



## 1. Operation Information

<b>Operation ID</b> P174440	<b>Operation Name</b> Post COVID-19 Recovery DPF
<b>Country</b> Peru	<b>Practice Area (Lead)</b> Finance, Competitiveness and Innovation

### Non-Programmatic DPF

<b>L/C/TF Number(s)</b> IBRD-92250	<b>Closing Date (Original)</b> 31-May-2022	<b>Total Financing (USD)</b> 750,000,000.00
<b>Bank Approval Date</b> 25-Mar-2021	<b>Closing Date (Actual)</b> 31-May-2022	
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	750,000,000.00	0.00
Revised Commitment	750,000,000.00	0.00
Actual	750,000,000.00	0.00

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## 2. Program Objectives and Pillars/Policy Areas

### a. Objectives

The program development objective of the Peru Strengthening Foundations for Post COVID-19 Recovery Development Policy Financing was to strengthen institutions to mitigate the social and economic impact of the COVID-19 pandemic and to reinforce [the] structural foundations for an inclusive and climate smart economic recovery.



## b. Pillars/Policy Areas

The program had two pillars.

### **Strengthening Institutions to Mitigate the Social and Economic Impact of the COVID-19 Pandemic**

supported measures to: (a) expand the number of poor and vulnerable household beneficiaries of cash transfers in response to job losses and wage cuts arising from the pandemic; (b) adopt modes of digital payments to better deliver the emergency cash support to affected households; and (c) introduce credit guarantees to provide needed credit and liquidity to enterprises adversely affected by the pandemic.

### **Reinforcing the Structural Foundations for an Inclusive and Climate Smart Economic Recovery**

supported a wide range of structural and policy reforms to strengthen the country's economic recovery following the pandemic, headlined by reforms to: (a) expand financial inclusion with the use of the national identification number for financial transaction accounts; (b) broaden the access of citizens to broadband services; (c) foster industrial competition through merger control; (d) upgrade the country's climate change ambition and commitments; (e) enhance the verification system for GHG emissions mitigation including for carbon trading; and (f) expand access to resilient housing through lower savings requirements for low income groups and incentives for sustainable construction.

## c. Comments on Program Cost, Financing and Dates

**Program Cost.** The program was estimated to cost US\$750 million at appraisal.

**Financing.** The program was financed by an IBRD loan to the Republic of Peru for US\$750 million. The loan was fully disbursed.

**Dates.** The program was approved on March 25, 2021, became effective on June 23, 2021, and closed as scheduled on May 31, 2022.

## 3. Relevance of Design

### a. Relevance of Objectives

Peru reacted swiftly to the outbreak of the COVID-19 pandemic with a set of public health measures aimed at containing the spread of the disease (headlined by a general lockdown 10 days after the first case) and a package of fiscal (tax relief and emergency expenditures), monetary (interest rate cuts and liquidity provisions), and financial measures (withdrawals from savings funds and bankruptcy refinancing) aimed at supporting affected households and firms and shoring up the economy amid widespread disruptions to activity and production. The announced response package was valued at 20 percent of GDP and was headlined by two rounds of emergency cash transfers to households in the second and third trimesters of 2020. Approved in March 2021, a year after the outbreak of the pandemic, this development policy operation would support the response plan as the pandemic entered a second wave and as the Government, keen on a rebound from the downturn in 2020, launched an economic reactivation effort that also included a job-centered works program (*Trabaja Peru*) and a public investment program (*Arranca Peru*). Combining the elements of a crisis response



and structural reforms to anchor a recovery from the crisis, the program objectives were relevant to diagnostics and strategies articulated by the Government and the Bank.

**Bank Group COVID-19 Crisis Response Strategy.** The program development objectives were aligned with the strategy articulated in the World Bank Group *COVID-19 Crisis Response Approach Paper – Saving Lives, Scaling-up Impact and Getting Back on Track* (2020). The strategy paper promoted four pillars: (a) saving lives – prevent, detect, and respond to the health threat posed by COVID-19 and strengthen national systems for public health preparedness; (b) protecting the poor and vulnerable – protect poor and vulnerable households and communities from the economic and social shocks of the crisis, restore human capital, and promote equity and inclusion in the recovery; (c) supporting business growth and job creation – maintain the private sector so that viable firms do not exit as a result of the pandemic; and (d) strengthening policies, institutions, and investments for rebuilding better – maintain a line of sight to long-term goals during the relief and restructuring stages to regain momentum on the twin goals of economic growth and poverty reduction in recovery. The program objectives corresponded to the second, third, and fourth pillars of the Bank strategy.

**Binding Constraints to Development.** The program development objectives – especially the objective to reinforce the structural foundations for an inclusive and climate smart economic recovery – were relevant to addressing the binding constraints to development identified for Peru. The *Peru Systematic Country Diagnostic* of 2017 cited development constraints across a wide range of sectors, which might otherwise serve as strong foundation for a rebound from the economic downturn triggered by the pandemic.

- Financial inclusion had been slow, with high transaction costs (costs of opening new bank branches, poor infrastructure, and limited connectivity) posing the main obstacles to broadening financial inclusion.
- Broadband internet penetration lagged that in other countries in the region, even in urban areas, especially outside Lima, with the high price of internet service deterring higher take-up rates. The ongoing expansion of the fiber-optic network would improve high-speed internet access and affordability, but regulatory barriers might impede reaping the full potential of the investment, if the regulatory constraints remained unaddressed.
- Product market competition was higher than average in the region, but barriers to entry and rivalry still hindered efforts by firms to raise efficiency or to innovate, especially in the backbone service sectors – gas, electricity, airlines, and telecommunications.
- Rapid urbanization had generated a large housing deficit. Some 72 percent of households had no or had precarious housing, according to data from the International Development Bank (IDB, 2012, *Un Espacio para el Desarrollo - Los Mercados de Vivienda en América Latina y el Caribe*), and the demand for new housing now topped 1.3 million units, according to the Bank (World Bank, 2016, *Demand for Housing in Peru*).
- The country was highly exposed to climate risks and natural hazards, qualifying as a "particularly vulnerable country" according to the criteria set by the United Nations Framework Convention on Climate Change. Economic losses due to climate change were potentially large – the total loss could amount to 5.7-6.8 percent of real GDP (compared to the baseline scenario without climate change) by 2030, and 20-23 percent of real GDP by 2050. Mitigation and adaptation measures would cut these losses.

