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Contents

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ABBREVIATIONS

BCRP	Central Reserve Bank of Peru
CAF	Andean Development Corporation
CAN	Country Department Andean Group
CCLIP	Conditional Credit Line for Investment Projects
CGR	Contraloría General de la República [Comptroller General's Office]
CPE	Country Program Evaluation
EAP	Economically active population
GDI	Gross domestic investment
GDP	Gross domestic product
IIRSA	Initiative for the Integration of South American Regional Infrastructure
IMF	International Monetary Fund
INE	Infrastructure and Environment Sector
INEI	Instituto Nacional de Estadística e Informática [National Statistics Institute]
MEF	Ministry of Economy and Finance
MTC	Ministry of Transportation and Communications
NRTC	Nonreimbursable technical-cooperation funding
NFPS	Nonfinancial public sector
NSG	Non-sovereign guaranteed
OECD	Organisation for Economic Co-operation and Development
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PDL	Performance-driven loan
PFM	Public Financial Management
PMR/PPMR	Progress Monitoring Report / Project Performance Monitoring Report
SCL	Social Sector (IDB)
SEF	Sector Facility Loan
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Management System]
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]
SWAp	Sector-wide approach
TFP	Total factor productivity

EXECUTIVE SUMMARY

The context of the Bank's country strategy with Peru 2007-2011 (hereinafter also the "2007-2011 Program" or "Program") showed a State that had emerged from the recessionary period triggered in the late 1990s by the Asian crisis. By 2006, the Peruvian economy was mature, with access to global capital markets, sustained growth based on the advantages of its natural resources and solid macroeconomic fundamentals that bolstered the country's confidence. Strong growth led to an increase in public revenue and high private demand levels, all of it driven by the favorable evolution of natural resource prices in an economy with little diversification. The external results and the prudent management of public accounts allowed a significant expansion of international and fiscal reserves.

The Peruvian economy continues to be characterized by low productive diversification and insufficient productivity advances, rendering the country vulnerable to external conditions. These risks expose Peru to equity problems, since they affect the government's capacity to keep its social safety net system in place and limit the possibilities of improving income distribution and boosting productive potential.

While sustained economic growth has led to advances in income and living conditions for the population, these improvements have primarily affected those who are more integrated into the formal economy. Over the last decade, although there has been a significant drop in poverty levels, the improvement has been more pronounced in urban areas. The challenges of reducing the levels of inequality, which have marginalized a significant portion of the population, are still present. These questions underlie the priority agenda of the political movement that recently assumed power under the new administration, which takes a broader view of government intervention.

The democratic change heightened uncertainties in the political context and offers opportunities provided a broad consensus can be reached on an agenda of change. The economic leadership has been evolving relatively independently of the changes in the political system. This has allowed the country to receive an investment-grade rating and earn market confidence in its management of the economy, thus ensuring continuity.

Public management performance in terms of implementing policies effectively and transparently continues to be at the core of the country's challenges. Despite the existence of islands of modernity in the public sector, the government's institutional capacities continue to be limited and decentralization has not taken off. Added to this is the lack of a qualified and stable civil service as well as weaknesses in the quality of execution of public resources, which grew by a factor of three over the period.

The main virtue of implementing the country strategy with Peru 2007-2011 lay in the strategy's capacity to adapt to the new challenges arising from the country's booming growth, which reduced the problem of scarce public resources. In 2009, when Peru faced short-term difficulties stemming from the external context, there were no appropriate financial instruments or sufficient resources to adapt to this new situation. Aside from these contingencies, the tendency was to adjust to a declining public-sector demand for debt, which diminished the importance of its financial contribution. In this context, it was not an easy task for the Bank to carve out a niche for itself, given the abundance of competition from other development agencies and convenient alternative financing sources.

Adapting to Peru's working modality entailed an important change in the Bank's institutional role. Its traditional role in investment and current expenditure financing was reduced while the relative importance of operations with unrestricted resources for microeconomic policy reforms was increased. In addition, knowledge and experience transfer and technical support became the main added value of the Bank's contribution. Despite expectations, the development of the private portfolio and the rising use of local currency were not sufficient to offset the drop in public-sector financing requirements. It is worth noting the progress made in the MIF portfolio as a result of its recent strategic transformation. The new operating modality was reflected in the expanded workload of operations personnel, as anticipated from the Bank's decentralization as well as from Bank headquarters.

The absence of a long-term country agenda, based on sufficient diagnostic assessments, was the main difficulty faced by the Bank's 2007-2011 country strategy with Peru and the reason for its limited evaluability. The strategy was designed not to lose thematic ground, faced with a public-sector financing demand that required fewer resources and more selective sector attribution. Implementation was less significant in the sense that fewer operations were approved than had been planned and new challenges appeared in complex areas, which meant a qualitative change in what was being required of the Bank. Demand in the country focused on the way in which the reforms were made and implemented, making the Bank's knowledge and technical experience its key area of contribution. This situation aggravated the program's initial limitation in not having coordinated its actions or allocated financial resources to knowledge products and technical cooperation. Intangible products increased sixfold with respect to the preceding period, so that nonfinancial products from the CAN/CPE portfolio can now be found in practically all Bank divisions. The same was not the case with loans, where demand by division was much narrower. The presence of staff of good technical quality was important to respond to the significant growth in knowledge and technical cooperation.

The Ministry of Economy and Finance (MEF) was an essential partner inasmuch as, through its coordination work, it made it possible to manage the change in working modality, converting its units into important interlocutors for the Bank. The MEF's intervention was crucial in mitigating the risks of operations with weak counterparts and in adopting a technical approach to the formulation and execution of operations.

The 2007-2011 Program's execution has advanced toward the targets established in the Bank's Realignment of 2007. Despite modest progress in the use of country systems, the depth of staff decentralization (but not so much decision-making decentralization) and operating efficiency showed notable improvement vis-à-vis a more complex client. This is echoed in the comments and points of view expressed by the national executing agencies in the IDB monitoring reports. The execution cost-benefit indicators reflect an increase in permanent costs, associated with the change in the working modality. By contrast, there is a drop in the volume of business and in the unit amounts of approved operations. These imbalances are among Management's current concerns in preparing the new business plan.

Policy reforms accounted for most of the approvals in 2007-2011. These involved programmatic loans associated with nonreimbursable technical-cooperation operations as financial instruments. The main outcomes identified highlight the Bank's technical contributions to the solutions designed and to promoting the implementation of policy reform agendas in the various sectors. The outputs associated with the legitimation of institutional arrangements among the various executing agencies and the approval of new organizational, legal, and regulatory frameworks were the main tangible results.

While it is too early to be categorical as to the net benefits of those outputs, little evidence has been found in the operations' monitoring and evaluation reports to confirm the effectiveness of implementing institutional transformations in the end beneficiaries. Nor was evidence found of substantial improvements in the national monitoring and evaluation systems or capacities that could confirm the efficiency and quality of the implemented reforms. The absence of direct participation by the decentralized actors in this type of intervention instrument added another significant limitation on the scope of the results from a territorial perspective. Evidence was found of constraints on the sector executing agencies in terms of moving forward with the use of the programmatic instrument, which entails greater responsibilities for results without a results-based budget. This deficiency is being addressed by the MEF in recognition of the importance of resource allocation in ensuring the quality and sustainability of the transformations.

Reduced investment and institutional strengthening financing was another significant change in the 2007-2011 portfolio. In most investment projects, tangible evidence was found to confirm the results of the interventions on the beneficiaries. The closer relationship of these operations with the end beneficiaries and the clear effort to include decentralization in sector actions showed the significance of the Bank's value added in creating national assets. Most of these operations served to develop institutional capacities in the direct executing agencies, thereby contributing to the sustainability of the achievements. Unfavorable outcomes in this type of projects were associated with governance instabilities in the executing agencies and less involvement in and ownership of the projects on the part of the MEF.

The evidence found in the evaluation heralds the likelihood of adaptations in the country's demand. The preference is to continue with lower external government debt and thus a lower business volume with the public sector for the Bank. This highlights the significance of the coming challenge entailed by the change in the public-private portfolio mix. The financial envelope for the program and the operations will continue to be sized by the projected flow of debt-related annual obligations.

The contribution of intangible products (knowledge and technical cooperation), alone or combined with loans, will continue to be appreciated by the country, which is open to venturing into the contracting of Bank advisory services on a reimbursable basis. The past importance of policy loans is not expected to be maintained. Investment projects are perceived as being associated with results, since they use flexible instruments and amounts that are independent of the cost of producing them. The development of the non-sovereign portfolio and of the domestic capital market in local currency will continue to be important for the country. Financial instruments that are suitable for productive diversification and for reducing informality will acquire greater significance.

The Bank's action in Peru will continue to be conducted in highly competitive contexts in terms of financial conditions and transactional flexibilities. In this respect, the institution's comparative disadvantage is noteworthy with regard to efficient financial instruments to offset the impact of potential external contingencies.

The impact of the Bank's programmatic exercise with Peru could be enhanced with the following *recommendations*:

1. Include knowledge and technical cooperation as program products, both on a stand-alone basis and integrated with loans, ensuring the availability of resources to finance them.
2. Accelerate the change in the public-private makeup of the portfolio, thus elevating the importance and catalytic effect of the non-sovereign portfolio on economic diversification, coordination of business ventures, and public-private partnerships.
3. Seek greater balance in the sovereign portfolio between investment and policy reform financing modalities, promoting: (i) recovery of the costs of non-credit-related intangible products;[1] (ii) the use of less transactional, results-based investment instruments (SWAps); and (iii) a lower relative importance for programmatic policy-based loans, enhancing the targeting of policy matrices on the problem's active restrictions and on the evaluation of outcomes.
4. Foster progress in the country execution capacities and systems in line with the transformations in the Bank's monitoring and evaluation systems.
5. Concentrate the program's scope on fewer issues, focusing on sustainable growth and inequality reduction, which are the Bank's areas of excellence.[2]

For the Bank, the recommendation is to create a suitable financial instrument to address the impacts of a potential lack of growth resulting from external vulnerabilities.

[1] This would complement two existing instruments: the highly specialized, reimbursable Special Technical Advisory Program (PSA) in effect since 2000 and the Knowledge and Capacity Building Products (KCPs). The recommendation tends to focus on an instrument that can finance knowledge and innovation initiatives similar to what the country has been undertaking with the World Bank.

