900 and 1994. The fundamental result of all this was a 7.2 percent annual growth in rural incomes over the decade, compared to only 1.4 percent between 1900 and 1994.

49. This progress notwithstanding, Peru's population outside Lima is scattered among an uncoordinated and poorly connected number of cities (all with a population of less than one million). This, and a challenging geography, leads to market fragmentation, high logistic costs, and spatially uneven service delivery and business regulations. Poverty reduction alone demands better connectivity to increase access to education and health services. In addition to the importance of access to market for economic and social development, improving productivity puts a strong demand on linking producers with markets at the lowest cost feasible in terms of time and money. Besides physical infrastructure, this requires the emergence of private logistics and multimode centers. The resilience of the transport network to climate change is also an important issue. In telecommunications, overall access to the internet is low outside Lima, despite the recent expansion of mobile phones: by 2015, more than seven out of 10 rural households owned a mobile phone.

50. To boost productivity, Peru's connectivity needs to be seamless, i.e., by easing the entire logistic cost of moving goods from the centers of production to markets, instead of addressing only some segment of the logistic chain. To begin, the capacity of its largest port at Callao, the main door for Peruvian products to the reach global markets, is falling behind the growing demand and increasing logistic costs. Also, congestion in the Lima/Callao area drives

logistic costs up, and is explained by the fact that a single four-line road handles traffic for the country's biggest seaport, biggest airport and for commercial and work commuters between Lima and Callao, the biggest single market in the country. Furthermore, while the construction of a national transport corridor along the coast is well advanced, substantial gaps remain to link that corridor with the Sierra and with the 22 regional priority corridors – the latter, in turn, needs to connect to rural roads. In intermediate cities like Cuzco, the impact of urban traffic on seamless connectivity across the territory is lower than in the Lima/Callao area, but still significant.

51. Peru's connectivity also needs to be holistic by looking at both transport and information highways. In terms of broadband connectivity, the Government is implementing a National Fiber Optic Backbone Program, but there are important gaps in the connection between it and the district capitals.

52. The WBG has a solid portfolio to help Peru progress towards closing the connectivity gap at key corridors of its territory. The WB in roads and urban transport in Lima, Callao and Cuzco; IFC in the port and airport at Callao, the latter also supported by MIGA. As existing projects and activities are completed, the WBG would continue to support interventions that promote seamless connectivity for both transport and information. In addition to physical infrastructure, the WBG is open to help improve private logistics and multimode centers and to work on the resilience of the transport network to climate change.

53. For the WB, the lending pipeline includes a proposed Digital Inclusion Project and knowledge sharing programs. The Digital Inclusion Project aims to extend the benefits of the National Fiber Optics Backbone Network, which is currently connecting 190 provincial capitals across the country to rural districts that currently do not have access to broadband services. The project is expected to be co-financed by IDB and CAF. On knowledge sharing, the WB expects to continue with technical assistance activity to help mainstream universal mobility (especially for handicapped persons) in mass transport services in Lima.

54. IFC will continue to build a pipeline of bankable projects for urban infrastructure (broadly defined to include also water and waste management, and not just transport) through the LAC Cities Initiative Platform. IFC will continue to support the expansion of the Lima airport and will seek additional investments in other connective infrastructure, such as ports and roads, where market opportunities arise.

55. Expected results under this objective all focus on improving connectivity. They include: (i) an increase in the capacity of the country's biggest port; (ii) a reduction in travel time through the Callao-Lima corridor as the second line of the Metro is expected to handle the bulk of the East-West (Ate – Callao) daily commuting; (iii) improvements in public transport service in Cuzco's main transit corridor; (iv) a reduction in truck transit times from production to distribution centers in five of the subnational logistic corridors by linking feeder roads to them; and (v) improved access to all-season roads in rural areas.

Objective 2: Ease barriers to formalization.

56. Peru has one of the most informal economies in the LAC Region. At about 70 percent for labor outside of agriculture, and half of all firms, informality in Peru is among the highest in the LAC region, far above that of Mexico (60 percent) and Colombia (54 percent). Furthermore, about 13 percent of the country's GDP originates in the informal sector, with limited access to credit from the formal financial system. This affects productivity significantly: productivity of informal enterprises is about one-third that of formal enterprises. The lack of formal financial services for informal workers and firms has important gender dimensions; in Peru only 22 percent of women report owning a deposit or transaction account -- one of the largest gender gaps worldwide. Since both people and firms are informal, they have problems accessing, besides finance, the technology and skills they need, which reinforces their informality trap. As a result of all these factors, two-thirds of the employed poor are either self-employed or unpaid workers, which are closely related to low-quality jobs, and less than 10 percent of the poor transition into formal jobs. Likewise, poor workers are fundamentally employed in the low-productivity primary sectors, whereas their presence among services is highly constrained.

57. Formal housing is unaffordable for fifty-five percent of the population, which pushed families into low quality informal housing with poor services. Lack of a comprehensive housing and urban planning policy, including limited availability of serviced land in cities, have led to a rise in property prices. While most Peruvian low and middle-class families would only be able to pay for a housing unit that costs below US\$25,000, most of the available stock of housing in the market is priced above US\$33,000. For the poor and the informal, this difference is considerable. Given affordability constraints to housing, many low-income families resort to living in informal settlements in the peripheral areas of cities with neither property titles nor access to services.

58. The Government has outlined an ambitious program to eliminate barriers for the formalization of production, employment, property and credit, and has already advanced in various directions. The program includes: (i) reforming labor market policies to increase productivity of the formal and informal sectors; (ii) reengineering social protection to cover all citizens; (iii) reducing barriers to business formalization and product market competition; (iv) simplifying tax laws, facilitating compliance, and strengthening enforcement; (v) improving access to financial services, particularly those leading to formalization; and (vi) enhancing the effectiveness and legitimacy of the State.

59. The WBG will accompany both the development and the implementation of the Government's formalization strategy. Through knowledge activities, the WB will assist with the further development of the Government's overall formalization strategy and will provide quick support to the Expert Commission on Social Protection. Technical support will also be provided in order to increase the supply of affordable formal housing to address root causes of urban informality. Support to the development of the cadaster system is currently under discussion and is also expected to help formalizing property rights. This contribution would be significant considering only 30 percent of households in the B40 have property titles.

60. The WBG's ongoing knowledge and lending services position it well to also support the formalization agenda. Engagement on the reduction of barriers to business licenses, and the

IFC and WB engagement on taxation for small business are relevant instruments to support this agenda. WBG engagement in providing financial services to micro and SMEs helps ensure that access to financial services becomes an incentive and potential stepping-stone towards formality. As the formalization strategy sharpens, support to this agenda may expand to support entry, exit and competition at national or regional levels.

61. Expected results under this objective focus on easing regulatory barriers to formalization: (i) increasing the use of financial instruments by the population (measured through the expansion of micro-lending through all financial institutions); (ii) easing inspection procedures thus reducing their compliance time; and (iii) increasing the formalization of companies via their registration with the country's tax authority and the reduction of the time spent paying taxes.

Objective 3: Facilitate absorption of skills and technology especially by small- and medium-sized business.

62. Some businesses in Peru have limited access to technology. Peru's average SME is unlikely to use support services (e.g., trade facilitation) or connect to global value chains like large investors who own Research and Development (R&D) departments or are connected to multinational firms. SMEs, therefore, depend the most on Peru's system of science and technology, which is very weak and has limited outreach: less than one percent of Peruvian firms have access to science and technology systems, compared to 6 and 8 percent of firms in Brazil and Chile, respectively. Technology diffusion for sectors, such as agriculture and fisheries (both catch and farmed) is also at an incipient stage of development, in part because many of the farmers are without access to technology, lack absorption capacity, and/or operate in the informal sector.

63. Technology absorption and managerial capacity is further handicapped by scarce skills, which should begin to be built at early stages. In Peru, demand for secondary and tertiary educated workers, including vocational education graduates, continues to outpace supply. The low and heterogeneous quality of education contributes to the insufficient human capital in the workforce. Enhancing the supply of high quality graduates would raise firms' ability to adopt new technologies and management processes and hence boost their productivity. It would also help them to formalize if the firms accessing skills are informal in the first place. Of course, Peru needs to start developing skills and human capital from early stages of education, including both primary and secondary.

64. The WBG has recently approved ongoing operations to help SMEs, particularly the informal ones, absorb skill and technology. In particular, a recently approved project to strengthen Peru's science, technology, and innovation system aims to support the introduction of technological innovation centers and prioritize and support value-chains with high potential for productivity gains and social outreach through non-distortionary instruments. In addition, the National Program for Innovation in Fisheries and Aquaculture seeks to promote a diverse set of extractive and productive activities involving both wild and farmed species that can generate high-value products, provide employment, stimulate growth and help meet rapidly growing domestic and international demand for fish and seafood products.

65. The current portfolio is expected to contribute to the skill availability and absorption agenda. The ongoing Higher Education Project aims to strengthen the quality assurance system and assist higher education institutions in their road to accreditation, including the strengthening of those institutions offering intercultural bilingual education to fill the gap of skillful teachers with intercultural formation. The Boosting Human Capital and Productivity DDO has complemented these efforts by supporting the implementation of the university reform with the creation of the National Superintendence of University Education and the General Directorate of University Education within the Ministry of Education (*Ministerio de Educación*, MINEDU). On skills, the existing WB portfolio in education aims at improving the quality of skills at all levels – and this portfolio is expected to be complemented in the future through lending, knowledge, convening and advisory services, which, if necessary will include interventions in early stages of education, including both primary and secondary.

66. IFC will continue to support the skills agenda through investments in high quality tertiary education and technical and vocational training. IFC will also support the innovation agenda through potential technical assistance (TA) on suppliers' programs and through linking innovative global and Peruvian firms via investment operations.

67. Expected results under this CPF objective include: (i) increasing the number of firms that have introduced new or upgraded products, (ii) increasing the number of farmers that have adopted improved agricultural practices; and (iii) increasing the share of artisanal anglers and aquaculture producers with access to at least one innovation developed. In the skills area, the WB program aims at improving the planning for programs and institutions in high-level education.

Objective 4: Enhance the environment for sustainable private sector investments.

68. At 20 percent of GDP over the 2010-15 period, private investment in Peru has been high by regional standards but has dropped in 2016 to 18 percent of GDP. The sustainability of these private investment rates over the medium-term is challenging, especially in infrastructure and in natural resource sectors. The Government faces the challenge of improving the conditions to reignite and sustain the flow of high quality domestic and foreign investments across the economy, and particularly in these two sectors, to boost Peru's low productivity.

69. Private investment in infrastructure has been an important driver of growth, employment and prosperity, but its sustainability requires addressing three key domestic constraints. Between 2006 and 2014 alone, 70 concessions were awarded amounting to more than US\$25 billion in areas such as highways, bridges, rails (metro lines) and electricity. These trends notwithstanding, Peru's ability to successfully continue attracting private investments to infrastructure face three obstacles. First, Peru is only recently deploying the institutional underpinnings to build a strong pipeline of projects (an Infrastructure Plan, medium-term planning for public projects, modernizing the country's main structuring agency--*Pro Inversión*). Second, relative to neighboring countries, the capital markets in Peru do not offer sufficient instruments and the number of players is small. Consequently, Peru is unable to match the breadth and lending terms of its peers in the LAC region. Third, the existing portfolio of projects benefitted from generous fiscal support as catalyzer and risk lowering instruments for investors, which will not be

replicable in the context of the ongoing fiscal consolidation process including fiscal contingencies. These three issues were already threatening the sustainability of private investments in infrastructure, but ongoing corruption scandals in Latin America and in Peru associated with private investments in infrastructure have further exacerbated them.

70. Efforts are underway to develop new capital market instruments to help finance large projects using innovative structures coupled with financial risk mitigation mechanisms. The orientation of such efforts to bring in private investors (both project investors and financial investors) should meet new standards where private participants take on manageable commercial and market risks of projects while the government begins to reduce its fiscal exposure and becomes more selective in addressing mainly niche risks that are less manageable by the market. Establishing the right balance in the sharing of risks between the public and private sectors will stimulate additional market based securities to be used to finance infrastructure, and at the same time reduce the scope of fiscal contingent liabilities.

71. Private investments in mining accounted for one-fifth of total private investment over the 2010-15 period but are now slowing as the market reaches saturation. Many projects have already come on-stream or will do so in the next few years. Growth prospects for further mining investments have also dimmed due to the difficult global environment, the exhaustion of a large pool of unexploited fields and, most importantly, because extractive industries in Peru are affected by a significant lack of trust from communities and by outright social conflict. This, together with a complex permitting framework, have led to the long execution timelines of several important ongoing projects, and have brought several projects to a complete halt.

72. Given its importance for economic growth and employment generation, the WBG will help Peru improve the conditions for sustainable private sector investment. The focus will be mainly in non-extractive sectors, where IFC will continue to engage with potential investors in the agribusiness and tourism sectors. In tourism, IFC will scale up its successful TA, which is helping to ease barriers to open businesses in the Cuzco region to cover other regions (funded by the Swiss and the Spanish cooperation). At the same time, the WB will support interventions to help small farmers and boost rural development.

73. The WB will continue supporting ongoing efforts to improve the investment conditions to attract private investments to infrastructure. The WB will continue working in a closely coordinated manner in two areas to: (i) help strengthen the institutional framework to distribute risks and returns so that new investment does not impose excessive fiscal pressures (while strongly safeguarding environmental and social standards); and (ii) support the development of the domestic capital markets to lengthen maturities and reduce costs by expanding the number of domestic and international capital market and commercial financing available for the country. An ongoing Public Expenditure DPF-DDO and TA provided by the Swiss Cooperation will be used to continue providing support, which might be aided with guarantee instruments to help private players manage risks that are devolved to them. The WB's Treasury also stands ready to promote a bond issuance in domestic currency to reduce foreign exchange risks embedded in infrastructure finance projects – a key goal of Peru's debt management strategy.

74. The WBG will support the development of the capital markets in Peru. Through Investment Services, IFC will look for opportunities to build the capacity of local debt markets, insurance markets and bond emissions by local financial institutions. The WB ongoing program will continue supporting the development of capital markets and infrastructure finance through the National Development Bank (*Corporación Financiera de Desarrollo*, COFIDE). In this context, a potential WB guarantee could be explored with the Government to backstop COFIDE’s own guarantees, while IFC explores opportunities to support an infrastructure debt fund. Through Advisory Services, IFC could also assist in improving the enabling environment for capital market development. This assistance would aim to achieve scale, both on the issuer–supply side and on the investor base-demand side, which is needed for capital markets to further develop and contribute more substantively as a platform to channel domestic and foreign savings into investments. Within this context, IFC stands ready to support green bonds. As such, IFC and the Green Bond Cornerstone Fund (GCF) are developing a new initiative called the Green Bond Cornerstone (GBC) Program, which targets 26 countries, including Peru, with the objective of financing green assets such as energy efficiency, renewable energy, green buildings, green mobility and waste management.

75. On natural resources, the WBG will continue to engage with local communities on managing the mining canon and with companies in complying with their Corporate Social Responsibility and best social and environmental practices. The WBG will also continue to support the development of sustainable mining projects, especially those with potential to bring significant benefits to impoverished local communities that live in remote areas with little opportunities to generate income and thereby improve their living standards. Through the application of its environmental and social performance standards, as well as the provision of Advisory Services to deal with social license issues, IFC promotes a more inclusive and sustainable extractives industry. IFC’s Advisory Services programs for extractive industries, such as strengthening municipal revenue management capacity and developing local supply chains were pioneered in Peru. The WBG aims to continue this type of support and look for potential upstream opportunities to ensure that its mining investments foster both local and national development. The WB will seek opportunities to help improve policies or institutions responsible for promoting responsible investments, including strengthening key elements of the international taxation framework, enhancing the impact of extractive industries in the development of Peru’s regions.

Box 1:WBG Engagement on Community Development around Mining in Apurimac

A WBG project is promoting good governance in municipalities of the Apurimac region, with the associated improvement in investment performance, so that local governments are better positioned to take advantage of the royalties from mining (broader WBG initiatives have contributed to make mining a positive force for development in Peru). The capacity of municipalities will be enhanced by the adoption of good practices, including training to local leaders on mining and royalties and improving their ability to engage with participating authorities. Another WBG project in Apurimac is promoting the integration of a public-private partnership to help mining companies reduce social risks, and inform all parties that agriculture can co-exist and progress alongside with mining. The project's objective is to provide a working example of a community investment practice that can be adopted collectively by a group of mining companies in Apurimac. By project completion, it is expected that at least three mining companies in Apurimac will have joined the collective initiative, and at least 500 farmers will have implemented actions to increase farm productivity and improve consumption practices. A group of at least 50 properly trained agricultural technicians will be organized in a network to promote continuous learning by means of sharing experiences and exposure to new techniques to be well positioned to continue performing that work in the future.

76. Expected results under this CPF objective focus on key investment conditions: (i) enforcing recently enacted infrastructure finance regulations that calls for favorable opinion by the MEF prior to the tendering of any infrastructure project; (ii) increasing the value of domestically issued infrastructure bonds that are neither directly nor indirectly guaranteed by the Government; (iii) helping mining companies to develop their corporate social responsibility approaches and local leaders to better understand mining royalties and their management; and (iv) introducing basic principles of international taxation that will strengthen simultaneously both Peru's competitiveness and its revenue base.

Pillar II. Services for Citizens across the Territory

77. Despite Peru's progress in poverty reduction, at least 40 percent of its population risks falling back into poverty. This is partly attributed to the geographical disparity in access and quality of basic public services. Limitations in access to and quality of basic public services such as water, sanitation, health, nutrition and justice across and within Peru's regions deprive households of the opportunity they need to continue to improve their livelihoods, thus slowing progress towards Peru's shared-prosperity goals. This pillar selectively lays out objectives for the WBG with respect to three key public services: (i) water and sanitation; (ii) health and nutrition; and (iii) justice. To ensure that the WBG's assistance under this pillar generates efficiency in public spending, the WB will seek to maintain a Programmatic Public Expenditure Review engagement, funded through its own resources or through reimbursable or trust fund activities.

Objective 5. Improve water and sanitation services in key urban areas.

78. Peru has made steady progress in increasing water and sanitation (WSS) coverage, meeting the Millennium Development Goal (MDG) target for 2015, but lags well behind peer countries in the LAC region. The quality of WSS service also presents significant asymmetries between service providers across the country. Outside of Lima, average service continuity has declined and the quality of public water supplies generally does not comply with required standards. The Government has set the goal of sustainable, universal coverage of potable water and sanitation services by 2021 in urban areas and by 2030 in rural areas, requiring investments of close to US\$2.6 billion per year. The financial and operational status of urban utilities is of particular concern regarding not only their capacity to expand, but of even maintaining services. Hence, improving the operational efficiency of the utilities is a critical step to both increase access to water and sanitation in urban areas, and enhance the sustainability of these gains.

79. Achieving universal access to water and sanitation services is this Government's highest priority. The Ministry of Housing, Construction and Sanitation (*Ministerio de Vivienda, Construcción y Saneamiento*, MVCS) has developed a new legal framework (enacted through *Decreto Legislativo* 1280, 2016), as well as a new water sector policy, both with WB support. The reforms introduce a new management model for the WSS sector, anchored around the transformation of service providers towards a trajectory of sustainable performance. They include modifications to national sector policies and institutions, with the MVCS assuming a policy leadership role, the Technical Agency for the Administration of Water and Sanitation Services

(*Organismo Técnico de la Administración de los Servicios de Saneamiento, OTASS*) becoming the specialized entity in utilities' turnaround, and the National Superintendence of Water and Sanitation Services (*Superintendencia Nacional de Servicios de Saneamiento, SUNASS*) expanding its reach to regulate WSS services in the whole country, while putting in place special units to address service expansion in the peri-urban areas of Lima, and improving national/subnational interactions.

80. A fundamental premise in the Government's National Plan is to transform the state-owned enterprises (*Empresas Prestadoras de Servicio de Saneamiento, EPS*) into efficient and sustainable corporations and to introduce policies and incentives that will make reforms financially sustainable. Over the medium-term, the sector is expected to rely much less on public transfers and much more on the EPS' internally generated resources and on resources leveraged by them in the local capital markets with only explicit partial credit risk guarantees. The OECD's corporate guidelines for State Owned Enterprises provide a good roadmap for these reforms. On the demand side, in order to increase environmental sustainability of the resources and contribute to utilities' financial sustainability, the reforms embrace a program to increase the value of water to the Peruvian society with participation of ministries, civil society, public utilities and non-domestic users as well.

81. To support this reform agenda, the WBG is working on a multi-year engagement program consisting of lending, knowledge, convening and advisory services. The lending program is structured around a series of operations geared to set the foundations to achieve universal access to water and sanitation by financing critical infrastructure and supporting the complex institutional reforms described above. The program has two overarching objectives, to: (i) support increasing access to sustainable and safe WSS services, and (ii) strengthen the sector's performance and financial sustainability. Preparation of a first investment project finance (IPF) is underway, focusing on strengthening the national sector institutions and policies, as well as the managerial turnaround of six utilities under a results-based approach. The WB will also continue to provide significant analytical and convening support to the Government.

82. The IFC-managed Water Resources Group 2030 Program (WRG2030) will complement these efforts. WRG2030 will use its collaborative platform to improve dialogue across main private and public stakeholders over what are considered challenging but essential reforms. IFC will also complement these reforms by identifying investment opportunities for the private sector and creating incentives for companies to measure their water footprint through the "Blue Certificate." WRG2030 will also support the new administration in identifying and bringing private investments to improve water security and access, and promoting innovative water culture programs for remote communities where the lack of water provision has increased social conflicts.

83. The expected results under this CPF's objective include: (i) improving access to water services in three urban centers; and (ii) enhancing financial sustainability of the urban utilities covering these areas.

Objective 6: Modernize delivery of health and nutrition services for the poor.

84. Although Peru has made substantial progress in improving its maternal and child health indicators and life expectancy during the last two decades, the country still needs to upgrade its health system in order to respond to the growing demands of an emerging middle class. The demographic and epidemiological transitions inherent to urbanization and development are generating shifts in the needs and expectations of the population towards services related to the prevention, diagnosis and treatment of non-communicable diseases such as cardiovascular conditions and cancer. This requires models of care, medical personnel skills, inputs and infrastructure that are distinct to those that were developed to address communicable and maternal and child conditions.

85. Peru must also address the challenge of transitioning its health system from a heavy dependence on out-of-pocket expenditure to an efficient health insurance model, as already implemented in OECD countries. While the country substantially increased health insurance enrollment rates under the Comprehensive Health Insurance (*Seguro Integral de Salud*, SIS), which is a fully subsidized scheme targeted especially to poorest households, the SIS does not act as a strategic purchaser of health services but rather as a parallel source of input-based financing. Mechanisms for prioritizing spending, setting provider incentives and monitoring service delivery and spending are weak. For the non-poor, the continued segregation in health care between the formally employed (who use services provided by the social security system - *EsSalud*) and the rest of the population (who use private provider services) is inequitable and increasingly untenable as the country's economy grows and modernizes. This latter group includes the large segment of non-poor informal workers, for whom the country has yet to deploy an effective strategy to expand contributory health insurance schemes.

