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INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF PERU

FOR THE PERIOD FY23-FY27

December 22, 2022

**Bolivia, Chile, Ecuador, and Peru Country Management Unit
Latin America and the Caribbean Region**

**The International Finance Corporation
Latin America and the Caribbean Region**

The Multilateral Investment Guarantee Agency

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CURRENCY EQUIVALENTS
 US\$1 = 3.80 Soles (12/22/2022)

FISCAL YEAR
 January 1 – December 31

FREQUENTLY USED ABBREVIATIONS AND ACRONYMS

APEX	Advanced Practices for Environmental Excellence in Cities
API	Application Programming Interface
ASA	Advisory Services and Analytics
ASP	Adaptive Social Protection System
BIM	Building Information Modeling
CAF	Development Bank of Latin America
CAT Bonds	Catastrophe Bonds
CAT DDO	Catastrophe Deferred Drawdown Option
CCDR	Country Climate and Development Report
CEM	Country Economic Memorandum
CGR	Peru Supreme Audit Institution (<i>Contraloría General de la República</i>)
CLR	Completion and Learning Review
CPF	Country Partnership Framework
CPSD	Peru Country Private Sector Diagnostic
DDOs	Deferred Draw-Down Options
D4TEP	Digital for Tertiary Education Program
DPF	Development Financing Policy
DPF DDO	Development Policy Financing with a Deferred Drawdown Option
EIA	Environmental Impact Assessment
E&S	Environmental and Social
EJE	Judicial Electronic File (<i>Expediente Judicial Electrónico</i>)
ENAHO	Household Survey (<i>Encuesta Nacional de Hogares</i>)
ESF	Environmental and Social Framework
FDI	Direct Foreign Investment
GCFR	Global Crisis Response Framework
GDP	Gross Domestic Product
GHG	Green House Gas
GoP	Government of Peru
HEIS	Hands-On Expanded Implementation Support
HLO	High-Level Outcome
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank

IFC	International Finance Corporation
INDECOPI	National Institute of the Defense of Competition and the Protection of Intellectual Property (<i>Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual</i>)
INEI	National Institute of Statistics and Informatics (<i>Instituto Nacional de Estadística e Informática</i>)
IPF	Investment Project Financing
LAC	Latin America and the Caribbean
LAP	Lima Airport Partners
LPG	Liquified petroleum gas
MEF	Ministry of Economy and Finance (<i>Ministerio de Economía y Finanzas</i>)
MIGA	Multilateral Investment Guarantee Agency
MINEDU	Ministry of Education (<i>Ministerio de Educación</i>)
MVCS	Ministry of Housing, Construction and Sanitation (<i>Ministerio de Vivienda, Construcción y Saneamiento</i>)
OECD	Organization for Economic Cooperation and Development
PIUs	Project implementation Unit
PPP	Public-Private Partnership
PROINVERSION	Private Investment Promotion Agency (<i>Agencia de Promoción de la Inversión Privada</i>)
RAS	Reimbursable Advisory Services
SBS	Superintendency of Banking, Insurance and Pension Funds (<i>Superintendencia de Banca, Seguros y AFP</i>)
SCD	Systematic Country Diagnostic
SDGs	Sustainable Development Goals
SECO	Switzerland's State Secretariat for Economic Affairs
SEDAPAL	Water and sanitation utility of Lima (<i>Servicio de Agua Potable y Alcantarillado de Lima</i>)
SEIA	National Environmental Impact Assessment System (<i>Sistema Nacional de Evaluación de Impacto Ambiental</i>)
SINAFO	National Targeting System (<i>Sistema Nacional de Focalización</i>)
SMEs	Small and Medium Enterprises
SNGs	Sub National Governments
SSNs	Social Safety Nets
TA	Technical Assistance
TFP	Total Factor Productivity
UN	United Nations
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WBG	World Bank Group

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**FY23–27 COUNTRY PARTNERSHIP FRAMEWORK FOR
THE REPUBLIC OF PERU**

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I. INTRODUCTION

- 1. This Country Partnership Framework (CPF) lays out the strategic direction for the World Bank Group (WBG) program envisioned for the Republic of Peru from FY23 to FY27.**¹ It begins one year into the tenure of the current administration (July 2021-July 2026) and broadly reflects the policy priorities of the Government of Peru (GoP) for the period, as articulated in Peru's General Political Guidelines for 2021-2026.²
- 2. This CPF comes as Peru grapples with the aftermath of the severe impact of the COVID-19 pandemic, which revealed persistent underlying structural weaknesses in the economy as well as institutional deficiencies, particularly in the health sector** (at 635 deaths per 100,000 people, Peru recorded the highest mortality per capita in the world). Despite the roll-out of seven emergency cash transfer programs and a well-designed private sector support intervention, the pandemic led to a deep economic recession and reversed more than a decade's progress in poverty reduction. Poverty rose to 25.9 percent in 2021, a level similar to that of 2012, while the size of the middle class fell dramatically from 33.7 percent in 2019 to just 26.7 percent in 2021³. These impacts were driven by a severe labor market shock, with 2.4 million jobs lost in 2020 and an increase of 4 percentage points in an already high level of informality.
- 3. Peru's upper-middle-income status belies a reality of remarkably low access to public services, and infrastructure that stifles private sector investment and growth, especially outside of Lima.** Although poverty levels have converged to the Latin America and the Caribbean (LAC) average, Peru continues to lag in terms of other key indicators of economic development. In 2020, only 51 percent of the population in Peru had access to safely managed drinking water, compared to upper-middle-income country averages of 75 percent.⁴ Fast internet connectivity and financial inclusion remain low, with broadband penetration and the share of adults having an account at a financial institution lagging both the LAC and the upper-middle-income country averages. Public services and quality of life vary dramatically across the country, with poor access to services and low human capital accumulation affecting both densely populated urban pockets as well as remote rural communities.
- 4. Peru's indigenous population comprised of various groups including Aymara, Quechuas and Afro-Peruvians, makes up about one quarter of the country's total population and is the second largest in the region, making Peru one of the most socially diverse countries in the Region.** Gaps between this population and others in terms of human development indicators, access to markets, services and political participation persist, and losses during the pandemic were more severe among this population particularly in remote parts of the Amazon, where the absence of essential health services and comorbidity factors

¹ This CPF follows the previous one covering the period FY17-21 with a one-year interruption. In line with the World Bank Group's COVID19 Crisis Response Approach Paper of June 2020 (paragraph 86). CPFs that had recently ended or were coming to an end in the next 15 months during the COVID-19 Pandemic, were extended to defer the development of new CPFs until the return of more steady conditions.

² *Política General de Gobierno para el periodo 2021-2026*. Supreme Decree N° 164-2021-PCM, published October 15, 2021. <https://www.gob.pe/institucion/pcm/campa%C3%B1as/6148-politica-general-del-gobierno-2021-2026>.

³ Vulnerability is measured in terms of the international poverty lines in 2017 ppp (purchasing parity power), as those with per capita daily earning of between \$6.85 to \$14. Middle class is measured also in terms of the international poverty lines in 2017 ppps, as the group of people earning between \$14 per capita a day and \$81.

⁴ Access to safely managed drinking water comes from ENAPRES (2021). According to the Sustainable Development Goals (SDGs), the criteria to determine the security of the management of drinking water services (SDG 6.1) are that the source is accessible in the home, the water is available when needed, and the water supplied is free of contamination.

led to unusually high mortality rates among productive members of indigenous communities. These areas were also among the last to receive the COVID vaccine⁵.

5. **Despite the persistent structural challenges mentioned above, Peru has benefitted from consistently solid macroeconomic management that has resulted in a moderate public debt to GDP ratio and considerable international reserves.** Macroeconomic stability, trade openness, and a favorable international environment allowed Peru to become an upper-middle-income economy, increasing income per capita from \$2,040 to \$6,507 between 2002 and 2021.⁶ However, the post-commodity boom slowdown exposed two main structural challenges: the persistence of large territorial disparities in development and a low aggregate productivity (Total Factor Productivity-TFP) and the gap between larger formal firms and small informal firms. While sound macroeconomic management and the existence of significant buffers prevented an even more profound impact of the COVID shock on human welfare, the pandemic revealed the country's low capacity to respond to non-financial shocks more generally.

6. **The current administration emphasizes the need to reduce inequalities and territorial disparities, particularly for traditionally marginalized populations.** The GoP's program has a strong emphasis on supporting vulnerable segments of the population, overcoming social exclusion, and promoting equity across Peru's lagging regions and among traditionally disadvantaged groups, such as Afro-Peruvians and indigenous populations in rural areas (both in the Andean highlands and the Amazon).

7. **The CPF builds on lessons from the WBG's previous engagements, as well as on the 2022 Systematic Country Diagnostic (SCD) Update, the Peru Country Climate and Development Report (CCDR), the forthcoming Country Private Sector Diagnostic (CPSD) and other analyses.** The SCD identified low productivity and territorial disparities as the two key development challenges constraining Peru's achievement of the WBG Twin Goals of ending extreme poverty and boosting shared prosperity. The SCD Update validates the continued relevance of the policy priorities that had been identified in the SCD five years ago, while noting their heightened urgency as a result of the pandemic-related economic and social losses and the country's increased vulnerability to climate change. The SCD Update also argues that the root cause of limited progress toward addressing low productivity and spatial inequality lies with the weak and declining capacity of public institutions. The recent CCDR emphasizes the need for effective climate-change adaptation which will require addressing key structural weaknesses by improving the resilience of infrastructure and public services, enhancing the resilience of human capital, and strengthening government coordination and capacity. The CPSD identifies poor capacity of local governments, along with inefficient land markets and disabling labor regulations as the three key cross-cutting constraints for private sector development. In addition, lack of a stable and predictable political environment is flagged as an important impediment to private sector growth. The CPSD also analyzes four sectors (agribusiness, aquaculture, tourism, and digital finance) and identifies sector-specific challenges such as limited skills and lack of access to finance (for aquaculture and tourism), and the need to promote climate smart agriculture practices to enhance resilience and reduce Green House Gas (GHG) emissions.

8. **Addressing these challenges requires increased access to economic opportunities, quality public services across the country, and resilience to shocks—priorities which constitute the three pillars of this**

⁵ *Evaluación Social y Consulta Rápida Sobre los Impactos y Prioridades de los Pueblos Indígenas de la Amazonia Peruana Relación con COVID-19*. World Bank (June 2020).

⁶ Unless otherwise specified, the currency used throughout this document is the U.S. dollar.

CPF.⁷ Increasing access to good quality economic opportunities for workers and entrepreneurs involves promoting a conducive environment for private sector investments, including removing undue regulatory burdens, providing improved institutional coordination, and reducing uncertainty about private investment rules. Increasing access to good public services across the territory will not only improve the quality of life and opportunities for a wider population but will also promote private sector investments in infrastructure. Finally, increasing resilience to shocks requires not only the continuation of sound macroeconomic management but also the ability of the government to better protect citizens against the impacts of natural disasters and other shocks. All of this implies the need for strengthened institutions and increased institutional stability.

9. **The WBG program is focused on helping the government address these challenges.** It focuses on mobilizing sustainable private capital and improving firm innovation and technical skills for workers; enhancing the provision of services such as health and education as well as transport, energy, and water and sanitation while also strengthening institutional effectiveness; and enhancing climate change mitigation and adaptation while strengthening mechanisms to protect people against shocks.

10. **The CPF acknowledges Peru’s complex political economy and the limited opportunities for consensus in an environment characterized by frequent change in leadership and tension between the Executive and Legislative branches.** Since the country’s underlying development challenges remain unchanged, the CPF will largely focus on the same set of challenges and will have elements of continuity with the previous program. At the same time, the WBG will be prepared to seize opportunities to engage in new areas and to support significant reform where possible, depending on the evolving political economy context. Where broad-based political support does not exist for a specific reform, the Bank will engage with technical assistance and policy dialogue with relevant stakeholders over time, with a view to foster incremental reforms as has been done in the areas of tax policy, competition policy and financial inclusion among others. While labor market constraints are one of the biggest obstacles to increasing productivity and reducing informality, the current government program does not foresee an integral reform in this area. The Bank’s engagement will therefore focus on selected issues that tackle informality directly (e.g. Small Medium Enterprises (SMEs) tax regimes) and otherwise focus on boosting productivity through policies and investments that (a) mobilize productive private investments, including for new competitive and sustainable activities, and (b) increase skills and innovation within firms. As the country context evolves, the WBG will continue to seek opportunities to engage on these and other critical reforms and will continue to support gradual change using multiple instruments, including Development Policy Financing (DPFs), technical assistance and Investment Project Financing (IPFs). The WBG will also seek to engage a wide range of stakeholders with a view to informing the public debate on Peru’s key development challenges and policy priorities.

11. **In line with the focus on sustainable private capital mobilization and generating more and better economic opportunities, the CPF envisions greater engagement of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).** IFC will focus on improving competitiveness and productivity of export sectors, improving inclusion and access to quality financial and social services, and addressing mitigation and adaptation to climate change. It will continue building its investment portfolio by exploring opportunities in innovative financial services, insurance, agribusiness,

⁷ The CPF draws from a number of recent diagnostics for Peru as well as lessons learned from the prior CPF (see also Annex 2: Completion and Learning Report) and an analysis of the current portfolio. Recent studies include the 2022 Country Private Sector Diagnostic (CPSD), the 2022 Country Climate and Development Report (CCDR), the Peru Policy Notes (2021), the Peru Gender Scorecard (2021), and the forthcoming Peru Poverty Assessment (2023).

and logistics. IFC will also continue to implement a substantial advisory services program to improve enabling conditions for businesses. MIGA will focus on supporting cross-border foreign investment for selected projects that enhance market development, inclusiveness, sustainability, and encourage further inflows of foreign investment.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 SOCIO-POLITICAL AND INSTITUTIONAL FACTORS

12. **The political context in Peru has been highly volatile over the past five years, significantly reducing the country's capacity to pursue important reforms.** After a presidential resignation in 2017, a dissolution of Congress in 2019, and three successive presidential changes in 2020, the leftist party Perú Libre won the presidential election by a narrow margin of 43,000 votes in April 2021. National Congress was left fragmented in concurrent elections with 13 political parties represented and the four largest parties together holding less than 50 percent of the total number of seats (compared to more than 70 percent in the past). Recent conflicts between the Executive and the Legislative branches culminated on December 7, 2022 with a failed attempt to dissolve Congress, the consequent impeachment of former President Castillo by Congress, and the designation of Vice President Dina Boluarte as President of Peru. A state of emergency was declared shortly thereafter; new presidential elections are expected to be advanced from the regular 2026 electoral cycle to 2024 or earlier. Throughout this period line ministries have suffered from frequent turnover and loss of human capital.

13. **Despite the political turmoil, the country's economic institutions and the national-level public financial management system are recognized as efficient and have been largely immune to recent political instability.** Key monetary and fiscal institutions have thus far functioned as "islands of effectiveness" characterized by meritocracy and constitutional autonomy. Further, the public financial management framework at the national level is consistent with international standards, and budgeting practices meet most of the principles of the IMF Fiscal Transparency Code at a good or advanced level.⁸ As a result, macroeconomic and fiscal policy have not suffered radical changes. However, growth rates are still slightly below the pre-pandemic average level of 3%.

14. **Corruption and institutional capacity to end impunity remain a concern.** Peru's institutional setting is not effective at holding public actors accountable, promoting integrity across the public administration, or curbing corruption when compared to its aspirational peers or Organization for Economic Cooperation and Development (OECD) countries. With a score of 38/100, Peru ranked 94 of 180 countries in the 2021 edition of Transparency International's Corruption Perceptions Index, below the LAC average. Although some improvements have been made through the investigation of corruption cases and the approval of anti-corruption laws during 2017-2018, the country has not seen significant changes in its index ranking since 2012. State capacity to achieve higher levels of productivity remains limited, and the country's institutional capital is weak in areas that are critical for effective service delivery. Government efficiency in spending public revenue is one of the lowest-scoring areas, and the country ranks 104 out of 137 countries assessed in the World Economic Forum index. Similarly, the capacity of the government to enforce and implement regulations in a fair and effective manner is limited. According to

⁸ <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Peru-Fiscal-Transparency-Evaluation-43363>

the World Justice Project Rule of Law Index 2021, Peru ranks 77/139 in the world and 19/32 in the region on regulatory enforcement, with especially low scores for the subcomponents related to unreasonable delay and violation of due process in administrative proceedings.

2.2 ECONOMIC DEVELOPMENTS AND OUTLOOK

15. **Peru achieved remarkable economic growth and poverty reduction over the two decades prior to the COVID-19 pandemic, but progress slowed even before the pandemic.** Between 2004 and 2013, Peru's gross domestic product (GDP) grew at an average annual rate of 6.4 percent, while 1 million people escaped poverty every year. Its comparative advantage in commodities coupled with solid macroeconomic management and well-targeted programs fostered inclusive economic growth. However, between 2013 and 2019, average growth rates declined by half, as productivity and job growth slowed. During the COVID crisis (2020-2021), accumulated growth has been less than one percent, even as export prices were rising again.

16. **Peru's growth is largely driven by natural capital, which creates vulnerability to climate change but also room to make better and more sustainable use of its vast natural resources.** Peru holds the second largest area of Amazon jungle after Brazil and is in the world's top 10 most biodiverse countries. The country has large ore reserves and with copper accounting for about one-third of its total exports, Peru has become the world's second largest copper exporter. Peru is the world's third largest fish producer and has become a leading exporter of fruits and vegetables. The country's high reliance on agriculture and fisheries exports makes it particularly vulnerable to climate change impacts. Oil and gas reserves are under threat to become stranded assets, while the agriculture sector can no longer rely on deforestation to stay competitive in a decarbonizing world. If powered by clean energy, however, the country's mineral resources can be an asset in the global low-carbon transition.

17. **While the COVID-19 pandemic led Peru to have one of the deepest recessions in Latin America, the economy rebounded in 2021, reaching pre-pandemic levels.** GDP contracted 11 percent in 2020, one of the worst drops in the world. Output bounced back to its pre-pandemic level in 2021, but household income remained lower. GDP grew 13.3 percent in 2021 (National Institute of Statistics and Informatic - INEI), a period of political transition, driven by the easing of mobility restrictions, an accelerated execution of public works, and the resumption of private investment projects. This pattern was reflected in all spending accounts, with a higher intensity in public and private domestic spending.

18. **Inflation has accelerated since 2021, a new development in a country with typically very low inflation, mainly reflecting the global rise in commodity prices and the domestic demand stimulus to support the recovery after the COVID-19 crisis.** Between 2015 and 2020 inflation averaged 2.3 percent backed by independent and prudent monetary management. During 2020, expansionary monetary stimulus, in the form of interest rate reductions and unprecedented liquidity support, including under the *Reactiva Peru* Program, was effective in supporting private sector activity during the initial months of the pandemic. However, inflation picked up since June 2021. By September 2022, it reached 8.5 percent y-o-y, largely driven by the global increase in food and energy prices, and the domestic demand stimulus. In particular, prices of food have shown a strong upward trend this year, reaching an annual variation of 11.7 percent in September, mainly due to external factors, such as the war in Ukraine, weather events that have affected harvests worldwide, and difficulties in global transport. Rising prices led to higher food insecurity among the poor, as they spend on it a higher percentage of their budget. To curb inflation, the Central Bank tightened its monetary policy by elevating the reference policy rate by 675 basis points since

August 2021, to 7.0 percent currently. To counteract food insecurity, the Government launched a one-time cash transfer to be distributed by end-2022. The local currency appreciated almost 10 percent in the twelve months prior to September 2022, mainly due to the anti-inflationary response of the Central Bank. In addition, although the perception of political risk remains high, it is somewhat lower than a year ago.

19. Fiscal policy stabilized quickly after the significant countercyclical response that was implemented in the wake of the crisis. In response to the pandemic, the GoP implemented a countercyclical response of 21 percent of GDP. Also, revenues sharply declined in 2020 due to the steep contraction of economic activity. The annualized Non-Financial Public Sector deficit increased to 8.9 percent of GDP in 2020, and public debt surpassed the legal limit of 30 percent of GDP. In 2021, the fiscal deficit narrowed sharply to 2.6 percent of GDP, mainly driven by the increase in revenues from the recovery in economic activity, higher tax collection, the effect of some tax policies, administrative measures, and the prepayment of some tax fines. Public debt reached 36 percent of GDP, just slightly above its 2020 levels. In line with a gradual reduction of the deficit, public debt is projected to remain stable in 2022-25, at around 35 percent.⁹

20. Peru's GDP growth is expected to be about 2.7 percent in 2022, below its pre-pandemic trend. Growth will be mainly driven by higher export volumes, while domestic demand will remain somewhat frail. Exports will be supported by the entry into operation of important copper mines, such as Quellaveco, Mina Justa, and Toromocho enlargement. Capital spending on mining should continue to support private investment, partially offsetting the effect of low business confidence. In addition, the recovery of high-quality jobs, more dependent on private investment, is likely to be slow, limiting both workers' income and productivity gains. GDP growth is expected to remain somewhat below its pre-pandemic rate as institutional setbacks and political instability will likely result in a lower non-mining private investment and lower private consumption. Mineral prices are expected to remain supportive in the coming years; however, the mining investment pipeline is expected to compress because of political and social tensions.

21. The current account balance is expected to remain negative during 2022-2025. Higher factor payments abroad and the recovery of imports will be only partially attenuated by the effect of favorable mineral prices on the value of exports. These deficits are expected to be financed by long-term capital, as in previous years. Foreign direct investment is expected to continue financing the external deficit by the finalization of some projects (Toromocho expansion, Quellaveco) and the initiation of others (Yanacocha Sulfuros, Corani, Magistral, Río Seco), in a context of higher mining profits.

22. The fiscal deficit is projected to continue narrowing along the projection period, while public debt is expected to stabilize. The annual fiscal deficit is currently just above 1 percent of GDP, mainly reflecting higher revenues. Although it is expected to slightly increase in 2023, mainly because of an anticipated reduction in fiscal revenues, given the recent correction in mining prices its trend in the following years is expected to be in line with fiscal targets, converging the reinstated fiscal rule of 1 percent by 2026.¹⁰ Tax revenues will be at around 17 percent of GDP, supported by the entry into

⁹ By Legislative Decree 1276 of December 2016, the fiscal rules were defined as a limit of 1 percent of GDP for the public deficit and a ceiling of 30 percent of GDP for public debt. Compliance with fiscal rules was suspended in 2020-2021 by Legislative Decree 1457. Subsequently, fiscal rules were established just for 2022 at 3.7 percent for the fiscal deficit and a public debt ceiling of 38 percent of GDP, by DU (emergency decree) 079-2021. Law 31541 established the new fiscal deficit rules for the years 2023, 2024, 2025, and 2026 at 2.4 percent, 2.0 percent, 1.5 percent, and 1.0 percent, respectively. In addition, it established that public debt should not exceed 38 percent of GDP in the following 10 years and 30 percent in subsequent years.

¹⁰ Law No. 31541 establishes that the annual fiscal deficit of the Non-Financial Public Sector must not exceed 2.4 percent of GDP for the fiscal year 2023, decreasing further to a maximum of 1.0 percent by 2026.

operation of new mines, expected favorable mineral prices, and the effect of administrative measures taken in recent years (mainly electronic invoicing and international tax collaboration). Also, extraordinary spending linked to containing the effects of the pandemic and reducing the effects of the rise in food and energy prices will gradually dissipate. The six withdrawals approved for private pension funds during the pandemic and the continued uncertainty about the future of the system, has had an adverse impact on the local capital market. Assets Under Management are currently about 35 percent less than in 2020, and expectations are that more withdrawals will come. This has dried up the local capital market for long-term financing for both the private sector and government.

23. **Debt management risks are being addressed from a robust position.** Peru's public sector debt is assessed to be sustainable and resilient to a range of different shocks. The public debt-to-GDP ratio is likely to remain above the public debt ceiling of 30 percent of GDP throughout the CPF period, mainly as a consequence of a large one-off increase in 2020. Also, the debt-to-GDP ratio is expected to remain stable, around 36 percent of GDP until 2024, and is expected to decline gradually thereafter as the primary deficit falls below the debt-stabilizing primary deficit. Public debt risks arise from a high share of public bonds held by non-residents (67.4 percent of total) and the currency composition (53.4 percent denominated in foreign currency), while the interest rate structure is favorable. The results of the debt sustainability analysis shock scenarios show that the authorities have sufficient buffers to accommodate a gradual fiscal consolidation path.¹¹

24. **The economic outlook is subject to significant uncertainty, but important mitigation factors exist.** Domestic risks include higher inflation, low citizen confidence in national institutions and political uncertainty. As these risks materialize, they could result in higher uncertainty, increased fiscal tensions, and possibly social unrest. If higher inflation translates into a more aggressive monetary tightening by the Central bank, the pace of output recovery could also be compromised. Also, low citizen support for Congress and the Executive Branch could eventually translate into greater government spending, compromising fiscal objectives. An eventual misalignment of fiscal and monetary policies might also pose a risk to inflation reduction. Continued political volatility could lead to uncertainty around the future policy agenda, undermining business confidence and investment prospects. Also, some institutional setbacks are already materializing, generating higher rigidity in the labor market and affecting the functionality of the State. External risks include a further slowdown in global economic activity, commodity price declines, higher international food and energy prices, a faster than expected monetary tightening in the US, as well as higher frequency and intensity of climate-related disasters due to climate change.

25. **On the domestic side, the fiscal position remains a strong mitigating factor.** Higher tax collection as a result of the recovery of economic activity, favorable commodity prices, increasing mining extraction and tax policies and administration measures have provided Peru the fiscal space to rebuild its fiscal buffers, pursue countercyclical fiscal policy and support the economic recovery. However, in the event of adverse external shocks, further escalation of the pandemic, or disasters, international financial institutions financing in the form of budget support operations and contingent credit lines would play an important role. On the external side, exchange rate flexibility and large international reserves offer a comfortable policy margin to withstand external shocks, given the country's modest dollarization ratio.

¹¹ Information as of September 2022. Peru is one of the countries with the highest Net International Reserves (NIR) among its regional peers. Thus, in 2021, the NIR of Peru (34.8% of GDP) was located above Brazil (2021: 22.5% of GDP), Colombia (18.7% of GDP), Chile (16.2% of GDP) and Mexico (15.6% of GDP), which makes it possible to face adverse shocks. As of November 15, 2022, the NIR reached US\$75.7 billion, equivalent to 30.6% of GDP. With this, the NIRs continue to be an important source of international currency liquidity that allows the economy to face adverse external shocks or the risk of eventual massive capital outflows in foreign currency.

Another positive development is that the ongoing global energy transition is expected to provide support to the long-term price of copper, Peru's main export product.

Table 1: Key Macroeconomic Indicators

	2018	2019	2020	2021	2022P	2023P	2024P	2025P
Real Economy	Annual percentage change, unless otherwise indicated							
GDP (nominal--local currency, millions)	731,588	761,984	704,939	866,342	941,143	986,292	1,046,844	1,101,024
Real GDP	4.0	2.2	-11.0	13.4	2.7	2.5	2.5	2.5
Per Capita GDP (in \$ Atlas Method)	6,575	6,615	5,808	6,507	6,614	6,712	6,816	6,920
Contributions:								
Consumption	2.8	2.5	-5.2	8.6	2.4	2.0	2.0	2.0
Investment	1.2	0.1	-5.0	7.1	0.0	0.1	0.2	0.3
Net exports	0.0	-0.4	-0.7	-2.3	0.3	0.3	0.3	0.3
Imports	1.0	0.5	-4.3	6.6	1.3	1.2	1.2	1.2
Exports	0.9	0.1	-4.9	4.3	1.6	1.5	1.5	1.5
Unemployment rate (ILO definition)	3.4	3.3	5.1	4.5	4.0	3.8	3.8	3.8
GDP deflator	2.3	1.9	3.9	8.4	5.8	2.3	3.5	2.6
CPI (average)	1.3	2.1	1.8	4.0	7.4	4.3	2.5	2.3
Fiscal Accounts	Percent of GDP, unless otherwise indicated							
Expenditures	21.6	21.4	26.7	23.6	23.9	23.5	23.0	22.3
Revenues	19.3	19.8	17.8	21.0	21.8	21.1	21.0	20.8
Non-financial public sector balance	-2.3	-1.6	-8.9	-2.5	-2.1	-2.4	-2.0	-1.5
PPG gross debt (eop)	25.6	26.6	34.6	35.9	35.2	36.0	35.9	35.6
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated							
Base Money	5.2	2.8	31.2	12.3	2.5	2.0	2.0	2.0
Credit to non-government	8.9	7.1	11.0	4.4	4.5	5.0	5.3	5.3
Interest (key policy interest rate)	2.8	2.6	0.7	0.8	5.3	5.0	3.3	2.0
Balance of Payments	Percent of GDP, unless otherwise indicated							
Current Account Balance	-1.3	-0.7	1.2	-2.3	-3.5	-2.5	-0.8	-0.2
Imports	22.8	22.2	20.4	25.6	27.1	26.4	25.2	24.9
Exports	24.6	23.7	22.3	28.8	28.7	26.8	26.9	27.2
Foreign Direct Investment	3.1	2.9	0.4	2.5	2.7	2.3	2.2	2.1
Gross Reserves (in million \$, eop)	60,288	68,370	74,909	78,539	80,521	82,120	83,535	83,535
In months of next year's imports	14.3	20.0	15.7	14.1	13.7	--	--	--
As % of short-term external debt	343.0	498.0	540.0	430.0	438.0	--	--	--
External Debt ¹	34.7	34.8	44.3	45.2	41.5	40.1	37.6	35.7
Terms of Trade	-0.8	-1.1	4.3	11.2	-7.3	-6.0	3.7	1.0
Exchange Rate (average)	3.3	3.3	3.5	3.9	3.8	3.7	3.7	3.7
Other Memo Items								
GDP nominal (in million \$)	222,622	228,404	201,408	223,212	247,669	266,565	282,931	297,574
Net Public Debt	11.2	12.9	22.2	21.8	--	--	--	--

Source: World Bank staff based on Central Bank, INEI, MEF, and IMF data.

¹ External Debt includes public and private sector debt.

26. **Finally, the financial sector entered the crisis well-capitalized but will require continued monitoring.** While some small financial institutions could be affected by the slowness in the recovery of output and labor markets, leading to some consolidation in the sector, a systemic disruption is not expected. Recent stress testing exercises conducted by the Superintendency of Banking, Insurance and Pension Funds (SBS) indicate that capital adequacy levels would remain above 13 percent through 2022, and that most financial institutions are well-placed to endure liquidity shocks. Also, capitalization ratios are considered adequate, and the banking supervisory agency is expected to continue closely monitoring the soundness of the banking system.

