Office of Evaluation and Oversight

Independent Country Program Review

Peru

2017-2021

IDB

IDB | Invest

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Acknowledgements

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Acronyms and Abbreviations

CAN	Country Department Andean Group
CDC	Country Development Challenges
CPE	Country Program Evaluation
CS	Country Strategy
DDO	Deferred Drawdown Option
GDP	Gross Domestic Product
GHGs	Greenhouse Gases
GoP	Government of Peru
ICPR	Independent Country Program Review
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MSMEs	Micro, Small and Medium-sized Enterprises
MSE	Micro and Small-sized Enterprises
NSG	Non-sovereign Guaranteed
LAC	Latin America and the Caribbean
OECD	Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PBL	Policy-based Loan
PBP	Programmatic Policy-based Loan

PCR	Project Completion Report
PISA	Program for International Student Assessment
PPP	Public-Private Partnership
RETS	Recommendation Evaluation Tracking System
R&D	Research and Development
SMEs	Small and Medium-sized Enterprises
SG	Sovereign Guaranteed
TC	Technical Cooperation
TFFP	Trade Finance Facilitation Program
VAW	Violence Against Women
XSR	Expanded Supervision Report

Executive Summary

Purpose. This Independent Country Program Review (ICPR) analyzes the Inter-American Development Bank (IDB) Group's strategy and program in Peru during the 2017-2021 period. ICPRs assess the relevance of the Bank's Country Strategy (CS) and provide additional information on the alignment and execution of the program. If the available information allows, ICPRs also report on progress toward the objectives set by the IDB Group in its Country Strategy. With this product, OVE seeks to provide the Boards of Executive Directors of the IDB and IDB Invest with useful information prior to their consideration of the new Country Strategy.

Country Context. Peru has experienced sustained growth that has allowed it to reach an upper-middle income level. The country experienced average gross domestic product (GDP) growth of 3.8% between 2012 and 2019, higher than the economic growth of Latin America (1.4%). In 2020, the effects of the COVID-19 pandemic caused a considerable decrease in GDP (-11%), a drop greater than that of Latin America (-4.5%). Despite the pandemic's heavy impact on the economy, Peru had a solid economic recovery, growing at 13.3% in 2021. During the strategic period, Peru set the objective of fiscal consolidation, which was achieved until before the pandemic. Productivity challenges persist. Key limitations include business and labor informality, scant innovative dynamism, the concentration of exports in primary goods, deficiencies in the environment for doing business and gaps in infrastructure access and quality. Likewise, despite significant progress in reducing poverty, social inequalities persist.

Strategic objectives. The Country Strategy proposed three priority areas: i) economic productivity; ii) institutional strengthening and basic service delivery; and iii) fostering environmental sustainability and climate change. Under these areas, it defined 9 strategic objectives and 19 expected outcomes. The Country Strategy was aligned with the development challenges and the priorities of government policy between 2018-2021. Three of its expected outcomes were not very specific, which affected the orientation of operations, in particular for the specific objectives of strengthening the business climate, public management and strengthening environmental management.

Program alignment. During 2017-2021, the Bank approved US$2.987 billion in sovereign-guaranteed (SG) lending, an amount greater than the previous strategic period (US$1.645 billion) and almost double the lending framework (US$1.500 billion). Most of the excess approvals are due to three reform support loans (two of them programmatic) in response to COVID-19 for US$1.1 billion. Non-sovereign guaranteed (NSG) approvals amounted to US$912 million and supported foreign trade transactions for US$545 million. The program included legacy operations that had an undisbursed balance of US$965.4 million at the beginning of the period. In general, the SG program was aligned with the CS strategic objectives. Under the priority areas of institutional strengthening and delivery of basic goods, and fostering environmental sustainability and climate change, the program had a strong alignment, favored by the broad definition of some of its outcomes (i.e., boosting public management capacity and improving environmental performance). Under the priority area of economic productivity, the alignment was weak due to its limited coverage of improving the quality of the electricity supply. The NSG program was not aligned with the CS expected outcomes. Its alignment was only general with the strategic objectives of business development and improvement of the available infrastructure. The operations of rural roads, drinking water and basic sanitation, and digital connectivity proposed the closing of access gaps, particularly in rural areas.

Bank positioning. Before the pandemic, the Bank had continued to position itself as a technical and fiduciary partner, highly valued by the government, in the country's investment and reform projects, with multisector participation. The country's good risk ratings guaranteed its financing in international markets at competitive rates. The active portfolio included investment loans of relatively small amounts with high local counterpart contributions. With the onset of COVID-19, the Bank adapted its approach in response to the needs presented by the context. On the one hand, the Bank offered fast-disbursing operations to respond quickly to the crisis. On the other hand, and with a medium-term vision, the Bank moved towards a greater sector focus in its investment loans, positioning itself as Peru's financial partner (investment loans approved as of 2020 are larger, and local counterpart contributions have decreased).

Implementation and results. At the end of 2021, SG loan disbursements had reached US$2.061 billion, exceeding estimates by almost 65%. This was mainly due to the growth of the reform loan portfolio (PBL and PBP) and their respective disbursements in response to COVID-19. NSG disbursements increased 140% compared to the previous period, mainly due to disbursements from the Trade Finance Facilitation Program (TFFP) and its countercyclical role with the arrival of the pandemic. The Bank's expenses in the preparation of investment loans decreased, while those in execution increased. These expenses were higher than the Andean group average in preparation, but lower in execution. Among the most frequent implementation challenges presented by the portfolio, administrative changes and the executing units' lack of capacity are the ones that stand out. These were exacerbated by the arrival of COVID-19. Support in country systems showed substantial progress in financial management and modest progress in procurement management.

The Bank program contribution to the CS strategic objectives was limited. Under the area of economic productivity, the program contributed to business development. This is an area in which the Bank has shown consistency and focus in its lines of action. For labor formalization, the contribution was limited, and for MSME and agribusiness access to credit, the results are mixed. For business climate, no outcomes are shown, but there is progress in outputs related to the simplification of the tax regime and the streamlining of foreign trade procedures. The contribution to infrastructure improvements was limited despite the age of the portfolio. Under the area of *institutional strengthening and basic service delivery*, the contribution was limited. The public management program was unfocused and therefore its contribution was limited. It made partial progress in the quality and efficiency of expenditures, accountability and transparency, institutional management and access to the use of technology in government formalities. The contribution in the area of health was partial, and there is no evidence of outcomes for citizen security. Under the area *fostering environmental sustainability and climate change*, there was a contribution to improving access to water and sewage services and solid waste management. In contrast, the contribution was limited in the treatment of wastewater and strengthening of environmental management—whose program was also unfocused. Finally, although it is early to evaluate the IDB Group's response to COVID-19, rapid-disbursing operations were deployed, and relevant technical support was offered in a context of uncertainty due to its magnitude and continuance.

01

Introduction

1.1 This Independent Country Program Review (ICPR) analyzes the Inter-American Development Bank (IDB) Group's country strategy and program in Peru for the 2017-2021 period. ICPRs assess the relevance of the Bank's Country Strategy (CS) and provide additional information on the alignment and execution of the program. If the information available allows, ICPRs also report on progress toward the objectives set by the IDB Group in the Country Strategy. With this product, OVE seeks to provide the Boards of Executive Directors of the IDB and IDB Invest with useful information for analysis of the Country Strategy submitted to them for consideration. Like previous Country Program Evaluations (CPEs), ICPRs are based on a thorough review of existing operational documentation and interviews with key counterparts within the IDB Group. However, unlike CPEs, ICPRs include only a small number of interviews with key actors in the country and do not involve field visits.

1.2 This ICPR is structured in six sections and an annex with supporting information. After this brief introduction, Section II sets out the country's context, its development challenges, and the Government's priorities. Section III examines the strategic objectives outlined in the 2017-2021 Country Strategy and its results matrix, as well as the findings of the previous CPE and the follow-up on recommendations. Section IV describes the country program approved during the period and analyzes its alignment with the strategic objectives. Section V examines implementation of the program, the outcomes achieved and its contributions to the strategic objectives. Finally, Section VI presents the conclusions.

02

Country Context

2.1 Peru has experienced sustained growth that has allowed it to reach an upper-middle income level. The country experienced average gross domestic product (GDP) growth of 3.8% between 2012 and 2019, higher than the economic growth of Latin America (1.4%) and of Organization for Economic Cooperation and Development (OECD) member countries (2.0%).[1] In 2020, the effects of the COVID-19 pandemic caused a considerable decrease in GDP (-11%), a drop greater than that of Latin America (-4.5%) and of OECD member countries (-6.7%). Despite the pandemic's strong impact on the economy, Peru had a robust economic recovery, growing 13.3% in 2021, and it is expected that by 2022 it will grow 3.0%.[2]

A. Macroeconomic Situation

2.2 Peru has maintained relative fiscal discipline, but low tax revenues continue to be a challenge. Despite the strengths of its fiscal responsibility framework, the Government's tax revenue fell by 2.7 percentage points of GDP between 2014 and 2019 (BCRP, 2022). The average collection in that period was 19.6% of GDP, one of the lowest in Latin America and the Caribbean (LAC), which presented an average of 25% of GDP. In response, Peru adjusted the level of spending, lowering it from 21.5% to 19.9% of GDP between 2014 and 2019. However, the country ran moderate deficits that increased the debt from 19.9% to 26.6% of GDP between 2014 and 2019. The fiscal consolidation that the Government of Peru (GoP) proposed for the period was achieved until 2019, but the situation worsened with the onset of the pandemic.

2.3 In 2020, the GoP implemented a package of measures equivalent to 20.3% of GDP to face the health and economic crisis caused by COVID-19.[3] The package included measures of: i) tax relief and a boost to public spending, at 7.2% of GDP (2.6% and 4.6%, respectively); ii) injection of liquidity with government guarantees (10.8%); and iii) liquidity of private savings (2.3%). To implement the package, the application of the fiscal rules was suspended for 2020-2021 (Legislative Decree 1457-2020) and the Multiannual Macroeconomic Framework (2021-2024) was published, foreseeing a gradual convergence to the parameters of the fiscal rules in the medium term, with a convergence path towards a 1% deficit by 2025[4] (see Annex, Box I.1.1).

1 International Monetary Fund (IMF, 2021). See Annex, Table I.1.1.

2 IMF (2022).

3 The largest in the region in terms of percentage of GDP.

4 In April 2022, draft Bill No. 1763/2021-PE was submitted, which sets forth the gradual return to the medium-term fiscal rules established in the country's Macro-Fiscal Framework (Legislative Decree No. 1276). Thereby, as of 2026, the NFPS fiscal deficit

2.4 In 2022, GDP growth is expected to be 3.0%; however, there are external and internal risks that could negatively affect it. On the one hand, less dynamism is expected in private investment, as a result of political uncertainty in the country and a tighter monetary policy. On the other hand, expansions in private consumption and government spending (expenditure due to higher prices of export products) are expected.[5] Inflationary pressures greater than those of the last 25 years have also emerged. Regarding fiscal policy, consolidation of the fiscal rule and a deficit of 2.5% of GDP are expected.[6] Additionally, the GoP established a goal of total gross debt of the non-financial public sector of no more than 38% of GDP. Therefore, it is expected that Peru will continue to have access to international markets at competitive rates. Other risks include slower growth in China—Peru's main trading partner—and tensions due to the crisis in Ukraine.