**Bank Group Country Strategy.** The program development objectives were aligned with the Bank Group strategy for Peru at closing. The *Country Partnership Framework for the Republic of Peru FY23-FY27* (CPF) committed Bank Group support to the country's development program organized around three "high-level outcomes" – Increased access to high-quality economic opportunities for workers and entrepreneurs,



Improved access to quality public services, and Increased resilience to shocks. The program objective to strengthen institutions to mitigate the social and economic impact of the COVID-19 pandemic was aligned with the third outcome, specifically with the CPF objective to "strengthen mechanisms to protect people against shocks." The objective to reinforce the structural foundations for an inclusive and climate smart economic recovery was aligned with the second outcome, specifically with the CPF objective to "enhance the delivery of public services," and with the third outcome, specifically with the CPF objective to "enhance climate change mitigation and adaptation."

The Program Development Objective was appropriate in its ambition and relevant to the country context and Bank strategy.

**b. Relevance of Prior Actions**

**Rationale**

**Objective 1 - To strengthen institutions to mitigate the social and economic impact of the COVID-19 pandemic**

PA1 - In response to the COVID-19 pandemic, the Borrower has: (i) expanded the National Registry of Households by November 30, 2020 and published in the Official Gazette on December 6, 2020, and (ii) introduced new digital payment systems published in the Official Gazette on January 30, 2021, to channel the new Temporary Cash Transfer Programs (Bonos) to vulnerable families.

PA2 - The Borrower adopted the credit guarantee scheme Reactiva Peru Program to provide liquidity for the enterprise sector through Legislative Decree No.1455, dated and published in the Official Gazette on April 6, 2020, and Circular No. 0017-2020-AG/EF.

**Objective 2 - To reinforce the structural foundations for an inclusive and climate smart economic recovery**

PA3 - The Borrower has increased financial inclusion through the provision of transaction accounts linked to the national RENIEC and in line with the National Financial Inclusion Policy; as evidenced by the Cuenta DNI Law.

PA4 - The Borrower has promoted adoption and usage of broadband access by: (i) mandating active infrastructure service providers to accelerate broadband deployment; as evidenced by the 3rd complementary final disposition of Legislative Decree 1478 dated March 0709-2020-MTC, dated October 15, 2020 and published in the Official Gazette on October 17, 2020.

PA5 - The Borrower has enhanced market competition by enacting a new merger control regime; as evidenced by Law No. 30957.

PA 6 - The Borrower has adopted the updated National Determined Contributions (NDC) that increase the Borrower's climate action submission, as evidenced by the updated NDC published on the UNFCCC website.

PA 7 - The Borrower has enhanced measurement, reporting and verification of GHG mitigation initiatives, including: (i) updating the Carbon Footprint Methodology (CFM) and (ii) regulating the process and requirements for private institutions to certify their mitigation efforts under the Carbon Footprint Methodology (CFM) MINAM, dated and published in the Official Gazette on December 31, 2019 and MINAM Resolution No 237-2020-MINAM.

PA8 - The Borrower has expanded access to more resilient housing under the MiVivienda Program through: (i) reducing the cost of construction through Legislative Decree No. 1464 dated April 17, 2020 and published in the Official Gazette on April 18, 2020 and Ministerial Resolution No. 001-2020-MIVIVIENDA dated May 1, 2020; and (ii) enhancing incentives for sustainable construction under the Nuevo Credito MiVivienda credit mortgage program and published in the Official Gazette on January 24, 2020 and Decree (Decreto Supremo) No. 007-2020-VIVIENDA.

**Objective 1 - To strengthen institutions to mitigate the social and economic impact of the COVID-19 pandemic**



- Peru reported over 140 deaths per 100,000 population in February 2021 (at appraisal), a year after the Coronavirus disease was declared a pandemic – at that time, the country ranked the worst in death rates (proportional to the population) in the Latin America and Caribbean region and the eight worst in the world, according to the Coronavirus Resource Center at Johns Hopkins University. The poor health outcomes were exacerbated by the precarious condition of the public health system, poor water and sanitation services, and overcrowded housing conditions. Meanwhile, the pandemic triggered an economic downturn in Peru, as it did globally, marked by strict and prolonged activity restrictions, area lockdowns, and quarantine mandates. The economy contracted 11.1 percent in 2020, with private consumption falling 9.8 percent. A government response plan consisting of fiscal and financial measures, valued at 20 percent of GDP, kept public consumption growth positive, but widened the fiscal deficit to 8.9 percent of GDP in 2020, from 1.6 percent of GDP in 2019. With the economic contraction, the poverty rate (US\$5-a-day at 2011 PPP) deteriorated to 32.6 percent in 2020, from 20.6 percent in 2019.
- **PA1** aimed to support households adversely affected by the COVID-19 pandemic. Two measures would enable the Government to more effectively and efficiently administer an assistance initiative focused on a set of new temporary cash transfer programs (the *Bono Independiente*, *Bono Rural*, *Bono Yo me Quedo en Casa*, *Bono Universal*). First, the *Ministerio de Desarrollo e Inclusión Social* (MIDIS) would collaborate with three other agencies to integrate their household databases and create a new *Registro Nacional de Hogares* (RNH) – linked to the national identity card managed by the *Registro Nacional de Identificación y Estado Civil* (RENIEC) – that would increase the number of eligible beneficiaries to 12.6 million households. Second, the Government would improve the cash transfer payments system, by allowing for multiple providers (commercial banks and microfinance institutions) rather than a single provider (the *Banco de la Nación*) and by permitting digital payments (bank accounts, mobile bank accounts, cellular accounts, e-wallets, and cashier payments) rather than simply physical payments (cash withdrawals). The expanded registry would enable the Government to assist the new poor, consisting of unemployed and displaced formal and informal workers in urban areas, while digital payments would improve the administration of social assistance programs, expand consumer choice of payment providers and methods, and strengthen financial inclusion (i.e., the access by individuals and businesses to useful and affordable financial products and services that meet their transactions, payments, savings, and credit needs). The relevance of PA1 is rated **satisfactory**.
- **PA2** aimed to support firms adversely affected by the COVID-19 pandemic. Facing higher lending costs (the average impairment charge on loans rose 3.4 percent in June 2020) and lower profit margins (the operating profit plunged to 1.4 percent of average risk-weighted assets in June 2020), many financial firms were bound to reduce credit flows to firms as the health and economic crisis raged. To help forestall a credit crunch, the Government would adopt the credit guarantee scheme *Reactiva Peru Program* to provide liquidity to lenders and enterprises – the *Corporación Financiera Desarrollo SA* (COFIDE) would grant partial government guarantees to eligible credits extended by financial firms to business enterprises, enabling the financial firms to participate in central bank repos (using interest rate auctions with the COFIDE-guaranteed loan portfolio as collateral) and enabling the enterprises to obtain working capital injections to fulfill their liabilities to suppliers and workers. The *Reactiva Peru Program* would: (a) provide liquidity to enterprises, from credits granted by financial firms and guaranteed by COFIDE; (b) provide liquidity to financial firms, through their participation in the central bank repo market; and (c) enable the central bank to conduct monetary policy efficiently, using repo allocations during a period of market stress. The relevance of PA2 is rated **satisfactory**.





