I. Abstract

After the end of President Fujimori’s rule in 2000, Peru was left with an economy in recession and 54 percent of its population below the poverty line. Inequalities were increasing and corruption in the political system prevailed. The economic program put in place by the early 1990s had been slowed down since 1997 and was ineffective at the turn of the millennium. In July 2001, the first Programmatic Social Reform Loan (PSRL I) was disbursed by the World Bank to support Peru’s social reform program during its economic and political transition.

Various measures have been taken to strengthen the transparency and accountability of the government’s economic decisions, such as establishment of the System of Integrated Financial Management (SIAF) which tracks information on public income and expenditure at municipal, provincial and national levels. Multi-stakeholder round tables for dialogue and collaboration among the people, government, and donors, called Mesas de Concertación, were encouraged and involved in processes such as monitoring of social programs. The proactive measures to increase people’s participation in social development resulted in nine regions adopting participatory budgeting in 2003. Local communities can now exercise their control over local resources. The PSRL was also successful in maintaining social stability during the transition. However, PSRL operation’s ultimate success can only be measured by the extent to which public expenditures actually reach the poor in Peru, a process that will surely take several years.

II. Background

Peru underwent a rapid and profound reform during the 1990s changing to a liberalized economy from a state-controlled economy. The economy showed signs of improvement during the initial years, but economic growth started declining in 1997. Legal, judiciary, and public administration reforms were put on hold, along with major privatizations. In November 2000, Peru’s then president Fujimori resigned and the country was left with the following problems:

- An economy in a recession since 1997

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* This case study was prepared by a team comprising Prof. Deepti Bhatnagar and Animesh Rathore at the Indian Institute of Management (Ahmedabad) and Magüi Moreno Torres and Parameeta Kanungo at the World Bank (Washington DC).

† During the early and mid-1990s, the economy showed improvement due to reform and substantial elimination of terrorism that had affected it for over a decade. After almost 15 years of negative growth of GDP per capita, Peru registered one of the fastest growth rates in the Latin American region between 1993 and 1997. Inflation fell from 7000 percent in 1990 to below 4 percent in 1999. Until 1997, foreign investment increased rapidly and poverty indicators also showed significant improvement. However, the economic growth started declining in 1997 due to various factors, like reduced capital inflows due to continued financial crisis in Asia, Russia and Brazil that shook the global confidence, followed by a brief but costly war with neighboring Ecuador in 1998. Peru’s annual GDP growth rate that reached almost 7 percent in 1997 declined to 2.1 percent in 1999. Peru remained highly centralized politically and administratively, and substantial arbitrary power remained with government executives, the military and police forces. Source: Report No: 23755, Implementation Completion Report – PSRL I, World Bank, March 2002.
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- 54 percent of the population below the poverty line
- Increased inequality between social groups and regions
- A corrupt judicial system
- A manipulated electoral system.

After a national consensus and with the collective efforts of social organizations and political parties, a transition government was formed for the next eight months. During the transition that culminated in the holding of democratic elections in April 2001, a “culture of dialogue” was promoted, as were negotiation mechanisms within an institutional and democratic framework.

The Government of Peru (GOP) placed emphasis on three national processes (see next section for details):

1. A concerted “Fight against Poverty.” This included the National Poverty Dialogues, the formation of Mesas de Concertación, and the encouragement of other participatory processes.  
2. The elaboration of National Development Objectives.
3. The State’s decentralization reform: the decentralization process in Peru was aimed at gradual transference of functions to the subnational levels.

In June 2001, the World Bank granted a Programmatic Social Reform Loan (PSRL) to support GOP’s medium-term social reform program through a series of two (possibly three) loans. The first loan (PSRL I) of US$100 million was disbursed in July 2001, and was aimed at laying foundation for transparent and participatory resource allocation mechanisms, rationalization of expenditures, decentralized implementation and systematic performance tracking of social programs during the difficult phase of fiscal adjustment and political transition. Peru’s new government took office in late July 2001 and showed commitment to continue, and in some areas even extend, the reforms started by the transition government.