86. Still, Peru must continue its ongoing efforts to improve basic health care, including addressing undernourishment, stunting and anemia. The country still has important pockets where stunting and anemia is a serious problem for young children. The already functioning integrated strategy to deal with this should be continued and deepened, through the established partnership between the Ministry of Development and Social Inclusion (*Ministerio de Desarrollo y Inclusión Social*, MIDIS), the Ministry of Health (*Ministerio de Salud*, MINSA) and the MEF.

87. The WBG has been and will continue supporting the Government's health and social protection sector priorities listed above. Currently, the WB is providing TA to help improve the registration and provider payment mechanisms used by the SIS, and to review the financing of hospitals. Two ongoing operations are supporting efforts to address chronic malnutrition through the integrated effort of MIDIS, MINSA and MEF described above. The *Juntos* Results for Nutrition Project, supports monitoring at the local level, individually tracking affiliation to the SIS and *Juntos*, attendance to growth-monitoring sessions in health facilities ("*Padron Nominado*") and basic health facilities' capacities to provide nutrition services ("*ENCREDE*"). These activities have benefitted mostly indigenous peoples settled in the sub-national regions of Amazons, Huánuco and Cajamarca, where the Project operates.

88. Looking forward, the WBG plans to support key elements of the Government's four priorities. The program would involve working with the MINSA, *EsSalud*, and MIDIS in order

to support the long-term vision of an integrated and results-oriented health system, with a focus on supporting the Government's objectives: (1) design of the new service delivery model for health care, including adapting services to the new epidemiological challenges encompassing shifts in infrastructure, technology, and the referral system; (2) transform the human resources management system including a merit-based system; (3) reform the health insurance model and conversion of the Integral Health Insurance (SIS) system into a modern, efficient health insurance provider; and (4) address stunting and anemia under an integrated strategy with the Ministry of Development and Social Inclusion.

89. The expected results under this CPF objective include: (i) redesigning the SIS to improve its capitation system for private health care and their unit cost structures for secondary treatment, and (ii) ensuring that health care centers in districts with chronic malnutrition are provided with the appropriate materials and tools to enhance outcomes.

Objective 7: Expedite the processing of family and commercial cases by the justice system.

90. The gap in access to quality service is particularly acute for justice services, with an asymmetric impact on the poor, women and indigenous populations. Household surveys of unmet justice needs in the LAC region consistently find that the expeditious resolution (in or out of court) of a family- or contract-dispute case affects the livelihood of a female-headed household. At the same time, trust in these services in Peru is low: according to the SCD only 21 percent of Peru's citizens trust the judicial system and most consider it inequitable. The limited access to judiciary services and the courts' delays in resolving conflicts undermines large parts of the population's ability to protect and enforce their rights. The challenges of Peru's judicial system are multiple, including:

- ***Clogged case management***, Each year about 200,000 new cases increase this load, which in early 2015 had close to two million unresolved cases. The consequences are considerable delays in resolving a case, which if either of a civil or penal nature can last over four years. Part of the problem is the country's high propensity to litigate, but delays in simple steps – such as case notifications, also account for up to a third of these inefficiencies.
- ***Perception of corruption***, About 662 judges have been accused of corruption and 129 have been removed according to the National Council of Judges (*Consejo Nacional de la Magistratura*). At the same time, the Office of Control of the Judiciary (*Oficina de Control de la Magistratura*, OCMA) has issued over 6,000 sanctions to judges.
- ***Inequity***, These lengthy processes and delays can only be afforded by the well-off, who hire lawyers to follow up and accelerate the process. Justice for the bulk of the poor and needy is likely to be inaccessible or settled by different means.

91. Launching and advancing a comprehensive reform of the justice system is of utmost priority for the Government. Promoting celerity is the overarching objective – mainly by introducing e-justice services and assessing options to promote out of court settlements and mechanisms. A basic electronic case management (*Expediente Judicial Electronico*, EJE) was

launched as a pilot in February 2016 in the Lima-North court. The EJE is expected to reduce corruption, improve processing times, and strengthen policies of zero paper and space optimization. The launching of EJE took place on the 100-day anniversary of the National Agreement for the Justice System, under which a strong modernization push is expected.

92. The Government wants to achieve celerity together with greater transparency, honesty and inclusion. On the latter, Peru has piloted ‘access to justice’ solutions that have set an example in the LAC region (ALEGRAS or free justice centers located in poorest areas). While still limited in number, ALEGRAS have been quite effective in dealing with ordinary family cases (gender-related abuses being among the most common) in the poor areas where they are located. Plans are to scale up these interventions to all regions, and to develop back-office support centers to make them more efficient.

93. To deliver on the proposed objective, the CPF envisages a program consisting of lending, convening and advisory services. The backbone of the engagement will be a proposed project that will support modernizing the process for civil cases that builds upon the WB’s earlier support of Peru’s judicial system. This project will be closely coordinated with a complementary initiative by the IDB that supports modernizing the process for penal cases.

94. The expected results under this CPF objective include: (i) reducing the average time for piloted cases (those, such as commercial, taxation or labor) that can be ruled predominately based on written evidence and, hence, amenable to electronic resolutions; and (ii) substantially impacting gender (an appropriate indicator will be developed as project preparation progresses).

Pillar III. Natural Resource and Climate Change Risk Management.

95. Peru has embraced the climate change agenda in earnest. Integration of climate change as a cross-cutting dimension entails opportunities and challenges for Peru’s mid- and long-term development agenda across pillars and programs prioritized in this CPF. Peru is a country with low per capita and total emissions, the latter amounting to only 0.3 percent of global emissions. Half of these emissions are attributed to land use, land-use change and forestry sector activities. With regard to vulnerability to climate change, Peru has seven out of the nine characteristics recognized by the United Nations Framework Convention on Climate Change (UNFCCC) as defining a "particularly vulnerable" country, including having: (i) low-lying coast area; (ii) arid and semi-arid lands, forested areas, and areas liable to forest decay; (iii) areas prone to natural disasters (extreme drought and rain, floods, and frosts); (iv) areas liable to drought and desertification; (v) areas with high urban atmospheric pollution; (vi) areas with fragile ecosystems, including mountain ecosystems; and (vii) an economy highly dependent on income generated from the production, processing and exports of fossil fuels.

96. These features are intensified by anthropogenic processes that cause degradation of ecosystems and environmental pollution. Peru also faces diverse threats of hydro-meteorological origin, as indicated by national emergencies and disasters, 72 percent of which are related to this kind of phenomena (e.g. extreme drought and rain, floods, frost). Peru’s nationally determined contribution (NDC) under the Paris Agreement entails an economy-wide mitigation target equivalent to a 20 percent reduction of GHG emissions by 2030, compared to the business-

as-usual scenario, with 30 percent of those GHG reductions achieved with international support, and adaptation action priorities that might imply a national development paradigm shift if pursued and implemented.

97. The institutional capacity to manage exogenous environmental shocks triggered by climate change and the unfavorable geographic parameters of the country have advanced over the past decade. The Ministry of Environment (*Ministerio de Medio Ambiente*, MINAM) was created in 2008 and since then, the Government has adopted a number of policy measures to curb environmental degradation, achieving remarkable results. The Government has taken climate change seriously, since both current climate change adaptation and mitigation issues/levels not only pose threats to the prospects of sustained economic growth, continuous poverty reduction, and the livelihoods for rural communities, but also offer opportunities for a climate resilient development path. A Multi-sectorial Commission for Peru’s Nationally Determined Contributions (NDC) was set up under the leadership of the PCM and the National Strategy on Climate Change was approved in 2015.

98. The WBG will build on previous experiences in these areas in Peru to support key institutions for managing natural resources and climate change risks. A strong portfolio and selective new lending or grant-resource mobilization will allow the WBG to support selective interventions to strengthen natural resource management, with important benefits for the poor and the vulnerable.

Objective 8: Strengthen the management of natural resources.

99. Peru’s environmental issues span over “brown”, “blue” and “green” challenges with strong negative implications on poverty alleviation, shared prosperity, and access to basic services. Negative environmental externalities, including both the cost of pollution and natural resource degradation, are valued at 4.2 percent of GDP. These three dimensions undermine the country’s ability to cope with climate change effects, which include elements of both mitigation and adaptation.

100. These three agendas are complex, encompassing a wide range of issues that can use support from the entire international community, not just the WBG. The “*green*” agenda includes managing water resources, in the context of an uneven spatial distribution of Peru’s water resources and the already felt changes in the hydrological cycle due to glaciers retreat and impacts it brings on rivers and water resources availability. Increasing the efficiency of water use, controlling the use of groundwater, improving the governance and equity to water resources, increasing storage capacity of water resources and preventing water pollution are all key elements of this agenda. The green agenda also includes strengthening of protected areas management that host Peru’s rich biodiversity, which includes flora and fauna as well as ecological functions, and decreasing the alarming annual rate of deforestation and forest degradation in the Amazon region, while reverting and preventing agricultural land degradation in Coast and Andean regions. *The “blue” agenda* focuses on managing Peru’s large Pacific coast zone that encompasses reducing overfishing and illegal fishing to ensure sustainable management of fisheries and integrated coast and marine ecosystem management. Fresh-water fishing and aquaculture in the Amazon and Andean regions are also key pro-poor socio-economic activities that are negatively affected by

mining and other economic activities. *The “brown” agenda includes* the reduction of the incidence of water pollution by sewage and extractive and manufacturing industry, as well as that of agricultural run-offs that reduces the availability of the already stressed water resources. It also includes minimizing illnesses caused by urban and indoor air pollution associated primarily with public transport and use of solid fuels in rural households. In addition, climate-proofing Peru’s cities is an important issue, particularly poor drainage systems, transport infrastructure and utilities impacted by heavy rains. Last but not least, this agenda includes improving solid waste collection and final disposal in most cities and towns, an urgent public health issue, as well as a resilience issue as waste often clogs drainage systems and contributes to urban flooding.

101. Risks generated by environmental degradation significantly affect the poor and Indigenous people due to their reliance on their natural environment for food security, livelihoods, and cultural survival. In addition, these risks are exacerbated by the impacts of climate change to which poor and marginalized groups are commonly more exposed. High levels of pollution are a major challenge around cities in the Coast and Andean areas, where the bulk of the poor reside. Water and natural resource degradation affects public health, particularly for the poor. Indirectly, the poor are also affected by the reduction of employment opportunities, such as in agricultural exports that suffer from bad quality of water and increasing cost of potable water supply treatment. (It is estimated that about 6,400 ha are irrigated with untreated wastewater in the subnational regions of Lima, Tacna, Trujillo, Lambayeque, Ica and Piura.)

102. Indigenous communities are under pressure in the Andean highlands and the Amazon. Pressure on limited water resources for human and animal consumption and irrigation are making it increasingly impossible for indigenous communities to produce for both subsistence and productive purposes, forcing many communities to migrate either to the Amazon or to the Coast. In the Amazon, deforestation and the reducing river levels have significant impacts on Indigenous communities’ health, food security, and livelihoods as the forests and rivers are their primary sources for medicine, food, transport, etc. In both cases, the climate impacts together with natural resource degradation are presenting a serious threat to indigenous peoples’ cultural survival as their ancestral territories and resources are under significant pressure.

103. To deliver on the proposed objective the CPF program envisages to continue supporting some of the priority areas in climate change adaptation which can serve both adaptation and mitigation objectives. The flagship activities are a proposed new lending operation and a recently approved project. The lending operation under preparation will support water resource management modernization reforms to be implemented by National Water Authority (*Autoridad Nacional del Agua*, ANA) in selected basins. A recently approved project (Enhancement of Environmental Quality Services Project) will help strengthen the MINAM’s capacities for environmental analysis and monitoring, for designing better-informed environmental policies, as well as for public disclosure of reliable environmental data, an important step to support attainment of OECD environmental standards.

104. There are also ongoing activities in each of the three natural resource management agendas. In the *“green” agenda*, through ongoing grants and a proposed lending operation, the WB will help to pilot best biodiversity practices (e.g., in the Guano Capes, Islands, and Islets National Reserve) as well as forest management – in general and in Indigenous areas of the

Amazon. For the **“blue” agenda**, the WB will help strengthen the mechanisms to regulate fishing through a recently approved project. Finally, in the **“brown” agenda**, the WB will focus on helping to strengthen the Government’s capacities for environmental analysis and monitoring. At the subnational level, the Cuzco Regional Development Project provides for the creation and management of early warning systems and small infrastructure in key micro-watersheds. It also supports addressing the Cuzco area’s waste management problems by establishing properly managed landfills and waste collection systems in the Sacred Valley in Cuzco to prevent air and water pollution caused by waste burning and dumping in rivers.

105. Technical discussions with the Government regarding sustainable forest management to prevent deforestation and forest degradation and thereby meet forest carbon mitigation targets in the Peruvian Amazon region are ongoing. Two trust funds administered by the WB, the Forest Carbon Partnership Facility (FCPF) and the Forest Investment Program (FIP) have allocated grant financing for the preparation of a project on Sustainable Forest Management in Atalaya (Ucayali) and for the national Emissions Reduction Program (ERP) in the forest sector. In addition, the FIP Dedicated Grant Mechanism (DGM) for Indigenous People, the Saweto Project, is under implementation by Indigenous groups in the Amazon (with administrative support from World Wildlife Fund, WWF). Historical trends in the Peruvian Amazon demonstrate that when Indigenous communities have secure land tenure, deforestation and degradation rates are minimalized. The DGM is supporting land recognition and titling for hundreds of Indigenous communities, in addition to community forestry projects contributing to climate targets for community-based sustainable forest management while contributing to climate-smart rural development. Finally, the ongoing Lima Metro Line 2 Project will bring a modern, sustainable, reliable and cleaner transport mode to Lima, with likely climate change mitigation co-benefits.

106. The CPF will also contribute to Peru’s green growth plans and strategies. WBG program activities that will contribute to this agenda include: (i) urban transport program activities under Pillar I, Objective I; and (ii) access to water and sanitation program activities under Pillar II, Objective 5. Issues to be potentially considered and made explicit at the WBG- funded activity level include, for instance, provisions for climate impact screening, tracking and accounting for mitigation/adaptation outcomes, and enhancing access to and leveraging sources of international climate co-finance.

107. IFC will be active in resilience to climate change through its green buildings program for sustainable urban development. Through the LAC Cities Initiative, IFC will seek to invest in sustainable urban transport, water and waste projects that improve energy efficiency and use technologies that minimize carbon emissions. Finally, as mentioned under its capital markets development strategy, IFC is ready to support issuances of green bonds in the market.

108. The expected results under this CPF objective include: (i) for forestry areas in indigenous communities threatened with deforestation, increasing land titling and introducing better forestry management practices; (ii) for upstream water management, increasing the number of water basin councils with approved integrated water-resource management plans that are under implementation, and increasing the number of areas brought under enhanced biodiversity protection; (iii) for the blue agenda, strengthening coordinating bodies at the national and macro regional level for the prioritization, planning, preparation of rules, plans, procedures and

instruments for the governance of the National System of Fishing and Aquaculture; and (iv) for the brown agenda, creating industrial and municipal waste disposal capacity in Cuzco and supporting improved collection and availability of reliable environmental information that will lead to improved transparency and demand for improved environmental governance.

D. Implementing the Proposed FY17-FY21 Country Partnership Framework

109. The CPF's five-year implementation period (FY17-FY21) is fully aligned with Peru's political cycle. The WBG will work in close coordination to deliver an integrated package of financial products, guarantees and knowledge services based on relative comparative advantages and the strengths of the WBG's programs in Peru. The indicative WB financing for FY17-FY18 is around US\$500 million (which will be focused exclusively towards IPF projects). WB lending volumes over the FY19-FY21 period are tentative at this stage and will depend on country demand, overall progress in the course of the CPF period, and IBRD capital availability.

110. During CPF implementation, the WB will continue to seek opportunities to deepen the use of country systems. These will mainly focus on the following areas: (i) harmonizing financial reporting and audit arrangements with co-financing agencies (IDB, CAF, etc.); (ii) promoting the use of a treasury single account, and (iii) supporting capacity building under the new procurement framework and financial management. Bi-annual portfolio reviews jointly with the MEF and the Implementing Agencies have resulted in greater responsiveness from all parties to solve operational issues.

111. Strategic knowledge activities will be funded through the WBG's limited knowledge budget. These include rigorous macroeconomic and poverty monitoring to inform both the WBG's management as well to supporting the Government on ways to further progress in both of these key goals. Peru's important statistical strengthening agenda will be supported through these two activities as well – but resources would be sought to leverage the budget if a particular issue arises where the WBG can help. Engagement in the form of a Programmatic Public Expenditure Review will be put in place to contribute further to the modernization of key institutions, specific topics such as procurement, and to a broader sector dialogue. It will be funded either by the WB's own resources, through reimbursable activities, or donor funding. Finally, depending on resource availability (from the WB, donors or the Government) sectoral pieces are envisaged to contribute to clarify the direction of key reforms (e.g., justice), build consensus (e.g., health) or develop implementation road maps (e.g., informality).

112. Strategic knowledge-sharing activities could be leveraged through Reimbursable Advisory Services (RAS) or through the mobilization of Trust Funds. Between 2015 and 2016, 17 RAS agreements were contracted in education, social protection, financial inclusion, disaster risk management, water resource management and water supply and sanitation. The RAS Instrument will continue to be used to provide analytical services and hands-on support to improve capacity. South-South and South-North knowledge exchanges and just-in-time support on a variety of issues as demanded by the client are also envisaged. The WB will use trust funds to selectively support key aspects of the knowledge program, as well as project design and implementation.

113. As under the previous CPS, close coordination with Peru's development partners is considered fundamental for implementation of the proposed CPF. Close coordination will be

sought with the IDB and the Development Bank of Latin America (*Banco de Desarrollo de América Latina*, CAF), particularly in sectors where projects are co-financed such as agriculture, transport, water and sanitation and Internet access. There are a number of additional projects co-financed with the Japan International Cooperation Agency (JICA), French Development Agency (AFD) and KfW Development Bank (Table 3). In addition, a strong and fruitful partnership with the Swiss Cooperation has been essential for the WB’s knowledge work in Peru. In particular, the Swiss Cooperation has funded WBG’s work on topics, such as formalization (SME tax compliance costs), trade and commerce (logistics), infrastructure investment, and several pieces in the area of financial inclusion, either directly or indirectly. The WB will continue to participate in various cooperation groups operating in the country.

Table 3: CPF Areas and Donor Coordination

CPF Areas	IDB	CAF	Kfw	JICA	AFD	EIB	SECO	USAID	Others
Water and Sanitation	✓		✓	✓			✓		
Health	✓								✓
Transport	✓	✓	✓		✓	✓	✓		
ICT	✓	✓							
Infrastructure Financing							✓		
Skills and better technologies	✓								
Justice	✓								
Environmental and natural resources management	✓	✓	✓	✓		✓	✓	✓	✓
Public spending	✓						✓	✓	✓

Co-financed projects or Trust Funds: ✓; Closely coordinated areas: ✓
 Others: Include Korean cooperation and UN agencies.

IV. Managing Risks to the CPF Program

114. The overall risk to the achievement of the CPF objectives is assessed as Moderate. Key risks are related to (i) the political and governance context; (ii) sector strategies and policies; (iii) institutional capacity; (iv) fiduciary management; and (v) environmental and social issues (see *Table 4*).

115. Political and governance risks are assessed as moderate. They are related to the ongoing corruption scandals in some private and public projects, which are also affecting other countries in the LAC region. They could affect the pace of implementation of sector reforms and programs, including those supported by the CPF. These risks are mitigated by the Government’s actions to improve the sustainability of private investments, with the WBG’s assistance (Objective 4). In particular, improvements in the legal and institutional framework for infrastructure finance should ensure that Peru emerges from ongoing scandals with improved processes and institutions. Mitigating strategies notwithstanding, these governance risks may well delay the implementation of the CPF, an aspect that would need to be re-evaluated at the time of the PLR.

116. Sector strategy and policies are rated as moderate. Key reforms in need of Congressional approval might be delayed by lack of political consensus, including reforms to some sensitive and difficult issues linked to the modernization of public institutions, such as regulation in the water and health services sectors. The potential impact of these risks on the CPF is partially mitigated by two types of actions. First, by supporting the Government in a thorough consultation process for key WBG-supported reforms that would be aimed at helping to build consensus for reforms. Second, by making available to the Government the use of the WBG's and the international community's convening power to maintain the focus on key reforms.

117. Institutional Capacity risks are assessed as moderate. These arise from the complex institutional arrangements for some projects and the potential lack of capacity of public institutions at the national and subnational levels. The portfolio in Peru often faces challenges with respect to project effectiveness and early implementation because their start may be delayed by lack of capacity and planning. This risk is mitigated by the provision of hands-on implementation support by both the MEF and the WB. In addition, despite gradual improvements, projects that involve the subnational level are often complex, involving different levels of government (national and subnational) with responsibilities that are often unclear. To mitigate this risk, the WBG will continue working closely with implementing institutions and provide early and regular capacity building, particularly for projects implemented at the subnational level.

118. Fiduciary risks are considered moderate. There are a number of new projects in the WB portfolio with implementing units that lack experience in the implementation of WB-financed projects and consequently knowledge of WB policies and procedures, with complex institutional arrangements, and significant procurement activities to be implemented through subproject beneficiaries, and that may imply some delays in procurement of large or complex contracts. On the other hand, the country's financial management capacity has been increasingly improving, which partially mitigates fiduciary risks. The WB will continue close coordination with the MEF, setting biannual portfolio reviews and *ad hoc* meetings to address bottlenecks in specific projects. Capacity building through training in procurement and financial management will be supported continuously.

119. Environmental and social risks to the CPF are assessed as moderate. They stem mainly from the possibility of natural disasters and potential social conflicts linked to the extractive industries. Peru, as other Andean countries, is prone to natural disasters, particularly earthquakes and floods, as it is located in a seismic and mountainous area. An extreme event would undoubtedly alter the Government's priorities and consequently, CPF implementation could be delayed. Social conflicts may increase, as the Government's term in office progresses and because of the regional and local electoral processes during 2018, which will particularly affect IFC activities. Mitigating risks are always embedded in the financial instruments used in the WB projects, and IFC's strict application of equatorial principles. Close monitoring will be needed to ensure the provision of adequate support to Government in this area, if needed.

Table 4: Risks to the CPF Program

Risk Categories	Rating (H, S, M or L)
1. Political and governance	Moderate
2. Macroeconomic	Low
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Low
5. Institutional capacity for implementation and sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and social	Moderate
8. Stakeholders	Low
Overall	Moderate

Annex 1: CPF Results Matrix

I. Productivity for Growth

Increasing labor force participation and capital accumulation in a context of high commodity prices placed Peru into a fast growth path over the past fifteen years. However, the negative terms of trade shock, most notably in 2014, dislodged Peru from its fast-growth path and revealed important structural weaknesses in Peru's economy—Peru's low levels of productivity, which is entangled with the lack of connectivity across the territory, high levels of informality, the inability of small enterprises, often informal, to embrace skills and new technology, and the pace of private investment attraction. Peru's path to reigniting growth depends on promoting productivity gains, which is also key to continue to reduce poverty and consolidate the country's emerging middle class.