[2] The evaluation identified certain development challenges where the Bank can make an important contribution: (i) closing of the equality gaps in social programs and in access to basic services; (ii) institutional capacity weaknesses in public management; (iii) diversification in production and exports, complementing the country's comparative advantages (iv) incentive system to mitigate the coordination and market flaws that block innovative business development; (v) quality of public investment, to improve the delivery of basic services to the population and increase its production capacities (primarily in terms of human capital training); and (vi) adoption of a more crosscutting and less sector-based approach in public programs, with the participation of the various levels of government, particularly the territorial level, and the private sector.

I. Context and Development Challenges

A. Economic and social performance

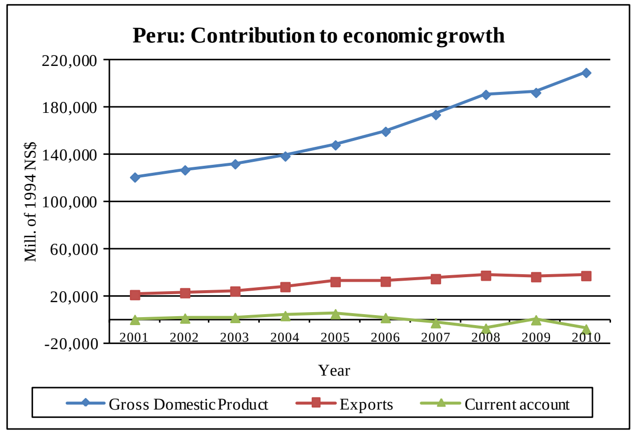
1.1 The Peruvian economy has performed very well, posting annual growth of 5.7% over the 2000-2010 period.[1] *GDP per capita (*on a purchasing power parity basis*)* rose by 86%, with annual inflation of 2.8%. The external accounts made it possible to accumulate international reserves, which practically quintupled during the decade and in 2010 exceeded US$44 billion. Under prudent fiscal management, public debt as a percentage of GDP went from 45.5% in 2000 to 23.7% in 2010.[2] Macroeconomic developments *favorably impacted poverty indicators*: extreme monetary poverty levels fell from 24.4% in 2001 to 17.4% in 2005, and 9.8% in 2010,[3] while monetary poverty[4] decreased from 54.8% in 2001 to 48.7% in 2005, and 31.3% in 2010. The population with at least one unmet basic need went from 37% in 2004 to 22% in 2009 (see Table I.1).

1.2 In 2001-2010, traditional *exports* grew in nominal terms at an annual average rate of 19%, and nontraditional exports at a rate of 14%. The relative importance of traditional exports as a percentage of total exports is high and growing, having risen from 69% of the total in 2001 to 78% in 2010, primarily due to mining exports (61% of total exports). Yet, in terms of physical volume, nontraditional exports showed greater vitality than their traditional counterparts.[5] High-technology exports in 1992-2008 hovered around 2% of total nontraditional export products. Exports of goods and services went from 11% of GDP in 2001 to 22% in 2010. The current account balance moved from -20% of exports of goods in services in 2001 to -7% in 2010. This *export boom was accompanied by the excellent performance of external prices for commodities*. The terms of trade (base 100=1994) went from 88 in 2001 to 135 in 2010.

1.3 The boom brought with it *job creation[6] and growth in private investment*, which in 2001 -2010 expanded at an annual average rate of 9% (14% in 2006-2010) and by the end of the period was equivalent to 21% of GDP. Expanded tax pressure, measured by the change in primary nonfinancial expenditure in the nonfinancial public sector (NFPS), *evolved approximately in line with GDP*, going from 15.8% of GDP in 2001 to 16.3% in 2010. In addition, free trade agreements were signed with the United States, China, Chile, Canada, and the European Union, and negotiations are currently under way with Japan and South Korea.

1.4 *The 2008-2009 international crisis* and the adverse shift in business owners' expectations affected the pace of economic growth and job creation (see Figure I.1). Although positive growth of about 1% was achieved in 2009, economic activity slowed down: domestic demand and the prices of tradable goods fell, and private investment and inventories contracted, primarily affecting the manufacturing sector and domestic demand. To cushion the impact of the crisis, the government implemented countercyclical measures through an expansionary monetary policy and an economic stimulus plan, which during 2009-2010 allocated 3% of GDP to infrastructure works and support for the vulnerable population. Consequently, together with the drop in tax revenue, the primary NFPS result went from a surplus of 3.9% of GDP in 2008 to a 0.3% deficit in 2009, but returned to a 0.7% surplus in 2010. This progression was accompanied by a slight increase in external public debt, which rose from 24.1% of GDP in 2008 to 27.2% in 2009, only to drop back down to 23.9% in 2010. In 2010 and the first quarter of 2011 *there has been a significant rebound, with GDP growing at a rate of 11.2%*.

1.5 In 2001-2010, *the average annual growth of the economy (5.7%) was primarily a result of domestic demand*, which climbed to 6.1% (4% increase in internal consumption plus 2.1% increase in gross domestic investment (GDI)). Exports contributed with an average annual rate of 1.3%, offset by imports at 1.6%. In 2006-2010, the figures were higher: the 7.2% average annual growth was driven by an increase in domestic demand (8.8%) and, to a lesser extent, in exports (0.6% annual). The GDI contribution to growth rose from an annual average of 0.5% in 2001-2005 to 3.7% in 2006-2010, essentially driven by the expansion of private investment. Private expenditures during the period grew by an average of 7.1% and public spending grew by 1.7% (see Tables I.2 and I.3) These trends were reflected in *a significant growth for the period in national disposable income (8%) and in the domestic absorption rate (9.7%).*



B. Development challenges

1.6 Peruvian development faced uncertainties arising from the *change of government administration*. These uncertainties will persist if there are any doubts as to the existence of the broad political coalitions needed to promote an agenda of structural transformationsThe likelihood *of directional shifts in macroeconomic policies* is low, given the level of development attained (investment grade, free trade agreements, sustainable macro balances with significant capital inflows), and that macroeconomic management has in recent years been relatively independent from the changes in the political system. The country's economic structure will remain subject to the vulnerabilities of the global economy. Long-term growth continues to be based on the production and export of commodities, with low diversification and significant disparities in productivity.

1.7 According to the indicators provided by the World Economic Forum 2010-2011, Peru ranks in the middle in *competitiveness*.[7] Its main limitations stem from insufficient infrastructure, which some calculations describe as a US$38 billion deficit, and low capacity for innovation, science, and technology in productive processes, resulting from low investment in the area in comparison with the average investment level in middle-income countries. The 2011 ranking of the World Bank and International Finance Corporation (IFC) Doing Business project puts Peru's economy in 36th place among 183 countries. It also shows improvement in ease of doing business and in weaknesses associated with construction licenses, tax payments, and contract performance. In the innovation indicator for 2009-2010, Peru ranks in 109th place, lagging far behind other countries in the region.[8] These indicators are key factors for raising productivity and competitiveness as drivers of medium- and long-term growth. They point to bottlenecks on the road to high and sustained growth that will become larger if the international outlook turns less favorable.

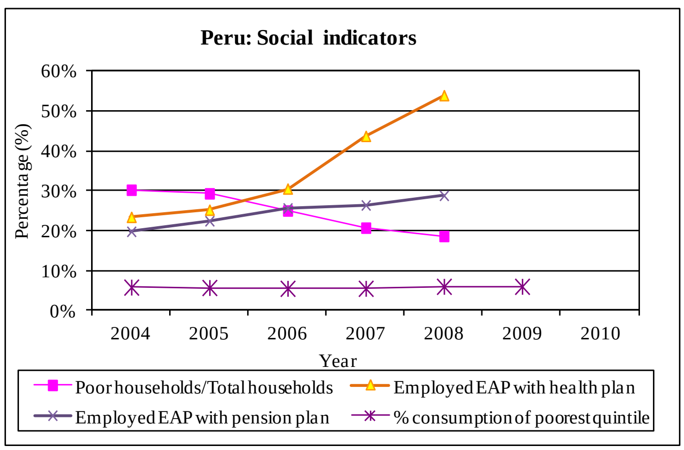
1.8 The long-term growth of the economy has been based on factor accumulation rather than on an increase in total productivity, whose structural contribution to development has been minor (Díaz and Kuramoto, 2011). Between 1960 and 2006, total factor productivity (TFP) growth accounted for only 2.7% of economic growth, while physical capital accumulation accounted for 47% and human capital accumulation for 50% (Abusada and Cusato, 2007). In 2000-2007, the respective contributions were 47%, 14%, and 21%; also in this period, the contribution of TFP in growth accounting increased and a change took place in the long-term trend. While the TFP contribution has fluctuated, since 1991 it has been positive and has gained in significance in terms of explaining growth: between 1990 and 1999 it accounted for 31% of average annual growth, compared to 19% for physical capital and 49% for human capital. The average labor productivity of the economy declined as the labor force grew (Central Reserve Bank of Peru (BCRP), 2010).

1.9 One productivity problem is *intersector dispersion*. In 2008, labor productivity of the 1% of the economically active population (EAP) working in the mining and hydrocarbon sector was equivalent to 67,200 nuevos soles in 1994 currency, compared to 3,200 nuevos soles in agriculture and fishing, 11,800 nuevos soles in commerce, and 10,200 nuevos soles in services, which collectively account for 84% of the employed EAP and 70% of the national added value.[9] In *2002-2007, the evidence shows that informal employment (60%-70% of the employed EAP) reduces the intrasector effects on low productivity, given the significance of these areas on employment, and tends to magnify the intersector effects* (Carranza, 2011; OVE, 2007).

1.10 *Family income and expenditure inequality continues to be a central challenge in Peru*. In recent years, inequality of opportunities remained stable, with modest progress. In the aggregate, the Gini coefficient for expenditure went from 0.44 in 2001 to 0.37 in 2010,[10] influenced by a dramatic drop in metropolitan Lima. *Inequality in certain areas declined only marginally*, as shown by the records of Costa Rural [rural coastal region], Selva Rural [rural jungle region], and even Costa Urbana sin Lima [urban coastal region, excluding Lima].[11] *Inequality increased in productive businesses and in the quality of education, despite greater basic education coverage* (López Calva and Lustig, 2010; Jaramillo and Saavedra, 2011). There is evidence of significant *inequality in vocational training.* There are many unskilled workers, a large gap in technical jobs, and a scarcity of middle managers, while growth in higher education supply suggests problems of quality and academic programs that are not market-oriented.

