

**THE WORLD BANK'S CONTRIBUTION TO POVERTY
REDUCTION IN PERU
2003-2008**

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ABSTRACT

Peru's economy has improved significantly, however poverty is an imperative issue that is not progressing as expected. The aim of this study is to analyze the World Bank's contribution to poverty reduction in Peru and determine what limited the results and outcomes of its projects. The study compares and contrasts the Country Assistance Strategy (CAS) that was executed from 2003-2006 and the Country Partnership Strategy (CPS) that is currently being implemented from 2007-2011. The research analyzes the World Bank's actual role in Peru and determines if the latter strategy is more likely to improve the World Bank's effectiveness in poverty reduction than the previous strategy. The study acknowledges the positive impact of development cooperation, the main actors in poverty reduction and the importance of the Millennium Development Goals (MDGs) in measuring progress. The study also identifies the World Bank country assistance strategies' strengths, weaknesses, effectiveness and outcomes in their fight against poverty reduction. The research concludes that the new Country Partnership Strategy (CPS) includes more poverty reduction programs, more funds invested and a flexible approach. The CPS, an improved strategy taken from the basis of the CAS; is more structured, goal oriented and already has shown further progress in eliminating poverty in Peru.

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Abbreviations and Acronyms

AAA	Advisory and Analytical Assistance
APL	Adaptable Program Lending
ATPDEA	Andean Trade Promotion and Drug Eradication Act, of the United States
BCRP	Banco Central de Reserva del Peru (Central Bank of Peru)
CAS	Country Assistance Strategy
CASPR	Country Assistance Strategy Progress Report
CIDA	Canadian International Development Agency
CFAA	Country Financial and Accountability Assessment
CGR	Contraloría General de la Republica
COFOPRI	Peru's Commission for the Formalization of Informal Property
CONSUCODE	General Procurement Council
CPAR	Country Procurement Assessment Report
CPS	Country Partnership Strategy
DPL	Development Policy Lending
ENAHO	Encuesta Nacional de Hogares
ESW	Economic and Sector Work
FDI	Foreign Direct Investment
FONAVI	National Housing Fund
FONCODES	Peruvian Social Fund
FONIPREI	Fondo de Inversion Publica Regional y Local (Regional and Local Public Investment Fund)
FTA	Free Trade agreement
GDP	Gross Domestic Product
GOP	Government of Peru

IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IFC	International Finance Corporation
IFI	International Financial Institutions
IFPRI	International Food Policy Research Institute
IGV	Peru's Sales Tax
INEI	National Institute of Statistics and Informatics
IADB	Inter –American Development Bank
IDA	International Development Association
IDB	Inter –American Development Bank
IMF	International Monetary Fund
INDECOPI	National Institute for the Defense of Free Competition and Intellectual Property Rights
LAC	Latin America and the Caribbean
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-governmental Organization
NLTA	Non-Lending Technical Assistance
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
PAHO	Pan American Health Organization
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PRONAA	Programa Nacional de Asistencia Alimentaria (National Program for Food Assistance)
PSRL	Programmatic Social Reform Loan
RBB	Results-Based Budgeting
RENIEC	National Identity and Marital Status Registry

SAI	Supreme Audit Institution
SDC	Swiss Agency for Development and Cooperation
SIAF	Integrated Financial Management System
SIS	Seguro Integral de Salud
SME	Subject Matter Expert
SUNAT	Tax Administration
SUTEP	Sindicato Unitario de Trabajadores en la Educación del Peru
SWAP	Sector Wide Approach
TAL	Technical Assistance Loan
UN	United Nations
USAID	United States Agency for International Development
WB	World Bank
WBG	World Bank Group

INTRODUCTION

The World Bank has adopted many different strategies for development throughout the years and much controversy is found surrounding its mission and its assistance to third world countries. The reason lays on the fact people tend to be naturally impatient when it comes to issues concerning poverty reduction, hunger alleviation and child mortality.

Peru, like many other developing countries is being assisted by the World Bank. Efforts are by means of support towards competitiveness in the country with an emphasis on social development and inclusion. The World Bank is executing these efforts through a number of loans for development policies, technical assistance, investment operations and analytical tasks.

With partial support from the World Bank, International Monetary Fund (IMF) and due to foreign investment and cooperation between governments, the country of Peru is enjoying economic, political and social stability since the year 2001.

According to the Economist Intelligence Unit,

Peru had one of the best-performing economies in Latin America last year, with GDP growth of 9.8%—higher even than that of China (9%). Despite a severe global economic bust and sharply decelerating domestic growth, the Andean country is likely to remain, relatively speaking, a star performer in 2009. (The Economist, 2009d)

Peru's economy is currently well managed. Revenues have increased as a result of better tax collection and growth. The fact is Peru's development has surpassed that of most other countries in Latin America. However, poverty persists despite of the recent economic growth

in the past years and there is an urgent need to deal with poverty reduction in a more effective manner.

To reduce poverty, Peruvian leaders understand that Peru needs new approaches than the ones used in the past. Thus, the government has adopted the Millennium Development Goals (MDG) as national goals. Several United Nations organizations have successfully executed activities and attained encouraging results that promote the United Nations' Millennium Development Goals (MDG) at the national and community level in Peru. Their main focus is on nutrition, food security, universal primary education, child and maternal health, environmental sustainability and the eradication of HIV/AIDS to mention a few. In addition, the business sector in Peru is also striving for a more inclusive society and considers these goals a priority as well.

According to the National Institute of Statistics and Informatics (INEI), entity that monitors progress towards the MDG's, "the proportion of people living in poverty dropped from 44.5 percent in 2006 to 39.3 percent in 2007; while the figures of extreme poverty decreased from 16.1 to 13.4 percent during the same period" (MDG Monitor, 2008). The current goal for the year 2015 is to decrease the proportion of people living in poverty to approximately 27,3% and to reduce extreme poverty to approximately 11,5% (INEI, 2007).

In terms of social indicators, however, most of the United Nations' Millennium Development Goals (MDGs) are far from being achieved especially in a context of economic and social exclusion that separates the population by geographical location and ethnicity. Thus as mentioned, even though Peru portrays a favorable economic picture, poverty is still a major problem (United Nations Development Group, 2006).

Not long ago, the World Bank's technical team prepared a Country Partnership Strategy (CPS) for Peru in consultation with the Peruvian government. The CPS includes a comprehensive diagnosis of the challenges, trends and causes of poverty in Peru. It supports the government's development strategy, promotes collaboration and coordination among partners in Peru. This CPS replaced the Country Assistance Strategy (CAS) approved in prior years.

The new strategy proposes a selective program of operations from the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), which is the private sector arm of the World Bank Group. The program is built upon three strategic pillars to support Peru's efforts to increase economic growth and competitiveness, reduce poverty and inequality, and strengthen the country's public institutions. (World Bank, 2009c)

In the pursuit of revealing the efficiency of past and future contributions of the World Bank in Peru, this research analyzes the World Bank's actual role and determines whether or not the new strategy is likely to improve the World Bank's effectiveness in poverty reduction in Peru and under what circumstances.

The first chapter depicts Peru's reality with an emphasis on the country's economy, poverty and history of social programs. The second and third chapters are dedicated to the Millennium Development Goals and the main actors in poverty reduction. The fourth chapter is based entirely on the World Bank and the comparison between the former and present country assistance strategy. The final chapters intend to demonstrate whether or not the present country assistance strategy is an improvement to the former one.

The study also analyzes how the strengths and weaknesses of the earlier CAS have influenced the new CPS. It identifies the new strategy's effectiveness by presenting a SWOT analysis that will portray its strengths, weaknesses, opportunities and threats or limitations. The

research proposes successful approaches that may be implemented in a future by analyzing the economic and social data available from the government of Peru and the World Bank.

Findings may reveal the major obstacles that the World Bank confronts in its fight for poverty reduction in Peru. The study may also positively impact the field of development cooperation in Peru by acknowledging progress, promoting awareness and improving country assistance strategies in poverty alleviation.

The dissertation conveys the concept of development cooperation and its significance in Peru and discusses the importance of the United Nations Millennium Development Goals (MDG) in measuring progress. The research places particular emphasis on the World Bank's team work and shared vision with the Peruvian government, the private sector, multilateral/bilateral agencies and non governmental organizations. It identifies common concepts, key strategies and joint efforts that contribute to the fight towards poverty reduction in Peru. The conceptual model for this research is based on social, economic and political perspectives.

The research focuses on the World Bank's contributions because of its position as a global key player in poverty reduction. Also, the World Bank's public, organized and reliable database permits an in-depth and thorough study and investigation. All supporting documentation collected, organized and interrogated has been analyzed and presented in this paper. Documents were analyzed in a qualitative and quantitative approach by grouping words, key phrases, comparing variables, creating tables, searching for patterns, categorizing key messages, devising a research method and gathering, summarizing and interpreting data. Additionally, the research can be validated since it was completed with reliable data information and can be verified through triangulation.

CHAPTER 1

PERU'S REALITY: YESTERDAY AND TODAY

The Republic of Peru, with about 27.000.000 inhabitants, is the third-largest country in South America after Argentina and Brazil. Located south of the Equator, it ranks among the 20th largest nations in the world. It is a traditional religious country with over 89% of the population denominated Roman Catholic that presents a great variety of festivals and rituals that highlight the Catholic passion as well as the mysticism of pre-Hispanic cultures. Spanish is generally spoken across Peru; however Quechua is still spoken in many parts of the country and remains a major legacy of the Inca Empire. Other languages such as Aymara are spoken in some province, while a variety of dialects are also spoken in the Amazon jungle.

The Rise of the Economy and the Ongoing Problem of Poverty

Peru successfully controlled terrorism and hyperinflation during the government of former President Alberto Fujimori. From 1994 through 1997, Peru was transformed and even documented a forceful growth driven by foreign investment. Its economy undertook many market oriented reforms such as privatizations and met many conditions for long-term growth. “The Government of Peru's economic stabilization and liberalization program lowered trade barriers, eliminated restrictions on capital flows, and opened the economy to foreign investment, with the result that Peru now has one of the most open investment regimes in the world” (Multimedia History Company, 2003).

Investment then deterred due to “El Nino” weather phenomenon, global financial insecurity, and the collapse of the Fujimori government and subsequent political instability; as a result GDP in 2001 only grew .2%. When President Alejandro Toledo took office, he maintained largely orthodox economic policies and adopted measures to attract investment that eventually brought the deficit down to 2.5% of GDP in 2001. Moreover, most sectors of the economy were displaying gains by mid 2002. “Peruvian exports reached \$7.65 billion in 2002, with imports of \$7.44 billion, producing the country’s first trade surplus in 11 years” (Multimedia History Company, 2003).

Peru’s economy recovered dynamically and GDP grew 5.2% and continued into 2003. In addition, as a result of the opening of the Antamina copper-zinc mine, minerals and metals exports recorded large gains in 2001 and 2002. Moreover, the Andean Trade Promotion and Drug Eradication Act (ATPDEA) of the United States enacted in 2002 granted duty-free access to a wide range of exports, lowered the tariff barriers and stimulated the diversification of non traditional exports.

Peru experienced an incredibly dynamic economic upswing between 2002 and 2006. In the year 2003, growth was driven by investment, construction, domestic demand and exports. Peru’s economy became one of the better managed in Latin America. “Peru secured its \$750 million external financing requirement for 2003 with international bond issuances early in the year and raised more than \$400 million via a new domestic bond program” (Multimedia History Company, 2003).

According to Norberto E. Garcia (2007), traditional and non-traditional export earnings grew about 30% per year in current dollars during 2003-2006 and the ratio of exports to gross domestic product at current prices rose from 14% in 2002 to 28% in 2006. Consequently, a

surge in tax revenues was generated that expanded public expenditure and significantly reduced the fiscal deficit. “As a result, GDP growth accelerated from 3.9% in 2003 to 6.4% in 2005, and 8.0% in 2006 and an estimated 8.9% for 2007. During the same period, total productivity recovered to grow at 2.5 -3% per year for the first time since a brief interregnum in 1993-1996” (Garcia, 2007).

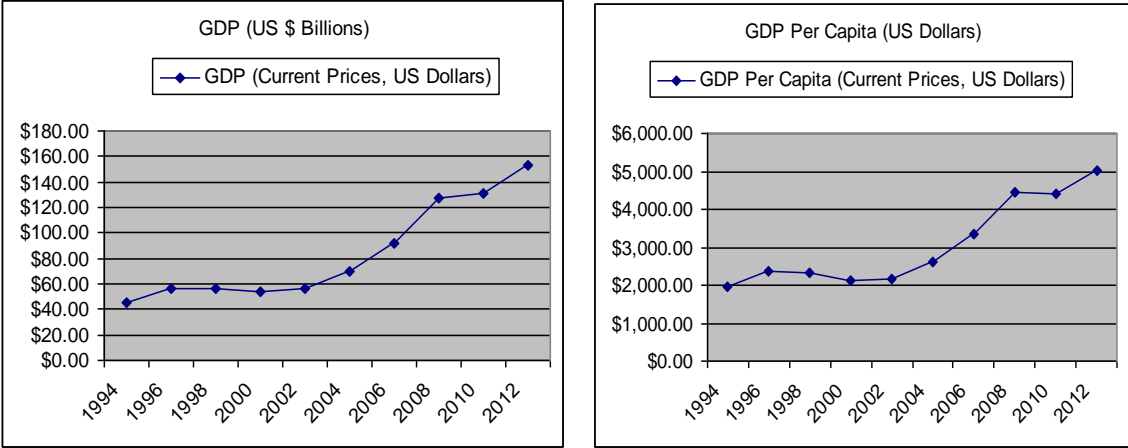
Growth in Peru is well-balanced and predominantly solid in agriculture, construction, manufacturing, and mining. In recent years, fisheries and textiles have also reached significant gains. Private investment has also been a key driver of economic growth due to the rising economy and reliable policies. In addition, the Peruvian Government actively seeks to attract domestic investment and foreign investment in tourism, agriculture, mining, petroleum, natural gas, and power industries.

Due to positive economic policies and a favorable external environment, the current administration of Alan Garcia has inherited a stable macroeconomic situation. The publication of the Economist Intelligence Unit in 2009 declared the following: “Peru’s growth has exceeded that of most other countries in the region during the last seven years, driven by high global minerals prices and expanding output from the natural-resources sector...” (The Economist).

Peru still maintains the neoliberal development model which has created an outstanding economic growth over the last five years. The country has attracted significant investment and trade opportunities by hosting the summits for leaders of LAC-EUC and APEC in Lima in May and November 2008, respectively. Furthermore, Peru attained successful negotiations and approvals in free trade agreements with the US, Canada and China. Similar trade

agreements will continue with Mexico and the European Union which will boost bilateral investment.