To help increase productivity for growth, the CPF will support a selective set of the Government's interventions aimed at removing the brake that some policies and institutions are imposing on the economy today. First, helping to improve connectivity at critical corridors of the territory. Second, helping to ease barriers to formalization, in particular those that impede the formalization of production, employment, property and credit. Third, facilitating the absorption of skills and technology, particularly among informal SMEs. Finally, helping to enhance the environment for sustainable private sector investments.

Objective 1: Improve connectivity at critical corridors of the territory.

Peru’s productivity agenda requires shortening economic distances to overcome the challenges imposed by geography. To boost productivity, connectivity needs to be seamless, i.e., ease the entire logistic cost of moving goods from the centers of production to markets, instead of addressing only some segment of the logistic chain. It also needs to be holistic by looking at both transport and information highways. To begin, the capacity of its largest port at Callao, the main door for Peruvian products to reach global markets, is falling behind the growing demand and increasing logistic costs. Also, congestion in the Lima/Callao area drives logistic costs up as well, and is explained by the fact that the single four-line road handles traffic for the country’s biggest seaport, biggest airport and for commercial and work commuters between Lima and Callao, the biggest single market in the country. Furthermore, while the construction of a national transport corridor along the coast is well advanced, substantial gaps remain to link that corridor with the Sierra and with the 22 regional priority corridors – the latter, in turn, needs to connect to rural roads. In intermediate cities like Cuzco, the impact of urban traffic on seamless connectivity across the territory is lower than in the Lima/Callao area, but still significant. In terms of broadband connectivity, the Government is implementing a National Fiber Optic Backbone Program, but there are important gaps in the connection between it and the district capitals.

The WBG has a solid portfolio to help Peru progress towards closing the connectivity gap at key nodes across the territory (the WB in roads and urban transport; IFC in the port and airport at El Callao). As existing projects and activities are completed, the WBG would continue to support interventions that promote seamless connectivity for both transport and information.

CPF Objective Indicators	WBG Program
<p>Increase port’s capacity in the country’s biggest port of el Callao (Million TEUs containers): Baseline: 0.8 (2016) - Target: 1.2 (2021)</p> <p>In Lima/Callao, change in travel time for public transport users for the Ate-Callao origin-destination pair (Minutes): Baseline: 120 (2015) - Target: 45 (2021)</p> <p>In Cuzco, increase the available, efficiency-oriented and regulated public transport capacity along the “Via Expresa” Avenue Corridor, expressed in public transport units per hour (Number): Baseline: 8 (2014) - Target: 20 (2021)</p> <p>Reduced truck transit time from production to distribution centers in five selected logistics corridors as feeder roads are integrated to them (Percentage): Baseline: 0% (2016) - Target: 25% (2021)</p> <p>In rural roads, increase the share of rural population with access to an all-season road (Percentage): Baseline: 43.0 (2016) - Target: 51.5 (2021)</p> <p>District Capitals connected to the National Fiber Optic Backbone Network: Baseline: 0 (2017) - Target: 100 (2021)</p>	<p>New:</p> <ul style="list-style-type: none"> • WB <u>TA</u>: Mainstreaming Inclusive Design and Universal Mobility in Lima (P129561). • WB <u>Investment project</u>: Digital Inclusion (P157355). • IFC potential or follow-on direct investments or PPPs in port, airport, road and other infrastructure projects. <p>On-going:</p> <ul style="list-style-type: none"> • WB <u>ASA</u>: Public Expenditure Review (P158618). • WB <u>Investment project</u>: Lima Metro Line 2 (P145610). • WB <u>Investment project</u>: Cuzco Transport Improvement (P132505). • WB <u>Investment project</u>: Support to the Subnational Transport (P132515) • IFC <u>Investment</u>: APMTC Port Investment. • IFC <u>Investment</u>: Lima JCI Airport. • IFC <u>Investment</u>: Telecom investment VMP (35932).

Objective 2: Ease barriers to formalization.

At about 70 percent for labor outside of agriculture, and half of all firms, informality in Peru is among the highest in the LAC region, far above that of Mexico (60 percent) and Colombia (54 percent). Furthermore, about 13 percent of the country's GDP originates in the informal sector, with limited access to credit from the formal financial system. This affects productivity significantly: productivity of informal enterprises is about one third of that of formal enterprises. The lack of formal financial services for informal workers and firms has important gender dimensions; in Peru only 22 percent of women report owning a deposit or transaction account -- one of the largest gender gaps worldwide. Since both workers and firms are informal, they have problems accessing, besides finance, technology, and skills, which reinforces their informality trap. The Government has outlined an ambitious program to eliminate barriers for the formalization of production, employment, property and credit, and has already advanced in various directions.

Through knowledge activities, the WB will assist with the further development of the Government's overall formalization strategy and will provide quick support to the Expert Commission on Social Protection. The WB will also support the development of the cadaster system. The IFC engagement on the reduction of barriers to business licenses and the WB engagement on taxation for small business are relevant instruments to support the formalization agenda. IFC engagement in providing financial services to micro and SMEs helps ensure that access to financial services becomes an incentive and potential stepping-stone towards formality. As the formalization strategy sharpens, the support agenda may expand, potentially including an investment operation in support of property taxation.

CPF Objective Indicators	WBG Program
<p>Number and value (in \$) of new loans for MSMEs by IFC: Baseline: 1.6 million loans for \$8.9 billion; \$969 million for women (2015) Target: 2.3 million loans for \$11.6 billion; \$1.1b for women (2021)</p> <p>Average # of days to comply with business regulations for security inspection for business entry: Baseline: 40 (2013) - Target: 36 (2018)</p> <p>Number of registered SME taxpayer and compliance cost (in number of days): Baseline (2013): 133,320 SME taxpayers (TA definition) and 40 days: Target (2018): 146,652 and 36 days. Target (2021): 160,000 and 34 days.</p> <p>Note: an SME taxpayers are defined as taxpayers with turnover between 7-2,300 tax-units (UIT; valued at 4050 soles in 2017) and registered under the simplified taxation regime for these types of companies (RER).</p>	<p>New:</p> <ul style="list-style-type: none"> • WB <u>TA</u>: Support to Formalization Strategy. • WB <u>TA</u>: Support Expert Commission on Social Protection Quick Response. • WB <u>Investment Project</u>: National Urban Cadaster Project. • WB <u>RAS</u>: Programmatic RAS on Affordable Housing. • WB <u>TA</u>: <i>MiPYMES</i> Reform. • IFC <u>Investment</u>: Potential additional Investments in Financial Institutions for SME and Micro-Finance. <p>On-going:</p> <ul style="list-style-type: none"> • WB: <u>DPF-DDO</u>: Boosting productivity for Human Capital (P156858). • WB <u>TA</u>: Peru SME Taxation TA; WBG <u>RAS</u>: Compliance Cost Surveys. • IFC <u>Advisory Services</u>: Security Inspection for Business Entry. • IFC <u>Micro Finance</u>: Caja Arequipa Micro Rural Agri-finance (600443), Mibanco Peru (29399); B. Continental (25360); F. Confianza (32273); Compartamos; BanBif (31778); Banco Financiero (34867); Rural Finance Peru (579128); Mibanco Group Lending Diagnostic (601355); • IFC <u>TA</u>: CG for Municipal Credit Unions in Peru (Swiss TF) (600516).

Objective 3: Facilitate absorption of skills and technology especially by small and medium-sized business.

Informal businesses in Peru have a limited access to technology, support services (like trade facilitation) and global value chains relative to large investors who own R&D departments or who are connected to multinational firms that have them. Informal SMEs, therefore, depend the most on Peru's system of science and technology, which is very weak and has limited outreach: less than one percent of Peruvian firms, compared to 6 and 8 percent of firms that have access to science and technology systems in Brazil and Chile, respectively. Technology diffusion for sectors, such as agriculture and fisheries (both catch and farmed) is also at an incipient stage of development. Technology absorption and managerial capacity is further handicapped by scarce skills. In Peru, demand for secondary and tertiary educated workers, including vocational education graduates, continues to outpace supply. The low and heterogeneous quality of education contributes to the insufficient human capital in the workforce. Enhancing the supply of high quality graduates would raise firms' ability to adopt new technologies and management processes and hence boost their productivity. It would also help them to formalize, if the firms accessing skills are informal in the first place.

The WBG has a relatively young portfolio to help strengthen Peru's science, technology, and innovation system in general and, specifically, in sectors, such as fisheries and agriculture. On skills, the existing WB portfolio in education aims at improving the quality of skills at all levels – and this portfolio is expected to be complemented in the future through lending, knowledge, convening and advisory services. IFC will continue to support the skills agenda through investments in high quality tertiary education and technical and vocational training. IFC will also support the innovation agenda through potential TA on suppliers' programs.

CPF Objective Indicators	WBG Program
<p>Number of beneficiary firms that have introduced new or upgraded products (Number) Baseline: 0 (2016) - Target: 15 (2021)</p> <p>Clients (farmers) who have adopted an improved agriculture. technology promoted (Number) Baseline: 0 (2016) Target: 20,000 total (2021); 7,000 females 4,000 Indigenous people.</p> <p>Share of artisanal fishermen and aquaculture producers with access to at least one innovation developed: Baseline: 0% (2017) - Target: 70% (2021)</p> <p>Number of improvement plans for programs and institutions in high level education that are satisfactory implemented (Number): Baseline: 15 (2016) - Target: 108 (2021)</p>	<p>New:</p> <ul style="list-style-type: none"> • WB <u>Investment project</u>: National Program for Innovation in Fisheries and Aquaculture (P155902). • WB <u>Investment Project</u>: Strengthening the Science, Technology and Innovation System Project (P156250). <p>On-going:</p> <ul style="list-style-type: none"> • WB <u>Investment Project</u>: National Agriculture Innovation (P131013). • WB <u>Investment Project</u>: Sierra Rural Development (P079165) Additional Finance (AF). • WB <u>DPF-DDO</u>: Boosting productivity for Human Capital (P156858). • WB <u>Investment Project</u>: Higher Education Quality Impr. (P122194). • IFC <u>Investments</u>: UPC (<i>Universidad Peruana de Ciencias Aplicadas</i>) and PEIP (<i>Proyectos Educativos Integrales del Peru</i>) education investments, <i>Enfoca investment to Instituto de Informacion Bancaria</i>.

Objective 4: Enhance the environment for sustainable private sector investments.

At 20 percent of GDP over the 2010-15 period, private investment in Peru has been high by regional standards, but fell to 18 percent of GDP in 2016. Nonetheless, the sustainability of high private investments cannot be taken for granted. Private investment in infrastructure is to level off for various reasons, such as lack of a pipeline, an underdeveloped capital market and the ongoing fiscal consolidation process including management of fiscal contingencies. These issues have also been exacerbated by the recent corruption scandals in Latin America and in Peru associated with private investments in infrastructure. In addition, private investments in mining, which accounted for one-fifth of total private investment over the 2010-15 period, could also decline due to: (i) key projects' coming on-stream; (ii) the difficult global environment; (iii) the exhaustion of a large pool of unexploited fields; (iv) a complex permitting framework; and, most importantly (v) because extractive industries in Peru are affected by a significant lack of trust from communities and by outright social conflict. The last two reasons have led to long execution timelines or even complete halt of several projects.

Given the importance of investment for growth and employment generation, the WBG will help Peru to further improve the conditions for sustainably increasing private sector investment. The focus will be mainly in non-extractive sectors, where IFC will continue to engage with potential investors in the agribusiness and tourism sectors, and the WB will support interventions to help small farmers and boost rural development. For infrastructure, the WBG will work in a closely coordinated manner to strengthen the institutional framework to distribute risks and returns so that new investment does not impose excessive fiscal pressures, and to support the development of the domestic capital markets to lengthen maturities and reduce costs and to expand the number of domestic and international capital market and commercial financing. As a result, the government is expected to take selective niche risks that are less manageable by the market, while letting private participants take on manageable commercial and market risks. On natural resources, IFC will continue to engage with local communities on managing the mining canon, and with companies in complying with their Corporate Social Responsibility and best social and environmental practices. The WB will seek opportunities to contribute to improve policies or institutions responsible for promoting responsible investments, including helping Peru to strengthen key elements of the international taxation framework and to enhance the impact of extractive industries in the development of the country's regions.

CPF Objective Indicators	WBG Program
<p>Number of PPP contracts without MEF's favorable opinion prior to the tender process at all levels of government: Baseline: 17 (2014) - Target: 0 (2021)</p> <p>Value of domestic non-government guaranteed infrastructure project bonds issued: Baseline: US\$ 0 (2014) - Target: US\$ 750 mn (2021)</p> <p># of Mining companies incorporating a new Corporate Social Responsibility (CSR) approach: Baseline: 0 (2016) - Target: 3 (2021)</p> <p>A new Model treaty reflecting the country treaty policy (balance between protecting the tax base and fostering FDI) is developed: Baseline: 0 (2017) - Target: 1 (2019)</p> <p>Tax authority able to exchange information with international peers in line with international standards: Baseline: 0 (2017) - Target 1: Compliant under the 2016 ToRs of the GF (2020) Target 2: Effective AEoI under the CSR (2021)</p>	<p>New:</p> <ul style="list-style-type: none"> • WB <u>RAS</u>: Control framework for infrastructure finance • WB <u>TA</u>: Domestic resources mobilization and tax transparency TA • WB <u>Guarantee</u>: potential program of guarantees for infrastructure finance • WB <u>Bond issuance</u>: Treasury's potential bond issuance in soles • IFC <u>TA</u>: Tourism and Regional Development Advisory (Swiss, Spanish Trust Fund). • IFC <u>Investments</u>: Potential Investments in Companies with Sustainable Mining Practices. • IFC <u>Investments</u>: Potential investments for Capital Market Dev., Green Bonds and Local Currency Finance. <p>On-going:</p> <ul style="list-style-type: none"> • WB <u>Investment Project</u>: WB National Agriculture Innovation Project (P131013) • WB <u>Investment Project</u>: Sierra Rural Development (Additional Finance) (P079165) • WB <u>TA</u>: Capital Markets and Infrastructure Financing (P157577) (Swiss Trust Fund) • WB <u>DPF-DDO</u>: Public Exp. And Fiscal Management (P154981) • IFC <u>TA</u>: Cuzco Tourism Advisory (581547) (Swiss Trust Fund). • IFC <u>TA</u>: Apurimac Revenue Management (600268) • IFC <u>TA</u>: Apurimac Mining Agriculture Collective Action (600639) • IFC <u>TA</u>: Laredo (52292) • WBG <u>TA</u>: Extractive Industry Transparency Initiative (EITI) (Multidonor)

II. Services for Citizens across the Territory

Despite Peru's impressive progress in poverty reduction, at least 40 percent of its population risks falling back into poverty -- a risk partly attributed to the geographical disparity in access and quality of basic public services. Limitations in access to and quality of basic public services such as water, sanitation, health, nutrition and justice across and within regions deprive households of the opportunity they need to continue to improve their livelihoods – thus slowing progress towards Peru's shared-prosperity goals. The gap in access to quality service is particularly acute now in access to services, with an asymmetric impact on the poor, women and indigenous populations. This pillar selectively lays out objectives for the WBG with respect of three key public services: (i) water and sanitation; (ii) health and nutrition; and (iii) justice.

Objective 5: Improve water and sanitation services in key urban areas.

During the last decade, Peru made steady progress in increasing water and sanitation (WSS) coverage, meeting the target of the MDG goal in 2015, but still trailing behind other middle-income countries in LAC. The quality of WSS service also presents significant asymmetries between service providers across the country's territory. Outside of Lima, average service continuity has declined and the quality of public water supplies generally does not comply with required standards. The Government has set the goal of sustainable, universal coverage of potable water and sanitation services by 2021 in the urban areas and by 2030 in rural areas, requiring investments of close to US\$2.6 billion per year. The financial and operational status of urban utilities (PES) are of particular concern regarding not only their capacity to expand the services, but of even maintaining it. Hence, improving the operational efficiency of the utilities is a critical step in increasing access to water and sanitation in urban areas, and to improve enhance the sustainability of these gains.

The WBG is working on a multi-year engagement (lending and non-lending) program structured around a series of operations that will support the design and implementation of a new management model, service expansion and quality improvements in Lima, selected secondary cities and rural areas, including the financing of critical infrastructure.

CPF Objective Indicators	WBG Program
<p>Urban households with access to water services: Baseline: 94% (2015) Target: 96% (2021)</p> <p>Urban households with access to sanitation services: Baseline: 80% (2015) Target: 84% (2021)</p> <p>Number of urban utilities with positive financial operational results (earnings before interest and taxes): Baseline: 10 (2015) Target: 18 (2021)</p>	<p>New:</p> <ul style="list-style-type: none"> • WB <u>Investment Project</u>: Water Sector Reform Program (P157043) <ul style="list-style-type: none"> ◦ Phase 1, 2 and 3. • WB <u>Investment Project</u>: Universal Access in Lima Metropolitan Areas <ul style="list-style-type: none"> ◦ Phase 1 and 2. <p>On-going:</p> <ul style="list-style-type: none"> • WB <u>ASA</u>: Public Expenditure Review (P158618) • WB <u>TA</u>: Support to the Water Sector modernization (P150824) • WB <u>Investment Project</u>: Optimization of Lima Water & Sewerage (P117293) • IFC <u>TA</u>: Water Resource Group (WRG) 2030 intervention (600870)

Objective 6: Modernize delivery of health and nutrition services for the poor.

Peru needs to reshape its health sector to improve access to and quality of care and reduce inefficiencies in the public health system. The current system is highly fragmented and there is concern that attention to basic health services is falling between the cracks. Priorities have been identified in three areas. First, it is necessary to adapt health services to the new epidemiological challenges, including infrastructure, technology, and reference systems. Second, human resources management system needs an overhaul, including moving to a merit-based system. Finally, improvements will require reforming the health insurance model and converting the Integral Health Insurance (SIS) system into a modern, efficient health insurance provider that can address both the primary and secondary health needs of the population, particularly the poor. Reducing fragmentation will generate efficiency gains that will improve access and the quality of the health services. While this transformation is launched and implemented, the Government must continue its ongoing efforts to improve basic health care, including addressing undernourishment, stunting and anemia. The WBG aims to scale-up its support the health sector in all of these three new areas through a multiyear engagement, and continue to help addressing chronic malnutrition through ongoing health and social protection interventions.

CPF Objective Indicators	WBG Program
<p>Redesign of the SIS financing structure for primary care and secondary treatment: Baseline: Primary care: inequitable “capitation” (2015) Hospitals: Discretionary fee-for-service, no audits. Target: Primary care: Improved capitation mechanism (2021). Hospitals: Transparent fee-for-service, audits (2021).</p> <p>Nutrition - Percentage of children under 36 months that have received complete CRED scheme according to their age. (ENDES): Baseline: 47.3% (2011) Target: 70% (2021)</p>	<p>New:</p> <ul style="list-style-type: none"> • WB <u>Investment Project</u>: Health Sector Reform I (P161496). • WB <u>RAS</u>: Peru ESSALUD Separation of Functions (P163236). <p>On-going:</p> <ul style="list-style-type: none"> • WB <u>TA</u>: Support to Peru’s Nutrition Strategy to Reduce High Anemia and Stunting in Children under 36 Months (P162483). • WB <u>ASA</u>: Public Expenditure Review EW (P158618). • WB <u>TA</u>: Peru Health System Reform (P161496). • WB <u>Investment Project</u>: Social Inclusion TAL (P131029). • WB <u>SWAP</u>: Results Nutrition for Juntos (P117310).

Objective 7: Expedite the processing of family and commercial cases by the justice system.

Peru has made progress in developing systems to bring justice systems to the poor; specialized centers provide free legal assistance for the poorest households. While these centers need to be scaled up nationwide, courts' delays in resolving their and others civil cases (e.g., family, contracts, labor, and taxes) undermine the ability of a large segment of the population to protect and enforce their rights, which in turn affects their livelihoods. At the current pace of resolving civil cases, congestion will increase – yearly inflow of cases exceed the outflow by a large margins and the numbers of days that it takes to resolve a case is increasing exponentially. These trends are enhancing the opportunities for corruption, which is exacerbated by the lack of direct access to information about case status.

The WB has had a strong engagement in Peru's justice sector – with projects that have traditionally enjoyed a strong convening power of the various institutions involved in justice. The WB will join forces with the IDB to support the Government's program to improve efficiency and inclusiveness for justice services.

CPF Objective Indicators	WBG Program
<p>Reduced average time for case processing commercial cases by using an online justice platform: Baseline: 4 years (2016) Target: 2 years (2022/3)</p>	<p>New:</p> <ul style="list-style-type: none"> • <u>WB Investment Project</u>: Efficient and Equitable Justice Service (P162833). <p>Recently Closed:</p> <ul style="list-style-type: none"> • <u>WB Investment Project</u>: PE Justice Services Improvement II Project (P110752).

III. Natural Resource and Climate Change Risk Management

Peru is highly vulnerable to climate change. The country meets seven out of the nine characteristics recognized by the United Nations Framework Convention on Climate Change (UNFCCC) as defining a "particularly vulnerable" country. Anthropogenic processes that cause degradation of ecosystems and environmental pollution intensify these features. As a result, Peru's environmental issues span over "brown", "blue" and "green" challenges with strong negative implications on poverty alleviation, shared prosperity, and access to basic services. The "green" agenda includes strengthening the management of protected areas that host Peru's rich biodiversity, which includes flora and fauna as well as ecological functions. It also includes decreasing the alarming annual rate of deforestation and forest degradation in the Amazon region, while reverting and preventing agricultural land degradation in coast and Andean regions. The "blue" agenda focuses on managing Peru's large Pacific coastal zone. It includes reducing overfishing and illegal fishing to ensure sustainable management of fisheries and integrated coast and marine ecosystem management. Fresh-water fishing and aquaculture in the Amazon and Andean regions are also key pro-poor socio-economic activities that mining and related activities are affecting negatively. Finally, the "brown agenda" includes reducing (i) the incidence of water pollution by sewage and extractive and manufacturing industry, (ii) the incidence of agricultural run-offs contamination that might spread out to new areas due to higher temperatures, and (iii) improving municipal solid waste collection and final disposal in most cities and towns, which stands out as an urgent public health issue.

Building on previous experiences in these areas in Peru, and on a strong portfolio and selective new lending or grant-resource mobilization, the WBG will support selective interventions to strengthen natural resource management that will help address selective elements of the country's brown, blue, and green agendas.

Objective 8: Strengthen the management of natural resources.

Peru has a large and diverse territory and an enormous wealth of environmental resources. The country has made significant progress in improving the management of its natural resources, with the support of the international community, the World Bank included. Peru has introduced the institutional and regulatory framework for improved environmental management and outcomes, and created the Ministry of Environment and Natural Resource Management and the territorial control bodies (OEFAs) between 2011 and 2015.