1.11 The high growth rates *allowed an increase in social expenditure*, which rose as a percentage of GDP from 3.9% in 1990 to 9.5% in 2005 and 10% in 2009.[12] Social public expenditure, managed by weak entities,[13] insufficiently targeted (see Table I.4), and without beneficiary standardization, has been the central concern of government authorities.[14] The allocation of resources is not territorially equitable, favoring urban areas (which are more integrated into the market) to the detriment of rural areas, where poverty is greater, exceeding 54% in 2010. Yet the poverty level in rural areas fell by 24 percentage points in comparison with 2001 figures.

1.12 *Social programs have tended to focus on enhancing the capacities for connecting workers to labor demand, encouraging workers to seek a source of income and thereby improve their contact with the labor market*. This has transformed self-employment and informal employment into a social response that characterizes both recessionary and economic growth periods.[15] Of the total employed EAP, only 30% has a contractual relationship with the employer (39% if one considers only the private sector). A priority was placed in the government agenda on how to spend better and accelerate public investment to reduce the infrastructure deficit, taking advantage of the growth in revenue collection; however, there was no emphasis on the quality of this increased public spending on modern employment (Jaramillo and Silva Jáuregui, 2011)



1.13 Peru faces problems of quality and, in some cases, coverage in *basic social services* such as education, health, and nutrition. There is no social safety net that can enable vulnerable groups to face economic crises, production seasonality, regional crises, or natural disasters. In health services, there is a more strategic vision, particularly in the mother and child care area, but the deployment is inefficient. The Comprehensive Health Insurance Plan provides universal health insurance, but it is not clear what the service includes (see Table I.1).

1.14 In *water, sanitation, and water resources*, there are significant inequality gaps in terms of access: while the total access figure is 74%, it is 88% for the urban population and 36% for the rural population. In the urban sector, the shortcomings created by the large population growth, which caused the systems to collapse, have not been narrowed.[16] In the rural sector, the problem is more complex and greater investment is required. Advances were made in terms of safe water, but there is significant demand that is being informally addressed. Untreated wastewater (84%) creates significant pollution and, in this area, rural coverage and usage regulations are minimal. Irrigation water losses (85%) indicate gross inefficiencies. At the local level, service providers work at a loss, with insufficient rates and cross-subsidies, and face problems of economies of scale. This makes private-sector participation difficult.

1.15 A key factor helping to explain the lack of substantive progress in addressing inequality is the *inefficiency and ineffectiveness of the public sector*. Inefficiency has to do primarily with the significant asymmetries in public administration management and institutional development capacities. There are alarming levels of informality in government employment and stagnation in the civil service system.[17] Ineffectiveness is manifested in the government's low levels of productivity (see Table I.5) and in the difficulties in reducing pronounced inequalities in the coverage and quality of public goods (see Tables I.1 and I.4). There is little to be said about progress in the efficiency and quality of public spending because it is hard to find relevant indicators. Advances in results-based budgeting are slow but on the right track. The country continues to allocate resources primarily based on inputs to the institutions (line-item budgeting) rather than to programs, outputs, and outcomes. In 2011, 24 strategic programs were executed based on performance indicators, representing 10% of the budget. Moreover, there is no ex post evaluation system for programs and projects, and resource execution lacks autonomy and faces complex systems and a bureaucracy with little training.

1.16 Resources for *government decentralization* practically doubled in the past 10 years, from 25% of primary expenditure in 2001 to 43% in 2010. While decentralization reform was initiated in 2002, the transition truly started with the 2001 *Ley del Canon* [requiring the central government to transfer a portion of the mining royalties to local governments]. Certain local and regional governments receive greater resources for investment, derived from mining areas of responsibility, without having adequate capacities, organization, and human capital.[18] The distribution of these areas of action has become another source of inequality, since functions were transferred to the new authorities without new resources. Lack of efficiency was combined with poor judgment in the management of expenditures, bordering on resource mismanagement.

1.17 Surveys show that *corruption* is one of the issues that generate the most dissatisfaction in the population.[19] The perception index prepared by Transparency International, which measures the degree of corruption in the public sector, ranked Peru in 78th place among 178 countries in 2010 (14th in the region). The Comptroller General's Office (CGR) points out that indications of corruption have been found in connection with approximately 10% of the resources executed by the government. The CGR goes on to state that, lacking both sanctioning capacity and the authority to audit public resources managed by national agencies, it is clearly hamstrung in its ability to act.

1.18 Maintaining an *environmental situation* that is consistent with an adequate quality of life and effectively preventing natural disasters are challenges that the country has to face. Peru is one of the world's 15 most biologically diverse countries, with a great genetic array, innumerable species of flora and fauna, and varied nonmarine and marine ecosystems. Moreover, it has the world's ninth largest forest area and the fourth largest tropical forest area, and encompasses 13% of the Amazonian forest. Environmental quality has been affected both by the uncontrolled development of extraction, production, and service activities and by limited environmental civic engagement and other actions, as reflected in the country's water, air, and soil pollution. In addition, the country is vulnerable to various *natural disasters* both sporadic (earthquakes, El Niño phenomenon) and recurrent (freezes, droughts, floods). The implementation of civil defense plans and the new institutional structure of the National Disaster Risk Management System recently incorporated into the country's regulations needs to be given priority, in order to protect the population and ensure a decent quality of life.

II. THE BANK'S PROGRAM

A. The Bank's country strategy with Peru 2007-2011

2.1 The Bank's point of departure was a diagnostic assessment indicating that Peru's economic growth, while significant, showed weaknesses. This growth was to a large extent due to external factors and the prices of tradable goods, rather than to a process of structural change based on productive diversification. The vitality of economic activity was very uneven, with high productivity in a few sectors and very low productivity in many others. The society lived with high poverty indices, low education quality, lack of job security, informality, and social exclusion. Peru faced a significant infrastructure deficit and a great institutional challenge in the public sector, with enormous disparities in capacities, reputation, and efficiency.

2.2 In response to these development challenges, the government based its policies on macroeconomic consolidation, improved performance for modernization of the productive structure, support for low-income sectors, and decentralization and State reform. Within this vision, the program was expected to help support basic infrastructure, drive economic diversification, and provide resources to offset the potential unfavorable impacts of possible external vulnerabilities.

2.3 In line with these objectives, the Bank's country strategy sought to help the country to: (i) strengthen its foothold in the global economy and enhance its competitiveness, (ii) promote social development and inclusion, and (iii) deepen reform of the State and improve public management.[20] Support for the private sector and non-sovereign public sector was to be primarily for infrastructure (transport, energy, water, and sanitation, with subnational entities or concessionaires), and the development of financial markets (capital market, mortgage securitization, financial institutions, and trade finance facilitation program). The Bank also planned to continue its support to the oil and gas sector, in which it has been a significant player through its financing for the Camisea project and its subsequent phase, Peru LNG.

2.4 A financial program was agreed upon, with a base-case scenario of US$1.7 billion and a high scenario of US$2.5 billion, which would consolidate the Bank's position as the principal source of multilateral financing. The proposal called for deepening the business model accordingly. The financing requirements validated by the public debt management strategy set forth in the Multiyear Macroeconomic Frameworks turned out to be lower than expected.

B. Evaluability of the country strategy

2.5 The strategy was very broad and its attribution in terms of outcomes was not very precise. The evaluability analysis found that the development challenges were properly identified but that the strategy *failed to establish a means of measuring the outcomes of the Bank's contribution*.[21] The 2007-2011 country strategy (hereinafter also the "2007-2011 Program") lacked performance indicators; consequently, it did not establish baselines for the problems or intermediate or final targets for the expected contribution. This programming modality is not evaluable since it lacks a procedure that clarifies how the Bank will contribute to a better country. Ultimately, the 2007-2011 Program's outcomes could only be inferred from an analysis of the projects' performance with regard to each of the development challenges.

2.6 The 2007-2011 Program's very general design was functional for both the country and the Bank: for Peru, to the extent that it mitigated the lack of strategic planning and allowed the country to include new initiatives along the way;[22] for the Bank, because it allowed it not to lose thematic ground or relative importance in the country.

C. Programming relevance[23]

2.7 In the country strategy with Peru 2007-2011, the development challenges were properly identified and recognized in the diagnostic assessments. This made the program's objectives and purposes *relevant with respect to the development problems* (see Table II.2).

2.8 *From the standpoint of the 2007-2011 Program's implementation, the relevance was much lower* (see Table II.3). Of the public-sector projects programmed under the country strategy, only 60% were approved (69% by amount).[24] In the private sector, 25% of programmed projects were approved (69% by amount); in the MIF, 21% (no amounts); and in technical-

Peru: Programming relevance; 2007-2011 period

Instrument	Programmed		Approved	
	Mill. US$	Number	Mill. US$	Number
Public sector loans	1,463	33	1,344	27
Investment	588	20	289 1/	11
Policy loans	875	13 2/	1,055	16 3/
Private sector loans	425	3	517	10
Investment	425	3	515 4/	9
MIF	-	-	2	1
Nonreimbursable	-	19	58	110
NRTC	-	12	33	75
MIF	-	7	25	35

1/ This total includes PE-L1069 for US$175 million, cancelled in 2010.
2/ Three PBLs and one PBP.
3/ All are PBPs
4/ A single programmed project (LNG) accounts for US$400 million.

cooperation operations, only 18% (no amounts), leading to very low anticipation. *The proportion of non-programmed projects approved was high* (see Table II.3).[25] Of all approved public-sector loans, 40% (33% by amount) were not programmed. In the private-sector, MIF, and technical-cooperation projects, improvisation was higher there having been no programming in those areas.

2.9 In the private sector, 25% of programmed projects were approved (69% by amount); in the MIF, 21% (0% by amount); and in technical-cooperation operations, only 18% (0% by amount), leading to very low anticipation.