## Objective 2 - To reinforce the structural foundations for an inclusive and climate smart economic recovery

- An incipient economic recovery from the crisis, beginning in 2021, would likely be subdued, with global GDP remaining below its pre-pandemic trend and with downside risks clouding the baseline outlook, according to the Bank in early 2021 (World Bank, January 2021, *Global Economic Prospects*). Emerging market and developing country economies would need "decisive policy actions to raise the likelihood of better growth outcomes while warding off worse ones." For Peru, which had undergone several waves of structural reforms in the preceding decades to remove distortions in the economy and to promote private led growth (World Bank, 2015, *Peru: Building on Success - Boosting Productivity for Faster Growth*), the challenge was to continue with reforms, amid the crisis, to address remaining market failures. This operation would support reforms centered on two themes – an inclusive recovery, focusing on financial inclusion, access to broadband services, and market competition, and a climate-smart recovery, focusing on climate risk mitigation measures, and resilient housing and sustainable housing construction.
- **PA3** focused on expanding access to financial services. As late as 2017, the majority of adults remained unbanked (only 37 percent had a financial account and only 33 percent had access to formal credit), the use of digital financial services was low (19 percent financial account contracts), and gender gaps were among the widest in the region. To address these failures, and aligned with the National Policy for Financial Inclusion (launched in 2015 with the goal that 75 percent of adults have access to a financial transaction account by 2021), the *Banco de la Nación* (a state bank with extensive presence in rural areas), would – under the *Cuenta DNI Law* and in collaboration with the RENIEC – launch *Cuenta DNI* as a commission-free 100-percent digital account that was linked with the national identification number and that also granted access to emergency welfare checks. The *Cuenta DNI* would boost financial inclusion in several ways: (a) it was available to all citizens; (b) other financial service providers could, through open banking, allow customers to link their e-wallets to *Cuenta DNI*; (c) by prioritizing the opening of *Cuenta DNI* for social welfare recipients (mostly women), it would help address the gender gap in account ownership; (d) the accounts could be used to deliver digital payments for other purposes (e.g., emergency transfers during natural disasters), further expanding the service base for financial services. The relevance of PA3 is rated **satisfactory**.
- **PA4** focused on widening access to broadband services. Access to broadband services in Peru was poor: (a) some 83 percent of districts had only 2G networks – the lowest telecommunications technology available – according to the Inclusive Internet Index; (b) more than half of rural population centers did not have mobile internet coverage, according to the Ministry of Transport and Communications; (c) limited competition, barriers to innovation, underinvestment, and lack of effective coordination constrained universal digital inclusion; yet (d) studies consistently found a positive and significant link between internet use and income – De Los Rios (2010), Fernandez and Medina (2011), and Chahura and Trelles (2014), and (e) the Government itself estimated that access to the internet could raise monthly family income by an average Peruvian sol (PEN) 276 in urban areas and PEN 391 in rural areas (Ministry of Transport and Communications, 2020, *Economic Impact of Internet Access in Peruvian Households*). Mandating active infrastructure sharing and radio access network (RAN) sharing – the most comprehensive form of access network sharing – would enable telecommunications service operators to serve areas where they did not have their own networks. Separately, changes to the National Frequency Plan would maximize the use of the 3.5 GHz band (also known as C-band and the basis for the first implementations of 5G globally) and facilitate the deployment of 5G. These new policies would enhance the ability of market entrants to compete with established operators in



- areas with poor coverage and to offer better broadband services in rural communities that were served by a single operator. The relevance of PA4 is rated **satisfactory**.
- **PA5** aimed to enhance market competition. Although the links among competition, innovation, and inclusive growth are complex and multi-faceted, in summary it can be asserted that "competition and innovation-led growth are critical to drive productivity gains and support-broad based growth," according to the economic literature (e.g., Aghion, Cherif and Hasanov, 2019, *Competition, Innovation, and Inclusive Growth*, IMF Working Paper WP/21/80). Stated differently and more starkly – "less competition disproportionately hurts the poor, especially in developing economies, and it contributes to rising inequalities and less inclusive growth." In Peru: (a) the lack of competition pressures was slowing productivity growth (World Bank, 2014, *Peru: Building on Success - Boosting Productivity for Faster Growth*), including at the sub-national (municipal) market level (Schiffbauer and Sampi, 2019, *Competition and Productivity: Evidence from Peruvian Municipalities*, World Bank Policy Research Working Paper 8714); (b) with high levels of concentration in certain markets, resuming higher long-term growth would require boosting productivity through more competition (OECD, 2018, *OECD-IDB Peer Reviews of Competition Law and Policy - Peru*); (c) most markets identified by the *Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual* (INECOPI) as lacking competition produced key items in the consumption basket of poor households (World Bank, 2021, *Fixing Markets, Not Prices - Policy Options to Tackle Economic Cartels in Latin America and the Caribbean*); (d) while it had made significant achievements with its anti-cartel program, Peru remained one of two upper middle-income countries in the region that did not have an economy-wide mechanism to control mergers and acquisitions (M&A). This operation supported the enactment of a new merger control law in line with international best practices, providing the legal framework to regulate M&A activities that, if left unregulated, would derail competition. The relevance of PA5 is rated **satisfactory**.
  - **PA6** aimed to boost Peru's climate smart recovery. The Government would increase by 50 percent the country's Nationally Determined Contribution (NDC) – the country's climate action plan to cut greenhouse gas (GHG) emissions and adapt to climate impacts – first submitted in 2016 as the country's governmental obligation under the Paris Agreement (the international treaty on climate change adopted by 196 parties in 2015). The new NDC would raise Peru's unconditional GHG reduction target from 20 to 30 percent by 2030, and its conditional goal from 30 to 40 percent, compared with the business-as-usual (BAU) scenario – the equivalent of reducing emissions by 80.5-119.3 metric tons of carbon dioxide. Although the inclusion of the NDC update as a prior action for this operation may be questioned, considering that the Paris Agreement asks countries to update their NDCs every five years anyway, the ambition of Peru's program – a 50 percent increase – may well justify support for this prior action. The Program Document did not quantify the potential economic growth impact of this prior action, but the ICR cites a Bank report published at closing in 2022 – the promised climate action had the potential of increasing Peru's GDP by 2 percent by 2030 and 10 percent by 2050 (World Bank, 2022, *Peru - Country Climate and Development Report*). The relevance of PA6 is rated **satisfactory**.
  - **PA7** served to complement PA6 and support its implementation. Even as it committed to more ambitious climate actions, Peru lacked a system to measure, report, and verify GHG mitigation initiatives by public and private actors. A measurement and verification system was necessary if Peru were to adequately monitor and report on progress with its NDC. The system was also essential if Peru were to make further headway with carbon trading – some 29 projects were trading emissions reductions in voluntary carbon markets, and another 66, in regulated carbon markets, in 2019. The creation of a national registry of mitigation measures, the *Registro Nacional de Medidas de Mitigación* (RENAMI), as the platform to collect, register, and manage information on climate mitigation measures, coupled with the regulation of the process by which private actors would certify their mitigation actions, would meet both needs – the Government would register and certify GHG emission reduction or