In the green agenda, through ongoing grants and a future lending operation, the WB will help to pilot good biodiversity practices (e.g., of the Guano Capes, Islands, and Islets National Reserve) as well as forest management in general and in indigenous areas of the Amazon. As part of this agenda, the WB will help improving the management of river basins as well through a new operation. For the blue agenda, the WB will help strengthen the mechanisms to regulate fishing through a recently approved project. Finally, in the grey agenda, the WB will focus on both helping to strengthen the Government's capacities for environmental analysis and monitoring, and to address waste management problems in the Cuzco area.

CPF Objective Indicators	WBG Program
<p>Hectares of native community lands titled in high threat areas (Number): Baseline: 0 (2017) - Target: 780,000 (2020)</p> <p>Basin councils /committees with approved integrated water resource management plans and under implementation. Baseline: 6 (2017) - Target: 10 (2021)</p> <p>Coordinating bodies at the national and macro regional level strengthened for the prioritization, planning, preparation of rules, plans, procedures and instruments for the governance of the National System of Fishing and Aquaculture: Baseline: 0 - Target: 7</p> <p>In Cuzco, Industrial and municipal waste disposal capacity created under the project (Metric ton): Baseline: 0 (2014) - Actual: 0 (2017) - Target: 40 (2020)</p> <p>Validated surface water quality monitoring networks in operation: Baseline: 0 (2017) - Target: 1 (2021)</p>	<p>New:</p> <ul style="list-style-type: none"> • WB <u>Investment Project</u>: Integrated Forest Landscape Management Project in Atalaya, Ucayali. • WB <u>Investment Project</u>: Integrated Water Resources Management in Ten Basins (P151851). • WB <u>Investment Project</u>: National Program for Innovation in Fisheries and Aquaculture (P155902). <p>On-going:</p> <ul style="list-style-type: none"> • WB <u>CAT-DDO I</u> (P120860). • WB <u>CAT-DDO II</u> (FY19; P149831). • WB <u>Investment Project</u>: Enhancement of Environmental Quality Services (FY17; P147342). • WB <u>Investment Project</u>: Cuzco Regional Development (P117318). • WB <u>RETF</u>: Saweto Dedicated Grant Mechanism in Peru (P148499). • WB <u>GEF</u>: Strengthening Sustainable Management Guano Islands GE (P129647). • IFC <u>TA</u>: EDGE certification and green building code advisory (Swiss Trust fund).

Annex 2: Peru - Key Economic and Social Indicators, 2012-2019

a. Economic Indicators

	2012 ^A	2013 ^A	2014 ^A	2015 ^A	2016 ^P	2017 ^F	2018 ^F	2019 ^F
Real economy	Annual percentage change, unless otherwise indicated							
GDP (nominal--local currency), Billion	499	535	576	613	659	696	745	794
Per Capita GDP (In US\$ Atlas Method)	5,519	5,765	5,823	5,935	6,087	6,209	6,367	6,521
Real GDP (%), of which:	6.0	5.8	2.4	3.3	3.9	3.3	3.8	3.6
Consumption, percent	5.5	4.3	3.1	3.3	2.1	2.6	2.6	2.6
Investment, percent	1.7	3.0	-0.9	-0.2	-1.2	0.4	1.4	1.2
Net exports, percent	-1.3	-1.5	0.2	0.2	3.0	0.3	-0.2	-0.1
Imports, percent	10.7	4.2	-1.4	2.5	-2.3	3.2	4.5	4.2
Exports, percent	5.8	-1.3	-0.8	3.5	9.7	4.0	3.4	3.4
CPI (average), percent	3.7	2.8	3.2	3.6	3.6	3.0	2.7	2.5
Fiscal Accounts	Percent of GDP, unless otherwise indicated							
Expenditures	20.8	22.0	22.6	22.3	21.0	21.5	21.1	20.9
Revenues	23.1	22.9	22.2	20.2	18.5	18.9	18.7	18.7
Non-financial Public Sector Balance	2.3	0.9	-0.3	-2.1	-2.6	-2.7	-2.5	-2.2
Balance of Payments	Percent of GDP, unless otherwise indicated							
Current Account Balance	-2.8	-4.7	-4.4	-4.9	-2.8	-2.3	-2.3	-2.4
Imports	25.6	25.4	24.1	23.7	22.2	22.9	22.6	22.4
Exports	27.6	24.6	22.4	21.0	22.1	22.8	22.6	22.4
Foreign Direct Investment	6.2	5.0	2.2	4.3	3.5	3.1	4.0	4.0
Gross Reserves (in US\$B, eop)	64.0	65.7	62.3	61.5	61.7	-	-	-
As multiple of short-term external debt	7.2	10.2	8.9	8.7	8.6	-	-	-
Terms of Trade (percent change)	-2.6	-5.2	-5.4	-6.3	-0.8	1.9	1.5	1.0
Exchange Rate (average)	2.6	2.7	2.8	3.2	3.4	-	-	-
Memo items:	Percent of GDP, unless otherwise indicated							
GDP nominal in US\$ billion	189	198	203	192	195	210	223	236
Gross Public Debt, percent of GDP	20.8	20.0	20.1	23.3	23.8	24.8	25.8	26.6

^A: Actual; ^P: Preliminary; ^F: Forecast

Source: BCRP and World Bank staff estimations and projections for 2017-2019.

b. Social Indicators

	2012	2013	2014	2015
Poverty and Inequality				
Poverty Rate, % of population	25,8	23,9	22,7	21,8
Extreme Poverty Rate, % of population	6,0	4,7	4,3	4,1
Income Gini	0,45	0,44	0,44	0,44
Access to Services: 1/				
Water, % of population	80,8	81,0	84,0	83,8
Sanitation, % of population	67,3	67,5	67,7	68,4
Electricity, % of population	91,1	92,1	92,9	93,9
Internet, % of population	20,2	22,1	23,5	23,2
Health				
Chronic Malnutrition (under five years), per 1000	18,1	17,5	14,6	14,4
Anemia (6-36 months), per 1000	44,5	46,4	46,8	43,5
Access to Health Insurance, % of population	61,9	65,5	69,0	72,8
Education				
Illiteracy Rate (+15 ages), % of relevant age	6,2	6,2	6,3	6,0
Net Enrollment to Primary (6-11 ages), % of relevant age	92,9	92,7	92,1	91,4
Average Years of Education (+15 ages), number	10,1	10,1	10,1	10,1
Satisfactory Level in Mathematics, ECE	12,8	16,8	25,9	26,6
Satisfactory Level in Reading Comprehension, ECE	30,9	33,0	43,5	49,8
Level 2 or more in Reading Comprehension, PISA	40,1	-	-	46,1
Level 2 or more in Mathematics, PISA	25,4	-	-	33,9
Labor Market (+14 ages)				
Labor Participation, percent of working age population	73,3	72,9	72,1	71,3
Unemployment Rate, percent of labor force	4,7	4,8	4,5	4,3
Informality Rate 2/	75,9	75,3	74,6	73,3

1/ Percentage of Households.

2/ Informal job whether in or out of the informal sector.

Source: INEI, MINEDU, OECD and WB staff calculations.

Annex 3: Alignment of the CPF with the SCD and Government's program

SCD	CPF	GoP
Large gaps in access to water and sanitation	5. Improve water and sanitation services in key urban areas.	Access and quality of Water and Sanitation
Lack of urban planning and cadasters		
Large gaps in connecting infrastructure	1. Improve connectivity at critical nodes of the territory	Accelerate large investment projects to close infrastructure gap
Fragmented coverage and quality of services in health	6. Modernize delivery of health and nutrition services.	- Health sector reform - Anemia and malnutrition programs
Low quality of services in education		Education quality
Inefficiencies across social services		More and Better opportunities for the poor
Labor and tax regulations that han productivity and formalization.	2. Ease selected barriers to formalization.	- Compact on formalization and social protection - Ease of tax compliance (SUNAT)
Regulatory barriers to competition (local governments)	3. Improve absorption of skills and technology by SMEs	- Deregulation and reduction of barriers (dimetraba.pe) - Innovation unit in PCM
Low efficiency of public spending	Cross-cutting	Stream line public investment processes
Low tax revenues		
Unfinished decentralization process		Support regional development and competitiveness
Weak enforcement of the rule of law in the justice system	7. Increase efficiency of justice services.	Justice sector reforms
Weak enforcement of regulations		
Low level of government coordination and red tape		Innovation unit in PCM
Low levels of trust and social capital (citizen-government)		
High exposure to climatic risks and natural hazards		
Reactive and loosely coordinated natural resources management	8. Strengthen natural resource management	Better opportunities for the Amazon..
<i>The SCD covers well but does not highlights sustainability of private investment</i>	4. Enhance the sustainability of private investments.	Private investment promotion (mining, energy, oil & gas, tourism)

Annex 4: Peru FY17-FY21 Country Partnership Framework Consultations

1. The FY17-FY21 CPF benefitted from a participatory consultation process including representatives of Government and non-governmental organizations. This Annex provides a brief summary of the main findings and feedback from these consultations that were carried out from September 2016 to February 2017.

Overview of the Consultation Process

2. The consultation process was designed through a participatory and decentralized approach. The consultation process was strategically planned to cover national and subnational levels. During the Government transition, a number of consultation meetings took place at the Government level with newly appointed ministers and key counterparts for WBG program. The WBG team also carried out a series of side meetings and interviews with Ministers and technical staff in the new administration, including the MEF. At the subnational level, three consultations were held in: (i) the Amazon region (Iquitos); the Northern Coast (Trujillo); and (iii) the Southern Highlands (Cuzco). Additionally, between September and December 2016, four consultations took place in Lima with development partners, international cooperation agencies, private sector and civil society, including Indigenous and women rights' organizations comprising approximately 150 direct interlocutors. A specific trip to Cerro de Pasco was also organized to visit the Indigenous communities of Batanchaca and Pucayacu where the WB's Regional Vice President was received by Indigenous representatives and local municipal authorities. The objective of the visit was to see and hear directly from Andean Indigenous communities about the development challenges they face and their priorities and proposals for overcoming these challenges. In addition, a website was habilitated to receive feedback from different stakeholders during the preparation process of the CPF². Participants expressed appreciation for the opportunity to engage substantively with staff of the WBG and acknowledged the WBG's efforts of maintaining a consistent dialogue throughout the implementation of the CPF.

3. The objectives of the consultation process were to: (1) understand participants' perspective on Peru's development opportunities and challenges; (2) learn from good practices stemming from civil society and other stakeholders; and, (3) receive feedback about the role that the WBG could play in the national agenda. Each consultation meeting included a presentation of the WBG structure, portfolio, and overall highlights of the proposed CPF strategy, followed by dynamic workshops using a participatory action methodology to collect information and generate recommendations. The consultation process was designed to reflect the decentralized and participatory approach of the proposed CPF. While participants generally engaged in discussion on national matters, most sessions had a special regional focus. The team also received feedback from many stakeholders through the online consultation platform.

² <http://consultations/consultation/peru-country-partnership-framework-fy17-fy21>

Summary of Participants' Opinions and Recommendations

4. While the consultations indicated that there is an optimism regarding the new Administration and certain optimism about growth trends in the country, participants also stressed the economic structural weaknesses at the micro level. In this context, it is worth mentioning that the WBG development support was very valued by most interlocutors who view the WBG as a leading development institution and a key cooperation partner for both central and sub-national governments.

5. A summary of the main topics of discussion during the CPF consultation meetings follows. The comments are not presented in any particular order of importance and should be interpreted as neither a comprehensive nor an official representation of any particular group.

6. In the four regions covered, participants emphasized the need for improving connectivity for regional integration to boost productivity and competitiveness. Infrastructure investment was seen as a critical step to develop ports capacity, roads and rapid transit in order to improve supply chains regionally, as well as to improve transportation and logistics. Similarly, there was an emphasis on the need for human capital development, i.e. quality of health and education services, specifically in rural areas where many isolated communities have limited access to social services and employment. In that sense, the private sector is perceived as a strategic partner for regional integration, ensuring coherent and continuous activities, and reducing risks associated with public investments. Some participants suggested the creation of “development ecosystems”, that would articulate key actors from the private sector, local government, academia to set out a regional development strategic plan. Respect for the rights of Indigenous peoples were particularly highlighted in Iquitos and Cuzco cities.

7. The promotion of regional tourism and eco-tourism was mentioned as a driver of inclusive and sustainable development. While there is strong regional potential to attract private investments, participants expressed that tourism is still a developing industry. Therefore, coordination among the Government and the private sector would be critical to increase tourism demand, to better develop the regional destination branding – including sub-industries like gastronomy and local arts & crafts, and ultimately to better manage the tourism supply chain. Participants also stressed that the promotion of marginalized rural areas would facilitate the integration of Indigenous cultures into the economy, and simultaneously benefit them from an increased demand in cultural tourism.

8. Virtually all participants highlighted the poor performance of their public administrations as the main roadblock to effective policy and investment decisions. According to them, the extreme centralization and the lack of institutionalism are the root causes of the suboptimal public policies. Instead, participants explained that policies should be differentiated by region – especially in terms of provision of public services. Similarly, they pointed at the lack of strategic policy planning, resulting in a misalignment between over-centralized public policies and regional socioeconomic context. They stressed the need for coordinated and cross cutting public policies, which would establish clear and sustainable objectives, based upon solid institutional mechanisms, and guarantee the continuity of state policies beyond political barriers. Participants repeatedly cited the inadequate regulatory framework – mostly perceived as overregulation, as a

significant barrier to private investments, tending to create opportunities for corruption at all levels of government. The deficient urban planning was continually cited as a striking example of the weak institutionalism, where state agents' intervention to support land invasions – often out of political expediency, illustrates the lack of enforcement of land and property regimes. This also applied in rural areas where participants mentioned that land property rights are particularly fragile. Finally, the identification and socialization of good practices in public management across the country was discussed as a form of setting sound institutional models of governance.

9. Participants stressed the importance of education and gender equality to achieve an inclusive and diverse economic growth. Education was cited as a motor of social inclusion, sustainable development and innovation, but also as a driver of social change through the creation of future responsible citizens and leaders. They suggested integrating mandatory civic education elements into curriculums to foster a culture of democracy and empower future citizens. Furthermore, they also proposed to fully integrate innovation and technology in order to foster creativity and social entrepreneurship. Participants at the regional level particularly insisted on the importance of aligning the higher educational system with regional development objectives and main regional economic activities to maximize educational outcomes. Most significantly, while participants acknowledged the contribution of education as an important vehicle of change in terms of gender equality and women's empowerment, they insisted on the need to foster the access to and the impact on girls and women from rural areas as they represent the poorest and most vulnerable segment of the population. Concerns related to the importance of intercultural education in fostering social inclusion were particularly raised in the jungle area.

10. According to participants, green growth strategies and environmental sustainability should be a priority at the heart of Peru's economic development agenda. The impacts of climate change were most clearly articulated by the Indigenous participants living both in the Amazon and the Sierra regions. The Indigenous representatives noted that rising temperatures and melting glaciers are leading to a significant reduction in river and ground water sources, exacerbated by contamination from mining and other extractive industries. The lack of access to clean water sources is putting their livelihoods and food security at serious risk and driving out migration from ancestral lands, in turn resulting in threats to these groups cultural survival. Adaptation proposals from the Andean region included support for reestablishment of ancestral terracing, introduction of new technologies and support for water and sanitation projects to capture, store, and improve water sources for irrigation, and human and animal consumption. For these reasons, participants also stressed the need to improve social and environmental governance standards for a sustainable exploitation of land, fish and forest resources, to ensure environmental sustainability. In the Amazon, the issue of deforestation was perceived as critical, and participants suggested strengthening the existing legal framework to protect Indigenous populations, as well as enhancing the enforcement of the legislation surrounding protected areas or areas in the official process of designation for protection. Similarly, participants mentioned that it is necessary to improve the operational capacity of strategic environmental assessments to support their integration into mainstream decision-making processes, grow better relationships with the extractive industry, and thus attract investments.

11. Cluster development and supply chain development were seen as critical elements to enhance regional competitiveness and productive capacity. While acknowledging the current

lack of regional competitiveness, they suggested that a regional cluster development articulated with the agroindustry production and distribution chains could be a solution to foster productive diversification and simultaneously improve basic infrastructure networks (mainly ports and roads) for exportation. Additionally, some participants highlighted the regional potential to add-value to traditional and medicinal products and the agribusiness sector, as a way to mobilize local labor beyond the provision of primary products, and rather involve them in other stages of the production cycle to generate employment and contribute to the agribusiness value chain. To achieve this objective, they stressed the importance of developing local technical capacity through “centers of excellence and research” to foster innovation in terms of biodiversity, forest biology, as well as soil, water and crop management knowledge. Finally, participants expressed that more incentives to attract large private investments are needed to increase competitiveness, along with clearer tax laws, an effective fiscal decentralization, and the creation of a rural development bank to provide credit to micro-enterprises.

12. The lack of transparency and corruption were identified as a consequence of a weak public information system and a restricted public space for participative dialogue. Participants stressed the importance of fostering citizen participation to ensure a culture of accountability and transparency with regards to public affairs monitoring. In that respect, they suggested to implement public accountability mechanisms that would monitor the public information system and create a public platform for participative dialogue as a solution to ensure more transparency in the public decision-making process. Some participants particularly insisted that there is a need to promote and guarantee equality of access to, and the management of public information for Indigenous and vulnerable segment of the population.

13. Investment in innovation and technology was discussed as a way to increase the access to services to and measure the impact of basic social policies, particularly on marginalized rural areas. Participants cited that they wanted to see a shift towards a people-centered approach toward to a focus on intermediate cities development, particularly in the design of health and related social policies, to maximize their effect throughout the country. They also suggested the WBG to support the new “effective state presence” government strategy through articulated education, health and justice services tailored to bridge the gap with rural and marginalized areas.

14. Peru’s access to the OECD is perceived as a catalyst to launch reforms for a better management of public affairs. Participants also expressed that it represents a unique opportunity to build consensus to spur strategic reforms enhancing competitiveness and productivity. Simultaneously, it might also assist the country in achieving both sustainable development goals and climate change objectives.

Annex 5: Selected Indicators of Bank Portfolio Performance and Management

As of Date 03/16/2017

Indicator	FY14	FY15	FY16	FY17
Portfolio Assessment				
Number of Projects Under Implementation ^a	20.0	19.0	18.0	20.0
Average Implementation Period (years) ^b	3.3	3.9	3.4	3.4
Percent of Problem Projects by Number ^{a, c}	5.0	15.8	22.2	10.0
Percent of Problem Projects by Amount ^{a, c}	2.5	4.4	4.9	1.1
Percent of Projects at Risk by Number ^{a, d}	5.0	15.8	22.2	10.0
Percent of Projects at Risk by Amount ^{a, d}	2.5	4.4	4.9	1.1
Disbursement Ratio (%) ^e	23.2	14.2	20.1	11.7
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	92	6
Proj Eval by OED by Amt (US\$ millions)	6,594.4	960.3
% of OED Projects Rated U or HU by Number	35.6	16.7
% of OED Projects Rated U or HU by Amt	14.3	7.8

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 6: Operations Portfolio (IBRD/IDA and Grants)

As of 2/28/2017

<u>IBRD/IDA*</u>	
Total Disbursed (Active)	246.60
of which has been repaid	0.00
Total Disbursed (Closed)	3,523.41
of which has been repaid	3,785.51
Total Disbursed (Active + Closed)	3,770.01
of which has been repaid	3,785.51
Total Undisbursed (Active)	3,712.11
Total Undisbursed (Closed)	0.00
<u>Total Undisbursed (Active + Closed)</u>	<u>3,712.11</u>

<u>Active Projects</u>		<u>Last PSR</u>			<u>Original Amount in US\$ Millions</u>					<u>Difference Between Expected and Actual Disbursements %</u>	
<u>Project ID</u>	<u>Project Name</u>	<u>Supervision Rating</u>		<u>Fiscal Year</u>	<u>IBRD</u>	<u>IDA</u>	<u>Grants</u>	<u>Cancel.</u>	<u>Undisb.</u>	<u>Orig.</u>	<u>Frm Rev'd</u>
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P156250	Peru Innovation	-	-	2017	45	-	0.0	0.0	45.0	0.3	0.0
P147342	PE Enhancement of Env. Quality Services	-	-	2017	40	-	0.0	0.0	40.0	0.0	0.0
P155902	PE Fisheries and Aquaculture Innovation	-	-	2017	40	-	0.0	0.0	40.0	0.1	0.0
P156858	PE Boost. Hum. Cap. and Productivity DPL	-	-	2016	1,250	-	0.0	0.0	1,250.0	0.0	0.0
P154981	Pub. Exp. and Fiscal Risk Mgmt DPL-DDO	-	-	2016	1,250	-	0.0	0.0	1,250.0	0.0	0.0
P145610	PE Lima Metro Line 2 Project	MS	MS	2016	300	-	0.0	0.0	260.0	97.5	0.0
P132515	PE Support to the Subnational Transport	S	S	2016	50	-	0.0	0.0	50.0	8.8	0.0
P149831	PE CAT DDO II	S	S	2015	400	-	0.0	0.0	400.0	0.0	0.0
P132505	PE Cuzco Transport Improvement	MS	MS	2014	120	-	0.0	0.0	118.6	28.6	12.7
P131013	PE National Ag. Innovation Program	S	MS	2014	40	-	0.0	0.0	34.2	12.2	0.0
P117318	PE Cuzco Regional Development	MU	MU	2014	35	-	0.0	0.0	34.0	29.0	20.6
P123151	PE Basic Education *	S	S	2013	25	-	0.0	0.0	8.3	0.7	1.5
P122194	PE HIGHER EDUCATION QUALITY IMPROVEMENT *	S	S	2013	25	-	0.0	0.0	12.1	7.3	5.6
P131029	PE Social Inclusion TAL *	S	S	2013	10	-	0.0	0.0	1.3	1.3	0.0
P117293	PE Optimization of Lima Wat & Sewerage	MS	MS	2011	109.5	-	0.0	0.0	56.3	-53.2	33.3
P120860	PERU CAT DDO	S	S	2011	100	-	0.0	0.0	100.0	0.0	0.0
P117864	PE Second Rural Electrification *	S	MS	2011	50	-	0.0	0.0	5.7	0.0	1.1
P117310	PE Results Nutrition for Juntos SWAp *	S	MS	2011	25	-	0.0	0.0	1.7	1.7	0.0
P079165	PE Sierra Rural Development Project *	MS	S	2007	40	-	0.0	0.2	0.0	-19.8	0.0
P129647	PE (GEF) Strengthening Sust Mgmt Guano Islands	MU	MU	2014	0	-	8.9	0.0	4.9	1.3	0.0
Overall Result					3,954.5	0.0	8.9	0.2	3,712.1	115.7	75.0

*Expected to close over the next two fiscal years (FY18 and FY19).