2.3 POVERTY AND SHARED PROSPERITY

27. **The deep recession caused by the COVID shock reversed more than a decade of progress in social gains and poverty reduction.** A 10-percentage point increase in 2020 brought poverty levels to 25.9 percent in 2021, a level not seen since 2012. This happened despite the roll-out of generous emergency cash transfers.¹² Moreover, between 2019 and 2021, the vulnerable population also increased from 37 percent to 39 percent, and the size of the middle class fell dramatically, from 33.7 percent to just 26.7 percent.¹³ Although the economy has mostly recovered, job quality and income levels are still lagging behind. Informality, which was already at a stunning high at 72.7 percent of the working population in 2019, increased by 4 percentage points to 76.8 percent. Similarly, self-employment increased from 35.8 percent to 36.2 percent between 2019 and 2021, and the share of workers in small and micro firms rose from 70.3 percent to 73.8 percent over the same period.¹⁴ Average monthly labor income is still lower in 2021 than what it was in 2019. Vaccines have been readily available: by June 2022 around 27.5 million people (84 percent of the target population) were fully vaccinated, and 18.1 million people (64 percent of the target population) had received three doses.

28. **Beyond the monetary dimensions of wellbeing, the long-term effects of the pandemic on future labor productivity and food insecurity could be significant, particularly given the human capital losses caused by a two-year closure of schools.** The majority of schools were closed for a total of 360 school days. The World Bank Education Report (2022) estimates that the intensity of school closure in Peru is the highest in LAC. As a result, the COVID-related loss in learning-adjusted years of schooling could be around 1.7 years. The generation of youth and children that suffered this loss could face a decrease of 8 percent of future earnings.¹⁵ The recent High Frequency Phone Survey (HFPS) in Peru found that 70 percent of parents surveyed perceived a decline in their children's learning experience from the pandemic. Households continue to face other shortcomings that will impact long-term human capital accumulation and productivity. According to the HFPS, households with children experienced higher food insecurity. By the end of 2021, 45 percent of households with children had experienced at least one type of food insecurity during the preceding 30 days.

29. **The COVID-19 pandemic has widened inequalities in human capital accumulation.** This situation hurts particular groups disproportionately. Indigenous and Afro-Peruvians lag in human development

¹² In total, there were 6 cash transfer programs that were rolled out to mitigate the effects of the pandemic.

¹³ Vulnerability is measured in terms of the international poverty lines in 2017 purchasing power parity as those with per capita daily earning of between \$6.85 to \$14. Middle class is measured also in terms of the international poverty lines in 2017 purchasing power parities, as the group of people earning between \$14 per capita a day and \$81.

¹⁴ INEI – ENAHO (*Encuesta Nacional de Hogares/Household Survey*) 2019 and 2021.

¹⁵ Bracco et al (2021).

indicators and access to services relative to other Peruvians and face more difficulty in recovering from shocks. Poverty is higher among the indigenous population, and Indigenous and Afro-descendant populations experience faster transitions into poverty and slower transitions out of poverty; this trend is also observed in other areas such as education losses from the pandemic. Much of this difference is driven by the fact that these groups live in rural areas with less access to services.¹⁶ World Bank simulations suggest that learning losses for the bottom income quintile might be almost double that of the top quintile. Large disparities exist in the Human Capital Index (HCI) between geographic areas in Peru.¹⁷ Peru's HCI value of 0.61 in 2020 means that an average Peruvian child will reach 61 percent of his or her potential in terms of productivity and lifetime income. Yet, this HCI at the national level hides large geographical gaps: estimates using 2015-2017 data show that while a child in Loreto will reach 49 percent of his or her potential (similar to the HCI of Honduras), a child in Tacna will reach 69 percent (similar to that of Luxembourg). Another vulnerable group of growing importance are Venezuelan migrants, which according to official estimates amount to around 1.3 million persons. A third of migrants do not have the necessary immigration permits, hurting their chances of fully integrating into Peruvian society. For example, 80 percent of Venezuelans do not have a working contract and 73 percent of them do not have access to health insurance (*Encuesta Población Venezolana -ENPOVE, 2022*).¹⁸

30. The pandemic has widened gender inequalities and the prevalence of gender-based violence is high and widespread. In 2019, women were 16.6 percent less likely to participate in the labor force than men. By 2021, women were more than 18 percent less likely to participate in the labor force than men. Some of these gaps emerged as a response to the higher homework burden that women had to face during the pandemic. Gender-based violence occurs in all regions, socioeconomic levels and age groups. Around 50 percent of women in Peru have suffered some type of partner violence at some point in their life.¹⁹ Levels of violence against women are similar in all regions of the country, urban and rural areas, and prevalence is high across all educational levels.

31. Access to public services is highly unequal in Peru, with poor households and households in the poorest regions having the least access. For example, there are disparities in the percentage of households with access to safe water regionally: In the Metropolitan Area of Lima (Coastal area), 71 percent of households have access to safe water, while in Puno (Andean area) only 12 percent of households have access. Similarly, sanitation services are widespread in Coastal regions, such as Ica, La Libertad, and Tumbes (around 87 percent of households), but are much less common in the Amazon regions like Ucayali, where only 45 percent of households have sanitation services.²⁰ Poverty along the coastal areas of Peru is the lowest, followed by those in the Amazon, and then those in the Andean areas. These disparities are also evident in the urban-rural comparison. While in urban areas, 84 percent of households have access to a minimum of four basic services (water, sanitation, electricity, and telephone), only 38 percent of rural households have access to all four services.²¹ In addition, the majority of the poor live in areas highly exposed to natural disasters and climate-related risks, such as earthquakes, floods, landslides and droughts putting their limited asset base at high risks of loss and damage.

¹⁶ 2017 National Population Census.

¹⁷ The HCI is a synthetic index that measures the potential for a young person to reach her full income potential in life, and combines measures of survival, schooling, and health.

¹⁸ A survey specific for Venezuelan migrants, conducted by the INEI.

¹⁹ *Encuesta Demográfica y de Salud Familiar - ENDES, 2020*.

²⁰ Access to safe water and sanitation are from *Encuesta Nacional de Programas Presupuestales (ENAPRES), 2021*.

²¹ INEI – ENAHO, 2021.

32. **Finally, the capital-centric development model contributes to imbalances within the urban sector.** Today, Peru is one of the most capital-centric countries in the world—Lima accounts for 32 percent of the population (40 percent of the urban population) and 45 percent of the national GDP. The unplanned urbanization of Lima has increased disparities between the capital city and the rest of the country, and between Lima’s affluent neighborhoods and its informal urban dwellings. Disparities in access to basic services such as water and sanitation, housing, transport, and security reduce the scope of opportunities that people can access throughout their lifetime, affecting their prospects for a better livelihood for themselves and their children, and ultimately, hurt the growth and shared prosperity potential of the country as a whole. Peru’s large spatial disparities in development are thus a key impediment hindering many Peruvians from acquiring the human capital necessary to access better job opportunities.

2.4 MAIN DEVELOPMENT CHALLENGES

33. **The two main structural challenges identified in the SCD update —low productivity and large territorial disparities in development outcomes—persist in Peru and have worsened in recent years.** The root cause behind these two core development challenges lies in the limited capacity and low efficiency of the state. Tackling the development challenges of Peru requires increasing state effectiveness and efficiency to (a) address market distortions through effective regulation; (b) provide high-quality services and close territorial gaps in access and quality; and (c) cope with shocks and build long-term socio-economic resilience (See Box 1).

34. **Connectivity challenges, intensified by a complex geography, remain large.** In 2019, the Global Competitiveness Report ranked Peru 97 of 114 surveyed countries in terms of transportation infrastructure. Also, Peru has one of the most unequal distributions of infrastructure in Latin America, representing a development barrier for most secondary cities for which transport costs to reach international markets are 50 percent higher than in Lima.

35. **In addition, considering the political developments of recent years, Peru needs to build better institutions that can support high-quality economic and regulatory reforms.** Numerous and extensive corruption scandals have highlighted the weakness of Peru’s political and judiciary system and rule of law. The lack of compliance with the legal framework has many facets, including building permits, municipal licenses, taxes, and labor standards. The belief of many Peruvians that regulatory evasion is justified, combined with government’s weak enforcement capacity, weakens the social contract. This is reflected in the increasing number of social conflicts throughout the country.²² Citizens’ perceptions of transparency and efficiency of political institutions are among the worst in Latin America.²³ The lack of transparency and accountability mechanisms, especially at the local level, together with the number and reach of corruption investigations have led to a generalized mistrust in public institutions and political leaders.

36. **Peru needs to strengthen and expand the supply of quality education at all levels.** To improve the quality of skills supplied in the labor market, Peru would need to monitor the entry of new non-university and university programs through independent accreditation systems that periodically review quality, and close programs that do not yield good job results. It would also be critical not to go backwards

²² According with Peruvian Ombudsman, there are around 200 social conflicts per year (June 2022).

²³ *Latinobarómetro*, 2020.

in the implementation of the University Reform Law and the provisions of the Law of Institutes and Schools of Higher Education and to enforce the National Policy of Technical-Productive Higher Education, promoting flexibility among the different levels of tertiary education.

Box 1: Peru's challenges and opportunities for accelerating economic growth

The current less favorable external environment and the effects of the pandemic in Peru bring to light the more profound structural challenges of the country's growth model. As identified in Peru's SCD Update (2022), productivity continues to be low, attenuating economic growth. More than 70 percent of labor is either self-employed or working in firms with 10 employees or less, with an estimated labor productivity that is just around 10 percent of that of firms with more than 50 workers. Also, territorial disparities are sizable, and exports are highly concentrated in mining and other extractive activities, rendering the economy vulnerable to terms-of-trade shocks and climate change impacts.

The limited progress in addressing these challenges is correlated with the weak capacity of public institutions. Institutional instability has substantially increased since 2016, further weakening the capacity of the state to design and implement needed reforms and deliver quality services across the territory. Poor performance in public investment management at the national and subnational levels is related to low levels of budget execution, which hinders households' access to basic services and poverty reduction.

In this challenging context, Peru needs to look for new drivers of growth for the following decades. First, it needs to maintain key pillars of its economic resilience, good macroeconomic management, support its comparative advantage in natural capital (e.g. mining, forestry) and make use of its abundant labor supply. Second, it needs to retake the path of impactful reforms to accelerate long-term economic growth such as improving connecting infrastructure and public services, raising human capital, and streamlining rigidities in markets for factors and products. Accomplishing these goals requires both: (a) increasing State capacity to regulate and enforce the law effectively, provide quality services, and cope with diverse shocks, and (b) increasing business confidence by improving the business enabling environment. Third, Peru should examine the growth potential associated with the sustainable use of its vast natural capital, as identified in the CCDR (2022). According to this study, investing \$6 billion dollars between 2023 and 2050 in forest landscape interventions could create close to 85,000 jobs a year over the same period, multiply the sector's contribution to the economy seven-fold, and raise its contribution to GDP from 1.9 percent in 2023 to 5.5 percent in 2050.

37. **Finally, gains from economic growth and poverty reduction are threatened by natural hazards and climate change.** As described in the recent CCDR, Peru's growth is largely driven by natural capital, which creates vulnerability to climate change and presents risks as well as opportunities linked to the global low-carbon transition. While Peru's comparative advantage lies with emissions-intensive goods and services, status quo regulations abroad currently pose limited risk. Nonetheless, Peru's main export sectors—agriculture and mining—will eventually need to decarbonize to compete in global markets. Bans on products that are not deforestation-free, such as the recent law to ensure "deforestation-free supply chains" introduced by the European Union, would currently only impact 1 percent of Peru's exports, because in its current form it affects only a few products, mainly coffee and cocoa. However, in the medium-term, when additional products and value chains might be affected, this could eventually harm farmers. Although transition risks posed by the European Union's Carbon Border Adjustment Mechanism (CBAM) are currently also low, if expanded to include metals, they could impact 6 percent of Peru's exports. The country is also more exposed to natural hazards than most of its structural peers, with resulting higher damage losses from the high frequency of hazards (mostly earthquakes, floods,

landslides, and droughts), the high share of agriculture and fisheries in both GDP and employment, and the spatial concentration of people and assets in high-risk areas. Notably, Peru is one of the countries most affected by the climatic phenomenon known as El Niño, which is associated with increased incidence of flood and drought events in the Costa and Sierra regions.

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

3.1 GOVERNMENT PROGRAM

38. **Peru aims to promote economic recovery, with social inclusion and equity at the center of its policy agenda.** The GoP's program has a strong emphasis on supporting the most vulnerable segments of the population, prominently including indigenous people, Afro-descendants, and rural communities, overcoming social exclusion, and promoting equity across its regions. Under the framework "*Trabajando por el pueblo*," the government has outlined 10 priority areas in the General Political Guidelines for 2021-2026 (Figure 1). In addition, the Ministry of Economy and Finance (MEF) recently launched the "Impulse Peru" Plan with measures that seek to promote sustainable economic growth and employment generation and maintain fiscal responsibility, while supporting vulnerable groups. The Plan includes a set of 36 measures to improve the conditions of private investment, streamline public investment, and support vulnerable populations, including through the distribution of a one-time cash transfer and subsidies for Liquefied Petroleum Gas (LPG) for domestic use, the electricity rate, and urban transport.

39. **For the longer term, in July 2022 the GoP updated its Strategic Plan for National Development, which has a 2050 horizon, through Supreme Decree No. 095-2022-PCM.** The plan's four national objectives are to (a) achieve the full development of peoples' capabilities without leaving anyone behind; (b) manage the territory in a sustainable manner to prevent and reduce risks and threats that affect people and their livelihoods, through the use of knowledge and communications, recognizing geographical and cultural diversity, in a context of climate change; (c) raise competitiveness and productivity levels with decent employment, based on the sustainable use of resources, human capital, science and technology, and digital transformation of the country; and (d) guarantee a just, democratic, peaceful society and an effective State at the service of the people, based on dialogue, national agreement, and strengthened institutions.

40. **Investments in infrastructure, including sustainability, is a GoP priority as evidenced in the October 2022 relaunch of the National Infrastructure Plan for Competitiveness and Sustainability, approved through Supreme Decree N° 242-2022-MEF.** The project pipeline for 2022-23 under the Public-Private Partnership (PPP) mechanism includes a total of 24 projects distributed in different sectors, with a total estimated investment of \$7.3 billion. The main sectors are transport (3 projects), energy (10 projects), water and sanitation (4 projects), education (2 projects), health (3 projects), telecommunications (1 project), and real estate (1 project).

41. **The GoP continues its quest for OECD accession.** On January 25, 2022, the OECD opened accession discussions with Peru. Peru was among the first countries to engage with the OECD through its OECD Country Program in 2014, which was built around five key areas: economic growth, public governance, anti-corruption and transparency, human capital and productivity, and the environment.

Figure 1: Government of Peru Priority Areas 2021-2026



3.2 PROPOSED WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

42. **The CPF draws on lessons learnt during the implementation of the FY17-FY21 CPF that were detailed in the Completion and Learning Review (CLR).** First is the need for the Bank to remain flexible and to avail itself of different instruments in order to respond to rapid, unforeseen change. The WB’s contingent instruments for fiscal risk management, and the Deferred Drawdown Options (DDOs) proved very useful during the pandemic. This CPF will also employ DDOs while seeking to expand the range of Bank instruments used to deliver the program, including: contingent lines of credit as well as regular policy-based loans; Multiphase Programmatic Approaches to structure investment financing and apply lessons learned over time; and Reimbursable Advisory Services (RAS) and just-in-time technical assistance to inform policy making. Second, the Bank-financed program suffered from implementation challenges that were aggravated by the pandemic and the political instability during 2020-2021. Despite Peru’s having procurement and financial systems that comply with good international practices, project implementation faced serious bottlenecks given the weak institutional capacity due in part to high turnover at both the political and technical levels in the public sector. While these challenges are likely to continue into this CPF period, the Bank will work closely with the Ministry of Economy and Finance and direct counterparts to mitigate their impact on the quality of the investment portfolio. The Bank will draw on experiences of other countries and partners and will explore the suitability of certain solutions (such as the creation of a centralized PIU to provide fiduciary support to projects or the creation of joint WB-PIU-MEF Steering Committees to oversee project execution) for the Peruvian context.

43. **Several additional lessons have informed the design of the CPF, shaping the content of the program over the coming years,** including: (a) successful promotion of technology adoption and innovation development can help foster private sector development and productivity even in Peru’s complicated private sector context; (b) sustained technical dialogue with counterpart institutions is an effective path to incremental reform; (c) when faced with political instability, it is important to adjust complex projects, narrow the scope of activities and maintain a close dialogue with stakeholders throughout implementation; and (d) the need for an up-to-date social registry that includes information of all poor and vulnerable households to enable effective targeting of the beneficiary population for fast and cost-effective government response to shocks.

44. **The CPF was developed through a participative consultation process conducted from March to June 2022 that included both government and non-governmental actors.** A total of 142 stakeholders have participated in this process so far (see Annex 7). On the government’s side, despite the frequent turnover in multiple line ministries, there has been continuity at the technical level in the MEF, enabling the Bank to maintain an active dialogue during the preparation of this CPF. The CPF has also benefitted from inputs of the WB client opinion survey of 2022 that suggested a shift in respondents’ development priorities compared to 2019, with anti-corruption becoming the top priority, as well as education, governance, and climate change, echoing some of the key themes that emerged from the CPF/SCD consultations. The client opinion survey showed improved ratings of the Bank’s effectiveness compared to the 2019 survey while also recording a desire for greater outreach from the WB to academia and civil society. The Bank will continue an active civil engagement during the implementation of the CPF and will convene stakeholder groups to provide feedback on the implementation of the CPF program. These efforts will include outreach to vulnerable segments and traditionally excluded groups, such as indigenous peoples, women, Afro-descendants, migrants and the disabled, in the sectors supported under the CPF. Active participation by beneficiaries and affected groups is key to countering exclusion, through robust interventions for civil engagement, civil society collaboration, and citizen feedback.

3.3 OBJECTIVES SUPPORTED BY THE WBG PROGRAM

45. **The CPF supports three high-level outcomes (HLOs) which have been identified by the SCD Update and are aligned with the Sustainable Development Goals and the WBG’s corporate strategies.** HLO-1 focuses on increased access to quality economic opportunities for workers and entrepreneurs; HLO-2 concentrates on improved access to quality public services; and HLO-3 promotes increased resilience to shocks (Figure 2 and Annex 1). These HLOs, which respond to multiple, overlapping crises, align well with the new Global Crisis Response Framework (GCRF) which was recently adopted by the WBG. The CPF captures the four pillars of the GCRF (Responding to Food Insecurity-HLO3; Protecting People and Preserving Jobs-HLO1; Strengthening Resilience-HLO3; and Strengthening Policies, Institutions, and Investments for Rebuilding better-HLO2). The CPF is also aligned with the WBG Green, Resilient and Inclusive Development (GRID) strategy, the IFC Strategy and Business Outlook Update FY23-25 on the road to 2030, and MIGA’s Strategy and Business Outlook FY21-FY23.

Figure 2: High-level Outcomes from SCD Update and CPF Objectives



3.4. SELECTIVITY IN THE CHOICE OF HIGH-LEVEL OUTCOMES AND OBJECTIVES

46. **The CPF applies selectivity criteria to identify high-level outcomes and objectives that will guide the WBG’s partnership with the GoP over the five-year period.** The guiding criteria are (a) alignment with Peru’s long-term country development goals; (b) development priorities as identified in the SCD Update and informed by recent analytical work; and (c) comparative advantage as determined by a previous successful engagement in the past that built knowledge and created a trusted relationship.²⁴

47. **Selectivity filter 1: Alignment with GoP’s development objectives.** The CPF objectives and related outcome indicators contribute to the priorities outlined in the Peru Policy Guidelines 2021-2026 and support the country’s long-term goals. The GoP’s demand for new lending is focused on ensuring continuity of the successful partnership with the WBG in areas such as development policy reforms, innovation, water, sanitation, and irrigation, among others, and on addressing gaps in services for the peri urban and rural population. The WBG plans to deepen engagement in areas of increased importance for the Government, such as innovation to facilitate access to quality jobs (with two follow-on projects in areas with proven success: Science, Technology and Innovation and Innovation in Fisheries and Aquaculture); investments in expanding public services; and resilience to climate change and building systems to protect people against shocks.

48. **Selectivity filter 2: The SCD Update included 16 priorities under the three HLOs; the CPF will address 13 of them, articulated through objectives and outcomes for a five-year period.** Several areas identified in the SCD are not included in the WBG program because they are being addressed by other development partners, they are not the comparative advantage of the Bank, or the current context is insufficiently conducive to pursuing a dialogue in the area. They include:

- a. *Rule of law, trust and social capital* (Table 2). Other partners, such as the United States Agency for International Development (USAID) and a number of UN agencies are working in the areas of political participation, integrity, and transparency.
- b. *Labor regulations* (Table 2). Given the lack of political consensus, the WBG program does not currently envision support to specific reforms in the area of labor productivity or informality despite their importance in terms of enhancing economic growth potential, as highlighted in the SCD Update.
- c. *Decentralization* (Table 2). Decentralization reforms were supported by the Bank through Advisory Services and Analytics (ASAs) produced under the previous CPF, but further advancement in this area would require significant political commitment and consensus both at the Executive and the Legislative level, which currently does not exist. Nonetheless, the Bank will continue working on strengthening institutional capacity and effectiveness both at national and subnational levels through specific investments in the Judiciary and selected local governments. The Inter-American Development Bank (IDB) is financing projects to improve public investment capacities at a decentralized level.
- d. *Metro system*. The CPF does not include an active engagement in supporting new metro Projects, but the WBG will assess on a case-by-case basis the opportunity to engage should a specific request for support be received. The WBG will continue being actively engaged on other aspects of urban

²⁴ The WBG CPF for Peru FY23-FY27 sets out the partnership objectives agreed between the WBG and the national authorities. Within this country partnership, the WBG broadly contributes to priority areas also reflected in the United Nations’ Sustainable Development Cooperation Framework for Peru, consistent with its development mandate and country engagement approach, and coordinates closely with the United Nations (UN), GoP, and other development partners.

mobility for Lima-Callao and other intermediate cities, in line with the SCD Update’s emphasis on connectivity. While the Bank will continue its support to the Lima and Callao Urban Transport Authority, including advice on the integration of transport modalities which include metro systems (e.g., metro lines 3 and 4), the government is pursuing other contract modalities for financing and implementation. Support provided under the previous CPF on building PPP capacity enabled the GoP to pursue its strategy of engaging the private sector in railroads and ports. Peru’s government will likely continue working under Government to Government (G2G) contracts.

- e. *Digital connectivity.* This was an area strongly supported through Reimbursable Advisory Services (RAS) in the previous CPF, without yielding investment opportunities. Nevertheless, the Bank will continue pursuing opportunities to provide support through ASA or technical assistance in this sector. Currently, the Development Bank of Latin America – CAF is financing some small projects in support of access to internet in rural areas. In addition, IDB will continue investments in e-government.
- f. *Agriculture.* While the CPF does not envision direct investments in the agriculture sector, largely because of the involvement of development partners in this area, the Bank does and will support irrigation investments, climate-smart agriculture, agriculture innovation and linking family farmers to markets, which will contribute substantially to the sector’s productivity and farmers’ incomes. IDB is financing innovation in agriculture and sanitary agriculture during this period. IFC might engage in agriculture and aquaculture investments.

Table 2: Selectivity of the program: SCD Priorities and CPF Areas of Engagement

SCD priority	CPF objective
1. Improve connecting infrastructure	Enhance the delivery of public services (only transport)
2. Streamline labor and tax regulations	Mobilize sustainable private capital and sustainable use of natural capital (only tax regulations)
3. Relax regulatory barriers to competition	Mobilize sustainable private capital and sustainable use of natural capital
4. Enhance rule of law	Not included
5. Increase trust and social capital	Not included
6. Improve to water and sanitation	Enhance the delivery of public services
7. Improve quality of education services	Facilitate absorption of skills and technology by firms (only higher education)
8. Improve quality of health services	Enhance the delivery of public services
9. Improve territorial and urban management	Strengthen institutional effectiveness at national and subnational levels
10. Increase tax collection	Strengthen institutional effectiveness at national and subnational levels
11. Reboot decentralization	Not included
12. Increase tax collection	Strengthen institutional effectiveness at national and subnational levels (only property tax at local level)
13. Improve government coordination	Strengthen institutional effectiveness at national and subnational levels
14. Improve social protection and assistance	Strengthen mechanisms to protect people against shocks
15. Improve climate and disaster risk management	Enhance climate change mitigation and adaptation
16. Enhance natural resource management	Mobilize sustainable private capital and sustainable use of natural capital

49. **Selectivity filter 3: Areas where the WBG has comparative advantage.** The WBG has had a rich and productive engagement in multiple areas, including in innovation policy, where WBG interventions to date have contributed to long-term financing and boosting of the science and technology system. Areas in which the WBG can apply its global knowledge, such as health, urban mobility, and climate change, will

also remain priorities. Based on experience, the WBG has a comparative advantage in multi-sectoral engagements, where multiple entities or levels of government need to be involved. These projects tend to be challenging, but also are areas where the Bank is best placed to support and bring global knowledge. Hence, some investments considered for the next two years include a potential project for territorial development in the mining corridor and water and sanitation investments that involve coordination among different entities at different levels, among others. The WBG will also seek opportunities for complementary action with development partners with a view to providing strategic support and avoiding duplication. Building on lessons learned, the WBG will continue coordinating among partners by arranging regular and ad-hoc coordination meetings to promote synergies, and complement activities in key sectors such as infrastructure, governance, gender, and climate change.

50. **The CPF draws on the analysis undertaken for the SCD Update, the CPSD, and the CCDR to inform the proposed WBG program.** The CPSD highlighted the potential of the Peruvian private sector to contribute to a more inclusive and climate-smart growth model and identified sectors, such as agribusiness, aquaculture, tourism and digital finance, that have a high potential for creating more and better jobs while also maximizing socioeconomic spillovers. The CCDR explains how Peru is more vulnerable to climate change and natural hazards than most of its structural peers partly because of the high frequency of hazards (mostly earthquakes, floods, landslides, and droughts), and spatial concentration of people and assets in high-risk areas. It also points to the fact that the country is well positioned to benefit from a transition to low-carbon growth given its considerable resources (metals, amazon forest, and high biodiversity) and the relatively low-carbon intensity of its electricity production. As such, the CCDR argues that Peru needs to take action to adapt to climate change while also making the necessary investments to take advantage of the opportunities provided by a transition to a low-carbon economy. The CPF includes specific outcomes on climate-change mitigation and adaptation related to the implementation of urban planning instruments that integrate disaster-risk management and also emphasizes the need to strengthen mechanisms to protect people against shocks. Finally, all these diagnostics highlight the relevance of strengthening subnational government capacity to improve private sector investment and the delivery of services, which are also reflected in this CPF.

3.5 ONE WORLD BANK GROUP

51. **Achievement of the HLOs and CPF objectives will depend on a strong WBG partnership.** Collaboration amongst the WBG's institutions will be a cornerstone for the improvement of public service delivery through sustainable public and private investments. For instance, the Bank will continue investing in better and sustainable services across different sectors, such as health, water, and transport, while the IFC will develop strategic partnerships with subnational governments (SNGs) and SNG-owned utilities to provide access to infrastructure services. It will also contribute to structure and finance social infrastructure projects in the health and education sectors (hospitals and schools) through PPPs and investments. MIGA will continue to support green mortgages and increasing access to housing for vulnerable groups in an effort to contribute to the reduction of Peru's housing deficit. In addition, MIGA will explore opportunities to provide political risk guarantees in strategic sectors of the economy, prioritizing projects that support green, inclusive, and resilient recovery. In line with its Business and Strategy Outlook (FY21-FY23), MIGA will aim to scale up support of Direct Foreign Investment (FDI) for high-development-impact projects that promote climate resilience, job creation, and financial inclusion in Peru.

HLO-1. Increased access to quality economic opportunities for workers and entrepreneurs

52. **Increasing productivity is critical to achieve higher growth and quality formal jobs, both of which are the basis for inclusive development.** In Peru, a few large firms with high labor productivity coexist with an overwhelming quantity of small firms whose labor productivity is low. The labor productivity differential of large companies relative to micro, small, and medium-sized enterprises (MSMEs) is larger in Peru than elsewhere in LAC and in OECD countries. Even before the onset of COVID-19, nearly three-quarters of jobs were in the informal sector, which tend to be of very low quality—measured in terms of benefits, wages, stability, and satisfaction. The pandemic destroyed productive formal jobs disproportionately. The CPSD points to misallocation of capital and workers not only across firms and sectors but also across geographical space. Firms outside Lima and other coastal regions are disproportionately less productive. The misallocation of capital and workers in the informal economy depresses innovation and reduces access to credit, foreign technology, and global value chains—all of which are key drivers of productivity. The interdependent linkages between formality and productivity, and the complex political economy around reforms that address informality, require a selective approach to Bank engagements. While labor market regulations may pose one of the biggest obstacles to formalization, the current government program does not foresee an integral reform in this area. The Bank’s engagement will therefore focus on selected issues that tackle informality directly (e.g. SME tax regimes) and otherwise aim to help boost productivity through policies and investments that (a) mobilize productive private investments, including for new competitive and sustainable activities, and (b) increase skills and innovation within firms, as reflected in Objectives 1 and 2, respectively, of the proposed CPF.

53. **The WBG engagement will entail strong involvement of IFC and MIGA.** Support to policy programs will open new avenues for private investment, including through PPPs. WB and IFC technical assistance will aim at mobilizing sustainable private finance, including for SME growth. WBG technical assistance will further regulatory design to foster growth in specific industries as well as in specific regions through pro-competition reforms. MIGA will aim to leverage deeper WBG collaboration while utilizing its political risk guarantees and collaborate closely with the WB and IFC to improve the enabling environment for the development of PPPs and private investment (foreign and local). WBG support to investment projects will focus on tapping into new sources of competitiveness based on sustainable use of natural capital, including forestry, mining, and tourism, with a strong potential to unleash substantial private investment. Investment projects will further support innovation in specific value chains with a strong focus on solutions that support climate-change adaptation or mitigation, as well as development of technical skills among workers.

Objective 1. Mobilize sustainable private capital and sustainable use of natural capital

54. **Peru’s growth strategy in recent decades has rested mainly on the growth of private investment.** Between 2004 and 2013, close to fifty percent of the average growth rate of 6.1 percent is explained by the contribution of private sector to total investment. This produced a larger middle class and increased the income of the bottom 40 percent of the population in greater proportion than the average. Sustaining high levels of private investment into productive and competitive firms and sectors is as important as mobilizing capital for new opportunities that underpin green competitiveness. Private capital can contribute to develop new sources of competitiveness when linked to sustainable use of Peru’s large natural capital endowments (e.g., forestry landscapes, climate-smart agriculture, ocean economy and aquaculture, and sustainable mining). Private investment execution can also support expansion of productivity-enhancing public services.