In September 2002, the World Bank approved PSRL II of US$100 million to continue supporting the medium-term social reform program. Specific objectives of PSRL II were to help to do the following:

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2 A 1997 Poverty Assessment suggested that further gains in poverty reduction in Peru were unlikely due to duplication and lack of synergies among development actors. While supporting the GOP’s (Government of Peru’s) transition and responding to the Poverty Assessment, the World Bank encouraged dialogue, exchange, and partnership in Peru for four years and recommended the establishment of an inclusive forum for plural debate and action. In 1998, with the agreement of GOP and other donors, a National Poverty Dialogue was established to share experiences and information and to promote better use of poverty reduction resources. After three sets of decentralized, thematic poverty dialogues between 1998 and 2001, the National Poverty Dialogue became an institutionalized, plural forum. To further institutionalize public debate and create country ownership of development strategies, the transition government issued a presidential decree giving the forum longevity and promoting the decentralization of efforts through plural coordinating bodies called Mesas de Concertación. Source: Social Accountability Mechanisms in Programmatic and Structural Adjustment Loans, Tools and Practices 5, World Bank, 2002.

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- Establish a pro-poor social expenditure regime and an adequate social protection mechanism for the poor.
- Improve access of the poor to critical social programs, through better targeting, improved efficiency and rationalization of expenditures.
- Improve transparency in social programs and expenditures, as well as empower beneficiaries to participate in the policy and budget process.

During a prolonged economic slowdown, PSRL II facilitated the transition from short-term budget protection, to medium-term shift in public expenditure so as to benefit the poor. After the positive outcome of two previous PSRLs, a third PSRL of US$100 million was considered for year 2003 to further enhance transparency in the system and the people’s participation in resource allocation.

III. Impact/Results

PSRL I laid the groundwork for medium-term reforms to increase capacity for targeting and monitoring poverty alleviation programs and to improve public access to information on social expenditures. After the approval of PSRL I, more accurate estimates of poverty rates in Peru were published. There had been a substantial poverty reduction after PSRL I. Achievements under the social protection, transparency and social control objectives were rated satisfactory.

The PSRL II loan continued to protect critical social programs for the poor. It also helped increase the quality and efficiency of social expenditures. For example, at least 1000 teachers had been included in the MOE’s (Ministry of Education’s) rural incentives program, benefiting 400 rural teachers with financial incentives and 600 additional teachers with the training package.

The GOP’s national processes were as follows:

- **Fight Against Poverty**: PSRL encouraged the propagation of Mesas de Concertación. During PSRL II, Mesas de Concertación got actively involved in at least six regional departments’ development plans. In June 2003, there were around 1,024 Mesas in Peru.
- **Elaboration of national development objectives**: In 2002, the National Agreement among seven national parties, the church, industry, business, labor unions, and regional priorities’ coordinator, could be achieved. In 2003, through the National Agreement, 30 state policies on national development have been defined in the areas of “Democratic Institutionalization,” “Social Equity & Fight Against Poverty,” “Competitiveness,” and “Fight Against Corruption.”

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4 The year of disbursement of the third PSRL has been determined on the basis of a presentation by Federico Arnillas and William Reuben, available on the URL: http://www.worldbank.org/participation/events/essdwk03/System%20of%20Social%20Accountability_PSRLPeru%20Final.pdf
- **State’s Decentralization Reform:** The state structure incorporated a “Regional” level of authority for the first time. The decentralization norms state that it is obligatory to use participatory budgeting (PB) and concerted planning mechanisms at local and regional levels.\(^7\)

Twenty-two of the 24 regions formulated concerted plans and budgets for 2003. Out of the 22 regions, nine decided their budgets through participatory budgeting with support from all the public regional administrations, mayors and principal civil society organizations. Each region discussed its priorities for 100 percent of the available resources during PB. These nine budgets were considered for the 2003 national budget.\(^8\)

The PSRL loans included benchmarks and triggers to measure progress and compliance to the commitments. Some of the transparency and participation benchmarks and triggers included in PSRL III were as follows:

- Participatory budgets of six regions included in the 2003 national budget
- Budget analysis made by an independent civil society organization (CSO)
- Report Cards applied and results internalized in five protected programs
- Transparency module applied in the National Household Survey
- Ombudsman processes 80 percent of claims\(^9\)

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**Text Box 1: Accomplishments of PSRL Program at a Glance**