Annex 7: IFC Committed and Disbursed Outstanding Investment Portfolio

As of 02/28/2017

(In USD Millions)

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
FY13	APMTC	39.74	0.00	0.00	3.01	144.71	39.74	0.00	0.00	0.85	144.71
FY15	APMTC	9.16	0.00	0.00	3.00	33.34	9.16	0.00	0.00	0.56	33.34
FY13	BANBIF	11.25	37.89	0.00	0.00	0.00	11.25	37.89	0.00	0.00	0.00
FY07	B.CONTINENTAL	17.14	0.00	0.00	0.00	0.00	17.14	0.00	0.00	0.00	0.00
FY16	BTST	0.00	1.99	0.00	0.00	0.00	0.00	1.99	0.00	0.00	0.00
FY12	COMPARTAMOS PERU	1.49	0.00	0.00	0.00	0.00	1.49	0.00	0.00	0.00	0.00
FY10	ENFOCA	0.00	10.41	0.00	0.00	0.00	0.00	10.09	0.00	0.00	0.00
FY09	F. CONFIANZA	0.00	7.44	0.00	0.00	0.00	0.00	7.44	0.00	0.00	0.00
FY11	F. CONFIANZA	0.00	4.55	0.00	0.00	0.00	0.00	4.54	0.00	0.00	0.00
FY14	F. CONFIANZA	15.38	0.00	0.00	0.00	0.00	15.38	0.00	0.00	0.00	0.00
FY15	HMC CAPITAL	0.00	10.50	0.00	0.00	0.00	0.00	3.28	0.00	0.00	0.00
FY15	LA POSITIVA GEN	0.00	0.00	18.00	0.00	0.00	0.00	0.00	18.00	0.00	0.00
FY04	LAREDO	0.00	0.00	0.00	0.22	0.00	0.00	0.00	0.00	0.00	0.00
FY08	LAREDO	0.00	0.00	0.00	0.03	0.00	0.00	0.00	0.00	0.00	0.00
FY12	LAREDO	0.00	0.00	0.00	0.25	0.00	0.00	0.00	0.00	0.00	0.00
FY07	LIMA JCIAIRPORT	0.00	16.76	0.00	0.00	0.00	0.00	13.41	0.00	0.00	0.00
FY11	MIBANCOPERU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FY14	PEIP	0.00	21.88	0.00	0.00	0.00	0.00	7.74	0.00	0.00	0.00
FY08	PERU LNG	204.13	0.00	0.00	0.00	0.00	204.13	0.00	0.00	0.00	0.00
FY15	TINKA	0.00	1.81	0.00	0.00	0.00	0.00	1.81	0.00	0.00	0.00
FY17	TINKA	0.00	1.14	0.00	0.00	0.00	0.00	1.14	0.00	0.00	0.00
FY93	YANACOCHA	0.00	0.33	0.00	0.00	0.00	0.00	0.33	0.00	0.00	0.00
Total Portfolio:		298.29	114.70	18.00	6.51	178.05	298.29	89.66	18.00	1.41	178.05

Annex 8: Completion and Learning Report

Peru Country Partnership Strategy Completion and Learning Review FY12-16

Date of the CPS FY12- FY16: February 1, 2012 (Report No. 66187-PE)

Date of PLR: May 15, 2015 (Report No. 95974-PE)

Completion and Learning Review prepared by: Suzana Abbott, Karina Olivas, Emmy Yokoyama (LCC6), and Luciana Harrington (IFC) with inputs from the Peru Country Team.

PRINCIPAL ABBREVIATIONS AND ACRONYMS

BCRP	<i>Banco Central de Reserva del Perú</i> (Central Reserve Bank of Peru)
CAF	<i>Banco de Desarrollo de América Latina</i>
CAT DDO	Catastrophe Deferred Drawdown Option
CPF	Country Partnership Framework
DDO	Deferred Drawdown Option
DPF	Development Policy Financing
ENAHO	National Household Survey
FIP	Forest Investment Program
GDP	Gross Domestic Product
GEF	Global Environment Facility
GoP	Government of Peru
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
INEI	<i>Instituto Nacional de Estadística e Informática</i> (National Institute of Statistics and Informatics)
MEF	<i>Ministerio de Economía y Finanzas</i> (Ministry of Economy and Finance)
MSMEs	Micro, Small and Medium Enterprises
OECD	Organization for Economic Co-operation and Development
PISA	Programme for International Student Assessment
PPP	Private Public Partnership
PROINVERSION	Agencia de Promoción de Inversión Privada
RAS	Reimbursable Advisory Services
SNIP	<i>Sistema Nacional de Inversión Pública</i> (National System of Public Investment)
SUNAT	<i>Superintendencia Nacional de Administración Tributaria</i> (National Superintendence of Tax Administration)
SWAP	Sector Wide Approach Project
US	United States
WBG	World Bank Group

**Peru Country Partnership Strategy
Completion and Learning Review FY12-16**

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I. INTRODUCTION

1. **This Completion and Learning Review (CLR) is a self-evaluation by the World Bank Group (WBG) of the joint IBRD-IFC-MIGA Country Partnership Strategy (CPS) for the Republic of Peru for the period FY12-FY16 (Report No. 66187-PE dated February 1, 2012).** The CLR: (i) assesses the extent to which the CPS program was successful in achieving the CPS objectives identified in its results framework; (ii) assesses WBG performance in the design and implementation of the CPS program; and (iii) presents lessons learned from the implementation of the CPS that will inform the FY17-FY21 Country Partnership Framework.

2. **Overall progress toward achieving CPS outcomes was Moderately Satisfactory.** The WBG program was designed to support Peru's efforts to become a more prosperous and inclusive country under government's objective of "growth with social inclusion". It aimed to do so by supporting activities to achieve eight strategic objectives: 1) Improve the institutional design supporting the access to social protection programs, 2) Improve delivery and quality of social services; 3) Improve access to water and electrification services in rural and peri-urban areas, 4) Increase mobility and road network both in urban and rural areas, 5) Create conditions for increasing productivity and income of peri-urban and rural poor in targeted regions, 6) Expand Natural Protected Areas, and 7) Improve Disaster Risk Management capacity in Public Institutions. Of these CPS' eight objectives, six were mostly achieved, and two were partially achieved (but are expected to be achieved in the near future).

3. **WBG performance in designing and implementing the CPS was Good.** The CPS was fully aligned with the Government's priorities and the WBG engagement was focused selectively on those fields in which the WBG could provide more value added to the country. The WBG program was equally of high synergy, utilizing a wide spectrum of instruments, and with the World Bank (WB) and IFC working harmoniously to provide high quality financial and technical assistance to support the Government in the implementation of its program. The WBG program contributed to many of the Government's efforts of major institutional and legal reforms to foster social inclusion and increase prosperity, through financial instruments as well as technical advice in the consolidation of the Ministry of Social Inclusion and Development, the strengthening of service delivery in rural and peri-urban areas on water and sanitation, health, electricity, irrigation, and transport, and the enhancement of policy and programs to boost productivity. Knowledge sharing remained at the core of the strategy in Peru, as the WBG continued bringing global knowledge to the country's most challenging areas to boost prosperity and improve inclusion.

II. PROGRAM PERFORMANCE

4. **At the time the CPS was prepared, Peru had 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 grew at an average 6.3 percent between 2002 and 2010, enabling a continuous recovery of the country's income per capita, which increased by over 50 percent during the decade. Growth also yielded an important decline in poverty rates—about four million people exited poverty between 2004 and 2010.

5. **Macroeconomic stability was fundamental, but to overcome social gaps and boost productivity, the Government that had taken office in July 2011 began implementing a "growth with social inclusion" plan that targeted the poor and excluded.** The Government emphasized a development agenda promoting social inclusion for all Peruvians, particularly the most vulnerable, and increased access to high quality basic services. 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 the Ministry of Development and Social Inclusion, and prudent fiscal and monetary policies the Government announced had a positive impact on external and internal investors' confidence.

6. **By the time the CPS Performance and Learning Review (CPSPLR) was prepared, Peru had made substantial progress on the consolidation of its social inclusion programs, and the Government shifted the emphasis towards those programs aimed at developing markets, increasing productivity, and supporting the competitiveness of the Peruvian economy.** The CPSPLR revised the Results Framework (while retaining the original four pillars) but adjusting its objectives to the Government's new priorities. This CLR uses the updated results framework, as adjusted in the CPSPLR, to assess the CPS program. This CLR rates the FY12-FY16 CPS Development Outcome as **Moderately Satisfactory**.

7. A brief overview of the CPS pillars, outcomes, and ratings is presented below. Details on progress towards outcome targets are provided in the summary of CPS Program Self-Evaluation in Annex 1, and a more thorough description of WBG assistance and instruments that supported these outcomes is provided in Annex 5, Program Performance with Details of WBG Assistance and Instruments.

Peru FY12-FY16 CPS Pillars, Ratings for Outcomes	
Objectives	Ratings for Outcomes
<i>Pillar 1: Increase Access and Quality of Social Services for the Poor</i>	
Objective 1.1: Improve the institutional design supporting the access to social protection programs	Mostly Achieved
Objective 1.2: Improve delivery and quality of social services	Mostly Achieved
<i>Pillar 2: Connecting the Poor to Services and Markets</i>	
Objective 2.1: Improve access to water and electrification services in rural and peri-urban areas	Mostly Achieved
Objective 2.2: Increase mobility and road network both in urban and rural areas	Mostly Achieved
<i>Pillar 3: Sustainable Growth and Productivity</i>	
Objective 3.1: Create conditions for increasing productivity and income of peri-urban and rural poor in targeted regions	Mostly Achieved
Objective 3.2: Expand Natural Protected Areas	Partially Achieved
<i>Pillar 4: Improve Public Sector Performance for Greater Inclusion</i>	
Objective 4.1: Improve public investment execution in sub-national governments	Partially Achieved
Objective 4.2: Improve Disaster Risk Management capacity in Public Institutions	Partially Achieved

Pillar 1: Increase Access and Quality of Social Services for the Poor

8. The CPS' Pillar 1, Increase Access and Quality of Social Services for the Poor, supported objectives, to: (i) improve the institutional design supporting the access of social protection groups, and (ii) improve delivery and quality of social services. Of eight outcome indicators, six were achieved and one was mostly achieved and one partially achieved. Outcome indicators rated as mostly achieved were affected mainly by longer than expected implementation periods required to meet pre-established targets as opposed to inordinate delays due to lack of capacity or commitment.

In fact, despite shortfalls in meeting some targets, progress towards all expected outcome targets is well underway, as described below.

Objective 1.1: Improve the institutional design supporting the access to social protection programs

9. **There has been significant progress towards improving the institutional framework for social protection programs, an objective that was central to the Government's social inclusion agenda.** The Ministry of Social Inclusion and Development (MIDIS) was created in October 2011 to lead that agenda, and manage the reform and implementation of key social programs, including *Juntos*, *Foncondes*, Pension 65, *Qali Warma* and *Cuna Mas*. The Government has continued to consolidate stewardship of the social inclusion agenda under the MIDIS (including the transfer of five key social programs), particularly its institutionalization at the central level. The WB particularly supported that all social programs managed by MIDIS have rules for entering, staying and exiting, and are supported by an updated General Household Registry that contains targeting data of potential beneficiaries (2014). Operational and technical guidelines for evaluations and key monitoring initiatives for the MIDIS' social programs and policies have been developed, including a platform of geo-referenced information on coverage of social programs, dashboards to monitor the programs' performance, and checklists to verify the compliance of protocols and quality standards. Finally, the MIDIS with support from the WB, has approved the guidelines for the development of an M&E system for results-based policy formulation and management.

10. **The Government has made important progress in its efforts to reduce chronic malnutrition rates, particularly in rural areas, through improvements to and expansion of its *Juntos* CCT program.** From 2011 to 2014, the Government expanded *Juntos*' coverage to disadvantaged households in more than 440 new districts in the poorest 15 regions of the country, reaching 284,357 additional beneficiaries. Approximately 73 percent of *Juntos* beneficiary children under 24 months are registered in the *Juntos* information system with birth certificate, identity document and SIS (National Health Insurance) affiliation, and about 24 percent of these children are now registered before 30 days (up from about 10 percent in 2011). These improvements have led to a notable increase in the number of growth and development controls (CRED), even in regions with logistical difficulties for the delivery of services, as evidenced by the increase in the proportion of pregnant women with at least one prenatal control during the first trimester of pregnancy from 20 percent in 2005 to 45 percent in 2013 in Peru's nine poorest regions of the country (Amazonas, Huánuco, Huancavelica, Ayacucho, Apurímac, Cusco, Cajamarca, Ucayali, and Puno), under the Second Phase of the Health Reform Program project (PARSALUD II).

Objective 1.2: Improve delivery and quality of social services

11. **Efforts to improve access and quality of health services have produced significant outcomes.** The Government launched reforms aimed at achieving universal health coverage, improving management practices in the health delivery system and reducing malnutrition rates in the country. These included efforts to improve health services for poor mothers and children in rural areas, particularly addressing the challenge of making health facilities appropriate to rural environments. Progress in carrying out WB financed activities, and success in meeting intermediate outcomes (e.g., institutional deliveries, prenatal check-ups, breast feeding, growth monitoring, etc.), were instrumental in contributing to Peru's success in reducing the overall infant mortality rate (IMR) from 42 per 1,000 in 2009 to 17 per 1,000 in 2014 and chronic malnutrition of children under five from 38.2 percent to 23.7 percent over the same period, through the Second Phase of the Health Reform Program project (PARSALUD II).

12. **In education, efforts focused on both generating better learning outcomes in basic education and on enhancing the education policy framework to enable better quality of skills have made significant progress.** The WBG has been supporting the Government's efforts to put in place a results-based strategy and a student-centered, integrated monitoring system to improve decision-making to better allocate resources and bring greater accountability into the delivery of education services through a blend of investment and policy-based lending. The legal backing for these efforts was provided in part through the 2012 Teacher Reform Law that supports the establishment of a merit-based system for hiring and promoting all tenured teachers throughout their career and a 2014 University Law aimed at improving the country's quality assurance system at the tertiary level by introducing minimum entry level standards for public and private universities, and enhancing the existing accreditation system. As of November 2016, 320 higher education institutions had completed 1,297 self-evaluations and 255 external evaluations; 15 improvement plans have been fully implemented. In addition, student-learning assessments have been carried out for grades 2, 6 and 8, and one for grade 4 was scheduled for 2016. Peru participated in two international assessments of student learning outcomes in 2012 and 2015. IFC, with significant equity investments, supported a total of five universities and technical institutes to increase the supply of quality programs. This is particularly important in Peru because both the public and the private offers are not able to catch up with the internal demand. At the end of the review period IFC was reaching over 120,000 students through its clients.

13. **The WBG program is also supporting the Ministry of Education in reforms launched during 2014-2015 to improve quality in education at all levels through a US\$1.2 billion DPF/DDO financing.** Reforms under this DPF also included creating performance-based financial incentives for subnational government institutions that manage schools (*Unidad de Gestión Educativa Local* - UGEL and *Dirección Regional de Educación* -DRE) to improve the learning environment in schools. Under the new policy, DRE and UGEL received additional funds if they hire teachers and principals, distribute learning materials to schools, and enroll students in the school system in time for the start of a new school year in March of each year. Later in the year, they receive additional funding if they meet teacher attendance targets in their corresponding regions. Other reforms included the improvement of the framework of university education by creating the National Superintendence of University Education (SUNEDU) and the General Directorate of University Education within MINEDU (DIGESU) to guarantee that university programs and institutions meet quality standards and to lead the implementation of the university reform.

14. **The Government continued to make progress in increasing access to justice services.** Through the Free Legal Aid Centers (ALEGRA) centers the WBG supported the GoP improving the provision of free legal services across the country, expanding the ability of justice sector to reach more beneficiaries, attending over 251,191 consultations by October 2016 compared to the 100,000 in 2011. Likewise, the Judiciary implemented a case follow-up and consultation system through service modules that allow inmates to consult and follow the status of their cases, and participate remotely from hearings through videoconference. The launching of the judicial electronic file system facilitated the 24/7 consultation of files on line and allowed to archive an average of 4,000 files on single compact disc. The e-filing system strengthened transparency and traceability in the processing of judicial files, and enhanced access to judicial information in a secure way.

Pillar 2: Connecting the Poor to Services and Markets

15. Pillar 2, Connecting the Poor to Services and Markets, supported objectives, to: (i) improve access to water and electrification services in rural and peri-urban areas; and (ii) increase mobility

and road network both in urban and rural areas. Of six outcome indicators, four were achieved and one was mostly achieved and one partially achieved. Outcome indicators rated as mostly/partially achieved were affected by longer than expected implementation periods required to meet pre-established targets—in fact, several operations are still under implementation.

Objective 2.1: Improve access to water and electrification services in rural and peri-urban areas

16. **Efforts to connect the poor to services have resulted in improved coverage of basic services, in both urban and rural areas.** Coverage and quality of water and sanitation services improved significantly in Lima. Following upon an earlier WBG-financed project, the Optimization of Lima Water and Sewerage Project, together with several technical assistance activities have contributed to an increase in the hours of water supply from 16 in 2011 to 24 in 2016¹. It has also contributed to a reduction in the annual incidence of water pipe breakages and a significant reduction of sewerage blockages in the project area. An earlier, now closed, National Rural Water Supply Project faced major shortcomings due to a shift in the Government's approach to delivering water services in rural communities. Despite its shortcomings, however, it succeeded in helping and additional 211,000 people access improved water supply services and an additional 180,000 access improved sanitation services, both in 380 rural communities across the country.

17. **Progress was made in improving the coverage of electrification services in rural areas.** The Rural Electrification project provided infrastructure for both conventional grid extension and renewable energy systems provided over 105,000 new connections, mostly to households (an estimated 450,000 persons) from 2011 to 2013, but also including approximately 2,900 schools, clinics and community centers, increasing rural electricity coverage by 5.9 percent. Under a sequence project, and additional 71,380 new connections were achieved by November 2016. The Government has further expanded coverage of electricity to about 45,000 new households in rural areas. With the Rural Electrification projects I and II, the Government succeeded in demonstrating a model framework for rural electrification whereby nine distribution companies in sixteen regions developed, constructed and co-financed rural electrification projects, mobilizing an average of 25 percent of co-investment.

Objective 2.2: Increase mobility and road network both in urban and rural areas

18. **Transport programs have contributed to significant improvements in access to market and services in rural areas.** An Impact Evaluation study (2013) from the Peru Decentralized Rural Transport project (P095570), among other transport interventions found that as a result of these improvements, the travel time to reach schools fell by 24.2 percent which triggered a 19.2 percent increase in school attendance for children between 12 and 18 years of age in project areas. Also, the travel times for farmers to reach “point of sale” centers decreased by 26.2 percent, providing farmers access to centers that provide more competitive prices for their products than local markets that cater to a smaller group. Even larger reductions recorded in travel times to reach health consultation centers and provincial capitals from remote areas resulted from improvements in non-motorized tracks and likely contributed to a 70 percent increase in utilization in improved areas. As a result of the Government's new decentralized process to improve the prioritization and effectiveness of regional roads 16 percent of Peru's regional road network of 23,740 km was in good condition, benefiting approximately 1.2 million people living within 5 km

¹ For new areas in consideration under the Additional Finance (P133287) – Effective in June-2016, the target for is expected to be achieved by 2019 under the new CPF.

of the roads, providing them with improved access to markets and accessibility that helped integrate formerly isolated communities and facilitated tourism.

19. **Transport programs are also focusing on improved mobility in urban areas, but these are in early stages of implementation, and it is too early to report results.** The Lima Metro Line II, a WB co-financed project now underway, has a large potential impact on the quality of life of the bottom 40 percent living in the Lima Metropolitan Area by significantly decreasing commuter travel times, lost productive time and operating costs; providing improved access to socio-economic opportunities that can contribute to a better quality of life, and having lower negative externalities (such as congestion, pollution) for society as compared to the existing road-based urban transport.

20. **IFC is strongly supporting the country's development of improved access to international markets.** This includes support to the concessionaire of the North Dock of the Port of Callao, an investment that is expected to increase the capacity of the dock to handle the equivalent of 1.2 million TEU (twenty-foot equivalent unit) in 2017. Payments to the Government by the concessionaire are also expected to increase to US\$ 255 million by 2024. IFC also supported a concession to upgrade Lima's international airport. The resulting increased handling capacity has helped Peru cope with substantially increased traffic volumes and, improve service quality, reduce the burden on public finance, and contributed to the development of local capital markets. The project surpassed all expectations in terms of passengers handled² annually with 6.5 million in 2015 and 8.9 million so far in 2016 (until September). It also surpassed expectations in terms of annual US\$ payments to the Government in 2015.³

Pillar 3: Sustainable Growth and Productivity

21. Pillar 3, Sustainable Growth and Productivity, supported objectives, to: (i) create conditions for increasing productivity and income of peri-urban and rural poor in targeted regions; and (ii) expand natural protected areas. Of six outcome indicators, four were achieved, with one outcome not achieved and another not verified at the time of the CLR.

Objective 3.1: Create conditions for increasing productivity and income of peri-urban and rural poor in targeted regions

22. **The Government has been successful in promoting more sustainable development by increasing productivity and incomes in rural areas of Peru and improving access to water and other inputs.** The WB financed project Rural Development supported the improvement of assets and economic conditions of rural families in selected areas of Apurimac, Ayacucho, Huanavelica, Junin, Huanuco and Pasco, and the government capacity to implement and integrate Sierra development strategies. By 2013, about 35,000 families (around 10 percent of rural families) increased the net value of their household production by 42 percent in these regions, and plans are in place expand these benefits to an additional 31,600 families by 20 percent by end-2016. At a broader level, the WB supported the strengthening of the Government's capacity for participatory, integrated, basin-scale water resources management at the central level (through the creation of the National Water Resources Management System), and at the level of three river basins (through the creation of three river basin organizations and support for their development and adoption of participative integrated water resource management plans).

² Baseline 2.85 passengers p.a. in 2007; target 4.29 million in 2018.

³ Baseline US\$ 64 million in 2007; target US\$ 110 million in 2015.

23. **Financial sector investments have contributed to an expansion of financial services, targeting institutions focused on microfinance, SMEs, housing finance, and insurance/pension.** An IEG evaluation highlighted the positive signaling effects of IFC investments in these sectors that supported the gradual ongoing expansion of financial services.⁴ From 2011 to 2015, IFC supported four microfinance institutions that reach 1.5 million clients with an outstanding portfolio of US\$1.8 billion with investment and advisory services, facilitating south-south investments, and promoting competition in the sector. Further, the IFC is supporting with loan, equity investments, and trade finance lines six SMEs that reach 150,000 clients with an outstanding portfolio of US\$7.1 billion, helping local and international institutions, south-south investments, and promoting competition in the sector.

24. **IFC Advisory Services supported the tourism sector in Cusco by working with tourism business such as lodging establishments, restaurants, tourism and travel agencies.** The project drastically reduced the number of days to comply with licensing and registering procedures (75% reduction in total days), 150 unnecessary requirements were eliminated, and new IT systems were implemented to facilitate the issue and tracking of licenses. The project included a strong component of capacity building for public officials, and reforms are currently being implemented in 5 additional cities in Cusco without IFC's assistance using the project's methodology. Overall, the project was highly successful and was awarded by the National Chamber of Tourism for its contribution to the sector, building momentum for follow-on projects which will be tracked as part of the new CPF.