Figure 1.1 - GDP and GDP Per Capita



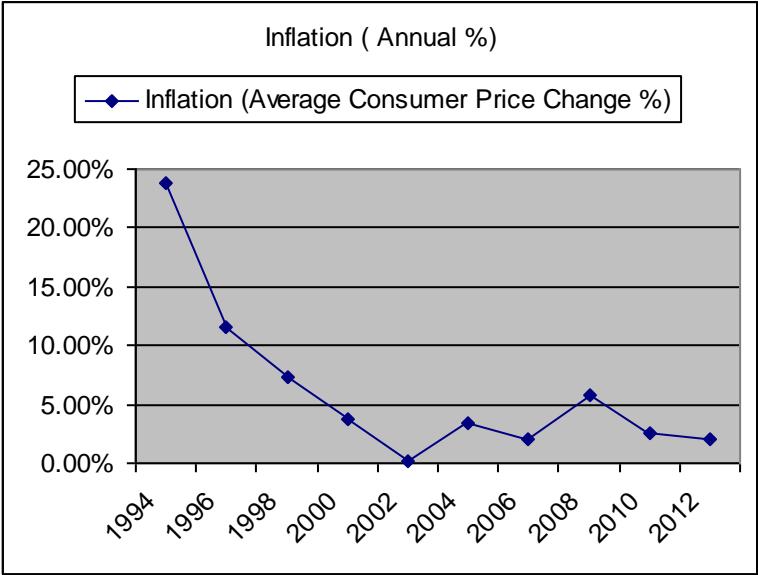
Sources: (IMF, World Bank, UN, OECD, CIA World Factbook) Economy Watch, 2008.

The graphs above show past, current and forecast GDP growth in Peru from 1994 to 2012. The GDP of the country in terms of current US \$ in 2008 reached 127.598 billions and the per capita GDP in 2008 reached \$4,452.54. Peru also shows a very positive outlook with a GDP growth rate of around 7%, vitality of the exporting sector, and balanced monetary and fiscal accounts.

Nonetheless, an increase of GDP does not necessarily mean a reduction in poverty. One of the reasons is because a country’s GDP is divided by the population to give an indication of the average income per person and this unfortunately does not give an indication of actual distribution of the income within a country. In Peru’s case, few families are extremely rich while the majority of the population is very poor. Furthermore, GDP does not measure how wealthy people are in terms of their human development or standard of living. As an example, a Peruvian farmer may be able to provide for all his needs eventhough he contributes only a very small amount to the GDP.

Major indicators of Peru’s economy also demonstrate that inflation has decreased while GDP has increased. The decrease of inflation in Peru has contributed to poverty reduction since inflation mostly affects individuals who live below the poverty line. This is because inflation affects poverty mainly through its impact on wages. “High inflation tends to lower the share of the bottom quintile and the real minimum wage - and tends to increase poverty” (Easterly, 2001).

Figure 1.2 - Inflation (Average Consumer Price Change %)

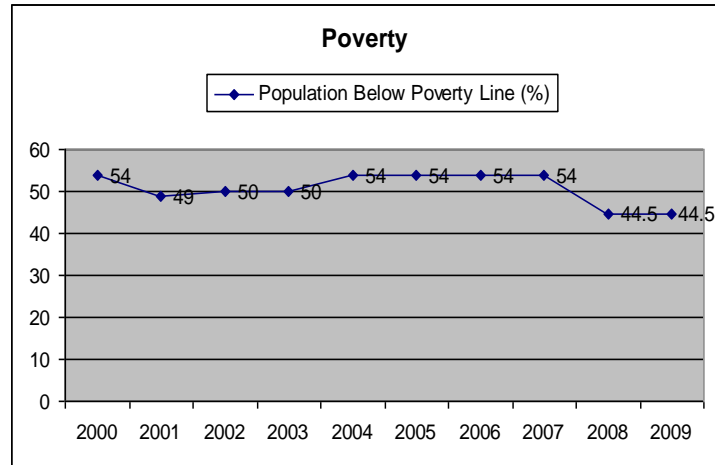


Sources: (IMF, World Bank, UN, OECD, CIA World Factbook) Economy Watch, 2008.

Yet again, economic growth has been insufficient to generate stronger new employment and the government still struggles to reduce poverty, extreme poverty, unemployment and underemployment. Although inflation in Peru has decreased throughout the years, and Peru portrays a favorable economic picture, poverty is still a major problem. The UNDP representative in Peru, Jorge Chediek, stated the following, “Economic growth is a first requisite for poverty reduction. Peru has made progress on that front, but it is not moving as

quickly as it needs to, and it also must address the challenge of redistributing resources to narrow the gap between the rich and the poor," (Osava, 2006).

Figure 1.3 - Poverty



Source: CIA World Factbook, 2009.

Peru's economic growth has had a limited impact on poverty rates throughout time. As the graph above displays, poverty has barely improved although Peru has experienced economic growth for the past years. "More than 39 percent of the total population and two-thirds of the rural indigenous population live below the poverty line" (Peruvian Times, 2009b).

There are many speculations and conjectures as to the reasons for incessant poverty in Peru. The World Bank sustains that this slow reaction of poverty to economic growth is due to three motives. First, growth in recent years is mainly due to capital-intensive industries; primarily commodity extraction that generate a low demand for labor and therefore a weak impact on poverty. Second, there was a significant excess installed capacity that limited greater job creation during the years of growth of 2001-2002. This was due to the economic downturn in 1999 and 2000. Third, Peru had a very volatile growth in the past. Peru had increased its GDP of US\$ 44.893 Billion in 1994 to US\$ 69.702 Billion in 2004. However, Peru reached the exact same level of poverty in 1994 as it had in 2004.

On the other hand, many authors claim that economic growth in Peru has had little effect on wages and that when wages drop during downturns it pushes more people into poverty. They sustain that historic inequalities that produced these major drops in real wages in the past have unfortunately never been addressed.

Verdera (2001), maintains that the real losses for workers came during the last two years of the government of Alan Garcia (1988-1989) which held down wages while rising prices, particularly in public services such as health and education. This situation worsened by the structural adjustment policies under President Fujimori's government which brought slow growth in the minimum wage and public sector salaries and discouragement of unions. Verdera states that union membership fell from approximately 50% to approximately 15% between the years of 1988-1997.

According to Yamada, (2005) in 2002, the hourly wage in urban areas was approximately 50 percent lower than in 1985, while working hours had increased from 50.3 to 54.8 hours per week, with an increasing proportion of people working over 60 or even 70 hours (Yamada).

Supporting this idea, Yamada adds that more people worked over 60 hours (33.4% in 2002, up from 18.5% in 1985) and over 70 hours (18.5% in 2002 from 10.4% in 1985). He affirms that employees who work over 60 hours a week are less likely to access education, practice basic health care or be involved in their community. Yamada concludes that although working extra hours may be a successful strategy for employees to meet material household needs, it may also aggravate some of the effects associated with poverty and people's ability to accumulate human capital or vocational development.

Last but not least, Hernando de Soto, a renowned Peruvian economist states that the lack of formal property rights is the reason for continuous poverty in poor countries such as Peru. Hernando de Soto has received support and recognition from many influential Western politicians and from many underdeveloped countries.

De Soto tells these heads of state that their poor citizens are lacking formal legal title to their property and are unable to use their assets as collateral. They cannot get bank loans to expand their businesses or improve their properties. He and his colleagues calculate the amount of "dead capital" in untitled assets held by the world's poor as "*at least \$9.3 trillion*"—a sum that dwarfs the amount of foreign aid given to the developing world since 1945. (CATO Institute, 2009)

Saveedra however rejects this theory. He maintains that programs from COFOPRI (Peru's Commission for the Formalization of Informal Property) have sought to award titles to informal holdings in Peruvian cities but with no evident results since any type of increased access seemed to have been through subsidized public schemes rather than the private banking system. The purpose of the COFOPRI institution is to regulate the formalization process that will allow improving the citizens' living conditions.

By 2005 the project had formalized the legal status of nearly 2 million and awarded 1.5 million titles, benefiting around 4 million people. However, the author reports inconclusive evidence of improved access to credit. In addition, the program was not coordinated with efforts to improve electricity, water and sanitation infrastructure and indeed failed to involve local governments to any significant extent. (Bidwell, 2008)

In regards to income inequality, Peru's Gini Coefficient was 48.56 in 1997. "This can be read as the richest 10% of its citizens consume 30.4 times more than the poorest 10%". (Ferrer, 2009). The higher the country's Gini Coefficient, the more unequal a country's income distribution. In other words, if income were distributed with perfect equality, the Gini Coefficient would be zero. Yet, if income were distributed with perfect inequality, the Gini Coefficient would reach 100.

Peru is a very unequal society when it comes to wealth. Inequality in Peru is also very much influenced by the population's ethnicity. Peru's complicated social system that started with the hierarchical principles set down in colonial times significantly influences the present-day intergroup behavior. "This kind of poverty is very difficult to eradicate - it has been around for generations, and even has elements of cultural and ethnic marginalization" (Osava, 2006). Due to discrimination among Peruvians, indigenous people are much more likely to live in conditions of poverty than the rest of the population. The number of indigenous people in Peru is debatable because it depends on the definition used; but the estimates range from one-quarter to one-half of the population.

On a national level, 64 percent of indigenous peoples live below the poverty line, while nearly 80 percent of the rural indigenous population is poor, compared to 40 percent and 66 percent to non-indigenous, respectively. (World Bank, 2006b)

Race and ethnicity-based discrimination continues to keep indigenous people secluded and in socio-economic impoverishment. For example, racial discrimination in Peru can openly be observed in the exertion of different regulations for the population in public places.

The exclusive beach Club Regatas, frequented by upper class family groups, does not allow domestics to use the same beach parasols as the bathers they serve. At the Asia condominium in the south of Lima, another exclusive beach, house cleaners are not allowed to go into the water when their employers are bathing. The discos at Centro Comercial Larcomar, in Lima, have been reported by human rights organizations for not allowing access to their premises to people with dark skins. (Social Watch, 2008)

Since Peru's indigenous population suffers serious troubles of social, economic and cultural marginalization, poverty levels are significantly higher in rural areas where most of the indigenous population reside. Indigenous groups in these areas have less access to public services such as health care, water, education and social protection. They are also less likely to come in contact with public institutions such as banks and the judiciary system.

Unfortunately, over 70 percent of the Andean region still lives in poverty.

Contributing to Peru's poverty reduction struggle is the extensive history of Peru's lack of coordination and skills in the management of social programs. According to the UNDP representative in Peru, Jorge Cheniek, "Peru has no system to measure the extent to which state assistance has helped reduce poverty. A better indicator would be the number of people who benefited, said the official, after pointing out other limitations, such as the incompatibility and lack of coordination among social programs" (Osava, 2006). In addition, lack of documentation among the rural population is a critical factor that contributes to the exclusion of vulnerable families from social programs. Moreover, programs also present distribution difficulties and funds are not always serving the public purpose.

The country's 30-odd anti-poverty programs deliver three types of transfers to the poor- basic food, temporary work, and community infrastructure. They reach more than nine million people-one in every three Peruvians. However, the average benefit per person is only about US\$2 per month, an almost insignificant fraction of the extreme poverty line of US\$1 per day. (World Bank, 2006b)

An example of poor management is FONAVI (Fondo Nacional de Vivienda or National Housing Fund). FONAVI was created in 1979 during the government of former President General Francisco Morales Bermudez to assist the urban poor in Peru by providing them with low-cost loans for subsidizing their homes or other construction and improvement projects if they contributed monthly to a fund. However, only 3.35% of the employees who contributed to this fund (the majority FONAVI employees or relatives) received some type of service or loan for their homes.

According to the official national newspaper of Peru, "El Peruano" (2007a), 94% of contributing employees did not perceive any benefit at all from this fund. In addition, the newspaper states that approximately 5 million employees contributed to the FONAVI fund between 1979 and 1988 and that this savings fund from contributing employees reached 10

thousand million soles. Much controversy has followed since Peruvian FONAVI investors who expected to become property owners are claiming their investments back.

Today, the conclusion remains that the country is unable to reimburse the contributing employees of FONAVI due to the economic impact it would create in Peru. Peruvian newspaper El Comercio (2007b), quoted Peru's Defense Minister Rafael Rey by stating that Peru would be forced to increase their IGV (Sales Tax) from 19% to 23% if it had to reimburse FONAVI employees and once again this would mostly affect the poor. He also added that the resources needed to attain this demand will have to emerge from the pockets of all Peruvians through sales taxes.

As another example, in 1992 former President Alberto Fujimori created FONCODES (Peruvian Social Fund) to generate employment, alleviate poverty, and improve access to social services. The administrations of former president Toledo and presently Alan Garcia have preferred to maintain FONCODES in operation by channeling new funds and providing the new mission statement of combating poverty, mainly in rural areas and by financing social investment projects in infrastructure by using intervention models to reduce poverty in coordination with regional and local governments and civil society. Between 1992 and 1998 FONCODES spent about US\$570 million funding micro projects throughout Peru. Many of these projects involve building and renovating schools facilities. However, the impact and results did not prove thoroughly effective.

Education projects of the Peruvian Social Fund (FONCODES) have reached poor districts and, to the extent they live in those districts, poor households. FONCODES has had a positive effect on school attendance rates for young children, but not on the likelihood that children will be at an appropriate school level for their age. (Paxson, 1999)

Once again, this social fund did not attain the goals expected and did not incorporate evaluation systems. A study by Paxzon and Schady in the year 1999 determined that the analysis of the impact of FONCODES in education projects on schools' quality were not possible due to the lack of data on measures in children's scholastic achievement, time children spend in school, and pupil-teacher ratios.

Similarly, in 1992 Fujimori created the National Program for Food Assistance, PRONAA (Programa Nacional de Asistencia Alimentaria) which provides assistance, support and food security to the most vulnerable, especially children, who are at high nutritional risk and those affected by temporary emergencies. Its purpose is to help improve the nutritional status of the population in extreme poverty as well as contribute to food security in Peru.

PRONAA was intended to supply free food to the comedores in accordance with the newly passed Law 23507, which promised to subsidize 65 percent of the cost of the food rations. Unsurprisingly, the government has never gotten anywhere near this target, and the newspaper *El Comercio* claimed that in 1999 they were providing a mere 13 percent of the necessary food. Women were, therefore, obliged to divide limited rations among the members. (Moser, 2004)

Back in those days PRONAA was an openly political arm of the Ministry of the President which Fujimori had created. The ministry played a key role in increasing state control over the grassroots sector and eventually replaced the central committees with their own administration and leadership. PRONAA is nowadays a unit of the Ministry of Women and Social Development.

In recent years, the performance and achievement of "Juntos" social program has also been filled with controversies. Originally launched by former President Alejandro Toledo in 2005, it was designed to decrease economic inequality and increase literacy rates. The program provides a monthly dividend of about \$30 to mothers in extreme poverty if they send their children to school and for regular medical checkups.

Guillermo Cornejo, a COHA research associate, criticizes “Juntos” by stating that the program targeted urban areas instead of focusing on neglected rural regions which mostly need the government’s support. He also maintains that the program confronts many challenges due to Peru’s inadequate primary education and healthcare system and the country’s inefficiencies in implementing social programs.

It would not be surprising if ‘Juntos’ does not fulfill its purpose because Lima has proven extremely inefficient at implementing social programs in the past. The ‘Vaso de Leche’ effort in the 1990s failed to achieve its goal of reducing malnutrition in five-year-old children, even though it was the most widespread program of its kind in the country. Such examples reaffirm the challenge that would be involved in successfully expanding the ‘Juntos’ program. Ultimately, ‘Juntos’ expansion cannot contribute to sustainable development if the country’s education and healthcare structures are not first reformed. (Cornejo, 2008)

Conversely to criticism, many institutions have verified the validity of the ‘Juntos’ program’s statistics and have concluded that the program has in fact benefited poor families tremendously.