- The PSRL operations supported social reforms designed to produce a shift in 14 of GOP’s 20 medium-term development results indicators like percentage of population below the poverty line, rate of open unemployment, infant mortality rate, index of public’s perception of transparency in public service, etc.\(^10\)
- PSRL strengthened anticorruption efforts and promoted the empowerment of civil society and the private sector while streamlining the public sector’s role.\(^11\)
- The PSRL instrument helped establish transparent and participatory resource allocation processes (such as PB) and performance-based tracking for social expenditures in Peru, enabling the poor to exert influence and have a voice in the use of fiscal resources.\(^12\)
- A major benefit of the PSRL program has been its contribution in maintenance of Peru’s social stability during the difficult phase of political and economic transition.\(^13\)

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\(^7\) Source: Arnillas, Federico and Reuben, William, Presentation on ‘System of Social Accountability in the PSRL in Peru’, World Bank.


IV. Key Elements of Empowerment

Access to Information

Increased public access to information about the government’s use of resources and major poverty alleviation programs had been the priority of reforms under PSRL. The Ministry of Finance launched the Economic Transparency Website (*Transparencia Economica*) in February, 2001, to give the general public access to information on government transfers to social and other development programs. In addition, district-by-district expenditures and other transfers made by a number of social programs in 2000 were published on the Internet. For example, the National Complementary Food Program (PRONAA) published the transfers made to each of more than 15,000 soup kitchens around the country. The government also launched information campaigns to ensure that the people are informed about their rights as citizens. For example, the Public Ombudsman’s Office launched a national campaign in 2001 explaining the public right to information.

For PSRL III the GOP agreed to improve the delivery of information and education in health, nutrition, and hygiene to homes, through community-based strategies. This was initiated by the GOP through a ministerial resolution to establish a strategy on community health, promoting home-based educational interventions in maternal-child health.

Inclusion/Participation

1. Participatory processes and public oversight

The participation of civil society in the review and monitoring processes concerning social programs remained an integral part of reform under PSRL. For instance, PSRL supported the multi-stakeholder round tables called *Mesas*, which included local communities, civil society, government and other donors for dialogue and collaboration. To further advance citizen scrutiny and oversight of public services, a “score card” system allowing for public evaluation of government services was piloted in a number of cities in 2001. In addition, 75 percent of public programs implemented service quality evaluations to get people’s feedback.

The new strategy in PSRL emphasized community participation to overcome the cultural barriers in health programs. One of the aims was to convert a number of primary care clinics into local community clinics called CLAS (*Comunidades Locales de Administración de Servicios de Salud*). Increasing community participation in the design and execution of primary care and public health programs could empower the local communities to manage their own clinics. Community involvement is also encouraged.

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14 URL: [http://transparencia-economica.mef.gob.pe/](http://transparencia-economica.mef.gob.pe/).
while implementing long-term public insurance schemes, e.g. by having mothers audit the performance and quality of mother and child services.

2. **Participatory budgeting**

The preliminary versions of strategic development plans were prepared in 2001. The process was approved and linked to the regional plans in 2002, resulting in participatory formulation of the 2003 National Budget. The investment ceilings were distributed amongst the regions according to the severity of poverty. Overall, PB has been used as an instrument for:

- Inclusive governance agreements
- Fight against poverty
- State democratic decentralization reform.

PB activities in 2003 involve:

- Training local and regional authorities to formulate concerted plans and participatory budgets
- Developing a legal framework to establish a stable institutional environment
- Updating concerted plans and formulation of participatory budgets for 2004.

**Accountability**

1. **Anti-corruption efforts and transparency**

A key initiative of Peru’s transition government had been its anticorruption program. The first PSRL supported an assessment of the types and areas of corruption and disseminated these results to the public and public officials. To complement its anticorruption efforts, an institutional and governance review was conducted in 2001 consisting of an in-depth analysis of the incentive structures that have affected Peru’s current institutional and governance system.

To further enhance transparency, the National Ombudsman’s Office (*Defensoría del Pueblo*) undertook a well-publicized information campaign and established a complaint mechanism, including a hotline, to discourage the political use of social programs during the 2001 elections. Numerous bodies, including Ombudsman’s Office, the executive, and the Ministry of Women, adopted resolutions intended to guarantee the political neutrality of their staff and the programs they administered during the transition.

Reforms under PSRL included mechanisms to improve both vertical and internal accountability.