Objective 3.2: Expand natural protected areas

25. **The Government's efforts to address environmental vulnerabilities and expand Natural Protected Areas (NPAs) have been highly successful.** Through three Environment DPL, implemented in 2013 and in 2015, the WBG supported: (i) strengthening its environmental management institutions by creating the Ministry of Environment, establishing its organization and key functions; (ii) regulating the National System of Environmental Impact Assessment; (iii) establishing an independent agency, the National Service of Natural Protected Areas (SERNANP), to manage the National System of Natural Protected Areas (SINANPE); (iv) adopting the Sustainable Financial Strategy for SINANPE aimed at addressing the financial gap of NPA management with a larger proportion of resources generated directly by SERNANP; (v) adopting additional regulatory measures to promote private sector financing and management of NPAs. SERNANP has more than doubled funding for managing NPAs from various sources from US\$14.1 million in 2008 to US\$29.7 million in 2015.

26. **The Government has continued to strengthen the management and scope of the NPAs establishing new protected areas and developing technical guidelines to mainstream environmental concerns in the development of extractive industry activities in NPAs and their buffer zones.** The Government, supported by two WB GEF operations, was successful in mainstreaming biodiversity conservation into integrated land management approaches, and this has now been promoted by SERNANP as part of its long-term strategy at the national and regional levels, and implemented on the ground through the promotion of conservation agreements and concessions (PAES) inside the corridors that satisfy the criteria of "biodiversity-friendly management". The Government implemented 75 PAES on 843,923 ha in selected corridors, and, 40 percent of these (or 337,569 ha) had achieved their conservation objectives. The Government's is also implementing a program to improve the management of marine and coastal ecosystems of the Guano Islands, Islets, and Capes National Reserve System and protect its biological diversity

⁴ "Peru: Country Program Evaluation for the World Bank Group, 2003-9", IEG, 2010.

in pilot sites. However, the planning and management instruments for marine protection areas were not yet completed by the time of this evaluation.

27. **The IFC's investments have helped mitigate risk and enhance model environmental and social standards in the extractives sector, and have helped thereby contributing to the development of constructive relationships between its clients and the neighboring communities.** Minera Yanacocha is the largest gold mine in South America located high in the Andes Mountains and one of the largest open pit heap-leach operations in the world. IFC supported the company with loans and equity. The company is among the largest taxpayers and exporters in Peru, and has made payments to the Government for over US\$2.7 billion (US\$1 billion since 2012), and supported the local communities with investments over US\$500 million (US\$112 since 2012). IFC also supported the Government's goal of encouraging new investment in oil and gas through lending to Peru LNG (liquefied natural gas), a special purpose joint venture company, to develop a 4.45 million ton per year liquefaction plant and associated infrastructure to export natural gas from Camisea. This is the largest private sector investment in the Peru⁵, which has made payments to the Government for over US\$140 million (US\$100 million since 2012⁶), and supported the local communities with investments over US\$500 million (US\$112 million since 2012). IEG's evaluations of both the Yanacocha and Peru LNG pipeline projects, both highly prominent and visible Category A projects, found that environmental and social performance was satisfactory. Finally, in the CPS period, IFC sold its stake in Quellaveco- a large copper mine in the south of Peru- through a competitive bidding process, ending an almost 20 year engagement. Throughout IFC's involvement, the investment created 28 million in domestic purchases, almost 500 jobs, and \$2.1 million in community development outlays.

Pillar 4: Improve Public Sector Performance for Greater Inclusion

28. Pillar 4, Improve Public Sector Performance for Greater Inclusion, supported objectives, to: (i) improve public investment execution in sub-national governments; and (ii) improve disaster risk management capacity in public institutions. Two out of six outcome indicators were achieved, one was mostly achieved, one was partially achieved and two were not achieved. The program in this area included strong support in a number of reforms not included at the moment of the CPSPLR, but with significant long-term effects in the Government's public sector management capacity at subnational level.

Objective 4.1: Improve public investment execution in sub-national governments

29. **During the last year of implementation of the CPS, the Government embarked upon the implementation of structural reforms to boost human capital and productivity, and to promote fiscal effectiveness and responsibility.** Against the backdrop of a less favorable external environment, the WB supported the Government through Development Policy Financing with a Deferred Drawdown Option (DPF-DDO) in the amount of US\$1.25 billion for: (i) the management and reporting of public expenditures in subnational governments (SNGs), and (ii) the Government's legal and institutional framework for public-private partnerships (PPPs).

30. **Through these reforms, the Government has made progress in improving the management and reporting of public expenditures in sub-national governments.** It has issued regulations to strengthen the management and reporting framework for fiscal responsibility in sub-national governments, including procedure for determining the fiscal targets-setting methodology,

⁵ "Peru: Country Program Evaluation for the World Bank Group, 2003-9", IEG, 2010.

⁶ The target has already been highly surpassed, the target being US\$ 42 million accumulated by 2016.

reporting and disclosure requirements and sanctions for non-compliance with the rules established in the Fiscal Responsibility and Transparency Law. It has also granted authority to the General Directorate of Macroeconomic Policy and Fiscal Decentralization of the Ministry of Finance to not only monitor sub-national governments' fiscal and financial management performance but to provide technical assistance to help them understand the rules and reporting requirements. Finally, under the CPS implementation period the Government created 110 Public Investment Monitoring Committees to support regional and local governments in the acceleration of the implementation of approved public investment projects. Although this outcome was not formally included in the DPF/DDO, through the preparation of that operation the WBG provided advice for the formulation of this reform⁷.

31. **Public investment execution at the sub-national level has also shown progress.** Efforts include an IFC-supported project that is promoting good governance in municipalities of the Apurimac region, with the associated improvement in investment performance, so that local governments are better positioned to take advantage of the royalties that the presence of mining in Apurimac will bring. Early results are very promising: (i) two municipalities have improved their Good Governance Index by 20 percent; (ii) seven municipalities completed their Participatory Budgeting process with a multi-year horizon; (iii) eight municipalities adopted the multi-year planning methodology; (iv) Investment Committees are operating and monitoring the investment program; (v) seven municipalities successfully held dialogue sessions on governance with local leaders; and (vi) six municipalities and the Ministry of Energy and Mines answered questions from local leaders.

Objective 4.2: Improve Disaster Risk Management capacity in public institutions

32. **Peru is highly vulnerable to multiple natural hazards that impact its development, especially its efforts to reduce poverty and promote inclusive growth, and, since 2007, the Government has implemented important actions to improve disaster risk management (DRM) supported by the WB with two CAT-DDO operations.** These include: initial efforts to establish and implement the Strategic Budget Program for Disaster Vulnerability Reduction and Emergency Response under a results based budgeting framework. With this new framework, budget funds are allocated to sectors and regions according to government priorities and expected impacts of the program; steps to implement mechanisms for financial protection against disasters, allowing the country to move from an emergency response-focused system toward a comprehensive DRM system. The Government has further strengthened the financial mechanisms for the implementation of the National Disaster Risk Management Plan, *inter alia*, by allowing national and seven sub-national governments to strategically allocate resources to prevent and reduce their vulnerability to disasters by integrating the DRM budget program (that increased from US\$18.4 million in 2011 to US\$277 million in 2014) in the newly established DRM framework.

III. WBG PERFORMANCE

33. **Overall, WBG performance in designing and implementing the FY12-FY16 CPS was Good.** The CPS was aligned with the Government's plan of "growth with social inclusion" to overcome social gaps and boost productivity in Peru. The areas proposed for WBG engagement were fully aligned with the Government's priorities and focused selectively on those fields in which

⁷ The team considered that the Bank's attribution to this outcome may be weak as it was not formally included in the DPF/DDO operation. However, informally, the WBG team participated in the formulation of this policy action.

the WBG could provide more value added to the country, and incorporated coordinated, complementary assistance by both the WB and the IFC. It incorporated lessons learned in implementing the FY07-FY11 CPS program, counted upon inputs from extensive consultations during its preparation and identified risks and built in measures to mitigate those risks. With significant progress towards the achievement of CPS outcomes, resulting in part from close collaboration with the Government to improve portfolio performance and a strong program of knowledge services, the CPSPLR introduced timely adjustments to reflect changes in priorities and respond to country needs.

Design and Relevance

34. **The CPS was closely aligned with the Government’s strategic vision of strong economic growth with greater social inclusion, and selectively concentrated in those fields in which the WBG could provide value added to the country.** It was timed to coincide with the presidential administration that took office in July 2011, and to support the Government’s vision of continuity with respect to macroeconomic policies and promotion of investments to increase productivity, while increasingly focusing on the inclusion agenda as the critical challenge to be addressed. It was designed to be flexible, to respond to the needs of a sophisticated client that still faced some major development challenges. The CPS provided flexibility and rapid response to an increased need for financing as the Government consolidated its program.

35. **The CPS benefited from an IEG Country Program Evaluation, and incorporated recommendations for future engagement in Peru.** IEG’s 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 analytical and advisory services in the social sectors. These recommendations were incorporated in the CPS’ design.

36. **The CPS proposed an effective and wide-ranging set of WBG instruments, with the WB and IFC working together to deliver an integrated package of financial products and knowledge services.** The WBG program included a mix of DPFs, including with Deferred Drawdown Options (DDOs), investment project financing, equity investments, technical assistance loans, trust fund grants and knowledge and advisory services, including reimbursable advisory services, that were used together very effectively in a complementary fashion to support outcomes and results for the objectives under each of the CPS pillars. The effective use of the DDO instrument---there were three active DPF-DDOs and one DPF with a CAT in the portfolio at the start of the CPS period, and two DPF-DDOs and one new CAT DDO were approved under the CPS---helped the Government implement its strategy of ensuring adequate contingency funding, including in the event of natural disasters. Knowledge services, by both the WB and IFC, complemented by a growing program of Reimbursable Advisory Services (RAS), complemented and supported the implementation of the Government’s program and were instrumental in the achievement of CPS objectives. To illustrate the effective use and mix of instruments by the WB, the objective “to improve the institutional design supporting the access of social protection groups” was achieved through a mix of DPLs, a complementary technical assistance loan, an investment project finance in the form of a SWAp, and a JSDF Trust Fund, all supported by a program of knowledge services. To illustrate the effective collaboration among the WBG, the objective “improve public investment execution in sub-national governments” was achieved through a mix

of DPFs (including with DDOs), complemented by a program of advisory services provided by the IFC.

37. **Risks were identified correctly, and the CPS program was designed to include measures that mitigated those risks.** The overall risk to the program, as identified in the CPS, was rated moderate. Identified risks included possible: (i) continued vulnerability to a potential global crisis; (ii) social conflicts in response to rural and poor communities opposition to new extractive projects; (iii) corruption; and (iv) lack of continuity of personnel in counterpart agencies. Several actions that the Government had successfully pursued (e.g., prudent macroeconomic policies) and implemented (e.g., a law regulating the right of indigenous communities to prior consultation on matters affecting their collective rights) mitigated these risks.

Program Implementation

38. **During the CPS period, the WBG delivered an effective package of financial and advisory services that supported the achievement of expected CPS outcomes.** WB lending during the period totaled US\$3.6 billion equivalent, including US\$680 million for investment projects, US\$2.9 billion equivalent for DPFs (including US\$400 for a CAT DDO). IFC committed a total of US\$843.5 million in 35 projects in Peru, of which \$589 million was from IFC's own account and US\$254.5 million was in mobilization. Of this, US\$431 million was committed in financial institutions, US\$326 million in infrastructure and natural resources, US\$854 million in manufacturing, agribusiness and services and finally US\$2 million in telecom, technology, media and venture capital. MIGA guaranteed one investment in the infrastructure sector for US\$6.2 million. Demand for knowledge services, including Reimbursable Advisory Services increased dramatically over the CPS period. The WB provided 151 analytical services, 2 just-in-time reports and 33 RAS. The IFC also supported the CPS' implementation with focused and timely advisory services, comprising 13 projects with US\$14.3 million in funds managed by IFC. Finally, the WBG used WB executed and recipient executed Trust Funds to support and supplement key aspects of the program, project design and implementation with Japanese PHRD and JSDF funds, Spanish funds by the SFLACs, GEF grants, among others. A total of US\$ 21.12 million was approved for 12 trust fund operations during the CPS period.

39. **The World Bank worked closely with the Government to help improve portfolio performance.** During preparation of the CPS, the Peru 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. As of September 30, 2016, the portfolio consisted of 19 active projects, with total commitments of US\$ 3,864 million, of which US\$ 3,648 million remained available for disbursement. These comprised 12 investment loans, two DPL/DDOs, two CAT DDO, one GEF and one Dedicated Mechanism grants. Of these, four were co-financed with other donors (i.e., IDB, CAF, kfW, JICA), and joint implementation support was routinely coordinated with their representatives. As of April 2016, 85 percent of operations in the portfolio was rated Satisfactory or Moderately Satisfactory. The proportion of commitments at risk of not meeting their stated development objectives is 21 percent (3 projects). In collaboration with the MEF, portfolio performance reviews were held bi-annually, where active projects and projects in the pipeline were discussed in the presence of the implementing agencies and the WB teams. These interactions, together with intension implementation support and technical assistance, have improved portfolio performance significantly, especially in terms of identifying issues early and agreeing upon concrete actions to address them. Despite these efforts however, several issues continue to affect the portfolio. Issues affect mostly projects implemented at the sub-national level, in part due to lack of familiarity with processes and procedures, and also involving staffing—selection and turnover,

site selection and additional time needed due to complex institutional arrangements and required participatory processes. The average disbursement ratio for investment projects was 19.6 percent and average commitments at risk were 3 percent during FY12-FY16.

40. **High-quality knowledge services supported implementation of reforms and projects.** This included a flexible program of analytical studies, just-in-time capacity building under NLTA, the IFC's program of advisory services and a robust program of RAS. The analytical and advisory services carried out supported the Government's reform program and CPS objectives especially under Pillars 1, 3 and 4 (Annex 3). A growing demand for knowledge is reflected in a large increase in the number of RAS contracts. During the CPS implementation, the WB also contributed with key studies about Peru's constraints to accelerate productivity and growth with the Peru's flagship "Building on Success" -prepared at the request of the Government as part of the "Road to Lima" process leading to the 2015 Annual Meetings in Lima- and the policy notes about intermediate cities "*Perú: Hacia un Sistema Integrado de Ciudades*" that was widely disseminated at the national and subnational levels.

41. **The CPSPLR introduced timely mid-course corrections.** Important CPS results linked to the increase in access and quality of social services for the poor and connecting the poor to services and markets had been accomplished, and overall progress towards the achievement of the CPS outcomes were achieved. The remainder of the CPS period (FY15-FY16) offered the opportunity to consolidate program results and prepare for the coming CPF cycle, while adjusting the CPS program to the Government's priorities during the second half of its administration. These included implementation of transformational infrastructure projects such as the Lima Metro project, a top priority for the Government at that time given the large potential impact on the quality of life of the bottom 40 percent living in the Lima Metropolitan area. Adjustments also included greater emphasis on sub-national engagement and regional development, both on the part of the Bank and of the IFC. The CPSPLR confirmed the WB's willingness to continue supporting Peru with two new DDOs that were sent to Board of Directors on February 2016. Total lending commitments over the remainder of the CPS period were estimated at US\$1.6 billion (of which US\$2.5 billion were delivered). On analytical and advisory services the CPSPLR emphasized the work that was ongoing, with the WB and the IFC working jointly with other and development partners to support Peru's accession process to the OECD, through "coaching" and supporting outreach activities to build national consensus on the expected benefits of accession. Also, the CPSPLR highlighted Peru's hosting of global events, including most recently the 2015 World Bank/IMF Annual Meetings, as a platform for knowledge exchange on global challenges. As a part of this, the CPSPLR emphasized a series of policy seminars conducted by the WBG in advance of the meetings under the "Road to Lima" program.⁸ The CPSPLR revised the CPS' results framework, maintaining its structure around the four original pillars, but adjusting it at the objective level to reflect changes in the Government's priorities and the proposed program of WBG assistance during the remaining CPS period.

Alignment with the WBG Corporate Goals

42. **The CPS had a clear focus on assisting Peru to reduce poverty and boost shared prosperity in a sustainable manner.** The WBG's Corporate Goals were very much embedded and

⁸ The "Road to Lima" provided a platform for knowledge exchange on challenges that Middle-Income Countries face as they are striving to move to higher income levels by sustaining high growth and expansion of their economies, as well as by improving opportunities for the poorest groups. The process addressed development milestones that are essential for emerging economies in the 21st century: from equitable growth and quality of education and jobs, to efforts to address climate change and citizen insecurity; through a series of unique launches and presentations leading up to the World Bank Annual Meetings 2015 that took place in Lima, Peru.

prioritized in the Government's program, which the CPS supported. The CPS' Pillars 1, 2 and 3 were directly focused on these Goals, and Pillar 4, by was focused indirectly since improved public sector capacity results in a better use of resources and more effective programs, included targeted programs, and, further, the main victims of disasters are the poor and vulnerable groups. Six of the CPS' Outcome Indicators relate directly to increasing access and quality of social services for the poor, six relate directly to connecting the poor to services and markets, and four relate directly to creating conditions for increasing productivity and income of poor in targeted regions. Five of the CPS' 28 Outcome Indicators are targeted exclusively on the poor rural areas, where most of Peru's poor reside, while several of the others were targeted at the poor generally (e.g., "*Juntos* CCT Program is expanded by at least 200 districts") including those residing in urban areas as well (e.g., "number of hours per day in which water is provided to households in the Northern area of Lima increased", and in rural areas generally (e.g., "increased adoption or improvement of agriculture technologies"). Other outcome indicators focus on improving subnational capacity to improve public investment, including those targeted at the poor and vulnerable, and reducing the risk of disaster.

IV. KEY LESSONS LEARNED

43. **Knowledge sharing remains at the core of the WBG strategy in Peru.** Over the CPS period, the WBG continued bringing global knowledge to Peru in the most challenging areas the country is facing in its efforts to boost prosperity and improve inclusion. This combination of timely and relevant analytical work to contribute to the national agenda and to underpin Bank-financed operations remains as a good example of the role of the WBG in an upper middle income country such as Peru. On environment regulation, for example, technical advice through ASAs and TFs have strengthened project preparation of an operation on environmental regulation through strong dialogue with the client on their commitments in their global development agenda. South-South and South-North knowledge events have also been a great contribution to the WBG role in knowledge sharing. Support from key development partners, such as the Swiss Cooperation (SECO), has been critical to provide timely technical assistance to GoP in capital markets and infrastructure finance, including the modernization of the public/private partnership legal basis and development instruments to improve financial terms for these types of projects.

44. **A strong program of Reimbursable Advisory Services (RAS) has been a core instrument to provide customized knowledge and advisory services over the CPS period.** After close coordination with the Ministry of Finance on the feasibility to implement RAS agreements in Peru, the RAS program was launched in 2013. Since then, the Government has signed more than 30 agreements for a total amount of US\$3.6 million. Through this engagement the WB has contributed to develop policy reforms, sector strategies, as well as to build clients capacity in education, health, water and sanitation, trade, logistics and customs, competition policy, financial inclusion, urban property rights, investment promotion, urban development, and disaster risk management. A key element to deploy the first RAS activity in Peru was that the Government and the WB worked together to make concordant the RAS agreement and the national procurement laws.

45. **Focusing at the sub-national level to address regional disparities is effective when provided within a framework of effective policies and, if warranted, complementary support at the national level.** Given that the average figures of social indicators hide tremendous inequalities across regions in the country, the WB can play a critical role at the sub-national level by helping to develop critical cross-sector investments. During this CPS period, two investment projects at the subnational level with the Regional Government of Cusco have been launched. Implementation have presented additional challenges, particularly related to institutional issues as

decisions are not decentralized, and coordination include the central and local governments. The WB is playing a convening role to bring different partners and institutions across levels of government together around a common development objective. Given the relevance of the engagement at subnational level, the WB has been allocating additional resources to subnational projects to ensure good implementation. Also, IFC has learned that successful engagements with communities and the private sector are also critical for project success, buy-in, and ensuring social and environmental sustainability. In the mining sector in particular, it became clear that a broader, territorial perspective on local development that includes health, education and clear rules for private and public sector engagement in community development around mining would be necessary to increase effectiveness of revenue management programs in Apurimac. The absence of a framework within which communities and the public and private sectors can engage makes project implementation challenging.

46. **As mentioned in the CPSPLR, the implementation of the WBG's program was improved by a closer cooperation between the WB and IFC in key areas for Peru, such as extractive industries.** As requested by the Government, the WBG conducted a WB-IFC initiative to analyze the challenges that mining activities pose to local development and options to promote a positive environment towards this industry. This initiative was conducted under a Programmatic Approach (FY13-FY16), which provided important lessons learned about developing multi-sectoral solutions for development challenges, as opposed to narrow sectorial interventions. The Program allowed for cross-sectorial efforts to provide an integrated package of services at the national and sub-national levels. It was innovating in terms of both content and process. The WBG brought together 4 global practices within the WB (energy and extractives, environment, governance, and ICT and transport) in addition to IFC. The dynamics being generated by this group provided several lessons that were captured by the teams.

47. **Finally, as a result of the solid country engagement, the WBG is also contributing to Peru's successful positioning of its development agenda in key global forums.** Peru's progress in key global agendas that are relevant for its development includes carbon emissions, financial inclusion, infrastructure finance, and disaster risk management. As requested by the Government, the WBG has shared international experiences and provided advice around these global issues that have been discussed during the twenty-first Conference of Parties in 2015 (COP21), and in meetings of the Asian Pacific Economic Cooperation (APEC) and the Pacific Alliance (PA). The WBG is also sharing international expertise on technical aspects included in Peru-OECD Country Program for its expected participation as a member of the Organization for Economic Cooperation and Development (OECD). The IMF/WBG Annual Meetings hosted in Peru in 2015 also served as an important platform for the country to show Peru's achievements at a global forum.