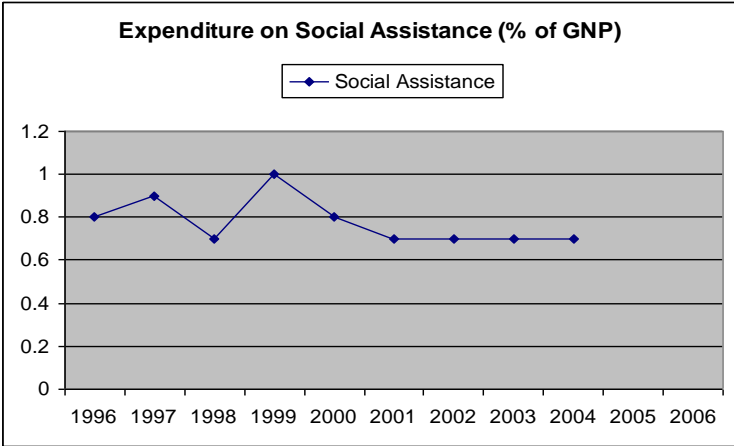
The INEI recently announced a sizeable 5.2 reduction in poverty in 2007. However, many have questioned the validity of these numbers, including Farid Matuk, an ex-president of INEI, who guesses that such numbers might be forged. They suggest a poverty reduction rate of 0.6 percent per each point of GDP growth, which is three times higher than the average of previous years. At this rate, Peru would eliminate poverty completely in about 10 years, which strains credulity. Despite the surprising results, several institutions, including the World Bank and two Peruvian universities, supervised the study’s methods and verified the validity of the statistics. If they are valid, then ‘Juntos’ may yet be the reason behind the reduction in poverty, considering it was being implemented when the purported drop began to accelerate.” (Cornejo, 2008)

As indicated by COHA, Alan Garcia announced in May 2008 an increase of \$70 million for the state-run direct subsidy “Juntos” initiative. In addition, the Ministries of Health and Education and the Ministry of Women have also lend their support to this initiative that provides assistance to families in poverty.

As illustrated, national programs such as FONAVI, PRONAA, FONCODES and Juntos have reached only small proportions of the poor, in other words, unfortunately not all the gains reach the poor. Most worryingly, there has not been much improvement for the past 10 years in social assistance expenditure.

The distribution of social and anti-poverty expenditures has been disappointing. The distribution of 7.6 billion soles (about 40 percent of the total public budget in 1996) is mildly tilted towards the better-off in Peruvian society; i.e., the poorest obtain less of these expenditures than their population share. (World Bank, 1999)

Figure 1.4 - Expenditure on Social Assistance (% of GNP)



Source: Pedro Francke and SIAF

The graph above demonstrates that Peru is not spending a considerable percentage of the GNP in social assistance. The expenditure made by Peru in its efforts to improve the quality and living standards of its population is actually one of the lowest in Latin America.

Figure 1.5 - Social Expenditure in Latin America

Social Expenditure as a % of GDP				
	1990	1995	2000	2005
Peru	3.97	6.88	7.94	8.84

Bolivia	...	12.39	17.18	18.39
Chile	12.62	12.02	14.94	12.72
Ecuador	7.91	6.16	3.97	6.38

Source: CEPALSTAT. Economic Commission for Latin America and the Caribbean:

Social Development Division.

The table above depicts the progress and relapse of social expenditures as % of GDP for the countries of Peru, Bolivia, Chile and Ecuador from 1990-2005. Peru still seems to have a relatively weak political commitment to fight against poverty since levels of social expenditure still maintain below the regional average. “By the end of the 1990s, real per capita social expenditure was still below the level it had reached in the 1970s” (World Bank, 2006b).

In 2000, Norbert R. Schady published a study on the use of province-level data on monthly expenditures, socioeconomic indicators and electoral outcomes. From 1991 to 1995, he analyzed the political influences on the timing and geographic distribution of FONCODES (Peruvian Social Fund) expenditures in Peru. He reached three main conclusions:

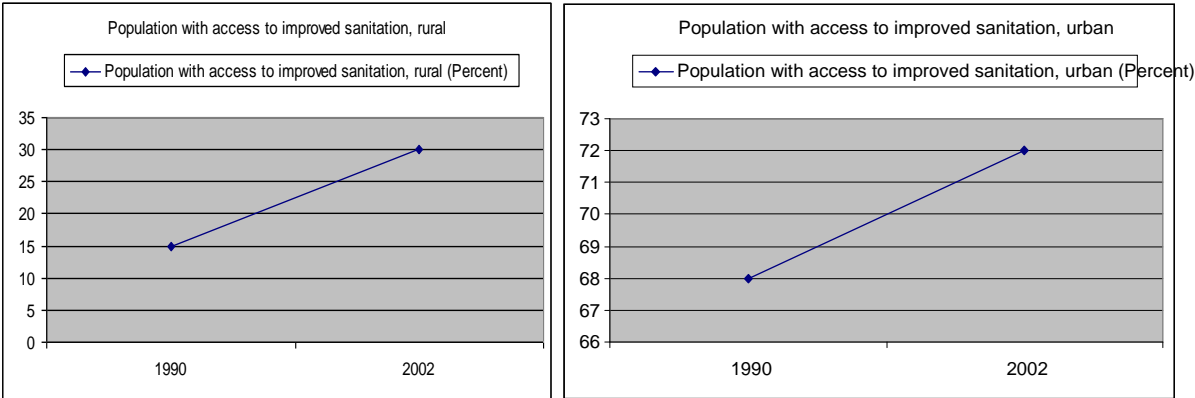
First, these expenditures increased significantly before national elections. Second, FONCODES projects were directed to provinces in which their marginal political effect was likely to be largest. Between 1991 and 1993, FONCODES expenditures favored core supporters and marginal voters. After a disappointing result in a national referendum held in 1993, however, the Fujimori administration redirected resources in an attempt to buy back the vote in turnout provinces. Third, FONCODES projects favored the poorest provinces, which suggest that the program also had a redistributive function. (Schady 2000 pp. 289-304)

Between November 1991 and May 1995, Peru’s social expenditures were highly irregular; however three distinct periods in total expenditures coincide with periods immediately before three national elections. These dates are: November 22, 1992 election to the constituent

assembly; the October 31, 1993 referendum and the April 9, 1995, presidential election. According to Schady, his overall results indicated that prevalent Latin American poverty-alleviation programs may be particularly vulnerable to political intrusion. In other words, the study depicts the use of social expenditures for electoral purposes.

Due to Peru's low assistance on social expenditures, certain social services have not progressed and others have decayed. The following graphs show Peru's improvements and declines in sanitation, water, health (undernourishment and mortality), and education (adult illiteracy).

Figure 1.6 - Rural & Urban Sanitation

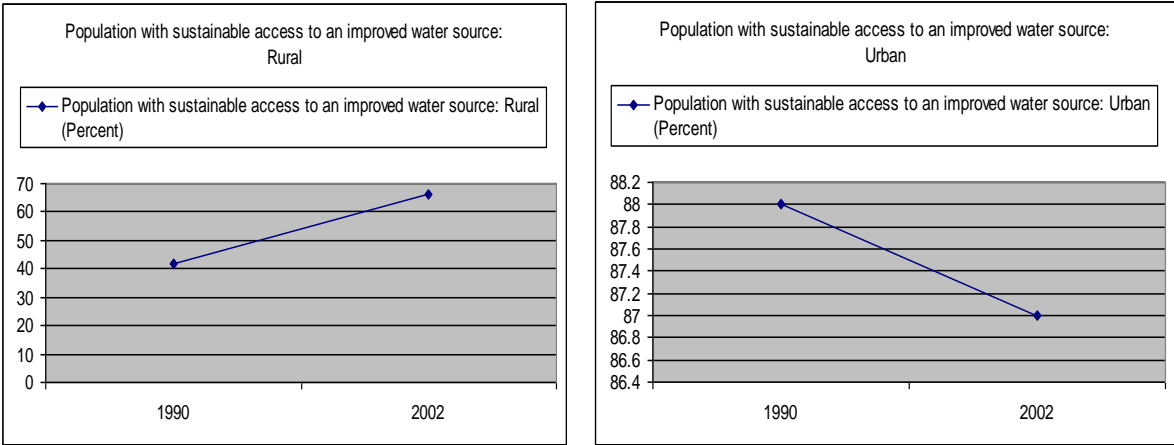


Source: UN Common Database

The graph above indicates the percentage of the rural and urban population using adequate sanitation facilities. Among the rural population, numbers have improved from 15% in 1990 to 33% in 2002 among the urban population. Likewise, numbers have improved from 68% in 1990 to 72% in 2002 among the urban population.

Please note that for these results an excreta disposal system is considered satisfactory if it is private or shared, but not public. Also, it should hygienically separate human excreta from human contact.

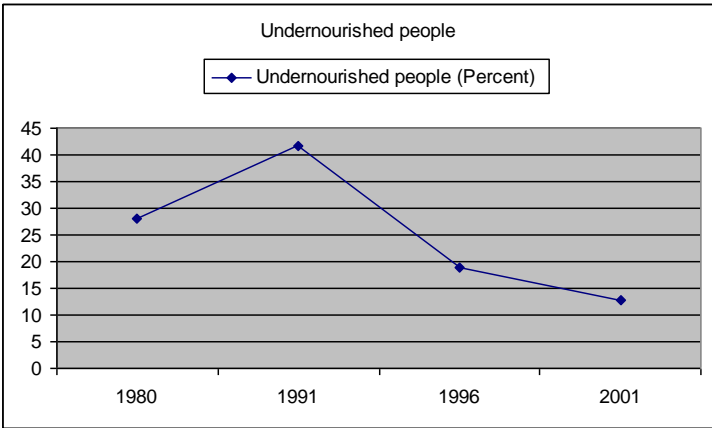
Figure 1.6 - Rural and Urban population using improved water sources



Source: UN Common Database

The graphs above indicate the proportion of the rural and urban population using any type of water supply for drinking. Among the rural population, numbers have improved from 42% in 1990 to 66% in 2002. Among the urban population, numbers have unfortunately decreased. From 88% in 1990 to 87% of the population in 2002 that use any of the above mentioned types of water supply for drinking.

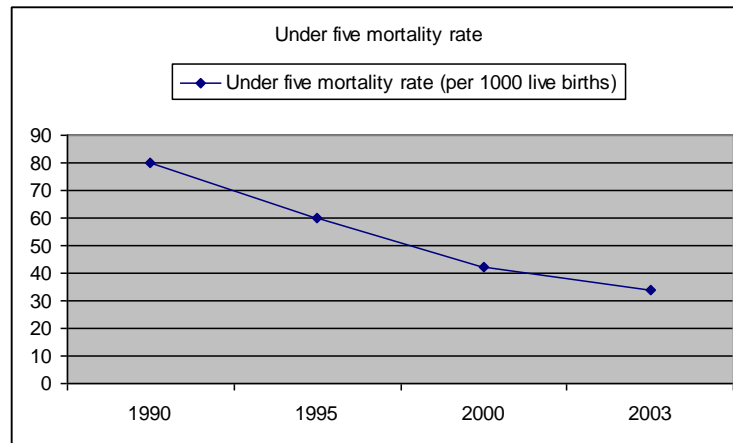
Figure 1.7 - Undernourished people



Source: UN Common Database (FAO estimates)

The graph above shows the percentage of people whose food intake is recurrently insufficient and thus does not meet their minimum energy necessities. The numbers of undernourished people have successfully declined from 28% in 1980 to 12.8% in 2001.

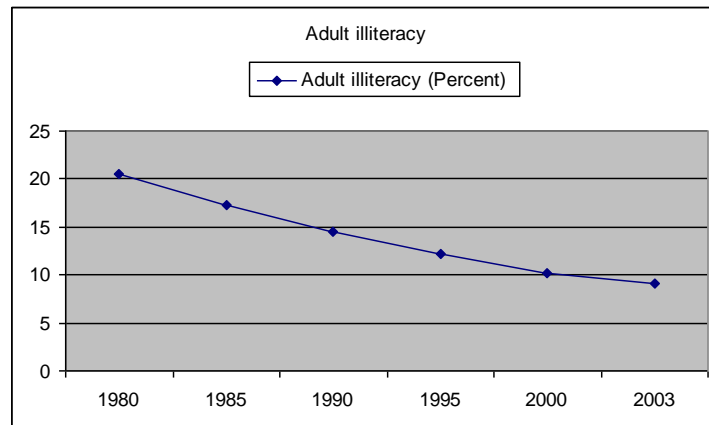
Figure 1.8 - Mortality rate (under five years old)



Source: UN Common Database (UNICEF)

The graph above indicates the probability of Peruvians dying between birth and exactly five years of age. The numbers have successfully declined from 80 ‰ in 1990 to 34 ‰ in 2003.

Figure 1.9 - Adult illiteracy (rates for adults above 15 years old)



Source: UN Common Database (UNESCO estimates)

The graph above reflects that adult illiteracy has diminished from 20.6% in 1980 to 9.10% in 2003. Data refers to the proportion of Peruvians who cannot read and write a short simple statement.

In conclusion, economic growth has contributed to poverty reduction in Peru vaguely. While the economy in the country is one of the most stable and continuously growing in Latin America, poverty remains to be a major struggle in the country.

The economy undertook many market oriented reforms such as privatizations and eliminated restrictions on capital flows; as a result Peru has one of the most open investment regimes in the world. Nonetheless, the improvement of its economy does not necessarily mean a reduction in poverty. One of the reasons is because a country's GDP is divided by the population to give an indication of the average income per person and this unfortunately does not give an indication of the actual distribution of the income within a country. Moreover, wages remained almost intact and people living in poverty lack property rights, forbidding them to use these assets as collateral; thus preventing them from any possibility of improvement or advancement.

Even more challenging, people living in poverty in Peru experience an ongoing racial and status discrimination that has been going on for generations. Peru is a very unequal society when it comes to wealth and ethnicity, depriving the less fortunate from access to certain public places and almost no access to public services such as banks and juridical institutions. These individuals are condemned to be locked in an eternal marginalization and likely to remain living in poverty.

Several social programs have been created by the government in order to reduce the poverty battle such as FONAVI (National Housing Fund) and FONCODES (Peruvian Social Fund) & PRONAA (National Program for Food Assistance). However, Peru has an extensive history of lack of coordination and management of such; providing almost insignificant assistance to the people living under the poverty line. Furthermore, Peru is listed as one of the lowest tax revenue contributors and therefore levels of social expenditure are still below the regional average.

In Peru we encounter more problems than solutions. Economy has been stabilized, but has not helped those in need. Social programs have been created but all bring about a shameful outcome. Peru retains an uneven society that has longed since colonial times, and prevents the less fortunate to progress. In spite of this, the Peruvian government has adopted a new challenge, taking the Millennium Development Goals as their national goals; in hope of change, improvement and equality.