55. **Peru seeks to promote economic growth within a challenging international context with a set of measures to unlock private investment and streamline public investment, including through the “Impulse Peru” program.** The WBG will contribute to these efforts with support to policy design focused on improving the frameworks to mobilize private capital for sustainable PPP and private execution of investment projects (*Obras por impuestos*). The WBG will support improving the efficiency and sustainability of public and private investments through the progressive implementation of Building Information Modeling (BIM) for public works planning and execution; incorporating climate externalities – through the use of the social price of carbon - for public investment appraisal; and ensuring that investment projects integrate adequate management of their climate and socioenvironmental risks by enhancing the National Environmental Impact Assessment System (SEIA). The WBG will support the development of a green asset class in the market (e.g. through a sustainable bond framework and the green taxonomy, see objective 5). In addition, the Bank will continue maximizing finance for development by unlocking private solutions to improve public service operations, such as with the *Metropolitano* Bus Rapid Transit project.

56. **IFC will support financial institutions to strengthen their capital base and comply with new Basel III provisions and will continue to execute a significant advisory program.** As part of its business development efforts in the financial sector, IFC will also explore opportunities for thematic financing (e.g., gender, sustainable finance) and aim to scale access to financial services with focus on digitalization, by engaging with regulators in the discussion of open banking and the API (application programming interface) legal and regulatory frameworks. In addition, IFC’s advisory program includes providing support to National Institute of the Defense of Competition and the Protection of Intellectual Property (INDECOPI) with fostering regulatory reforms that remove barriers to efficiency enhancing firm entry and growth in specific markets at the subnational level. IFC will also assess the feasibility of a financing facility for companies participating in *Obras por Impuestos*, and with the Bank and United Nation’s Children Fund (UNICEF), will promote the use of this mechanism in school infrastructure projects. IFC will provide capacity building to the Commission for Promotion of Export and Tourism (PROMPERU) for investment promotion in selected sectors (agribusiness, clean energy, tourism). IFC’s advisory work with *Proinversión* in structuring of PPP projects will continue. Through the LAC Financial Infrastructure Program in Peru, funded by Switzerland’s State Secretariat for Economic Affairs (SECO), IFC will support the development of the registry that enables the use of movable assets as collateral and contribute to develop the operational environment to facilitate the use of electronic invoices as movable assets. Both are critical to channel private capital to SMEs and raise incentives for formalization. IFC will also focus on the establishment of the enabling environment to develop and use digitized crop receipts as movable assets to facilitate access to finance to small and medium sized agri-producers, engaging with regulators. WB technical assistance on tax policy and administration may also include improvements that increase incentives for SME’s formalization. This will be underpinned by new analytical insights on links between informality and productivity in the Country Economic Memorandum under preparation.

57. **MIGA will continue to support increasing access to finance for infrastructure and climate finance.** During the CPF period, through MIGA’s guarantee in support of *Banco Santander* in Peru, MIGA will continue to improve access to finance for corporates, focusing on sustainable infrastructure and climate mitigation projects. In addition, MIGA will continue to expand on its support to *Fondo Mivivienda*, to increase access to finance for green and affordable housing in Peru, while also targeting vulnerable segments of the population. Overall mortgage access in Peru is limited; housing loans represent less than a fifth of overall credit in the country with very small fraction of the population having an outstanding

mortgage. MIGA's support to *Fondo Mivivienda* will allow underserved new homeowners to build wealth and increase their access to financial services.

58. **With a view to strengthening the management and sustainable use of Peru's extensive natural capital, the Bank will support the competitiveness and sustainability of the mining sector, including through regulatory reform and the creation of economic opportunities for associated communities.** The WB will help strengthen the sustainable management and productive use of forest landscapes and support developing a sustainable forest industry and such promoting new sources of growth from sustainable economic activities in Peru's diverse ecosystems. It will support developing opportunities for sustainable revenue-generating activities across Peru's biodiverse landscapes, including through nature-based and eco-tourism services, sustainable fisheries and aquaculture. This will build on knowledge developed under the CPSD and the Country Economic Memorandum (CEM). The Bank will also contribute to enabling conditions for change in forest and land management, specifically by promoting land tenure security, strengthening governance, and enhancing investments in and opportunities for entrepreneurship in forest indigenous communities through specific investments in the Amazon region. The objective is to strengthen technical and business capacities of forest communities and small producers to better manage forests²⁵.

Objective 2. Improve innovation and technical skills

59. **Building on the successful engagement of the previous CPF in innovation, the Bank will continue strengthening the national science, technology, and innovation system.** In particular, the Bank will promote a stronger prioritization of investments in doctoral programs and skills in alignment with the needs of the private sector, as well as activities that improve industry-academia linkages between investment in research and development and the specific technology and innovation needs of the private sector, thus increasing the absorption rate by firms of technological advances discovered through these investments. The Bank will continue supporting GoP to improve the governance of the innovation system and improve innovation resources and financing, thus enhancing productivity and investment. Under this objective the Bank will also contribute to gender equality, by increasing the participation of women in Peru's technology and innovation system. The Bank will also continue to support the adoption of new technologies and practices in the fisheries and aquaculture value chains, with a view to reducing reliance on capture fisheries. IFC, through upstream, advisory, and investment will continue to support initiatives that foster greater access to quality affordable education. Skill acquisition, student experience and operational efficiencies will be promoted through digital transformation programs such as D4TEP (Digital for Tertiary Education Program) and IFC will continue supporting best practices in employability through Vitae. The IFC-TechEmerge Program will enhance local capacity to develop and adopt innovative cooling technologies and business models. MIGA will explore opportunities to provide political risk guarantees, including in support of PPPs as well as cross-border private sector investment in strategic areas such as climate finance, gender finance, and sustainable infrastructure.

²⁵ These investments will be implemented under the Integrated Forest Landscape Management (FIP) Project in Atalaya, Ucayali, while the Inter-American Development Bank (IDB) is responsible for three additional FIP projects.

HLO-2. Improved access to quality public services

60. **The limited progress in addressing the current gaps in service delivery is correlated with the weak capacity of public institutions as evidenced in the SCD Update.** Institutional instability has substantially increased since 2016, further weakening the capacity of the state to design and implement needed reforms and deliver quality services across the territory. In this challenging context, Peru needs to look for new drivers of growth for the following decades. More broadly, accelerating long-term economic growth requires improving connecting infrastructure and public services, raising human capital, and streamlining rigidities in markets for factors and products. Accomplishing these goals requires increasing state capacity to regulate and enforce the law effectively, provide quality services, and cope with diverse shocks, particularly climate-related shocks which are increasing in occurrence and intensity. With a view to increasing transparency, predictability, and fairness, the WB will seek opportunities to strengthen state capacity, both at national and subnational levels, for delivery of services through Objective 3 “Enhance the delivery of public services,” and Objective 4, “Strengthen institutional capacity and effectiveness at national and subnational levels.”

Objective 3. Enhance the delivery of public services

61. **The WBG will contribute through technical assistance and investment financing to support access to quality services, particularly in transport and water and sanitation as well as in health, education, energy, and housing.** Investments in water and sanitation will be implemented under the WBG Modernization of Water Supply and Sanitation Services (P157403) project and the proposed SEDAPAL Preparing for the Future (P172236) and Transitioning to a Climate-Resilient Water Sector Project (P180392) projects; and IFC will provide structuring assistance and transaction advice for PPPs in water and sanitation. The Bank transport investments will reflect both urban mobility and rural transport investments, mainly through the Support to the Subnational Transport Program, the Lima *Metropolitano* North Extension (P170595), a planned Lima Traffic Management and Sustainable Transport project, and the Cusco Transport Investment Project, as well as the Rural Transport Infrastructure, Services and Logistics Support project. To expand transport connectivity, IFC will explore investments in ports and airport expansions. IFC aims to expand access to the internet by seeking opportunities to finance telecom and infrastructure sharing projects (fixed and mobile) to integrate urban and rural areas. MIGA’s guarantees in support of Banco Santander in Peru will continue to provide financial resources for the development of road and energy infrastructure projects. Investments in electricity transmission with a view to improving service for the poorest communities will also be made over the CPF period. Emphasis will be given to enhancing the resilience of core service delivery systems, such as the water and sanitation network in particularly risk-prone areas (e.g., the San Juan de Lurigancho district in metropolitan Lima), the electricity transmission network in rural areas, and the resilience of local roads network in rural areas. Building on the innovative support to the Lima water and sanitation utility (SEDAPAL-*Servicio de Agua Potable y Alcantarillado*) to strengthen resilience, the Bank will expand its support to secondary cities and rural areas in making water utilities and networks more climate resilient. MIGA, through its guarantees in support of *Fondo MiVivienda*, will continue to contribute to the provision of sustainable social housing, reducing the country’s housing deficit and improving new homeowners’ quality of life, while providing access to electricity and water and sanitation. MIGA, together with IFC, will identify opportunities to attract foreign investments in the water, education, and health sectors, which will contribute to narrowing the infrastructure gaps in the country.

Box 2. Enhancing the delivery of services for women across the CPF program

Several operations under implementation or preparation during FY23-FY27 will contribute to improving services for women in multiple areas as follows:

- **Emergency services.** The WB will contribute to responding more efficiently to emergencies, urgencies, and associated helpline requests, and shorten the call answer time and connection time, particularly benefitting women who are seeking help in the face of gender-based violence in the Lima Metropolitan area and Callao²⁶.
- **Financial Services.** According to 2021 Global Findex data, Peru has a significant financial inclusion gender gap with men 9 percentage points more likely than women to own an account. Studies have found that women's financial inclusion in Peru is constrained by inequalities in labor market outcomes and differences in the level of education, but is also exacerbated by poor product design, high costs, lower trust in financial institutions, and limited opportunities for financial education. The WB is supporting reforms to improve financial inclusion, household resiliency, and competition in Peru's financial sector. Women's financial inclusion is expected to benefit, as new providers can address cost, product design, and trust barriers that currently constrain women's access and use of financial products and services (see Annex 1, indicator 6.2.).²⁷
- **Higher Education.** Women, despite being more likely to attend university than men, are less likely to study STEM (science, technology, engineering, and math) fields or to pursue a doctorate program. The WB aims to contribute to gender equality by increasing the participation of women in Peru's science and technology system promoting women competitive grants and doctoral scholarship programs (see Annex 1, indicator 2.3).²⁸
- **Urban transport.** Once the north extension of the Bus Rapid Transit project is completed, the WB will be able to contribute to efforts to improve women's access to urban transport and diminish sexual harassment in urban transport. The WB is supporting the development of a response protocol for cases of sexual harassment in the *Metropolitano*, and its call center is collecting these complaints.²⁹ Currently, 48.5 percent of *Metropolitano* BRT's users are women.
- **Violence against women.** The WB, through technical assistance, has been working with the Ministry of Women and Vulnerable Populations in the development of innovative strategies, including a mobile application to prevent and respond to situations of violence against women, a prevention course of sexual harassment in universities, and communication strategies for prevention and awareness raising on the topic mainly aimed at youth. The focus during this CPF period will be on changing harmful social and gender norms that justify violence and to design strategies at the local level.

62. **Investments in infrastructure will combine with other investments to improve services in social sectors, such as health.** The WBG will continue its involvement in the health sector through the Integrated Health Networks (P163255) and Health Information Systems for Improving Service Delivery (P177822) projects. Considering that 1.4 million Venezuelan migrants/refugees live in Peru and that this constitutes a challenge for better service provision, particularly in urban areas, the WB will continue providing technical assistance to the Ministry of Education for developing strategies for inclusive education and attention to diversity, with a focus on interculturalism and gender equality, including with respect to migrant and refugee populations. In addition, the World Bank will continue providing assistance for the implementation of these guidelines in public and private educational institutions nationwide, through the development of educational programs that address the socioemotional well-being of all students while

²⁶ Centralized Emergency Response System project (P170658).

²⁷ Enabling a Green and Resilient Development DPF (P177765).

²⁸ Strengthening Peru's National Science, Technology and Innovation System IPF (p176297).

²⁹ Lima Metropolitan North Extension project (P170595).

recognizing and addressing the diversity of indigenous people, Afro-descendants, migrants, and refugees. To increase the access and quality of services, IFC will also provide structuring assistance and transaction advice to PPPs for social infrastructure projects and explore opportunities to invest in those for hospitals and schools. Going forward, IFC will offer Advanced Practices for Environmental Excellence in Cities (APEX) to municipalities to assess and prioritize low-carbon investment opportunities within municipalities' climate action plans. WB Efforts in higher education and social protection are detailed under HLO 1 and HLO 3, respectively.

63. IFC sustainable infrastructure advisory contributes to improve the understanding of gender gaps in the sector and provides recommendations on how to address them. An assessment conducted for Lima Airport Partners (LAP) analyzed the gender gaps in its workforce, supply chain, community engagement, users, and gender-based violence/sexual harassment concerns. Recommendations focused on: (a) systematization and integration of the different efforts on gender under one strategy and action plan, including indicators to measure and monitor progress; (b) better communication of the business case for diversity; and (c) integration of sector best practices to continue increasing workforce and supply chain diversity and to strengthen the relationship with communities. IFC expects to continue working with LAP on gender, to cover the airport expansion project and provide support in the implementation of recommended actions. In addition, IFC's Gender and Infrastructure Toolkit which can be used in transport and cities projects will continue to be part of the offering and will be widely disseminated across sector stakeholders in sectoral events (e.g., PERUMIN in mining, ARPEL in gas and renewable energy, and Women in Energy).

Objective 4. Strengthen institutional effectiveness at national and subnational levels

64. Peru's democracy has been stable over the years, but recently a volatile political environment has affected the country's institutional capital in areas that are critical for effective service delivery. To better serve citizens, governing institutions and accountability systems need to be strengthened with a view to increasing efficiency and transparency of the public sector. At the central level, inefficiency, limited accountability, and corruption scandals in the judicial system in 2018 triggered an important ongoing reform process that needs to be continued to increase efficiency, transparency, and access to justice services in the country. At the subnational level, Peru has experienced a sustained process of decentralization since the early 2000s, but this fell short of its goal of improving service delivery at the local level. Population and economic activity in Peru continue to be highly concentrated in Lima, which accounts for 32 percent of the population and almost 50 percent of GDP. Welfare gaps across districts account for 46 percent of the overall welfare inequality at the national level in Peru. Lack of technical capacity of regional and municipal governments, weak risk- and financial management practices, and the difficulty of coordinating efforts both horizontally and vertically have adversely affected both public and private investment at the local level. The high turnover and capacity gaps in the civil service are flagged as some of the key challenges the country faces to improving public and private investment management, execution, and supervision. Outcomes in this area in the previous CPF were impeded by frequent change in leadership, which affected the pace of implementation.

65. At the national level, the Bank is providing selective support in the areas of governance and anticorruption. Investments are focused on enhancing efficiency and access to justice services for civil cases, to scale up the electronic case management system nationwide, and increase access to justice for

underserved populations. Through technical assistance the Bank will continue sharing international good practices to leverage capacity in transparency and oversight of public funds. Particular emphasis will be placed on supporting the Peru Supreme Audit Institution (CGR) given its core mandate for the oversight of public funds at all levels of government. In the past, the Bank has provided technical assistance to improve the oversight of key sectors (such as health and public investment) as well as audit methodologies through adopting modern audit techniques, such as performance auditing. The Bank will continue seeking opportunities to strengthen collaboration with *Social Accountability International* building on the memorandum of understanding signed between the Bank and CGR in 2020.

66. **The Bank will deepen engagement in the justice sector.** The Judicial Electronic File (*Expediente Judicial Electronico*, EJE) is a major organizational reform in the Judiciary, with significant impact on anticorruption and good governance in the country. The EJE is an automated case management system for non-criminal cases which the Judiciary launched as a pilot in 2017. It is focused on assuring more expedited and transparent justice services using new IT tools. This service allows users to: (a) access to information, such as web consultation, e-repository, e-agenda, e-jurisprudence, and e-newsletter, and publication of decisions of key stages of the process, including admission, notification, and sentence; (b) presentation of documents or requests related to a case, such as the e-reception desk, e-child travels and e-debtors request; and (c) quick execution of decisions or preventive measures ordered by the court, such as e-seizures, e-judicial auction, and e-edict. The goal will be to advance and complete the digitalization of the non-criminal justice services through EJE and to broaden access to justice across the country by expanding and improving free legal assistance and mobile courts in urban and rural areas, with a specific emphasis on management of cases that involve vulnerable women. Beyond the implementation of the EJE itself, the project supports enhancements of the management model at the Constitutional Tribunal to adapt procedures to the EJE and ensure interoperability. Building on IT solutions and other improvements, the project will strengthen performance management, accountability, integrity, and internal control mechanisms in the justice sector. In addition, the WBG will continue supporting capacity-building activities to improve skill profiles (qualifications and competencies) of justice sector personnel (e.g., through the Justice Training Academy).

67. **At the subnational level, the Bank will support government reforms aimed at reinstating the fiscal sustainability of local governments with selective investments to improve revenue collection and digitalization of local services as well as improve tourism at selected regional sites.** The Bank program, through the National Urban Cadaster and Municipal Support Project (P162278), will contribute to improve the coverage of urban cadaster services in selected municipalities to enhance local government capacities for revenue generation and urban management. Municipalities could greatly improve their capacity to manage urbanization in a more sustainable way by leveraging updated cadastral information in urban areas. In addition, to improve the use of resources generated by mining projects at the subnational level, IFC will support Moquegua Crece shared value platform, in partnership with private companies and the Regional Government of Moquegua, to contribute to building SNGs' institutional capacity to prioritize infrastructure and services projects that are in line with the regional development plan, and manage revenues generated by mining activities more effectively to respond to community needs. The Bank will support more broad-based territorial development in the resource rich southern regions through investments in basic service delivery improvements and promotion of local economic development.

HLO-3: Increased Resilience to Shocks

68. **HLO3 focuses both on maintaining resilience to macro-economic shocks while also building resilience to climate-related and other shocks that affect human welfare.** Such reforms can be linked to areas where the WBG is currently active in terms of investment lending, such as energy, transport, water and sanitation, and urban development, and with ongoing technical assistance initiatives, such as improving the incorporation of climate co-benefits for investment planning and strengthening of urban governance and disaster-risk management frameworks. Investments financed by the Bank in these sectors will deepen their emphasis on strengthening climate resilience and prepare sector-institutions with the tools and instruments to better plan, invest and operate infrastructure and service networks against increasing climate-related shocks. Stronger emphasis will also be given on creating economic opportunities and local benefits from interventions in sustainable forestry and landscape management to support protecting Peru's vast natural capital in the Amazon's forested areas while leveraging its development potential. The WBG will consolidate its support on the climate-change agenda and resilience of the country, including external shocks, national debt sustainability, and pandemics with a combination of development policy financing to support policy reforms in this area, investment projects, and ASA, such as in the forestry sector. To this end, the proposed CPF focuses on Objective 5, "Enhance climate-change mitigation and adaptation," and Objective 6, "Strengthen mechanisms to protect people against shocks."

Objective 5. Enhance climate-change mitigation and adaptation

69. **Peru is highly vulnerable to natural hazards (e.g., earthquakes, floods, landslides, and droughts), and climate change is expected to further increase their intensity and impact.** The country needs to increase resilience and adaptation capacity as climate risks threaten Peru's development path. As the world's third largest fish producer and one of the leading exporters of fruits and vegetables, Peru's reliance on freshwater from glaciers make it particularly vulnerable. Water supply from glacier melts is likely to reduce significantly as early as 2030, and the increased frequency of droughts, floods, frost, and cold waves will heavily impact the agriculture sector. Poor and vulnerable populations are already more affected by natural hazards and without putting additional emphasis on adaptation, climate change will slow Peru's efforts to reduce poverty. Investments in improving urban water and sanitation services in metropolitan Lima will prioritize rapidly growing informal areas that are particularly exposed to climate risks and natural hazards, while at the same time helping SEDAPAL enhancing service provision resilience, including through technical innovations, financing strategies and planning under uncertainty.

70. **At the same time, Peru can benefit from the under-utilized productive potential of its green and blue economy assets.** Land use change and forestry are responsible for most of Peru's greenhouse gas emissions, but sustainable forest- and landscape management can provide the foundation for supporting broad-based economic development—particularly in Peru's poorer lagging regions. The Bank will continue supporting Peru's Forest Investment Program through the Integrated Forest Landscape Management Project in Atalaya (P163023) and provide support to scaling-up this effort through promoting sustainable forest- and landscape management and forest restoration within and outside of natural protected areas with a new investment operation under preparation. The proposed second phase of the Fisheries and Aquaculture Innovation program will also give stronger emphasis on strengthening climate resilience, along with new investments in irrigation for climate-resilient agriculture. The Bank will also support policy and regulatory changes, and possibly investments, to help improve conditions for more sustainable and green mining.

71. **The Bank will continue supporting policy reforms for climate change mitigation and adaptation.** Building on the engagement in the previous CPF, where innovative instruments such as Catastrophe Bonds (CAT Bonds) and Catastrophe Deferred Drawdown Option (CAT DDO) were successfully implemented, the Bank is better positioned to support the GoP's efforts to mainstream climate action in its development agenda. This support needs to be sustained over the long term given the significant challenges of relatively few national sectors with climate-change mitigation and adaptation measures in their planning and budgeting, and the limited coordination and steering mechanisms to align regional government efforts with national objectives.

72. **Strong links between Bank technical assistance, investment operations, and development policy operations are critical for the successful implementation of this objective.** The WBG will support development policy actions linked to areas where the Bank is currently active in terms of investment lending, such as energy, irrigation, transport, and urban development. Reforms will also be supported by ongoing technical assistance initiatives, such as improving the incorporation of climate co-benefits for investment planning and strengthening of urban governance and disaster-risk management frameworks. Water and transport projects already underway or planned will incorporate elements of resilient infrastructure, including utility institutional capacity for climate-informed planning, budgeting, and operation of service delivery networks. Ongoing efforts to de-carbonize the transport and energy sectors will be further accelerated, including through support of mass-transit urban mobility and non-motorized transport solutions for metropolitan Lima, and increasing the share of renewable energy generation. The Bank will provide technical assistance to support policy analyses and dialogues examining policy and institutional reform priorities for the development of commercial forest plantations, eco-tourism development, and forest restoration and financing. In addition, the Bank will look for a stronger emphasis on economic opportunities and local benefits from interventions in sustainable forestry and land management through additional investments in this sector and explore further entry points for supporting climate-smart and resilient agriculture and food systems.

73. **With regard to indigenous peoples and native communities, the WB will continue working through indigenous peoples' organizations to improve land titling and support other sustainable forest management activities**³⁰. Both technical and financial support for institutional capacity strengthening is essential to engage these communities in the climate dialogue and decision making. The WB will support the development of a more structured, permanent governance framework for the participation of indigenous peoples' organizations in the Forest Investment Plan, with a view to reducing emissions from deforestation and forest degradation. Physical visits and training sessions specifically targeted to women are essential to increase the number of women-led projects as well as women's participation in decision making processes.

74. **The WBG will also seek opportunities to engage the private sector to mobilize the resources needed to bridge the climate finance gap.** IFC will advance the development of the green taxonomy and scale green financing implementation, and it will seek opportunities to support financial institutions in integrating environmental, social, and governance standards and climate finance products in their lending business. It will also support financial intermediaries through capacity-building activities to better understand their green/blue portfolio composition, and to increase their on-lending for green/blue investments in different sectors per the taxonomy. IFC will explore opportunities to finance a new

³⁰ Please see Implementation Completion Report (ICR) Review of Dedicated Grant Mechanism in Peru (P148499).

generation of non-conventional renewable energy. To build capacity in the ecosystem for green construction and building certification, IFC will provide advice to developers and construction sector players on the adoption of sustainable construction standards. It will also finance and advise producers of construction materials to decarbonize their operations and develop low-carbon products. IFC will also explore with Financial Information Services and exporters opportunities for the development of financial products or solutions to support smaller producers sourcing export value chains. In line with its business and strategy outlook, MIGA will aim to use its political risk insurance and credit enhancement products to scale up climate finance lending in Peru.

Objective 6. Strengthen mechanisms to protect people against shocks

75. **While Peru’s sound macro-economic management has enabled the country to respond well to economic and climatic shocks, the experience with the recent COVID-19 pandemic revealed structural weaknesses in the social security and health systems that underscore the need to strengthen the capacity of the state to protect people against shocks.** Given that Peru’s exposure to these shocks is only likely to increase, protection mechanisms need to be strengthened. Clear institutional arrangements for public financial management during emergencies are in place, but there is no comprehensive assessment of the physical risks to the country. Building resilience to shocks requires that sectoral institutions, data, and policies be strengthened. In addition, access to basic financial services is critical for poverty reduction and inclusive economic growth. Inclusive financial systems increase the resilience of vulnerable populations by enabling them to access financial support during economic shocks—including as a result of climate change—from social networks and governments (e.g., through digital payments), as well as their own savings.

76. **The recent crisis triggered by the COVID-19 pandemic also revealed significant weaknesses of the social protection system to protect the poor and vulnerable against shocks.** Emergency response mechanisms have been cumbersome and ineffective, and safety nets and their targeting system (SINAFO) have not been comprehensive or agile enough. The country needs to push forward a reform agenda to have a more adaptive social protection system focusing on (a) expanding the coverage and benefits of the main social safety nets (SSNs) to increase the resilience of the poor, and (b) ensuring that the delivery system around SSNs, especially the targeting and payment systems, are strengthened and adapted to serve population affected by climate-related shocks and other risks. The WBG will continue strengthening the National Registry for Households, as it did in response to the COVID-19 pandemic, through ASA and new investments to improve the management of SINAFO to increase the efficiency of the public interventions it serves. The WBG will also continue supporting GoP efforts to close the gap in access to basic financial services, supporting reforms to improve financial inclusion and promote competition in the financial system.

3.6 IMPLEMENTING THE CPF

77. **An indicative IBRD lending program of approximately \$5 billion is envisioned across the CPF’s five-year timeframe.** The program is expected to include a mix of development policy financing and investment financing. The actual volume of IBRD lending will ultimately depend on the type of instruments used, country and program performance, IBRD financial capacity and the availability of alternative sources of borrowing such as sovereign bonds, and global macroeconomic and financial market developments.

Additionally, the WBG will continue to provide high-value ASAs to inform policy dialogue and respond to GoP's need for just-in-time analysis as well as to support the design and implementation of investment projects.

78. IFC's investment and mobilization portfolio, totaling \$445 million in commitments as of June 2022, is expected to increase over the CPF period.³¹ In FY21 and FY22, the portfolio showed an upward trend, and business development efforts are now generating a strong pipeline of operations. The advisory portfolio, comprised of 23 projects, is one of the largest in LAC. Advisory activities cover a wide range of areas, such as the promotion of financial inclusion, improving digitalization of tertiary education institutions, improving capacity for green building construction and certification, and providing advice for PPP structuring for the development of the ecosystem for digital financial services. Upstream activities will include supporting subnational governments to develop infrastructure for basic services, and developing solutions for financial inclusion and for the decarbonization of manufacturing sectors and the production of construction materials

79. MIGA is actively supporting foreign private investors in Peru, through its political risk guarantees and credit enhancement instruments, with a gross outstanding exposure of \$693 million as of June 2022. This is the third-largest exposure in Latin America and the ninth in the MIGA portfolio overall. Projects currently supported are in the financial sector and aim at increasing access to credit for climate finance projects and green social mortgages. During the CPF period, MIGA will continue to support foreign private investors and cross-border commercial lenders in de-risking new projects in Peru, with particular attention to those that promote employment generation while supporting green, resilient, and inclusive recovery. MIGA will work jointly with IBRD and IFC to mobilize the foreign private sector in support of the principles of maximizing financing for development through its guarantee instrument.

80. Similar to the previous CPF period, one of the main challenges to timely delivery is constant staff changes across sectors. To mitigate this factor, the Bank has agreed with MEF to request Project Implementation Units (PIUs) to develop annual roadmaps with clear milestones, to establish the priorities of project activities and thus avoid frequent changes in decisions as a consequence of staff turnover. The WB will also continue expanding the Hands-on Expanded Implementation Support (HEIS) approach started in the previous CPF and will also increase the capacity building and technical assistance it provides with regard to the Bank safeguards policies and, especially, the Environmental and Social Framework (ESF). The CPF program also considers strengthening communication aspects across the full portfolio and fostering ASA dissemination.

81. Proper environmental and social (E&S) issues management is an area where numerous inefficiencies, bottlenecks and sensitivities persist. Peruvian norms are well aligned with international standards in several areas, such as in the application of a law and regulation on the Right to Prior Consultation for Indigenous Peoples affected by certain types of investment projects. Actual application of the established E&S policies, laws and regulations, however, is a frequent shortcoming and exacerbated by the continual staff turnover referenced above. Certain transitional processes, such as the centralization of the review and approval of Environmental Impact Assessment (EIA) reports prepared for projects in different sectors, have been under implementation since the last CPF period, leading to a lack of inter-institutional coordination and long delays in the issuance of environmental licenses for projects. Where the national norms and ESF requirements are not very well aligned—for example, in the development of EIA reports at a certain level of detail, or the compensation for land acquisition for a project—the

³¹ Including IFC's additional mobilized resources ascending to \$64 million.

implementing entities tend to fall back on the familiar but weaker standards, which can adversely impact E&S sustainability. The WB will address these challenges by continuing to work with the relevant ministries to: 1) promote reforms that strengthen E&S management systems and the norms and procedures underlying them, at the policy level; and 2) find flexible and practical ways to apply the ESF Standards while also adhering to international good practices, at the project level.

82. Peru's public financial management framework is closely aligned with good international practices, although some shortcomings exist. The WB will thus continue providing financial management support for PIUs and will promote the increased use of technology, aimed at facilitating compliance with best practice financial management requirements while maintaining adequate levels of transparency and accountability. The Bank will also maintain close coordination with the Office of the Comptroller General and, when feasible, the Bank will provide technical assistance by sharing good practices and promoting knowledge exchange to leverage the Office's capacity for the oversight of public funds. The Bank will also support the improvement of transparency of fiscal and financial accounts of the public and private sectors. At the public sector level, the Bank is well positioned to provide support for the gradual implementation of International Public Sector Accounting Standards, especially at the subnational level, and those related to sustainability reporting that aim to enhance climate-related disclosures. At the private sector level, the Bank will work with MEF in updating the Report on the Observance of Standards and Codes on Accounting and Auditing to assess the level of alignment with international standards within the corporate sector in Peru and determine areas for improvement.

83. As under the previous CPF, close coordination with Peru's development partners is considered fundamental for CPF implementation. Close coordination will be sought with IDB and the CAF, particularly in sectors where projects are co-financed, such as health and transportation. For some strategic knowledge activities in topics such as tax compliance, digital inclusion, and disaster-risk management, the Swiss Cooperation will continue to be essential. Partnership with UN agencies, the European Union, and bilateral entities will continue to be highly relevant to build synergies around topics that need heightened public awareness in Peru, such as migration, early childhood challenges, and gender violence. The WBG will continue to participate in various cooperation groups operating in the country.