B. Productive Development

2.5 Growing productivity gaps limit the country's growth potential. Potential long-term GDP growth fell from 6.4% in 2007-2013 to 3.5% in 2014-2019 (BCRP, 2019). This is explained, in part, by the contraction in productivity growth, which had expanded at a rate of 0.5% until 2012, but as of this year it decreased at a rate of 0.1% per year (MEF, 2021). The main factors limiting productivity include business and labor informality, scant innovative dynamism, the concentration of exports in primary goods, deficiencies in the environment for doing business and gaps in infrastructure access and quality (IDB, 2020).

2.6 Labor informality exceeds the regional average, disproportionately affects the most vulnerable groups, and continues to drag down the country's productivity. The percentage of informal employment in Peru remained around 72.5% between 2017 and 2019. This figure was higher than the average for the region, which registered a rate of around 51% between 2017 and 2019. Due to the pandemic, informal employment rose to 76.8% in 2021 (INEI, 2022a; Maurizio, 2021). Labor informality limits investments in human capital by companies and workers and leads to less social security and greater risks of loss of income. In addition, in Peru, formal labor productivity is 12 times higher than informal (CIEN, 2019), and this difference is even greater in capital-intensive

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would not exceed 1% of GDP; as of 2023, the NFPS gross debt would not exceed 38% of GDP.

5 Mainly copper and gold, as well as a variety of agricultural consumer goods, often supported by irrigation systems, such as avocados, asparagus, grapes and dates (IMF, 2021).

6 The Emergency Decree No. 079-2021 establishes as a target a fiscal deficit not greater than 3.5% as a percentage of GDP.

sectors. Informality especially affects rural areas (97%) and vulnerable groups (83% among Afro-descendants, 82% among Indigenous people and 92% among the population living in poverty) (IDB, 2020).

2.7 Similarly, business informality, particularly among micro, small and medium-sized enterprises (MSMEs), depresses productivity, limiting access to financing and the adoption of technologies. MSMEs represent 95% of companies in Peru. Of these, 85% are informal. In addition, they employ 27% of the economically active population (Comex Peru, 2020a). Micro-enterprises show productivity of 3% of large companies, and small ones of 49%.[7] Among the obstacles to MSME development, access to financing and technology prevail. On the financing side, between 2017 and 2019 only 6% of MSMEs had access to credit. However, as a response to the Government's measures to mitigate the effects of COVID-19, this figure rose to 31.9% in 2020. (Produce, 2021). This also explains the increase in the participation of micro and small enterprises (MSE) in the financial system, going from 12.5% as a proportion of the debt balance in 2015 to 14.4% in 2020 (SBS, 2020). On the side of technology adoption,[8] investment in research and development (R&D) has been low (0.16% of GDP in 2019) when compared to the average level of the region (0.56% of GDP) (OEI, 2021).

2.8 Agricultural and agro-industrial activity continues to be important for production and job creation, but its productivity remains low. The sector's participation in total GDP increased from 5.18% in 2016 to 5.58% in 2021. In addition, it generated 31.6% of the total jobs registered in 2020, and 24.2% of total jobs before the pandemic in 2019 (Comex Perú, 2020b; INEI, 2020a). Despite the increase in productivity in the sector (74% between 1990 and 2018), it is still low compared to other countries in the region.[9] Investments in the agricultural sector have helped diversify the Peruvian economy away from extractive industry and have created significant employment opportunities. The sector's production had been growing by between 3% and 9% during 2017-2019, and even during the pandemic in 2020 it continued to grow at 3.1%, making it one of the few sectors whose development was not interrupted by COVID-19 (Comex Peru, 2021b; MIDAGRI, 2021).

7 Validation of the PE-L1223 PCR.

8 This becomes a central input for building the innovation capacity of MSMEs. Innovation is key to adapting to crises and structural changes. Depending on the MSEs, the main obstacles to the adoption of innovative technologies are the high cost of innovation (31%), an unstable macro environment (29%) and difficulties in accessing financing (21%) (Ministry of Production, 2020).

9 Below the LAC average, and below countries such as Chile, Mexico and Colombia (IDB, 2020).

However, the dynamic expansion of agricultural activity has particularly benefited agro-industrial and large-scale producers in coastal areas (World Bank, 2017).

2.9 Despite some progress, infrastructure deficiencies negatively affect productivity and competitiveness conditions. Road quality negatively impacts logistics costs, the development of production chains, exports and the accessibility of social services and employment. Peru ranked 88th in infrastructure among 141 countries in an index of the World Economic Forum (2019). Among the various dimensions that the index measures, the lowest indicator in Peru was the quality of roads (110 out of 141 countries). Of 173,085 kilometers of highway, those that are paved increased from 15.5% to 17% between 2016 and 2020 (MTC, 2021). Of the departmental road network, it is estimated that only 15% was in good condition, 43% in fair condition and 42% in poor condition (MTC, 2015). Of the neighborhood road network, it is estimated that 70% was in poor or very poor condition (World Bank, 2016). In terms of electrical infrastructure, Peru ranked 94th out of 141 countries in access to electricity, and 67th in the quality of the service offered. Access and reliability have increased over the past decade, and Peru ranks above the regional average. Despite this, regional gaps persist.[10] Finally, despite progress in digital infrastructure, some challenges remain. Several indicators[11] measuring the coverage and quality of digital infrastructure show that the country is below average for the region (Comex Peru, 2021a). In 2021, internet access in households reached 55%, with a large gap of 59% in urban households (75% in Lima's metropolitan area) and 19% in rural households (INEI, 2022c). Between 2017 and 2021, the proportion of people with a smartphone increased from 49% to 62%, and the proportion with access to 4G increased from 23% to 45% (GSMA, 2021).

2.10 High levels of urbanization contribute to problems with public transport, pollution, and greenhouse gas (GHG) emissions, which have real consequences for the population. The urban population represented 80% of Peru's population in 2017. Only 6% use public mass transit, while 65% use conventional transportation (buses, minibuses, combis) (CDC, 2021). At a global level, the urban population is responsible for 70% of global GHG emissions and, at the same time, is vulnerable to the growing urban risks stemming from climate change (IDB, 2020). Emissions affect air

10 There are service quality gaps between Lima and the interior of the country (IDB, 2020).

11 Adoption of Information and Communication Technology Adoption Pillar (World Economic Forum), Global Connectivity Index (Huawei, 2020), Inclusive Internet Index (EIU, 2021), Speedtest Global Index (Ookla, 2022) and Mobile Connectivity Index (GSMA, 2022).

quality, which is especially poor in the Lima metropolitan region (IQAir, 2022)[12]. They reduce life expectancy, and it is related to the occurrence of natural disasters (EPIC, 2022).[13]

2.11 Some of the most dynamic sectors are those that harm the environment the most. It is estimated that the change in land use for agricultural expansion, especially small and medium farms, accounts for 90% of all deforestation in the Peruvian Amazon. The change of use for agriculture is followed by the installation of infrastructure (roads and the creation of towns) and the development of hydrocarbon and mineral extractive activities (MINAM, 2016). Since 2016, deforestation showed a slight downward trend, but in 2020 it reached the highest level of the last 20 years (DAR, 2021).

2.12 The period was marked by a high perception of corruption and numerous changes at the highest levels of government. According to data from Transparency International, in 2019, 96% of Peruvians thought corruption in government was a big problem, the highest rate in the entire region. Thirty percent of the population indicated having paid bribes for public services in the last year, above the regional average of 21%. Furthermore, according to the WJP index (2021), the rule of law has been deteriorating since 2017. Constant political conflicts between the executive and legislative branches, as well as corruption allegations that involved high-level officials and in the judicial system[14], have generated political instability (World Bank, 2019). Between 2017 and 2021, Peru had five different presidents.

C. Social Development

2.13 Peru made significant progress in reducing poverty between 2010 and 2019, but with the pandemic the levels fell back to close to those of 2010. At the beginning of the decade, the poverty level in Peru was 30.8% with a rate of 61% in rural areas. Until 2019, a downward trend was maintained, reaching 20.9% at the national level and 40.8% in rural areas (INEI, 2021a). With the onset of COVID-19, poverty levels increased throughout the country, particularly in the urban area, where it increased by 11.4 percentage points. In contrast, in rural areas the increase was

12 Air quality has worsened since 2017, although it improved slightly in 2019 and 2020, mainly due to restrictions on mobility. In 2021, the Lima metropolitan region is one of the most polluted areas in South America (after several Chilean cities), exceeding the healthy levels established by the World Health Organization by more than five times (IQAir, 2022).

13 Natural disasters and their consequences on the population have increased. During 2012-2016, there were 22 disasters that affected close to 1 million inhabitants, while during 2017-2021, there were 25 disasters that affected 2.3 million (CRE, 2022).

14 Congressional Legislative Bill N.º 016-2017-2018-CR, July 21st, 2018.

4.9 percentage points. Similarly, extreme poverty increased from 2.9% to 5.1% between 2019 and 2020 (INEI, 2021a). In 2021 the poverty rate decreased from the high levels of 2020, but remains above pre-pandemic levels at 25.9% (INEI, 2022b). On the other hand, trends in terms of income equality were reversed. Inequality as measured by the Gini index grew 3 points between 2019 and 2020 (Acevedo et al., 2022).

2.14 In recent years, Peru has been one of the main recipients of Venezuelan migrants, which has generated public policy challenges. It is estimated that there are currently 1.2 million Venezuelan migrants and refugees in Peru (Abuelafia, 2020). Most work in microenterprises and with high levels of informality, which made them disproportionately vulnerable to the labor shocks caused by the pandemic. This population has limited access to basic health services, employment programs and adequate housing conditions. According to the World Bank, even before the pandemic, 18% of this population was in a situation of poverty and 4% in extreme poverty.[15]

2.15 The pandemic had devastating effects that highlighted and intensified the country's health challenges. Up to 2019, Peru had improved in key health indicators such as life expectancy and infant mortality (Annex, Table I.1.2). Despite this, many challenges remain. First-level health care presents serious deficiencies in management and quality, lack of resources and equipment, including long delays in receiving care. In addition, large regional gaps persist, especially in child malnutrition (7% in urban areas vs. 25% in rural areas) and child anemia[16] (37% urban vs. 48% rural) (INEI,). On the other hand, chronic diseases have a high prevalence and, until before the pandemic, it was estimated that they represented almost 70% of total deaths in the country (WHO, 2018). The pandemic revealed these weaknesses: Peru came to occupy the highest COVID-19 mortality rate in the world, more than doubling that of countries such as Brazil or Chile, the second most affected in the region.[17] The health care system responded with a marked hospital expansion for COVID-19 patients (beds increased by more than 400%), but at the cost of

15 The COVID-19 crisis had a strong impact on the highly mobile and informal labor sectors, in which the employment of Venezuelan migrants is concentrated (Dávalos, 2020).