2.10 The financial instruments envisaged for the public sector consisted of 20 investment loans (US$587.7 million) and 13 programmatic policy-based loans (PBPs) (US$875 million) (see Table II.4). The Program was implemented with *higher quantities and amounts of programmatic loans and a much lower investment portfolio than had been programmed*: only 11 investment loans were approved (US$289.2 million) and 16 programmatic loans (US$1.055 billion). Several PBPs were added along the way in response to needs for reform or as new issues were introduced into the government's agenda (*Paquete Verde* [Green Package]). *This way of implementing the 2007-2011 Program required significant adaptation efforts on the part of the Bank, and this was one of its greatest virtues.*

2.11 Verifying the country strategy's outcomes was difficult inasmuch as it lacked a specific evaluable attribution. Its performance was assessed by inferring the projects' contribution to addressing the development challenges.

D. Consistency with financial and nonfinancial instruments

2.12 The search for an institutionally more effective State in a context of favorable fiscal results meant that *a combination of PBPs with intangible products was the most appropriate modality for advancing reforms with technical support. This made it possible to adapt the Program's amounts to the reduced demand for investment and the declining trajectory of financial resources, liquidity having ceased to be a problem.*[26]

2.13 Ten programmatic series were implemented in the period, with a total of 24 loans, 18 of which have been executed at May 2011. PBPs accounted for more than 76% of the loan portfolio[27] and most of the technical-cooperation operations and sector facilities (70%) approved during the period (see Tables II.2 and II.6). Thus, *the Program's outcomes were substantially determined by the performance of the programmatic series*.

2.14 Practically all the PBP series were designed without supporting long-term strategic programming: in 9 of the 10 programmatic series, identifying the action plan or sector agenda for the reform was expected to be an output of execution. These were also not planned as part of a State reform process.[28] In most cases, the diagnostic assessments were incomplete. *Conducting studies on the problems and building indicator systems for management were among the commitments in eight* *programmatic series.* In addition, all the series expect the operation to determine a strategic agenda with a long-term vision for the sector (see Table II.6).

2.15 The country's demand emphasized the Bank's contribution in terms of how to implement reforms, valuing the Bank's capacity in this regard.[29] This, combined with insufficient diagnostic assessments, caused the solutions to be seen as *technically solid but not focused enough on active constraints and on the problems of implementing institutional transformations.* The designs covered the entire vertical logic of the issue as if everything were equally important. This is evident in the enormous number of commitments per operation and in the high number of outputs and activities required to fulfill them (see Table II.6). In execution, as is normal, *numerous modifications were made in the process of achieving contents, which increased the risks of sustainability of the expected outcomes.*[30] No evidence was found in the monitoring reports as to how the contents that were not achieved or modified affected the critical path of the reform and the expected outcomes.

2.16 For the Ministry of Economy and Finance (MEF), the PBPs, while inconsistent because of the country's lower financing requirements, were essential for legitimizing the institutional changes with technical support. *The contents also reflected fiscal agenda commitments* relating to the allocation of resources and incentives and to the redistribution associated with expenditure efficiency and quality. Executing agency participation was not always trouble-free in terms of taking ownership of the reforms, especially because they involved assuming responsibilities without a concomitant budget increase, since the proceeds of these loans go to the Treasury rather than to finance the fulfillment of commitments, while the budget resources are used to channel the participation of the various sectors in the programs. Despite efforts to include subnational actors,[31] their lack of direct participation in the operations added further weaknesses to this modality of action.

2.17 The country's public investment needs were primarily financed with own resources, which were in most cases executed with tenuous, low-competence national capacities. This explains why this portfolio was substantially comprised of operations from the preceding period. Despite mixed outcomes, this type of operations supported the implementation of institutional transformations and the development of new areas of responsibility in public management.

E. Consistency with other development agencies

2.18 The portfolio in *Peru is an example of a significant collaborative effort among multilateral (World Bank, CAF, and IMF) and bilateral development agencies* (IFC, GTZ [German Agency for Technical Cooperation], SDC [Swiss Agency for Development and Cooperation], KfW [German development bank], JIBC [Japan Bank for International Cooperation], and USAID). Of the 50 operations analyzed in the Country Program Evaluation (CPE), 22 were found to have involved cooperation with multilateral agencies, with cofinancing in several cases (see Table II.2). Cooperation with bilateral agencies was particularly significant in water, sanitation, climate change, and competitiveness. In operations related to the MEF (quality of expenditure), a significant relationship was established with the World Bank and the IMF. In 6 of the 10 programmatic areas in which the Bank participated, there was significant coordination with multilateral development agencies.

2.19 Toward the end of the period, the expansion of international and trade agreements (climate change, environmental management, free trade, etc.) and unforeseeable structural challenges (natural disasters, energy) drove the diversification of issues to be addressed by the Bank. MEF participation facilitated interagency coordination and was *crucial in mitigating the impacts of political swings and frequent administrative changes*, which are typical of the Peruvian public sector. The numerous technical-cooperation operations and sector facilities determined the technical monitoring of the designs and the fulfillment of project commitments. Because of their nature, the PBPs made it easier to incorporate the agenda for sector reforms, in practice taken on by the MEF, which determined the amounts of international cooperation in the aggregate.[32]

III. EXECUTION PERFORMANCE

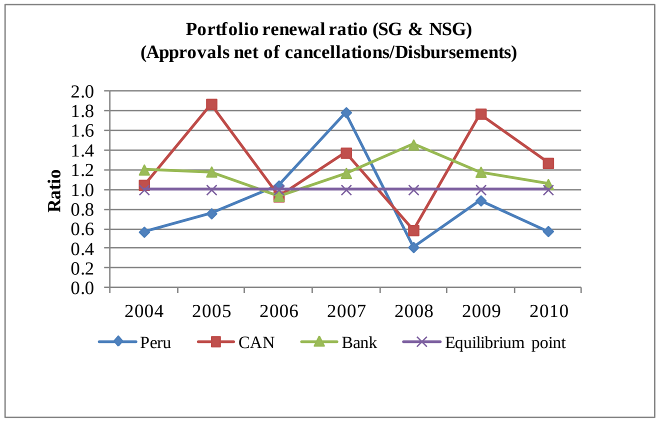
A. Program execution

3.1 Between 2007 and March 2011, 150 operations were *approved* for a total of US$2.091 billion (see Table III.1). Of these, 38 are loans (US$1.961 billion), of which the public sector accounts for 71% (69% by amount) and the private sector for 29% (31% by amount, with the LNG operation, for US$400 million, accounting for almost the entire sector). The 112 remaining operations are nonreimbursable technical-cooperation projects (US$130 million). MIF interventions account for 31% of the total (19% by amount), nonreimbursable technical-cooperation operations for another 67% (25% by amount),[33] and the investment grant of the Spanish water fund for the remaining 55% (PE-X1004 Program to Improve and Expand Water and Sanitation Services in Peru). The total amount approved for the public sector (US$1.344 billion) was lower than under the base scenario established in the 2007-2011 Program (US$1.7 billion).

3.2 In comparison with the country strategy 2002-2006, the *amounts approved* were lower (by 7%), the number of operations was higher (by 19), and the average amount therefore fell by 19%. The increase in total operations approved is due to a higher number of nonreimbursable technical-cooperation operations (25 more),[34] for higher amounts (29%) and higher average value (49%).

3.3 Regarding the *type of financial instrument* used, investment loans declined in both the private and public sectors. There was a predominance of PBPs in the total portfolio, replacing PBLs and adding flexibility to a significant portfolio of unrestricted resources. This was in line with the use of more flexible and less transactional financial instruments in the remaining loan operations (SEF, PFM, CCLIP, and PDL). The PBPs were associated with numerous intangible nonfinancial products linked to knowledge and the drive for institutional modification of the sector reforms. The operations involved multiple national actors that needed to coordinate to fulfill commitments, which required significant effort in monitoring and coordinating with the MEF. It should be noted that Peru was managing three programmatic loans per year, and as many as 12 in 2010-2011 (eight from the Bank and four from the World Bank), in addition to a large number of technical-cooperation operations. The Bank's contributions in terms of knowledge development and technical support have been recognized by the country, in particular because they have helped legitimize the long-term vision underlying the sector policies in which the Bank had occasion to participate.

3.4 Regarding the *volume of business*, yearly disbursements grew until 2008 and subsequently declined. As a trend, disbursements in 2007-2011 exceeded their 2002-2006 counterparts (see Table III.2). Approvals were similar in both periods, resulting in a year-on-year decline in the value of the outstanding portfolio. This trend still holds: the private sector currently accounts for more than 50% of the portfolio pending approval and there are very few new PBPs, which heralds a change in the portfolio plan structure. Cancellations in the period were significant, amounting to US$288 million (US$279 million in the public sector), of which US$201 million were recent[35] (see Figure III.1). In recent months, between outstanding loan cancellations and debt prepayments, the country has narrowed its debt to the Bank by some US$1 billion. These downward trends also reflect the fact that loans under execution involve lower amounts approved and disbursed per operation.