removal (ERR) actions through RENAMI, while private entities would quantify and report their ERR actions in four stages (footprint calculation, verification, reduction, and neutralization) through the *Huella de Carbono Peru* platform, which would be verified by MINAM. The relevance of PA7 is rated **satisfactory**.

- **PA8** focused on increasing access to more resilient housing. Peru had the third-largest housing deficit in Latin America in 2012 (World Bank, 2012, *Peru - Vivienda para Todos*) and 1.6-1.9 million households still suffered from housing deficit in 2020, with lower-income households facing the greatest shortages (Banco Central de Reserva del Peru, 2021, *Construcción Residencial y el Mercado Inmobiliario*). This operation supported the expansion of the housing programs administered by *Fondo MiVivienda* whereby the Government would – reduce the savings requirement for the acquisition and construction of new housing for low-income groups under the *Techo Propio Program*; increase the amount of the Family Housing Bonus in the case of construction on own site; and enhance incentives for the use of sustainable construction techniques and materials. Providing access to affordable housing, particularly for low-income families, was expected to foster inclusive growth. Meanwhile, the use of sustainable construction techniques and materials would help with climate-smart development. The relevance of PA is rated **satisfactory**.

The prior actions were appropriate for realizing the intended objectives. All the eight prior actions were rated as Satisfactory. Overall, the relevance of design is rated as Satisfactory.

## Rating

Satisfactory

## 4. Relevance of Results Indicators

### Rationale

#### Objective 1 - To strengthen institutions to mitigate the social and economic impact of the COVID-19 pandemic

- **RI1** – The percentage of the new temporary cash transfer program disbursements channeled through bank accounts or e-wallets was adequate to measure the impact of raising the number of cash transfer beneficiaries to include those affected by the COVID-19 pandemic, consolidating the rolls of beneficiaries into a single national registry, and broadening the range of transfer payment methods to include digital payments. RI1 was adequate to reflect improvements in the institutional arrangements to deliver and manage the transfer payments to support of households affected by the pandemic. The relevance of RI1 is rated **satisfactory**.
- **RI2** – Although an increase in credit to the private sector, as a percentage of GDP, would reflect an improvement in the economy arising from measures to mitigate the impact of the COVID-19 pandemic on enterprises and financial firms, it is questionable that the increase could be attributed to PA2 alone. Peru had launched other initiatives that could have sustained credit flows to the private sector: (a) the *Banco Central de Reserva del Peru* cut the policy rate in March and April 2020 by a cumulative 200 basis points to a record low 0.25 percent; (b) the central bank adopted





forward guidance on the future path of the key interest rate, exerting downward pressure on long-term rates; (c) the central bank eased the reserve requirements on domestic and foreign short-term deposits and the minimum current account requirements on banks; and (d) the banking supervisor, *Superintendencia de Banca y Seguros*, allowed financial firms to modify the terms of their loans to households and enterprises without changing the classification of the loans. Moreover, as a macro financial variable, credit to the private sector is driven by various economic and non-economic factors, including economic growth itself (or prospects for economic growth), political systems and legal traditions, and institutions (Levine, 1997, *Financial Development and Economic Growth: Views and Agenda*, Journal of Economic Literature, Vol. XXXV (June 1997), pp. 688-726). Because of an attribution problem (i.e., changes in credit to the private sector, in percent of GDP, cannot be attributed to policy innovations supported by PA2 alone), the relevance of RI2 is rated **moderately satisfactory**.

## Objective 2 - To reinforce the structural foundations for an inclusive and climate smart economic recovery

- **RI3A** – The number of *Cuentas DNI* accounts activated primarily for cash transfers was intended to measure the impact of the enactment of the *Ley de Cuenta DNI* and the collaboration by *Banco de Nación* and RENIEC to open, for all citizens, *Cuentas DNI* accounts. While the initial phase of the program focused on serving payments of cash transfers, and hence partly justified the use of RI3A, the confinement of RI3BA to accounts "primarily for cash transfers" would under-estimate the full impact of PA3, if the prior action actually succeeded in opening *Cuentas DNI* accounts for all citizens and not just social transfer recipients. In hindsight, PA3 substantially accomplished that goal a year after closing, with the opening of 28 million *Cuentas DNI* accounts for a population of 33 million. Because of the limited scope of RI3A relative to PA3, the relevance of RI3A is rated **moderately satisfactory**.
- **RI3B** – The gender gap in account ownership (percentage points) was adequate to measure the impact of opening *DNI Cuenta* accounts for all citizens and to measure progress toward financial inclusion for women. Since the early phase of *Cuentas DNI* account opening was devoted to serving social transfer payments and since most household social transfer payment recipients were women, PA3 would lead directly to RI3B, i.e., raise account ownership by women and close the gender gap in financial inclusion. The relevance of RI3B is rated **satisfactory**.
- **RI4** – The percentage of the population covered by 4G networks was intended to measure the impact of mandating infrastructure sharing among telecommunications service operators and broadening the use of the C-band. While the C-band has served as the basis for the first implementations of 5G globally, the reference by RI4 to 4G (rather than 5G) coverage represents a more conservative target. Nonetheless, RI4 is adequate to measure the impact of PA4 – 4G remained the dominant technology for mobile subscription globally in 2022, with 58 percent of the world population covered by 4G networks in 2022, versus 31 percent by 5G networks (which started commercial deployment only in 2019) (International Telecommunications Union, *Facts and Figures 2023*). The relevance of RI4 is rated **satisfactory**.
- **RI5** – The number of INDECOPI decisions assessing the anticompetitive effects of mergers would reflect progress toward effective merger regulation and enhanced market competition. However, as defined, RI5 makes no reference to the number of merger application filed with the competition authority. A stronger results indicator would have been the percentage of decisions made by the INDECOPI assessing the anticompetitive effects of mergers out of the total number of merger applications filed with the agency. The logic of this alternative indicator is fairly straightforward – a



target of 5 INDECOPi decisions would be less significant if 100 merger applications were filed with the competition agency (a 5 percent assessment rate) than if 10 merger applications were filed (50 percent). The relevance of RI5 is rated **moderately satisfactory**.