CHAPTER II

THE CONSTANT BATTLE TO ATTAIN THE MDG's

Due to Peru's history of extensive poverty, there is a strong commitment for the Millennium Development Goals (MDG's). The MDG's, a set of eight goals and targets have been adopted by the United Nations member states as a blue print for global development in recognizing the need to assist impoverished nations more aggressively. They include: 1) eradication of extreme poverty and hunger; 2) achievement of universal primary education; 3) promotion of gender equality and empowerment of women; 4) reduction of child mortality; 5) improvement of maternal health, 6) combat of HIV/AIDS, malaria and other diseases; 7) assertion of environmental sustainability, and 8) expansion of a global partnership for development. Achieving the MDGs is a major challenge for Peru and many other developing countries, however many policies have been established in Peru to help attain the goals.

In 2002, Peru's national poverty reduction strategy called the National Accord (Acuerdo Nacional) with 31 state policies was signed by all political parties and civil society institutions. These policies were organized into four extensive areas: democracy and rule of law, competitiveness of the country, equity and social justice and an efficient transparent and decentralized state. The policies in the chapter on Equity and Social Justice, clearly exemplify the former government's support of the MDGs. "Policies regarding its chapter on Equity and Social Justice match closely with MDG1 (poverty and hunger eradication), MDG2 (education access), MDG3 (gender equality), MDG4 (infant mortality), MDG5

(maternal mortality), and MDG6 (access to water and sanitation)” (Yamada and Castro, 2007).

The government plan of the current Garcia administration has openly recognized the MDG goals. In addition, a new National MDG Report has been launched in the second half of 2008 that studies the high levels of poverty that exist in Peru.

Another important milestone is the congressional decision to formally incorporate the MDGs into the national budget, through a legal commitment stating that the resources devoted to MDG-related activities and projects (measured as budget percentage) must never fall under a certain level. This will effectively ‘shield’ the MDG-related programs. Also, the 2008 national budget incorporated 11 priority actions in favor of children in five results-based social programs. (MDG Monitor, 2008)

The World Bank is one of the many international agencies to support partnership through the open exchange of information for monitoring progress toward the goals. The World Bank has an MDG data website maintained by the Development Data Group of the World Bank that contains overall information about the MDGs. All projects of the World Bank contribute to achieving MDG # 1 (Eradicate extreme poverty and hunger), but also all World Bank activities are directly or indirectly linked with the first seven MDGs.

The table below illustrates Peru’s successful progress towards meeting the MDGs from 1990-2008.

Figure 2.0 The Millennium Development Goals for Peru

Millennium Development Goals					
	1990	1995	2000	2005	2008
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	58	61	64	67	68

Employment to population ratio, ages 15-24, total (%)	45	47	50	50	52
GDP per person employed (annual % growth)	-4	6	0	4	7
Income share held by lowest 20%	5.6	4.4	3.1	3.7	3.9
Malnutrition prevalence, weight for age (% of children under 5)	8.8	5.7	5.2	..	..
Poverty gap at \$1.25 a day (PPP) (%)	1	3	4	2	2
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	2	9	13	8	8
Prevalence of undernourishment (% of population)	28	20	..	15	..
Vulnerable employment, total (% of total employment)	36	36	44	42	40
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	94	..	96	97
Literacy rate, youth male (% of males ages 15-24)	..	97	..	98	98
Persistence to last grade of primary, total (% of cohort)	..	..	81	85	90
Primary completion rate, total (% of relevant age group)	..	90	103	100	104
Total enrollment, primary (% net)	..	..	100	99	99
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	6	11	11	18	29
Ratio of female to male enrollments in tertiary education	..	..	97	102	106
Ratio of female to male primary enrollment	97	97	99	101	101
Ratio of female to male secondary enrollment	94	..	93	102	104
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	28.9	30.3	33.3	37.5	36.4
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	64	98	97	80	99
	58	50	33	21	17

Mortality rate, infant (per 1,000 live births)					
Mortality rate, under-5 (per 1,000)	78	65	40	24	20
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	..	..	..
Births attended by skilled health staff (% of total)	80	56	59	71	71
Contraceptive prevalence (% of women ages 15-49)	59	64	69	71	71
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	240	..
Pregnant women receiving prenatal care (%)	64	67	84	91	91
Unmet need for contraception (% of married women ages 15-49)	16	12	10	8	8
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	9	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	317	242	184	140	126
Prevalence of HIV, female (% ages 15-24)	..	..	..	0.3	0.3
Prevalence of HIV, male (% ages 15-24)	..	..	..	1	1
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.4	0.4	0.5
Tuberculosis cases detected under DOTS (%)	..	102	88	89	93
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP \$ of GDP)	0.3	0.2	0.2	0.2	..
CO2 emissions (metric tons per capita)	1.0	1.0	1.1	1.3	..
Forest area (% of land area)	55	54	54	54	..
Improved sanitation facilities (% of population with access)	55	60	65	72	72

Improved water source (% of population with access)	75	79	81	84	84
Marine protected areas, (% of surface area)	..	..	..	0	..
Nationally protected areas (% of total land area)	..	..	..	13.7	13.7
Goal 8: Develop a global partnership for development					
Aid per capita (current US\$)	18	15	15	16	9
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	7	13	24	22	22
Internet users (per 100 people)	0.0	0.0	3.1	16.5	24.7
Mobile cellular subscriptions (per 100 people)	0	0	5	20	73
Telephone lines (per 100 people)	3	5	7	8	10
Other					
Fertility rate, total (births per woman)	3.8	3.3	2.9	2.7	2.6
GNI per capita, Atlas method (current US\$)	720	1,990	2,050	2,660	3,990
GNI, Atlas method (current US\$) (billions)	15.7	47.8	53.3	74.1	115.0
Gross capital formation (% of GDP)	16.5	24.8	20.2	17.9	27.2
Life expectancy at birth, total (years)	66	68	71	73	73
Literacy rate, adult total (% of people ages 15 and above)	..	87	..	88	90
Population, total (millions)	21.8	23.9	26.0	27.8	28.8
Trade (% of GDP)	29.6	30.8	34.2	44.3	55.7

Source: World Bank Development Indicators database

Peru is on track to meeting MDG #1 of cutting extreme poverty rate in half. According to Jorge Chediek, the UN Resident Coordinator in Peru, “81 percent of the target for reducing

child undernutrition has been met. The proportion of children under five with low weight for age was 10.8 percent in 1991 and 5.9 percent between 2007 and 2008, approaching the target of 5.4 percent” (Salazar, 2009). However, improvements have occurred among families with higher incomes and the scope of undernutrition has remained the same among the poorer families.

As for MDG #2, Peru has considerably improved in achieving universal primary education for its children. “In regard to education, the UN report emphasized that 97.6 percent of the population can read and write and that the proportion of students who completed primary school rose from 56 to 77 percent between 1994 and 2008” (Salazar, 2009).

In regards to MDG #3 the promotion of gender equality in Peru has also improved significantly. According to Peru’s official report, “the proportion of women politicians grew from 7.5 percent in 1990 to 30 percent in 2008” (Salazar, 2009). Concerning MDG #4, child mortality reduction in Peru, has been reduced by two-thirds over the last five years. However, according to Chediak, further work is necessary to reduce the maternal mortality rate. In other words, the improvement of maternal health, MDG #5, did not improve as projected. There is also much concern about MDG #6: combating HIV/AIDS, malaria and other diseases. “Peru accounts for 25 percent of all tuberculosis cases notified in the Americas, and is still a leading cause of death in this country” (Salazar, 2009).

In addition, ensuring environmental sustainability MDG #7 which is linked to access to water in Peru continues to be a challenge. Although the total number of the population with access to water has increased, percentages are still very low. Lastly, MDG #8 that focuses on developing a global partnership has unfortunately not improved. The aid per capita in \$US decreased from 18 to 9 between 1990 and 2008.

The Peruvian government also understands that economic growth requires a mix of public-sector and private sector actions and therefore they are supporting the implementation of better social services and social policies to invest in their development. The current government is therefore committed to working within the system offered by international development institutions like the World Bank. Alan Garcia's government supports working together with these institutions and is taking advantage of the funding they offer to make improvements in various challenging areas.

Peru is striving incessantly to reach the Millennium Development Goals by the year 2012, but as every developing country it has suffered a setback with the advent of the recent global crisis. Before the crisis, Peru centered its efforts in combating poverty, water and sanitation and the reduction of malnutrition, which are the most pressing social needs of the country. Of those three goals, Peru was on track to reach them all before the crisis. Unfortunately, nobody knows yet what the exact effect of this crisis will be on the social budgets of developing countries.

As an alternative, Peru has implemented the United Nations MDGs (Millennium Development Goals) as their own national system to fight poverty. Ever since these goals came into practice, there is a notable betterment in the population. These goals have been applied almost impeccably, in part since these have been incorporated to the national budget and also its progress has been monitored by the World Bank. The government's support in conjunction with that of a global entity, are two strong pillars that have kept these ambitious strategy on track.

Although Peru has been striving incessantly to reach the Millennium Development Goals by the year 2012, every developing and developed country has suffered a setback with the advent of the recent global crisis. Previously to the crisis, Peru centered its efforts in combating poverty, water and sanitation and the reduction of malnutrition, which are the most pressing social needs of the country. Of those three goals, Peru was on track to reach them all before the crisis. However, nobody knows yet what the exact effect of this crisis will be on the social budgets of developing countries. Nevertheless, Peru is not discouraged. This is because there are key accomplices or main actors that continue to strive to resolve the country's major dilemma and are not letting the crisis demoralize the country of Peru.

CHAPTER III

KEY PARTICIPANTS IN PERU'S POVERTY REDUCTION

In Peru, the main actors in poverty reduction include the Peruvian government, the private sector, the civil society, multilateral agencies, bilateral agencies and non-governmental organizations. Cooperation and coordination among these main actors is imperative to help implement poverty reduction strategies in Peru.

The Peruvian government is determined to be a purposeful tool that fits the needs of a country that is ready to embrace the challenges of a growing country that fights poverty. It has acknowledged the strong need for poverty reduction in Peru and the president Alan Garcia referred to the elimination of poverty as one of his top priorities.

To attack poverty the government strategy set as priorities: competitiveness and employment generation, access to health, education, culture and basic services; and creating a public administration that serves people. A key to achieve these goals, the government put into place an economic program and institutions ready to buffer the impact of shock- and thus ensure that poverty reduction gains are not lost – while addressing structural sources of poverty. Given the high debt of the country, the government set as priority increasing fiscal revenue and exports, eliminating obstacles to private sector development, and strengthening governance institutions. (World Bank, 2006b)

Also, the private sector which includes enterprises that run for private profit and are not controlled by the state, fight against poverty and inequality in Peru. These enterprises are encouraging reforms by promoting public-private partnerships as well as providing financial

assistance to private businesses and financial institutions. Its main contribution is growing investment, production and employment.

As an illustration, the role of the private sector in building a more inclusive society is depicted by the Annual Conference of Executives (Conferencia Anual de Ejecutivos - CADE), which reunites public and private businesses to address the issues facing their companies and the country of Peru. CADE's goal is "to debate the diverse aspects of the nation and to elaborate alternative solutions that can be improved in relations to Peruvian society" (CADE, 2007c).

From its inception, the conference, organized by the Peruvian Institute of the Administration of Businesses (Instituto Peruano de Administración de Empresas), has been a way to open dialogue to discuss social and business issues facing Peru. And with more than 26,000 businesses, top executives, academics, journalists, political authorities, ambassadors and presidents and ex presidents of the republic taking part in CADE over the years, it's safe to say the institution has been a key factor in the development of the country" (CADE, 2007c).

On the other hand, the opportunity for civil society to participate in governance in Peru is a new phenomenon that became general policy during the transition government of President Valentin Paniagua, reinforced under President Toledo and carries on today. The initiative that promotes consensus building and government participation is represented in the Round Tables for the Fight against Poverty. Established in 2001, the Round tables are an institutionalized space of dialogue between the State and civil society on issues of poverty reduction. The main objectives are to: "Facilitate multi-sectoral dialogue in the formulation of social policies; Help institutionalize citizen participation in the formulation and monitoring

of social policies; Serve as a consultative organ in the formulation of national, regional and local development plans; Serve as a coordinating space between the State and civil society to help achieve greater efficiency of poverty reduction programs; and Help increase transparency of poverty reduction programs (Reuben and Silva-Leander, 2001).

A pilot participatory budgeting process involving nine departments was established in 2002 and was later expanded to all regions of Peru in 2003.

Participatory budgeting is a process that strengthens relations between government and civil society, setting priorities for regional and local government actions and allocating resources with the participation of civil society organizations, and leading to commitments from public and private stakeholders to meet strategic objective established by common agreement during the preparation of a Consensus-Based Development Plan (Plan Concertado de Desarrollo, PDC). (Castiglione, 2007)

Participatory budgeting has facilitated civil society to play a leading role in their development by identifying problems and setting priorities and at the same time has permitted them to understand the limitations of public administration. Although minimal budget funds are invested in participatory budgeting, the process has improved in recent years and has provided an opportunity to build trust between authorities and civil society organizations. In addition, it has encouraged greater transparency as the project has strengthened bonds between regional and local governments.

Other examples of joint efforts in poverty reduction in Peru are multilateral agencies, such as UN-Organizations, the World Bank and the Inter-American Development Bank, which are independent of the interests of any single country member or recipient government.

Multilateral organizations have a critical role to play in helping developing countries achieve the Millennium Development Goals and alleviate poverty.

As an example, the United Nations Relief Web is a project of the United Nations Office for the Coordination of Humanitarian Affairs that provides information relating to disasters in Peru. Their website presents information of the organizations that are offering assistance and where, in addition to listing appeals and tracking contributions.

Recognizing how critical the availability of reliable and timely information in time of humanitarian emergencies is, the UN General Assembly endorsed the creation of ReliefWeb and encouraged humanitarian information exchange through ReliefWeb by all governments, relief agencies and non-governmental organizations (NGOs) in Resolution 51/194 on 10 February 1997. The General Assembly reiterated the importance of information sharing in emergencies and of taking advantage of OCHA's emergency information services such as ReliefWeb in Resolution 57/153 on 3 March 2003. (ReliefWeb, 2009)

Another multilateral organization is the Pan American Health Organization (PAHO) which is a regional office of the World Health Organization. PAHO responds to health related concerns in affected regions in Peru and their website lists the most urgent health priorities.

PAHO promotes primary health care strategies, which reach people in their communities, to extend health services to all and to increase efficiency in the use of scarce resources. It assists countries in fighting old diseases that have re-emerged, such as cholera, dengue and tuberculosis, and new diseases such as the spreading AIDS epidemic, providing technical cooperation including education and social communications support, promoting work with non-governmental organizations, and support for programs to prevent transmission of communicable diseases. The Organization is also involved in prevention of chronic diseases such as diabetes and cancer, which are increasingly affecting the populations of developing countries in the Americas. (PAHO, 2009)

In addition, bilateral development agencies finance projects that contribute to the economic and social development of a country. In difference to multilateral development banks, bilateral agencies are often part of a government ministry and respond to a single government. Their focus includes: education, health, water, transportation, telecommunications, energy, agriculture, environment, fisheries, poverty reduction and private-sector development.