3.5 The 2007-2011 country strategy set itself the challenge of deepening a *new business model* with Peru. The basic objectives were to achieve an increase in the amount of programmatic financing, improve the financial conditions and availability of financing in local currency, combine programmatic, investment, and technical-cooperation resources in each strategic area, and deepen the IDB-country relationship, modernizing and strengthening the Bank's Country Office with a view to reinforcing dialogue and focus on client needs. Implementation of this model did not come to fruition in the development of the portfolio and capital market in local currency. It similarly failed to achieve an approved portfolio balancing unrestricted resources, technical-cooperation operations, and investments.[36]

3.6 Table III.3 shows that, in 2007-2011, almost all sector divisions contributed knowledge and intangible products to the country. However, loans were implemented in less than half of the divisions and were primarily concentrated in the Infrastructure and Environment Sector (INE). This denotes the country's preference for intangible products and much greater sector selectivity than in the previous period.[37]

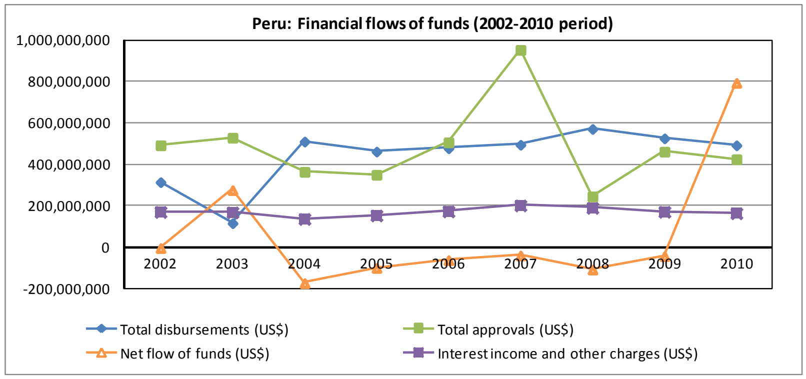
B. Execution effectiveness

3.7 Changes in the average time involved in loan preparation, approval to the first disbursement, and execution are indicators of the *transactional costs* of working with the Bank (see **Tables III.5** and **III.6**) and have shown a mixed trend over the period. Following a significant reduction in 2005-2006, *average preparation time* for PBLs/PBPs subsequently increased. This trend is similar to the Bank average, although in 2010 it was more than three times longer in Peru due to the complexity of post-2007 projects. For investment projects, except in 2008, preparation times traced a downward curve, with significantly lower values than the Bank average. The smaller number of this type of operation in the period blunted the transactional cost impact. The second indicator, *average time elapsed between approval and first disbursement,*[38] has been particularly high in investment projects (about a year) despite the downward trend. These levels are slightly higher than the Bank average.[39] For PBLs/PBPs, the times are shorter because disbursement commitments are fulfilled upon approval, do not go through the National Public Investment System (SNIP), and, unlike investments, do not require prior fiscal space in the budgets.[40] Lastly, the indicator measuring *average time under execution* (applicable only to investments) has trended upwards, reaching levels similar to or somewhat below the Bank average. For both indicators, average times have been longer than those originally planned in the operations.[41]

3.8 The *timeliness of disbursements* made notable progress over the period under review.[42] The incidence of projects with underdisbursements as a percentage of the total portfolio has been declining significantly and, by the end of the period, was close to the Bank average. The average deviation between the amount actually disbursed for each project and the planned disbursement amount also experienced a steep decline over the period, from levels far exceeding the Bank average to the Bank's average levels. To a large extent, this reflects the greater relative importance of PBPs in the portfolio.

3.9 Regarding *quality of project execution*, the vast majority of cases coincided with the replacement of Project Performance Monitoring Reports (PPMR) by Progress Monitoring Reports (PMR), making it impossible to evaluate the continuity of the indicators being measured. Moreover, PMRs were then only beginning to be prepared for PBPs, which make up the bulk of the portfolio under review. As to the *fiduciary quality of execution*, which measures reliability in the executing agencies' management of financial resources, the proportion of late audits has tended to increase with respect to the previous period, rising in 2010 to 56% of required audits. Yet this figure is below the Bank average (62%). The proportion of qualified audits was significant, although it fell at the end of the period and in 2010 was, at 12%, lower than the Bank average of 16%.

3.10 The *flow of funds* has been positive for Peru, with the exception of 2010, when it was negative due to an extraordinary debt prepayment of US$785.5 million (see Figure III. 2). The country has tended to repay all of its financial obligations to the Bank with its own resources as part of a trend of public portfolio reduction (see Table III. 2). The country has been very efficient in managing the regular flow of resources to finance these obligations, to a large extent thanks to the growing importance of the PBP portfolio, which made it possible to link payments to the annual disbursements from these operations. The financial impact of interest and other debt service charges matched the trend in business volume, falling from US$203 million in 2007 to US$165 million in 2010.



3.11 Table III.7 presents indicators related to the *efficiency of the business model.* It shows an increase in *workload for Bank staff in Peru* over the period (20%), as a result of the almost 40% growth of CAN/CPE (see Table III.4) and maintenance of this workload outside the Country Office. The increase in *the CAN/CPE workload* was foreseeable in the context of the 2007 Realignment. *This trend reflects the newly acquired importance of technical support and external knowledge transfers in the portfolio's design and execution, as well as a more intensive approach to the work of preparing and supervising operations coordinated by the MEF*.

3.12 The changes in the financial variables of the business volume, compared with the trends in the physical volume of the main inputs and products that generate them, made it possible to calculate certain *cost-benefit indicators for the business model* (see Table III.7). The calculations show that the higher staff workload was combined with fewer Bank disbursements and approvals. A similar trend is seen in the higher unit costs of personnel and approved operations.

IV. RESULTS ACHIEVED

A. General overview

4.1 The evaluation concentrated on 2007-2011 but reflected the long-term vision of the Bank's work. Therefore, in addition to the public-sector and private-sector operations approved during the period (excluding the Inter-American Investment Corporation (IIC), since it is evaluated in other OVE outputs), all outstanding portfolio projects at the start of 2007 were included, as well as those with a high percentage of execution in the period. Also included were all approved projects, even if recently materialized, since they all had a part in the Program's relevance.

The contribution of intangible products to outcomes was taken into account, along with the in-queue portfolio as a preview of the future program.

4.2 The evaluation method used reliable and fast result-interpretation procedures, based on direct observation, interviews with key informants, semiquantitative structured surveys, an analysis of available documentary data, and national and international databases.

4.3 The following section describes the evaluability of the operations approved during the period. Next is a summary of the main Program results, organized by strategic challenge (see Table IV.1 and attachment).

B. Evaluability of the projects[43]

4.4 Despite the high average ratio of *ex ante evaluability*, the loan designs were weak in showing the results of the interventions through an adequate metric (see Figure IV.1). The output indicators were sufficient for purposes of advising on their fulfillment, but the same cannot be said of the development results.[44] The lower ex ante evaluability of results stems from previous incomplete diagnostic assessments. For example, in eight of the 10 programmatic series, the performance of studies and the construction of information systems on the problem targeted by the operation were listed as commitments in the policy matrices. This means that, at the time of determining the intervention models, there was not enough data on the specific characteristics of the problem and the way in which it impacts the population involved. Thus, it is impossible to know who the beneficiaries are or how many there are, where the impacts are produced, or what the benefits are. Furthermore, an incomplete diagnostic assessment makes the operation's intervention model less accurate. The *ex post evaluability* showed progress in the indicator with respect to project execution. The policy matrices of the operations improved in the sense of adjusting to the reality that justified the disbursements. However, it cannot be inferred whether the changes in execution improved the results or simply made project execution viable. It can only be said that the original objectives were not modified in execution, but the activities and products designed to achieve them underwent significant changes (see Table II.6).

4.5 As to the *disaggregation of the components of the project evaluability indices* (see Figure IV.2), the indicators are observed to have had final targets in 85% of the cases, and not to have had baselines in 22% of the cases. In addition, more final than intermediate targets were anticipated, which shows a lack of planning for activities and products as well as an absence of critical paths. The differences between the disaggregated figures of the ex ante and ex post evaluability indices indicate the importance of the changes in the execution results matrices.

C. Program results

4.6 This section summarizes the 2007-2011 Program's results based on the projects reviewed,[45] organized by major Program challenges (see Annex 2 and OVE, 2011).

Peru: Loan portfolio analyzed in the CPE (by area and in millions of US$)