IV. MANAGING RISKS TO THE CPF PROGRAM

84. While the CPF's overall risk is rated as Moderate, the Political and Governance risk and Institutional Capacity risk are rated Substantial. Increased political volatility and tensions between the Executive and Congress impede consensus on reforms and limit the ambition of the program to some degree. Both these risks have increased since the last CPF due to frequent changes in administration and the constant turnover of staff at all levels of the public sector. Political and Governance risk is mitigated in part by the focus of the program on reforms that have broad political consensus for approval and implementation, such as private sector development (HLO1), investment in better services (HLO2), and climate change (HLO3). These risks are also mitigated by the strong relationship between WBG and GoP, broad consultations related to the CPF program, flexibility in the CPF's design to respond to changes in the operating context and enabling frequent dialogue with key stakeholders such as academia, think-tanks, international cooperation, and other civil society organizations. Further efforts will be made to engage strategically with stakeholders on the WBG's analytics and programs with a view to influencing the terms of the public debate on development priorities and policies.

85. **Institutional Capacity risk is mitigated by the provision by WB staff of training on fiduciary aspects, day-to-day implementation support, and close monitoring, supported in part by increased decentralization of technical staff.** Looking ahead, the WBG will work closely with MEF to identify mechanisms to better support PIUs in effective project implementation and the efficient use of public resources. These mechanisms could include the establishment of a Steering Committee comprised of representatives from the Bank, the line ministry, and MEF that can address implementation bottlenecks that arise during implementation of specific investment projects. The Bank and MEF will also explore other potential mechanisms, drawing from relevant experience in other countries and tailoring solutions to the specific context in Peru. The WBG will monitor these risks throughout program implementation and will identify measures to mitigate their impact on the outcomes of WBG-financed interventions and the development objectives of the client.

Table 3: Risks to the CPF Program

Risk Categories	Rating (H, S, M, L)
Political and governance	Substantial
Macroeconomic	Moderate
Sector strategies and policies	Moderate
Technical design of project or program	Low
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Moderate
Environment and social	Moderate
Stakeholders	Low
Overall	Moderate

Annex 1: Peru CPF Results Matrix

High-Level Outcome 1 (HLO 1) Increased access to quality economic opportunities for workers and entrepreneurs		
Identified in Peru Systematic Country Diagnostic (P500106), August 2022		
High-Level Outcome Indicators	Data source	Current value
Average labor productivity (includes formal and informal workers)	INEI (2022)	PBI/PEA (2021)= 30,398.47 soles constantes 2007
Job Quality Index (JQI)	World Bank (https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-10134)	Current Value (2019): Female: 0.52 Male: 0.62
<p>High-Level Outcome description</p> <p>Rationale. Increasing productivity is critical to achieve higher growth and quality formal jobs, both of which are the basis for inclusive development. In Peru, a few large firms with high labor productivity coexist with an overwhelming quantity of small firms whose labor productivity is low. The labor productivity differential of large companies relative to MSMEs is larger in Peru than other LAC countries and in OECD countries. Even before the onset of COVID-19, nearly three-quarters of jobs were in the informal sector, which tend to be of very low quality—measured in terms of benefits, wages, stability, and satisfaction. The pandemic destroyed productive formal jobs disproportionately. The CPSD (forthcoming) points to misallocation of capital and workers not only across firms and sectors but also across geographical space. Firms outside Lima and other coastal regions are disproportionately less productive. In addition, rigid and costly labor market regulations widen the quality divide between formal jobs in large productive firms and informal jobs in micro and small firms. Inefficient land markets stifle public and private investments. Ineffective procedures for environmental and social safeguards in investment projects and sector regulation offer limited environmental and social protection while hindering investments.</p> <p>The misallocation of capital and workers in the informal economy depresses innovation and reduces access to credit, foreign technology, and global value chains—all of which are key drivers of productivity. The geographical misallocation further translates into other spatial disparities, including fiscal resources for public services. Boosting productivity requires (a) mobilizing productive private investments, including toward new, competitive, and sustainable activities, and (b) increasing skills and innovation within firms.</p> <p>WBG engagement. The WBG engagement will focus on areas that enjoy broad-based political consensus and contribute to the positively reinforcing links between productivity and formality. It will entail strong involvement of IFC and MIGA. Support to policy programs will open new avenues for private investment, including through PPPs. Technical assistance by WB and IFC will aim at mobilizing sustainable private finance, including for SME growth. IFC technical assistance will support specific regions through pro-competition reforms. MIGA guarantees will support increasing access to finance and social housing while targeting vulnerable populations. WB support to investment projects will focus on tapping into new sources of competitiveness based on sustainable use of natural capital, including forestry, mining,</p>		

and tourism, with a strong potential to unleash substantial private investment. Investment projects will further support innovation in specific value chains with a strong focus on solutions that support climate-change adaptation or mitigation as well as development of technical skills among workers.

Lessons learned. The contribution of total factor productivity (TFP) to GDP growth has been negative since 2013, counteracting the positive effect of labor and capital accumulation. Informality and low-quality jobs also reflect in the evolution of aggregate productivity, which has been slowly declining. The CPSD identifies the need for investment in technology adoption and innovation development to foster private sector development and productivity. Cross-cutting drivers to improve productivity include simplification of business regulation, reduced operational costs to firms by improving public services (such as transport, security, justice), and support for labor productivity through the accumulation of human capital (SCD Update). Inefficient land markets stifle private investments. Ineffective procedures for environmental and social safeguards in investment projects and sector regulation offer limited environmental and social protection while hindering private investments. Factors that affect unequal private sector development across the regions are insufficient subnational government capacity and institutional coordination.

SDGs Associated. HLO 1 relates to SDG8—Decent Work and Economic Growth.

CPF Objective 1: Mobilize sustainable private capital and sustainable use of natural capital

Previous CPF: Ease barriers to formalization

Intervention Logic

Rationale for the CPF objective and WBG engagement. Peru’s growth strategy in recent decades has rested mainly on the growth of private investment. Between 2004 and 2013, close to fifty percent of the average growth rate of 6.1 percent was explained by the contribution of private sector to total investment. This resulted in the thickening of the middle class and the increase in income of the bottom 40 percent of the population in greater proportion than the average. Sustaining high levels of private investment into productive and competitive firms and sectors is as important as mobilizing capital for new opportunities that underpin green competitiveness. Private capital can contribute to develop new sources of competitiveness when linked to sustainable use of natural capital (e.g., forestry landscapes). Private investment execution can also support expansion of productivity-enhancing public services.

World Bank technical assistance (TA) has been supporting capital markets development and sustainable finance since 2017 and has identified opportunities to tap into supply of private capital for climate adaptation and mitigation purposes (green finance). World Bank analysis of Peru’s PPP projects from 2010 to 2020 noted the need to mainstream climate considerations within these projects. This requires integrating climate mitigation, adaptation, and resilience criteria as part of the methodology for prioritizing projects in the National Infrastructure Plan. More broadly, WB has been advising on regulatory reform to promote competition, including in the financial sector.

Lessons learned and knowledge at the program level. Sustained technical dialogue with counterpart institutions across several electoral cycles and administrations has led to well-sequenced and incremental reform, and—more importantly—institutional capacity development. Trust Funds were instrumental in achieving results in such “institutional islands of excellence.” Strong implementation support through increased communication with agencies and increased operational oversight and training provided to local counterparts, will ensure sustainability of projects. Customizing approaches to suit the capacity of project implementation teams, and when feasible sharing good practices, will help enhance the capacity of private sector regulators and of oversight institutions.

WBG ongoing and planned support to this CPF Objective. Support to policy design will focus on improving the frameworks to mobilize private capital for PPP and private execution of investment projects (*Obras por impuestos*). The WBG will support the development of a green asset class (e.g. through sustainable bond framework, green taxonomy). IFC support is needed by financial institutions to strengthen their capital base and comply with new Basel III provisions. IFC will also explore opportunities for thematic financing (e.g., gender, sustainable finance). The WBG will aim to scale access to financial services with a focus on digitalization through regulatory reform, including on open banking. The WBG will provide support to the National Institute of the Defense of Competition and the Protection of Intellectual Property (INDECOP) with fostering regulatory reforms that remove barriers to efficiency-enhancing firm entry and growth in specific markets, at the subnational level. IFC will also assess the feasibility of a financing facility for companies participating in *Obras por impuestos*, and jointly with the Bank and UNICEF, will promote the use of this mechanism in school infrastructure projects. IFC will provide capacity building to the Commission for Promotion of Export and Tourism (PROMPERU) for investment promotion in selected sectors (agribusiness, clean energy, and tourism). IFC advisory work with *Proinversion* in the structuring of PPP projects will continue. MIGA will seek to expand its presence in support of the financial sector of Peru, increasing access to finance for climate finance, gender finance, and sustainable infrastructure.

Through the LAC Financial Infrastructure Program in Peru, funded by Switzerland's State Secretariat for Economic Affairs (SECO), IFC will support the development of tools that allow SMEs and agricultural producers to leverage electronic invoices and digitized crop receipts for financing. WB technical assistance to tax policy and administration may also include improvements that increase incentives for SME formalization. This will be underpinned by new analytical insights on links between informality and productivity in the forthcoming Country Economic Memorandum.

With a view to strengthening the management of Peru's extensive natural capital, the Bank will support national competitiveness and sustainability in the mining sector, including through regulatory reform, along with the creation of opportunities for associated communities. The WB will further help strengthen the sustainable management and use of forest landscapes. It will support developing opportunities for sustainable revenue-generating activities across Peru's biodiverse landscapes, including through tourism services.

Knowledge gaps. The Bank will help identify key drivers of faster and more inclusive growth while reducing GHG emissions. This will include identification of sustainable, productive uses of natural capital, but also deeper understanding of the provision of public goods to enhance the sustainable and higher-return use of natural capital. There is further need to understand key constraints to productivity growth of informal sectors. Finally, the Bank can help identify how public investment and institutional capacity can be strengthened to create a more favorable and predictable environment for private investment.

Key Risks and Mitigation. The overall political environment with high volatility poses risks for policy dialogue as well as for private investment as such. The Bank will focus on technical areas of consensus and support with hands-on technical assistance. The team will embed flexibility in the operations to accommodate shifting government priorities. A risk for the development of the investment pipeline with financial intermediaries is a change in liquidity conditions.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1.1: Index of forest entrepreneurship³² Baseline: 0 (2021) Target: 60 (2026) Source: P163023</p> <p>Indicator 1.2: Outstanding MSME Portfolio (US\$ M) and (# loans) Baseline (2021): US\$ 4,060MM and 1.3M loans Target (2025) US\$ 6,200MM and 1.9M loans Source: IFC Development Outcome Tracking System</p> <p>Indicator 1.3: Access to finance for women: Outstanding Microfinance Portfolio (\$) and (# of loans) Baseline (2021): US\$ 939MM and 595,000 loans Target (2025): US\$ 1,850MM and 880,000 loans Source: IFC Development Outcome Tracking System (DOTS).</p> <p>Indicator 1.4.: Percentage increase of Assets Under Management in the financial system invested in green assets Baseline: 0 (2022) Target: 25 % (2026) Source: P178591</p>	<p>Indicator: PPP projects that are included in the National Infrastructure Plan for Sustainability and Competitiveness are prioritized and awarded following the climate-informed environmental sustainability criteria Baseline No (2022) Target Yes (2024) Source: P178591</p>	<p>Ongoing Financing: -Peru: Enabling a Green and Resilient Development DPF (P177765) -Peru Sustainable Growth and Finance DPF-DDO (P178591) - Integrated Forest Landscape Management project (P163023)</p> <p>Financing Pipeline: -Enabling a Green and Resilient Development DPF II (P179214) -Peru Tourism Project (P174944) -Territorial Development in the Mining Corridor project -Support to mining sector -Sustainable Forestry project -Second National Fisheries and Aquaculture Project (PNIPA-2) -Climate-resilient Irrigation Project</p> <p>ASA: -Peru Technical Assistance on Tax (P160517) -J-CAP—Peru Sustainable Long-Term Finance Facility (P178548) -Peru Country Economic Memorandum (P177645) -Analytical Work on Mining Industry: Challenges and Recommendations for Sustaining Competitiveness</p> <p>IFC portfolio and pipeline -Mi Banco Peru (53807) -Caja Arequipa (783265) -LAC Financial Infrastructure Program (600865) -FIG investment pipeline (e.g., green bonds and SME and gender finance), and advisory services to financial</p>

³² This indicator measures the capacity of forest enterprises to add value in processing and marketing of forest products from the targeted forest landscapes. The index is expected to be comprised of the following dimensions: (i) establishment and organization of forest enterprise, (ii) number of value chains, (iii) number of products sold on the market, and (iv) production volume.

		intermediaries MIGA: -Banco Santander Peru (Project ID 14247) -Fondo Mivivienda Peru (Project ID 14994) -Fondo Mivivienda Peru II (pipeline)
CPF Objective 2: Improve innovation and technical skills		
Previous CPF: Facilitate absorption of skills and technology especially by small- and medium-sized business		
<p>Intervention Logic</p> <p>Rationale for the CPF objective and WBG engagement. Innovation is limited in Peru, the result of low investment in research and development (R&D). Between 2002 and 2020, spending on R&D was just 0.1 percent of GDP, well below the LAC average of 0.7 percent and 1.2 percent for upper-middle-income countries. Peruvian firms invest on average 2.5 percent of their sales in innovation, whereas their peers in Chile invest 3.5 percent. Moreover, technology adoption (acquired through licenses of new technology and imported capital goods), which is a way to move closer to the innovation frontier, is scarce. Only 7 percent of Peruvian firms have licensed technology from abroad, half the LAC average and 2.5 times less than in OECD countries.</p> <p>Lessons learned and knowledge at the program level. One important factor for limited innovation is the inability of SMEs to embrace skills and new technology. A forthcoming report by the World Bank (Competition and Growth Report in LAC) provides evidence that between 2008 and 2017, growth of firms’ total factor productivity in the manufacturing sector was hardly explained by within-firm productivity growth or by the entry of new firms. Consistently, international assessments of innovation place Peru in the lower half of the rankings and list access to infrastructure, conditions for investment in venture capital, and knowledge diffusion as the most problematic obstacles to innovation. This might reflect a mismatch between the costs to innovate on one side, and the small scale of firms and their access to financing and technology, on the other.</p> <p>WBG ongoing and planned support to this CPF Objective. The Bank will continue the successful engagement strengthening the national science, technology, and innovation system in Peru. In particular, the Bank will promote a stronger prioritization of investments in doctoral programs and skills in alignment with the needs of the private sector; as well as activities that improve industry-academia linkages between investment in research and development and the specific needs of the private sector in terms of technology and innovation, thus increasing the absorption rate by firms of technological advances discovered through these investments. Support to doctoral programs, research, and industry-academia linkages will have a strong focus on climate change mitigation and adaptation. The Bank will continue supporting the GoP to improve the governance of the innovation system and improve innovation resources and financing, thus enhancing productivity and investment. Under this objective the Bank will also contribute to gender equality, by increasing the participation of women in Peru’s technology and innovation system. The Bank will also continue to support the innovation and adoption of new technologies and practices in the fisheries and aquaculture value chains, with a view to reducing reliance on capture fisheries. IFC, through upstream, advisory and investment - will continue to support initiatives that foster greater access to quality affordable education. Skill acquisition, student experience and operational efficiencies will be promoted through digital transformation programs such as D4TEP and IFC will continue supporting best practices in employability through Vitae. IFC-TechEmerge Program will increase the local capacity to assess demand and supply of cooling technologies, to increase local capacity to develop and to adopt innovative cooling technologies and business models.</p>		

Knowledge gaps. While the Government is firmly committed to investing in innovation that addresses challenges posed by climate change or take advantage of sources of green competitiveness, individual value chains will need to be systematically analyzed regarding the scope for such opportunities and this knowledge will need to be shared with key stakeholders.

Key Risks and Mitigation. While investments in innovation have been systematically endorsed by all governments in the past decade, with a leading role for the Ministry of Economy and Finance in the monitoring of progress on results in this area, frequent changes in government could create uncertainty regarding the continued prioritization of this agenda. In addition, Congress has questioned the role of the *Superintendencia Nacional de Educacion Superior Universitaria (SUNEDU)*, the entity responsible for the oversight of higher education institutions, and there have been incidences of conflict of interest between congress members and private universities in the past year. Politicization of the Education sector poses a risk to the Bank’s ability to effectively support results in this area. Finally, there is some risk associated with the capacity of PROCIENCIA, the recently created National Scientific Research and Advances Studies Program, which is one of the two main operational institutions responsible for the implementation of national science and technology programs. This risk is mitigated by capacity building investments that draw on lessons from past experience in the sector, including modernization and digitalization for implementation of STI reforms in the mid-long run.

CPF Objective Indicators	WBG Program
<p>Indicator 2.1: New or updated technologies developed by consortia targeting value chains and innovative firms Baseline: 0 (2022) Target: 90 (2027) Source: P176297</p> <p>Indicator 2.2: Increase in farmers that receive technical assistance about climate smart and productivity enhancing agriculture practices (percent) Baseline 0% (2019) Target 34% (2026) Source: P178591</p> <p>Indicator 2.3: Female PhD students receiving project-funded scholarships at supported doctoral programs Baseline 0 (2022) Target 116 (2027) Source: P176297</p>	<p>Ongoing Financing:</p> <ul style="list-style-type: none"> -Strengthening Peru’s National Science, Technology, and Innovation System (P176297) -National Program for Innovation in Fisheries and Aquaculture—(P155902) -Peru Sustainable Growth and Finance DPF-DDO (P178591) <p>Financing Pipeline:</p> <ul style="list-style-type: none"> -National Program for Innovation in Fisheries and Aquaculture II (P179538) -New education IPF <p>IFC pipeline</p> <ul style="list-style-type: none"> -Higher education projects

High-Level Outcome 2 (HLO 2) Improved access to quality public services		
Identified in Peru Systematic Country Diagnostic (P500106), August 2022		
High-Level Outcome Indicators	Data source	Current value
Percentage of population with access to good quality water	ENAH0 2020	Access to potable water: 73.02% Inadequate chlorine level in water: 16.3% Water without chlorine: 57.6%
Out-of-pocket health services expenditures (for health services)	ENAH0 2020	1,136 soles
<p>High-Level Outcome description</p> <p>Rationale. Access to good quality public services improves people’s quality of life and reduces poverty by providing greater equality of opportunity and enhancing human capital accumulation. To promote inclusive growth and reduce poverty, opportunities should be available to citizens across the country and at all socioeconomic levels. In particular, the provision of quality services that directly affect accumulation of human capital, as is the case with education, health, water and sanitation, as well as physical and digital communication, and functional cities, will be important. Provision of these services across the country will also promote private sector investment; low subnational capacity limits private sector development and delivery of the public goods and services needed to attract investment. To serve citizens efficiently and effectively requires some degree of decentralization based on principles of transparency, predictability, and equity; capacity at the local and regional levels of government is also required. Currently, the low execution capacity of public investments at different levels of government reveals deficiencies in the decentralization of responsibilities and resources and has contributed to a large infrastructure gap in many parts of the country. One of the factors preventing the rapid closing of this gap is the predominance of small low-impact investment projects, which fail to take advantage of economies of scale and lower transaction costs. According to Peru’s bank of investment projects as of May 2021, 86 percent of the viable projects had an investment amount of less than S/5 million (\$1.3 million), with 7 percent of those investment projects implemented by regional governments and 73 percent by local governments. Finally, fiscal resilience and efficiency at the national and subnational levels are required to fund public infrastructure and service delivery throughout the country, while providing adequate fiscal buffers to respond to future shocks, including climate-induced natural disasters. More efficient leveraging of public and private financing for infrastructure is needed to fund public low-carbon and climate-resilient infrastructure and close Peru’s large gaps in infrastructure.</p> <p>WBG engagement. The WBG will deepen its engagement in investments to improve the provision of public services that directly affect the accumulation of human capital, as is the case of education, health, the quality of water and sanitation, transport, physical and digital communication, and functional cities through urban mobility. Directly related to these investments, the design of decentralization does not currently have the ideal characteristics for optimal performance. To introduce transparency, predictability, and fairness in this system, the WBG will seek opportunities to improve the decentralization design and governance both at national and subnational levels.</p> <p>Lessons learned. The country’s economic institutions and the public financial management (PFM) system at the national level have been resilient to recent political</p>		

instability and are recognized as efficient. Key macro-fiscal institutions like the MEF and the Central Bank have remained immune to the crisis, functioning as “islands of effectiveness.” Further, the PFM framework at the national level is consistent with international standards, and budgeting practices meet most of the principles of the IMF Fiscal Transparency Code at a good or advanced level. However, state capacity in other sectors remains limited, affecting the delivery of high-quality infrastructure and services. The low performance in public investment management, lack of coordination between different levels of government, and capacity gaps in the civil service are some of the key challenges the country faces. Strong links to other WBG technical assistance and investment operations are critical for the program’s implementation.

SDGs Associated. HLO 2 relates to SDG1—No Poverty; SDG3—Good Health and Well-Being; SDG4—Quality Education; SDG6-Clean Water and Sanitation; SDG7—Affordable and Clean Energy; SDG8—Decent Work and Economic Growth; SDG10—Reduced Inequalities; SDG16—Peace, Justice and Strong Institutions.

CPF Objective 3: Enhance the delivery of public services

Previous CPF: Improve water and sanitation services in key urban areas. Modernize delivery of health and nutrition services for the poor.

Intervention Logic

Rationale for the CPF objective and WBG engagement. Peru’s disparities in access to basic services are a consequence of infrastructure spending and implementation gaps. According to the most recent estimates, the short-term basic infrastructure gap amounts to \$36 billion. This amount of investment is required to reach the basic infrastructure access levels of a country with Peru’s socioeconomic and geographical characteristics. Slightly more than 30 percent of this gap is concentrated in the transport sector, followed by sanitation (25 percent), health (24 percent), and telecommunications (10 percent) sectors. Moreover, the long-term basic infrastructure gap, namely the investment needed to close the existing gap between Peru and other peer countries, amounts to \$110 billion. The challenges in access to services are exacerbated by patterns of territorial development, inadequate housing, and disorderly urbanization. Furthermore, health and nutrition services are currently restricted by capacity for delivery and implementation. It is also worth noting that the take-up of health and education services is much lower in marginalized communities in both rural and urban areas (for health services: among women and children under five years; for education services: among youth in secondary education).

Lessons learned and new knowledge at the program level. While the country has transitioned to upper-middle-income status, provision of public services is not on par with its peers and gaps in both access and quality persist. Adaptation requires transformation of service delivery models across several sectors and strengthened implementation capacity among line ministries. When faced with political instability, being flexible to adjust complex projects and having a close dialogue with stakeholders is key. Projects like *Obras de Cabecera*, a critical project for water provision in Lima and model PPP transaction where IFC and the WB worked together, have a high development impact but they are complex, have long implementation timelines, and involve a wide range of stakeholders and agencies with different levels of institutional capacity. Teams need to be able to adjust execution, narrow the scope of activities and level of effort when needed, manage expectations, and adapt to high turnover at important decision-making levels throughout implementation.

WBG ongoing and planned support to this CPF Objective. The WBG will contribute through technical assistance and financing to support access and quality of services in health, education, energy, housing, transport, and water and sanitation. To increase access and quality of services, IFC will also provide structuring assistance and transaction advice to PPPs for water and sanitation and social infrastructure projects and explore opportunities to invest in those for hospitals and schools. To expand transport connectivity, IFC will also explore opportunities to invest in ports and airport expansions. IFC also aims to expand access to internet by seeking opportunities to finance telecom and infrastructure sharing projects (fixed and mobile) to integrate urban and rural areas. Going forward, IFC will offer Advanced Practices for Environmental Excellence in Cities (APEX) to municipalities to assess and prioritize low-carbon investment opportunities within municipalities’ climate action plans.

Knowledge gaps. Analysis is needed to know if the existing funding and financing mechanisms for roads and other rural infrastructure investments, including intergovernmental transfers and revenues raised by subnational governments (i.e., collection of local taxes and/or user tariffs), provide adequate investment and maintenance funds, and follow international best practices with a view to close the rural infrastructure gap and incentivize sound management practices at the subnational level (e.g., maintenance arrangements). On the institutional side, more knowledge is needed about how well the relevant institutions for rural infrastructure investments perform in terms of governance arrangements. Based on international best practices, what recommendations for governance reform measures should be prioritized to achieve improved performance; reinforce decentralization and institutional capacity at the subnational level; ensure sound coordination between the municipal, regional and national levels; and ensure the sustainability of rural infrastructure investments.

Key Risks and Mitigation. A key risk relates to the slow implementation of investment projects that was experienced over the preceding period and may also affect the projects supporting the delivery of services in the water, urban, transport and electricity sectors during the coming years. Mitigation includes close support by the Bank team, including the provision of Hands-On Implementation Support in Procurement and continued decentralization of technical specialists to the country office, as well as the establishment of mechanisms of coordination within the newer projects to involve representatives from the MEF, the Line Ministry and the Bank in the resolution of implementation issues as they arise.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 3.1: Number of people provided with improved access to safely managed water supply and sanitation services, Baseline: 758,000.00 (water) 764,000.00 (sanitation) (2022) Target: 818,000.00 (water and sanitation) (2026) Source: P172236</p> <p>Indicator 3.2: Number of urban population provided with improved access to safe and clean transport services (passengers per day), Baseline: 0 (2022) Target: 80,000 (2026) Source: P170595 and P132505</p> <p>Indicator 3.3: Women passengers per day as % of total validations on the transportation services <i>Metropolitano</i> BRT North Extension (feeder and trunk buses) (Percentage) Baseline: 0 (2022) Target: 49 (2025)</p>	<p>Indicator: Obras de Cabecera project tendered and awarded Baseline: No (2022) Target: Yes (2024) Source: IFC</p>	<p>Ongoing Financing:</p> <ul style="list-style-type: none"> -Peru PIT Investment Project (P174812) -Modernization of Water Supply and Sanitation Services (P157403) -Peru Integrated Health Networks IPF (P163255) -Peru: Investing in Human Capital DPF (P176387) -Cusco Transport Improvement Project (P132505) -Lima Metropolitan North Extension (P170595) -Support to the Subnational Transport Program (P132515) -Centralized Emergency Response (P170658) <p>Financing Pipeline:</p> <ul style="list-style-type: none"> -SEDAPAL Preparing for the Future (P172236) -Lima Traffic Management and Sustainable Transport (P178842) -Integrated Territorial Development in Peru’s Southern Economic Corridor (P175436) -Peru: Green, Resilient and Efficient Hospitals IPF -Improving the Management of the National Social Registry-SINAFO IPF - Secondary Cities and Rural Water and Sanitation Project <p>Ongoing ASA:</p>

<p>Source: P170595</p> <p>Indicator 3.4: Electricity customers provided with improved or new electricity service in selected electricity systems (Number)</p> <p>Baseline: 0 (2021)</p> <p>Target:1.3 million (2026)</p> <p>Source: P174812</p>		<p>-Peru Infrastructure Sector Assessment (P178088)</p> <p>-Peru: Health Information Systems for Improving Service Delivery (P177822)</p> <p>-Peru Poverty Monitoring 2098611</p> <p>ASA pipeline:</p> <p>-Peru: Climate Change and Health (Climate Support Facility TF)</p> <p>IFC:</p> <p>-Obras de Cabecera (602550)</p> <p>-Infrastructure investment pipeline</p> <p>-APEX Lima (606469)</p> <p>-AS Moquegua Crece (606622)</p> <p>-INR Gender LAC (ID 605577).</p> <p>MIGA:</p> <p><i>Fondo Mivivienda</i> (Project ID 14994)</p>
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CPF Objective 4: Strengthen institutional effectiveness at national and subnational levels

Previous CPF: Improve governance through selected institutional reforms at the national and subnational levels

Intervention Logic

Rationale for the CPF objective and WBG engagement. Peru’s democracy has been stable over the years, but recently a volatile political environment has had a weakening effect on the country’s institutional capital in areas that are critical for effective service delivery. To better serve the people, governing institutions and accountability systems need to be strengthened with a view to increasing efficiency and transparency of the public sector. At the central level, inefficiency, limited accountability, and corruption scandals in the judicial system in 2018 triggered an important ongoing reform process that needs to be continued to increase efficiency, transparency, and access of justice services in the country. At the subnational level, Peru has experienced a sustained process of decentralization since the early 2000s, but this fell short of its goal of improving service delivery at the local level. Population and economic activity in Peru continue to be highly concentrated in Lima, which accounts for 32 percent of the population and almost 50 percent of GDP. Welfare gaps across districts account for 46 percent of the overall welfare inequality at the national level in Peru. Several features of the decentralization model contribute to these stubborn regional gaps (Peru Policy Notes, World Bank 2021). For example, there is no clear definition of responsibilities regarding revenue collection and expenditures. The small population size of several municipalities prevents the adoption of larger-scale projects and their efficiency, while the mineral revenue sharing scheme (canon) contributes to large disparities in terms of fiscal revenues across municipalities. In addition, the ability of subnational governments to provide adequate infrastructure and services to citizens is hampered by (a) weak financial performance and unsustainable debt of municipalities, and (b) fragmented and low-impact investments. Finally, low subnational capacity limits private sector development and delivery of the public goods and services needed to attract investment.

Lessons learned and new knowledge at the program level. Lack of technical capacity of regional and municipal governments, weak risk and financial management practices, and the difficulty of coordinating efforts both horizontally and vertically have adversely affected both public and private investment at the local level. High

turnover and capacity gaps in the civil service are key challenges to improve public and private investment management, execution, and supervision. Successful outcomes in this area in the previous CPF were impeded by frequent change in leadership, which affected the pace of implementation.

WBG ongoing and planned support to this CPF Objective. The WBG program will continue supporting investments to advance and complete the digitalization of the non-criminal justice services through the implementation of electronic court files (EJE) and to broaden access to justice across the country by expanding and improving free legal assistance and mobile courts in urban and rural areas. Additionally, support will be provided to government reforms aimed at reinstating the fiscal sustainability of local governments, with selective investments to improve revenue collection, digitalization of local services, human resources management, as well as improve tourism at selected regional sites. The Bank program also includes investments to improve the coverage of urban cadaster services in selected municipalities to enhance local government capacities for revenue generation and urban management. To improve the use of resources generated by mining projects at subnational level, IFC will support the Moquegua Crece shared value platform, in partnership with private companies and the Regional Government of Moquegua, to contribute to build the institutional capacity of subnational governments (SNGs) to prioritize infrastructure and services projects that are in line with the regional development plan, and manage revenues generated by mining activities more effectively to respond to community needs.