This is the case of the SDC (Swiss Agency for Development and Cooperation) which has been working in Peru since 1964. The SDC has concentrated on rural development and poverty reduction; it aims to alleviate poverty by helping people in Peru help themselves.

The SDC concentrates its assistance on three of the poorest regions in the country's mountain area: Cajamarca, Cusco and Apurimac. By supporting the disadvantaged inhabitants of these regions and helping to shape national, sectoral and regional policies, Switzerland aims to help reduce social and economic inequalities... Central to SDC activities are measures promoting good governance and sustainable economic growth, management of natural resources and humanitarian aid. (SDC, 2008)

Another bilateral development agency that works in Peru is the CIDA (Canadian International Development Agency). The CIDA began in Peru in 1968 and concentrates on reducing poverty by strengthening Peruvian institutions. For the years 2007-2008 Canadian development assistance to Peru totaled approximately \$20 million.

CIDA-funded projects have improved the primary education system in northern Peru, increased access to water and sanitation services, strengthened governance and the rule of law in the extractive industries and the public sector, and monitored the protection of human rights. (CIDA, 2009)

Finally, non-government organizations deliver emergency relief and respond to emerging financial and technical assistance needs at the grass roots level. An example of a non-government organization is AGROVIDA that was established in Trujillo, a province of Peru, in 1990. This non-government organization strengthens the communities by using technology and generating a constructive environment for production, commerce and social development.

AGROVIDA is a nonprofit organization with substantial experience diminishing poverty and promoting sustainable development projects in Moche and Viru Cuencas.

AGROVIDA's projects are all executed on the principles of democracy, gender equity, freedom, justice, commitment and solidarity (AGROVIDA, 2009).

In the current global crisis, Peru counts with several key participants who continue to fight against poverty. Private and non-for-profit organizations; alongside with multilateral agencies and civil society among others; are improving the country's outlook on poverty reduction. The support and cooperation of various groups such as communities, civil society, government and donor agencies in Peru are fundamental in order to maintain long lasting poverty reduction. It is in partnership with these groups that the World Bank provides technical expertise and funding in health, agriculture and basic infrastructure programs in Peru.

President Garcia cites eliminating poverty as one of his top priorities. Thus, the government of Peru is strongly supporting institutions and non profit organizations that have created or aligned their own programs to follow the MDGs

Surprisingly, the most active and forceful partaker in this battle against poverty, is the participation of the civil community. The people of Peru yearn for change and wish for a country without poverty. The population believes in the MDGs and they are confident that this is the solution to their misfortune. This is the reason why round tables have been formed locally, where civilians and politicians exchange their opinions and suggestions towards the elimination of poverty. Encouraged by the participation of the population, the government has also implemented a pilot participating budgeting process that strengthens these relationships between the common civilian and the government entity.

The assistance that main actors in Peru offer to the country is invaluable. However, more than the change they are creating itself, it is the proof that the country does not only count

with governmental entities and structured organizations; but the priceless help of the common resident. This contribution alongside with the World Banks approach, is making the dream of eliminating poverty a reality.

CHAPTER IV

THE WORLD BANK APPROACH

Currently the World Bank in coordination with the Presidency of Council of Ministers, the Ministry of Finance and other sectors involved in social issues is committed to reduce poverty and child malnutrition in Peru. The WB provides economic incentives, analytical studies, development policies and technical assistance to prevent the current international financial crisis from affecting families in poverty.

The World Bank is an important source of financial and technical assistance to developing countries that was established in 1944. Not a bank in the common sense, the WB is made up of two development institutions which are the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Together, they provide loans and grants to developing countries for purposes of investment in education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management. The World Bank's headquarters are in Washington DC, it is owned by 185 member countries and its affiliates include: the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

During the first government of Alan Garcia Perez, the World Bank was not able to disburse loans to Peru due to the prevailing arrears Peru owed to the institution. Former President, Alan Garcia, determined to resolve Peru's inflation and recession troubles by ceasing payments to the World Bank, IMF and other creditors. Peru's position was based as much on an unwillingness as an inability to pay. Peru's interest arrears were mounting and the World Bank decided to proceed to disburse already signed loans but desisted from signing already negotiated ones. In this way, it minimized the growth of outstanding loans as much as possible. As a result, Peru soon emerged as the bank's largest borrower in nonaccrual status. By the end of 1986, the IBRD outstanding loans to Peru stood at \$716 million.

However, that changed once Peru resumed debt service payments to the World Bank in 1990. With an external debt that had grown from 17 billion in 1987 to \$22 billion in 1990, former President Alberto Fujimori decided to assess the situation. Fujimori met in New York with IMF's Michel Camdessus, IBRD's Barber Conable, IADB's Enrique Iglesias, and the UN's Javier Perez de Cuellar. "He was now convinced that the only way to economic recovery or toward renewed IMF and IBRD aid was a monetarist shock treatment. He announced that Peru would resume payment on some of the external debt" (Campion, 2006). Peru continued to pay \$40-\$50 million per month on the debt in the same amounts as agreed to by the previous government. From then on, the World Bank's effort has been to facilitate a structural reform program and to participate in the international effort to reintegrate Peru in the world of finance.

The implementation of the World Bank's Country Assistance Strategy (CAS) has also promoted collaboration, coordination and has been an instrument for reducing poverty in Peru. A CAS is the principal document that defines the World Bank's strategy to assist borrower countries of the International Development Association (IDA) and the International

Bank for Reconstruction and Development (IBRD). The CAS assesses the operations of the World Bank Group and determines the reforms in economic policies, projects and technical analysis that the World Bank Group is willing to support in Peru. This support is translated into loans, grants, guarantees and analytical work, which is based in their poverty reduction strategy.

The Country Assistance Strategy (CAS) supports the new government's program of policy and institutional reforms necessary to renew growth and reduce poverty. Developing the complementarity of the World Bank Group (WBG) program has been a key element of the CAS process given the active programs of many other multi-lateral and bi-lateral development assistance agencies in Peru. (World Bank, 2002a)

The World Bank then introduced the Country Partnership Strategy (CPS) to replace the CAS. The CPS describes the projected support for the five year period of the new government which corresponds to the Bank's fiscal years 2007-2011. The CAS and CPS' main functions are to support Peru's effort in increasing economic growth and competitiveness, reduce poverty and inequality and strengthen the country's public institutions.

The distinction is based on the fact that a CPS, in difference to a CAS, is a partnership rather than an assistance strategy. Therefore, projects and programs are mostly jointly funded by the Peruvian government. Naturally, this revision now gives the Peruvian government a stronger ownership and influence over the final result.

The CPS, which includes a lending range of up to US\$700 million a year, seeks to support the new government's priorities. The strategy was designed in partnership with the Peruvian authorities, and also benefited from the input of diverse stakeholders, including civil society, private sector, donor community, and government representatives. (World Bank, 2007b)

CAS & CPS Comparison

The CAS and the current CPS have the following common fundamentals: Strategic Elements, Existing Portfolio Management, Fiduciary Issues, Financial Management, & Lessons Learned.

The table below compares the poverty reduction strategies for the CAS and the CPS.

Figure 2.1 CAS & CPS Objectives

	Country Assistance Strategy (2003-2006)	Country Partnership Strategy (2007-2011)
Strategies	Poverty Reduction Framework for the CAS: <ul style="list-style-type: none"> (i) competitiveness and employment generation; (ii) equity and social justice, including access to health, education, culture and basic services; and (iii) institutionality, creating an efficient, transparent and decentralized state 	Poverty Reduction Framework for the CPS: <ul style="list-style-type: none"> (i) economic growth (ii) social development (iii) modernization of the State Three distinguishing features of this CPS are partnership, flexibility and results.

Coinciding with the period of the Peruvian government, the 2003-2006 CAS covers a period of four years. The CAS intends to help the government accomplish three central objectives.

Key to these objectives is the presence of an economic program and institutions ready to buffer the impact of shocks, and thus ensure that poverty reduction gains are not lost, while addressing structural sources of poverty. (World Bank, 2002a)

The CAS provides assistance to strengthen governance and institutions, to increase safety nets efficiency and to create growth opportunities among the poor. It also strengthens governance and institutions by providing support to its fiscal program, national competitiveness program and social sector program.

This strategy has been developed through consultations with government, external development agencies and other stakeholders. Strategic areas and activities to be supported were selected on the basis of the relevance and importance of the areas and the comparative advantage of WB assistance in that specific area. Therefore, the WB centered its efforts on public sector management, education, health and infrastructure and in some cases joined forces with the IADB, CAF and bilateral organizations in certain projects.

The CAS continues an emphasis on social sector institutional reform and demand-driven poverty reduction programs, through sector investments and a second and third Programmatic Social Reform Loans. New Emphasis is given to the areas of competitiveness and public sector management through policy dialogue on decentralization, fighting corruption, and private participation in infrastructure, and a series of programmatic and technical assistance loans focusing on public sector management and competitiveness. (World Bank, 2002a)

On the other hand, the Country Partnership Strategy (CPS), prepared at a time when there has been strong country performance, is in remarkable agreement with the government in regards to the development visions. The principal objectives are to maintain and accelerate economic growth and to guarantee a faster reduction of poverty.

This CPS provides greater flexibility to the government than has been the case with the previous Country Assistance Strategies, in keeping with Peru's status as a rapidly-developing middle-income country. The flexibility is evident in the amount of financing to be provided and the content and timing of different lending operations. The CPS also demonstrates greater synergy among the work of different members of the WBG, particularly between IBRD and IFC. (World Bank , 2006b)

The CPS is built upon three strategic pillars to increase economic growth, reduce poverty and strengthen the country's public institutions. The first feature of the partnership primarily focuses on the WBG and the government but it also considers deepening the good relations with civil society, the private sector, Congress and other members of the international cooperation community. The second feature is an enhanced flexibility. It allows for a greater flexibility in the content and timing of lending operations as well as the amounts of financing to be disbursed. The third feature is an emphasis on results. Therefore, the WBG has

indicators at halfway between individual projects that can be found on the WBG policy notes and the government plan.

Coinciding with the period of the administration, the CPS covers a period of five years. The challenges over the next five years will be to maintain macro stability, accelerate the rate of growth, create environmental sustainability and reduce vulnerabilities.

To increase Peru's ability to maintain macro stability, the WBG will support the government with a series of DPLs covering Fiscal Management and Competitiveness in the five years of the administration. Among the areas to be covered on the fiscal side are: strengthening of fiscal rules, tax policy and tax administration, results-based budgeting, public debt management, system of fiscal transfers and compensations. The WBG will address some of the key constraints to achieving higher growth through a combination of policy-based lending, investment loans, technical assistance, AAA and IFC private sector investments (World Bank, 2006b)

Overall it seems that the renovated objectives stated on the CPS, definitely are more poverty-oriented than the CAS. This is because the three broad main topics chosen as objectives embrace all the ones previously exhibited on the CAS in addition to three distinguishing features: Partnership, Flexibility and Results. The partnership aspect is a very positive enhancement that brings together more main actors in poverty reduction in Peru. As previously stated, this cooperation is fundamental in order to maintain long lasting poverty reduction. Also, the flexibility of the new CPS in financing, content and timing is an advantage that helps meet projects success from start to end. Moreover, the emphasis on results will bring better practices and accurate tracking systems that will certainly improve projects' development and performance.

The table below compares the portfolio management of the CAS and the CPS.

Figure 2.1 CAS & CPS Portfolio Management

	Country Assistance Strategy (2003-2006)	Country Partnership Strategy (2007-2011)
Existing Portfolio Management	<ul style="list-style-type: none"> • Peru’s portfolio currently comprises 9 projects for a total net commitment of US\$426 million, of which US\$147 million is to be disbursed. • As of the end-FY02, the portfolio had only one project rated as unsatisfactory, representing only 1.2 percent of total commitments. In addition, the disbursement ratio stood at 23.8 percent, above the Region’s average and the 1997 CAS target 	<ul style="list-style-type: none"> • The investment portfolio consists of 16 operations for a net commitment of US\$516 million, of which US\$342 million, is undisbursed. • Peru’s lending portfolio has had on average 12 ongoing end-of-FY investment projects. The number of ongoing end-of-FY investment lending dropped from a high of 14 projects in 00 to 8 projects by end-of-FY02. It then picked up again, due in great part to the FY05 CAS Progress Report which shifted Peru to the high case, back to 15 ongoing projects at end-of-FY06. Throughout this six year period, net commitments averaged US\$545 million.

The portfolio performance of the CAS was affected by the economic slow down and three government transitions; therefore there was a continued risk of fiscal adjustment through expenditure cuts.

During the last CAS period the main problems on the government side have been some weaknesses in strategic planning and programming of public investments, tight fiscal ceilings together with scarce counterpart funding and high turnover within the Bank’s main counterparts (World Bank, 2006b).

Nevertheless, there has been significant improvement in performance since the 1997 CAS. The improvement in the portfolio since 1997 is due to the government and the Bank’s effort to assure readiness for implementation, increase priority to project supervision and arrange more frequent portfolio reviews.

During the second half of the last CAS period, the WBG organized an internal Portfolio Quality Team in order to carry out monthly portfolio reviews. These meetings have been continued during the CPS period. In addition, the application of a new Bank policy expenditure that provides a greater flexibility in financing project costs has also facilitated the administration and implementation of Bank projects during the CPS period.

It will allow the Bank and the government to determine the cost-sharing ratio for projects that best supports implementation while also retaining country ownership, sustainability of project achievements, and leveraging of Bank funds. Project Managers will be able to focus more on the technical aspects of project implementation, rather than on financing categories. Thus, both from an aggregate fiscal point of view and the project implementation perspective, the Bank's greater flexibility in financing project costs will help projects to meet their development objectives. (World Bank, 2006b)

In general, the CPS is providing better financial assistance for poverty reduction projects. This is due to monthly portfolio reviews, the new Bank policy on eligible expenditure and the Bank's greater flexibility in financing projects. Currently, all loans in the CPS Peru portfolio focus on poverty alleviation and the portfolio performance indicators have been excellent. There are no pending cases in WB projects being investigated due to alleged corruption.

The table below compares fiduciary issues of the CAS and the CPS.

Figure 2.2 CAS & CPS Fiduciary Issues

	Country Assistance Strategy (2003-2006)	Country Partnership Strategy (2007-2011)
Fiduciary Issues: Procurement	<p>The government has agreed to address the factors affecting portfolio performance with specific actions and is reflected in the CPAR action plan.</p> <p>The government has also initiated the development of an "e-purchase"</p>	<p>In September 2005, the former government, the Bank, and the IADB agreed on a new Country Procurement Assessment Report (CPAR). It analyzed the current Peruvian system in the context of international good practices in procurement and described the progress made towards achievement</p>

	<p>system for procurement of minor goods and service in the public sector. Furthermore, the government has implemented a web page for advertisement of bid opportunities, bidding documents, contract award and appeal resolutions. It is expected to incorporate a total of 100 government agencies as users of the e-purchase system and 600 agencies to the official web page for bid advertisement.</p>	<p>of such practices in procurement.</p> <p>It also assessed the potential risks which may affect the continuity of the procurement reform process in the near future and proposed concrete actions aimed at increasing procurement capacity, reducing transactions costs and the costs of goods, works and services procured in the public sector.</p>
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In order to improve the CAS' procurement and financial management, the new Government and the Bank agreed on a Country Procurement Assessment Report (CPAR) in September 2001. This assessment outlined the strengths and weakness of the public contracting system and contained an action plan for improvements.