Project number	Type	Project name	Year	Current approved amount	Cancelled amount	Disbursed amount	Completion date
Water, sanitation, and water resources							
PE-0142	ESP	Program to Support Development of the Sanitation Sector II	2002	50.0	50.0	Cancelled	10-May-11
PE-L1001	PEF	FEP PE0142 Program to Develop the Sanitation Sector II	2005	0.6	-0.2	0.5	30-Sep-11
PE-L1020	PDL	Support for the Agua para Todos [Water for Everyone] Program- Sedapal (PPRS)	2006	50.0	0.0	50.0	9-Jun-11
PE-L1024	PBP	Water Resources Reform Program I	2007	200.0	0.0	200.0	20-Dec-07
PE-L1025	PBP	Sanitation Sector Reform Program I	2007	100.0	0.0	100.0	19-Jun-08
PE-L1040	PBP	Water Resources Reform Program II	2007	10.0	0.0	10.0	22-Sep-09
PE-L1050	PBP	Water Resources Policy Program III	2008	25.0	0.0	25.0	18-Dec-10
PE-L1052	PBP	Sanitation Sector Reform Program II	2008	130.0	0.0	130.0	22-Dec-08
PE-L1057	PBP	Sanitation Sector Reform Program III	2008	20.0	0.0	20.0	23-Dec-09
PE-L1070	ESP	Water Resources Management Modernization Program	2009	10.0	0.0	0.4	17-Feb-15
PE-L1077	SEF	Support for Implementation of the Sanitation Sector Reform Program	2009	2.0	0.0	0.3	26-Jul-13
PE-L1091	PBP	Second Generation Sanitation Sector Reform Program I	2010	50.0	0.0	50.0	18-Mar-11
Transportation							
PE-0187	ESP	Lima Urban Transit	2003	45.0	0.0	45.0	31-Dec-11
PE-0236	ESP	Departmental Roads Program	2004	50.0	0.0	19.7	31-Dec-11
PE-L1003	SEF	Border Crossings	2005	4.0	0.0	1.3	22-Feb-12
PE-L1006	CLP	National Highway System Serviceability Improvement Program	2006	100.0	0.0	60.3	21-Aug-12
PE-L1011	GOM	Decentralized Rural Transport (PTRD)	2006	50.0	0.0	40.6	16-Apr-12
PE-L1069	SWA	Highway Transport Sector Program	2009	150.0	150.0	Cancelled	29-Dec-10
Competitiveness support							
PE-0234	ESP	Program of Support Services for Rural Markets	2004	13.4	-1.6	13.4	31-Dec-11
PE-0203	ESP	Science and Technology Program	2005	25.0	0.0	21.7	19-Jul-13
PE-L1023	CLP	Agricultural Health and Agrifood Safety Development Program	2007	25.0	0.0	11.2	6-Feb-14
PE-L1076	PBP	Program to Enhance Productivity and Competitiveness I	2009	50.0	0.0	50.0	8-Sep-10
PE-L1066	PBP	Agricultural Competitiveness Program I	2009	20.0	0.0	20.0	23-Oct-09
PE-L1088	SEF	Program to Enhance Productivity and Competitiveness	2010	5.0	0.0	0.6	20-Jul-13
PE-L1097	PBP	Agricultural Competitiveness Program II	2011	25.0	0.0	25.0	26-Jul-11
PE-L1068	ESP	Innovation Program for Competitiveness	2011	35.0			Pipeline
Social sectors							
PE-0218	PFM	Program to Support the Housing Sector - Phase I	2004	60.0	0.0	55.9	30-Apr-12
PE-0247	PBL	Reform of Poverty Alleviation and Human Capital Development Programs	2004	300.0	0.0	300.0	15-Oct-07
PE-0241	ESP	Youth Labor Training Program	2004	16.8	0.0	16.8	11-Jan-11
PE-L1005	PFM	Second Phase Health Sector Reform Program -PARSalud II	2005	15.0	0.0	3.3	16-Nov.14
PE-L1072	PBP	Social Sector Reform Program I	2009	50.0	0.0	50.0	29-Dec-09
PE-L1078	PBP	Social Sector Reform Program II	2009	100.0	0.0	100.0	18-Dec-10
PE-L1100	TCR	Support for Social Sector Reform Program	2010	6.0	0.0	0.1	2-Dec-13
Public management							
PE-0217	ESP	State Modernization and Decentralization Program	2003	24.0	-4.0	24.0	30-Sep-11
PE-0223	ESP	Program for the Modernization and Strengthening of Tax Administration	2004	3.6	-5.2	3.3	31-Dec-11
PE-L1002	ESP	Moderniz of the Comptroller Gral's Office and Deconcentration of the Nat'l Control System	2005	12.0	0.0	7.5	30-Jun-12
PE-L1012	PBP	Public Expenditure Quality Improvement I	2006	200.0	0.0	200.0	27-Dec-05
PE-L1013	SEF	Public Expenditure Quality and Management Improvement Facility	2006	3.8	-1.2	2.8	31-Dec-11
PE-L1017	PBP	Public Expenditure Quality Improvement II	2006	200.0	0.0	200.0	29-Dec-06
PE-L1027	PBP	Public Expenditure Quality and Management Improvement III	2007	75.0	0.0	75.0	12-Nov-08
PE-L1028	PEF	PEF:PE-L1031 Program for Modernization of the Justice Administration System	2007	1.2	0.0	1.0	30-Aug-11
PE-L1087	ESP	Modernization of the Public Financial Administration System	2010	20.0	0.0	0.5	2-Dec-15
PE-L1031	ESP	Program for Modernization of the Justice Administration System	2011	26.0	0.0	0.0	N/A
Paquete Verde							
PE-L1055	PBP	Program for Development of a New Sustainable Energy Matrix II	2008	150.0	0.0	150.0	2-Dec-09
PE-L1061	PBP	Program for Development of a New Sustainable Energy Matrix I	2008	25.0	0.0	25.0	15-Dec-10
PE-L1080	PBP	Support Program for the Climate Change Agenda	2009	25.0	0.0	25.0	17-Dec-10
PE-L1086	PBP	Program to Reduce Vulnerability to Disasters I	2010	25.0	0.0	25.0	13-Nov-10
PE-L1104	PBP	Program to Reduce Vulnerability to Disasters II	2011	25.0	0.0	25.0	21-Oct-11
Private portfolio							
PE-L1019	PST	Banco Internacional del Perú- Interbank TFFP	2006	30.0	-	-	13-Dec-12
PE-L1016	PSI	Peru LNG Project	2007	400.0	0.0	400.0	16-Nov-10
PE-L1022	PSG	Banco Continental Guarantee Facility	2007	100.0	-	-	17-Oct-10
PE-L1029	PST	Banco Interamericano de Finanzas -TFFP	2007	10.0	-	-	30-Dec-12
PE-L1042	PST	Banco Continental BBVA - TFFP	2007	15.0	-	-	N/A
PE-L1065	PSI	Banco Continental Financing Facility	2008	45.0	0.0	40.0	21-Dec-12
PE-L1073	PSI	Mibanco - Crecer mi Negocio	2009	10.0	0.0	10.0	6-Aug-10
MIF portfolio in the period (see Table IV.1 Graphs and Statistics Annex)							

Source: Prepared by authors based on information from IDB Enterprise Data Warehouse

: Loans approved during 2007-2011 Program execution

4.7 The bulk of the portfolio executed over the period had to do with institutional reforms in **public management** and new public policy issues, such as the programmatic areas associated with the so-called Paquete Verde [Green Package] (climate change, disaster prevention, and sustainable energy matrix). With the MEF, the principal issue is *modernization of the financial administration macrosystems and public expenditure control*, supporting the State's Integrated Financial Management System] (SIAF), the National Public Investment System (SNIP), the government procurement system, the treatment of liabilities in public-private partnership contracts, and the decentralization of public investment. The results indicate an increase in financial administration efficiency and coverage, but there are no indicators showing an improvement in the efficiency and quality of public expenditure. Results-based budgeting was promoted, but the practical constraints on implementing it were not overcome. On the positive side, work in this area continued, as evidenced by the recent operation with the SIAF, which focuses on the quality of expenditures by changing the logic of the government budget function.[46] The expected contribution toward an orderly *decentralization* of areas of responsibility and toward a reduction of their inequities was not significant. The autonomy of accrued subnational investment was supported through the decentralized SNIP, but the results in terms of social return were not optimal. In the support for the Contraloría General de la República [Comptroller General's Office] (CGR), after six years of execution there are still no answers as to how to improve public resource management control, as governance problems in the institution have altered the project's work plans. The same is true for strengthening *the judicial system*: the issue continues to be a priority but, after six years, the operation was only recently approved, illustrating the difficulty of achieving consensus as to governance of the system as a whole.

4.8 The contribution to the new issues in the *Paquete Verde* projects was significant in reducing policy continuity risk. Transferring the Bank's state-of-the-art knowledge promoted dialogue and technical treatment by sector. Nonetheless, there are potential vulnerabilities as very comprehensive projects have been undertaken with low capacities on the part of the national entities tasked with implementing them.

4.9 In the areas of **competitiveness and productive diversification**, the Bank's interventions are longstanding. The country strategy with Peru 2007-2011 included supporting the development of a friendly business climate by opening up trade, primarily through free trade agreements, and strengthening the precarious institutional organization of issues and actors regarding *competitiveness*. The PBPs helped to improve the competitive environment and fulfill the requirements of the free trade agreement with the United States.[47] The recent PBPs Program to Enhance Productivity and Competitiveness continues to support an improved business climate, but its priority is creating the institutional framework for competitiveness policy around the development of science, technology, and innovation and economic diversification. The experience and institutionality of the Bank's traditional support for investment in *science and technology* research and innovation (Financing for Innovation, Science and Technology–FINCyT) converge on that notion of competitiveness. The investment operation in this portfolio area is intended to complement that support. It is considered important to have legal and institutional frameworks for development in this area, but there is a limitation in not having *adequate management capacities to implement the reform activities and measure their impacts on the end beneficiaries*. The outstanding challenge is to create consensus on an organization with integrated competencies, with private sector involvement. Installing monitoring and evaluation capacities is not emphasized in the PBP commitments.

4.10 Despite having been executed in different dimensions, the investment projects in science, technology, and innovation and in agricultural competitiveness (National Agricultural Health Service–SENASA), Program of Support Services to Gain Access to Rural Markets–PROSAAMER) yielded useful lessons in PBP design. The initiatives showed tangible outcomes in line with the designs and the supported institutional framework is considered appropriate for implementing long-term policies.

4.11 Investment loans in *road transportation*, approved in the previous programming period, show contributions with an impact in inventorying the road system, which was essential for purposes of planning the country's actions. They helped improve the standards in the main roads through small investments and a georeferencing system for the works, which was an important factor in decentralizing their execution at the departmental and local levels. The management tools of the Ministry of Transportation and Communications (MTC) were strengthened. The MTC took ownership of these tools and enhanced their use, thereby allowing the country to execute a larger budget with a greater contribution to competitiveness. The work context in this sector requires adapting *to a new paradigm*. Current demand is associated with knowledge in innovation, less money, and a highly competitive environment, all of which encroach on the traditional work avenues. The Bank faces limitations, since it is not a provider of state-of-the-art technology and knowledge but rather transfers what it learns by doing and what is done elsewhere. The Bank did not become involved in *large concessions and public-private partnerships*, with the exception of the single operation approved during the period (Sector-wide Approach (SWAp)) to cofinance the MEF commitment to IIRSA Sur, which was ultimately cancelled. These operations reflect a logic of political decisions and contingent liabilities, in projects with technical and environmental insufficiencies, which argued against Bank participation. The creation of the first *mass transit system in Lima* was successfully supported with an eye on the long-term effect of demonstrating an operational system, but this led to a less than optimal quality of technical support and technical applications. The materialization of the Metropolitano opens up a new avenue for expanding the portfolio in a key area. This challenge continues to exist, with insufficient resources and knowledge, the absence of an urban vision, and government inability to find a consensus solution for mass transit.

4.12 In the area of **poverty and social inclusion,** what stands out is *the continuity of the Bank's contribution* to improving access to basic services and reinforcing the social safety net system. The country did not have the support of a planning system able to identify critical paths, prioritize actions, and set targets for results based on social policy. This had the effect of haphazardly dispersing the social development initiatives, reducing the synergies of results. The Bank's actions reflected this circumstance, with operations that were executed without complementing each other, giving the impression that everything was of equal importance. Despite the continuity of certain programs, a comprehensive vision was not achieved. The MEF played a leading role and attributed to the Bank a large number of project contents, oversized in terms of outcomes and difficult to evaluate. The multiple components patched up the problems of efficiency and equity in the targeting of social expenditure. The main intended outcome was effectiveness of initiatives, to be achieved through the support of a single mechanism for controlling the *effectiveness of targeting spending on lower-income households (Sisfoh system).* Having started in 2004, work has yet to be completed on updating the list of beneficiaries and standardizing the selection criteria for each social program, perhaps because the interventions were primarily managed at the national level rather than through the subnational actors responsible for executing a large part of the actions. As a result, the work has not been complemented with an integrated social policy approach that includes the objective of decentralizing the delivery of basic services. Similarly, consolidated databases of beneficiaries do not yet exist. These shortfalls were combined with a weak institutional capacity to implement project commitments. Significant specific results have been achieved, in most cases with financial sustainability: the job opportunity program Pro-Joven; support for the public teachers career law, which promotes teacher evaluation; increase in Integrated Health System (SIS) coverage; support for the design and implementation of *Juntos y Construyendo Perú* [Together and Building Peru]; evaluation of the law on micro and small enterprises; and creation of an employment information system aimed at reducing informal employment and strengthening labor policies. Worthy of note is the recently approved requirement of being in the Sisfoh system in order to receive budget allocations.