- **RI6** – The number of annual reports from sectoral agencies on the implementation of mitigation measures was a relatively weak indicator to measure the impact of Peru raising its NDC commitments in 2020. The result ought to be that Government agencies (if the target were confined to the government sector) have achieved their NDC obligations – if not in actual GHG emission reductions by 2022, then in concrete actions to reduce GHG emissions by some quantitative target in some future target date. As defined, RI6 is confined to producing annual reports, albeit about program implementation, without any reference to the achievement (however defined) of the program targets. The relevance of RI6 is rated **moderately unsatisfactory**.
- **RI7** – The number of private and public sector entities that registered their mitigation measures in RENAMI and in *Huella de Carbono Perú* was adequate to measure the impact of creating the national registries of climate mitigation measures, in response to the lack of a national system to measure, report, and verify GHG mitigation measures by the public and private sectors. An increase in the number of entities that registered their mitigation measures would reflect a higher rate of participation by public and private actors in climate actions. The relevance of RI7 is rated **satisfactory**.
- **RI8** – The number of *Bono de Vivienda Sostenible* (sustainable construction subsidies) was adequate to measure the impact of the actions to expand access to more resilient housing under the *MiVivienda Program* (the financial program wherein the Government provides low-cost funds to financial institutions that on-lend to customers for home purchase or construction). The *Bono de Vivienda Sostenible* is direct non-refundable financial aid granted to people who access sustainable housing through a *MiVivienda* credit provided by an intermediary financial institution. Award of a *Bono de Vivienda Sostenible* means that the recipient would have obtained a *MiVivienda* credit for sustainable housing purchase or construction, which was the object of the PA8 measures. The relevance of RI5 is rated **satisfactory**.

The results framework was mostly appropriate with clear, feasible, and measurable indicators. Some indicators had moderate shortcomings, as noted above, Overall, the relevance of results indicators is rated as Moderately Satisfactory.

Results Indicator	Associated Prior Action	Relevance Rating	Baseline	Target	Actual Value	Actual Change in Results Indicator Relative to the Targeted Change, in Percent	Achievement Rating
<b>Objective 1 - To strengthen institutions to mitigate the social and economic impact of the COVID-19 pandemic</b>							
RI1 - Percentage of the new temporary cash	PA1	Satisfactory	30 (April 2020)	80 (June 2021)	77	96%	Substantial



transfer program disbursements channeled via bank accounts or e-wallets							
RI2 - Credit to the private sector as a percentage of GDP	PA2	Moderately Satisfactory	26.9 (Q4-2020)	At least 26.9 (Q4-2021)	31.1 (Q4-2021) 28 (Q4-2022)	116 (Q4-2021) 104 (Q4-2022)	Substantial
<b>Objective 2 - To reinforce the structural foundations for an inclusive and climate smart economic recovery</b>							
RI3A - Number of activated accounts (Cuentas DNI) – primarily for cash transfers, in million	PA3	Moderately Satisfactory	0 (2019)	1 (March 2022)	1.8 (February 2022)	180	Substantial
RI3B - Gender gap in account ownership (percentage points)	PA3	Satisfactory	17 (2019)	10 (2021)	9 (Q4-2021)	111	High
RI4 - Percentage of population covered by 4G networks (international data from GSMA)	PA4	Satisfactory	77 (2019)	83 (2021)	87 (2021)	105	High
RI5 - Average number of INDECOPI decisions assessing anticompetitive effects of mergers per year	PA5	Moderately Satisfactory	0 (2020)	5 (2021)	8 (2021) 38 (2023)	160 (2021) 760 (2023)	Substantial
RI6 - Number of annual reports from sectorial	PA6	Moderately Unsatisfactory	0 (2020)	5 (2021)	9 (2021)	180	Substantial



agencies on the implementation of mitigation measures in accordance with the updated NDC							
RI7 - Number of private and public sector entities that registered their mitigation measures in Huella de Carbono Perú and RENAMI	PA7	Satisfactory	0 (2019)	320 (March 2022)	480 (March 2022) 921 (April 2023)	150 (March 2022) 288 (April 2023)	High
RI8 - Number of “Bono de Vivienda Sostenible” (sustainable construction subsidies)	PA8	Satisfactory	5,900 (2019)	6,500 (2021)	7,730 (2021) 8,038 (2022)	119 (2021) 124 (2022)	High

## Rating

Moderately Satisfactory

## 5. Achievement of Objectives (Efficacy)

### OBJECTIVE 1

#### Objective

To strengthen institutions to mitigate the social and economic impact of the COVID-19 pandemic

#### Rationale

**Theory of Change.** To mitigate the adverse economic and social effects of the pandemic, Peru needed to strengthen the institutions by which poor and vulnerable households could be assisted with income support, and enterprises, with credit flows. A consolidated emergency cash transfer program that aimed to add 2.5 million households to the social protection roll would be more effective in reaching its goals if bank accounts and e-wallets could be added to the cash transfer distribution channel. Separately, a government



partial credit guarantee scheme would enable business enterprises to better obtain working capital loans from banks amid tightened financial conditions triggered by the crisis.

**Outcomes.** The percentage of cash transfers disbursed to poor and vulnerable households through banks accounts or through e-wallets was a low 30 percent in the baseline, a month into the pandemic. Meanwhile, credit to the private sector had plunged from 44.7 percent of GDP in 2019 to 26.9 percent of GDP in the fourth quarter of 2020, nine months into the pandemic.

After the expansion of the national registry of households and the introduction of new digital payment methods, new temporary cash transfer disbursements that were channeled through bank accounts or e-wallets rose from 30 percent in the baseline to 77 percent by closing, substantially achieving the target increase to 80 percent. The Government extended emergency cash transfers averaging US\$211 per household to some 8.4 million households (out of the 12.6 million households in the new *Registro Nacional de Hogares*). The expansion allowed for multiple payment methods and multiple payments service providers.