16 These figures refer to anemia in children from 6 to 35 months of age.

17 Up to April 2022, Peru had the highest COVID-19 mortality rate in the world according to WHO (2022), with 645 deaths per 100,000 inhabitants (Brazil and Chile had rates close to 300 deaths per 100,000 inhabitants). Before May 2021, officially reported deaths were much lower, but these were adjusted based on a revision of the methodology used by the Ministry of Health. Previously, only deaths reported the previous day that had confirmed COVID-19 with clinical and laboratory criteria were counted, but the revision incorporated a broader set of criteria that more than doubled the number of deaths (see MINSA, 2021).

a significant reduction in primary care for other diseases, which continues without returning to its regular capacity (IDB, 2020 and interviews with Management).

2.16 Access to education showed a slight improvement in rural areas between 2017 and 2020. However, regional and socioeconomic differences persist. During the strategic period, average years of schooling remained constant in urban areas (10.8) and improved in rural areas from 7.7 to 8.1. For its part, the illiteracy rate of the population aged 15 and over decreased from 5.9% to 5.5%. Progress was seen in rural areas with a decrease from 14.9% to 13.8% (INEI, 2022). Furthermore, according to outcomes of the Program for International Student Assessment (PISA) in 2018, Peru had the greatest improvement in performance in reading, mathematics and science among countries of the region (IDB, 2020). However, the variation in achievement—one of the largest among all the countries participating in PISA (OECD, 2022)—is partially explained by socioeconomic status.

2.17 Citizen security made progress, but challenges persist. The level of crime victimization of the population aged 15 and over in the country's urban area fell from 31% to 26% between 2016 and 2020. The criminal acts that most affected the urban population in 2020 were the theft or attempted theft of money, which affected 17 of every 100 inhabitants. Regarding violent crime, Peru logs a rate of 7.54 homicides per 100,000 inhabitants, which is well below the average for the region (17.5). However, about 83% of the urban population reports feeling unsafe (INEI, 2021c). Added to this situation is the institutional weakness of security and justice agencies, which translates into low trust on the part of the population. In the country, 69% and 84% of the population stated that they had little or no trust in the National Police of Peru and the Judiciary, respectively.

2.18 Although the country has made progress in terms of water and sanitation coverage in the last decade, gaps between urban and rural areas persist. While water coverage in urban areas is 94.8% and sanitation 89.7%, in rural areas it is 76.3% and 19.5%, respectively (INEI, 2020b). In addition, little progress has been recorded in the percentage of the rural population receiving safe (i.e., adequately chlorinated) water, since only 3.1% of households have access to water services that show free residual chlorine levels greater than or equal to 0.5mg/l (standard value according to current regulations), which contrasts with 99.76% of urban households. Regarding the treatment of wastewater in urban areas, the percentage treated by public utilities amounted to 77.8% in 2020 (MVCS, 2020). The situation is even more critical in the municipalities and Sanitation Service Administrative Boards.

03

IDB Group Country Strategy

3.1 The Country Strategy established three priority areas that included nine strategic objectives. The general objective of the Country Strategy was to support the country in achieving sustained growth to promote social progress, in a context of environmental sustainability. The Country Strategy proposed three priority areas: i) economic productivity; ii) institutional strengthening and basic service delivery; and iii) fostering environmental sustainability and climate change. Under these areas, it defined nine strategic objectives and 19 expected outcomes (Table 3.1). Although no crosscutting or dialogue areas were explicitly included, addressing the crosscutting area of institutional strengthening was proposed with the second priority area, and the crosscutting areas of gender, diversity, and environmental sustainability with the third priority area. The Country Strategy also proposed closing gaps in infrastructure for transportation, water, sanitation, wastewater treatment and digital access, as well as support for the planning and structuring of public-private partnerships (PPPs) across the board. The Country Strategy was valid until July 2021 with a transition period until the end of July 2022. The priority areas and strategic objectives were aligned with the development challenges of the country, the pillars of government policy from 2018 to 2021 and with the "Vision of Peru in 2050" (Box 3.1), and with the Institutional Strategy of the IDB Group.

Table 3.1. Strategic objectives and expected outcomes of the 2017-2021 Country Strategy

Strategic Objective	Expected Outcomes
Priority Area # 1: Economic Productivity	
1. Support formalization of the economy	1.1. Increase the percentage of workers who contribute to social security
2. Support business development	2.1. Increase total (public and private) investment in research and development
3. Strengthen the business climate	3.1. Improve the business climate
4. Improve the available infrastructure	4.1. Improve the quality of road transportation infrastructure
	4.2. Improve the quality of the electricity supply
	4.3. Increase the use of public mass transit
Priority Area # 2: Institutional strengthening and basic service delivery	
5. Improve public management	5.1 Boost public management capacity
	5.2 Strengthen the legal and institutional integrity framework
	5.3 Increase the use of information technology in government formalities
6. Improve access to and quality of health care services	6.1. Reduce anemia due to iron deficiency in children under age five
	6.2. Reduce mortality due to chronic diseases
	6.3. Reduce wait times for generic medical checkups
7. Improve citizen security	7.1. Reduce the crime rate in the population

Strategic Objective	Expected Outcomes
Priority Area # 3: Foster environmental sustainability and climate change	
8. Improve access to and quality of water and sanitation service	8.1. Increase drinking water coverage in urban and rural areas
	8.2. Increase basic sanitation coverage in urban and rural areas
	8.3. Increase wastewater treatment
9. Strengthen environmental management	9.1. Improve environmental performance
	9.2. Increase the percentage of solid waste disposed of in sanitary landfills
	9.3. Expand access to credit for agricultural producers

Source: 2017-2021 Country Strategy (document GN-2889).

3.2 The 2017-2021 Country Strategy had a wide strategic approach, similar to that of its predecessor, contrary to what was recommended by OVE in the 2012-2017 CPE. The previous Country Strategy (2012-2016) proposed 9 priority areas and 40 strategic objectives. Of the 40 strategic objectives previously considered, the new Country Strategy maintained 2 (increasing access to water and sanitation services and improving the business climate) and removed 8 (5 related to the areas of social inclusion, 2 in housing and urban development, and 1 in rural development). The remaining 30 were merged into 5 of the new strategic objectives but kept the same lines of action (Annex, Tables I.1.3 and I.1.4). Additionally, the Country Strategy included two new objectives not considered in the previous one (support formalization of the economy; improve citizen security). Despite the smaller number of strategic objectives in the 2017-2021 Country Strategy, these covered a variety of topics, particularly for the objectives of business climate, improving public management and environmental management, that defined some unspecific expected results (see paragraph 3.6). This limits the definition of critical paths, comprehensive programs and/or the prioritization of actions. In contrast, in the 2012-2017 CPE, OVE recommended that the Bank "maintain and strengthen the work niche where it had positioned itself […] concentrating on a smaller and more select number of areas" (Annex III).

Box 3.1. Government Plans

Government priorities during the Country Strategy period were framed in the following documents: For the 2018-2021 period, the "General Government Policy to 2021"[a] introduced five pillars and guidelines: 1) integrity and fight against corruption; 2) institutional strengthening for governance; 3) equitable, competitive and sustainable economic growth; 4) social development and well-being of the population; and 5) effective decentralization for development.

In 2019, the Government of Peru reflected its priorities in the "Vision of Peru for 2050." This document was organized into five pillars: 1) people reach their potential with equal opportunities and without discrimination to enjoy a full life; 2) sustainable management of nature and measures against climate change; 3) sustainable development with decent employment and in harmony with nature;

4) democratic, peaceful society, respectful of human rights and free from fear and violence; and 5) modern, efficient, transparent and decentralized State that guarantees a fair and inclusive society, without corruption and leaving no one behind.

In 2021, the "General Government Policy for the period 2021-2026" was introduced.[b] It contains ten pillars: 1) generation of welfare and social protection with food security; 2) reactivation of the economy and productive activities with agricultural and rural development; 3) promotion of science, technology and innovation; 4) strengthening of the educational system and recovery of learning; 5) decentralization, institutional and civil service strengthening; 6) strengthening of the democratic system, citizen security and fight against corruption, drug trafficking and terrorism; 7) efficient management of risks and threats to the rights of people and their environment; 8) digital government and transformation with equity; 9) conduct a national, autonomous, democratic, social and decentralized diplomacy; 10) intercultural status for the promotion of cultural diversity.

Notes: [a] Supreme Decree N.º 056-2018-PCM. [b] Supreme Decree N.º 164-2021-PCM.

3.3 The strategic objectives in the priority area of productivity were relevant to the country's development challenges and the 2018-2021 Government Plan. The Country Strategy identified informality; financing restrictions for small and medium-sized enterprises (SMEs); the deteriorating climate for doing business; and the availability and quality of electricity, road, and broadband infrastructure as bottlenecks for private investment, growth, and productivity. To address these challenges, the Country Strategy proposed to support the design of a strategy of reducing informality, deepening of the capital market, simplification of procedures and implementation of the regulatory framework for public-private partnerships (PPPs), mass urban transport systems, as well as the expansion and improvement of the subnational road network, the diversification of the energy matrix and broadband infrastructure. These objectives are aligned with the Country Development Challenges (CDC) document. In addition, they were aligned with the 2018-2021 Government Plan.

3.4 The Country Strategy included the priority area of institutional strengthening and basic service delivery, which was relevant to the development challenges and the 2018-2021 Government Plan. This area's objectives aimed to improve public management, access to and quality of health care services and citizen security. These objectives were aligned with the CDC, which highlighted challenges in the efficiency of spending and tax collection, the Government's execution and response capacity, transparency and accountability, as well as persistent quality gaps in health care services and high levels of crime and violence. These objectives were aligned with the Government Plan, which prioritized improvements in the modernization of the State, access and primary care in health, actions dedicated to the design and implementation of a policy of social prevention of violence and crime with a focus on the most violent neighborhoods in the country, as well as in strengthening the capacities of the National Police and the penitentiary system.

3.5 The objectives in the priority area of fostering environmental sustainability and climate change were relevant to the country's development challenges and the Government's priorities for 2018-2021. The Country Strategy identified as development challenges the low investment in water and sanitation infrastructure in rural areas, the inefficient management of municipal public utilities, the poor management of natural resources and gaps in agricultural productivity (between the coast and the jungle and mountains). To address these challenges, the Bank proposed addressing the closing of water and sanitation gaps in urban, peri-urban, and rural areas; the strengthening of operators; and coordination between sectoral authorities. On the other hand, for the effective management of natural resources and their sustainability, it proposed the treatment of solid waste, the conservation of forests and forest resources, actions to reduce vulnerability to climate change and support for agricultural sector productivity. This was aligned with the Government Plan, which prioritized the achievement of universal coverage of drinking water and sanitation services, the sustainable and efficient management of natural resources, the consolidation of processes and tools for mitigation and adaptation to the effects of climate change. Although not aligned with the strategic objective, the Country Strategy also included as lines of action increasing the profitability and competitiveness of the agricultural sector and increasing access to credit in this sector.