Knowledge gaps. International experiences in transition from hard copy filing to electronic filing and civil courts in justice sectors. Good practices to strengthen national and municipal government’s capacity to improve their territorial management and financial and institutional urban governance.

Key Risks and Mitigation. Political turbulence could affect the implementation of the projects supporting this objective, especially insofar as it generates changes of leadership and rotation of, or gaps in, PIU staffing as well as uncertainty in the consistency of government policies. An additional risk relates to the fact that coordination across different entities is needed in both the urban cadaster as well as the judicial services project. To mitigate these risks, the Bank and the authorities have agreed to establish Steering Councils to coordinate across all involved agencies, to oversee project implementation and policy definition, and ensure continuity, and, in the case of the Cadaster project, interinstitutional agreements have been established between municipalities and the MVCS.

CPF Objective Indicators	WBG Program
<p>Indicator 4.1: Percentage of Regional Compensation Fund (FONCOR) committed to finance Regional Impact Investments Baseline: 0% (2022) Target: 45% (2024) Source: P178591</p> <p>Indicator 4.2: Processing time between the presentation of a claim and the decision that resolves the case (not including the enforcement period) in courts where EJE will be implemented Baseline: 21.10 days (2018) Target: 17.50 days (2025) Source: P162833</p>	<p>Ongoing Financing: -Improving the Performance of Non-Criminal Justice Services (P162833) -National Urban Cadaster and Municipal Support Project (P162278)</p> <p>Financing Pipeline: -Peru Sustainable Growth and Finance DPF-DDO (P178591) -Peru Tourism Project (P174944)</p> <p>ASA: -Strengthening Urban Cadasters for Urban Governance in Peru (P176222)</p> <p>IFC: -AS Moquegua Crece (606622)</p>

Indicator 4.3: Increase in the property tax base of project municipalities

Baseline: 0 (2021)

Target: 60 percent (2025)

Source: P162278

Indicator 4.4: Number of SNGs in Moquegua Region that adopt at least five IFC Revenue Management Good Practices each*

Baseline: 0 (2022)

Target: 4 (2024)

Source: Sustainable Infrastructure Advisory – IFC

*Good Practices cover aspects related to planning, resource allocation, preparation and approval of technical studies, budgeting, procurement, and operation and maintenance of public services and infrastructure.

High-Level Outcome 3 (HLO 3)—Increased resilience to shocks

Identified in Peru Systematic Country Diagnostic (P500106), August 2022

High-Level Outcome Indicators	Data source	Current value
Percent of irrigated farmland with efficient water application methods on-site (ability to apply water only where it is needed and in precise volumes)	INEI	12.8
Proportion of poor families receiving regular cash transfers	INEI (ENAH0 2022)	Households (CONTIGO, JUNTOS, PENSION65): 5.29% 21.72% of poor households receive cash transfers

High-Level Outcome description

Public policies must be designed to build resilience and prevent both anticipated and unexpected events from affecting citizens’ quality of life. To enable this, the government must be fiscally healthy in order to implement policies that stabilize production and mitigate shocks when they occur. During the pandemic, Peru implemented one of the most ambitious fiscal and monetary response packages. Sound macro management in recent decades allowed for accumulation of buffers and tools necessary to implement these policies. This stance needs to be preserved by undertaking a consolidation effort that considers the need for better services while being cautious with the use of windfall resources. In addition, the government must be able to protect citizens against the impacts of natural disasters and the impacts of climate change, such as droughts and floods, as well as events occurring in the life cycle. In terms of disaster prevention management, it is necessary to move to a more effective risk management strategy. Social protection systems must be flexible to respond to shocks and protect those in need and provide mechanisms to address foreseeable events such as old age and more contingent events such as illness. Social assistance programs must ensure protection against poverty.

Rationale. For two decades, stable macro-fiscal management has underpinned Peru’s steady and sustainable economic growth, which has been driven largely by private investment. Economic activity is recovering after the adverse effects of the global pandemic in 2020. To accommodate the large fiscal response triggered by the pandemic, the authorities suspended fiscal rules for 2020 and 2021. A return to Peru’s previous growth trajectory requires a credible medium-term macroeconomic framework that cements investor confidence and reduces uncertainty. In addition to fiscal measures, the Peru CCDR shows that the country could attain its climate goals by prioritizing climate-sensitive investments over conventional ones or debt-finance this investment. Given its current debt-to-GDP ratio, Peru is much more prepared to undertake these investments and reap the economic benefits as well.

WBG engagement. The WBG will consolidate its support on the climate-change agenda and resilience of the country, including external shocks, national debt sustainability, and pandemics with a combination of DPF to support policy reforms in this area, investment projects, and specific ASA, such as in the forestry sector.

Lessons learned and knowledge. Policy reforms and investments are linked to areas where the Bank is currently active in terms of investment lending (such as energy, transport, and urban) and with ongoing technical assistance initiatives (such as improving the incorporation of climate co-benefits for investment planning and strengthening of urban governance and disaster-risk management frameworks). On the financial side, recent WB research assessed the prospects for sovereign debt management options with respect to labelled bond debt issuance among the Pacific Alliance countries. The analysis pointed to the benefits to countries of taking the time to prepare a sustainable or green bond framework, for example, and of identifying sectors that should be considered green and contributing to the country’s overall environmental and climate-related goals. Furthermore, the analysis pointed to the signaling impact of issuing a sovereign sustainable or green bond instrument via-a-vis sustainability-oriented global investors. Since the paper was launched in May 2021, both Colombia and Peru have issued sustainable bond frameworks and associated debt instruments.

SDGs Associated. HLO 3 relates to SDG6—Clean Water and Sanitation; SDG7—Affordable and Clean Energy; SDG10—Reduced Inequalities; SDG11—Sustainable Cities and Communities; SDG13—Climate Action; SDG14—Life Below Water; SDG15—Life on Land.

CPF Objective 5: Enhance climate-change mitigation and adaptation

Previous CPF: Strengthen the management of natural resources. Improve disaster-risk planning and financial management.

Intervention Logic

Rationale for the CPF objective and WBG engagement. Peru is more exposed and vulnerable to natural hazards than most of its structural peers because of the high frequency of hazards (mostly earthquakes, floods, landslides, and droughts), and spatial concentration of people and assets in high-risk areas (CCDR, 2022). Climate change is expected to further increase the intensity and impact of these events. The country lies in a highly seismic region called the Pacific Ring of Fire, where about 80 percent of the world’s earthquakes occur. Notably, Peru is one of the countries most affected by the climatic phenomenon known as El Niño, which is associated with increased incidence of floods (in the coast) and droughts (in the highlands). The relatively high share of agriculture and fisheries in GDP and employment also increases vulnerability to natural hazards and climate-change impacts. On the other hand, Peru can benefit from under-utilized productive potential of its green and blue economy assets. Financial intermediaries have a role to play in promoting financial products for firms to mitigate climate risk, including natural disaster management, and reduce their greenhouse gas (GHG) emissions.

Lessons learned and new knowledge at the program level. Strong links to other Bank technical assistance and investment operations are critical for the achievement of this objective. Reforms in this area need to be linked to areas where the Bank is currently active in terms of investment lending—such as energy, transport, and urban development—and with ongoing technical assistance initiatives—such as improving the incorporation of climate co-benefits for investment planning and strengthening of urban governance and disaster-risk management frameworks. A stronger emphasis on economic opportunities and local benefits from interventions in sustainable forestry and land management will be also important.

WBG ongoing and planned support to this CPF Objective. The WBG is supporting through DPF policy actions and specific investments in key sectors (water, sanitation, and water resource management, fisheries, irrigation, forestry, transport). IFC will advance the development of the green taxonomy and scale green financing implementation; it will also seek opportunities to support financial institutions in integrating environmental, social, and governance standards and climate finance products in their lending business. It will also support financial intermediaries through capacity-building activities to better understand their green/blue portfolio composition, and to increase their on-lending for green/blue investments in different sectors per the taxonomy. IFC will explore opportunities to finance a new generation of non-conventional renewable energy. To build capacity in the ecosystem for green construction and building certification, IFC will provide advice to developers and construction sector players on the adoption of sustainable construction standards. The IFC-SECO Green Building Learning Program aims to strengthen academic offerings and professional courses (Design for Greater Efficiencies course-DfGE) on the basics of green building design and educate trainee architects and engineers who will drive green building adoption. IFC will also finance and advise producers of construction materials to decarbonize their operations and develop low-carbon products. IFC will also explore with financial intermediaries and exporters opportunities for development of financial products or solutions to support smaller producers sourcing export value chains.

Knowledge gaps. Building on the analysis done in the CCDR, further knowledge needs to be generated to provide operational recommendations for how to enhance resilience across sectors. More work is needed to quantify economic and fiscal costs and benefits of policy and investment alternatives. Sub-national risk profiles and exposure maps need to be reflected in development planning and investment priorities. Additional work is needed on value chain analysis and financing solutions for productive uses and non-extractive income generation in protected and non-protected areas, including from bioeconomy, ecosystem services, and sustainable forestry and landscape management.

Key Risks and Mitigation. Frequent turnover of high-level government officials at the Executive and Ministerial levels poses a risk of slower reform implementation and lack of continuity in Government programs due to a potential shift in priorities. There is also a risk associated with the need for coordination among line ministries and with regional and local governments given that coordination between agencies in Peru is often weak and consensus building takes time. To mitigate these risks, the Bank will maintain continuous dialogue with key Government bodies to ensure that new Government officials are aware of the CPF Objective and will marshal relevant analytical work to inform a broad discussion on climate change and its impacts on the country’s economic prospects and the well-being of its citizens.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 5.1: Number of people living in cities or populated settlements with urban planning instruments that integrate disaster-risk management and public spaces management in accordance with Law No. 31313 and its regulations. Baseline: 0 (2021) Target: 5.5 million (2024)</p>	<p>Indicator: Approved Green Taxonomy to support ESG financing ecosystem Baseline: No (2022) Target: Yes (2024) Source: P178548</p>	<p>Ongoing Financing: -Enabling a Green & Resilient Development DPF (P177765) -National Program for Innovation in Fisheries and Aquaculture (P155902) -National Urban Cadaster and Municipal Support Project (P162278)</p>

<p>Source: P177765</p> <p>Indicator 5.2: Percentage of increase of agricultural water productivity in selected areas of Peru Baseline: 0 (2022) Target: 50 percent (2026) Source: P179037</p> <p>Indicator 5.3: Land area under sustainable landscape management practices Baseline: 0 (2021) Target: 4,700,000 (2026) Source: P162278</p> <p>Indicator 5.4: Volume of climate finance loans outstanding (US\$) Baseline: US\$ 124 million (2021) Target: US\$ 659 million (2026) Source: IFC.</p>		<ul style="list-style-type: none"> -Integrated Water Resources Management in Ten Basins (P151851) -Integrated Forest Landscape Management Project (P163023) -Transmission Investment Plan (PIT) to support post-COVID-19 Green Economic Recovery in Peru (P178412) <p>Financing Pipeline:</p> <ul style="list-style-type: none"> -Irrigation for Climate Resilient Agriculture (P179037) -National Program for Innovation in Fisheries and Aquaculture - Phase II (P179538) -Enabling a Green and Resilient Development DPF II (P179214) -SEDAPAL Preparing for the Future (P172236) <p>ASA:</p> <ul style="list-style-type: none"> -Peru CCDR (P177137) -Forestry sector (joint IFC) -Disaster-Risk Finance and Insurance TA (P180274) -Peru Sustainable Long-Term Finance Facility (P178548) <p>IFC portfolio and pipeline:</p> <ul style="list-style-type: none"> -BanBif (536083) (climate finance) -B Continental (BBVA) (565173) (climate finance) -EDGE and Design for Greater Efficiencies (DfGE) Programs --LAC GB (60481) -MAS LAC decarbonization project (606446) -CMA and FIG Upstream pipeline -NCRE and MAS Upstream pipeline -FIG investment pipeline (climate finance), and advisory services to financial intermediaries <p>MIGA:</p> <ul style="list-style-type: none"> -Banco Santander Peru (Project ID.14247) -Fondo Mivivienda (Project ID. 14994)
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CPF Objective 6: Strengthen mechanisms to protect people against shocks

Previous CPF: New objective

Intervention Logic

Rationale for the CPF objective and WBG engagement. While Peru's macro-economic management has enabled the country to respond well to economic shocks, and it positions the country well to mitigate future climactic shocks, the recent experience with the pandemic revealed the structural weaknesses in the social security and health systems which points to the need to strengthen the capacity of the state to protect people against shocks. During the occurrence of these shocks, it has become evident that the country is not prepared to mitigate their impact. Infrastructure and services have collapsed, and emergency response mechanisms have been cumbersome and ineffective. Given Peru's exposure to these shocks is not likely to change, it is important that optimal protection mechanisms are put in place and strengthened. Clear institutional arrangements for public financial management during emergencies are in place, but there is no comprehensive assessment of the physical risks to the country. Building resilience to climate change will also require that sectoral institutions, data, and policies be strengthened. In addition, access to basic financial services is critical for poverty reduction and inclusive economic growth. Inclusive financial systems increase the resilience of vulnerable populations by enabling them to access financial support during economic shocks—including as a result of climate change—from social networks and governments (via digital payments), as well as their own savings.

The recent crisis also revealed significant weaknesses of the social protection system to protect the poor and vulnerable against shocks. Emergency response mechanisms have been cumbersome and ineffective, and safety nets and their targeting system (SINAFO) have not been comprehensive or agile. The country needs to push forward a reform agenda to have a more adaptive social protection system (ASP) focusing in two aspects increase and maintain the coverage and benefits of the main social safety nets (SSNs) to increase the resilience of the poor. And second, to ensure that the delivery system around SSNs, especially the targeting and payment systems are strengthened and adapted to serve population affected by climate-related shocks and other risks.

Lessons learned and new knowledge at the program level. Increasing resilience to shocks requires not only the continuation of good macroeconomic management but also the ability of the government to protect the poor and vulnerable against the impacts of natural disasters and other shocks. All of this implies the need for strengthened institutions and increased institutional stability. During the pandemic, it was demonstrated that social services lack the capacity to operate under stress: cash transfer schemes were inefficient, among others, because the targeting system could not identify the beneficiary population. A national social registry that includes all the poor and vulnerable population will allow a faster government response to shocks (including those induced by climate change), improving household resilience and the effectiveness of the government response.

WBG ongoing and planned support to this CPF Objective. The WBG supported the expansion of the National Registry for Households by incorporating new poor and vulnerable households, as a response to the pandemic, through the Strengthening Foundations for Post-COVID-19 Recovery DPF (P174440). The Bank is supporting the institutionalization of the National Registry of Households (RNH) through the ASA Advancing Social Protection in Peru (P179624) by providing recommendations on the implementation model for the new social registry. The WBG will consolidate its support to the RNH with a new operation with the objective of improving the management of the National Targeting System (SINAFO), including the RNH, to increase the efficiency of the public interventions it serves.

Knowledge gaps. International experiences in adaptive social protection systems with high coverage registries, diverse payment systems and the institutionalization of emergency cash transfer programs. Analysis of the DRM databases to assess the complementarities and gaps in connecting with the national household registries. Quantification of how learning losses caused by COVID have been for different socioeconomic groups and geographic areas. Systematic evidence on the most important

drivers of differential spending ability across regions in the education sector. Study on how to reform the health financing system to incentivize performance and quality, including options for full implementation of Diagnosis Related Groups (DRGs) and strategic purchasing. Analysis of gaps in cancer prevention, detection and treatment to support the recently passed cancer law.

Key Risks and Mitigation. MIDIS is a new implementation agency posing a risk of slower than normal project implementation. There is also a risk associated with the need for coordination between MIDIS and the local governments as municipalities oversee the RNH data collection. To mitigate these risks, the project will support the strengthening of MIDIS as an implementing agency including hands-on implementation support and financing of the Project Implementation Unit. The project will also support increasing the capacity at the municipal level and will facilitate technological tools to improve the integration and coordination between municipalities and MIDIS.

CPF Objective Indicators	WBG Program
<p>Indicator 6.1: Number of regional public health laboratories equipped and implementing PCR testing for COVID-19 and other pathogens (Number) Baseline: 0 (2022) Target: 15 (2026) Source: P174177</p> <p>Indicator 6.2a: Households with socioeconomic information updated in the National Registry of Households Baseline: (2021) 35% Target: (2026) 73% Source: P179923</p> <p>Indicator 6.2b: Indigenous Households with socioeconomic information updated in the National Registry of Households (as percentage of the total indigenous households) Baseline: (2021) 90% Target: (2026) 95% Source: P179923</p> <p>Indicator 6.3: Gender gap in percentage of adults with an account at a financial institution or mobile</p>	<p>Ongoing Financing: -Peru: Strengthening of the Public Health Emergency Preparedness and Response IPF (P174177) -Peru: Investing in Human Capital DPF (P176387)</p> <p>Financing Pipeline: -Improving the Management of the National Social Registry (SINAFO) IPF (P179923) -Peru Sustainable Growth and Finance DPF-DDO (P178591)</p> <p>Ongoing ASA: -Peru Government Debt and Risk Management Program Phase II (P167682) -Peru: Health Information Systems for Improving Service Delivery (P177822) -Peru Social Protection Reforms for COVID-19 Recovery (P177975) -Peru Social Protection Reforms (P179624) -Peru Poverty Monitoring 2098611 -Peru Poverty Assessment (P176738)</p> <p>ASA Pipeline: -Peru: Climate Change and Health (Climate Support Facility TF)</p>

money provider (percentage points) Baseline: 9 (2021) Target: 4 (2025) Source: P178591	
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Annex 2: Completion and Learning Review for the Republic of Peru FY17-FY21

I. INTRODUCTION AND SUMMARY OF KEY FINDINGS

Date of CPF: May 2, 2017 (Report No. 112299-PE)

Date of Performance and Learning Review: April 25, 2019 (Report No. 135267-PE)

Period Covered by the Completion and Learning Review: FY17-FY21

Date sent to IEG: November 9, 2022

Introduction and Context

- 1. This Completion and Learning Review (CLR) assesses the implementation of the World Bank Group (WBG) Country Partnership Framework (CPF) for the Republic of Peru for the period FY17-FY21.** The CPF focused on eight objectives structured across three pillars: (a) productivity for growth; (b) services for citizens across the territory, and (c) natural resource and climate-change risk management. A Performance and Learning Review (PLR), conducted mid-way through the CPF period, assessed progress in the implementation of the CPF and concluded that the CPF's objectives -- focused on accelerating investments in physical and human capital formation-- remained highly relevant to the country's priorities. It proposed several minor adjustments to the CPF objectives to reflect the evolution of the strategic priorities of the Government of Peru (GoP), while keeping the original CPF time frame.
- 2. The outbreak of the COVID-19 pandemic in early 2020 dramatically changed the country's priorities and the conditions under which the CPF program was carried out.** With 648 deaths per 100,000 people, Peru had the world's highest share of lives lost. The introduction of massive and prolonged quarantines had a crushing effect on overall economic activity. During 2020, gross domestic product (GDP) dropped by 11.1 percent, the most severe decline among economies in the Americas and Europe. Mandatory social distancing measures and severe mobility restrictions had a substantial adverse impact on the conduct of social, economic, and governmental activities. Despite measures to contain the spread of infections, the combination of a debilitated health sector, informality, and precarious and crowded housing contributed to the severely adverse impact of COVID in the country. By early 2021, the GoP successfully introduced a massive vaccination program that, with a coverage of 74 percent by February 2022, greatly slowed the contagion and related deaths. Between FY20 and FY21, the CPF passed from a relatively small program focused on Investment Program Financing (IPF) support with limited and slow results, to an ample program based on the support of reforms for economic recovery and Development Program Financing (DPF) to respond to the changing demands of the government after the COVID outbreak.
- 3. The political instability that led to a change of government in March 2018 intensified during the period 2019-2021.** This period witnessed the continuation of constant confrontation between the executive and legislative branches. President Vizcarra dissolved parliament in September 2019, and in November 2020 a newly elected Congress declared his "permanent moral incapacity," putting an end to his term. Following constitutional succession rules, the presidency was assumed by the President of Congress, Francisco Sagasti, for the remaining constitutional period (until July 2021).

4. **The pandemic, compounded by the unstable political scenario, limited the ability of the country to achieve the CPF objectives, especially through the portfolio of investment operations, which suffered significant implementation delays.** COVID-19-inspired rigid social distancing measures, while changes in leadership and public sector staff turnover – resulting from the political context -- contributed to interruptions in the policy dialogue and disruption in implementation plans. While project implementation and supervision activities were conducted through virtual means in most of 2020 and in early 2021, limited access to the internet and digital devices and the extensive infection of project staff contributed exacerbated an already challenging implementation environment for the investments and programs included in the CPF.
5. **The WBG adapted its program to support the government’s COVID response.** This consisted of both investment operations as well as policy-based financing. Two new IPFs, a Public Health Emergency Preparedness and Response project (P174177) and an energy project to support post-COVID-19 recovery (P174812), were approved by the Board in FY21. Two Development Policy Operations (DPOs) supported institutional reforms to enable an inclusive and climate-smart recovery. A DPO for Investing in Human Capital (\$250 million)³³ was approved in FY21 (P176387) to mitigate the impacts of the pandemic on the vulnerable population, specifically by improving the delivery of health services, social protection and early childhood development services, and improving teacher management and professional development systems. A second DPO, aimed at Strengthening the Foundations for post COVID-19 Recovery (\$750 million), was approved in FY2021 (P174440). This operation focused on expanding the targeting of the emergency cash transfers to an estimated 2.5 million households not included in the traditional schemes, mostly poor and informal workers unable to earn daily wages, and their inclusion in the digital payments network. It also supported enterprises confronting drastic and sudden demand shocks by introducing *Reactiva Peru*, an innovative credit guarantee scheme, that mobilized 8.5 percent of GDP in private liquidity for small and medium-size enterprise (SME) lending.
6. **DPOs made up a large part of the Bank’s support during the CPF period.** The GoP valued the hedging feature of the DPO, particularly in times of volatility in international capital markets. From the reform perspective, DPOs have supported policy changes with long-term impact in areas such as education, social protection, productivity, fiscal management, and the business environment. These have all been well anchored in the country’s widely backed medium-term reform programs that go well beyond a single administration period. In all cases, the various government administrations have shown strong and continued commitment to policy reforms. DPO/Deferred Drawdown Option (DDO) operations approved at the end of the previous CPF period (2016) supported disaster-risk management and fiscal reforms, for a total of \$2.5 billion contingent funding; they were fully disbursed during the FY17-FY21 CPF period and enabled a continuous dialogue across administrations (see Annex 4). The DPO instrument was also used to support the development of a policy and institutional framework for addressing the pandemic. Specifically, two new DPOs focused on human capital (\$350 million) and economic and social recovery (\$750 million) were prepared, approved, and disbursed in FY21. The Investing in Human Capital DPF (P176397) supported increased access to health services, improved deployment of health personnel, and the establishment and monitoring of a nation-wide vaccination program; and the Strengthening Foundations for Post COVID-19 Recovery DPF (P174440) supported the financial and digital inclusion of vast segments of the population, facilitating temporary cash transfer programs for poor and vulnerable families, and supported the establishment of a credit guarantee scheme to provide liquidity for the enterprise sector.

³³ Unless otherwise specified, the currency cited throughout these Annexes is the U.S. dollar.

7. **Advisory Services and Analytics (ASA) were integral to achieving results across all three pillars.** The combination of timely and relevant analytical work that both contributes to the national agenda and underpins WB-financed operations, provides a strong example of the role that the WBG can play in an upper middle-income country like Peru. Much of the ASA work in Peru has been financed through Trust Funds (TFs) that addressed the knowledge gaps identified in the previous CPF. Core analytical work was undertaken over the CPF period, including a Public Expenditure Review (P074787) that was prepared at the request of MEF and presented analysis, reform options, and possible measures in certain areas and sectors of public spending, with the purpose of increasing efficiency and generating tax savings in key sectors (water, health, education, internal security, and transport). A robust program of Reimbursable Advisory Services (RAS) continued during this period and enabled the delivery of customized knowledge and advisory services. A total of 13 RAS agreements were signed for a total of \$1.67 million³⁴ (see Annex 5). In FY20, to underpin the dialogue with the incoming administration, a series of Policy Notes (P174540) were prepared, containing key policy recommendations in selected sectors, based on dialogue among WB technical teams and the Peruvian authorities, the private sector and IFC, and civil society. Finally, in FY21 a joint WB-IFC team launched the Peru Country Private Sector Diagnostic (CPSD IFC-00605605) to inform IFC's operational priorities and the CPF. The CPSD identified several cross-cutting constraints for private investment (e.g., high non-wage labor costs that disincentivizes formalization and weak institutional capacity at the subnational level that affects implementation and enforcement of business regulations). The diagnostic includes sector assessments for agriculture, aquaculture, tourism focused on lagging regions, and the digital economy.
8. **A number of lessons have been learned during the implementation of this CPF which will be reflected in the forthcoming FY23-27 CPF.** Despite the substantial gains in reducing poverty and inequality over the past decades, the pandemic revealed the fragility of the country's social achievements and the weak capacity of the state to protect households against adverse shocks (health, financial, or nature-related). While the government has been successful at managing financial shocks by pursuing macro prudential reforms which enable favorable access to international capital markets and the accumulation of countercyclical buffers, more can be done to increase the state's capacity to deal with non-financial shocks. In addition, the experience over the CPF period has reinforced the need to remain flexible and to access different Bank instruments to respond to rapid, unforeseen change. However, the CPF program suffered from implementation challenges that were identified in the PLR and were aggravated by the pandemic and the political instability during 2020. Despite having procurement and financial systems that comply with good international practices, project implementation faced serious challenges, including insufficient national budget allocation and weak institutional capacity and ability to sustain government commitment to Environmental and Social issues during project implementation. Implementation of IFC Advisory projects suffered from the same challenges, generating delays in decision-making and implementation by government counterparts.

Summary of Main Findings

9. **The CPF development outcomes were designed under a pre-COVID-19 scenario and assumed relative political stability after an unexpected change of administration in 2017.** The pandemic outbreak – and the continued political instability – modified that scenario in two significant ways: an

³⁴ The legal framework in Peru limits RAS to \$150,000 per contract; see Law 28563, December 2012, and Legislative Decree 1467, September 2018.

adverse impact on the ability of the Government to pursue the CPF objectives and, at the same time, new assistance demands that significantly modified the original CPF agenda. The context also had an impact on private sector activity, expectations, and the capacity to reach results through private sector operations supported by IFC. This report will assess the development outcomes included in the CPF and the PLR, including a review of the response by the WBG to the new demands of the GoP in dealing with the pandemic, demands that became a substantial component of the overall program and opened the path to reforms and policy actions supported through DPO financing. In line with the WBG COVID-19 Crisis Response strategy, these DPOs supported not only the strengthening of the health sector response but also facilitated the provision of social transfers to the poor and vulnerable population and provided liquidity to the enterprise sector with a view to reactivating the economy. Although none of the original outcomes in the CPF and PLR were dependent on DPO reforms, these became an integral part of the WBG program during FY20-FY21.

10. **The overall CPF development outcome is rated moderately unsatisfactory.** Of the eight CPF objectives, one objective was achieved, two objectives were mostly achieved, and five were partially achieved. Especially noteworthy are the progress achieved in innovation under Objective 2 in Pillar 1: Productivity for Growth. The weaker performance of the investments and initiatives under Pillar 2: Services for Citizens across the Territory, underscores the need for further attention and support since this Pillar focused on the most vulnerable populations and decentralization. Finally, Pillar 3: Natural Resource and Climate-Change Risk Management shows mixed achievements, with important results obtained in terms of natural resource and disaster-risk management.
11. **The WBG performance in designing and implementing the 2017-2021 CPF was good, reflecting both the active dialogue, financial support, and technical assistance provided through the changes across administrations, and the significant results achieved in response to the COVID-19 pandemic in terms of knowledge, policy, and institutional reforms.** This evaluation considers the swift and effective response by the WBG to the country's demands for significant policy and institutional reforms supported by two DPO operations that contributed significantly to contain the catastrophic social and economic consequences of the pandemic while setting the basis for a more inclusive growth path. The mobilization by the Bank of significant incremental analytical and financial resources in the form of new IPFs and DPOs, and a substantial increment in the ASA program, constituted significant contributions to GoP efforts to confront the dire consequences of the pandemic. IFC also provided advisory services to the private sector to deal with challenges generated by the pandemic, including projects to support higher education institutions for online delivery. IFC worked with the Public Private Infrastructure Advisory Facility (PPIAF) to build a framework for Government and Concession operators to solve potential contractual issues brought about by the pandemic on infrastructure projects. IFC also supported the development of capital markets in Peru (J-CAP). On the investment side, opportunities have been pursued with selected partners aiming to enhance access to finance for micro, small, and medium-size enterprises (MSMEs) and to improve the country's infrastructure.
12. **In addition, during FY22 (which falls outside of the period considered by this CLR), the WB further contributed to the government response through** (a) a \$500 million vaccination project to prevent, detect, and respond to the COVID threat posed and to strengthen national systems for public health preparedness (P178181); (b) a \$500 million Green Growth DPO to support policies for a more resilient, greener, and inclusive economic recovery (P177765); and (c) a \$70 million new IPF Transmission Investment Plan to support Post-COVID-19 Green Economic Recovery in Peru (P174812). In FY22, IFC made efforts to ramp up business development in sectors such as sustainable finance and manufacturing (decarbonization). These projects will be implemented during the new CPF cycle.