Following the introduction of the partial credit guarantee scheme, credit to the private sector increased from 26.9 percent of GDP in the baseline to 31.1 percent of GDP at closing, meeting the target that credit to the private sector be at least 26.9 percent of GDP. The US\$16 billion *Reactiva Peru* credit guarantee scheme topped 8 percent of GDP (PEN 52.3 billion of guarantees supported PEN 58 billion of credits) and benefitted 501,298 firms (MSMEs comprised 98 percent of firms and 46 percent of credit volume), which firms accounted for 2.8 million jobs (half of all formal worker jobs). Labor market participation rates gradually recovered to near pre-pandemic levels – 79.6 for men (just 1.5 percentage points below the pre-pandemic rate) and 63.3 percent for women (1.2 percentage point below the pre-pandemic rate). Without the *Reactiva Peru Program*, financial conditions would have been tighter, economic production would have been lower, and poverty rates would have been two percentage points higher, according to studies.

With the attainment of the results targets, this operation achieved the objective to strengthen the institutions to mitigate the social and economic impact of the COVID-19 pandemic. This development outcome is likely to be sustained in the short to medium term.

The RNH will likely be useful for the identification of beneficiaries in future government assistance programs: (a) the country's first comprehensive social registry has data on 12.6 million households and 33 million individuals, covering practically the entire national population (33.7 million in 2021); (b) the roll is linked to the national identification card, forestalling the duplication of identities; (c) at closing, the Government enacted a new law on household targeting, the *Sistema Nacional de Focalización de Hogares* (SINOFA), transferring the management of the RNH to the MIDIS to better ensure the sustainability, operability, and technological integrity of the registry.

The success of digital payments under the emergency cash transfer programs made a compelling business case for the adoption of digital payments elsewhere in the economy. According to the ICR, the digital payments under the program have had spillover effects – the number e-wallet transactions grew 358 percent, economy-wide, from 2019 to 2022.

Overall, most of the targets were achieved or exceeded. There was shortcoming in the achievement of the indicator regarding the percentage of the new temporary cash transfer program disbursements channeled through bank accounts or e-wallets. The achievement of the objective is rated as Satisfactory.





## Rating

Satisfactory

## OBJECTIVE 2

### Objective

To reinforce the structural foundations for an inclusive and climate smart economic recovery

### Rationale

**Theory of Change.** A two-pronged approach to advancing economic growth – the first, based on an inclusive growth path, and the second, on a climate smart strategy – would help Peru to better rebound from the economic contraction caused by the COVID-19 pandemic. Inclusive growth would focus on expanding access to financial services, widening access to broadband services, and expanding market competition and innovation. A climate smart recovery would be driven by an upgrade to the country's contribution to the international climate action plan, coupled with a more explicit and credible system to verify and monitor these commitments by public and private actors, and an expansion of access to environmentally sustainable housing technologies.

**Outcomes.** In the baseline, ownership of *DNI Cuenta* financial accounts was nil, reflecting low levels of financial inclusion; the coverage of the 4G telecommunications networks was below par, disadvantaging underserved regions; and pro-competitive decisions by the competition authority were non-existent, stifling industrial development.

Following the launch of digital accounts, the number of *Cuenta DNI* accounts that were activated primarily for cash transfers reached 1.8 million by closing, exceeding the target of one million. The accounts facilitated the payment of emergency cash transfers worth more than US\$140 million to provide financial support to households affected by the COVID-19 pandemic. Moreover, the *Banco de la Nacion* had reportedly broadened the functionality of its *Cuenta DNI* accounts, in anticipation of its future use for other Government payment purposes.

In the process, the gender gap in financial account ownership was reduced from 17 percentage points in the baseline to 9 percentage points by closing, exceeding the target reduction to 10 percentage points, according to the Bank's Global Findex Database 2021 Edition (of indicators on access to, and use of, formal and informal financial services and digital payments).

As a result of mandates for infrastructure sharing in the broadband market, the share of the population covered by 4G increased from 77 percent in the baseline to 87 percent by closing, exceeding the target increase to 83 percent, as measured by the *Groupe Speciale Mobile Association* (GSMA), the organization representing mobile network operators worldwide. Additional data provided by the ICR include the following: (a) mobile internet traffic doubled between 2019 and 2021; (b) in rural areas, the percentage of households reporting having access to mobile internet rose from 37.8 percent in 2019 to 68.3 percent in 2021; (c) nationwide, the percentage of households reporting having access to mobile internet rose from 74.2 percent in 2019 to 85.8 percent in 2021. These additional data – quoted from the *Organismo Supervisor de Inversión Privada en Telecomunicaciones* (OSIPTEL), *Reporte Estadístico - Octubre 2023* – would follow from the rise in coverage by the 4G networks (RI4) and serve to validate the numbers reported by the GSMA. Following the reforms to boost the deployment of, and widen access to, broadband services (PA4), the percentage of the rural population with access to the internet increased by 15.5 percentage points from 2019 to



2022. Moreover, among households in the lowest quantile of the consumption expenditure scale, the percentage with access to the internet increased by 21.7 percentage points over the same period.

The number of INDECOPI decisions assessing the anti-competitive effects of mergers reached 8 by closing, exceeding the target of 5. In the baseline, except in the electricity sector (which is not covered by this operation and prior action), Peru did not have a control regime for mergers (i.e., the competition authority did not evaluate mergers nor issue any decisions on them). The ICR also provides additional information to better understand the context and consequences of the INDECOPI decisions: (a) most merger transactions were eventually authorized; (b) one transaction in the pharmaceutical industry was authorized under special conditions meant to preserve competition – the benefits (savings to consumers) arising from the decision was estimated as exceeding US\$4 million; (c) many private parties refrained from submitting their merger proposals to the competition authority on realizing the anticompetitive effects of their proposal – the merger control regime served as a deterrent to harmful market consolidations; (d) the evaluation system was efficient – the average time to hand down a ruling was 22 business days, fewer than in Chile, the regional benchmark, and (e) there was no evidence that the new procedure had delayed investments, a concern of the private sector.

In the baseline, neither public agencies nor private entities listed their climate risk mitigation commitments in any public registry nor did they report to the public on the implementation of their mitigation measures. Separately, only 5,900 *Bono de Vivienda Sostenible* subsidies had been granted.