2. **Vertical accountability**

PSRL helped institutionalize a culture of evaluation, in which poverty alleviation programs could be regularly reviewed to assess their impact on the living conditions of
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poor households. Accordingly, the Ministry of Economy and Finance (MEF) worked with the heads of national poverty alleviation programs to ensure the regular and systematic conduct of ex-post impact evaluations. With support of PSRL I, MEF made an agreement with the leaders of major social programs (like Social Investment and Compensation Fund and National Complimentary Food Program) to develop a monitoring strategy and evaluation guidelines for a systematic impact evaluation of programs not evaluated during the two previous years.

The National Ombudsman’s Office is responsible for investigating and taking action in the event of abuse in social programs.

3. Internal accountability

To improve public expenditure management and accountability, the government instituted Multi-Annual Sector Strategic Plans (MSSP) and a System of Integrated Financial Management (SIAF). MSSP introduces performance-based budgets, while SIAF tracks public income and expenditures and provides reliable information on a regular basis. These systems helped improve overall financial management, transparency, and accountability.

In January 2001 the scope of SIAF was extended to MEF tracking of the hitherto well-guarded information on the use of funds of the Interior and Defense ministries. This further improved horizontal accountability and transparency of social expenditures within the government. The general public also has access to the system’s information on budget transfers to social programs through the Economic Transparency Website.

At the GOP’s request, the World Bank organized two capacity building activities for the GOP and civil society. The first was a workshop in July 2001 on international best practices in social accountability mechanisms, such as participatory budgeting in Porto Alegre, and IDASA (independent budget analysis), to provide concrete suggestions for reform to the Peruvian team. The second was a mission composed of international experts to support the multi-stakeholder round tables and CSOs in designing social accountability mechanisms.

4. Local Organizational Capacity

In January 2001, the transition government established a national ‘Round Table for Attacking Poverty’ Mesa de Concertación para la Lucha Contra la Pobreza (MCLCP) to ensure that social policies and actions are transparent, efficient, and have an effective impact on poverty. This round-table works to institutionalize the participation of civil society in the design, decision making, and control of poverty-related programs. The government representation in MCLCP includes social ministries, production ministries, MEF, and the Prime Minister, while the civil society is represented by NGOs (nongovernmental organisations), labor unions, private sector and religious groups, etc.

Creation of the national round table was followed by the creation of numerous departmental and provincial-level round tables. The departmental forums work to institutionalize the participation of civil society in the design, decision making, and
control of social programs at the departmental level. The provincial-level round tables gather the views of local government representatives, civil society, and grassroots organizations in the annual planning and budgeting process. The PSRL instrument encouraged these Mesas de Concertación. The Mesas were involved in 75 percent of the regional department development plans by end 2001.

**Text Box 2: Strengthening School Councils**

The MOE intended to reorganize schools through the creation of strong school councils which would promote dialogue between the school and the community, thereby promoting accountability at the local level. School councils were expected to participate in the preparation, implementation and evaluation of the Institutional Education Plan, evaluate the use of school and parent association funds and link the community to school activities. The school director chairs the council composed of school’s deputy director, two teachers, two students and two parent representatives. Under PSRL I, the GOP issued a supreme decree instituting voluntary school councils. Under PSRL II, MOE issued a ministerial decree that made school councils compulsory. The benchmark for PSRL III set a goal of 5,000 established and fully operating school councils.

**V. Issues and Lessons**

**Challenges**

- Traditionally, there are large disparities in income and the availability of resources among the Peruvians. The inequalities deepened after 1997 with public resources becoming scarce for the needy. After identifying enhanced equity as the basic tool for development, democracy and peace, the GOP planned to provide resources through the active involvement of people in fulfilling their needs. This provision encouraged PB for impartial allocation of available resources.
- Centralized planning was a major reason for the failure of the GOP’s earlier social programs, which could not respond adequately to the regional needs. The delivery of goods and services was hampered by practices dependent on centralized decision making, poor timeliness and inappropriate quality. Service decentralization has been more suitable in addressing local conditions and requirements. It provides more options for registering complaints about poor service and a direct social oversight of the staffing and quality of service of service organizations like education facilities, health facilities, and so on.
- Peru lacked evaluation or transparency practices in planning and monitoring poverty alleviation programs. Few programs included rigorous impact evaluations, and people were rarely involved in monitoring the use and impact of public resources. Information, particularly financial information, was kept secret and made available only to influential people. The end of the Fujimori government following a corruption scandal after five months of his controversial reelection for a third term, and allegations of corruption at different levels, (like

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misusing public funds, or widespread use of “clientilistic” (or relations with population) increased people’s demand for transparency. Consequently, anti-corruption efforts became a priority for both transition and elected governments.