3.6 The Country Strategy proposed a results matrix with adequate vertical logic but with some weaknesses. Some objectives and their corresponding expected outcomes were vague or did not include key IDB Group areas of work. Most of the strategic objectives and expected outcomes proposed by the Country Strategy show an adequate chain of causality, except for objective 9 of strengthening environmental management. Under three of the strategic objectives, the definition of some of its expected outcomes was not very specific (3.1 Improve the business climate; 5.1 Boost public management capacity; 9.1 Improve environmental performance).[18] In addition, one of the expected outcomes under the objective to strengthen environmental management had no causal relationship with the objective.[19] Also, the scope

18 While the breadth allows alignment with a larger number of operations, the lack of specificity limits the orientation of operations and outcomes.

19 The expected outcome of increasing access to financing was not aligned with the strategic objective of strengthening environmental management. Increases in access to credit do not improve environmental management unless the financing approach is exclusive and limited to the adoption of technologies that make production more sustainable. This was not the case for operations in the Peru portfolio.

of the matrix was limited. It did not include expected outcomes for the key lines of action provided for in the Country Strategy, particularly IDB Invest (i.e., access to MSME financing, increased digital infrastructure and connectivity) and the legacy portfolio (i.e., education, agricultural productivity and competitiveness). The results matrix included 21 indicators; all were successfully updated except for four that were discontinued. OVE used two proxy indicators that made it possible to observe pertinent changes during the period (see Annex, Table I.2.1).

3.7 The Country Strategy identified institutional coordination and execution risks for investment operations. In terms of *institutional coordination*, difficulties were encountered in the strategic definition of investment projects, as well as in their design and implementation. To mitigate this risk, the Bank proposed to maintain dialogue with the Government and at the same time strengthen the capacity of strategic planning for public investment. In terms of *execution*, the executing agencies' low capacity for managing investment projects was identified. To mitigate this risk, at the time the operations are designed, the executing agencies' institutional capacity will be assessed to determine the institutional strengthening needs and subsequently build capacity. In addition, the Bank's intervention would be focused on operations of greater size and efficiency in disbursements. Although progress was made in public-private coordination for the prioritization of public investment,[20] execution risks materialized in almost half of the operations.[21]

20 Reform loans PE-L1244 and PE-L1261 supported the creation of the Specialized Investment Monitoring Team (EESI) and an investment project bank with a list of prioritized and strategic projects. Also instances of public-private coordination with the creation of executive boards in prioritized sectors.

21 Eighteen loans out of 41 revealed challenges related to lack of experience in Bank projects and/or challenges in managing them.

04

Program Alignment

A. Country Program

4.1 The Country Program includes 158 sovereign-guaranteed (SG) operations and 34 non-sovereign guaranteed (NSG) operations. It comprises the set of operations approved between January 1, 2017 and December 31, 2021 (106 SG and 25 NSG) and legacy operations (52 SG and nine NSG) from previous strategic periods (that is, approved before 2017 but which still had some amount pending disbursement as of January 1, 2017).[22] Annex IV lists the operations included.

4.2 During 2017-2021, the Bank approved US$2.987 billion in SG loans. This amount was considerably higher than that of the previous strategic period—US$1.645 billion—and almost double the estimated financing framework provided by the Country Strategy, which expected approvals of US$1.5 billion. The excess approvals can be explained by the greater demand for resources from the Bank, as a result of COVID-19, which amounted to US$1.5 billion[23] (Box 4.1). The instruments approved in the period consisted of 21 investment loans and five policy-based loans (PBL). Among the PBLs, four were programmatic (PBP) and three had the deferred disbursement option. Additionally, US$61 million in non-reimbursable instruments were approved, which included 76 technical cooperation (TC) operations and three investment grants. A conditional line of credit was also approved.

4.3 NSG approvals during 2017-2021 amounted to US$912 million and supported foreign trade transactions of US$549 million. This also represented an increase over the previous period, in which US$850 million in NSG operations were approved. IDB Invest approved 16 senior loans, five subordinated loans and one equity operation. The transportation sector accounted for the largest share of approvals for the period (36%), followed by agriculture (20%), energy (20%) and financial markets (13%). Compared to the previous period (2012-2016), sector participation in total approvals remained relatively stable. For its part, the Trade Finance Facilitation Program (TFFP) had approvals for US$549 million in three different lines of credit; as of March 2020, these supported the increased financing needs generated by the pandemic.

4.4 The program included legacy operations that had an undisbursed balance of US$965.4 million at the beginning of the period. Regarding SG legacy operations, the program included 20 investment loans, of which US$633 million were pending disbursement, and one deferred disbursement PBP for US$300

22 Additionally, the NSG portfolio includes those operations that prepared an extended supervision report (XSR) during 2017-2021. See Annex IV.

23 These needs materialized in a loan to support policy reforms (PE-L1267) and two programmatic loans (PE-L1261 and PE-L1262), all deferred.

million. Additionally, there were three investment grants and 28 TCs with a total of US$30.6 million to be disbursed. Regarding the legacy NSG portfolio, the program included only one capital operation with US$1.8 million pending disbursement. Additionally, operations that prepared an extended supervision report (XSR) during the strategic period are considered. These consisted of 7 preferential loans and one guarantee for US$62 million.

4.5 The SG program was made up of investment projects, PBLs with deferred drawdown option (DDO) and TCs. They focused on three of the nine strategies of the Country Strategy. SG approvals covered a multiplicity of topics. However, most of the resources were concentrated in three: reform and modernization of the State (32%), social investments (24%) and private companies and development of SMEs (18%), which correspond to three objectives of the Country Strategy. Compared to the approvals of the previous strategic period, the issues that gained the most weight were reform and modernization of the State (from 4% to 32%), and business and SME development (from 6% to 18%). In contrast, some sectors that decreased significantly were transportation (from 30% to 4%) and health (from 18% to 4%).

4.6 The amounts approved in TCs showed a reduction with respect to the previous period, but their operational support was greater. While total TC approvals decreased by 12.5%, a higher proportion (45%) of the total approved was used for operational support in the preparation and execution of investment loans compared to 2012-2016 (20%). Fifty-four percent was from customer support and only 1% from research and dissemination (compared to 78% and 2% in the previous period, respectively). The sectors with the highest participation were environment and natural disasters (26%), urban development and housing (19%) and water and sanitation (15%).

4.7 Although most of the NSG portfolio was senior loans, in some cases IDB Invest made innovative use of its instruments. IDB Invest approved mostly senior loans (22 of 34 operations).[24] However, in some projects it used other instruments to promote a demonstration effect or in an innovative approach. The portfolio included five subordinated loans,[25] of which two backed the first issue of thematic bonds in Peru. Subsequently, the Development Finance Corporation of Peru would request technical support from the IDB for the issuance of the country's third social bond. The other subordinated loans contributed to improving the capital structure of financial institutions.[26] The portfolio also included two capital operations, one of them worth US$18 million, played a key role in getting the project off the ground. A guarantee was

24 Representing 55% of the NSG approved volume.

25 Representing 6.7% of the NSG approved volume.

26 Subordinated loans are considered a blended finance instrument (IFC, 2020; OECD, 2020).

part of the legacy portfolio. This was structured with a shared risk mechanism that allowed the client to request the issuance of guarantees while developing its MSME portfolio.

4.8 Until the onset of the pandemic, the Bank had a role as a technical and fiduciary partner, maintaining its participation in multiple sectors. The country's good risk ratings guaranteed its financing in international markets at competitive rates. Therefore, the interest rates offered by the Bank were not very attractive. Between 2017 and 2019, the Bank continued to offer technical support, supervision and institutional strengthening through investment, PBL and TC projects in 13 sectors. This has been highly valued by the client. The government counterparts, interviewed by OVE, highlighted their close relationship with the Bank's specialists, and their agile response compared to other multilaterals. In addition, the government counterparts highly valued the Bank's support in project management, training or facilitation of consultancies in matters of contracting, acquisitions, and adaptation to change. They also highlighted the Bank's technical expertise in areas like transport, water and sanitation, agriculture and digital agenda. The active portfolio was characterized by comprising mostly investment loans of relatively small amounts (US$52 million on average) with high local counterpart contributions (on average 43%, compared to 15% in the other Andean group countries).

4.9 With the arrival of COVID-19 and adjustments to the country's credit rating, at the beginning of 2022, the Bank adapted its approach in response to Peru's financing needs. As a first measure, to respond to the need for financing generated by the public health crisis, the Bank granted fast-disbursing loans. In April 2020, US$300 million of a PBP DDO approved in 2015 (PE-L1169) was disbursed. In addition, two PBPs and one PBL, all DDOs, were approved for US$1.5 billion (PE-L1261, PE-L1262, PE-L1267), which were fully disbursed by the end of May 2022. With the increase in Peru's financing needs, there has been a change in the Bank's role as a financial partner since the pandemic started. Compared to the active portfolio between 2017 and 2019, the investment loans approved as of 2020 have a greater sector focus (5 sectors, compared to 12), correspond to larger loans (an average of US$67 million, compared to US$52 million), and local counterpart contributions have decreased (from 43% to 27% of the total cost of the project, on average). For its part, almost three-quarters of TC resources were for client support, and in part they responded to the needs of the pandemic.[27] These provided agile solutions to support the digitalization of the educational system in the face of the need to transition to distance learning (PE-T1431), strengthen national science and technology systems (PE-T1452) and the improvement and digitalization of health care services (PE-T1439) (Box 4.1).

27 During 2017-2019, 59% of approvals are operational support and 40% customer support, while in 2020-2021, 27% are operational support and 73% customer support.

4.10 Although it is early to evaluate the IDB Group's response to COVID-19 in Peru, rapid-disbursing operations were deployed, and relevant technical support was offered. The IDB Group offered fast-disbursing resources and technical support in a context of uncertainty due to its magnitude and continuance. Reforms were supported for economic reactivation and social protection and the generation of knowledge for the new context (Box 4.1). The government counterparts that OVE interviewed, appreciated the Bank's active disposition and a very close partnership, as well as the continuous adaptation and flexibility in light of the country's changing needs during the pandemic (e.g., higher financing than the envisaged in the CS, extension of deadlines for project execution, greater access to Bank specialists, and active pursuit of solutions to challenges).

Box 4.1. IDB Group support for the COVID-19 response

Between 2020 and 2021, 17 IDB Group operations supported the Government's COVID-19 response. These amounted to US$2.272 billion in approvals,[a] of which the majority was concentrated in 4 deferred PBL/PBPs (79.2%), followed by 2 loans and 3 TFFP lines from IDB Invest (20.7%) and 8 TC (0.1%). At the end of May 2022, all these operations had disbursed close to US$2.261 billion.

Four PBL/PBPs provided financial support for economic reactivation, protection of vulnerable people and fiscal sustainability. As soon as the pandemic began, in April 2020, US$300 million were disbursed from a PBP DDO in health (PE-L1169) with previously fulfilled conditions and which had been approved since 2015. Then, between December 2020 and May 2021, 2 PBPs DDO were approved that have already been fully disbursed. The first of them (PE-L1261), for US$ 400 million, supported reforms for the reactivation of the economy, with a focus on reactivating public investment, ease of access to finance and productive innovation for MSMEs. The second of them (PE-L1262), for US$600 million, supported the protection of vulnerable people, with actions to protect their income and their access to health care, higher and vocational-productive education, and services for violence against women. The most recent operation, a PBL DDO, that seeks to strengthen the sustainability of fiscal management, was approved at the end of 2021 (PE-L1267), for US$500 million and was disbursed in May 2022.