Following the upgrade to the NDC, the number of agency reports documenting the implementation of mitigation measures pursuant to the updated NDC reached nine by closing, exceeding the target of five. According to the ICR, the creation of the High-Level Commission on Climate Change helped mainstream climate action across economic sectors and levels of government. This institutional reform was complemented by a key policy measure - the updating of the National Strategy for Climate Change. The indicators and the ICR did not specify the concrete actions or targets to reduce GHG emissions.

After the creation of RENAMI, the number of public and private entities that registered their mitigation measures in the *Huella de Carbono Peru* (the digital platform administered by the Ministry of the Environment that generates information about, and facilitates monitoring of, GHG emissions and part of the international network of carbon footprint communications programs) and the *Registro Nacional de Medidas de Mitigación* (RENAMI) (the national registry for mitigation measures) reached 480 by closing, exceeding the target of 320. According to the ICR, the emission reductions that reached verification stage in *Huella de Carbono Peru* increased from 30,700 tons of carbon dioxide (tCO<sub>2</sub>) in 2019 to 2.7 million tCO<sub>2</sub> in 2021 (*Huella de Carbono Peru, Estadística de Reducción*).

And, after reforms to the *MiVivienda* Program, the number of *Bono de Vivienda Sostenible* subsidies increased from 5,900 in the baseline to 8,308 by closing, exceeding the target of 6,500.

With the attainment of the results targets, this operation achieved the objective to reinforce the structural foundations for an inclusive and climate smart economic recovery. This development outcome is likely to be sustained in the short to medium term.

On financial inclusion, the number of *Cuenta DNI* accounts topped 24 million by November 2023, a year and a half after closing, more than 1,300 percent that achieved by the program in 2022.



On merger control and market competition, the number of INDECOPI decisions assessing the anti-competitive effects of mergers reached 38 in 2023, from 8 at closing in 2022. Post-closing, a survey of competition and anti-trust lawyers in the region ranked Peru favorably (compared to Chile, Colombia, and Ecuador) on many aspects of competition regulation, including depth of legal analysis, juridical deference (i.e., the principle of judicial review in which a federal court yields to an agency's interpretation of a statute or regulation), agency professionalism, transparency, efficiency to detect the existence of cartels, clarity and predictability in the application of rules, and anti-trust law compliance (Deloitte et. al., 2023, *Estudio Sobre la Percepción de las Autoridades de Libre Competencia en Chile, Colombia, Ecuador, y Peru*).

On climate risk mitigation and adaptation, the number of entities that registered their mitigation measures reached 921 by 2023, almost twice the 480 achieved under this program in 2022. Although PA6 committed only to the doubling of the country's GHG emission reduction targets with the NDC update of 2020, Peru actually pledged more than this target. In submitting the NDC update in December 2020, the President announced the country's commitment to achieving net zero CO2 emissions by 2050. Three new developments help reinforce the updated commitments: (a) the Government released the National Adaptation Plan (NAP) in June 2021, prioritizing the agriculture, water, forestry, fisheries and aquaculture, and health sectors, identifying two new areas – tourism and transport, and proposing strategies to implement 13 strategic actions, 46 products, and 92 adaptation actions; (b) the Multiannual Macroeconomic Framework for 2022-25 now includes specific fiscal forecasts for climate change for the first time; and (c) the Bank recently approved new operations – the programmatic First (2022-2023) and Second (2023-2026) Enabling Green and Resilient Development Policy Loans – to support the development of a green financing framework, the adoption of sustainability criteria in public investment management, the transition to renewable energy, and the decarbonization of the transport sector.

While there are some moderate shortcomings in the relevance of the results indicators under the objectives, most of the indicators were met or exceeded. The achievement of this objective is rated as Satisfactory.

## Rating

Satisfactory

## Overall Achievement of Objectives (Efficacy)

### Rationale

The degree of achievement of the objective to strengthen institutions to mitigate the social and economic impact of the COVID-19 pandemic is rated satisfactory. The degree of achievement of the objective to reinforce [the] structural foundations for an inclusive and climate smart economic recovery is rated satisfactory. The overall achievement of the objectives is rated **satisfactory**.

## Overall Efficacy Rating

Satisfactory



## 6. Outcome

### Rationale

The relevance of the prior actions in achieving the program development objectives is rated satisfactory. The overall relevance of the results indicators in measuring and signaling that the prior actions had achieved and are achieving the program objectives is rated satisfactory. The overall efficacy is rated satisfactory. The outcome of the operation is rated **satisfactory**.

### a. Rating

Satisfactory

## 7. Risk to Development Outcome

Development outcomes achieved by this program are likely to be sustained in the short to medium term, based on the post-closing developments cited by the ICR, in particular – the utility of the RNH for other government social assistance programs and the growth of e-wallet transactions since (see Section 5 - Objective 1), as well as the rapid surge in *Cuenta DNI* accounts, heightened regulatory activity by INDECOPI, and the elevation of the Government's international commitments to climate risk mitigation (see Section 5 - Objective 2).

## 8. Assessment of Bank Performance

### a. Bank Performance – Design

#### Rationale

**Analytic Underpinnings.** The diagnostics of development problems and the design of prior actions was informed by analytic work produced by the Bank, other development partners, and the Government.

**Cooperation with Other Development Partners.** The Bank collaborated with other development partners on the design of several prior actions and on other aspects of this operation. For example, on PA2 - the Bank, the IMF, and the Government collaborated on the *Reactiva Peru Program*; on PA3 - *The Bank and the Inter-American Development Bank (IADB) combined their expertise on digital financial inclusion, with the IADB supporting activities on the demand side (e.g., promoting MSME digitalization) through a budget support operation and the Bank supporting the creation of Cuenta DNI accounts through this development policy operation*; on PA5 - *the Bank, the OECD, and the United National Conference on Trade and Development (UNCTAD) engaged in technical discussions and supported capacity-building activities related to merger control and competition policy*.



**Macroeconomic Framework** - The Bank coordinated with the IMF in evaluating and monitoring the macroeconomic framework governing this operation. The policy framework was deemed adequate for this operation and sustainable over the medium-term. The crisis and the country's fiscal and financial response would weaken available buffers (e.g., the Fiscal Stabilization Fund, liquid asset reserves at the General Account, and contingent credit lines). This operation would provide financing equal to 0.3 percent of 2020 GDP.