CPSCLR Annex 1 – Peru CPSCLR Results Framework

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
Pillar 1: Increase Access and Quality of Social Services for the Poor			
Objective 1.1: Improve the institutional design supporting the access of social protection groups			
<ul style="list-style-type: none"> A transparent procedure is in place for individuals to enter, stay and exit social programs managed by MIDIS. <i>Baseline 2011: 0 procedures; Target 2016: 1 procedure.</i> 	<p>Achieved. The creation of the MIDIS and the transfer of the five key social programs have set the foundations for the institutional framework that will allow the implementation of a new and more coordinated social protection strategy. MIDIS programs have rules for entering, staying and exiting social programs in place. The General Household Registry was updated through a 2014 census that collected targeting data of potential beneficiaries.</p>	<p><i>Portfolio:</i> Second Results & Accountability in Social Sectors DPF/DDO, Closed FY16.</p> <p><i>Juntos Results for Nutrition SWAp</i> (P117310) SIL, Closed FY17</p>	<p><i>The combination of instruments (DPF, TAL, NLTA and SWAp with a results-based financing mechanism) provided adequate and timely response to MIDIS in the establishment of a new ministry, consolidation and expansion of social programs and in the area of social inclusion.</i></p>
<ul style="list-style-type: none"> Improved <i>Juntos</i> information system for affiliation of newborns and young children. <i>Baseline 2011: 9.5 percent; Target 2016: 40 percent of children born each year in Juntos households and registered in the system before 30 days</i> 	<p>Partially Achieved. As of 2015, 23.55 percent of children born each year in <i>Juntos</i> households registered in the SITC before 30 days.</p>	<p><i>New Lending:</i> Social Inclusion TAL (P131029) Delivered FY13</p> <p>Social Inclusion DPL (P131028) Approved FY13, Closed 12/31/2013</p>	<p><i>The ability to mix tailored instruments in combination with the cross-sectoral composition of teams were essential elements to maintain continuous communication with the counterparts and to constantly maintain a proactive stance to ensure implementation of agreed actions.</i></p>
<ul style="list-style-type: none"> <i>Juntos</i> CCT Program is expanded by at least 200 poor districts. <i>Baseline 2011: 700 districts; Target 2014: 900 districts.</i> 	<p>Achieved. The program has expanded the coverage in more than 440 new districts (1,143 by June 2014), reaching 284,357 additional beneficiaries from the baseline of 474,064 beneficiaries in 2011. In 2016, the program is operating in the poorest 15 regions of the country. The national registry of beneficiaries of <i>Juntos</i> CCT Program is functioning.</p>	<p><i>Trust Funds:</i> Participatory intervention model to improve child nutrition (TF096419) JSDF Approved: 03/11/2010 Closed 10/22/2014</p>	

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
Objective 1.2: Improve delivery and quality of social services			
<ul style="list-style-type: none"> Increase in the proportion of pregnant women of the 9 regions with at least 1 prenatal control during the first semester of pregnancy <i>Baseline 2005: 20 percent; Target 2016: 45 percent.</i> 	<p>Achieved. Proportion of pregnant women of the 9 regions with at least 1 prenatal control during the first trimester of pregnancy went from 20 percent in 2005 to 69.1 percent in 2014. The project was closed in FY16.</p>	<p><i>Portfolio:</i> Health Reform Program II (P095563) APL Approved: 02/17/2009 Closed 12/31/2015</p>	<p><i>There is a difficult balance between the importance of maintaining ongoing dialogue and long-term engagement and the efficiency in the use of scarce resources when pursuing relatively small investments in projects that require substantial levels of supervision and high volumes of transactions. For these projects, supervision efforts to oversee program's transactions are often disproportionate compared to the size of the loan.</i></p>
<ul style="list-style-type: none"> Adequate number of growth check-ups in children under 3 years. <i>Baseline 2005: 34 percent; Target 2016: 73 percent.</i> 	<p>Mostly Achieved. Adequate number of growth check-ups in children under 3 years in the 9 poorest regions is 72 percent (Jun-2016).</p>	<p>Justice Services Improve. II (P110752) IPF Approved: 11/18/2010 Closed 06/30/2016</p>	<p><i>Yet, these projects are often instrumental in providing hands-on investment assistance under the umbrella of an integrated program of assistance that may include policy reforms and lending.</i></p>
<p>MINEDU's capacity to evaluate student learning, instructional practice, and school leadership improved in basic education (K-11) improved, as measured by:</p> <ul style="list-style-type: none"> Number of additional grades in primary and secondary education included in national assessments. <i>Baseline 2011: 1 grade; Target 2016: 4 grades.</i> Annual national study of classroom instructional practices conducted. <i>Baseline 2011: 0 studies; Target 2016: 1 study.</i> Number of school management positions staffed through a new school principal evaluation system. 	<p>Achieved. Capacity to evaluate:</p> <ul style="list-style-type: none"> ✓ Value as of Jan 2017: 5. Learning outcomes. Since 2007, MINEDU has been carrying out a census-based student assessment for grade 2. Thus, by 2011 MINEDU was carrying out national student assessments in one grade; the project aimed at achieving national assessments in 4 additional grades. As of January 2017, MINEDU has carried out national student assessments for grades 4 and 8 (census-based), and 6 and 11 (sample-based; nationally representative). Thus, the target for 2016 has been exceeded/met. ✓ Instructional practice. The Ministry has conducted three national studies (in primary and secondary education) of instructional practice (time-on-task) with a nationally representative sample, making the results available to regional authorities and the general public. 	<p>Juntos Results for Nutrition SWAp (SIL) (P117310) Approved: 03/08/2011 Closed 09/30/2016</p> <p><i>New Lending:</i> Basic Education Swap (P123151) Approved: 01/17/2013 Closing 03/31/2018</p> <p>Higher Education Quality Assurance SIL (P122194) Approved: 12/04/2012 Closing 04/01/2018</p> <p>Boosting Human Capital and Productivity DPL (P156858) Approved: 02/11/2016 Closing 02/18/2019</p>	<p><i>Yet, these projects are often instrumental in providing hands-on investment assistance under the umbrella of an integrated program of assistance that may include policy reforms and lending.</i></p>

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
<p><i>Baseline 2011: 0 positions; Target 2016: 20,000 positions.</i></p>	<p>✓ School leadership. A National Framework for Good School Leadership was approved last year and the first school principal evaluation was carried out to ratify current school principals in their posts. A total of 15,541 management positions have been staffed; additional positions were staffed in 2016. The School Leadership training program began nation-wide in early June 2016.</p>	<p><i>IFC Investments:</i> Grupo Salud del Perú Project (IFC, FY13)</p> <p>Enfoca Fund: Auna Universidad Peruana de Ciencias Aplicadas (IFC, FY12)</p>	
<ul style="list-style-type: none"> Number of higher education institutions and programs that have completed self-evaluations through the Higher Education Self-evaluation System. <i>Baseline 2011: 0 higher education institutions; Target 2016: 100 higher education institutions⁹.</i> 	<p>Achieved. The indicator was restructured setting a new target of 1100 self-evaluations completed by Dec-2017. As of November 2016, 320 higher education institutions had completed 1,297 self-evaluations and 255 external evaluations; 15 improvement plans have been fully implemented; and 395,356 visits had been made to the websites of the Higher Education Information System.</p>	<p>Proyectos Educativos Integrales del Perú – Instituto Avansys (IFC, FY14)</p> <p><i>Trust Funds:</i> Enhancing Integrated Legal Strategies for the Poor - JSDF Trust Fund (TF099277) Approved: 12/13/2010 Closed 09/30/2015</p>	
<ul style="list-style-type: none"> Increased number of consultations in legal aid centers in poor urban areas administered by the Ministry of Justice. <i>Baseline 2011: 100,000 consultations; Target 2016: 250,000 consultations.</i> 	<p>Achieved. The number of consultations increased to 251,191 by October 2016 as per ICR of the project.</p>	<p><i>Knowledge and Advisory Services:</i> UHC and Health Reform I, II (P147195, P151238) (FY15-FY16) EsSalud Master Plan (P145831) (RAS)</p>	

⁹ A restructuring in December 2012 adjusted this indicator and target to: Number of self-evaluations completed in SAES; Baseline: 0 (July 2012); Target: 1,100 (December 2017).

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
		<p>New umbrella for Education, Skills and Employment (P147264) (FY14)</p> <p>Peru Learning for All 2014 (P149416) (RAS)</p>	
Pillar 2: Connecting the Poor to Services and Markets			
Objective 2.1: Improve access to water and electrification services in rural and peri-urban areas			
<ul style="list-style-type: none"> Number of hours per day in which water is provided to households in the Northern area of Lima increased. <i>Baseline 2011: 16 hours; Target 2016: 24 hours.</i> 	<p>Achieved. For areas under the original loan (P117293), the number of daily hours that water services were provided increased up to 24 (2016). For new areas in consideration under the Additional Finance (P133287) – Effective in June-2016), the target for is expected to be achieved by 2019 under the new CPF.</p>	<p><i>Portfolio:</i> National Rural Water Supply and Sanitation + AF SIL (P065256, P117314) Approved: 08/29/2002 Closed 06/30/2013</p> <p>Optimization of Lima Water & Sewerage SIL (P117293) Approved: 04/07/2011 Closing 12/31/2019</p>	<p><i>A strong focus on project outcomes and adequate accountability mechanisms, including annual performance targets, performance—linked financial incentives accompanied by effective monitoring are key factors to the achievement of significant improvements in service provision.</i></p>
<ul style="list-style-type: none"> Number of people living in rural areas with access to potable water. <i>Baseline 2010: 158,000 persons; Target 2013: 256,000 persons.</i> 	<p>Mostly Achieved. 82 percent achievement (211,000 persons as of June 2013) under the National Rural Water Supply and Sanitation + AF (P065256, P117314) areas: Piura, Pasco, Junin, Huancavelica, Ayacucho, Arequipa, Cusco, Lima and Huanuco.</p>	<p>Rural Electrification (P090110) - SIL Approved: 03/07/2006 Closed 06/30/2013</p>	<p><i>Community participation in planning and operations underpins sustainability, but adequate training support, financial incentives and contractual arrangements are necessary for continued and effective participation. Also, the modalities of cost-sharing and community participation need to be adapted to the local context and supplementary resources made available as needed.</i></p>
<ul style="list-style-type: none"> Number of new households connected to electricity in rural areas. <i>Baseline 2011: 0 households; Target 2016: 140,000 households</i> 	<p>Achieved. Increased coverage of electricity services in rural areas to about 105,045 new households under the Rural Electrification project (P090110) by Jun-2013 and 71,380 under the Second Rural Electrification project (P117864) by Nov-2016.</p>	<p>Second Rural Electrification (P117864) SIL Approved: 04/21/2011 Closing 02/28/2017</p> <p><i>New Lending:</i> AF Second Optimization Lima Water (P133287)</p>	

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
		Instrument: SIL Approved: 01/15/2015 Status: Closing 12/31/2019 <i>IFC Investments:</i> Cheves Hydro Power Plant (IFC, FY11-FY14) <i>Trust Funds:</i> Water and Sanitation Program (WSP)	<i>The early involvement and empowerment of stakeholders, including local governments, utilities, beneficiaries and contractors, is needed to gauge receptivity and develop greater sustainability, especially when attempting to replicate successful experiences from other contexts.</i>
Objective 2.2: Increase mobility and road network both in urban and rural areas			
<ul style="list-style-type: none"> Portion of secondary road network that is in good condition. <i>Baseline 2005: 9 percent¹⁰; Target 2014: 16 percent.</i> 	<p>Achieved. 16 percent of Peru’s regional road network of 23,740 km is in good condition. Rural road lengths of about 3,277 km are rehabilitated; 7,800 km are maintained periodically; and 2,360 km on non-motorized track are rehabilitated at project standards. Regional road lengths of about 1,560 km are rehabilitated; 3,540 km are maintained periodically; and 2,570 km are under routine maintenance.</p>	<p><i>Portfolio:</i> Decentralized Rural Transport Project – SIL (P095570) Approved: 12/19/2006 Closed 12/31/2013</p> <p>Safe and Sustainable Transport (P116929)– SIL Approved: 01/14/2010 Closed 07/01/2014</p> <p>Regional Transport Decentralization (P078813) - SIL Approved: 07/12/2005 Closed 06/30/2014</p>	<p><i>A program with an overly rigid and prescriptive solution may not necessarily be appropriate for diverse and geographically extensive countries. It would be more useful to demonstrate first through a pilot operation or component, and then scaling up if the pilot is deemed to be successful. Such an approach may be particularly useful, when new mechanisms or modalities (such as decentralized implementation) are attempted.</i></p>
<ul style="list-style-type: none"> Travel time on rural roads is reduced, improving access by rural households and entrepreneurs to goods, social services, and income generating opportunities. <i>Travel Time Baseline 2006: 0 percent; Target 2013: -20</i> 	<p>Achieved. The travel time to reach schools was reduced by 24.2 percent, travel time for farmers to reach “points of sale” decreased by 26.2 percent, and travel time for households to reach health consultation centers and provincial capitals from the remote areas was reduced by 55.2 percent and 20.4 percent, respectively, in the project intervened areas by December 2013.</p>		<p><i>Rehabilitating rural roads can be an effective mechanism for</i></p>

¹⁰ New baseline due to network increase to 23740 km.

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
<p><i>percent in the project intervened areas.</i></p>			
<ul style="list-style-type: none"> Stations of the Metropolitano that provide access for persons with disabilities. <i>Baseline 2011: 0; Target 2016: 2¹¹</i> 	<p>Partially achieved. After the process of selecting the stations and doing the preliminary costing in 2014/2015, there was a decision made by the recipient that the grant budget would only be sufficient to rebuild one station (2 de Mayo). The target of 2 stations was updated to 1 station in the grant restructuring. The project is on bidding process and indicator will be achieved by end-2017.</p>	<p><i>New Lending:</i> Cusco Transport Improvement (P132505) - SIL Approved: 02/28/2014 Closing 06/30/2019</p> <p>Lima Metro Line II (P145610) -SIL Approved: 09/15/2015 Closing 12/31/2021</p> <p>Subnational Transport Program (P132515) - SIL Approved: 12/11/2015 Closing 03/31/2021</p> <p><i>IFC Investments:</i> APM Terminals Callao (IFC, FY13)</p> <p>ISA Peru, Transmission lines (FY05-FY14)</p> <p>Arequipa Region; Priority Road Rehabilitation (IFC, FY11-FY14)</p> <p>Lima Airport Partners (IFC, FY09-FY14)</p>	<p><i>increasing access to economic opportunities and social services, and thereby reducing the incidence of rural poverty. However, these activities may need to be complemented with interventions in other sectors to enhance their impact.</i></p>

¹¹ The target for this indicator was reduced to 1 under the Mainstreaming Inclusive Design and Universal Mobility in Lima trust fund, and it is expected to be achieved in 2017 (the project was restructured and extended),

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
		<p>Enfoca Fund: Talma Servicios Aeroportuarios S.A.</p> <p>Linea de Bus Metropolitano de Lima</p> <p><i>Trust Funds:</i> Mainstreaming Inclusive Design and Universal Mobility in Lima PHRD (TF011295) Trust Fund Approved: 11/29/2011 Closed 06/30/2017</p>	
Pillar 3: Sustainable Growth and Productivity			
Objective 3.1: Create conditions for increasing productivity and income of peri-urban and rural poor in targeted regions			
<ul style="list-style-type: none"> Net value of production increased for at least 35,000 families in selected areas of the Sierra. <i>Baseline 2011: 0 percent; Target 2016: 20 percent.</i>¹² 	<p><i>Achieved.</i> A total of 1,360 contracts have been signed with beneficiary producers and communities, and of those contracts, 797 correspond to Business Plans (new and second generation) and 563 to territorial development plans. So far (original project and AF) project beneficiaries reach 84,343. The investments cover 263 districts in six regions. Based on the original project, 35,277 families increased the net value of production by 42%. As of 2013, results showed a 24 percent increase in net family incomes and 20 percent increase in net value of</p>	<p><i>Portfolio:</i> Sierra Rural Development Project (P079165) - SIL Approved: 04/24/2007 Closing 03/31/2017</p> <p>Water Resources Management Project (P107666) - SIL Approved: 07/02/2009 Status: Closed 12/31/2015</p>	<p><i>AF offers the opportunity of scaling-up successful projects and enhancing their development impact in their current regions, while consolidating lessons before replicating the approach in other regions.</i></p> <p><i>Focusing on a limited number of pilot river basins to test and introduce the new institutional and legal framework before its</i></p>

¹² The target in the AF was 20%, and not 26% as presented in the CPSPR matrix. Based on the original project, the indicator reached 42% of increase in the net value. Then, with the AF, the indicator was restarted. So 42% became the baseline, in other words, 0%, and 20% was the increment expected during implementation of the AF.

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
<ul style="list-style-type: none"> Increased offer of types of financial services by microfinance institutions in the Sierra. <i>Baseline 2011: 0 finance institutions; Target 2015: 4 finance institutions.</i> 	<p>production. With the AF the net value of production increased to 47% (Dec-2016).</p> <p>Achieved. Four microfinance institutions provided 6,000 loans totaling \$11 million in 5 regions in the highlands that were disbursed. (April-2015)</p>	<p>Sierra Irrigation Project (P104760) - SIL Approved: 07/27/2010 Status: Closing 12/31/2016</p> <p><i>New Lending:</i> AF Sierra Rural Development Project (P079165) - SIL Approved: 04/02/2013 Status: Closing 03/31/2017</p>	<p><i>expansion in the rest of the country in subsequent phases has proven a good approach to follow, enabling a revision of guidelines based on real implementation experiences, and also generating successful results, fostering an interest for replication among stakeholder in other river basins.</i></p>
<ul style="list-style-type: none"> River Basin Councils created and operated to manage water resources and irrigation systems in their jurisdictions. <i>Baseline 2011: 0 councils; Target 2015: 3 councils.</i> 	<p>Achieved. River Basin Councils created in the 3 pilot basins and participatory River Basin Plans formulated and adopted through <i>Resolución Jefatural</i> in the 3 pilot basins. (April-2015)</p>	<p>Agricultural Innovation (P131013) - SIL Approved: 12/31/2013 Status: Closing 09/01/2019</p>	
<ul style="list-style-type: none"> Increased adoption or improvement of agriculture technologies. <i>Baseline 2011: 0; Target 2016: 1,000 clients have adopted and improved agriculture technology.</i> 	<p>Not Verified. The Agricultural Innovation (P131013) is on track and the first sub-projects will be completed by March/April 2017. The results of these sub-projects will be reported at the project's mid-term review (Jul-2017).</p>	<p><i>IFC Investments:</i> PE Rural (IFC, FY11-FY15) Caja Arequipa Ag (IFC, FY15) Crediscotia (IFC, FY14-FY15) Empresa Agroindustrial Laredo (IFC, FY07-FY14) Financiera Edyficar (IFC, FY14) Financiera Confianza (IFC, FY14) Belcorp (IFC, FY12) Banco Interamericano de Finanzas (BanBif) (IFC, FY07-FY13) MIBANCO (IFC, FY12)</p>	

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
		<p>La Positiva Vida (IFC, FY12)</p> <p>Banco Financiero (FY16)</p> <p>Banco Continental (FY15)</p> <p>Compartamos Financiera (FY15)</p> <p>HMC Capital (FY15)</p> <p>Tinka (FY15)</p> <p>Calidda (FY13)</p> <p>Cusco Tourism Advisory (Ongoing)</p> <p><i>Knowledge and Advisory Services:</i></p> <p>Trade Comp and Growth (P106728)(ESW, FY12)</p> <p>New business and delivery models for financial inclusion (P147360) (NLTA, FY14-FY15)</p> <p>Irrigation Sector Note (P123746)(ESW, FY12)</p> <p>ANA Human Resources Improvement (P151190) (RAS)</p> <p>2030 Water Resources Group</p> <p><i>Grants:</i></p> <p>SAWETO Dedicated Grant Mechanism for Indigenous</p>	

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
		Peoples and Local Communities Project - SCF Trust Fund (TF0A0457) Approved: 09/11/2015 Status: Closed 03/01/2021	
Objective 3.2: Expand natural protected areas			
<ul style="list-style-type: none"> New areas outside the currently protected areas managed as biodiversity-friendly. <i>Baseline 2011: 0 ha; Target 2015: 250,000 ha (two new protected areas)</i>¹³. 	<p>Achieved. 337,569 ha at the closing date of the Strengthening Biodiversity Conservation through the National Protected Areas Program (P095424) (May-2015). Key regulations for integrated management of national, regional, and local natural protected areas approved. Biodiversity conservation has been mainstreamed into integrated land management approaches, and promoted as part of the Government's long-term strategy at the national and regional levels. It has been implemented through the promotion of the Program for Sustainable Economic Activities (PAES), conservation agreements and concessions inside the corridors, which satisfy the criteria of 'biodiversity-friendly management'. By the end of December 2015, 75 PAES (on 843,923 has.) had been implemented in selected corridors, and a sample of PAES determined that 40 percent (or 337,569 has.) had achieved their conservation objectives.</p>	<p>Portfolio: First Programmatic Environmental - DPF/DDO (P101471) Approved: 02/17/2009 Closed 09/08/2015 Second Programmatic Environmental - DPF (P116152) Approved: 12/08/2009 Closed 12/31/2012 Third Programmatic Environmental - DPF (P118713) Approved: 08/05/2010 Closed 12/31/2013</p> <p>Trust Funds: Strengthening Biodiversity Conservation through the National Protected Areas</p>	<p><i>Accompanying DPFs with TALs and IPFs allows for more effective and efficient support to client countries. To succeed, policy reforms must be coupled with investments to finance interventions. Such an approach can accelerate development results, because the DPF provides short-term assistance to implement policy reforms targeting priority sectors, while IPF and TAL can contribute medium-term support to build capacity and mobilize investments needed to implement the adopted reforms.</i></p> <p><i>When Project design and objectives are ambitious, it is important that available resources are not spread too thinly. In projects with relatively modest financing, the focus of</i></p>
<ul style="list-style-type: none"> Planning and management instruments for marine 	<p>Not Achieved. The design of planning and management instruments for marine protected</p>		

¹³ The target was increased from 125,000 ha to 2,000,000 ha in the CPSPR matrix. This was a typo. In reality, the target was increased to 250,000 ha.

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
<p>protected areas designed and under implementation. <i>Baseline 2011: 0 management instruments; Target 2015¹⁴: 1 management instrument.</i></p>	<p>areas is delayed, the preparation of site specific plans will be finalized by the end of FY17.</p>	<p>Program (P095424) - GEF Trust Fund Approved: 05/20/2010 Closed 05/31/2015</p> <p>Strengthening Sustainable Management of the Guano Islands, Islets and Capes National Reserve System Project (P129647) - GEF Trust Fund Approved: 12/06/2013 Closing 03/31/2019</p> <p>IFC: Yanacocha (FY99)</p> <p>PERU LNG (FY07)</p> <p>AAQSA (Quellaveco) (FY12)</p>	<p><i>project implementation should be on fewer project intervention areas, where anticipated results are achievable and can be sustained (physically and financially) in the medium to long term. Only after interventions have shown to achieve anticipated results should an up scaling of implementation in other areas be considered.</i></p>
Pillar 4: Improve Public Sector Performance for Greater Inclusion			
Objective 4.1: Improve public investment execution in sub-national governments			
<ul style="list-style-type: none"> Municipalities improved their capacity to execute their investment budget (by at least 20 percent) and increased their Good Governance Rating (by at least 40 percent with regard to the baseline average). 	<p>Mostly Achieved. By December 2014, 21 municipalities improved their investment capacity (from 2.2 points to a 2.9 points in a 5 points scale) and 19 Municipalities increased their Good Governance Rating (from an average grade of 2 points to 2.5 points in a 5 points scale).</p>	<p><i>Portfolio:</i> Second Programmatic Fiscal Management & Competitiveness (P115120) - DPF/DDO Approved: 08/05/2008 Closed 01/16/2015</p>	<p><i>Sweeping and sustained reforms require strong borrower ownership, a well-defined strategy, a highly consultative approach with country stakeholders, and a response donor consortium. Close</i></p>

¹⁴ The CPSPR matrix showed the target date as 2015; this should have been 2019, the Closing Date of the Trust fund.