Two investment loans adapted to the challenges imposed by virtualization. PE-L1227, through grant funds, proposed to support the continuity of educational services through the design and implementation of service continuity strategies in public universities, and the development of capacities and the digitization and virtualization of curricula of public technological institutes (IESTs). Up to 52 universities and 342 public IESTs would benefit from these grants. PE-L1152 adapted certain activities (workshops, job fairs, etc.) to virtual modalities. In addition, to counteract the effects of the pandemic on employment, priority was given to the implementation of an integrated digital employment platform. The Job Bank was launched in August 2020, and allowed to guarantee an average of 8,000 new vacancies each month nationwide.

Two loans and three TFFP lines from IDB Invest supported the productive sector and foreign trade. One of the loans sought to increase access to credit for micro and small businesses, especially in the interior of the country. The other sought to support the value chain of an agro-exporter. Starting in March 2020, the TFFP lines shifted their support to meet their clients' greater financing needs as a result of the pandemic.

Eight TCs focused on supporting economic reactivation and generating knowledge relevant to the pandemic. Four TCs for economic reactivation focused on strengthening urban projects in Lima (PE-T1457), the mining sector (PE-T1471), women entrepreneurs (PE-T1480) and fiscal management (PE-T1462). Another four for knowledge sought to carry out two impact evaluations on cash transfer programs for the pandemic (PE-T1478) and education in a hybrid modality (PE-T1477), as well as capacities for facing epidemiological phenomena (PE-T1452) and city-countryside migration due to COVID-19 (PE-T1458).

Although it is early for assessing the outcomes of these operations, they supported the GoP's financing needs resulting from COVID-19 (see Annex I). In interviews, Management also highlighted its support for Peru in some of the key international dialogues for the pandemic, such as contact tracing of the spread of COVID-19 and access to vaccines.

Source: OVE, based on loan proposals, TC approval documents, interviews with Management and government counterparts, and data from IDB (2022).

Notes: :a All of these approvals occurred between 2020 and 2021, with the exception of a deferred health PBP (PE-L1169). This was approved in 2015 and, using its deferred modality, it had not requested disbursements until April 2020, due to the greater financing needs as a consequence of the pandemic.

4.11 OVE identified substantial progress in three of the four recommendations issued in the 2012-2017 CPE, and partial progress in the remaining one. In the review of the Evaluation Recommendations Tracking System (ReTS) for 2022, substantial progress was identified around the recommendations to strengthen support on social inclusion issues through operations to close gaps in health, financial inclusion, and COVID-19 response. On the side of strengthening public management there was also progress. Although operations to strengthen institutional management were approved, the new Country Strategy did not show a selective sector focus, contrary to OVE's recommendation on the need to focus on a smaller and more select number of areas. On the other hand, support for PPP projects with clearly defined rules made substantial progress with the creation of the PPP unit in the Bank's Vice Presidency for Countries and support in structuring several operations of this type (Box 4.2). Lastly, the recommendation on the strategic focus of IDB Invest's work made partial progress. Although some progress has been reported regarding support for SMEs, the focus of strategic work with Peru was not detailed in accordance with OVE's recommendation (see Annex III). This was also reflected in the absence of expected outcomes for IDB Invest's key action areas in the Country Strategy results matrix.

Box 4.2. Support in the structuring of PPPs

From the public sector, the PPP team (VPC/PPP) supported the Private Investment Promotion Agency (Proinversion) through regional TCs (RG-T2998, RG-T2850) under the contingent recovery modality in the structuring of three PPP projects: i) the new high complexity hospital in Piura; ii) the new high complexity hospital in Chimbote; and iii) improvement of the sewage system and wastewater treatment of the city of Puerto Maldonado, in the department of Madre de Dios. All three projects are in the bidding stage. In 2021, the Bank approved three TCs that support the preparation, structuring and bidding process of up to six sewerage and wastewater treatment systems (PE-T1472, PE-T1475, and RG-T3222). They have yet to report progress in execution.

For its part, IDB Invest supported an infrastructure project through PPP. In November 2021, the loan between IDB Invest and Lima Airport Partners, S.R.L. (LAP) (exclusive concessionaire of the Jorge Chávez International Airport) was approved. The project is a PPP included in the National Infrastructure Plan (not Proinversion since the agency was created after the concession). The operation consists of a mini-permanent loan that allows the borrower to repay most of the loan after the project has been completed and can start producing income.

Source: OVE, based on operational documentation and interviews with Management.

E. Alignment of the program with the strategic objectives

4.12 In general, the SG program was aligned with eight of the nine strategic objectives[28] of the CS and its expected outcomes. In contrast, the NSG program was aligned with some of the strategic objectives but not with its expected outcomes. Under the priority areas of institutional strengthening and delivery of basic goods, and fostering environmental sustainability and climate change, the SG program had a strong alignment with all of its strategic objectives. In contrast, in the priority area of economic productivity, the alignment with three of its four objectives was strong. The objective of improving the available infrastructure had a weak alignment due to its lack of coverage in improving the quality of the electricity supply. For its part, the NSG program was not aligned with the Country Strategy's expected outcomes. The alignment of most of the operations was general with two of the nine strategic objectives of the Country Strategy. Finally, 26 of the 158 SG operations and three of the 34 NSG operations in the country program did not align with any of the strategic objectives. These were education, housing, and agriculture operations.

28 Alignment is categorized as "strong" when the program deploys relevant operations to contribute to all expected outcomes under the strategic objective (coverage) and when it is plausible that these operations, if implemented correctly, will contribute to the achievement of the strategic objective through progress on its expected outcomes (feasibility). Alignment is categorized as "weak" when the program does not meet coverage or feasibility.

Table 4.1. Country Program SGs and NSGs by strategic objective

Strategic Objective [a]		Legacy (balance to be disbursed)			Aprobaciones 2017-2021			Total
		SG	NGS	NR[b]	SG	NSG	NR[b]	
Priority Area # 1. Economic Productivity								
1. Support formalization of the economy (S)	Operations #	1	2	2	2		7	*14*
	Amount (US$M)	30		1.1	175		2.1	*208.2*
2. Support business development (S)[c]	Operations #	2	7[d]		5	17	8	*39*
	Amount (US$M)	48.5			650	863.5	1.8	*1,563.8*
3. Strengthen the business climate (S)	Operations #	1			3		6	*10*
	Amount (US$M)	20			550		2,2	*572,2*
4. Improve the available infrastructure (W)[c]	Operations #	4	1	4	2	7	4	*22*
	Amount (US$M)	339.5	1.8	1.7	514.3	562.4	1.6	*1,421.3*
Priority Area # 2. Institutional strengthening and basic service delivery								
5. Improve public management (S)	Operations #	7		1		9	10	*27*
	Amount (US$M)	59.4		0.3	965.6		1.7	*1,027*
6. Improve access to and quality of health care services (S)	Operations #	1		3	2		6	*12*
	Amount (US$M)	300		0.6	725		1.6	*1,027.2*
7. Improve citizen security (S)	Operations #	1		4	3		2	*10*
	Amount (US$M)	4.1		1	740		0.7	*745.8*
Priority Area # 3. Foster environmental sustainability and climate change								
8. Improve access to and quality of water and sanitation service (S)	Operations #	1		3	2		10	*16*
	Amount (US$M)	56.8		15.9	200		6.1	*278.8*
9. Strengthen environmental management (S)	Operations #	2	1	9	4	1	11	*28*
	Amount (US$M)	42	1.8	9.1	86.8	85	31.9	*256.6*
Operations with COVID-19 response components								
COVID-19 Response	Operations #	1			3	5	8	*17*
	Amount (US$M)	300			1,500	594	2	*2,396*
Non-aligned								
No alineadas	Operations #	3	1[d]	5	2	2	13	*26*
	Amount (US$M)	56.8		1	130	60	11.5	*259.3*

Source: OVE, with data from IDB (2022).
Notes: Includes repetition of operations in cases where the same operation was aligned with more than one strategic objective. [a] (S) indicates strong alignment, (W) weak alignment. [b] Non-reimbursable (TC and investment grants). [c] Gray shading indicates cases in which some operations were aligned with the strategic objective, but not with their expected outcomes. [d] Shows NSG operations that were included for having prepared an XSR during the period, but had already finished disbursing in 2017 and, therefore, their amount is zero.

4.13 The program had a strong alignment with the objective of supporting formalization of the economy. The Bank deployed operations at two levels. At a first level, a PBP (PE-L1223) was approved that prioritized the formulation of regulatory frameworks and the implementation of pilots to improve workforce skills, labor policies and the ability to monitor them. The policy for access to technical vocational education was also supported. At a second level, operations[29] were deployed that sought to improve job placement through the expansion and improvement of university and technological higher education services, the job training system, the national skills system, and improvements to employment centers through an integrated employment window. For their part, some NSG operations included the objective of increasing the number of employees.

4.14 The program was strongly aligned with the objective of supporting business development. The SG program was deployed at two levels. On the one hand, it consisted of reform operations[30] that supported the regulation of the national innovation system, and the quality and scope of its policies; on the other, in direct support for investment in research and development, innovation capabilities, and stimulation of the formation of human capital for innovation.[31]

4.15 NSG operations with financial intermediaries were aligned with the objective of business development in general, but not with its expected outcome. NSG operations would support access to financing for capital investments of MSMEs or SMEs through financial intermediaries. In addition, ten corporate loans (seven of them for the agribusiness sector) and lines of credit were granted to facilitate foreign trade through the TFFP program. However, the strategic objective only included the expected outcome of increasing investment in R&D, so it did not reflect the increase in financing for companies pursuing these operations.

4.16 There was also a strong alignment with the objective of strengthening the business climate. Through reform operations, the SG program[32] supported legislative bills and frameworks for the formalization and digitalization of MSMEs, simplification of the tax regime for micro-businesses, the promotion of competition and public-private articulation and coordination. In addition, the implementation of the one-stop foreign trade window was supported.

4.17 The program partially covered the objective of improving the available infrastructure; therefore, alignment with it was weak. In some cases, it proposed closing gaps. The Country Strategy proposed three expected outcomes for this objective. For the outcome of *improve the quality of the road transportation infrastructure*, support was provided for the improvement of the infrastructure for road and logistics corridors that feed the departmental road network and the closing of gaps with

29 PE-L1227, PE-L1152, PE-T1471, PE-T1483, PE-T1302, PE-T1320.

30 PE-L1223, PE-L1244, PE-L1261.

31 PE-L1263, PE-L1068, PE-L1162.

32 PE-L1223, PE-L1244, PE-L1261.

improvement of the neighborhood road network.[33] To *increase the use of public mass transit*, the Bank continued to execute the construction of Line 2 of the Lima Metro (East-West) and a section of Line 4 to the International Airport (PE-L1147). In contrast, the outcome of *improve the quality of the electricity supply* was not covered.