**Operational Risks and Mitigation Measures.** The Bank assessed the overall risk of the operational to be moderate, although it considered two risks as substantial - political and governance risk, and institutional capacity risk. The risk mitigation measures were largely adequate during implementation. Political and governance risk arose from recent tensions between the executive and legislative branches of government, culminating in the impeachment of the President in November 2020, the appointment of an interim President, and the scheduled conduct of elections in April 2021 (two months ahead of the Board date for this operation). Three measures would mitigate the political and governance risk: (a) the operation would focus on incontrovertible elements of the COVID-19 response plan – support to households and support to firms; (b) the legislation supported by this operation had strong bipartisan appeal – the *Ley de Cuenta DNI* (PA3) and the *Ley de Control Previo de Concentraciones Empresariales* (PA5); and (c) the Bank had engaged various stakeholders in policy dialogue over reforms supported by this operation, and the reforms enjoyed strong support across the political spectrum – financial inclusion, and market competition. Historically weak inter-agency coordination and slow consensus-building processes implied that implementation capacity risk was substantial for this operation, as it was for other Bank operations in Peru. To mitigate the risk, the Bank: (a) selected institutions that had a strong track of program implementation – the *Banco de Nación* and RENIEC (PA3), the Ministry of Transport and Communications (PA4), and INDECOPI (PA5); (b) obtained agreement for the Government to ensure funding for the new institutional arrangements to implement reforms supported by this operation – for the new Merger Control Unit at INDECOPI; and (c) continued to provide technical assistance and advisory services to help the Government implement the policy reforms supported by this operation – just-in-time support for the national registry, roll-out of the *Cuenta DNI*, technical assistance for the digital connectivity agenda, and continuing advisory services on competition policy.

Overall, the Bank performance is rated as Satisfactory.

## Rating

Satisfactory

## b. Bank Performance – Implementation

### Rationale

**Monitoring.** The Bank monitored progress toward the achievement of the result targets. There were data available to report on the results targets at closing (end-December 2021 for annual data, and end-March 2022 for other data). The ICR adds that the Bank continued to engage various stakeholders on the progress of Government programs directly or indirectly supported by the reforms advanced by this operation (e.g., the





emergency cash transfer programs, and digital payments to convey the transfers). The stakeholder meetings were conducted virtually during the pandemic.

## Rating

Satisfactory

### c. Overall Bank Performance

#### Rationale

Bank performance at design is rated satisfactory. Bank performance during implementation is rated satisfactory. Overall Bank performance is rated **satisfactory**.

#### Overall Bank Performance Rating

Satisfactory

## 9. Other Impacts

### a. Social and Poverty

The ICR argues that the operation had positive poverty and social impacts, including a greater access to the internet by poorer households, a rebound in labor market participation rates, including by women, and a less severe uptick in poverty rates than would have been expected given the severity of the health and economic crisis (see Section 5 - Objective 1 and Objective 2).

### b. Environmental

Two prior actions were expected to have positive environmental effects, according to the Program Document: (a) PA6 would advance Peru toward a low-carbon climate-resilient development path; and (b) PA7 would generate emissions reductions, contributing to the achievement of the NDC update targets, and facilitate the country's access to the international carbon market.

### c. Gender



The ICR cites the achievement of RI3B (the narrowing of the gender gap in financial account ownership) as evidence of the positive gender effects of this operation, *ex-post*.

Related to RI3B (although not part of the formal results framework), the ICR adds that the share of women making payments using the internet or their phones increased 3.4 percentage points from 2019 to 2022.

**d. Other**

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**10. Quality of ICR**

**Rationale**

The ICR is consistent with OPCS guidelines on ICRs for development financing operations and includes a highly informative discussion of the relevance of the prior actions. The efficacy assessment is outcome-oriented and based on the degree of achievement of the results targets. The ICR provides additional information about the results post-closing, which are useful to assess the sustainability of the development outcomes achieved by the operation. The ICR presents ample evidence to support its assessment of the Bank’s performance at design. The enumeration of the analytic underpinnings of the operation and accounts of the coordination with other international partners are fairly detailed. The ICR draws lessons that would be valuable to development policy operations in upper middle-income countries.

**a. Rating**

Substantial

**11. Ratings**

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Highly Satisfactory	Satisfactory	This ICR Review rates the degree of achievement of RI1 and RI6 as substantial; hence the efficacy of the objectives is satisfactory.
Bank Performance	Satisfactory	Satisfactory	
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	



## 12. Lessons

Two lessons are drawn from the ICR, with some adaptation.

**In upper-middle-income countries pursuing long-term structural and policy reform programs, continued Bank technical assistance can help build a pipeline of measures that can deepen the reform effort in the future.** Peru had embarked on three rounds of reforms beginning in the 1990s that helped boost real income per capita growth to 3 percent annually over 1990-2013 (versus 1.7 percent for the Latin America and Caribbean region) and lifted the economy to upper-middle-income status in 2008. The structural and policy reforms supported by this operation were informed by diagnostics, policy dialogue, institutional capacity-building activities, technical assistance, and analytical and advisory services continued by the Bank and other development partners (and mostly financed by multi-year trust funds) over the years even as Peru had graduated to upper-middle-income status. For example, merger control has been debated in Peru for the past 15 years; the Bank, as well as the OECD, provided technical assistance and advisory services to key stakeholders to inform the policy debate. That continued Bank engagement with Peru proved beneficial for the design of this operation reinforces the conclusions drawn by an IEG evaluation – it found that continued Bank engagement with upper-middle-income countries helped these countries to address structural issues that underlay their vulnerability to various shocks; helped sustain progress in several important development areas; and offered potentially valuable demonstration effects to lower-income countries (IEG, 2017, *World Bank Group Engagement in Upper-Middle-Income Countries: Evidence from IEG Evaluations*).

**Political risk can be effectively mitigated by prudent program design decisions that consider the political feasibility of reform measures.** In this operation, the reform measures (prior actions) were completed notwithstanding the political turmoil that ensued following the impeachment of the President in November 2020 and the call for elections in April 2021. At program design, the Bank and the Government selected reform areas that had been extensively vetted with stakeholder groups – access to financial services, access to broadband services, and access to housing. The Bank and the Government focused on two proposed legislation that had strong bipartisan support in Congress – the *Ley de Cuenta DNI*, which would advance the National Financial Inclusion Policy, and the *Ley de Control Previo de Concentraciones Empresariales*, which would institute a new merger control regime to enhance market competition. The Bank and the Government supported two COVID-19 response measures that had popular support and were endorsed by leaders across the political spectrum – emergency cash transfers to affected households and credit support for affected firms.

## 13. Project Performance Assessment Report (PPAR) Recommended?

No