Main factors identified as negatively affecting portfolio performance are the lack of effective tools for procurement planning and monitoring during project implementation; the lack of skilled and capable procurement staff within projects; and the lack of local standard bidding documents for procurement of goods, work and selection of consultants. (World Bank, 2002b)

In addition, the Contraloría General de la República (CGR) and the General Procurement Council (CONSUCODE) signed an Institutional Agreement for the implementation of control and supervision of procurement and contracting procedures that strengthen oversight of public contracting. "Steps are being taken to prepare guidelines and control procedures, as well as issue an administrative decree to put into effect needed regulations, as agreed within the CPAR" CAS

In 2005, the government, the Bank and the IADB agreed on a new Country Procurement Assessment Report (CPAR). This document described the progress made towards the accomplishments of good practices in procurement since the previous CPAR report in 2001.

Since the 2001 CPAR, Peru has made considerable progress in setting in motion the right conditions to improve public procurement. The primary regulator for procurement, the Council for Government Procurement (CONSUCODE), has strengthened; the development of the e-GP system has begun; significant training initiatives are underway; and important amendments have been made to the procurement law and its regulations. In addition, a good Integrated Financial Management System (SIAF) has been implemented in all public entities. (World Bank, 2006b)

During the CPS, there has been significant progress and training efforts accomplished. The government is nowadays more transparent than it has ever been. Nearly every government agency has a web page with updates and information on their activities. Corruption and transparency are now part of the policy dialogue due to a dramatic increase in freedom of the press. However, there is still a more comprehensive anticorruption strategy that needs to be developed.

The system still has a high degree of fragmentation and slow service delivery as a result of complicated budgetary planning, logistic inadequacy and difficulties in the implementation of rules. Some public entities are not able to fully execute their budget due to strict budgetary rules and low technical capacities relative to procurement. Also, with several institutions playing important roles, it has been very challenging to create a united vision of the systems' priorities and goals.

Overall, the CPS has proven to obtain better results than the CAS by implementing and developing many important projects using modern technology. It has already shown much improvement in many aspects such as the struggle against corruption and the support of transparency. There has also been considerable progress in generating a unifying vision of procurement systems. However, more training efforts will definitely be required to overcome the current challenges.

The table below compares financial management of the CAS and the CPS.

Figure 2.3 CAS & CPS Financial Management

	Country Assistance Strategy (2003-2006)	Country Partnership Strategy (2007-2011)
Financial Management	<p>Investment lending operations and Bank financed projects management has a good record in complying with WBG fiduciary requirements.</p> <p>In addition to the installation of an Integrated Financial Management System (SIAF) at the municipal level that will be supported by an IADB financed project, the WBG will continue to focus on the development of an anticorruption program and the improvement of prosecution for malfeasance.</p>	<p>The last Country Financial Accountability Assessment (CFAA) report from 2001 looked exclusively at Peru's public sector financial accountability arrangements. Its primary aim was to access strengths and weaknesses in the use of Bank funds.</p> <p>There is an update of the 2001 CFAA needed and there is a Country Financial Management Strategy (CFMS) under preparation that follow up on outstanding issues of the previous administration.</p>

Based on the diagnostic work done for the Country Financial Accountability Assessment (CFAA) conducted in 2001, the fiduciary assessment for the CAS addresses both the financial management arrangements for project implementation and the government's overall public expenditure management system.

Additionally, the Programmatic Social Reform Loan (PSRL) is contributing to the strengthening of financial accountability. Steps to strengthen the system and initiate an anti-corruption program are contained in an action plan agreed to by government as part of the CFAA.

Although sub-national government fiduciary arrangements were not addressed in the CFAA, there is evidence from a review of municipal audits that there is general weakness of controls. It is understood that WBG funding may share the same risks as all funds disbursed through municipalities. (World Bank, 2002b)

On the other hand, in addition to implementing the CFAA 2001 recommendations during the CPS, the government made an effort to improve public perception of the use of Public Financial Management (PFM systems) as well. Thus, a Country Financial Management Strategy (CFMS) is under preparation that follows up on unresolved issues of the previous administration. The CFMS will propose that the government performs two sets of Bank Guided PFM Systems Self Assessment.

These exercises will provide a common platform for assessing and developing essential PFM performance progress, as well as support the government's decentralization efforts. In the case of Peru, it will include the country's oversight environment, accountability and transparency policies and achievements, and reliability of country information systems. (World Bank, 2006b)

By enhancing the sentiment of ownership, the Bank Guided Self-Assessment will enrich the government's efforts to use public funds to diminish poverty. In addition, the Bank Guided Self-Assessments will also benefit the investment portfolio since they will supplement the action plan to reinforce the fiduciary framework. Moreover, the present strategy proposes the use of Public Expenditure and Financial Accountability (PEFA) indicators as a reference for implementation and programming of the CPS program, which may identify additional actions required by a sector or a project.

As suggested, the CPS seems to have improved the efficiency and effectiveness of the government's efforts to use public funds to reduce poverty. The CPS shows a better understanding and handling of Peru's financial management challenges than the CAS. The CPS has shown progress through the preparation of the Country Financial Management Strategy (CFMS), the improvement of the country's accountability and transparency policies and through the reliability of the country information systems. As a result, the CPS' awareness in following up on outstanding issues experienced during the CAS, undoubtedly has strengthened the fiduciary framework.

The table below compares the lessons learned/lessons to date of the CAS and the CPS.

Figure 2.4 CAS & CPS Lessons Learned and Lessons to Date

	Country Assistance Strategy (2003-2006)	Country Partnership Strategy (2007-2011)
Lessons Learned/ Lessons to Date	<p>The Bank’s contribution in the macroeconomic situation area was significant, most useful in helping keep decentralization under the rule of fiscal neutrality.</p> <p>The design and implementation of alternative instruments of alternative intervention instruments are needed to reach the poor and vulnerable.</p> <p>The analysis of the CAS completion report indicates that in the past the Bank’s projects have not paid enough attention to the importance of strategic communication as a key tool at the time of designing projects.</p>	<p>The flexible approach designed into the CPS was adequate to respond to Peru’s development needs due to the following two reasons: a) Peru’s economy and its fiscal revenues grew faster than was expected and therefore the need for financing was limited during the initial period; and b) there was a strong demand for economic and sector work by the government due to the escalation of the global crisis.</p> <p>Investment lending approvals fell short of the indicative program. Seven new projects were expected for the two initial fiscal years, however only two new project totaling \$70 million actually entered the portfolio. This was due to reduced financing needs, a preference for reform-focused DPLs, and the challenges faced in appraisal requirements. At the end of FY 07, the disbursement rate for investment projects was less than 10%.</p>

The implementation of the CAS began during a period of transition and after the Bank had reduced its involvement in the country. Its focus was on social sectors, competitiveness and decentralization; however a greater emphasis on anti-corruption strategies may have been of value to the country.

The CAS also concentrated on the creation of institutional building blocks instead of lasting and sustainable results. One of the most prominent achievements was the solid and improved macroeconomic situation it helped generate. The CAS helped Peru post achievements in

many areas; however most of the accomplishments are first steps that need to be strengthened and reinforced for them to be effective.

Results have been varied. Progress in diversifying the economy has been significant-measured by dynamism of the entrants (products and firms) into the export markets. Stronger determination of the government and the private sector at national and regional levels will be needed to advance an effective competitiveness agenda. (World Bank, 2006b)

The CAS contributed with innovative ideas, however many of these innovations required institutional change which increased the likelihood of political forces delaying its implementation. In regards to programming and implementation, certain lessons learned included the following: a) effectiveness is reduced due to delays in program implementation; b) a re-examination in the use of development policy instruments is necessary to improve the management of reform agendas; c) for effectiveness, policy-based operations should be progressively more focused on results; d) focus on results with attention to delivery mechanisms is necessary; e) there is proven effectiveness in the alignment of the overall development objectives and the analytical work that encourages the dialogue with government; f) designs have to take account of multiple complementary interventions; and g) there is a need to tighten coordination between the members of the WBG as the scope of the WBG engagement in Peru increases.

Findings also confirmed that in order to multiply the effect of WBG interventions a stronger attention to dialogue and advocacy are necessary.

For instance, the current advice on transparency and participation has not allowed reaching the most vulnerable groups of the population and increasing inclusion significantly. A rethinking of the basic instruments that are being recommended to reach the poor and vulnerable is probably needed. (World Bank, 2006b)

In addition, the analysis of the CAS Completion report suggests that the Bank's projects have not paid adequate attention to the value of strategic communication in the past. Therefore,

the Bank has developed suggestions to enhance the impact of the work by utilizing explicit dissemination and communication strategies for the final product that should be considered in a future.

On the other hand, Progress for the CPS has been observed under three pillars: a) Economic Growth, b) Social Development, and c) Modernization of Institutions. In regards to economic growth, the government has performed exemplary on debt management, capitalizing on Peru's strong growth and rising fiscal revenues. Also, due to the economic growth and enhancements to the banking, legal, regulatory, and supervision frameworks, Peru's banking system grew significantly in the first half of the CPS. "To date, Peru has weathered the global financial crisis remarkably well. The economy is still growing, with some observers suggesting the economy could expand by about 5% in 2009, as opposed to the nearly 10% rate in 2008" (Export.gov, 2009). There are signs that Peru will not be immune to the effects of the global crisis, however there is much confidence that the Peruvian economy will continue to grow at slower rates with strong consumer support.

Lessons learned from the CPS (2007-2011) are limited since there are two more years left to gather further information. Nevertheless, it has been established that the CPS' flexible approach was adequate to respond to Peru's development needs. But it is also worth noting that the investment lending approvals fell short of the indicative program. Due to changes in the international context, the CPS has undergone adjustments. Overall demand for lending was substantially lower than anticipated due to the government's prudent debt management; however the ongoing global crisis demands a strong request for Bank lending in the second half of 2008.

During the CPS, the government implemented important trade reforms to improve competitiveness such as the reduction of tariffs, cost of trade logistics, customs clearances and a “one stop shop”, where many requests can be taken care of in one place. Also, a new comprehensive law for public-private partnerships (PPP) was issued to attract private financing and operators in the infrastructure.

A significant part of infrastructure development and resources were decentralized and specific rural infrastructure program were designed to address Peru’s high levels of rural poverty, however further assistance is needed in planning, design and in the implementation of capacities.

These programs may have experienced drawbacks that can create heavy financial burden on government budgets while not always meeting their objectives. According to the Director of the Markets, Trade, and Institutions Division at IFPRI, Maximo Torero (2009) “Normally, these programs can have a lot of risks. For example, governments can put them only in areas where they want to get votes.” He cites a past case in Peru where the placement of public works programs was found to be influenced by political motivations. Additionally, if the program is not well supervised, a community can be left with a poor-quality asset” (IFPRI, 2009).

Moreover, despite efforts to improve the access to water, sanitation and electricity services among the poorest population (mainly in the rural areas), social development services remain very low compared to other LAC countries.

Much of the country’s water is not safe for drinking because Peru lacks adequate water treatment plants and sewer facilities. Many water supplies are polluted with human and industrial wastes. Only about 25 percent of city residents have safe water sources. (Marquez, 2004)

With the Bank's support, the justice sector is also undergoing various modernization reforms and decentralization efforts have progressed. As an example, FONIPREI (Regional and Local Public Investment Fund) is being revamped. To address regional differences in transfers FONIPREI, allocates financing for projects on a competitive basis and increases the available funds for projects in resource-poor regions. This cluster's main area of support deals with the reforms to improve the quality and impact of public spending. The Government has requested Bank support to have Results Based Budgeting (RBB) introduced to a larger proportion of the budget. RBB aims to improve transparency, accountability and all allocation of funds

In education, the main goal is a rapid decentralization. Support is being provided on strengthening accountability mechanisms and targeting interventions for the most vulnerable populations. Although coverage gaps remain, the main challenge is quality. In the health sector, neonatal mortality has become a more relevant challenge since the infant mortality rate (IMR) has decreased significantly. The government now needs support to restructure the public health insurance (Seguro Integral de Salud SIS) in order to improve targeting and coverage packages.

In nutrition, the reduction of chronic malnutrition is a main social policy goal for the GoP; however there has been limited success so far. As a result, the Bank decided to turn a planned Nutrition Results Project into a Non-Lending Technical Assistance (NLTA) that is better suited to respond to the government's needs. More recently, the Government has asked the Bank for support in turning the promising conditional cash transfer program, Juntos, into the cornerstone of its social policy (World Bank, 2006b).

For the past two years, public awareness has increased in regards to Peru's escalating environmental challenges as well, which has led to the creation of the Ministry of Environment (MINAM).

The Ministry of the Environment is the National Environmental Authority of Peru that directs environmental policy for the country. One of its functions is to develop and approve Air Quality Standards, including maximum permissible limits for atmospheric emissions. Another function of the Ministry is to promote scientific investigation, technological innovation and information on the subject of the environment, clean practices and processes, and clean consumption. It is also important to note that one of the strategies for reducing greenhouse gases, dioxin and furan emissions is the implementation of improved stoves. (Partnership for Clean Indoor Air, 2009)

Throughout the years, the World Bank has been a significant contributor to the development of Peru. The Country Assistance Strategy (2003-2006) was implemented for a term of four years to cooperate with the development of the country of Peru and focus in the reduction of poverty. The development assistance came through, however with fewer accomplishments than expected due to poor communication management and no control over administrative corruption. This CAS was implemented during a time of transition: change in head of administration, as well as in organizational and governmental authorities.

Using the CAS as a manual of lessons learned, the Country Partnership Strategy (2007-2011) was established. The CPS took the basis of the previous strategy, but shifted the downfalls experienced. The CPS recognized the importance of strategic communication as well as the benefits of upgrading the strategy to a partnership, rather than a standalone development assistance strategy. The creation of a partnership strengthened the mutual objectives and encouraged both; the World Bank along with the country of Peru; to unite forces and work towards the reduction of poverty.

The CPS has a proven record of being much more effective in eliminating poverty than the CAS. The CPS' portfolio has a bigger share of poverty reduction programs and comprises of a significant larger amount of money invested. Additionally, the CPS projects are being frequently monitored by reviews whereas the CAS was not. Yet, although we still have a couple of years ahead to actually determine the effectiveness of the CPS, we can already say that the progress has been eminent. Agencies alongside with modern technology have excelled in the improvement of the World Banks' evaluation systems.

Overall, the (CPS) builds on the results of the CAS (2003-2006) which in turn builds on the results and best practices of the previous CAS. Thus, the current CPS has significantly improved the efficacy of the government's efforts to reduce poverty through its focus on economic growth, social development, and modernization of institutions. As an illustration, the following case study analyzes a project that attained many objectives during the CAS and is currently being further improved during the CPS.