4.18 Other operations were generally aligned with the objective, but not with their expected outcomes. Two SG operations proposed to support the development of the National Infrastructure Plan, that would allow for an integrated vision of investment needs (PE-L1231), and the reactivation of public and private investment in infrastructure (PE-L1261). The NSG operations supported the generation of renewable energies, the extension of the Lima airport, rural digital connectivity, access to digitalization through state-of-the-art mobile telephony and infrastructure for the distribution of natural gas. The latter one proposed reaching 183,000 households, of which more than half would be low-income.

4.19 The program was strongly aligned with the objective of improving public management. However, the definition of one of its expected outcomes (boost public management capacity) was not specific and, therefore as a whole the program was disjointed. A bit more than a third of the SG loans (16 of 41) were aligned with this strategic objective. For the outcome of boost public management capacity, most operations aligned with this outcome (17 of 27) proposed to support the efficiency of public finances in the areas of tax and customs management, spending and investment, civil servant payroll and public procurement. These operations presented complementarities among themselves. However, the formulation of the expected result was not limited to the improvement of public finances but of public management in general. Thus, ten of these operations planned to support public management in multiple areas (for example, criminal justice administration services, civil registry and identity services, foreign trade, and other services for citizens and businesses). To *strengthen the legal and institutional integrity framework*, the program focused on the prevention of acts of corruption by supporting the budget control system, accountability, control and audit activities, and the digitalization of State systems. For the outcome of *use of information technology in government formalities*, digitalization, interoperability, and computer improvements were deployed to support civil registry, tax and justice services and procedures.

33 TCs PE-T1415, PE-T1425, PE-T1305 and PE-T1352 supported pre-investment, social and environmental studies, and technical assistance for the management of these projects, as well as assistance in the implementation of socio-environmental policies.

4.20 Alignment with the objectives of improving access to and quality of health care services, and improving citizen security, was strong. For the former, the Bank aimed to strengthen maternal and child health and improve the level of primary care and the management of patient care with a focus on closing gaps and social inclusion. For the objective of citizen security, the program[34] proposed to improve the effectiveness of the Ministry of the Interior and the National Police (PE-L1224)[35], as well as actions to improve crime prevention services and attention to violence against women (VAW). In addition, actions were included for the resocialization and rehabilitation of adolescent offenders and the improvement of Youth Centers.[36]

4.21 The program was strongly aligned with the priority area of fostering environmental sustainability and climate change. For the strategic objective of *improve access to and quality of water and sanitation services in urban and rural areas*, the Bank supported investments in infrastructure to increase coverage and expand wastewater treatment in urban and rural areas with low coverage.[37] The program was strongly aligned with the objective of *strengthen environmental management*[38], whose lines of action were disjointed. The expected outcome "improve environmental performance" had a non-specific definition, as well as the objective. For this one, operations were deployed that supported various areas: solid waste management (also defined as expected outcome 9.2) and degraded areas in the urban area; reduction of greenhouse gas emissions resulting from deforestation and forest degradation, as well as investments in electric vehicles; efficient management of energy resources and renewable energies; support for the sustainable use of the natural capital of the Peruvian Amazon; formalization of rural property; support for sustainable development and reduction of vulnerability of the country's fishing and aquaculture sector; and strengthening of the national early warning network. Two NSG operations that supported the generation of renewable energies were also aligned.

34 PE-L1262, PE-T1270, PE-T1335 and PE-T1344.

35 This operation is part of the National Government's Safe Neighborhood strategy. Based on government's strategic objectives, the priority areas of intervention for this operation were identified.

36 PE-L1031, PE-L1230.

37 These also sought greater efficiency in the operational management of service providers (e.g., strengthening community organizations and municipal management units), aligning with the strategic objective of improving public management.

38 This included three expected outcomes: i) improve environmental performance, ii) increase the percentage of solid waste disposed of in landfills and iii) increase access to credit for agricultural producers. OVE found that the vertical logic between the strategic objective and outcome indicator iii) is inadequate. No evidence was found to justify the causal chain between increased access to financing and strengthening of environmental management. Therefore, the latter is not taken into account in the analysis of this section.

4.22 Most of the resources not aligned with the strategic objectives were from the agriculture and rural development sector. Twenty-eight operations in the portfolio were not aligned with the strategic objectives of the Country Strategy. These totaled around US$260 million (Table 4.1), of which 78% were approved during the strategic period. Most of these resources were from SG operations for agriculture and rural development (US$152 million) and, in general, their objective was to increase productivity through technology transfer and competitiveness with support for safety and sanitation. There were also non-aligned SG and NSG operations in the urban development and housing (US$97.5 million) and education (US$6.9 million) sectors, as well as energy TCs (US$1.9 million), social investments (US$ $687,450) and environment (US$400,000).

05

Implementation and Results

A. Portfolio execution

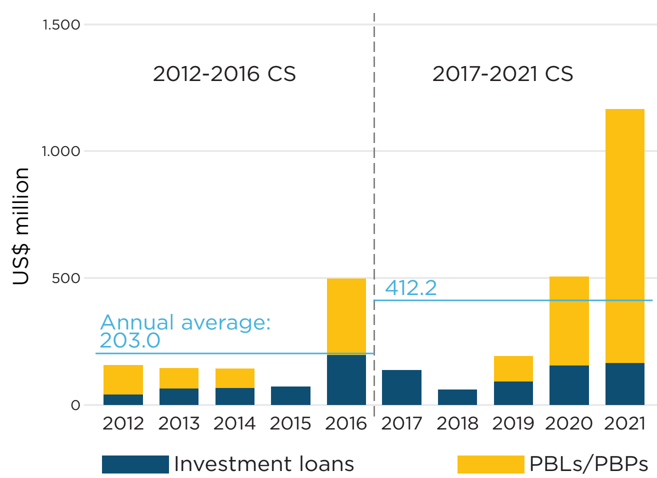
5.1 SG loan disbursements far exceeded the Country Strategy estimate and doubled compared to the previous period. The Country Strategy estimated disbursements of US$1.25 billion for the 2017-2021 period. At the end of 2021, SG loan disbursements had reached US$2.061 billion, exceeding estimates by almost 65%. This amount represented more than double the disbursements of the previous period, during which an average of US$203 million was disbursed per year, in contrast to US$412 million during 2017-2021 (Figure 5.1). This was mainly due to the growth of the PBL and PBP portfolio and their respective disbursements in response to the crisis generated by COVID-19, which went from representing 56% of total disbursements in the previous period to 70% during the analysis period.

5.2 NSG disbursements increased 140% compared to the previous period. The Country Strategy did not foresee an estimated financing framework for NSG operations. However, compared to the previous period, IDB Invest had a notable increase in disbursements, mainly due to TFFP operations —and their countercyclical role as a consequence of the pandemic—which represented 57% of total disbursements for the 2017-2021 period. During the previous period, a total of US$401 million was disbursed—including TFFP; i.e., an annual average of US$80 million. In contrast, during 2017-2021, disbursements amounted to US$963 million, which represents an annual average of US$193 million (Figure 5.2). This increase is explained by the disbursements of the TFFP lines requested with the onset of COVID-19.

Figure 5.1

Disbursements of SG loans

Source: OVE, with data from IDB (2022).

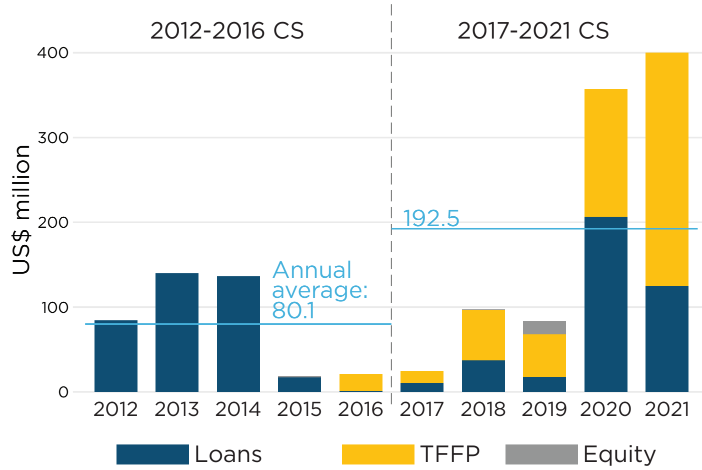


Note: SG disbursement data is only validated by the Finance Department as of 2017.

Figure 5.2

NSG Disbursements

Source: OVE, with data from IDB Invest (2022a, 2022b).



5.3 The Bank's expenses in the preparation of investment loans decreased, while those in execution increased. Compared to the previous period, the IDB's expenses in the preparation of SG investment loans decreased from US$8,453 to US$6,102 per million approved (Annex, Figure I.6.1). These expenses were higher than the Country Department Andean Group (CAN) average (US$3,897), but similar to the IDB average (US$6,159). For their part, loan execution expenses increased from US$20,688 to US$24,707 per million disbursed. This was due to the fact that execution expenses increased at a much higher rate (64%) than disbursements (37%). Despite this increase, these expenses were lower than the CAN average (US$26,008) and similar to those of the IDB (US$23,375).

5.4 Compared to the previous period, investment loan preparation times were reduced, and execution times remained stable, but both continue to be longer than the average for the Andean group and the rest of the Bank. Since the previous period (2012-2016), Peru's SG investment loans had longer preparation and execution times than the average for CAN and the entire IDB (Annex, Table I.6.1). On the one hand, preparation times were 31 months, while in CAN they were 18 and in the IDB 19. In the 2017-2021 period, these times were significantly reduced, from 31 to 19 months. Although they continued to be higher than in CAN (16 months) and the IDB (15 months), the gap with respect to both was considerably reduced. On the other hand, execution times have remained relatively similar to those of the previous period, going from 20 to 19 months between Board approval and the first disbursement. For later stages, it is not yet possible to compare execution, given that the investment loans approved during the period have, on average, close to 20% disbursed. The 19 months mentioned were, again, higher than the average of CAN (13 months) and the IDB (15 months) in the 2017-2021 period.

5.5 Frequent turnover of key staff and the executing units' lack of capacity were the most common challenges in implementation of the projects. Some operations were adapted to this context. More than half of the investment operations (25 of 41) were affected by the high turnover of ministerial authorities.[39] This affected the governance or composition of the executing units, changes in the execution scheme, decision-making, approval of contracts, contests, or projects. Some operations responded to the challenges of the institutional context with the creation of technical units specialized in project management, involving career officials within the executing units, or with the creation of subprojects for the execution of independent outputs (e.g., PE-L1132, PE-L1240, PE-L1223, PE-L1151, PE-T1152). The effect of this situation has been less in the sectors in which the Bank has built a long-term relationship and whose interventions have had continuity (e.g., science and technology, social protection, transportation). On the other hand, operations were also affected by the executing units' low management capacity or their lack of experience with Bank projects. These exhibited longer times in the hiring and supervision processes. The greatest challenges arose in procurement and safeguards policies. To counteract these challenges, the Bank responded proactively and provided relevant support to its counterparts. Some projects benefited from regular monitoring or the promotion of a project management culture within public entities (e.g., PE-L1132).

5.6 The pandemic intensified implementation challenges. The onset of COVID-19 affected 22 of the 41 SG operations in execution. On the one hand, a general cessation of activities was forced for around four months, impacting infrastructure operations in particular. In addition to this, there was a change in the Government's budget allocations, affecting counterpart resources, particularly in social investments, support for innovation and foreign trade. Regarding the NSG operations, the pandemic generated a contraction in the demand for goods and services, and problems in the supply chain, affecting the development of this type of project.