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
<p><i>Baseline 2011: 0 municipalities; Target 2016: 21 municipalities.</i></p>			
<ul style="list-style-type: none"> Adoption of a new regulatory framework for the selection and prioritization of public investments at regional and local level (including the use of new methodologies and tools). <i>Baseline 2011: 0 regional and local governments; Target 2016: 100 regional and local governments.</i> 	<p>Not achieved. This reform was not considered in the Public Expenditure and Fiscal Risk Management (P154981) DPF/DDO but was considered in earlier versions. Other reforms included in this program were considered.</p>	<p>Third Programmatic Fiscal Management & Competitiveness (P089826) - DPF Approved: 12/18/2008 Closed 01/13/2013</p> <p>Fourth Programmatic Fiscal Management & Competitiveness DPF Approved: 08/26/2010 Closed 12/31/2011</p>	<p><i>coordination with international actors helped the Government implement its comprehensive reform programs over several years.</i></p> <p><i>Sustaining fiscal and related public sector management reforms can be challenging. They place a premium on a 'building blocks' approach. At the same time, it is important to be flexible in launching various reform initiatives when public institutions demonstrate a readiness to undertake and internalize institutional changes.</i></p>
<ul style="list-style-type: none"> Public Investment Monitoring Committees have been created to support regional and local governments in the acceleration of the implementation of approved public investment projects. <i>Baseline 2011: 0 regional and local governments; Target 2016: 100 regional and local governments.</i> 	<p>Achieved. The Government created 110 Public Investment Monitoring Committees to support regional and local governments in the acceleration of the implementation of approved public investment projects (Ministry of Finance – <i>Dirección General de Inversión Pública</i>). Although this outcome was not formally included in the DPF/DDO, through the preparation of that operation the WBG provided advice for the formulation of this reform.</p>	<p><i>New Lending:</i> Public Expenditure and Fiscal Risk Management (P154981) - DPF/DDO Approved: 02/11/2016 Closing 02/18/2019</p> <p><i>Trust Funds:</i> Operationalizing open data access in Peru and improving quality, relevance and accessibility of Peru's national statistics system- (TF011183) TFSCB Trust Fund Approved: 07/17/2012 Closed 05/30/2015</p> <p><i>Knowledge and Advisory Services:</i></p>	<p><i>The use of the DDO can be helpful in managing the uncertainties for a volatile global environment. It enables countries to have additional insurance to weather the global financial crisis as the availability of financing increases market confidence and access. It also provides a stamp of approval of good housekeeping.</i></p>

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
		Peru Public Sector Management (P147284) (FY14-FY15) PKS Local Governance and Mining (P143505) (FY13-FY15) Promoting greater accountability and good governance at the local level (MIM, IFC Peru project) Supporting the improvement of municipal investment (MRI, IFC Peru project)	
Objective 4.2: Improving Disaster Risk Management capacity in public institutions			
<ul style="list-style-type: none"> Reduce vulnerability of social infrastructure and enhance post-disaster recovery capacity, particularly in schools. Schools Infrastructure National Plan (to be issued by MoE) has incorporated DRM policies and programs. <i>Baseline 2011: No; Target 2015: Yes.</i> 	<p>Achieved. Seismic risk reduction considerations for existing and new infrastructure have been integrated in the National School Infrastructure Program (PRONIED) (May-2014). By Mar-2016, the Ministry of Education has carried out interventions in 393 school facilities under Plan Lima, resulting in 3.2 percent risk reduction. A financing mechanism for a pilot program to reduce the seismic vulnerability of low-income housing has been established. So far, about 1,000 grants have been disbursed to 15 percent of eligible households. (Mar-2016)</p>	<p><i>Portfolio:</i> CAT (P120860) DPF/DDO Approved: 12/09/2010 Closing 12/09/2016 <i>New Lending:</i> Cusco Regional Development (P117318) – SIL Approved: 11/22/2013 Status: Closing 01/31/2019</p> <p>Second CAT DPL/DDO (P149831) - DPF/DDO Approved: 03/12/2015 Status: Closing 03/12/2018</p> <p><i>Trust Funds:</i></p>	<p><i>Ex-ante risk financing instruments help limit the interruption of ongoing development programs. The DPL with a CAT-DDO established the basis for an ex-ante approach that is in line with the country's risk financing strategy and consequently allows for uninterrupted development progress in case of a catastrophic event.</i></p>
<ul style="list-style-type: none"> Number of regional government that have approved regional plans for the prevention and reduction of disaster risk. 	<p>Partially Achieved. By the end of FY16, seven regional and one municipal governments are in the process of elaborating regional plans for the prevention and reduction of disaster risks. The government has also provided technical assistance to five other regional governments in</p>		<p><i>Projects implemented at the regional level are inevitably affected by changes in administrations (at the regional and municipal levels), and</i></p>

CPS Outcome Indicators	Status and Evaluation Summary Progress during FY12-FY16	WBG Activities that Contributed to the Outcome	Lessons and Suggestions for the new CPF
<i>Baseline 2014: 0 regional governments; Target 2018: 15 regional governments.</i>	the development of regional level plans. The target is expected to be met by 2018.	Integration of Disaster Risk Information in Peru's Planning System (TF099051) (IDF)	<i>staffing changes at the institutional level. In the case of a project implemented in one region only, these changes can impact the entirety of the project setting implementation back until new officials and staff is in place.</i>
<ul style="list-style-type: none"> • Emergency Preparedness Plan established by subnational governments to reduce vulnerability to natural disasters in Cusco (Sacred Valley). <i>Baseline 2011: No; Target 2017: Yes.</i> 	Not Achieved. The Cusco Regional Development project experienced delays. Thus, it is expected that the indicator will be achieved by FY18.	<i>Knowledge and Advisory Services:</i> Peru School Infrastructure Baseline (P150434) - RAS	<i>As a minimum, this risk should be highlighted in projects implemented in a single region.</i>

CPSCLR Annex 2: Planned Lending Program and Actual Deliveries (IBRD)

IBRD Lending Program

P Code	Project Name	Amount (\$m)		Board Approval	
		Planned	Approved	Planned	Approved
FY13					
P122194	Higher Education Quality Improvement	25	25	FY12	FY13
P131029	PE Social Inclusion TAL	10	10	FY13	FY13
P131028	PE Social Inclusion DPL	45	45	FY13	FY13
P123151	PE Basic Education	30	25	FY13	FY13
P127801	PE AF Sierra Rural Development Project	20	20	FY13	FY13
FY14					
P117318	Cusco Regional Development	25	35	FY14	FY14
P131013	National Agricultural Innovation	40	40	FY14	FY14
P132505	Cusco Transport Improvement Project	120	120	FY14	FY14
FY15					
P133287	PE AF-Second Optimization of Lima Water & Sewerage	55	55	FY14	FY15
P149831	PERU SECOND DPL WITH A CAT DDO	400	400	FY15	FY15
FY16					
P145610	Peru Lima Metro Line 2 Project	300	300	FY15	FY16
P132515	Support to the Subnational Transport Program Project	50	50	FY16	FY16
P156858	Boosting Human Capital And Productivity Development Policy Financing With A Deferred Drawdown Option	1,250	1,250	FY16	FY16
P154981	Public Expenditure and Fiscal Risk Management DPF-DDO	1,250	1,250	FY16	FY16

Planned Board Approval date according to Project Information Document (PID) Concept Stage

CPSCLR Annex 3: Planned Non-Lending Activities and Actual Delivery

Project ID	Project Name	FY Delivered
P117921	Public and Private Partnerships Technical Assistance	FY12
P127343	PE Poverty NLTA	FY12
P126575	PERU: Technical Assistance to the Metropolitan Municipality of Lima	FY12
P125907	TECHNICAL ASSISTANCE TO WATER UTILITIES IN PERU	FY12
P117375	PE Recurso V	FY12
P122177	Peru - Insolvency & Creditor Rights ROSC	FY12
P123460	HD Support to Lima Municipality	FY12
P127474	SME Finance	FY12
P118823	PE (C) Financial Sector Work I	FY12
P120394	PE Advisory Education Sector	FY12
P109172	Communication for Cultural Heritage and Sustainable Development in Peru	FY12
P123592	PE Governance & Governability NLTA III	FY12
P129510	PERU: Development of Energy Planning Capacity TA	FY13
P106728	PE CEM - Trade Comp and Growth	FY13
P132330	Peru MIDIS M&E and Information NLTA	FY13
P132502	PE Poverty and Social inclusion NLTA	FY13
P131827	StAR - Peru Country Engagement	FY13
P131903	Medium-Sized Cities Diagnostic Assessment & Just-in-Time Advisory Services	FY13
P131504	Subnationa DeMPA - Lima	FY13
P127350	Improving Public Sector Performance	FY13
P144548	SME finance - expanding factoring	FY13
P129338	PE Gender and Agency	FY13
P143292	Peru Support on Pension Reform	FY13
P144275	PE RAS JIT Supp to Urb at risk school	FY13
P133657	Peru: Critical skills for the future: Social, emotional and academic learning in basic education	FY14
P148244	StAR - Peru Engagement	FY14

Project ID	Project Name	FY Delivered
P130958	Peru Inclusive Social Policies Programmatic Knowledge Services	FY14
P132346	Support to State Modernization	FY14
P145796	PE Support to the Ministry of Culture of Peru in the Implementation of its Intercultural Agenda	FY14
P146773	PE Poverty & Social Inclusion NLTA II	FY14
P123746	Peru Irrigation Sector Note	FY14
P132882	PE Support on Value for Money Methodology to the MEF	FY14
P146908	Peru - Open Data Readiness Assessment	FY14
P143881	Peru CP diagnostic	FY14
P123881	Strengthening Environmental and Natural Resource Institutions	FY14
P145751	Impact Evaluation Design for the Program "Escuela Amiga";	FY14
P133517	Peru Health Advisory Services NLTA	FY14
P143602	Peru Innovation Policy	FY14
P147360	Competition and Efficiency in Retail Payments	FY15
P128841	Peru Sovereign Disaster Risk Financing	FY15
P147284	Peru: Technical Assistance to the Ministry of Finance on Public Sector Management	FY15
P147506	Peru mystery shopping exercise for financial services disclosure (Peru CPFL implementation)	FY15
P132030	Decentralized Rural Water and Sanitation Strategies	FY15
P145588	PE Robust Decision-Making in the Water Sector	FY15
P149782	PE RAS for a Diagnostic and Base Line of Local Capacities to Help Modernize and Consolidate Peru's National Cadastre System (SNC)	FY15
P149047	Reimbursable Advisory Services for the Development of Evidence-Based Performance Improvement Strategies	FY15
P152242	RAS for the Design a monitoring tool for measuring the performance of the Strategic Plan for the Judiciary	FY15
P152834	PE RAS Effectiveness of Competition Poli	FY15
P145831	EsSalud Health Master Plan	FY15
P149501	RAS for the Design of a New Staff Performance Monitoring and Evaluation System	FY15
P147264	PE New umbrella for Education, Skills & Employment	FY15
P147195	PE-Support to the UHC and Health Reform	FY15

Project ID	Project Name	FY Delivered
P145911	Technical Assistance for improving the "Management & Information System for Raising Learning" (SIGMA)	FY15
P153387	Peru Financial Inclusion Strategy	FY15
P132526	Peru Financial Inclusion and Consumer Protection	FY15
P152815	LAC Regional Water, WRM & Irrigation Impact Evaluation Workshop	FY15
P132351	Selected Issues in Fiscal Policy: Taxation and Equity	FY15
P150434	PE RAS School Infrastructure Baseline	FY15
P149502	RAS to Inform the Improvement of Administrative and Budget Management of Deconcentrated Units	FY15
P151679	StAR Peru Country Engagement	FY15
P144904	PE TF – Strengthening the PPP project cycle and Capacity Building Program	FY15
P147155	Effects of W&S service delivery on business competitiveness : The case of Peru	FY15
P149416	PERU LEARNING FOR ALL 2014	FY15
P147653	Strengthening asset disclosure in Peru	FY15
P152321	Strengthening MIDIS capacity to provide integrated services at the subnational level	FY15
P151096	PE Poverty NLTA	FY15
P151186	PE RAS ANA Organizational Restructuring	FY15
P151190	PE RAS ANA Human Resources Improvement	FY15
P156351	RAS National School Infrastructure Plan	FY16
P151779	Latinosan Regional Conference Peru 2016	FY16
P156602	Peru Nutrition Engagement Notes	FY16
P151314	PE RAS Increasing Water Supply and Sanitation Services in Peri-Urban Areas of Lima- Phase 2	FY16
P157555	PENX 2025 - Budget for Results and Regional Level Methodological Guidelines	FY16
P148375	Peru - Promoting opportunities for local employment around mining (Apurimac region)	FY16
P149453	PE RAS Increasing Water Supply and Sanitation Services in Peri-Urban Areas of Lima	FY16
P153779	PE RAS Urban Housing and Land TA	FY16
P157557	Foreign Trade Single Window Processes	FY16
P157022	Peru - Networks and the Role of Intermediate Cities	FY16

Project ID	Project Name	FY Delivered
P155340	Urban Planning Policies	FY16
P155342	Increasing Supply of Affordable Housing	FY16
P155341	Land for Housing and Urban Regeneration	FY16
P157464	Expert Advice for a Diagnostic and Base Line of Informal Urban Settlements to be Formalized	FY16
P155274	PERU Strengthening of the Property Legalization Process as Alternative to Formalization	FY16
P157299	Peru: Strengthening Customs Risk Management	FY16
P157387	PE RAS Integrated plan electronic contr.	FY16
P157511	PE RAS Maritime and port costs	FY16
P147109	PE TF Land Govern. in Mining Value Chain	FY16
P132146	Utilities Demand Management focused in Customer	FY16
P132031	LA/PER Creating Sanitation Markets	FY16
P151238	PE-Support to UHC and Health Reform Part II	FY16
P156328	Peru Financial Intermediation	FY16
P146679	WASH in School Infrastructure	FY16
P152960	Peru Education NLTA VII: Critical Skills for the Future 2	FY16
P145783	Integral Analysis of Logistics- MINCETUR	FY16
P154946	Infrastructure Finance and Capital Markets	FY16
P157553	PE RAS National Export Strategic Plan	FY16
P151971	Strengthening Customs Risk Management	FY16
P150935	Developing a New Natural Gas Development and Use Policy for Peru	FY16
P151825	Peru Flagship Productivity and Growth	FY16
P157554	PE RAS Special Economic Zones-Diagnosis	FY16
P145115	Social Inclusion and Mining in Peru	FY16
P153845	JIT RAS Capacity Strengthening for the Management of the Urban Cadastre System	FY16
P153546	Peru Innovation and Productive Development AAA	FY16
P156745	Intermediate Cities Policy Note	FY16
P153614	Improving Public Investment Management for School Infrastructure	FY16

Project ID	Project Name	FY Delivered
P147140	Consultations with affected communities	FY16
P153707	Peru OECD Accession Support	FY16

CPSCLR Annex 4: IFC Commitments

IFC Project Name	Fiscal Year
AAQSA RI3	2012
AAQSA RI4	2012
AAQSA RI5	2012
Amerika Fin PCG	2012
Fin Crear Loan	2012
GTFP BIF Peru	2012
Laredo Swap Rest	2012
Laureate UPC	2012
LPV Equity	2012
Mibanco - PEN	2012
MiBanco IV RI	2012
Protecta RI 6	2012
Viru B Loan	2012
BIF Equity	2013
Callao Norte	2013
Continental III	2013
GTFP BIF Peru	2013
GTFP Continent P	2013
Banco Continental	2013
BIF III	2014
Callao Swap	2014
Confianza II	2014
Edyficar IV	2014
Project Educa	2014
Protecta RI 7	2014
Callao Norte II	2015
Callao Swap II	2015
CompartamosPeru2	2015
DCM MAVCrdt Peru	2015
GTFP BANCO FINAN	2015
La Positiva Gene	2015
Tinka	2015
Compartamos Financiera	2015
HMC Capital	2015
BTS Towers	2016
EdyficarV child	2016
GTFP BANCO FINAN	2016
GTFP BIF Peru	2016
Grand Total	2016
Banco Financiero	2016
BTST	2016

CPSCLR Annex 5: Detailed contributions to the program during CPS period

There are a number of activities carried out by IFC in the different pillars and objectives, though not all directly measured by the program, were also important to complement Bank efforts under these areas.

Pillar 1: Increase Access and Quality of Social Services for the Poor

Objective 1.2: Improve delivery and quality of social services

- The WBG program is working with the Ministry of Education and the private sector in strengthening tertiary education. The creation of a higher education quality assurance system is a critical mechanism to address the substantial variation in program quality and relevance, and increase the quality of higher education addressing skill shortages and facilitating the transition towards higher value added formal sector employment. The DDO is supporting improvement of the university education framework by creating the National Superintendence of University Education and the General Directorate of University Education within the Ministry of Education to guarantee that university programs and institutions meet quality standards and to lead the implementation of the university reform. Complementing the DDO, the Higher Education Quality Improvement Project is supporting higher education institutions to conduct internal and external evaluations, and implement improvement plans based on their findings. So far, 1,250 self-evaluations and 90 external evaluations have been carried out, and four institutions have implemented improvement plans.
- IFC supported the health sector with the construction of a 140-bed hospital in Lima, aiming to serve over 580,000 patients per year, through the Enfoca Fund and AUNA investments.
- Through a combination of loans, equity investments, and knowledge products, IFC has worked intensively with the private sector to strengthen the quality and the delivery of both universities and technical education institutions in Peru. With a loan, IFC supported the expansion of the physical infrastructure in one university (*Universidad Peruana de Ciencias Aplicadas - UPC*). Moreover, with significant equity investments IFC supported a total of five universities and technical institutes to increase the supply of quality programs. This is particularly important in Peru because both the public and the private offer are not able to catch up with the demand. As a consequence, at the end of the review period IFC was reaching over 120,000 students through its clients. In addition, IFC helped develop the capacity of two of its largest clients (UPC, CIBERTEC) to evaluate the effects of enrolling and graduating from these institutions (compared with other institutions). The study found that graduates from these institutions enjoyed higher salaries, better jobs, were more rapidly promoted, and made greater socio-economic progress.

Pillar 2: Connecting the Poor to Services and Markets

Objective 2.1: Improve access to water and electrification services in rural and peri-urban areas

- IFC investments have increased energy generation and distribution, allowing for improved coverage of electricity. IFC supported the development and completion of a 168 Mw run-

of-the-river hydroelectric power plant (Churin and Checras Rivers). Though the partners at completion repaid the IFC loan, the plant is expected to increase the energy supply in 836 GWh, serve 380,000 residential clients, contribute to the development of the local communities, avoid the emission of 394,000 CO₂ equivalent tons p.a., and make significant tax payments to the government. IFC also supported the concessionaire of two high voltage transmission lines.¹⁵ The project reinforced power supply to key mining centers, provided an alternative route for transmitting electricity to Lima, reduced technical losses and improved the overall reliability of the national grid system, displaced more expensive thermal generation in Pucallpa, and provided a base for the expansion of the national interconnected system to the north. The project is transmitting 3000 GWh per year and serving around 3.1 million clients.

Pillar 3: Sustainable Growth and Productivity

Objective 3.1: Create conditions for increasing productivity and income of peri-urban and rural poor in targeted regions

- Under the current less favorable external environment Peru's growth will have to rely much more on increasing productivity and addressing infrastructure gaps, in part through PPP within a fiscally responsible framework, and the WBG is working closely with Government in support of its reforms in this area. Given the country's still large productivity gap with high-income countries, the Government's National Competitiveness Agenda addresses the critical need for to increase productivity through deeper and sustained reforms targeting key determinants of growth: human capital, competition and trade. Also, the rapid expansion of PPPs has posed challenges to the existing framework, that requires that they be fully integrated into the public investment system and that a proper decision making process be adopted for the assumed fiscal risks. The Bank is contributing to the Government's reforms in both of these areas through two parallel DPFs-DDOs: Public Expenditure and Fiscal Risk Management and Boosting Human Capital and Productivity both approved earlier this year. Although outcomes have yet to materialize, under the framework of these operations the Government has already enacted a new PPP framework to incorporate them into the budget process and strengthen their selection and approval process. This is an important step towards ensuring that while benefiting from the PPPs, the Government contains the demand the place on budgetary resources through spending commitments or explicit contingent liabilities.
- IFC has had also several projects to increase rural and urban productivity. For example, IFC invested in Laredo, a sugar producer, to help turn the company around at a time of uncertain prospects and some political risk in the sector, and started to address the national sugar deficit in Peru that is being partly compensated by imports from Central America.¹⁶ The project has helped the client to increase sugar output, refining capacity, and efficiency, as well as introduce innovative irrigation methods to convert unused desert land into agricultural land. Laredo emerged as a profitable enterprise, employing several thousand staff, and purchasing raw materials from small famers. IFC also invested in Calidda- the holder of a concession to build and operate the natural gas distribution network in Lima and Callao, expanding gas distribution to 600,000 customers.

¹⁵ IEG's XPSR Evaluative Note of 2006 confirmed a Development Outcome rating of "Successful" for the project.

¹⁶ Peru's sugar deficit is expected to remain a shortfall at least for the four upcoming years.

- Through the Water Resources Group (WRG) platform, the IFC is advancing several promising water resources initiatives jointly with the Government, civil society and the private sector. For example, the National Water Agency, ANA, has used WRG's platforms to establish its 'blue certificate' by working with three companies in the MSPs to measure their water use and adopt water savings practices. Several other agencies are working through the WRG to make advances in the monitoring and stewardship that are expected to continue in the next CPF.
- A recent IFC evaluation has confirmed the key role of competition from commercial banks for pushing microfinance institutions to serve increasingly the poorer and the unbanked.¹⁷
- The IFC is helping the Government to establish the foundations for OECD accession through adopting a methodology to assess innovation, instruments on integrity, tools on international taxation, and areas of statistics and environment management. So far, the program has made significant progress in the areas of science, technology, and innovation; statistical infrastructure; environmental standards; corruption; and international taxation.
- In financial inclusion, though not directly linked to a CPS outcome, the World Bank provided extensive support to GoP through a variety of activities on financial literacy. For instance, the World Bank Diagnostic Review of Consumer protection and Financial Literacy (CPFL) undertaken in 2013, identified key measures in strengthening financial consumer protection, with the ultimate aim of increasing the availability and transparency of financial information, helping build consumers' trust in the financial sector, and expanding their capacity to wisely use financial services. This diagnostic was followed by a series of RAS with the Superintendence of Banking and Insurance (SBS).

Objective 3.2: Expand natural protected areas

- Another IFC project, in Apurimac, is promoting the integration of public-private partnership to help mining companies reduce social risk, by conveying a clear message that agriculture can co-exist and progress alongside with mining.

Pillar 4: Improve Public Sector Performance for Greater Inclusion

Objective 4.1: Improve public investment execution in sub-national governments

- The IFC is also helping several municipalities to implement a new safety inspections regime. Changes will enable a reduction of 30 percent in the number of days to obtain an inspection certificate for high and medium risk businesses.
- The IFC is also supporting the Peruvian tax administration (SUNAT) to reduce tax compliance costs for all firms. By enhancing tax simplification and increasing formal tax compliance by SMEs, the project aims to reduce direct compliance cost for existing formal taxpayers by 20 percent and increase filling of tax returns for SME by 10 percent.

¹⁷ "Factors Influencing Poverty Outreach among Microfinance Institutions in Latin America A report by Grameen Foundation and the International Finance Corporation", IFC and Grameen Foundation, 2015.