4.13 *Water, sanitation, and water resources* projects have been traditional in Bank programs. Solving these problems is a key factor in reducing poverty and inequality. Yet in Peru, there continues to be a significant investment shortfall in these sectors and large equality gaps persist in terms of quality access to these services. The interventions did not finance investment but instead focused on *policy reforms and on creating institutional capacities at the lead public agencies involved.* They notably include improving management information, modernizing the legal and regulatory frameworks, and achieving a more autonomous institutional structure for managing water resources, seeking to encourage decentralization. Relevant knowledge was provided for designs and technical cooperation with a view to fulfilling the reform commitments. The reality shows that sector actions do not reflect a strategic agenda and are deflected by short-term political processes. The lead agencies are not organized by diagnostic area and there is little qualified staff to create decentralized management on technical bases. The Bank's organizational response in these areas was efficient. It integrated its divisions behind the water issue, which allowed it to enhance the coordinated treatment of the issues.

4.14 *Expansion of the non-sovereign guaranteed portfolio* to mitigate the expected drop in public-sector demand for resources did not materialize. The resources were used for programmatic loans and for offsetting the impacts of the 2009 financial crisis. The decision to slow down these operations due to the uncertainties stemming from the crisis was also a contributing factor. The main operation was Peru LNG, aimed at exporting liquid gas, and it benefited from the lessons of Camisea. Execution was efficient, the supervision instilled confidence in the various actors, and the plant now operates under high technical and environmental standards. In the country strategy, the non-sovereign guaranteed portfolio and the MIF were not active participants. Their operations were in response to a specific demand, coordinated with one of the executing agencies. Despite this, the portfolio results show adequate correlation with the Program's challenges.

V. CONCLUSIONS

5.1 The development challenges that underpinned the country strategy with Peru 2007-2011 continue to be the great problems facing the country. Difficulties persist in associating sustained growth and the consolidated fiscal balance with a reduction in opportunity inequalities across a broad swath of the population. Vulnerabilities to external shocks and the economy's low diversification continue to create uncertainties as to the country's development. These risks have been anticipated by the government, with the use of countercyclical instruments, giving credibility to the country's financial and fiscal policy. The combination of these factors with a highly centralized and institutionally weak public sector makes it hard to make progress on expenditure quality and on a narrowing of the equality gaps. To round out the situation, there is a disparity between a political system lacking strategic agendas based on shared diagnostic assessments and a relatively consolidated and well-shielded economic policy.

5.2 The strategic relationship over the period was characterized by a government that favored the Bank's role in mitigating institutional flaws in setting as well as implementing public policy. This reduced the risks of reversibility of reforms and the existence of multiple executing agencies. The PBPs accounted for a large portion of the portfolio despite the fact that liquidity was no longer a problem; as a result, investment financing declined in importance. Inasmuch as incurring external debt became less important, the volume of business with the Bank decreased, although the number of operations did not. Knowledge transfer and technical cooperation, as well as the Bank's skill in supporting large and complex operations, turned into a significant value-added on the part of the Bank. Loans were made in fewer sectors than originally planned (primarily in INE), while nonfinancial products were provided by practically all Bank divisions. The country strategy's relevance decreased as new and complex unprogrammed needs appeared and gained importance and as the MEF's financial needs declined.

5.3 The Bank continues to face challenges in its business model aimed at improving the coordination of the strategy's actions and resources with specific achievements in the country's development. In terms of their relevance for Peru, these challenges include weak coordination of nonfinancial products with financial products, which did not form a part of the 2007-2011 Program's resources and outcomes. Nonfinancial products must be managed as specific products, rather than only in connection with a loan. In this regard, it is hard to continue to justify financing intangible products and knowledge transfer with nonreimbursable resources in a country that reduces its available balances with the Bank.

5.4 The evaluation highlighted certain imbalances in the course of the Program's execution. The country's preference for policy reforms in the absence of financing problems is in contrast with the weak public management performance in executing expenditures and implementing institutional transformations that require institutional strengthening and investment optimization. This working modality did not narrow the significant principal-agent bias in the implementation of public policies, which continues to be a challenge for the country. The wide dispersion of issues meant focusing on areas in which the Bank did not have a significant track record (for example, *Paquete Verde* or Competitiveness), thus requiring greater efforts on the part of the Bank's technical teams. The shifts in resources between the public and private portfolios due to a lack of appropriate instruments was another factor diminishing the relevance of the results. This was combined with limitations in developing a financing strategy for the private sector with a greater focus on innovation, productive diversification, and the formal economy, and in developing financing options in local currency. The aforementioned trends were reflected in the rising costs of working with the country, in contrast to the falling volume of disbursements and approvals. The above-indicated imbalances are rendered more significant by the generalized absence of country systems that can show the effectiveness of implementation of the Bank's interventions.

5.5 The impact of the Bank's programmatic exercise with Peru could be enhanced with the following *recommendations*:

1. Include knowledge and technical cooperation as products in the strategy, both on a stand-alone basis and integrated with loans, ensuring the availability of resources to finance them.
2. Accelerate the change in the public-private makeup of the portfolio, thus elevating the importance and catalytic effect of the non-sovereign portfolio on economic diversification, coordination of business ventures, and public-private partnerships.
3. Seek greater balance in the sovereign portfolio between investment and policy reform financing modalities, promoting: (i) recovery of the costs of non-

credit-related intangible products;[48] (ii) the use of less transactional, results-based investment instruments (SWAps); and (iii) a lower relative importance for programmatic policy-based loans, enhancing the targeting of policy matrices on the problem's active restrictions and on the evaluation of outcomes.

4. Foster progress in the country execution capacities and systems in line with the transformations in the Bank's monitoring and evaluation systems.
5. Concentrate the program's scope on fewer issues, focusing on sustainable growth and inequality reduction, which are the Bank's areas of excellence.[49]

5.6 At the Bank level, the recommendation is to create a suitable financial instrument to address the impacts of a potential lack of growth resulting from external vulnerabilities.

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Endnotes

1 In 2001-2005 it grew to 4.2% and in 2006-2010 it jumped to 7.2%.

2 This performance has been internationally recognized, so much so that the country was awarded investment-grade status by the main risk rating agencies.

3 Percentage of the population with per capita spending below the cost of a basic food basket.

4 Percentage of the population with per capita spending below the cost of a basic consumption basket.

5 In 2001-2010, while the volume of nontraditional exports grew at an annual cumulative level of 9.7%, traditional exports grew at a rate of 5%.

6 The activity rate went from 68% in 2001 to 71% in 2010, while open unemployment dropped from 5.3% in 2004 to 4.5% in 2010.

7 It ranks 78th among 139 countries, compared with 73rd among 133 countries the previous year.

8 In the innovation index, Brazil ranks 42nd, while Chile, Colombia, and Argentina rank 43rd, 65th, and 73rd, respectively.

9 INEI and BCRP data.

10 The main underlying reasons for this progress were demographic (drop in the number of adults per household); progress was also driven by significant non-labor income (transfers to the poorest population made possible by the growth in resources, particularly in the form of food and health programs and access to basic infrastructure) and an increase in income per worker in a context of greater demand for work and lower unemployment.

11 The Gini index in Lima was 0.39 in 2001 and 0.32 in 2010; in Costa Rural [rural coastal region], it was 0.29 in 2001 and 0.28 in 2010; in Selva Rural [rural jungle region], it was 0.32 in 2001 and 0.31 in 2010; and in Costa Urbana sin Lima [urban coastal region, excluding Lima], it was 0.33 in 2001 and 0.31 in 2010.

12 Spending directly associated with the social safety net system (public expenditure on pensions) was 3.6% of GDP in 2005 and dropped to 2.6% in 2009. Despite the progress, it is still lower than in countries with similar per capita GDP levels.

13 Mainly the Ministry of Women and Social Development, the Ministry of Housing, Construction, and Sanitation, the Ministry of Health, and the Ministry of Labor and Employment Promotion.

14 These institutional weaknesses are highlighted in all Bank projects in the area of poverty and social inclusion. The inefficiency and ineffectiveness of social expenditure are due to the fact that the programs use various resource allocation techniques and, in several cases, are furthermore grounded on population forecasts based on a census conducted in 1993 and on the historical budget.

15 There have been advances in employment formalization and in the proportion of workers under contract, but they have not been sufficient. Rigid salaries and a lack of social benefit protection continue to reflect shortfalls in labor regulations, which are applied to a small portion of the EAP (17%), and an absence of incentives in the face of market flaws. Less than 30% of the employed EAP has a pension system.

16 While the internal migration rate declined, the problem continues to be significant (see Table I.1).

[17] Slightly more than 40% of the Peruvian civil service consists of staff operating under the traditional system (Decree 276), with job security and employment rights, low income and very low productivity; 33% operate under private law (Decree 728); 15% operate under administrative service contracts, which do not provide job security, have a term of three months, include the right to a vacation after they have been renewed four times, and are paid for under "non-personnel expenses" items; and 1% operate under Management Support Fund, a supplementary income source which does not provide employment benefits, is available for temporary public servants (e.g., ministers and deputy ministers), and is usually supplemented with funding from the management committee of the assistance and stimulus fund-CAFAE). Streamlining this civil service situation is at the heart of addressing the problem of quality in public service, but would have a great fiscal impact (see Table II.1).

[18] While certain municipalities receive the equivalent of more than 55,000 nuevos soles per capita in royalties, excess royalties, customs duties, and share-outs (2007 data), another 162 municipalities receive less than one sol per capita from these sources. Similarly, in 2007 and 2008, approximately one third of the total amount distributed to all local governments from the aforementioned sources was collected by 1% of the local governments (18 municipalities), and two thirds of the total amount went to 10% of the municipalities. Subnational revenue other than royalties is allocated to operations and the municipios only administer taxes, having no tax policy of their own.