5.7 With respect to the strengthening and use of national systems, there was substantial progress in financial management, and modest progress in the use of procurement systems by Bank operations. The Bank proposed several actions to support the financial and procurement systems through loan and TC operations. For financial strengthening, the goal for the Internal Control System implementation rate at the Central Level was

39 During the strategic period there was a significant increase in the turnover of authorities. OVE estimates that among the 13 Ministries of State with which the Bank had operations, on average, the time spent by ministers decreased from 17.2 months (2012-2016) to 6.5 months (2017-2021).

exceeded,[40] although progress in budget coverage that works with results-based mechanisms was limited.[41] For its part, progress in the use of country systems by Bank operations was modest. The percentage of Bank operations that use Master Agreements and Reverse Auctions increased from 47% to 50% (with a goal of 100%), and the percentage of operations that use advanced validation of procurement systems increased from 0% to 10% (with a goal of 100%) (Annex, Table I.2.2). This modest progress is explained, in part, by the greater complexity of the national systems compared to those of the Bank, making their use less attractive (with the exception of the Framework Agreements, governed by the PeruCompras electronic platform).

B. Contribution to the Strategic Objectives

5.8 This section summarizes progress toward the strategic objectives and expected outcomes proposed by the Country Strategy and the implemented program's contributions to them. Of the country program operations, 18 SG loans closed during the period. Among these, 14 are legacy (13 investment and one deferred PBP) and four are PBLs approved during the period. For their part, 12 of the reviewed NSG operations have reached early operational maturity.[42] In summary, of the nine strategic objectives, one had a substantial contribution (business development), six had a limited contribution (labor formalization; infrastructure; public management; health; water and sanitation; environmental management); and there is no evidence of contribution for two (business climate and citizen security).

Strategic Objective #1: Support formalization of the economy

5.9 The implemented program had a limited contribution to labor formalization. The percentage of workers who contribute to the social security system increased from 21.74% to 22.5% between 2017 and 2019 (in 2020, with the pandemic, it fell to 19.69%). Up to the start of the pandemic, the Bank's program contributed to the formalization of more than 100,000 workers through a reform operation (PE-L1223), exceeding its design goal of 7,000. However, the performance of the relevant portfolio was affected by the non-approval of the second PBP in the series of the "Program to support reforms to increase productivity in

40 It went from 36% to 69% at the end of 2021. The goal had been 50%.

41 It went from 62% to 63% in 2021. The goal was 80%.

42 Three of the 18 SG loans and one investment grant have PCRs validated by OVE. The 12 NSG operations reached early operational maturity between 2014 and 2021 according to data from IDB Invest, and eight of them have an XSR validated by OVE.

Peru," that would have deepened or broadened the scope of the reforms supported in the first operation of the series[43] as well as slow progress in investment operations.[44]

Strategic Objective #2: Support business development

5.10 The program contributed to progress in the expected outcome of increasing public investment in research and development (R&D). The indicator of total investment in R&D as a percentage of GDP showed an advance from 0.12% to 0.16% between 2017 and 2019. The implemented program supported the repowering of five Productive Innovation and Technology Transfer Centers. The increase in private R&D in beneficiary companies and research teams is also noteworthy. For some companies there are even improvements in the sales/worker ratio[45] (Validation, PE-L1223 PCR). There was no evidence of increased R&D capabilities (Validation, PE-L1068 PCR). Finally, more than half of the conditionalities of the reform operations (PE-L1244, PE-L1261), which have not yet reported outcomes, were of medium (50%) and high (5%) depth for the support of innovation. That is, they would have an immediate and possibly significant effect, although most of them would have to be followed by other measures for their effect to be lasting. Of these, the following stand out: approval of the rule regulating the operation of the MSMEs Entrepreneurial Fund, which enables financing for the Start-up Peru Program;[46] approval of technical guidelines for the execution of science, technology and technological innovation projects financed with public resources in public universities;[47] award of a tender for the aid instrument for technological services demand; and approval of financing to a private entrepreneurship capital investment fund (FCEI).[48] Among the operations in science and technology, the Bank's long-term relationship with the sector and its continuity of lines of action stand out. This facilitated the implementation of operations.

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43 According to the PCR validation PE-L1223, the policy conditions of the two loans in the series were complementary. Under the first operation, the challenges identified were addressed with formal instruments and pilots. Thus, the policy conditions of the first tranche (PE-L1223) alone could not achieve the objectives set for the entire series.

44 The PE-L1227 operation registers progress in some outputs: beneficiary universities that receive licensing from the National Superintendence of Higher Education (52 of 16 programmed). For operation PE-L1152, the coordination events between the employment centers and the productive sector stand out.

45 Their beneficiary companies had increases in sales per worker from US$12,500 to US$46,100, exceeding the goal set in the design of the operation.

46 The regulation of the Fund was approved by Supreme Decree in 2020. To date, it has four programs operating through COFIDE.

47 Since its approval, several universities have made use of these resources (e.g., National University of Barranca, National University of Santa).

48 Estimated at US$145 million by 2022.

5.11 The operations to support access to financing for MSMEs had mixed progress and were not aligned with the expected outcomes of the Country Strategy. NSG operations with financial intermediaries registered satisfactory growth in the MSME portfolio for financing investment projects, of between 12% to 43% with respect to its baseline, in 6 of 10 operations. In contrast, other NSGs operations had a contraction in their SME or MSME portfolios of between 12% to 29% or poor performance. The three TFFP lines of credit financed foreign trade operations for US$545 million, mostly from the agricultural and manufacturing sectors. For corporate operations, the XSR validations indicate that one operation in the agribusiness sector[49] met its objectives by increasing productivity and direct employment (although it did not reach the goal for indirect employment), while two other projects did not achieve their development objectives (opening of rural stores and access to credit for women; increase in sales and company employees).

Strategic Objective #3: Strengthen the business climate

5.12 The program does not report outcomes for improvement of the business climate; however, it reports progress in relevant outputs. The Ease of Doing Business Index showed some deterioration in all 10 dimensions between 2017 and 2020.[50] However, the operations related to this objective[51] included relevant measures such as the improvement of the New Simplified Single Regime oriented to micro-businesses, the ratification by the Council of Ministers of new administrative procedures for company filings, and regulation of the accelerated bankruptcy refinancing procedure to facilitate the rescheduling of business obligations. Also noteworthy is the progress made in interoperability with the one-stop foreign trade windows of other countries in the region (PE-L1159), which would speed up trade procedures.

Strategic Objective #4: Improve the available infrastructure

5.13 The program's contribution to the objective of improving the available infrastructure was limited. The percentage of the paved road network increased from 15.57% to 16.85% between 2017 and 2021; however, the program's contribution to this was limited. The operations aligned with this outcome[52] register around 27% progress toward the goal of the improved road network

49 The rest of the operations in the agribusiness sector are still under supervision.

50 Subsequent index values are not available given the discontinuation of the World Bank's Doing Business report in 2020.

51 The validation of the PE-L1223 PCR explains that information from the National Superintendence of Customs and Tax Administration was not obtained to verify achievement of the outcome for improvement of the New Simplified Single Regime. Operations PE-L1244 (disbursed in August 2020) and PE-L1261 (disbursed in June 2021) do not record outcomes.

52 PE-L1058, PE-L1135, PE-L1151.

(659 kilometers of the 2,461 goal), and 38% progress in the conservation of the network (1,965 kilometers of the 5,206 goal). This progress is limited considering that the average age of these projects is six years. On the other hand, despite the fact that the electricity supply quality indexes[53] showed improvement during the period,[54] the program had no contribution. Progress in the NSG operations was incipient. The program also did not favor the outcome of increasing the use of public mass transit. The progress in outputs from operation of the Lima Metro (PE-L1147) was barely 14% of the goal in railway and station products. This project was canceled and subsequently closed.

5.14 The program made substantial progress towards the goal in terms of connectivity and closing the digital gap. This progress is not aligned with the expected outcomes of the Country Strategy. According to information from Management, the network deployed by the one NSG operation brought access to 4G service to around 3.18 million people in rural areas of Peru (almost 10% of the population). Although this operation belongs to IDB Invest, it also benefited from the technical expertise of IDB specialists in connectivity issues[55] during the design and implementation stages.

Strategic Objective #5: Improve public management

5.15 The contribution of the program in the outcome of boosting public management capacity was limited. The public sector performance indicator remained constant between 2017 and 2019 (Annex II). This outcome's approach was not very specific, unlike the other two expected outcomes proposed for the objective. Thus, the achievements of the aligned program were scattered. Indeed, there were partial advances in quality, spending efficiency and accountability. Although budget coverage that works with results-based mechanisms and the quality and execution of viable public projects was increased, other aspects were insufficient, such as the percentage of projects with amounts less than those required or the implementation of financial execution, accounting and accountability macro-processes.[56] Two other operations that sought to improve the financial management of payments to public servants were cancelled, one at 90% and another in its entirety (PE-L1106, PE-L1247[57]). Projects that supported institutional management also had mixed outcomes. On the

53 Measured in terms of the duration (SAIDI) and frequency (SAIFI) of service interruptions.

54 Between 2017 and 2021, the SAIDI went from 22.9 hours to 16.7, and the SAIFI from 8.8 times to 6.7 (Osinergmin, 2021).

55 Connectivity, Markets and Finance (CMF) Division.

56 Validation of PCR of operations PE-L1087, PE-L1101.

57 PE-L1247 was not signed by the GoP and the MEF requested its full cancellation in March 2021.

one hand, they contributed to the efficiency of the services of the Secretariat for Legal Affairs (SAJ),[58] and some entities in this sector reached a certain level of interoperability (i.e., the Constitutional Court and the judiciary), but the IT integration of the SAJ's shared services was not achieved.

5.16 The contribution to the outcomes of strengthening the legal integrity framework and increasing the use of information technology in government formalities was also limited. For the expected outcome of strengthening the legal and institutional integrity framework, progress is limited. In the legal framework, some internal regulatory frameworks from the National Control System were supported. In the institutional framework, progress was partial. On one side, it contributed to an increase in the percentage of financial and compliance audit recommendations implemented by public entities (from 43% to 57%, exceeding the goal of 50%). Moreover, it achieved the percentage of resources executed by local governments subjected to financial audit (from 11% to 26%, exceeding the goal of 14%). On the other hand, the goals for the percentage of performance audit recommendations implemented, the percentage of budget programs subject to audit, and coverage rate of local governments audited were not met.[59] Two other operations aligned with the expected outcome are currently in the early stages of execution. Finally, the expected outcome of increasing the use of information technology in government formalities had advances exclusively to the civil registry: the program contributed technological improvements that increased access to services and reduced the time for obtaining civil documents (PE-T1341). However, other operations that aimed to promote technology for other types of formalities, with an average age of five years, do not show evidence of contributions to the expected outcome (Annex, Table I.5.1).