- 13. Despite the challenges that led to a drop in foreign investment during the CPF period, IFC has provided critical capital for business and markets in Peru.** Between 2017 and 2021, IFC committed \$74.52 million and mobilized \$48.1 million from international financial institutions (IFIs) and institutional investors. Nonetheless, IFC's portfolio (own account and mobilization) saw a decline over the CPF period. As of June 30, 2021, IFC's portfolio was \$257.6 million, a decline of 64 percent (\$450.3 million) from \$707.9 million on June 30, 2017, and the lowest level in two decades. This reflected the impacts of the pandemic on private sector activity, as well as three other factors: (a) political instability that adversely affected decisions on private investment, especially for capital expansions or development of new business segments; (b) challenges for competitive IFC financing in local currency; and (c) the implementation of a corporate decision to close IFC's office in the country, which somewhat reduced business development efforts. Notwithstanding the challenges, a significant advisory services program focused on addressing major development challenges of the country, such as improving competitiveness, increasing access to finance, reducing infrastructure gaps, and addressing climate change.
- 14. IFC has been undertaking a range of advisory services to support private sector sponsors in key sectors.** Since 2017, Peru has had 14 active ASA projects (29 percent of which are gender flagged) totaling \$12.8m. IFC's financial institutions advisory program is supporting the development of capital markets by working on digital financial services with relevant entities, such as *Caja Arequipa*, and is further exploring interventions in mobile banking. In addition, IFC has worked with financial institutions and capital markets intermediaries to expand access to finance for MSMEs. IFC's efforts to jump-start and strengthen the green finance market in Peru through advisory work on EDGE green building certification have been supported by SECO (LAC EDGE Green Building Market Transformation Program). In the education space, IFC started advising on the structuring of 41 public schools located in the metropolitan area of Lima to ultimately provide improved services, with capital investments of \$520 million benefiting approximately 81,000 students; these would be the first PPP schools in the country. A group of 10 public schools in Lima Metropolitana (*Colegios en Riesgo*), which should be ready for tender in 2023, also showcases best practice Environmental, Social, and Governance (ESG) and financial structure. In the mining sector, IFC and Anglo American have partnered to set up and develop a multi stakeholder coordination platform to support subnational governments (SNGs) in Moquegua to respond to community needs through the enhanced provision of inclusive public infrastructure and/or services (see results under Objective 6). Last, through the Digital for Tertiary Education Program (D4TEP), IFC supported three universities to strengthen technological architecture, develop digital transformation roadmaps in the pandemic and post-pandemic context, and improve student experience through academic digitization.
- 15. During the CPF period, the Multilateral Investment Guarantee Agency (MIGA) supported increasing access to finance for infrastructure and climate finance.** As of end-June 2021, MIGA's active program stood at \$342 million, which was significantly higher than the \$6.2 million outstanding portfolio at beginning of the CPF period. In FY17, MIGA had one active project in the infrastructure sector. The project, which included financing by IFC, supported a concession to expand and upgrade the Jorge Chavez International Airport (Lima's international airport). The project led to an increased passenger handling capacity, improved service quality and reduction in the burden on public sector finance. After being active for 18 years, in January 2020, the the guarantee was cancelled. Since FY18, MIGA expanded its presence in Peru by supporting a deepening of the financial sector. In 2018, MIGA issued a capital optimization guarantee to support lending from Banco Santander Peru (The Santander Mandatory Reserves Project). A MIGA guarantee supported Banco Santander Group, by reducing the

regulatory capital requirements of a portion of its mandatory reserves held at the Central Bank of Peru, freeing up capacity to enable the bank to support additional lending in Peru. This additional lending capacity was used to increase finance to corporates and credit for the infrastructure sector with a particular focus on supporting climate projects – the first MIGA capital optimization transaction to be used to scale up climate finance by design.

II. PROGRESS TOWARD CPF DEVELOPMENT OUTCOMES

16. **This section evaluates the overall CPF performance under the three Pillars and their eight Objectives.** Table 1 summarizes the CPF outcome and outcome indicator ratings, while Annex 2 contains the detailed assessment of each outcome indicator. The CLR uses the updated PLR FY17-FY19 results framework to assess the CPF program. Given the context of the pandemic that required implementation of new reforms and financial, and the changing demands on government’s side across the CPF period, the DPO outcomes support were not considered at the PLR preparation stage. During FY20-FY21, three new DPO operations were approved for a total of \$1.35 billion. These DPOs, prepared in rapid response to the GoP’s needs, would not have been possible without long-standing relationships at the technical level with counterparts and the technical assistance provided through trust funds.

Table 1. Development Outcome Ratings, by Pillar and Objective

CPF Outcome	Overall Outcome Ratings	Outcome Indicator Ratings				Not Verified
		Achieved	Mostly Achieved	Partially Achieved	Not Achieved	
Pillar I. Productivity for Growth: Moderately satisfactory						
Objective 1. Improve connectivity at critical corridors of the territory.	Partially Achieved	2		1		1
Objective 2. Facilitate absorption of skills and technology.	Achieved	3				
Objective 3. Enhance the environment for sustainable private sector investments	Mostly Achieved	2	1			
Pillar II. Services for Citizens across the Territory: Moderately unsatisfactory						
Objective 4. Improve water and sanitation services in key urban areas.	Mostly achieved	2		1		
Objective 5. Modernize delivery of health and nutrition services for the poor.	Partially Achieved	1				1
Objective 6. Improve governance through selected institutional reforms at the national and subnational levels.	Partially Achieved	1			2	
Pillar III. Natural Resource and Climate-Change Risk Management: Moderately unsatisfactory						
Objective 7. Strengthen the management of natural resources.	Partially Achieved		1	1	1	
Objective 8. Improve disaster-risk planning and financial management.	Partially Achieved		1		1	
Total	Moderately unsatisfactory					

Objective 1. Improve connectivity at critical corridors of the territory - Partially Achieved

17. **This objective, which was supported by a range of investment operations in urban transport, ports, rural roads, and telecommunications, was partially achieved.** Expected outcomes in the port and telecommunications area were fully achieved, while outcomes in urban transport and rural roads were partially achieved, reflecting challenges related to the pandemic. IFC supported investments to increase the port of Callao’s container capacity by 50 percent (to 1.2 million 20-foot equivalent units containers), thereby fully achieving the associated indicator. IBRD’s support to improve connectivity through the construction of the Ate-Callao metro and to increase the share of the rural population with access to an all-season road have been only partially achieved. The result indicator measuring progress in the construction of Line 2 of the Lima Metro --13 kms of tunnels and 18 stations completed-- was only met by 54 percent and 39 percent of the expected results, respectively. The IBRD loan for the Lima Metro Project (P145610) was prematurely closed and the balance cancelled in June 2020.³⁵ The Sub-national Transport Program Project (P132515) seeks to increase the share of the rural population with access to all-season roads. Mostly as a result of the disruptions caused by the pandemic, there have been significant delays in executing the civil works. Of the six interventions remaining, two have been finalized, two are under implementation, and one is about to start the bidding process. Thus, the expected outcome of increasing by 8.5 percentage points the share of the rural population with access to all-season roads has been achieved to 6.7 percent as of December 2021. In addition, with respect to related urban mobility, through the Cusco Transport Improvement Project (P132505), 30 percent of public works of the *Avenida Expresa Corridor* were completed to improve mobility in the east-west corridor of Cusco Provincial Municipality (San Jeronimo – Distrito de Cusco) as of June 2021. The final corridor is expected to be completed in early 2023. The Lima Metropolitano BRT north extension (P170595) project, which was approved in 2020, has enabled a re-engagement with Municipality of Lima and will improve connectivity in the north of Lima city.
18. With regard to digital connectivity, on January 24, 2020, several articles of the Broadband Law regulation were modified by a Supreme Decree following recommendations to promote private sector investment and competition toward improving broadband access in rural and remote areas This followed recommendations presented through a World Bank RAS (Strategic Reforms to expand Broadband Connectivity and Services to Rural and Remote Communities - P169564) and was also supported by a DPO (P174440). The reform increased private sector investment, reduced regulatory barriers, and facilitated digital infrastructure deployment toward closing the digital divide in rural and remote areas. While the indicator was achieved, digital connectivity remains a challenge (9 of 10 households do not have internet access in these areas, and Peru has only 31 percent of fixed broadband (high-speed internet) penetration compared to 48 percent in the World Bank’s Latin America and the Caribbean/LAC region).

Objective 2. Facilitate absorption of skills and technology - *Achieved*

19. **This Objective was fully achieved, reflecting the WBG’s successful contribution to facilitating the absorption of skills and technology in the fields of agriculture, artisanal fisheries and aquaculture, and high-level education.** In agriculture, the innovation model traditionally used in Peru was linear and dominated by public agencies: public research institutes were expected to generate improved

³⁵ Until the loan is fully repaid, the Bank continues to be informed by the GoP of project developments and relevant social and environmental issues and discusses with Government in the context of the periodic Country Portfolio Performance Reviews.

technologies that could be passed to public extension agencies for transfer to end users. The World Bank, drawing on global experience and in partnership with the Inter-American Development Bank (IDB), set out to replace the linear model with a multi-actor innovation network in which public agencies, private firms, civil society organizations, and end users could interact through iterative feedback loops, allowing innovations originating in different places to flow throughout the system in response to supply and demand forces. Under the IBRD National Agriculture Innovation project (P131013), a total of 31,634 producers adopted new technologies, far exceeding the target of 20,000, of which 12,337 were women (substantially exceeding the CPF indicator), and 13,286 were participants who self-identified as indigenous (tripling the CPF indicator). Project beneficiaries participated actively in designing and implementing subprojects, including contributing approximately \$24.1 million in cash or in kind to access subproject financing through competitive grant windows and boosting their incomes by an average of 34 percent. Under the ongoing IBRD National Program for Innovation in Fisheries and Aquaculture (P155902), of the 10,341 beneficiaries, at least 78 percent had access to an innovation promoted by one of the 1,269 innovation sub-projects, significantly exceeding the 60 percent target proposed as the intended CPF result. Finally, under the IBRD: Strengthening the Science, Technology and Innovation System Project - STIS (P156250)³⁶, the Fund for Quality Enhancing (FEC) provided financing for the implementation of 257 improvement plans in all of Peru's 25 regions. All of these plans have been satisfactorily completed (against a PDO target of 108). All these three IPFs (P156250, P131013, and P155902) have contributed to improvements in the innovation ecosystem in Peru. The scope and nature of the challenges facing the innovation system in Peru are also becoming clearer thanks to the depth and intensity of recent engagements. The STIS (P156250), particularly, provided a blueprint to a follow-up project approved in FY22, by piloting instruments. In addition, IFC introduced the Digital for Tertiary Education Program (D4TEP), which supports higher education institutions in the development of their digital transformation roadmap. With activities being undertaken in three private higher education institutions (*Universidad Peruana de Ciencias Aplicadas, Universidad Continental, and Universidad de Piura*), Peru has the most D4TEP activity of any country in the world.

Objective 3. Enhance the environment for sustainable private sector investments – *Mostly Achieved*

20. **The results under this objective were mostly achieved, including the indicators relating to PPP contract evaluation and a reduction in the number of days required for a security inspection.** However, the target relating to the increase in the number and value of MSME loans was not fully achieved. During the CPF period, the Bank supported GoP efforts to make PPP evaluation more rigorous, minimize fiscal risks, and facilitate PPP project implementation. This effort encompassed several key aspects of PPPs that led to more efficient and effective private sector involvement with a view to helping close the infrastructure gap in Peru.³⁷ The Public-Private Infrastructure Advisory

³⁶ The Public Expenditure Review conducted under the STIS operation was the first of its kind in Peru and provided a comprehensive overview of the redundancies and overlaps in the STI system, which not only directly informed the recent reforms of the National Science, Technology and Innovation System (SINACTI) Law that were approved in July 2021, but also informed the design of the grants and institutional reinforcement activities foreseen under the new project.

⁵ The trust fund support was highly important for the engagement and results in this area through the State Secretariat for Economic Affairs- SECO, Switzerland. First, the Capital Markets Strengthening Facility (CMSF, 2015-2021) supported further development of the domestic capital markets in Peru with emphasis on increasing their use for financing infrastructure of PPPs. The goal was to increase the number and size of fixed-income instruments issued in domestic capital markets with

Facility/PPIAF (a multi-donor facility administered by the World Bank) also delivered a detailed review of the portfolio of PPP projects and tender processes for the period 2009-2020, for Proinversion, the public agency for private investment promotion, which included lessons learned and best practices to structure and tender competitive bidding processes. PPIAF also delivered a set of draft Terms of Reference for the procurement of a Program Management Office and Technical Advisor to support Ministry of Housing, Construction and Sanitation—*Ministerio de Vivienda, Construcción y Saneamiento* (MVCS) in the development of its PPP portfolio.

21. **As part of the efforts to improve the investment environment, the WBG supported a reduction in the number of days required for security inspections as a prerequisite for obtaining an operation license.** The IFC Project Improving Technical Security (600550) was completed in March 2019 to assist the GoP in determining appropriate protocols for the issuance of security clearances. Based on the recommendations derived from this project, the new regulation determined a maximum number of days to complete an inspection for high- and very high-risk businesses, from 63 to 11 calendar days. This reduction further reduces transaction costs for low- and medium-risk businesses, which can now obtain an operating license prior to the building safety inspection. Low- to medium- risk businesses are still audited once they are in operation. The Construction Safety Technical Inspection (ITSE) certificate received under this new regime has a validity of two years, after which the business must request a renewal of the certificate, as a way to guarantee safety measures are maintained.
22. **Improvements in the private sector environment were also supported through the Boosting Human Capital and Productivity DDO (\$1.25 billion), approved in FY16 (P156858) and the DPO Strengthening the Foundations for post-COVID-19 Recovery (\$750 million), approved in FY21 (P174440).** The first operation supported the entry, operation, and exit of firms through (a) the incorporation of over 40,000 new firms in the System of Online Registration; (b) the reduction in ability of government bodies to impose regulations and administrative procedures outside the national legal framework; (c) the simplification of the withholding regime for VAT payments to reduce operating costs for firms; and (d) the introduction of electronic auctions for asset foreclosures to reduce costs and risks of insolvency. The second operation expanded the targeting of emergency cash transfers to an estimated 2.5 million households not included in the traditional schemes, mostly poor and informal workers unable to earn daily wages, and facilitated their inclusion in the digital payments network. It also supported enterprises confronting drastic and sudden demand shocks by introducing *Reactiva Peru*, an innovative credit guarantee scheme, that mobilized 8.5 percent of GDP in private liquidity for SME lending. The competitive system for assigning the liquidity resulted in credit flows to the private sector that were among the most robust in the world at the time, supporting liquidity amounting to \$16.5 billion, and achieving historically low interest rates paid by the final borrowers. Half of all formal workers hold jobs in firms that benefitted from *Reactiva Peru*.
23. **Additionally, IFC and the World Bank provided technical assistance at the national and regional levels.** They worked closely with the MEF, the Ministry of Foreign Trade and Tourism (MINCETUR), the export and tourism promotion agency (PromPeru), and the National Institute for the Defense of Competition and the Protection of Intellectual Property (INDECOPI) on three initiatives that supported economic and geographic diversification. Activities focused on tourism promotion (development of

participation of institutional investors. The CMSF achieved important outcomes, such as the improvement of a new PPP framework for infrastructure projects, mentioned above, including the enactment of a PPP Law and Bylaws, adoption of a new risk allocation policy, and adoption of a standard PPP contract conducive to facilitate capital market financing.

three tourism destinations to increase private investment), competition policy, and investment promotion policy. Regarding competition policy, IFC started working with INDECOPI on the development of the policy with a strong focus on the subnational level, and this work is being continued by the Bank. In addition, IFC produced an investment promotion strategy that included an 18-month implementation plan set by PromPeru. An identification of barriers to foreign direct investment (FDI) was also delivered with recommendations to improve the legal framework to attract FDI in areas such as investment retention and expansion and local linkages. Collaboration in the context of the J-CAP Program led to IFC's investment in COMPASS, a debt fund that pools retail savings by institutional investors and channels that liquidity to SMEs.

24. **The CPF identified that private investment in infrastructure had been an important driver of growth, employment, and prosperity, but its sustainability required addressing key domestic constraints.** These constraints included relatively shallow financial markets, which consequently led to the country's inability to match the breadth and lending terms of its peers in LAC. By increasing the availability of credit in support of infrastructure projects, MIGA's guarantee to Banco Santander, for \$342 million, is helping to address one of the barriers to private investment in infrastructure, with a special focus on climate-change mitigation projects.

Objective 4. Improve water and sanitation services in key urban areas – *Mostly Achieved*

25. **The sanitation target was exceeded, the indicator on water access and efficiency of water utilities reached the expected targets but sanitation services are still below the target.** Improvements in water and sanitation require upgrades in the corporate and financial performance of water utilities, which have been supported by IBRD programmatic ASAs as well as a substantial program of investment operations. However, because of the slow pace of the planned investments, the associated CPF targets were not fully achieved. The Bank will continue supporting investments in this critical sector in the next CPF period. In the case of the Optimization of Lima and Sewerage Systems SEDAPAL Projects (P117293, and additional finance P133287), the project substantially improved the efficiency, continuity, and reliability of water services for 64,878 households in northern Lima, narrowly missing the target of 69,444 households. Service efficiency, measured as non-revenue water levels, went from 40 to 25 percent in the project area, fully achieving the PDO-level target. The project's achievements in reducing water losses increased the quantity of water available for distribution, permitting SEDAPAL to extend water services to other areas without causing supply and continuity constraints, thus contributing to increased urban household access to water services. In the case of the Modernization of Water Supply and Sanitation Services (P157043), progress in implementation has been limited however the target related the gain of efficiency in three water utilities was met. COVID-19 mobilization restrictions, changes in the project implementing unit (PIU) staff and leadership arising from the political transition, and delays in project readiness have contributed to a shortfall in the expected results, with no noticeable progress in improved access to water and sanitation services in six of the seven water utilities included in the program. However, the target for reduction in the working ratio of two of the water utilities has been met (SEMAPA in Barranca and EMAPA in Huaral). Despite the attribution issues with the water utilities, given the weight of SEDAPAL in the sector, this objective is considered as mostly achieved.

26. **IFC also contributed to addressing the structural weakness of limited effectiveness of the state in the provision of key social and infrastructure services in the water sector.** Since 2018, IFC has been providing assistance to Proinversion as transaction advisor for *Obras de Cabecera*, a critical project for water provision in Lima and model PPP transaction, included in the National Infrastructure Plan for Competitiveness. *Obras de Cabecera* is a PPP to design, finance, build, operate, and transfer the capture, treatment, and distribution of water to benefit more than 1 million unconnected people plus an additional 500,000 people without continuous water service in *Lima Metropolitana*. Assistance from IFC has included structuring the PPP contract and transaction to follow best practices on the ESG side, including requirements to meet IFC Performance Standards, and on the financial structure side, with the adoption of a structure of payments linked to the availability of infrastructure services. It has also included preparing 16 technical studies. Over the CPF period, IFC has mobilized \$2.5 million in donor funding to support project preparation, including support from the Sustainable Cities Program, the joint WB-IFC JCAP Program, and the Global Infrastructure Facility (GIF) Program. IFC assistance in structuring this PPP project has also involved close coordination with the World Bank and the Water Resources Group 2030, as decision-making by SEDAPAL and MVCS has required support on policy aspects. Studies and assistance were almost fully completed by the end of the CPF period, pending only a review by SEDAPAL and MVCS of the final bidding documents for the concession and a decision to move forward with the tender process.

Objective 5. Modernize delivery of health and nutrition services for the poor – Partially Achieved

27. **This Objective is considered partially achieved because, while the indicators related to child nutrition and anemia have been fully achieved, the one related to the expansion in the provision of health services in Lima could not be verified.** Much of the planned modernization of these services has been delayed because of the pandemic. As reported in the PLR, the expected improvements in nutrition supported by the SWAP: Results Nutrition for *Juntos* (P117310) and the technical assistance (TA) to Peru's Nutrition Strategy to Reduce High Anemia and Stunting in Children under 36 Months (P162483) were achieved in 2018. The percentage of children under 36 months that have received the complete growth and development protocols (CRED) scheme according to their age increased from 55 percent in 2015 to 80 percent in 2017, already surpassing the estimate of 70 percent for 2021. IBRD has supported, through a series of advisory and analytical services, GoP's efforts to integrate the public health network and reform health insurance to improve health care access, quality, and efficiency (Peru Health System Reform P161496, Peru ESSALUD Separation of Functions P163236, Peru - Health Agenda P167460). The WBG also contributed to this Objective through two RAS (P163236 and P165519) to support the Social Health Insurance (ESSALUD) in the design of new processes for the separation of the insurance and health care service provision functions. These efforts were further supported by the Peru Integrated Health Network Project (P163255) aimed at improving the resolute capacity and quality of public First-Level Health Services in Lima Metropolitan Area and priority regions. The CPF result indicator specifies that by 2021 at least 20 percent of Integrated Health Networks would offer an expanded range of health services in Lima and other prioritized regions. While the Project has advanced on concept definitions and operational strategy related to the implementation of the health networks (RIS), activity implementation has not progressed according to plan. The institutional set up for project implementation has been adversely affected by the recent focus of the Ministry of Health on addressing the COVID-19 pandemic. Most activities under implementation are TA (technical/feasibility studies, bidding documents, and

development of technical specifications) with limited impact on the actual build-up of integrated health networks. Nonetheless, there has been no outcome in terms of improving the delivery of First-Level health services and, thus, the CPF result is considered partially achieved.

Objective 6. Improve governance through selected institutional reforms at the national and subnational levels – *Partially Achieved*

28. **While one of the indicators under this Objective was fully achieved, the other two (which correspond to two important institutional reforms: improving digital access for users to the non-criminal justice system and strengthening municipal decentralization by building up the property tax base of municipalities) are not achieved.** In the case of the justice sector reforms, the IBRD Improving the Performance of Non-Criminal Justice Services project (P162833) seeks to improve efficiency, access, transparency, and user satisfaction, in the delivery of non-criminal justice services by expanded investments in electronic justice services, improved access to legal aid and justice services for vulnerable populations, and enhanced management of judicial careers and training. Because of continued changes in leadership in the Judiciary and the inability to put in place a solid program implementation team, there has been limited progress in the delivery of the project activities, including the studies for the IT infrastructure component of the Constitutional Tribunal's project, the citizen service component of the Junta Nacional de Justicia's project and the case management system business architecture. Consequently, the proposed outcome that 40 percent of non-criminal cases would be accessed online in real time by 2021 has not been achieved. Nonetheless, recent changes in administration have enabled progress on project implementation.
29. At the subnational level, the IBRD National Urban Cadaster and Municipal Support Project (P162278) seeks to improve the coverage of urban cadaster services in selected municipalities to enhance local government capacities for revenue generation and urban management. Although under the CPF it was expected that by 2021 at least five municipalities would have benefitted from an improved tax base, progress in program implementation has been slower than expected. The cooperation agreements with each of the participating municipalities have been signed, technical specifications for the acquisition of ortho-imagery and cadastral cartography have been completed, and the procurement documents to outsource these activities are under review. The expectation is that while current progress indicates that the expected outcome is partially achieved, by the end of the project, currently scheduled for early 2025, significant progress would have been achieved to improve urban cadasters.
30. **IFC sustainable infrastructure advisory and Anglo American partnered in FY21 to support five subnational governments (SNGs) in Moquegua to respond effectively to community needs through the enhanced provision of inclusive public infrastructure and/or services through a multi stakeholder coordination platform - the "Shared Value Platform."** Activities conducted include the design of the Platform, with the definition of committees and working groups to be established, an assessment of the investment management practices of five SNGs and the development of tailored Action Plans to improve them. The project also Identified priority programs in each SNG, and mapped local leaders to determine how to best engage them in future work. Going forward, building on these results, the activities undertaken by the Platform will allow municipalities to effectively respond to the needs from local communities through the enhanced provision of public infrastructure and/or services, with an estimated \$800 million from the mining tax revenue in the next 4 years.

Objective 7. Strengthen the management of natural resources – *Partially Achieved*

31. **This Objective, which was supported by a series of IPFs and a substantial program of analytical and advisory activities, was partially achieved, largely reflective of limited progress on the planned investments in the environment project (P147342).** High deforestation rates, unsound forestry practices, and illegal logging have threatened Peru’s impressive biodiversity as well as the livelihoods of indigenous local communities. The IBRD Saweto Dedicated Grant Mechanism in Peru (P148499) successfully supported Indigenous Peoples in selected communities in the Peruvian Amazon in their efforts to improve their sustainable forest management practices. The legal protection and recognition of native communities and land tenure security constitute key enabling conditions for environmental sustainability, climate change mitigation, and poverty reduction. The project concluded the demarcation and titling process for 58 communities covering approximately 230,000 hectares. Although this is short of the expected result of 780,000 hectares set as the CPF indicator, the project had a significant positive impact on the beneficiary communities as, in addition to land tenure security, it obtained the recognition of 253 native communities and resulted in the financing of 44 community-based productive subprojects—including 16 women-led initiatives—which contributed to sustainable forest management and improved food security as well as income generation in 119 indigenous communities in the Peruvian Amazon.
32. In the Water sector, the IBRD: Integrated Water Resources Management in Ten Basins project (P151851) seeks to strengthen the capacity of water resources management institutions to plan, monitor, and manage water resources at the national level and in selected river basins in Peru. The expected CPF result was that by 2021 four new basin councils/committees, in addition to the six existing council/committees, would have approved and initiated implementation of integrated water resource management plans. The program has made significant progress toward this objective during the CPF period. Four committees on the Atlantic side (i.e., the direction of the water flows) have been established under the project, and their respective management plans are advancing as planned. This indicator can be considered as mostly achieved. In terms of surface water quality monitoring, the IBRD Enhancement of Environmental Quality Services project (P147342) made only limited progress toward achieving the expected outcome of having one water quality monitoring network in operation during the CPF period.

Objective 8. Improve disaster-risk planning and financial management – *Partially Achieved*

33. **This Objective is considered to be partially achieved on the basis of the Bank’s pioneering engagement in this area with innovative instruments such as the CAT Bond and two Catastrophe Deferred Drawdown Option (Cat DDO) DPFs, as well as important technical assistance in the area of financial protection against disasters for PPPs.** In fact, Peru was among the first countries to use the Cat DDO, two of which were approved during the previous CPF period but were supervised--and produced additional development outcomes--during this CPF period. The CAT DDO I and II supported improved efficiency in public resource allocations for disaster-risk management at both the national and regional levels. They also strengthened vulnerability reduction policies in infrastructure for the

education and housing sectors and for flood protection measures. Finally, they increased GoP capacity for post-disaster recovery and reconstruction through the provision of operational continuity plans, guidelines for post-disaster reconstruction, and a procedure for the financing of post-disaster rehabilitation and reconstruction. In 2017,³⁸ the Bank, through the CAT DDO operations active at the time, provided both technical assistance and financial support to GoP during the *El Niño Costero* phenomena. On February 8, 2018 the Bank received the withdrawal request from the MEF in the amount of \$70 million. The Bank accepted Supreme Decree No. 014-2018-PCM on February 7, 2018, in fulfillment of the condition precedent to withdraw funds from the loan. The funds disbursed from the CAT DDO II were channeled through the Fund for disaster-risk management (FONDES) to respond to the recovery and reconstruction activities after El Niño. Given the government's efforts to continue moving the disaster-risk management (DRM) agenda forward, the Bank will continue the dialogue and support the government in consolidating the reforms introduced under CAT DDO I and CAT DDO II by including other sectors in future operations, including at the subnational level. Governments at the regional and local levels will need technical support and human resources to implement interventions and investments focused on risk reduction. The national government, through MEF and the sectors, continues to have a key role in supporting the regional and local governments in this regard. The Bank started this support with the National Urban Cadaster and Municipal Support Project (P162278), but the results will be seen during the next CPF period.

34. **The Bank contributed to the GoP's development of a comprehensive financial protection strategy against natural disasters.** The CAT Bond Joint Pacific Alliance was introduced in February 2018, with \$200 million in earthquake protection during a three-year period. The bond provided coverage of \$65 million to Peru when an earthquake hit the country in 2019. These instruments complemented the Peruvian layered financial strategy with traditional and nontraditional financing instruments, which currently consist of budget reallocation, the Fiscal Stabilization Fund, and contingent credit lines with CAF (Development Bank of Latin America), JICA (Japan International Cooperation Agency), and IDB. The CPF established as a desirable outcome that, in continuance with the disaster prevention policy, the government would contract a new disaster insurance instrument by 2021. During FY20 and FY21, a major analytical effort was undertaken to build evidence and provide policy recommendations to the Government for increasing the resilience of local governments to seismic and hydrometeorological (particularly floods and droughts) disaster impacts across key sectors. The outbreak of the pandemic and political instability led the GoP to defer the decision to engage with a new insurance instrument, thus rendering this result indicator mostly achieved.
35. **The Bank also supported the GoP in strengthening PPP's financial protection against disasters.** In 2019, the MEF included an insurance chapter in its guidelines for designing PPP contracts. The Bank also assisted in strengthening the exposure and insurance databases for Peru and other Pacific Alliance countries. In addition, the Bank helped the Superintendency of Banking, Insurance and Pension Funds (SBS) in strengthening insurance regulatory frameworks. Building on synergies with other SECO initiatives, the Bank provided advice to the Regulation for the Constitution of the Catastrophic Risk Reserve and the related technical note in December 2021. The Bank also supported the SBS and the Peruvian International Institute of Seismology and Earthquake Engineering Building Research Institute in developing software used in calculating the risk reserve. These activities included

³⁸ From December 2016 through March 2017, heavy rains affected the country. On March 27, 2017 the GoP declared a national state of emergency after heavy rains caused landslides, flooding, and huaycos (flash floods) in the northern coastal regions of Peru. This event developed rapidly and had severe impact in terms of loss of life and infrastructure across the country, with economic losses estimated at \$3.1 billion.

capacity building—for example, in 2020, it delivered actuarial training to the SBS—and also provided inputs to the risk-based capital model for insurance companies in Peru.

IV. WORLD BANK GROUP PERFORMANCE

36. **The WBG performance in designing and implementing the 2017-2021 CPF was Good. The assessment is based on several factors, including: (a) high relevance of the CPF objectives; (b) the responsiveness of the WBG to changing circumstances, both at the time of the PLR and in response to the COVID-19 pandemic; and (c) the strategic use of knowledge to inform this response.**
37. **Relevance of the CPF Objectives:** The selection of CPF objectives, along with the supporting instruments and interventions, were highly relevant to the development challenges facing the country at the time of CPF design, and they continue to be relevant today. In fact, looking ahead to the coming CPF period, the key elements of the CPF objectives will be retained in support of their relevance to the Higher-Level Outcomes that have been identified by the Systematic Country Diagnostic Update.
38. **Responsiveness of the WBG to changing circumstances:** As discussed, the WBG demonstrated the ability to respond quickly and appropriately to changing priorities and demands of the country, including through the introduction of policy-based lending to support the government’s response to the pandemic. During the CPF period, the WB provided significant financial support through the disbursement of two active DDOs (totaling \$2.5 billion) that supported public expenditure and fiscal risk management and human capital development and had been approved by the Board in February 2016. In addition, two new DPOs focused on human capital (\$350 million) and economic and social recovery (\$750 million) were prepared, approved, and disbursed in FY21 and contributed significantly toward developing an appropriate policy and institutional framework for dealing with the pandemic. These policy-based operations have supported substantial progress in the financial and digital inclusion of vast segments of the population, thus tackling some significant obstacles to broad-based and sustainable growth that will remain beyond the current health emergency. The swift mobilization of significant incremental financial resources in response to the pandemic demonstrates the WBG’s responsiveness and ability to re-prioritize support to address the changing needs of a client facing an unanticipated crisis of significant proportions.
39. **Strategic use of knowledge to inform response:** the WBG mobilized the production of ad hoc and targeted analytical work and TA to inform the policy choices and implementation challenges facing the GoP in its response to the pandemic. This included work in the critical areas of health (including creation of a platform to monitor COVID infection) and education (including remote learning) as well as in the areas of social protection and digital inclusion.