[19] According to a 2009 Ipsos-Apoyo survey, when asked to identify the main problem facing the State and preventing development, 56% of those surveyed nationwide cited "the corruption of government officials and authorities," compared to 55% in 2008 and 49% in 2006. The "inefficiency of government officials and authorities," mentioned by 22% of those surveyed, was the second most-cited problem.

[20] To foster competitiveness and productive diversification, the Bank would provide support through (i) greater investment in infrastructure (highways, ports, logistics), especially water and sanitation; (ii) access to capital, particularly direct financing for the private sector; and (iii) support for productive sectors, with an emphasis on sustainable development of hydrocarbons and other extractive industries. Measures to promote social development and inclusion would be designed to (i) guarantee greater access to basic services; (ii) promote opportunities for formal employment; and (iii) strengthen the social safety net system. In the area of public management, the program sought to emphasize (i) decentralization in service delivery; (ii) higher quality in public expenditure; and (iii) strengthening the judicial system.

[21] This issue gave rise to a specific recommendation, in the previous CPE, that "the next country strategy include an adequate system of outcome indicators, complete with targets and baselines, to make it possible to assess whether the strategy's development objectives have been met." Management answered that this "will depend on the priority accorded this kind of focus in the realignment context," indicating that "with the approach in the strategy, the issue of indicators, their relevance and their attribution will have to be addressed in the individual projects."

[22] The 2008-2009 financial crisis led to short-term increases in the amounts of programmed operations with the public sector, and new areas were added. At the end of the period, the projects required lower amounts, the investment portfolio continued to decline, and the private sector window's shift in resources diminished. The quick recovery of liquidity and reserves, combined with the appreciation of the local currency, made it possible for operations to be approved with a lower unit value (see Table II.5).

[23] The 2007-2011 Program is considered relevant if its strategic objectives and purposes are consistent with the country's development challenges and if the means that were to be mobilized to attain them were approved within those contents. Relevance is a necessary but insufficient condition for confirming outcomes. Sufficiency requires that the projects implemented under the Program be aligned with the targets sought. The evaluability analysis of the country strategy did not provide targets.

[24] The anticipation index is calculated, by project amounts and number, as the ratio between projects programmed and approved and projects approved (whether or not programmed).

[25] The improvisation index is calculated, by project amounts and number, as the ratio between non-programmed projects approved and projects approved (whether or not programmed).

[26] To clarify, the amounts of programmatic operations are not determined by the costs of the reforms they support but rather by the requirements of the debt commitments and countercyclical requirements, if any.

[27] PBPs accounted for 76% of the number of loans approved by the Bank in 2007-2011. If we add three investment loans that support specific areas of development in the programmatic series (PE-L1057, PE-L1068, and PE-L1087), the total rises to 88%.

[28] The reform of the State was being implemented by creating islands of quality in certain sectors with the support of multilateral development agencies and experts, and by creating bridges to connect those directly responsible for the reforms with each other and with the budgetary and fiscal agenda managed by the MEF. The relationship with multilateral development agencies mitigated the lack of knowledge and contributed experience; through the cooperation, efforts were made to reduce inequalities in the institutional capacities of the various sectors with a view to fulfilling the established commitments. The lead public-sector institutions were typically lacking in human resources with appropriate technical capacities and competitive compensation, and did not operate within modern and formal organizational structures.

[29] Table II.6 shows that, in nine of the 10 programmatic series, the policy matrix commitments provided for identifying the sector reform action plan. In the same number of cases (nine of 10 programmatic series), these plans proposed laws, regulations, and institutional reforms, which were the outcomes of the action plan. The Bank provided knowledge, from the dialogue preceding approval of the interventions to the technical support for the operations' implementation.

[30] In the operations in which it was possible to calculate the impact of commitments altered by execution without any change to the development objectives, it was found that, other than one operation with a flexibility indicator of 25% of the total (quality of expenditure), all programmatic series had commitment modifications well in excess of 40% (highest: 63%).

[31] In nine of the 10 programmatic series, a wide variety of fiscal commitments were found for purposes of drawing in decentralized actors: incentives in the form of transfers and technical assistance for participating in the implementation of the reform outputs (see Table II.6).

[32] The PBP amounts and cofinancing with other agencies were adjusted along the way as the fiscal headroom expanded due to the reduction and restructuring of public debt, the growth of genuine resources, and their inclusion in sector budgets to finance the costs of the reforms being supported.

[33] The percentages include nonreimbursable technical-cooperation operations (IDB), nonreimbursable technical-cooperation operations ("Under Administration"), and Small Projects.

[34] Investment grant PE-X1004, Program to Improve and Expand Water and Sanitation Services, was not included in the calculation.

[35] Loans PE-0142 and PE-L1069, for US$50 million and US$150 million, were cancelled in 2010 and 2011, respectively.

[36] Table III.1 shows that a total of 51 investment loans (public and private, including guarantees), five PBL/PBPs, and 50 nonreimbursable technical-cooperation operations were approved in 2002-2006, compared with 21 investment loans, 16 PBPs, and 75 nonreimbursable technical-cooperation operations in 2007/2011.

[37] Fifteen of the Bank's 19 sector divisions (not including OMJ, MIF, and CAN/CPE) had a project with Peru in 2007-2011. Of those 15 divisions, 14 had nonreimbursable technical-cooperation operations, which went from a total of 29 in the preceding period to 70. Loans were approved in only nine divisions, lower in number and amounts than in 2002-2006. With respect to the departments, SCL and ICF clearly lost ground while INE gained significance (approving 20 of the 29 sovereign-guaranteed loans), and within INE a single division was predominant (Water and Sanitation (WSA), with 11 loans, followed by RND with five).

[38] This variable is an indicator of the impact of fulfilling the conditions precedent to the first disbursement, which depends mostly on the country's timeframes. It becomes particularly important in investment projects, since in PBL/PBPs the conditions for the first disbursement are fulfilled at the time of approval.

[39] In Peru, if a loan is approved in the second half of the year, its execution only begins under the following year's budget. The supreme decree authorizing the signing of the loan is what allows it to be budgeted. The SNIP's investment viability preaudits entail high transactional costs. All of this can be avoided by working with PBPs.

[40] This flexibility is one of the reasons, but not the only or the most important reason, why the country prefers PBPs. PBPs are by nature well-suited to the issues they addressed, i.e., reforms. Moreover, they provide the flexibility to adjust the amounts of the operations to the variable obligations of the loans, and do not require incurring debt to finance investments.

[41] This delays the attainment of benefits, reducing their net present value. The longer times reflect a lesser need for financial resources from the national budget. Additional limitations include the impact of short-term restrictions on spending and the loss of purchasing power of operations due to currency appreciation.

[42] Two indicators were used for this variable: the first shows the proportion of the number of projects with disbursements below each year's expected targets for the current portfolio (incidence of underdisbursed portfolio), and the second shows the average deviation in each project's disbursements with respect to the expected disbursements for that project (average degree of underdisbursement of projects).

[43] The evaluability of approved operations is quantified by means of a synthetic indicator that describes the extent to which the designs of the project documents make it possible to benefit from an evaluation (ex ante evaluability). This result is compared with a similar analysis based, this time, on the information provided in the Project Completion Report (PCR) or, failing that, in the most recent Project Performance Monitoring Report (PPMR) if execution has yet to be completed (ex post evaluability). This last indicator makes it possible to confirm whether the evaluability of the designs improved during execution and the Bank continued to make progress toward achieving results.

[44] Of the 22 projects examined for evaluability, there were 15 PBPs and one PDL. This type of project emphasizes disbursement commitments as specific outputs or actions.

[45] At the time of the evaluation (March 2011), 50 projects were reviewed (not including MIF and PPF) and 19 were approved in 2002-2006 but were to a large extent executed in 2007-2011. Of this total, 38 projects were completed or almost entirely disbursed at the time of the evaluation. Of the group of projects analyzed, there were 19 PBL/PBPs (one PBL), 20 investment loans, 4 reimbursable technical-cooperation operations, and seven non-sovereign portfolio operations (four guarantees). Of the 33 loans approved from 2007 to September 2011, there were 19 PBPs, only 4 investment loans (one cancelled), three reimbursable technical-cooperation operations, and six non-sovereign portfolio loans.

[46] The current planned approach for the SIAF (SIAF II) levers the continuity of the experience and knowledge acquired to favor a logical approach determined as a function of the transformation of public expenditure in the budget process: in the programming, execution, accounting, and accountability of budget execution. Plans call for identifying the national programs for which the costs of the activities and works needed to produce them will be established, and finally determining the sector budget allocation required to finance these activities and works, using a medium-term public expenditure approach. The intent is to introduce a crosscutting vision into public expenditure by program (which could be institutional, associated with several institutions, or at various government levels) by setting apart expenditures that do not result in outputs (such as debt service and transfers). Regarding the SNIP, public investment projects will form a part of the budgetary programs and be entered as activities and works for a specific output and as part of intermediate outcomes (purposes), reflecting the intended reason for the projects.

[47] Of particular note is the contribution of technical-cooperation operations not tied to projects and executed by the Integration and Regional Programs Department (INT) during the period of the country strategy with Peru: national technical-cooperation operations PE-T1061, PE-T1133, and PE-T1220; and regional technical-cooperation operations RG-T1325, RG-T1487, RG-T1715, and RG-T1695.

[48] This would complement two existing instruments: the highly specialized, reimbursable Special Technical Advisory Program (PSA) in effect since 2000 and the Knowledge and Capacity Building Products (KCPs). The recommendation tends to focus on an instrument that can finance knowledge and innovation initiatives similar to what the country has been undertaking with the World Bank.

[49] The evaluation identified certain development challenges where the Bank can make an important contribution: (i) closing of the equality gaps in social programs and in access to basic services; (ii) institutional capacity weaknesses in public management; (iii) diversification in production and exports, complementing the country’s comparative advantages (iv) incentive system to mitigate the coordination and market flaws that block innovative business development; (v) quality of public investment, to improve the delivery of basic services to the population and increase its production capacities (primarily in terms of human capital training); and (vi) adoption of a more crosscutting and less sector-based approach in public programs, with the participation of the various levels of government, particularly the territorial level, and the private sector.