Strategic Objective #6: Improve access to and quality of health care services

5.17 The Bank contributed to the expected outcomes of reducing childhood anemia and wait times for medical checkups. Progress is incipient for the outcome of reducing mortality due to chronic diseases. The indicator for the percentage of children with anemia decreased from 34.1% to 29.0% between 2017 and 2020, and the probability of dying from chronic diseases decreased slightly from 9.91% to 9.74% between 2017 and 2019. Wait times to schedule

58 The Bank also supported technological innovations that sought interoperability between institutions of the justice administration system (PE-L1031). However, in its PCR validation, OVE explains that the evidence presented does not allow for a conclusion on achievement of the objective.

59 The achievement percentage for each of these with respect to their goals was 16%, 57% and 47% respectively (Final evaluation report PE-L1132).

a medical appointment decreased (Annex, Table I.2.1). Although the Bank generated relevant outputs for the three expected outcomes, there is only evidence of contribution to the reduction of childhood anemia and wait times to access a medical checkup. Both contributions corresponded to TCs that were designed as local interventions; in contrast, operations with a national in scope, report no evidence of contribution (see Annex, Table I.5.1). Regarding childhood anemia, the Bank helped reduce anemia from 75% to 35% in the children of 530 beneficiary families in the department of Ancash (PE-T1269). In wait times, the Bank developed a pilot (PE-T1349) in four health centers in Lima that reduced several indicators of wait time for medical care. There were plans to scale this pilot to other areas of the country through a subsequent loan (PE-L1228), but its progress is incipient. In mortality due to chronic diseases, progress was made with the creation of 42 health networks and the development of diagnoses and guides to train doctors in the care of chronic patients. Although these are preconditions for the adequate management of chronic diseases, advances are still incipient.

Strategic Objective #7: Improve citizen security

5.18 Progress in outputs is observed, but there is no evidence of contribution to the expected outcome of reducing the crime rate. The indicator for the percentage of the population that has been the victim of a crime decreased from 33.0% to 22.4% between 2017 and 2021 (Annex, Table I.2.1). The Bank's program showed progress through the implementation of the open treatment system and the start-up of three youth centers of this type, with the aim of reducing recidivism rates. The goal of 60% of the judges in the intervention zones applying socio-educational measures under said model was reached. However, recidivism indicators to assess the scope of the objective were not included. For the prevention of VAW, the approval of the National Strategy for the Prevention of VAW and the transfer of budget items to the Program for the Reduction of VAW (PE-L1262) was supported.[60] However, it is too early to see outcomes.[61]

Strategic Objective #8: Improve access to and quality of water and sanitation service

5.19 The program contributed with progress in closing gaps for all expected outcomes, although there was limited progress for the improvement of wastewater treatment. Water and sanitation coverage indicators

60 Other TCs contributed to the social prevention of violence through the comprehensive development of children and youth in the Rimac district through teaching activities, musical training and job placement tools (PE-T1344, PE-T1335) and the design and implementation of a pilot for the expansion of Women's Emergency Center services in rural areas (PE-T1270).

61 The rest of the operations (PE-L1224, PE-L1230) have disbursement levels of no more than 30% and little or no progress in their outputs.

improved in urban areas, as well as rural sanitation between 2017 and 2019. The coverage rate for rural drinking water and wastewater treatment by public utilities showed a decline (Annex, Table I.2.1). At the urban level, the goals were exceeded with the increase in household access to drinking water and sanitation services to 18,697 households in peripheral localities of the Lima metropolitan area, with service continuity of at least 18 hours (PE-L1060). At the rural level, the Bank contributed partially by increasing drinking water coverage to 61.7% (85.8% of the goal) and sanitation coverage to 52.6% (73% of the goal) of rural communities (PE-X1004). In addition, the goal of new or improved access to drinking water and a sanitation solution was achieved in 51 homes in scattered rural communities on the coast and in the mountains and jungle[62] (PE-G1002).[63] The program also supported the increase in wastewater treatment (urban and rural), but its achievements were insufficient (achievement of 25% of the total goal).[64]

Strategic Objective #9: Strengthen environmental management

5.20 The program contributed to the outcome for solid waste, but its contribution was limited for improving environmental performance. The percentage of solid waste disposed of in landfills increased from 52.33% to 54.94% between 2017 and 2020. The program financed eight sanitary landfills and seven planned separation and composting centers. Thus, the percentage of urban solid waste sweeping coverage was increased from 55% to 100%, and the public storage capacity for said waste from 22% to 70% (below the goal of 90%). The outcome indicator for improving environmental performance decreased from 72.95 to 44.0 points out of 100 between 2016 and 2020. This covers 11 dimensions[65] which include, among others, drinking water and sanitation (strategic objective 8) and solid waste (discussed above). The other projects aligned with this outcome—with the exception of one that canceled most of its resources[66]—are in the early stage of execution.[67] Progress of NSG operations was incipient (two with minimal progress in construction, and another had an unsuccessful performance).

62 Cucungará (Coast), Romatambo (Sierra) and Atahualpa de Tabacoa (Selva).

63 PE-L1226 (with 74% disbursed) reports progress in the construction or improvement of about half of the goal of drinking water systems in rural population centers (56) and basic sanitation units (5,410).

64 PE-L1060 only managed to ensure that 18,697 (of 78,000) households had access to wastewater treatment due to delays in the construction of the La Atarjea WWTP. For its part, PE-X1004 achieved that 1,277 (of 1,514) households have access to a wastewater treatment service.

65 i) air quality; ii) drinking water and sanitation; iii) heavy metals; iv) waste management; v) biodiversity and habitat; vi) ecosystem services; vii) fishing; viii) climate change; ix) polluting emissions; x) agriculture; and xi) water resources.

66 PE-L1026 had cancellations of around 70% of resources.

67 PE-L1232, PE-G1003, PE-L1258, PE-G1007, PE-L1153, PE-L1254.

06

Conclusions

6.1 During the CS strategy period, Peru achieved its goal of fiscal consolidation until before the pandemic, challenges in productivity and socio-regional gaps persist. Although Peru adjusted the level of spending, it ran moderate deficits that increased GDP debt between 2014 and 2019. In 2020, the country implemented a package of measures to face the health and economic crisis caused by COVID-19 that amounted to 20.3% of GDP, the largest in the region. To implement the package, the application of fiscal rules was temporarily suspended, allowing the debt to increase to 35% of GDP. Productivity continues to be a challenge. Noteworthy limitations include business and labor informality, scant innovative dynamism, the concentration of exports in primary goods, deficiencies in the environment for doing business and gaps in access to and quality of infrastructure. Likewise, despite significant progress in reducing poverty, social inequalities persist (e.g., child malnutrition and anemia, access to drinking water and sanitation).

6.2 Although the Country Strategy was aligned with the development challenges and the plans of the Government of Peru, its approach was wide, similar to that of its predecessor. The general objective of the Country Strategy was to support the country in achieving sustained growth to promote social progress, in a context of environmental sustainability. The Country Strategy proposed three priority areas: i) economic productivity; ii) institutional strengthening and basic service delivery; and iii) fostering environmental sustainability and climate change. It also presented the closing of gaps and support for the planning and structuring of public-private partnerships (PPPs) transversally. Despite the lower number of strategic objectives in the 2017-2021 Country Strategy compared to the previous one (which proposed 9 priority areas and 40 strategic objectives), the lines of action, particularly for areas ii) and iii), were quite extensive. While the broadness allows alignment with a larger number of operations, the lack of specificity limits the orientation of operations. Furthermore, in the 2012-2017 CPE, OVE had recommended that the Bank concentrate on a smaller and more select number of areas.

6.3 Whereas the SG program was aligned with the CS objectives and its expected outcomes, the NSG program was aligned with some strategic objectives but not with its expected outcomes. The program transversally supported the closing of gaps. For the priority areas of institutional strengthening and delivery of basic goods, and fostering environmental sustainability and climate change, in part favored by the broad definition of two of its expected outcomes (i.e., boosting public management capacity and improving environmental performance), much of the program had strong alignment with all of its strategic objectives.

For the priority area of economic productivity, the alignment was weak due to its lack of coverage for improving the quality of the electricity supply. For its part, the NSG program was not aligned with the Country Strategy’s expected outcomes. It was generally aligned with the strategic objectives of business development and improvement of the available infrastructure. The operations of local roads, drinking water and basic sanitation, and digital connectivity proposed the closing of gaps.

6.4 Before the pandemic, the Bank had continued to position itself as a technical and fiduciary partner in the country's investment and reform projects, and with multisector participation. The country's good risk ratings guaranteed its financing in international markets at competitive rates. At that time, the Bank's role continued to provide technical, fiduciary and supervisory support which was highly valued by the client. The active portfolio was characterized by comprising mostly investment loans of relatively small amounts (US$52 million on average) with high local counterpart contributions (on average 43%, compared to 15% in the other Andean group countries).

6.5 With the onset of COVID-19, the Bank adapted its approach in response to the needs presented by the context. With the increase in Peru's financing needs, a change in the Bank's role is noted, adapting to the new context. On the one hand, the Bank offered fast-disbursing operations to respond quickly to the crisis. On the other hand, and with a medium-term vision, the Bank moved towards a greater sector focus in its investment loans, positioning itself as Peru's financial partner (investment loans approved as of 2020 are for larger amounts, and there is a greater participation in the project costs). Maintaining this sectoral concentration favoring focused actions will be a challenge for Management.

6.6 Among the most frequent challenges presented by the portfolio for its implementation, frequent key staff turnover and the executing units’ lack of capacity are the ones that stand out, which were exacerbated by the arrival of COVID-19. Turnover in the ministries and among high authorities affected governance of the executing units and meant changes or paralysis in the execution of projects. Some operations mitigated these effects by creating technical units specialized in project management, or by involving career officials within the executing units. On the other hand, project management continued to be a challenge for some executing units. The Bank responded proactively and provided relevant support to its counterparts.

6.7 The contribution of the Bank's program to the strategic objectives of the Country Strategy was limited.

1. In the area of economic productivity, the contribution was limited to labor and substantive formalization for business development. This is an area in which the Bank has shown consistency and focus on its lines of action. The MSME and agribusiness operations for access to credit had mixed results. For the business climate, no outcomes are evident, but there is progress in outputs related to the simplification of the tax regime for microbusinesses and the streamlining of foreign trade procedures. The contribution to infrastructure improvements was limited despite the age of the portfolio.

2. In general, for the area of institutional strengthening and basic service delivery, the contribution was limited. The public management program was unfocused and therefore its contribution was limited. It had partial progress in the quality and efficiency of expenditures, accountability and transparency, and institutional management, as well as access to the use of technology in government formalities. The contribution in the area of health was limited, and there is no evidence of outcomes for citizen security.

3. For the area of fostering environmental sustainability and climate change, there was a contribution in the improvement of access to water and sewage services, and solid waste management This progress was limited to the treatment of wastewater and the strengthening of environmental management—whose program was also unfocused.

4. Although it is early to evaluate the IDB Group's response to COVID-19, rapid-disbursing operations and technical support were deployed in a context of uncertainty due to its magnitude and continuance. Reforms were supported for economic reactivation and social protection and the generation of knowledge for the new context. The IDB Group's continuous partnership, adaptation, and flexibility in the face of the changing needs of the country during the pandemic is also highlighted.

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