A. CPF DESIGN

40. **Design and relevance.** At the PLR stage, the original CPF program was considered relevant and on track with some adjustments in objectives and indicators to reflect a slower than anticipated implementation pace. This assessment was based on the assumption that the political risks, upgraded to substantial, would subside as the new political election cycle neared. However, as the political turmoil intensified, the anticipated implementation risks were compounded by changes in priorities of the different administrations and the constant turnover of staff in all the implementing agencies. Thus, while the program design is deemed appropriate and in line with the development challenges

faced by the country, its implementation presented some serious shortcomings derived mostly from higher political risks than originally foreseen. Nevertheless, the CPF objectives continue to be relevant to the current development challenges the country is facing and will feed into the Higher-Level Outcomes of the forthcoming CPF.

- 41. The quality of the CPF results framework was uneven because of the weak links between the DPOs and the results framework.** The PLR was undertaken in April 2019 (Report No. 135267-PE) at a time when the program was heavily supported by investment project financing. The PLR was prepared in the context of low demand for new lending from GoP, particularly for DPOs/DDOs, given its beneficial financial position in international markets during 2017-2019. However, this situation changed significantly during 2020-2021 with the onset of the pandemic. DPO/DDO outcomes were not envisaged when the PLR was formulated and were not reflected in the results framework, although these instruments, and the policies they supported, ended up being a highly significant part of the program. Given the impact of the constant staff turnover in the IPF portfolio, the results of the investment program were circumscribed to the limited progress achieved on the associated indicators. This aspect is a weakness in the CPF design noted in IEG recommendations in the previous CLR, mainly because of the lack of predictability of DPO demand. As a result, the achievement of the CPF Objectives was not fully measured by the indicators, and indicators did not always capture the full scope of WBG support with the result that the contribution of the WBG was underestimated. For instance, Objective 5 indicators centered exclusively on the contribution from IPFs to the health sector and did not capture the pandemic-focused technical assistance and financing provided to the sector during 2020 and 2021. Similarly, Objective 8 indicators were more focused on disaster-risk management at the subnational level but did not consider the reforms supported by the two CAT DDOs toward the reduction of Peru's fiscal and physical vulnerability to disasters nor the work with MEF through TF and ASA to build a comprehensive financial protection strategy against natural disasters.
- 42. The pandemic outbreak implied a substantial modification of the CPF program focus with a substantial mobilization of incremental analytical and financial resources: the program moved from being primarily focused on IPF investments with limited and slow results, to a broader and more robust program supported by both IPF and DPF financing, along with targeted analytical work and TA.** While there was no formal revision of the program, and no investment projects were dropped, de facto a substantial portion of the dialogue and of the assistance strategy shifted to respond to the pandemic and its dramatic impact on the country's functioning. The initial focus of WBG assistance was to provide just in time analytical support to address a wide variety of issues arising from the Government's response to the pandemic.
- 43. Risks.** Overall risks to the program were identified in the CPF as Moderate. Political and Governance risks were increased from Moderate to Substantial at the time of the PLR, and the subsequent year witnessed three changes of administration (in 2020) and consequent social turmoil. This risk was mitigated by a three-year program agreed with MEF that addressed the biggest development constraints and allowed the finalization of most IPFs considered at the PLR stage, though at a slower pace. Institutional capacity and Implementation risks were also correctly increased from moderate to substantial at the time of the PLR. To mitigate these risks, the Bank worked in close coordination with MEF by restructuring projects, providing intensive fiduciary support, and conducting biannual comprehensive portfolio reviews, which generated mutual agreed actions to improve portfolio performance. The macro risks were correctly assessed as low, despite the pandemic, and the macroeconomic stance of the country remains healthy.

B. PROGRAM IMPLEMENTATION

44. **The WBG remained flexible and managed to provide critical ad-hoc technical assistance to support GoP's response to the pandemic in 2020-2021.** For example, the WB assisted GoP in consolidating and processing indicators to monitor the pandemic's behavior in real time and at highly disaggregated georeferenced levels. The platform developed under this assistance enabled the GoP to respond in a timely manner to potential virus surges throughout the country and to devise focused mitigation and economic reactivation measures. Furthermore, technical assistance was provided to help the Ministry of Inclusion and Social Development (MIDIS) in responding with emergency cash transfer programs and payment digitization (including the design and roll out of more than 2 million transaction accounts opened for cash transfers by *Banco de la Nación*), interoperability and consolidation of beneficiary databases, and development of poverty maps. In addition, the Bank supported the Ministry of Education (MINEDU) in the production and dissemination of learning materials and in communication strategies to safeguard and enhance students' distance learning experience. IFC also delivered online training to SMEs on financial management and strategies to cope with financial stress through a digital platform developed by the Ministry of Production (PRODUCE).
45. **Migration was also a new area that was not originally included in the CPF design.** A very large fraction of the Venezuelan exodus currently resides in Peru, making it the second-largest recipient of Venezuelan migrants and refugees in the world since 2018, behind Colombia. It is estimated that as of December 2021, about 1.86 million Venezuelan migrants and refugees had arrived in Peru since the beginning of 2017 (making them approximately 4 percent of the total population of Peru). A 2019 study showed that only 12 percent of all migrant workers have a formal contract with their employer, compared with 61 percent of Peruvians. Venezuelans are also mostly employed in economic sectors where the COVID impact has been the hardest. In addition, risks of social backlash augmented by xenophobia have limited GoP's scope to assist the migrant and refugee population. These constraints, in addition to the hurdles faced by the GoP to respond to the needs of highly vulnerable Peruvians during the pandemic, led the Ministry of Foreign Affairs to reach out to international cooperation agencies, requesting them to support the GoP in providing emergency support to vulnerable Venezuelans in Peru. To respond to this request, the World Bank mobilized resources through TA and specific grants from the State and Peace Building Fund (SPF).
46. **Management of World Bank portfolio.** Portfolio management presented challenges over the CPF period, reflecting structural and institutional factors as well as the impact of the pandemic. The portfolio evolved over the period to include new DPO financing of \$1.15 billion and new investment financing of \$2.75 billion. The number of projects in the portfolio remained stable from 14 in FY17 to 15 in FY21, while the amount of the average investment project increased from \$55 million to \$75 million. Over the CPF period, net commitments increased significantly, mainly reflecting the demand for new DPOs (in large part to support the government response to the pandemic), from \$944 million in FY17 to \$1.9 billion in FY21. On the investment side, implementation was impacted by the high rotation of government counterparts and PIU staff as well as the eruption of the pandemic, and the disbursement ratio of IPFs slowed significantly, declining from 11.5 percent in FY17 to 8.4 percent in FY21. During the CPF period, the average length of IPF preparation was 20 months until approval, and 20 additional months on average for the first disbursement.³⁹ Despite the reforms of the public

³⁹ WB Operations Portal data.

investment system in 2017, project preparation faced significant rigidities combined with weak capacity and resources in project design. Despite having procurement and financial systems that comply with good international practices, project implementation faced serious challenges, including high turnover of staff, poor incentives for technical staff, low salaries in comparison with comparable private sector positions, and limited project management culture. In addition, other structural factors continue affecting project implementation: insufficient national budget allocation, especially at the outset of implementation, and projects with weak monitoring and evaluation (M&E) mechanisms.

47. **In an effort to mitigate the impact of these challenges, the Bank conducted biannual portfolio reviews, and biweekly meetings with counterparts of problem projects.** The number of problem projects was three on average along FY17-FY21, and the proactivity index averaged 70 percent during this period, demonstrating the Bank's active, hands-on approach to tackling problems in the portfolio (see Annex 3). During the CPF period, despite the preference of MEF to rely on traditional instruments, such as DPOs and IPFs, the Bank was able to introduce innovative products, such as the CAT Bonds with the Pacific Alliance for \$200 million. In addition, during FY17-21, INT handled 16 preliminary investigations and two full investigations. Both investigations were substantiated: one dealt with fraud and collusion in a project linked to the urban sector; the second one dealt with fraud in a project linked to the transport sector.
48. **Safeguards.** During the CPF period, key challenges inhibiting safeguards performance included (a) weak institutional capacity and ability to sustain government commitment to Environmental and Social (E&S) issues; (b) the complex structure of the E&S regulation in the country that involves bureaucratic processes and a diversity of competent authorities in socio-environmental matters; (c) weak E&S reporting and documentation capacity; and (d) weak integration of E&S issues into planning, technical design, and bidding documents in some projects. E&S safeguards performance has improved through the provision of hands-on training, particularly to PIU staff, from project preparation through to project implementation. However, challenges remain to implement complex infrastructure projects that involve numerous processes for the acquisition of properties, land, and management of cases of involuntary resettlement.
49. **The CPF was implemented in close coordination and harmonization with development partners throughout the CPF period.** The WB worked closely with the Inter-American Development Bank (IDB), Development Bank of Latin America (CAF), the Organisation for Economic Co-operation and Development (OECD), and Swiss State Secretariat for Economic Affairs (SECO). In addition, the Bank has worked with the European Investment Bank (EIB), KFW Development Bank, and Japan International Cooperation Agency (JICA), in selected co-financed projects. The WB also maintained a regular macroeconomic dialogue with the IMF.

IV. ALIGNMENT WITH CORPORATE GOALS

50. **The CPF, with its focus on promoting productivity gains, reducing disparity in access and quality of basic public services, and supporting key institutions for managing natural resources and climate-change risks, supported the twin goals of reducing poverty and promoting shared prosperity in a sustainable manner.** The design of the CPF on the basis of three pillars promoting increased productivity, improved services for citizens across the territory, and up-graded management of natural resource and climate-change risk management responded to the main structural deficiencies of the Peruvian economy. The CPF's strategic objective was to re-ignite economic growth, while addressing some of the structural weaknesses in the economy (the limited effectiveness of the state

in the provision of key social and infrastructure services and the excessive and costly regulations generating informality across two thirds of the labor force).

51. **Before the dramatic increase in poverty from to the pandemic in 2020, poverty levels had been rather stagnant in Peru between 2017-2019.** Prior to that, Peru had experienced steady growth and poverty reduction. Poverty dropped from 52.6 percent in 2000 to 20.6 percent in 2019. In 2020, despite the massive rollout of emergency cash transfers (“*bonos*”), poverty increased 12 percentage points, hitting urban areas the hardest. The decline in economic activity was more pronounced in urban areas, which accounted for almost all the job losses in 2020 and where the increase in poverty was almost twice the level experienced by rural areas. While employment levels have almost returned to the pre-crisis levels, this was largely driven by low-quality jobs in the informal sector. The Bank contributed to the alleviation of poverty through the DPO reforms that included cash transfers to the populace. On the investment side, projects considered under the three pillars contributed in different degrees to shared prosperity goals, exemplified by projects focused on small and medium businesses and agriculture and fisheries.
52. **The CPF reinforced the WBG’s focus on gender, particularly as related to violence against women.** The Bank contributed with key ASA to maintain visibility of this agenda in the public arena. In particular, in 2019 the Bank presented, together with the President of Peru, the study “10 messages about Violence against Women in Peru” (P168055). The overall objective of this work was to strengthen the evidence base on violence against women in Peru, a persistent and concerning social issue, to inform policy discussions and decision-making. Another important contribution on gender has been in the transport portfolio through the Women’s mobility ASA for Latin America that included Peru (P161482) and promoted gender awareness in transport in social media.
53. **Related to the climate change goals, the Bank has been supporting Peru in implementing reforms and finance investments to reach those ambitious targets.** Bank policy-based operations have supported the expansion of green finance to mobilize capital at scale for climate action, better incorporate climate-change risks into long-term Disaster Risk Management (DRM) Strategies, strengthen DRM capacities at the subnational and sectoral levels, and accelerate the shift toward lower-carbon technologies (e.g., in the energy and transport sectors). However, continued efforts will be required, and Peru will have to take further action, particularly to enhance sustainable forestry, climate-smart agriculture, and land use management. The Bank has financed several investment operations to support sustainable forest management and reduce deforestation, including (a) the ongoing Integrated Forest Landscape Management Project in Atalaya, Ucayali (P163023); and (b) the recently closed SAWETO Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (P148499) financed under the Strategic Climate Fund Forest Investment Program. The government has recognized that more work is needed to tackle these complex issues and is currently working on the design of a second generation of investment and policy interventions.
54. **MIGA’s guarantees in the financial sector supported access to finance for climate finance projects.** The Santander Mandatory Reserves Project in Peru, signed in FY18, was MIGA’s first capital optimization project to be tagged as climate finance. MIGA’s guarantee totaled \$247 million, of which 30 percent (\$53 million) was agreed as the climate finance target to be achieved during the life of the guarantee (2019-2025). This target was achieved two years ahead of schedule. In FY21, MIGA increased the guarantee amount by \$95 million. Through this increase, the project aimed to continue supporting Santander Peru’s loan book growth, using the additional freed-up capacity in its entirety for climate finance activities (in support of renewable energy and sustainable transport projects).

V. LESSONS LEARNED

55. **Strengthening proactive portfolio management through the adoption of proven practices targeting both project preparation and implementation issues remains essential.** The WBG needs to continue to step up its implementation support efforts, including (a) continued close partnership with the MEF on the oversight and evaluation of portfolio implementation; (b) increased operational oversight and effective enforcement of agreed implementation plans and, when applicable, enforcement of corrective measures; (c) strong implementation support, particularly from fiduciary and safeguards staff, to provide training and day-to-day guidance to local counterparts like Hands-on Expanded Implementation Support (HEIS); (d) increased flexibility by the WBG in responding to changes in project implementation by processing quick restructurings and partial cancellations; and (e) customizing procurement methods and approaches to suit the operational context, the relevant market's dynamics, and PIU capacity.
56. **The Bank needs to have the flexibility to respond to unanticipated challenges in the financing needs of the country with a combination of instruments, ranging from contingent lines to regular policy-based loans, RAS to investment financing, as well as just-in-time technical assistance.** Technical assistance and knowledge products have been effective, combined with RAS, trust-funded ASA products and active DPO operations to maintain the dialogue on policy reforms. On the investment side, though IPFs suffer from slow implementation and need continuous supervision, this is the preferred instrument on GoP's side for project implementation. As such, the forthcoming CPF is likely to use the IPF instrument for investments at the sectoral level. However, the Bank needs to continue discussing with GoP other innovative approaches to project preparation and the use of other WB instruments (including Program for Results/P4Rs) to facilitate more timely preparation, as well as potentially greater impact across the government-finance public investment programs.
57. **As envisaged at the time of their launch as a novel financial instrument, DPOs, particularly those with deferred drawdown options, have had an essential role in Peru's macro-fiscal management and reform program during the CPF period.** DDOs are an essential part of Peru's fiscal buffers and play a critical role in the government's medium-term macroeconomic and fiscal plan. While the pandemic has led to higher levels of debt around the world, Peru's debt remained lower than that of similar economies. The country's long history of prudent and responsible public financial management has allowed it to maintain a favorable fiscal situation while tackling the adverse shocks that have occurred throughout the start of the twenty-first century. Unlike Peru, the crisis caught most of the region's countries and other comparable nations in an unfavorable fiscal situation, further accentuating their preexisting fiscal and financial vulnerabilities. By way of illustration, Peru's gross public debt in 2020 was below the median for Latin American countries (81.6 percent of GDP) and emerging countries (62.2 percent of GDP). Furthermore, despite the adverse circumstances, Peru continued to be the economy with the lowest country risk in LAC, and one of the few emerging countries to maintain its credit rating in foreign currency, thus enabling it to successfully issue bonds throughout the CPF period, with lower interest rates than the one offered by the World Bank at times. DDOs have helped the country deal with key crisis moments such as the impact of "El Nino Costero" in 2017 and the COVID-19 pandemic in 2020-2021. Peru has also made good use of the technical assistance embedded in the preparation and supervision of each operation, resulting in DDOs that supported policy changes with long-term impact in areas such as education, productivity, fiscal

management, and growth. These reforms helped to anchor the country's widely praised medium-term reform programs which endured across multiple administrations and political upheavals.

58. **The 'One WBG' approach has allowed IFC to engage in policy dialogue and face the uncertain investment climate in a pre-pandemic environment where companies were being offered financing at favorable terms in local currency.** In these challenging conditions, having a wide range of advisory products across several sectors allowed IFC to maintain a relevant presence. To improve its competitiveness, IFC could explore mechanisms to expand local currency financing options to meet the needs of private sector clients and be more at pricing in line with the local market. Strong WB and IFC cooperation in areas such as the PPP framework reform and the water project in Lima, has been important to advance the private sector agenda in Peru. Moreover, given the reduced local staff presence during the second half of the CPF period, IFC's approach has been to leverage close collaboration with the WB. This has allowed IFC's regional team to better understand policy priorities, strengthen the dialogue regarding the enabling environment for private investment, and support business development and upstream activities in a select set of sectors. The One-WBG approach will continue to be instrumental to reap the benefits from collaboration and continue its pipeline building efforts in Peru.
59. **When faced with political instability, being flexible to adjust complex projects and having a close dialogue with stakeholders is key.** Projects like *Obras de Cabecera*, where IFC and the WB worked together, have a high development impact but they are complex, have long implementation timelines, and involve a wide range of stakeholders and agencies with different levels of institutional capacity. Teams need to be able to adjust execution, narrow the scope of activities and level of effort when needed, and manage expectations and high turnover at important decision-making levels throughout implementation.
60. **Support from donor funding strengthens WB ASA contributions and IFC's role as a catalyst for market development and as a standard-setting institution.** Through programs like J-CAP, IFC can undertake demonstrative projects, (such as COMPASS debt fund) to show the role that capital markets play in SME financing through investment funds and other instruments that support non-banking financial institutions. Through the LAC Sustainable Cities Program, IFC has worked on the structuring of important projects like *Obras de Cabecera*. The LAC EDGE Green Building Market Transformation Program, funded by SECO as well, has strengthened the green finance market in Peru through advisory work and will continue to support knowledge sharing. Other sources of donor funding were also key to support ASA work of the WB to finance ad-hoc technical assistance during the CPF period.
61. **Peru is still exposed to significant climate change risks and is already facing high impacts from natural hazards that cause severe economic and welfare losses.** Those risks have been consistently recognized by Peruvian governments throughout the CPF period. Peru has made progress in implementing its climate change commitments under the National Determined Contributions (NDC), with support from the Bank. Over the past years, the country improved regulations and policies to support a transition toward a greener and more resilient development model. Among others, Peru adopted a framework law on climate change (Law no. 30754, April 18, 2021) and established a National Registry of Mitigation Measures (RENAMI) (Supreme Decree no. 013/2019, MINAM). In June 2021, the Ministry of Environment approved the National Adaptation Plan, which provides a roadmap for strategic actions across key sectors. Peru submitted its second NDC in December 2020 and is currently working to update the National Strategy for Climate Change.

62. **Finally, the effects of the pandemic in Peru highlight the need to strengthen resilience against adverse shocks beyond maintaining a good macroeconomic stance.** While the government has been successful at managing financial shocks by pursuing macro prudential reforms which enable favorable access to international capital markets and the accumulation of countercyclical buffers, more can be done to increase the state's capacity to deal with non-financial shocks. During the COVID-19 crisis the government was able to design one of the strongest financial packages in the world, amounting to 21% of GDP. However, this did not prevent Peru from being one of the countries hardest hit in terms of health and economic impact, revealing the weak capacity of the state to deal with non-financial shocks and, in particular, to protect households against adverse shocks (health or nature-related). In order to safeguard development, public policies must be designed to build resilience and prevent anticipated and unexpected events from affecting citizens' quality of life. The WBG can play an important role in both the provision of better services and improving the effectiveness of social protection programs while continuing to support policy reforms to strengthen fiscal resilience.

Annex 2.1. Status of Peru FY17-21 CPF Results Matrix

Description	Status at CLR	Overall Rating
Pillar I. Productivity for Growth		
Objective 1. Improve connectivity at critical corridors of the territory		Partially Achieved
Indicator 1. Increase capacity in the country's biggest port of El Callao (Million TEUs containers): Baseline: 0.8 (2016) – Target: 1.2 (2021) Actual: 1.2 (2021).	Achieved	
Indicator 2. In Lima/Callao, kilometers and stations built for public transport users for the Ate-Callao origin-destination pair (Kms and Number): Baseline: 0 km and stations (2015) Target: 13 km and 18 stations built (2021) Actual: 7 kms and 7 stations (2021)	Partially Achieved	
Indicator 3. In rural roads, increase the share of rural population with access to an all-season road (Percentage): Baseline: 43 (2015) – Target: 51.5 (2021) Actual: Not available (Percentage of population)	Not verified	
Indicator 4. Updated telecommunications regulation aiming at promoting competition and broadband access in rural and remote areas (No/Yes): Baseline: 0 (2015) – Target: 1 (2019) Actual: 1 (2019)	Achieved	
Objective 2. Facilitate absorption of skills and technology		Achieved
Indicator 5. Clients (farmers) who have adopted an improved agriculture technology promoted (Number): Baseline: 0 (2014) – Target: 20,000 (2020); of which 7,000 females 4,000 Indigenous People Actual: 31,634; 12,337 were women and 13,286 self-identified as indigenous (2021)	Achieved	
Indicator 6. Share of artisanal fishermen and aquaculture producers with access to at least one innovation developed (Percentage): Baseline: 0 (2017) – Target: 60 (2021) Actual (2018): 78	Achieved	
Indicator 7. Number of improvement plans for programs and institutions in high-level education that are implemented satisfactorily (Number): Baseline: 15 (2016) – Target: 257 (2018) Actual: 257 (2018)	Achieved	
Objective 3. Enhance the environment for sustainable private sector investments		Mostly achieved
Indicator 8. Number of PPP contracts without MEF's favorable opinion prior to the tender process at all levels of government (Number): Baseline: 17 (2014) – Target: 0 (2021) Actual: 0 (2021)	Achieved	
Indicator 9. Number and value (in \$) of new loans for MSMEs by IFC:	Mostly achieved	

Baseline: 1.6 million loans for \$8.9 billion; of which \$969 million for women (2021) Target: 2.3 million loans for .11.6 billion; \$1.1 billion for women (2021) Actual: 1.9 million loans for \$10.9 billion (2021)		
Indicator 10. Average # of days to comply with business regulations for security inspection for business entry (Number of Days): Baseline: 40 (2013) – Target: 36 (2018) Actual: 11 days (2020)	Achieved	
Pillar II: Services for Citizens across the Territory		
Objective 4. Improve water and sanitation services in key urban areas		Mostly Achieved
Indicator 11. Urban households with access to water services (Percentage): Baseline: 94 (2015) – Target: 96 (2021) Actual: 94.9 (2021)	Partially achieved	
Indicator 12. Urban households with access to sanitation services (Percentage): Baseline: 80 (2015) – Target: 84 (2021) Actual: 89.4 (2021)	Achieved	
Indicator 13. Working ratio reduced in selected water utilities Baseline: 0 (2018) Target: 2 (2021) Actual: 3 (2021)	Achieved	
Objective 5. Modernize delivery of health and nutrition services for the poor		Partially Achieved
Indicator 14. Percentage of Integrated Health Networks (RIS) that offer an expanded range of health services in Lima Metropolitan Area and prioritized regions Baseline: 0 (2018) – Target: 20 (2021) Actual: Not verified.	Not Verified	
Indicator 15. Nutrition -Percentage of children under 36 months that have received complete CRED scheme according to their age. (ENDES): Baseline: 54.9 (2015) – Target: 80 (2017) Actual: 80 (2018)	Achieved	
Indicator 16. Percentage of children without anemia from 6 to 11 months that have received complete micronutrients for their age: Baseline: 32 (2018) – Target 60 (2022) Actual: 75.9 for children 6-8 months 91.1for children 9-11 months.	Achieved	
Objective 6. Improve governance through selected institutional reforms at the national and subnational levels		Partially Achieved
Indicator 17. Justice sector (national): Percentage of non-criminal cases whose status can be accessed online in real time: Baseline: 0 (2018) – Target: 40 (2021) Actual: 0	Not Achieved	
Indicator 18. Decentralization (subnational level): Number of project municipalities with an increased property tax base:	Not achieved	

Baseline: 0 (2019) – Target: 5 (2021) Actual: 0 (2021)		
Indicator 19. Number of regions that include any of the key actions that are part of the new Development and Social Inclusion Policy in their Performance Allocation Agreements, including prevention and reference of cases of violence against women: Baseline: 0 (2019) – Target: 5 (2022) Actual: 5 (2021)	Achieved	
Pillar III. Natural Resource and Climate-Change Risk Management		
Objective 7. Strengthen the management of natural resources		Partially Achieved
Indicator 20. Hectares of native community lands titled in high threat areas (Number): Baseline: 0 (2016) – Target: 780,000 (2020) Actual: 230,000 (2020)	Partially achieved	
Indicator 21. Basin councils /committees with approved integrated water resource management plans and under implementation (Number). Baseline: 6 (2017) – Target: 10 (2021) Actual: 10 (2021)	Mostly Achieved	
Indicator 22. Validated surface water quality monitoring networks in operation (Number): Baseline: 0 (2017) – Target: 1 (2021) Actual: 0 (2021)	Not Achieved	
Objective 8. Improve disaster-risk planning and financial management		Partially Achieved
Indicator 23. Guidelines adopted for integrating resilience into urban planning and cadaster development (Yes/No): Baseline: No (2019) – Target: Yes (2021) Actual: No (2021)	Not Achieved	
Indicator 24. Number of new disaster insurance instruments to which the government has access: Baseline: 0 (2017) – Target 2 (2021) Actual: 1 (2019)	Mostly Achieved	

Annex 2.2. Peru FY2017-2021 CPF Results Matrix Evaluation

Objective	Overall Rating	Indicator	Baseline / Targets / Actual	Status at CLR	Lessons Learned and Suggestions for the New CPF	Bank Program Instrument
Pillar 1. Productivity for Growth						
Objective 1. Improve connectivity at critical corridors of the territory	Achieved	Indicator 1. Increase capacity in the country's biggest port of <i>El Callao</i> (Million TEUs containers):	Baseline: 0.8 (2016) Target 1.2 (2021) Actual (2020): 1.2 (2021) Port extension completed and operational	Port extension completed and operational. IFC supported APM Terminals Callao in the development of Callao's North Terminal. The project consisted of stages 1 and 2 required under the concession agreement and is designed to: 1. modernize and expand the terminal's container handling facilities to world class standards, almost doubling the port's capacity to 1.2 million twenty-foot equivalent units (TEUs); and 2. improve the efficiency of the terminal's container handling facilities.	IFC mobilized all financing required by the project on a long-term basis. IFC provided a total debt of \$267 million, consisting of \$57.5 million and facilitated a \$209.5 million loan from other lenders—DNB Bank, ING, KFW, and FMO. IFC also ensured compliance with environmental and social standards.	IFC Investment: APMTTC Port Investment
	Partially Achieved	Indicator 2. In Lima/Callao, kilometers and stations built for public transport users for the Ate-Callao origin-destination pair	Baseline: 0 km and stations (2015) Target: 13 km and 18 stations built (2021) Actual: 7 kms and 7 stations (2021)	Despite a substantial downward revision of the original indicator to reflect a very slow project implementation pace, by the time of the premature closing of the loan on June 5, 2020, the physical targets proposed in the PLR had not been reached: the ICR for the project reports only 7 kilometers of rail infrastructure and 7 stations. The overall risk for the achievement of the development objective is deemed low because the project's development outcomes remain achievable despite implementation delays. The government's	The target for the original objective was too ambitious and the revised target introduced at the PLR stage has also proven to be unrealistic. Despite a downward revision of the original CPF objective (expecting a reduction in travel time for public transport users for the Ate-Callao route from 120 to 45 minutes) the indicator was replaced with expected progress in the construction of the Ate-Callao metro line. The main lesson derived from this initiative is that the Bank should avoid getting involved in highly complex operations without having had the benefit of conducting a full due diligence of the technical and institutional conditions of the project and obtaining full contractual assurance that its safeguard policies are being adhered to. In this case, the vulnerability of the institutional set up of the project has contributed to substantial delays in its implementation and the ambiguities in	WB IPF: Lima Metro Line 2 (P145610). Strengthening road safety management capacity in Peru (P173829) Lima Metropolitan BRT North Extension (P170595)

				<p>commitment to the completion of the project remains strong and it is expected that financing will continue to be readily available. Bank estimates, taking into account both delays in implementation and increased costs, indicate that the project is still economically feasible with an internal rate of return (IRR) of 7.3% and a positive net present value (NPV) of \$901 million. Sensitivity analysis performed to confirm the robustness of the economic viability under a combined scenario of 20 percent additional capital costs and three years of additional delays yield a viable IRR of 5.1 percent.</p>	<p>the safeguard policies applicable to the project led to the Bank premature cancellation of the loan.</p>	
	Not verified	<p>Indicator 3. In rural roads, increase the share of rural population with access to an all-season rural road. (Percentage of population)</p>	<p>Baseline: 43(2015) – Target: 51.5 (2021) Actual: Not available</p>	<p>This indicator was changed to “People with access to an all-season road financed by the project (Number, thousand)” during the restructuring in 2021 of the Support to the Subnational Transport project where it belongs (P132515). The change was made to better capture the impact from Bank financing, rather than the indicator for the whole country. For this updated indicator, the baseline of 0 in 2016, current value 4.5 (dated 2021 as mid-term value), and end target of 25.3 for 2023.</p>	<p>While the impact of rural roads projects has been extensively studied, to date there are very few rigorous impact evaluations quantifying the effectiveness of these investments and their distributional Outcomes. The Impact Evaluation of the Peru Support to the Subnational Transport Program Project (P158917) was beneficial for the project. First, the impact evaluation created a feedback loop with project design. For example, when the evaluation informed the development of a quantitative prioritization criteria for the selection of the rural roads to be intervened. The development of a robust evaluation methodology at initial stages is also important because at mid- or end-stages of the project, data may be insufficient and robust evaluation methods may be harder to implement. Finally, this activity showcased the importance of using new technologies to collect additional information about outcomes, for example,</p>	<p>WB IPF: Cuzco Transport Improvement (P132505). WB IPF: Support to the Subnational Transport (P132515). WB ASA: Impact Evaluation of the Peru Support of the Subnational Transport Program Project (P158917)</p>

					the use of the mobile phone application RoadLab Pro enable the identification of road quality, complementing the data collected with more traditional methods. Results of this report -that did not considered the indicator selected from the PLR is in https://worldbankgroup.sharepoint.com/sites/P158917/Shared%20Documents/Forms/AllItems.aspx?id=/sites/P158917/Shared%20Documents/Project/Baseline%20Report.pdf&parent=/sites/P158917/Shared%20Documents/Project/	
	Achieved	Indicator 4. Updated telecommunications regulation aiming at promoting competition and broadband access in rural and remote areas	(No/Yes) Baseline: 0 (2015) Target: 1 (2019)	On January 24, 2020, a Supreme Decree N° 002-2020-MTC was issued amending the Broadband Law to support increased private sector investment, reduced/removed regulatory barriers, and facilitated digital infrastructure deployment toward closing the digital divide, specifically in rural and remote areas. Published in https://www.gob.pe/institucion/mtc/normas-legales/412654-ds-002-2020-mtc	While the regulatory framework is in place, there are significant challenges to actually close the digital divide in rural areas. Nine of 10 households do not have internet access in these areas and Peru has only 31% of fixed broadband (high-speed internet) penetration compared to 48% in LAC.	WB RAS: Strategic Reforms to Expand Broadband Connectivity and Services to Rural and Remote Communities (P169564)
Objective 2. Facilitate absorption of skills and technology	Achieved	Indicator 5. Clients (farmers) who have adopted an improved agriculture technology promoted (Number): 7,000 females 4,000 Indigenous People.	Baseline: 0 (2014) Target: 20,000 (2021); of which 7,000 females and 4,000 Indigenous people. Actual: 31,634; 12,337 were women and 13,86 self-identified as indigenous	Achieved. By project closing, the program's result indicators were substantially exceeded. A total of 31, 634 producers adopted new technologies promoted under the sub-projects, far exceeding the target of 20,000 (158%). Of all the participating producers, 12,37 were women (substantially exceeding the	Drawing on global experience, this initiative set out to replace the linear model of agricultural research and extension with a multi-actor innovation network in which public agencies, private firms, civil society organizations, and end users could interact through iterative feedback loops, allowing innovations originating in different places to flow throughout the system in response to supply and demand forces. A major determinant of the success of the project was the active participation of project	WB IPF: National Agriculture Innovation (P131013). WB ASA: Peru Agriculture ASA (P162084) and WB ASA: Peru Agriculture Innovation Support (P173848)