Case Study: Rural Road Project

Established in 1995, the World Bank's project called Rural Road Project, has improved significantly during the CAS and is currently being further enhanced through a follow up project during the CPS due to years of experience and the availability of technology.

The program will rehabilitate and maintain the rural road network through simple and low-cost methods; support road and transport management, responsibility of the municipalities, fostering decentralization and local governance. The program will apply efficient planning and management techniques, together with community participation, allowing for road ownership from the users and other beneficiaries. This will result in operating sustainability with financial support from the local governments towards maintenance activities. (IADB, 2009)

The Rural Road Project has received funds from the World Bank, the Inter-American Development Bank and the Peruvian government. Participants include: municipal presidents, local and provincial mayors and interested people among others. The project has the following four components: (a) improvement of rural transport infrastructure which will scale up to the entire country; (b) institutional development which provides a comprehensive institutional strengthening package at the local and central levels; (c) transport for territorial development which enhances the impact that improved transport conditions can make on rural development and (d) project management which covers project administration, monitoring, evaluation and audits costs.

All communities that benefit from this project gather in a strategic place and they are all informed about the work of Provias Rural (the government agency executing this project) and how the community is expected to gradually grow according to their own needs. The project is a success and as a result, the experience is now being transferred to eight more provinces.

The Rural Roads Project to improve basic social services, and to integrate markets, infrastructure, and income-generating activities with a component of gender equity, managed to rehabilitate 2,614 km. of rural roads; and routine maintenance was carried out on 13,179 km. of roads by 600 micro-businesses with people who had been given relevant training, thereby providing employment for more than 6,000 men and women in rural areas. In addition, more than 2,400 km. of community tracks and earth roads were improved, to enable people living in extreme poverty to improve their conditions of transportation. (World Bank, 2007b)

About \$400 million have been invested during a decade and as of 2005, 13,000 km of rural roads have been restored, 600 companies have been created to maintain the roads and more than 6,000 direct jobs have been created; 30% of which are occupied by women. The project has also allowed savings of \$10,000 per km in five years. In addition, it has placed an emphasis in linking road development to productive initiatives. Before this project was implemented, local residents had to walk about 50 km to reach health access, attend schools or sell products. Nowadays, road paths have shortened distances, developed productivity,

enhanced communication and improved the quality of life among 6,000 inhabitants. Overall, there has been an increase of more than 55% in access to health services, 8% increase in school attendance rates, 16% increase in agricultural productivity and 20% increase in incomes of rural inhabitants.

The follow up to this accomplishment is the project called: Decentralized Rural Transport, which is established under the CPS (2007-2011).

The objective of the Decentralized Rural Transport Project is to contribute to territorial development and to the fight against rural poverty in the Borrower's territory by improving access of rural households and entrepreneurs to goods, social services and income generating opportunities through reduced transport costs and better rural transport infrastructure. (World Bank, 2009b)

This project will not only work with roads themselves but will focus on their use. In other words, it will regulate cargo, passenger transportation, road safety, road user education and development of transport for enterprises. According to the World Bank, the success of this participative work model connotes that social inclusion is the road that leads to development.

CHAPTER V

FINDINGS & ANALYSIS

CAS: Strengths and Weaknesses

Established by the WB in agreement with the Peruvian government, the CAS (2003-2006) improved the development of the country of Peru during the years of its implementation.

Several strengths can be pinpointed during the duration of the strategy. One of its major strengths was that it was aligned with the Peruvian government's national Agreement, which had a broad national support. Also, the Bank's contribution in the macroeconomic situation was significant; particularly in keeping decentralization under the rule of fiscal neutrality. However it is also worth noting that the growth and fiscal prospects during the CAS were feeble to possible declines in the prices of minerals and therefore it was recommended to further advance diversification.

The CAS was prepared at a time of some uncertainty about direction of economic policy of the new government and after a lull in Bank engagement. Therefore, the CAS design began with a cautious note, starting at a base case, with triggers set for both a high and low case (revenue mobilization, debt management and competitiveness and decentralization). (World Bank, 2006b)

During the CAS, there was some progress in the management of public resources and changes were implemented to begin the reform of the civil service, but there was still much greater effort needed to enhance the effectiveness and reduce its share budget costs and therefore help stimulate public investment. It is also worth noting that the achievements on

macro-economic management, competitiveness and decentralization in Peru are not revealed in the international rankings. As a result, the perception of poor governance and corruption still remains. Similarly, there were achievements made in the social sector reform area during the CAS, however the progress fell short of expectations.

There has been an increasing focus in the Bank's Peru program on results with some bold proposals to manage the transfer of responsibilities in decentralization or to advance the social reform agenda. The next CAS can assist the government by helping identify credible options to advance effectively decentralizations and at the same time improve the delivery of social services. (World Bank, 2006b)

Considered as strength, the CAS contributed with successful innovative ideas. Some of these accomplishments were from projects that answered to a strong demand among recipients.

This has been the case of urban property rights for instance. An additional contributing factor has been the success of figuring out the sequence needed to deliver on the projected results before planning or reorganizing a project, as with the health project for example. "The Bank has contributed with innovative ideas in a variety of fronts: infrastructure guarantee, urban property rights, community participation, gradual decentralization, roads, technology, and water" (World Bank, 2006b).

Unfortunately, the CAS conveyed more weaknesses than virtues. The CAS' innovations required institutional changes which were delayed on its implementation due to political forces; thus such innovations were interpreted as flaws. These delayed activities were terminated and classified as ineffective reforms.

The initiatives introduced under the adjustment operations, be it under decentralization, competitiveness or inclusion, require most often building up institutions, which can only be done with time and technical assistance. Implementation delays in technical assistance or investments may end up rendering the reform initiatives ineffective. Moving forward the future CAS needs to take determined actions to improve the effectiveness of investment lending. (World Bank, 2006b)

Also, a weakness presented during the CAS was that unfortunately achievements in the social sector did not become comprehensive reforms and instead contributed to a slow down of the decentralization process. “Progress in reform of the social sectors was slower than expected. The slow progress in social sector reform has prevented a faster transfer of activities to the regional and local governments” (World Bank, 2006b).

As the pressures for effective decentralization escalated, there was a risk of losing fiscal control. Therefore, it was necessary to implement a corresponding agenda of effective transfer of responsibilities that complemented the concern with fiscal neutrality.

The country has succeeded to advance decentralization while keeping tight a fiscal position. Still, today the decentralization process is in midway, the political machinery in place and limited effective transfer of responsibilities. There is still the risk that this tension will compromise the tight fiscal position. (World Bank, 2006b)

Another weakness presented during the CAS was the government’s need to increase its credibility of the state and deliver better quality social services especially to the poor. “More initiative ways are needed to break the barriers that limit access to quality social services to the population, especially the poor” (World Bank, 2006b). Furthermore, the social inclusion of the most vulnerable is still not possible and is considered one of the CAS’ major struggles.

For instance, participation initiatives did not reach the most vulnerable groups of the population nor increased inclusion significantly. As a result, a closer look at the process implemented by civil society organizations that represent the poor was proposed to better understand the impact of the Bank’s projects on poverty reduction.

A rethinking of the basic instruments that are being recommended to access the poor and vulnerable is probably needed; including the design and implementation of alternative intervention instruments. (World Bank, 2006b)

Contributing to this substantial weakness, the impact of the various Bank projects that were oriented to the poor were unfortunately not measured or assessed “An impact evaluation would help clarify if the approach of the CAS (imbedded in some of the projects) indeed is having a substantive impact on poverty” (World Bank, 2006b).

Lastly, during the period of institutional build up, the CAS focused on steps rather than results. Therefore, the WB considers that in order for outcomes or results to be effective, there is a need for additional focus and attention to delivery mechanisms, dissemination and communication.

Major CAS Influence on the New CPS

The strengths and weaknesses of the earlier Country Assistance Strategy have influenced the new Country Partnership Strategy in many areas. Feedback was obtained from the results of the consultation process and lessons learned from the CAS Completion Report.

The current CPS has been aligned to the Peruvian government’s National Accord just like the former CAS. Also, the current CPS has focused on advancing diversification, since growth and fiscal prospects during the CAS were feeble to possible declines in the prices of minerals. Moreover, the IFC is currently supporting the agribusiness sector via diversification and improvements in competitiveness through two investments.

IFC made two new investments since December 2006: 1) \$18.3 million with Empresa Agroindustrial Laredo S.A.A. – Peru’s fourth sugar exporter; and 2) \$15 million with Sociedad Agricola Viru S.A. (SAV) – one of Peru’s leading agribusiness companies. With both projects, IFC is helping develop economic activities in the departments of Libertad, Ica and Arequipa where 70% -80% of the population lives in poverty, thereby contributing to regional economic diversification. (World Bank, 2009a)

Due to the increase of products into the export markets and the importance of diversifying the economy, the current CPS is enhancing the competitive agenda in partnership with the

government and private sector. This commitment was incorporated on the new CPS framework under the first pillar categorized as Economic Growth, cluster 1 labeled: Maintaining Macro Stability and Reducing Vulnerabilities.

To increase Peru's ability to maintain macro stability, the WBG will support the government with a series of DPLs covering Fiscal Management and Competitiveness in the five years of administration. (World Bank, 2006b)

In addition, the CPS is also focusing on the effectiveness of the management of public resources in accordance to the previous CAS suggestion. This issue is incorporated on the new CPS framework under the third pillar categorized as Modernization of the State, labeled: Strengthening Public Sector Management. "Improving the way in which public resources are spent is crucial for any government, but particularly important for a country like Peru with limited fiscal space and a large number of needs" (World Bank, 2009a).

The CPS incorporated the purpose of improving the social sector under the second pillar categorized as Social Development, labeled: Promoting and Developing a new social contract in education, health and nutrition as per the CAS suggestion.

Peru is currently advancing a series of reform efforts that represent outstanding opportunities to improve social policy. In general, strategies are being implemented and institutional efforts are being aligned at different levels, with varying degrees of political commitment. (World Bank, 2009a)

Despite continuous efforts, Bank investment projects in the social sectors have been affected by the requirements of the National Public Investment System (SNIP), which requires all externally financed projects to be appraised under different frameworks.

During the CPS, there has been fortunately a greater determination of the Peruvian government to increase its credibility of the state and in delivering better quality social

services especially to the poor. The objective has been incorporated in the new CPS framework under the third pillar categorized as Modernization of the State.

Access to accurate, timely and comprehensive information on public procurement, financial management and civil service performance will be half of the equation in restoring trust in the state's capacity to act honestly and transparently. The other half is to let citizens voice their views on the results of those actions (World Bank, 2006b).

In addition, social inclusion is a major goal and challenge for the CPS due to its unsatisfactory results in Peru during the CAS.

Despite the prominent place the National Accord gave to social inclusion and the help from the Bank and the donor community, limited progress was made in increasing the social inclusion of the poor and marginal. Many of the participatory mechanisms and institutions that have been put in place have benefited mostly the already included-urban, educated, medium income, etc. Bank efforts to involve marginal populations in the management of natural resources did not fare well. (World Bank, 2009a)

Another issue that has not been resolved since the CAS, is the lack of evaluation systems in place to assess the WB projects' impact. Although, the CPS has a commitment to implement evaluation systems, there has yet not been progress documented. In the Country Partnership Strategy Progress Report (2009), the Portfolio Performance section states that the Peruvian government has remained strong in their demand for the WB's assistance in economic and sector work as well as technical assistance in order to implement reforms in the public sector and to improve monitoring and evaluation systems.

According to Adam Lerrick, the World Bank allocates considerable resources to supervision in the procurement area, but on the other hand there is not enough monitoring and screening of the programs' effectiveness.

Seldom does the Bank return to inspect long-term project success. Only 5% of World Bank programs receive Impact Evaluations, undertaken 3 to 10 years later. These do not measure project results but dwell upon important but highly subjective calls such as improvements in the environment, the role of women, the interaction of societal institutions, income distribution and general welfare. 30% of internal investigations

found that a lack of monitoring precluded valid judgments. Though the Bank devotes significant resources to the supervision of the procurement of inputs, little effort is expended to measure the effective, concrete product of programs (Lerrick, 2002).

The previous CAS also experienced numerous implementation delays in investment lending that were classified as ineffective reforms. As a follow up, the CPS took actions to improve the effectiveness of investment lending; however the results fell short of the indicative program.

While seven new investments projects were expected for the two initial fiscal years, only two new projects totaling \$70 million actually entered the portfolio. This was a result of various factors including reduced financing needs, a preference for reform-focused DPLs, and the challenges faced in project preparation due to the country's appraisal requirements. (World Bank, 2009a)

During the CPS, many barriers have been removed that limited the effectiveness of certain projects implemented and financed with foreign resources. As part of this effort, the Multilateral Investment Guarantee Agency (MIGA) works closely with local governments and with foreign mining companies to guarantee that the use of funds is transparent and legitimized by the recipients. "MIGA remains committed to supporting foreign investors in Peru outside the mining sector as well. The appetite for MIGA coverage, however, will depend on risk perceptions of foreign investors" (World Bank, 2006b).

The country is still frail and exposed to drops in the prices of mineral; hence the importance of further advancing diversification through the competitiveness agenda. Bank assistance is on the right track by focusing on the removal of barriers to exporting and lowering the costs of logistics. However, it is important that bank operations, especially adjustment, focus more clearly on outcomes, now that key institutional blocks of the competitiveness agenda are in place. (World Bank, 2006b)

On a positive note, the CPS Executive Summary asserts that the CPS has placed greater attention to dissemination and communication of their projects. Furthermore, its adjustment operations did improve the focus on outcomes rather than on steps as suggested by the CAS.

SWOT Analysis of the CPS

The following represents a SWOT Analysis of the CPS based on its strengths, opportunities and the most pressing issues and challenges faced.

Strengths

- Aligned to the Peruvian government's National Accord just like the former CAS.
- Portfolio performance indicators are excellent throughout the period and there are no pending cases of alleged corruption in WB projects being investigated.
- Enhances the competitive agenda in partnership with the government and private sector.
- Greater focus on the effectiveness of the management of public resources.
- Has implanted a corresponding agenda of effective transfer of responsibilities that complements the concern with fiscal neutrality.
- Greater attention to dissemination and communication of its projects and its adjustments operations did improve the focus on outcomes rather than on steps.
- Corruption and transparency are now parts of policy dialogue due to a dramatic increase in freedom of press.
- CPS flexible approach was adequate to respond to Peru's development needs.
- Strengthened the new Ministry of the Environment to improve environmental management in key sectors of the economy, including mining, urban transport, fisheries and biodiversity conservation.
- The CPS' portfolio has a bigger share of poverty reduction programs and comprises of a significant larger amount of money invested

Weaknesses

- Lack of evaluation systems in place to assess the WB projects' impact.

- Experiences numerous implementation delays in technical assistance and in investment that unfortunately are classified as ineffective reforms.
- Insufficient assistance to Peru's water treatment plants and sewer facilities, as a result there is poor quality of water, sanitation and electricity services particular to the rural population.