- The SIAF has the potential to provide citizens with financial and budget data by program and sector at municipal, provincial and national levels. However, the information published by SIAF is difficult to access due to its presentation, lack of computer infrastructure below provincial level, and the long time required to get connected to the central system. Therefore, PSRL II supported improvements in SIAF and its extension to a sample number of municipal governments as well as development of an integrated plan by MEF to track transfers among central and local governments.

- During the PSRL period, Peru faced the risk of natural disasters like floods due to the El Niño effect. In addition, the internal risk of the GOP’s inability to raise tax revenue, make the desired shifts to social expenditures, and partially reverse some policy decisions, posed a threat to its growth. To mitigate these risks, the GOP implemented a strategy to sustain credibility and strengthen financial and fiscal sectors. This included external donor financing, accessing international capital markets by placing sovereign bonds, and privatization. The GOP also formulated a country vision and feasible medium-term plans through several consensus-building initiatives, which culminated in the National Agreement.

**Lessons Learned**

- A poverty alleviation strategy focused on strengthening local capacities can create strong local players to drive community development.

- Peru’s example shows that a culture of transparency and dialogue between the government and the people, based on the principles of democracy and civil service, can put the nation on a steady path to development.

- Social reform needs to focus on enabling mechanisms to enhance social accountability (comprising regulatory, informational, policy, and institutional environment) rather than benchmarking fulfillment of activities.

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17 Through ‘clientilism’ politicians appear to ‘privatize’ the state benefits. They claim credit for providing citizens with their legal entitlements, and thus build clienteles amongst voters to assure electoral success. Source: Community studies Lecture 7: Communities & social action URL: http://staffweb.itsligo.ie/staff/pshare/cs/lectures0203/lecture%207.doc


19 El Niño is a disruption of the ocean-atmosphere system in the tropical Pacific having important consequences for weather around the globe. Among these consequences are increased rainfall across the southern tier of the US and in Peru, which has caused destructive flooding, and drought in the West Pacific, sometimes associated with devastating brush fires in Australia. Observations of conditions in the tropical Pacific are considered essential for the prediction of short-term (a few months to one-year) climate variations. Source: http://www.pmel.noaa.gov/tao/elni/o/el-nino-story.html
• The conditions and ongoing processes need to be assessed beforehand for effective implementation of reform exercises and measures.
• The features of PSRL, like public access to information, institutional mechanisms for public debate and monitoring, widely known performance benchmarks, and a complaint redress mechanism, can empower the citizens, including the poor, to hold governments accountable for their performance.
• The institutionalization of round tables at various levels of society (from the community to the district level) can facilitate participation of local communities and civil society to influence the national decision making. This participation also enables them to monitor all public expenditures.
• Institutionalization of processes such as PB can really motivate the citizens to participate in large numbers at a community level to exercise their control over local resources. However, the inclusion of the poor in civic engagement is necessary for broad-base and decentralized participation in processes like PB.
• National reform processes like decentralization and reform in state policies, along with poverty reduction and anticorruption strategies, can help strengthen systems of social accountability.
• A viable social policy requires citizens to actively engage in policy implementation. The innovative mechanism for public oversight and citizen input to social policy supported by the PSRL operation can help strengthen the democracy. The programmatic approach can also help build consensus among various ministries on important sequential policy actions addressing key social issues.
• It is important to involve and commit citizens to choose to become agents rather than passive objects of social programs. Monitoring the use of public resources, protecting individual rights, involvement in service management, and assessing social programs imply that people are aware of and actively use their right to choose. Families and communities can be successfully involved in managing schools and health establishments, and in executing and implementing social programs. The encouraging experiences under the PSRL demonstrate the positive effect of greater citizen and civil society organizations’ empowerment on social programs.

VI. Further Information: References and World Wide Web Resources

Arnillas, Federico and Reuben, William, Presentation on ‘System of Social Accountability in the PSRL in Peru’. URL:
http://www.worldbank.org/participation/events/essdwk03/System%20of%20SocialAccountability_PSRLPeru%20Final.pdf


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