Opportunities

- Peruvian government has a greater determination to increase its credibility of the state and in delivering better quality social services especially to the poor.
- Peruvian government has remained strong in their demand for the WB's assistance in economic and sector work as well as technical assistance in order to implement reforms in the public sector and to improve monitoring and evaluation systems.
- Further cooperation and work with the government and other donors to remove barriers that may limit the effectiveness of certain projects that are being implemented and financed with foreign resources may bring positive results.
- Country Financial Management Strategy (CFMS) under preparation that follows up on outstanding issues of the previous administration will enhance upcoming strategies.
- The government has requested Bank support to have Results Based Budgeting (RBB) introduced to a larger proportion of the budget.

Threats or Limitations

- Bank investment projects in the social sectors have been particularly affected by the requirements of the National Public Investment Systems (SNIP)
- Lack of evaluation systems in place to assess the WB's projects' impact

- Due to several institutions other than the WB playing important roles in Peru, it is difficult to generate a unifying vision of procurement systems' objectives and priorities.
- Some public entities in Peru are not able to fully execute their budget due to strict budgetary rules and low technical capacities relative to procurement.
- The WB is in urgent need of an update of the Country Financial Accountability Assessment (CFAA).
- Public social programs may be influenced by political motivations.
- Lack of coordination between actors in poverty reduction generates more weaknesses.
- Social programs' resources may not reach the intended beneficiaries.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

After reviewing the existing literature on the World Bank's poverty reduction strategies under the Country Assistance Strategy (CAS) and the Country Partnership Strategy (CPS), the study determines that the new (CPS) is more likely to improve the World Bank's effectiveness in poverty reduction. The investigation revealed that the previous CAS' weaknesses and strengths have positively influenced the new CPS structure and outcomes.

To begin with, the CPS unlike the CAS presents a greater focus on strategic communication, results and on the duplication of best practices. In addition, the CPS has been prepared with greater flexibility and the WB maintains a positive working relation with the new administration.

The CPS has successfully advanced diversification, public resource management and investment lending effectiveness, communication and dissemination of projects, the social sector and the competitive agenda in partnership with the government and private sector.

The CPS portfolio performance indicators are excellent throughout the period and there are no pending cases in WB projects being investigated due to alleged corruption. The current CPS has implanted a corresponding agenda of efficient transfer of responsibilities that complements the interest in fiscal neutrality. In addition, adjustment operations did improve

the focus on outcomes rather than on steps as was intended. Moreover, the CPS has strengthened the new Ministry of the Environment in Peru that in turn improves environmental management in key sectors of the economy, including biodiversity conservation, urban transport, fisheries and mining.

Overall findings suggest that the new CPS strategy is more likely than the former CAS to improve the World Bank's effectiveness in poverty reduction in Peru. The CPS has the advantage of relying on a portfolio with a bigger share of poverty reduction programs that work jointly to eliminate poverty. In addition, the CPS benefits from a significant larger amount of funds invested towards its objectives; making these programs better structured, ambitious and successful. Furthermore, the CPS has improved in investment lending effectiveness by generating flexibility. Moreover, the CPS portfolios are constantly monitored in order to keep these projects and goals on track. However, specific evaluation systems that will determine progress are yet to be developed. Studies suggest that some of the main problems encountered by the World Bank are due to their lack of monitoring of projects.

On the other hand, the GoP has low levels of legitimacy and credibility that drags a legacy of endemic corruption, including clandestine use of social programs. These social programs have weak coordination, poor targeting and insufficient accountability mechanisms. Moreover, there is poor monitoring and evaluation of programs that create a duplication of efforts. The government is also recently experiencing with citizen participation in policy-making due to a weakened civil society as a result of years under an authoritarian regime. Research demonstrates that there is lack of capacity of program management and political will to fight mafias that dominate social programs. Innovations pertaining to infrastructure that ensure urban property rights, community participation, decentralization, roads,

technology and water may be classified as ineffective reforms due to the lack of political support. Therefore, the government does experience many limitations and imperfections that hinder the WB projects and objectives.

General Recommendations

Regarding the World Bank's assistance strategies, there is definitely a need to incorporate evaluation systems to assess WB projects' impact in Peru. The WB should place special attention in evaluating its projects; not only measuring the country's improvement as a whole, but rather the individual project performance and evaluation.

There is also a need to reduce implementation delays in technical assistance in order to assist and accelerate project implementation. Additionally, investment lending ineffectiveness is generating unsuccessful reforms, therefore supporting the government in opening fiscal space and working with other donors around a Sector Wide Approach (SWAP) would be beneficial.

New social policies need to be addressed by the government in order to improve the basic living conditions of the poor. A stronger focus should be placed on the public sector and projects involving Peru's water treatment plants and sewer facilities. There is poor quality of water, sanitation and electricity services particular in the rural population, which brings also into consideration the major goal of social inclusion which still is not improving.

The study also reveals the following suggestions to the government of Peru that may assist rather than delay the World Bank's poverty reduction projects. The Peruvian government should continue working on its credibility and anti-corruption strategies as well as securing land titles. It is important for the GoP to keep its commitment in delivering better quality social services especially to the poor. Development cooperation and alliances among the

main actors in poverty reduction in Peru are excellent remedies for promoting sustainability and building local capacity.

Additionally, the requirements of the SNIP should be more flexible and accommodating in order to avoid delaying Bank investment projects in the social sector. Also, it is advisable that the government keeps requesting Bank support when needed.

The GoP should also focus on generating a unifying vision of its objectives and priorities. Since there are several institutions playing important roles in Peru it is very difficult to achieve this. Moreover, this lack of coordination between actors in poverty reduction generates more difficulties.

Empowerment is also needed for public entities that are unable to fully execute their budget due to strict budgetary rules and low technical capacities. It is likewise necessary that the government provides more support to reduce market uncertainty, improve technical assistance and update the Country Financial Accountability Assessment (CFAA).

Future Studies

Peru's economic growth has had a limited impact on poverty figures. Its economic expansion for the past years has been insufficient to generate jobs and government still struggles to reduce unemployment and poverty.

The study suggests that all concerns and solutions presented in this paper should be further investigated. Future studies that focus in a specific issue analyzed in this study help identify and generate specific solutions that may improve the World Bank's assistance to Peru and the Peruvian government's efforts to develop the country.

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ANNEX 1

World Bank Active Projects in Peru

ACTIVE PROJECTS

PROJECT ID	PROJECT NAME	LENDING INSTRUMENT	APPROVAL DATE	CLOSING DATE	LENDING PROJECT COST	TOTAL AMT	GRANT AMT	BORROWER	IMP AGENCY	PROJECT STATUS
P065256	National Rural Water Supply and Sanitation Project	Specific Investment Loan	29-Aug-02	31-Dec-10	80	50	0	Government of Peru	Vice Minister of Construction and Water	Active
P073438	Justice Services Improvement	Technical Assistance Loan	4-Mar-04	30-Sep-09	15.2	12	0	Republic of Peru	Judiciary	Active
P074021	Lima Transport	Specific Investment Loan	9-Dec-03	30-Jun-10	7.93	0	7.93	Government of Peru	Pro Transporte and FONAM	Active
P035740	Lima Urban Transport Project	Specific Investment Loan	9-Dec-03	30-Jun-10	134.4	45	0	Government of Peru	Pro Transporte Lima	Active
P078894	Real Property Rights Consolidation Project	Specific Investment Loan	14-Mar-06	31-Dec-11	35	25	0	Republic of Peru	COFOPRI-SUNARP	Active
P079165	PE Sierra Rural Development Project	Specific Investment Loan	24-Apr-07	31-Dec-12	34.93	20	0	Government of Peru	Ministry of Social Development	Active
P078813	Regional Transport Infrastructure Decentralization	Specific Investment Loan	12-Jul-05	30-Jun-10	200	50	0	Government of Peru	Ministry of Transport	Active
P082588	Agricultural Research and Extension APL Phase 2	Adaptable Program Loan	31-Mar-05	31-Dec-10	43.12	25	0	Government of Peru	Ministry of Agriculture	Active
P088809	Institutional Capacity for Sustainable Fiscal Decentralization TAL	Technical Assistance Loan	15-Jul-04	30-Sep-10	11	8.8	0	Government of Peru	Ministry of Economy and Finance	Active
P088909	Client Poverty Levels of Financial Institutions in Peru	Technical Assistance Loan	15-Apr-04	N/A	0.09	0	0.09	Various NGOs	Various NGOs	Active

P088923	PE (CRL) Guarantee Facility		28-Apr-05	N/A	200	200	0	Government of Peru	Ministry of Finance	Active
P090110	PE Rural Electrification	Specific Investment Loan	7-Mar-06	31-Mar-06	10	0	10	Government of Peru	Ministry of Energy and Mining	Active
P090116	PE Rural Electrification	Specific Investment Loan	7-Mar-06	31-Dec-11	100	50	0	Government of Peru	Ministry of Energy and Mining	Active
P068250	Participatory Management of Protected Areas	Specific Investment Loan	13-Mar-03	14-Oct-09	32.81	0	14.8	PROFONA NPE	PROFONANPE	Active
P081954	Peru - Poechos Hydropower Project	Specific Investment Loan	3-Dec-04	N/A	16.7	0	1.2	SINERSA	SINERSA	Active
P082625	Vilcanota Valley Rehabilitation and Management Project	Specific Investment Loan	14-Sep-04	30-Jun-11	8.18	4.98	0	Government of Peru	Ministerio de Comercio Exterior y Turismo y Copesco	Active
P094739	PE Huaycoloro Landfill Gas Recovery	Specific Investment Loan	28-Jun-06	N/A	7.7	0	3.7	PETRAMA S S.A.C.	PETRAMAS S.A.C.	Active
P092834	PE Santa Rosa Hydro Carbon Finance	Specific Investment Loan	11-May-05	28-Feb-15	1.5	0	1.5	Electrica Santa Rosa S.A.	Electrica Santa Rosa S.A.	Active
P095570	Peru Decentralized Rural Transport Project	Specific Investment Loan	19-Dec-06	31-Mar-12	150	50	0	Government of Peru	Provias Rural / Ministry Of Transport and Communications	Active
P107666	Water Resources Management Modernization	Specific Investment Loan	2-Jul-09	30-Jun-15	23.67	10	0	Government of Peru	ANA	Active
P110920	Peru CDM Project Portfolio Consolidation Project - CF Assist	Technical Assistance Loan	22-Jan-08	30-Dec-09	0.17	0	0.17	Fondo Nacional del Ambiente FONAM	Fondo Nacional del Ambiente FONAM	Active
P057041	Community Management Northwest Biosphere Reserve RNBO (GEF-MSP)	UNIDENTIFIED	30-Sep-99	N/A	0	0	0		Pro Naturaleza	Active

P057042	Participatory Conservation Planning in Vilcabamba (GEF-MSP)	UNIDENTIFIED	12-Oct-99	N/A	0	0	0		Conservation International	Active
P060765	Biodiversity Conservation Nanay River Basin (GEF-MSP)	UNIDENTIFIED	10-May-01	N/A	0.77	0	0.77		IIAP	Active
P078953	Accountability for Decentralization in the Social Sectors (Previous Programmatic Social Reform TAL)	Technical Assistance Loan	15-Jul-04	31-Dec-09	7.8	7.8	0	Republic of Peru	Ministry of Economy and Finance	Active
P098846	Peru- Extractive Ind. Trans. Initiative	Technical Assistance Loan	4-Sep-07	30-Sep-10	0.3	0	0.3	Republic of Peru	Ministry of Energy and Mines	Active
P101471	Peru First Programmatic Environmental Development Policy Loan /DDO	Development Policy Lending	17-Feb-09	8-Sep-12	330	330	0	Ministry of Economy and Finance	Ministry of Economy and Finance	Closed
P101590	Second Programmatic Fiscal Mgmt and Competitiveness Development Policy Loan	Development Policy Lending	5-Aug-08	16-Jan-12	370	370	0	Ministry of Economy and Finance	Ministry of Economy and Finance	Active
P115120	Second Programmatic Fiscal Mgmt and Competitiveness Development Supplemental Financing	Development Policy Lending	18-Dec-08	N/A	330	330	0	Ministry of Economy and Finance	Ministry of Economy and Finance	Active

Source: World Bank active projects database

ANNEX 2

World Bank Proposed Projects in Peru

PROPOSED PROJECTS

PROJECT ID	PROJECT NAME	LENDING INSTRUMENT	APPROVAL DATE	CLOSING DATE	LENDING PROJECT COST	TOTAL AMT	GRANT AMT	BORROWER	IMP AGENCY	PROJECT STATUS
P116929	Peru Safe and Sustainable Transport SWAP	Sector Investment and Maintenance Loan	N/A	N/A	1150	200	0	Government of Peru	Provias Nacional	Pipeline
P110752	Justice Services Improvement Project II	Technical Assistance Loan	N/A	N/A	30	20	0	Republic of Peru	Judiciary of Peru	Pipeline
P095424	Strengthening Biodiversity Conservation through the National Protected Areas	Specific Investment Loan	N/A	N/A	31.56	0	10.5	Government of Peru	National institute of Natural Resources - INRENA	Pipeline
P104760	Sierra Irrigation Subsector	Specific Investment Loan	N/A	N/A	50	20	0	Republic of Peru	Ministry of Agriculture through UC-PSI and INRENA	Pipeline
P105251	PE-Tertiary Education Project	Specific Investment Loan	N/A	N/A	50	35	0	Republic of Peru		Pipeline
P106720	Third Programmatic Fiscal Management & Comp. DPL	Development Policy Lending	N/A	N/A	150	150	0	Government of Peru	Ministry of Finance	Pipeline

Source: World Bank proposed projects database

ANNEX 3

PROJECTS IMPLEMENTED DURING THE CAS AND THE CPS

Fiscal Year	Country Assistance Strategy Projects (2003-3006)	Fiscal Year	Country Partnership Assistance Projects (2007-2011)
2003	Rural Water and Sanitation Rural Education and Teacher Development APL Export Competitiveness and Trade Facilitation TAL Social Reform TAL Programmatic Social Reform Loan II	2007	DPL Fiscal Management and Competitiveness I DPL Social Sectors I Rural Transport Decentralization Sierra Development I Nutrition results Health APL II
2004	Justice Services Modernization Lima Urban Transport Urban Property Rights II Sierra Rural Development Agricultural Research and Extension APL, Phase 2 Programmatic Social Reform Loan III	2008	DPL Fiscal Management and Competitiveness II DPL Environment I Water Sector Modernization Low Income Housing Quality of Basic Education
2005	Regional Roads Decentralization Decentralization and Municipal Development TAL Health APL, Phase 2 Export Competitiveness and Trade Facilitation Investment Programmatic Reform for Growth Loan I	2009	DPL Fiscal Management and Competitiveness III DPL Social Sectors II Natural Disasters Management Governance Enhancement Program Sub National Infrastructure Invest. Facility
2006	Education APL, Phase 2 Decentralized Rural Infrastructure Programmatic Reform for Growth Loan II	2010	DPL Fiscal Management and Competitiveness IV DPL Environment II Higher Education Infrastructure for Sustainable Tourism Doing Business Enhancement Program
		2011	DPL Fiscal Management and Competitiveness V DPL Social Sectors III Sierra Development II Health APL III

DECLARATION

I hereby declare that this dissertation is my own original work.

Carla Maldonado
31 January 2010, Florida, United States