				CPF indicator) and 13,286 were participants who self-identified as indigenous (tripling the CPF indicator).	beneficiaries in designing and implementing subprojects.	
	Achieved	Indicator 6: Share of artisanal fishermen and aquaculture producers with access to at least one innovation developed (Percentage):	Baseline (2017): 0 Target (2021): 60 Actual (2018): 78	Although the project is still ongoing --scheduled to close by February 2023-- the CPF indicator has been significantly exceeded. Pursuant to the latest ISR (June 2021) the share of beneficiaries has reached 78%. This indicator is derived from the 1269 sub-projects currently registered in the M&E platform, representing a total of 10,341 beneficiaries.	The successful strengthening of the National Fisheries and Aquaculture Innovation System, including the establishment of systems to evaluate sub-project proposals and monitor sub-project implementation at the subnational level should continue to be supported and strengthened to ensure the sustainability of projects over longer period of time.	WB IPF: National Program for Innovation in Fisheries and Aquaculture (P155902)
	Achieved	Indicator 7. Number of improvement plans for programs and institutions in high-level education that are implemented satisfactorily (Number)	Baseline: 15 (2016) – Target: 108 (2018) Actual: 257 (2018)	There was notable achievement, exceeding expectations. Under nine calls for proposals, the Fund for Quality Enhancing (FEC) provided financing for the implementation of 257 improvement plans in all of Peru's 25 regions. All of these plans have been satisfactorily completed (against a PDO target of 108). The project supported the development and implementation of the new Higher-Education Quality Model approved under the framework of the National Education Project 2021, which provides the operating framework for all public entities in charge of higher-education quality assurance and articulates evaluation, supervision, licensing, and accreditation processes.	The focus of innovation-related development finance projects in Peru has so far been either on the supply of knowledge (e.g., research in academia and public institutes, PhDs), or on the private sector demand for R&D (e.g., technology adoption or investment in internal R&D services). Less attention has been given to the subtle but critical area of 'connecting' research to the market. A key aspect of this connection is ensuring that produced knowledge is relevant both for the private sector as well as for public interest societal benefits. The main activities that can facilitate the connection of research to market include: promoting market focused / value chain focused academia-industry dialogue on prospective innovation and technology needs; transferring technology arising from research activity; undertaking contract research to solve problems for firms; facilitating academia in providing technical services for public and private bodies, and bespoke training for professional development in advanced skills that do not necessarily lead to degree awards.	WB IPF: Strengthening the Science, Technology and Innovation System in Peru (P156250) WB IPF: Higher-Education Quality Improvement (P122194)

Objective 3. Enhance the environment for sustainable private sector investments	Achieved	Indicator 8. Number of PPP contracts without MEF's favorable opinion prior to the tender process at all levels of government (Number):	Baseline (2014): 17 (# of PPP contracts) Target (2021): 0 Actual (2020): 0	This action was supported by the WB DDO program. The Government has enacted a new PPP framework to (a) incorporate PPPs into the budget process, and ensure spending units (PPP promoters) prioritize their budget allocations for PPPs in a way that is consistent with their existing fiscal framework; (b) ensure that only projects with a strong business case as reflected in the evaluation report (<i>Informe de Evaluación</i>) that adhere to the principles of value-for-money and adequate risk sharing are selected; and (c) require MEF's favorable binding opinion to the business case reflected in the evaluation report and to the final draft of the corresponding PPP agreement prior to the entering into any PPP contract.	<p>Peru made significant progress in improving the legal and institutional framework for PPP projects. The supported program also reformed the practice of compensating PPPs for construction phases as opposed to the actual service enabled by the construction. This practice was embedded in the law on PPPs but was operationalized by the reforms supported by the program. With the increased ability of MEF to review PPPs at the approval and implementation stages, supported by the DDO program, the incidence of renegotiations declined.</p> <p>The DDO program also strengthened MEF's role in guiding PPP preparation through the creation of the National Private Investment Promotion System (NPIPS). NPIPS procedures have strengthened the legal framework for PPPs ensuring that all PPP projects and contracts are reviewed and cleared by MEF before initiating procurement. The number of PPP contracts without MEF's favorable opinion prior to the tender process at all levels of Government has fallen from 17 in 2014 to zero in 2017 and 2021.</p> <p>The Bank supported the GoP's efforts to make PPP project evaluation more rigorous, minimize fiscal risks, and facilitate PPP project implementation. The value chain encompassed several key aspects of PPPs that would lead to more efficient and effective private sector involvement that would, among other things, help close the infrastructure gap in Peru.</p>	WB DPF-DDO: Public Expenditure and Fiscal Management (P154981) WB ASA: Supporting Peru's Rise to OECD Standards (P158725) WB ASA: Peru International Tax Project (P160517) WB ASA: Peru Government Debt and Risk Management Program Phase II (P167682) WB TA: Subnational Implementation of EITI (P160633) WB ASA: Dissemination Activities on Peru OECD (P162765) WB ASA: Strategic Guidelines Peru and OECD (P162766)
	Mostly Achieved	Indicator 9. Number and value (in \$) of new loans for MSMEs by IFC:	Baseline: 1.6 million loans for \$8.9billion, of which \$969 million for women (2021) Target (2021): 2.0 million loans for \$11.6 billion, of which \$1.1 billion for women (2021)	The number of MSMEs has been achieved, while the \$ was almost fully (93.9%) achieved. As reported in the PLR, the deceleration of economic growth since 2017 has resulted in an increase in non-performing loans, especially in the consumer finance and	Additional information on the achievement of the indicator has been through WB DPF financing. The DPF considered strengthening institutions to mitigate the social and economic impact of the COVID-19 pandemic. The credit guarantee scheme supported by the DPF, through Reactiva Perú, was critical in ensuring that firms, especially SMEs, maintain access to liquidity to meet their working capital needs and financial	IFC BanBif (31778) IFC Banco Financiero (34867) IFC Rural Finance Peru (579128) IFC Mibanco Group Lending Diagnostic (601355) IFC TA: CG for Municipal

			<p>Actual (2021): 1.9 million loans for \$10.9 billion</p> <p>Additional evidence: The private sector was also supported during the pandemic through the DPO Strengthening the Foundations for post-COVID-19 Recovery (\$750 million), approved in FY21 (P174440). This operation focused on expanding the targeting of the emergency cash transfers to an estimated 2.5 million households not included in the traditional schemes, mostly poor and informal workers unable to earn daily wages, and their inclusion in the digital payments network. It also supported enterprises confronting drastic and sudden demand shocks by introducing <i>Reactiva Peru</i>, an innovative credit guarantee scheme, that mobilized 8.5 percent of GDP in private liquidity for SME lending. The competitive system for assigning the liquidity resulted in credit flows to the private sector that were among the</p>	<p>micro finance segments. The resulting write-offs have led to a decline in the loan portfolio in these market segments and more cautious lending practices. In the latter part of the cycle, Peru was hard hit by the COVID-19 pandemic, with GDP contracting by 11.1 percent, disproportionately affecting micro and small-sized firms. Despite the adverse economic circumstances and amid continued political uncertainty, Peru remained among the few emerging countries to maintain its investment-grade status, thus enabling both the sovereign and the private sector to successfully access finance throughout the CPF period, with lower interest rates than the one offered by IFC in the local market.</p>	<p>obligations, thereby protecting formal employment and supporting a recovery. The innovative auction scheme designed to assign central bank liquidity (part of <i>Reactiva Peru</i>) has allowed the private sector to access financing at low rates and achieved positive recognition beyond Peru's borders. Not only was the credit flow to formal firms maintained during the crisis, but many SMEs received access to financial sector products for the first time and at historically low rates. MSMEs made up 98 percent of total enterprises participating in the program and received 46 percent of total credit volume. The average loan size for micro and small enterprises was PEN 54,180, while average loan size for large and medium enterprises was PEN 3,653,623. Under <i>Reactiva Peru</i>, loans have a 12-month grace period followed by a 2-year repayment period.</p>	<p>Credit Unions in Peru (Swiss TF) (600516) IFC Acceso Crediticio (1003607) IFC Mibanco Peru (29399) IFC Banco Continental (25360) IFC Confianza (32273) IFC Tinka (798724) IFC TA: Cuzco Tourism Advisory (581547) (Swiss Trust Fund) IFC TA: Apurimac Revenue Management (600268) IFC TA: Apurimac Mining Agriculture Collective Action (600639) IFC TA: Peru Tourism (602024) WB DPF Peru: Strengthening Foundations for post-COVID-19 Recovery (P174440)</p> <p>MIGA, Banco Santander Peru, S.A. (P14247)</p>
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			most robust in the world at the time, supporting liquidity amounting to \$16.5 billion, and achieving historically low interest rates paid by the final borrowers. Half of all formal workers hold jobs in firms that benefitted from Reactiva Peru.			
	Achieved	Indicator 10. Average # of days to comply with business regulations for security inspection for business entry. (Number of Days)	Actual (2020): 11 days Baseline (2013): 40 days Target (2018): 36 days	The new regulation, Supreme Decree N° 002-2018-PCM, determined a maximum number of days to complete an inspection for high- and very high-risk businesses of 11 calendar days. Low- to medium-risk businesses are still audited once they are in operation. The ITSE certificate received under this new regime has a validity of two years, then the business must request a renewal of the certificate, as a way to guarantee safety measures are maintained.		IFC Project Improving Technical Security (600550)
Pillar 2. Services for Citizens across the Territory						
Objective 4. Improve water and sanitation services in key urban areas	Partially Achieved	Indicator 11. Urban households with access to water services (Percentage)	Baseline: 94 (2015) Target: 96 (2021) Actual (2021): 94.9	In the case of the Optimization of Lima and Sewerage Systems substantially, the project improved the efficiency, continuity, and reliability of water services for 64,878 households in northern Lima, narrowly missing the target of 69,444 households. Service efficiency, which was measured via non-revenue water (NRW-levels), went from 40 to 25 percent in the project area, fully achieving the PDO-level target. The project's achievements in reducing water losses	This indicator has been established from national household access. Though the data available if for 2020, given the pandemic, the indicator may receive with the same levels, and consequently the indicator was partially achieved. Data available in: https://www.inei.gob.pe/media/MenuRecursivo/boletines/boletin_agua_junio2020.pdf	Water Sector Modernization Program (P157043) Optimization of Lima Water and Sewerage Systems Project (P117293) WB ASA: Peru: Support Water Sector Modernization (2017)

				<p>increased the quantity of water available for distribution, permitting SEDAPAL to extend water services to other areas without causing supply and continuity constraints.</p> <p>In the case of the Modernization of Water Supply and Sanitation Services, progress in implementation has been limited and has recently started presenting an upward trend, with loan disbursements at 9.63% of total. Project activities picked up in the first half of 2021 but may be further affected by the political transition. The premature stage of project implementation would suggest it will not produce relevant contributions toward achieving the CPF result indicator.</p>		
	Achieved	Indicator 12. Urban households with access to sanitation services (Percentage):	<p>Baseline (2015): 80 Target (2021): 84 Actual (2021):89.4</p>	<p>The Optimization of Lima Water and Sewerage Systems Project (P117293) has as its PDO result indicator for improvement in sanitation services in northern Lima the annual incidence of sewerage blockages per km of sewerage network in the project area. The reduction in blockages by 60 percent (from 773 blockages in 2015 to 321 by end of project) permitted more continuous, reliable, and efficient service as the overall hydraulic capacity of the network was improved. The Project achieved these results through the rehabilitation of 271 km of the sewerage network, exceeding the target of 246 km, and the rehabilitation of 35,187</p>	<p>This indicator has been established from national household access. Data available in: https://www.inei.gob.pe/media/MenuRecursivo/boletines/boletin_agua_junio2020.pdf</p>	<p>Water Sector Modernization Program (P157043) Optimization of Lima Water and Sewerage Systems Project (P117293) WB ASA: Peru: Support Water Sector Modernization (2017)</p>

				<p>household sewerage connections. A substantial achievement of the project's PDO results.</p> <p>The Modernization of Water Supply and Sanitation Services (P157043) has had slow implementation, and consequently the proposed target of achieving 93,000 people provided with access to improved sanitation services did not take place during the CPF period. The results obtained in the Lima project would suggest that a partial achievement of the CPF objectives was achieved by the addition of 35,187 households to sewerage connections.</p>																																																																																																																		
	Achieved	Indicator 13. Working ratio reduced in selected water utilities (Number).	<p>Baseline: 0 (2018) Target: 2 (2021) Actual: 3 (2021)</p>	<p>Pursuant to the latest ISR (June 2021) for the Modernization of Water Supply and Sanitation Services (P157043) there has been slow implementation of the project although it has recently started presenting an upward trend with loan disbursements at 9.63% of total, mainly of the infrastructure work component. Three of the selected water utilities present a reduced working ratio, while three show no change and one presents an increase. Given the preliminary stage of project implementation, it seems the attribution of these changes to the project would be imprecise.</p>	<table border="1"> <thead> <tr> <th>Indicadores</th> <th>Unidad</th> <th>2016*</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> <th>21-Nov</th> </tr> </thead> <tbody> <tr> <td colspan="8">Relación de trabajo (I)</td> </tr> <tr> <td colspan="8">SEDAPAR S.A.</td> </tr> <tr> <td></td> <td>%</td> <td>77</td> <td>76.61</td> <td>74.75</td> <td>78.79</td> <td>73.7</td> <td>57.0</td> </tr> <tr> <td colspan="8">SEDACUSCO S.A.</td> </tr> <tr> <td></td> <td>%</td> <td>75</td> <td>62.32</td> <td>65.25</td> <td>65.72</td> <td>96.83</td> <td>68.2</td> </tr> <tr> <td colspan="8">AGUAS DE LIMA NORTE S.A.</td> </tr> <tr> <td></td> <td>%</td> <td>96</td> <td>55.88</td> <td>81.45</td> <td>87.55</td> <td>76.26</td> <td>81.9</td> </tr> <tr> <td colspan="8">EMAPACOP S.A.</td> </tr> <tr> <td></td> <td>%</td> <td>83</td> <td>85.74</td> <td>113.36</td> <td>90.05</td> <td>86.83</td> <td>88.9</td> </tr> <tr> <td colspan="8">EMAPA HUARAL S.A.</td> </tr> <tr> <td></td> <td>%</td> <td>75</td> <td>101.25</td> <td>82.3</td> <td>133.02</td> <td>97.38</td> <td>85.7</td> </tr> <tr> <td colspan="8">EPS BARRANCA S.A.</td> </tr> <tr> <td></td> <td>%</td> <td>75</td> <td>88.74</td> <td>120.18</td> <td>117.37</td> <td>71.66</td> <td>85.0</td> </tr> </tbody> </table> <p>Fuente: SUNASS Reporte de Benchmarking Regulatorio de las Empresas Prestadoras (*) Línea de Base del proyecto de Modernización de los Servicios de Ayls</p> <p>The project includes the six largest sanitation service provider, out of a total of 49 nationwide.</p>	Indicadores	Unidad	2016*	2017	2018	2019	2020	21-Nov	Relación de trabajo (I)								SEDAPAR S.A.									%	77	76.61	74.75	78.79	73.7	57.0	SEDACUSCO S.A.									%	75	62.32	65.25	65.72	96.83	68.2	AGUAS DE LIMA NORTE S.A.									%	96	55.88	81.45	87.55	76.26	81.9	EMAPACOP S.A.									%	83	85.74	113.36	90.05	86.83	88.9	EMAPA HUARAL S.A.									%	75	101.25	82.3	133.02	97.38	85.7	EPS BARRANCA S.A.									%	75	88.74	120.18	117.37	71.66	85.0	Modernization of Water Supply and Sanitation Services (P157043)
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	%	75	101.25	82.3	133.02	97.38	85.7																																																																																																															
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	%	75	88.74	120.18	117.37	71.66	85.0																																																																																																															
Objective 5. Modernize delivery of health and nutrition services for the poor	Not verified	Indicator 14. Percentage of Integrated Health Networks (RIS) that offer an expanded range of health services in Lima Metropolitan Area and	<p>Baseline (2018): 0 Target (2021): 20 Actual (2021): not verified</p>	<p>The program made little progress toward achieving this objective during the CPF period. Pursuant to the latest ISR (June 2021) for the Peru Integrated Health Network Project, it has advanced on</p>	<p>The health sector will need increasing support from WB in the next years to implement the reforms needed. The COVID-19 pandemic has exposed the deficiencies of Peru's health system to prevent and control epidemic outbreaks. The inability to deploy a nationwide response amplified the country's health crisis.</p>	<p>WB IPF: Peru Integrated Health Network Project (P163255) WB RAS: Peru ESSALUD Separation of Functions Phase I: (P163236) and Phase II: (P165519)</p>																																																																																																																

		prioritized regions (Percentage):		<p>concept definitions and operational strategy related to the implementation of the health networks (RIS), but activity implementation has not progressed according to what was planned during the 24-month implementation period since effectiveness declaration. Among the institutional factors that have contributed to the delay is the demand placed on the ministry from COVID-19-related needs.</p> <p>The disruption generated by the COVID-19 pandemic has had a major adverse impact on the projected reforms proposed for the health sector. The high priorities imposed on the sector by COVID-19 led to a postponement of the original plans. While planning activities have continued toward the implementation of the RIS there has been no capacity to start actual implementation.</p>	Another key lesson from the ongoing pandemic is the importance of strengthening and deploying community-based surveillance as early as possible.	<p>WB TA: HD Flagship ASA - Health Agenda (P167460)</p> <p>WB TA: Reforming Social Health Insurance to Improve Health Care Access, Quality, and Efficiency (P166491)</p> <p>WB RAS: Phase 2: Peru ESSALUD Separations of Functions (P165519)</p> <p>WB ASA: Peru PHRD Grant - Universal Health Coverage (P164103)</p> <p>WB ASA: Health Sector Reform I (P161496)</p> <p>WB ASA: Peru Health Information Systems (P177822)</p>
	Achieved	Indicator 15. Nutrition - Percentage of children under 36 months that have received complete CRED scheme according to their age (ENDES) (Percentage):	<p>Baseline (2015): 54.9</p> <p>Target (2017): 80</p> <p>Actual (2018): 80</p>	Indicator target was achieved in 2018 and included national average as Peru's Nutrition Strategy was supported with the SWAP: Results Nutrition for Juntos (P117310) and the TA Support to Peru's Nutrition Strategy to Reduce High Anemia and Stunting in Children under 36 Months (P162483).		<p>WB IPF: Social Inclusion TAL (P131029)</p> <p>WB SWAP: Results Nutrition for Juntos (P117310)</p> <p>WB TA: Support to Peru's Nutrition Strategy to Reduce High Anemia and Stunting in Children under 36 Months (P162483)</p>
	Achieved	Indicator 16. Percentage of children without anemia from 6 to 11 months that have received complete	<p>Baseline: 32 (2018)</p> <p>Target: 60 (2022)</p> <p>Actual (2020): 75.9 for children 6-8 months</p>	The indicator measured by GoP is percentage of children without anemia from 6 to 8 months and children between 9-11 months that have received	Source: Demographic and Health Survey 2021 The DHS is a national survey conducted in urban and rural areas of 24 departments in Peru.	<p>DPF Peru: Investing in Human Capital (P170477)</p> <p>WB TA: Support to Peru's Nutrition Strategy to Reduce High</p>

		micronutrients for their age (Percentage):	91.1 for children 9-11 months.	complete micronutrients in the last 24 hours. Though the unit of measure is different it is clear that the trend on the indicator was well below the target given the coverage between 6-8 months and 9-11 months.	https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1838/index.html	Anemia and Stunting in Children under 36 Months (P162483)
Objective 6. Improve governance through selected institutional reforms at the national and subnational levels.	Not Achieved	Indicator 17. Justice sector (national): Percentage of non-criminal cases whose status can be accessed online in real time (Percentage):	Baseline (2018): 0 Target (2021): 40 Actual (2020): 0	The program made little progress toward achieving the objective during the CPF period. Pursuant to the latest ISR (April 2021), the consultancy to determine the base line for this indicator is still pending and there has been no progress in carrying out the investments in electronic services to allow digital access to non-criminal cases. A key issue has been the lack of a functioning PIU that can undertake the day-to-day implementation of the Justice component of the project.	As a project that needs significant political support, it was highly affected by the political turmoil during 2020-2021. The project needs continued support from President of the Judiciary and Ministry of Justice. Lessons learned from modernization of justice in other countries are key for staff at the PIU to define the best option for procurement of the electronic judiciary filing.	WB IPF: PE Justice Services Improvement II Project (P110752) WB IPF: PE Improving the Performance of Non-Criminal Justice Services (P162833)
	Not achieved	Indicator 18. Decentralization (subnational level): Number of project municipalities with an increased property tax base:	Baseline: 0 (2019) Target: 5 (2021) Actual: 0	The Cadaster project has made only limited progress toward achieving the objective but it has undertaken significant preparatory work to initiate the contracting of project activities that may lead to achieving the result: (a) the Project Implementation Unit (PIU) was created and is fully staffed; (b) the steering committee is in place, and actively monitoring project activities; (c) the technical specifications for ortho-imagery acquisition and cadastral cartography production have been modernized and adopted as national standards, and the pre-contractual process is ongoing; and (d) the technical specifications for the systematic cadastral survey		WB IPF: National Urban Cadaster and Municipal Support Project (P16227) WB ASA: Peru: Support to Decentralization Agenda (P168236)

				and the development of the parcel based land information systems are currently being reviewed. It is expected that the results will be substantially achieved within the project's current timeline.		
	Achieved	Indicator 19. Number of regions that include any of the key actions that are part of the New Social Inclusion and Development policy in their Performance Allocation Agreements, including prevention and reference of cases of violence against women.	Baseline: 0 (2019) Target: 5 (2022) Actual: 25 (2022)	The Ministry of Development and Social Inclusion (MIDIS) achieved the indicator for 25 regional governments. Official information reported at: http://www.midis.gob.pe/fed/ogros-y-avances and press release about continued action at: https://observatorioviolencia.pe/gobiernos-regionales-se-reunen-para-establecer-metas-de-compromisos-de-gestion-2021-2022-en-materia-de-violencia-contra-las-mujeres/	MIDIS and regional governments have included key actions and activities of the New Social Inclusion and Development policy in their performance-based budget agreements (FED). The incorporation of selected key activities in the performance-based agreements will reinforce the monitoring of the implementation of key selected new areas of the New Social Inclusion Policy, while enhancing the information systems at the regional level, particularly in those regions with greatest social vulnerability. Performance allocation agreements were signed during 2017 and the progress of key actions has been monitored annually from 2018. These agreements allowed the creation of the Base Protocol for Joint Action (PBAC) aimed to articulate the procedures, actions and services related to addressing violence against women and members of the family group throughout Peru, both at the regional and local levels. The Protocol must pay more attention to the situation of women who, due to their status as such, are more exposed to violence or have greater difficulties in accessing the services provided for in Law No. 30364, such as Andean, and Amazonian women, Afro-descendants, women with disabilities, and those who are in a situation of social exclusion, among others.	DPF Peru: Investing in Human Capital (P170477) WB ASA Peru Gender Based Violence (P168055) WB ASA: HD Flagship: Social Inclusion Services; WB ASA: Innovative Approaches GBV Peru (P175303) WB ASA: PE Policy Analysis Social Sustainability (P176715)
Pillar 3. Natural Resource and Climate Change Risk Management						
Objective 7. Strengthen the management of	Partially Achieved	Indicator 20. Hectares of native community lands titled in high threat areas (Number):	Baseline (2016): 0 Target (2020): 780,000 Actual (2021): 230,000	The project concluded the demarcation and titling process for 58 communities covering approximately		IBRD Saweto Dedicated Grant Mechanism in Peru (P148499)

natural resources				230,000 hectares. Although short from the expected result of 780,000 hectares set as the CPF indicator, the outcome can be considered mostly achieved since it obtained the recognition of 253 native communities and the financing of 44 community-based productive subprojects— including 16 women-led initiatives—contributing to sustainable forest management and improved food security and income generation in 119 native communities in the Peruvian Amazon. Thus, while short in terms of the physical CPF indicator, it surpassed the original target of project beneficiaries under the land titling component from 48.100 to 56,179 --with 54% corresponding to female beneficiaries.		
	Mostly Achieved	Indicator 21. Basin councils /committees with approved integrated water resource management plans under implementation (Number).	Baseline (2017): 6 Target (2021): 10 Actual (2021): 10	The program made good progress toward achieving the objective indicator: during the CPF period four new committees on the Atlantic side have been established and their respective management plans are advancing as planned. The project has been affected by the restrictive measures adopted to contain the pandemic. It is expected a successful achievement of this CPF indicator by the current project closing date of December 2022.	Currently the 10 Basin Councils have been established. The formulation of the four Integrated Water Resources Management (IWRM) plans for the Atlantic basins was completed in December 2021, and their implementation will begin after approval by National Water Authority (ongoing). The updating of the 6 IWRM plans of the Pacific basins is underway: they will be completed by the end of 2022. A successful achievement of this indicator is expected.	WB CAT-DDO I (P120860). WB . IPF: Integrated Water Resources Management in Ten Basins (P151851)
	Not achieved	Indicator 22. Validated surface water quality monitoring networks in operation (Number):	Baseline: 0 (2017) Target: 2 (2021) Actual: 0 (2021)	There was limited progress toward achieving the Objective of having one water quality monitoring network in operation during the CPF period. The consultancy for	The studies for the location of air quality monitoring stations in priority cities were completed in December 2018. The consultancy for preparing an emissions inventory and reviewing Lima's air quality monitoring network is under	WB IPF: Enhancement of Environmental Quality Services (P147342)

				<p>detailed-design of the stations and equipment for measuring water and soil quality monitoring have been completed. Delays are currently experienced in conducting the corresponding procurement processes. The mobility restrictions associated with the pandemic affected project implementation.</p>	<p>implementation was completed by June 2021. However, by the end of the CPF this indicator was not completed.</p>	
<p>Objective 8. Improve disaster-risk planning and financial management</p>	<p>Not Achieved</p>	<p>Indicator 23. Guidelines adopted for integrating resilience into urban planning and cadaster development (Yes/No).</p>	<p>Baseline: No (2019) Target: Yes (2021) Actual: Only achieved for regional governments (2019)</p> <p>Additional evidence: 19 of 25 regional governments have approved regional plans for the prevention and reduction of disaster risk.</p>	<p>Pursuant to the October 2021 ISR for the National Urban Cadaster Project, the Guidelines to incorporate hazard data into urban cadasters and urban planning have not been adopted by the national government. However, the indicator was achieved for regional governments through reforms supported by the WB CAT DDO III.</p> <p>Finally, in 2019, the MEF, based on the program's recommendations, included an insurance chapter in its guidelines for designing PPP contracts. The Bank also assisted in strengthening the exposure and insurance databases for Peru and other Pacific Alliance countries.</p> <p>The Bank helped the Superintendency of Banking, Insurance and Pension Funds (SBS) in strengthening insurance regulatory frameworks. Building on synergies with other SECO initiatives, the Bank helped issue the Regulation for the</p>	<p>The National Urban Cadaster Project (P162278) was delayed in implementation during the pandemic. This indicator is planned for achievement during FY23 through the enactment of the regulations of the Sustainable Urban Development Law, which integrates disaster-risk management considerations into urban planning.</p>	<p>WB Peru CAT DDO III (P169058) WB IPF: National Urban Cadaster Project (P162278) CAT Bond II issuance. WB CAT DDO (P120860) WB CAT-DDO II (FY19; P149831) WB RAS: Peru Slum Upgrading RAS (P164495); WB ASA: Support for Urban Planning in Metropolitan Areas of Peru (P175354) Peru Enabling a Green and Resilient Growth DPF (P177765) Sovereign disaster risk financing and insurance program Phase 2 (P163780)</p>

				Constitution of the Catastrophic Risk Reserve and the related technical note in December 2021.		
	Mostly Achieved	Indicator 24. Number of new disaster insurance instruments to which the government has access:	Baseline: 0 (2017) Target 2 (2021) Actual 1 (2019)	On February 2018, the WB introduced the CAT Bond Joint Pacific Alliance that provided Peru \$200 million in earthquake protection during a three-year period. The bond provided coverage of \$65 million to Peru when an earthquake hit the country in 2019. The CPF established as a desirable outcome that, in continuance of the disaster prevention policy, the government would contract a new disaster insurance instrument by 2021. During FY20 and FY21 a major analytical effort was undertaken to build evidence and provide policy recommendations to the GoP for increasing the resilience of local governments to seismic and hydrometeorological (particularly floods and droughts) disaster impacts across key sectors.		WB Peru CAT DDO III (P169058) CAT Bond II issuance WB CAT DDO (P120860) WB CAT-DDO II (FY19; P149831) Building the Resilience of Local Governments to Natural Disasters in Peru using a Territorial Approach (P171251) Building Resilience Peru ASA (P172698)

Annex 2.3. Selected Indicators of Bank Portfolio Performance and Management

CAS Annex B2 - Peru Selected Indicators* of Bank Portfolio Performance and Management As of Date 05/31/2022

Indicator	FY19	FY20	FY21	FY22
Portfolio Assessment				
Number of Projects Under Implementation ^a	15.0	17.0	15.0	19.0
Average Implementation Period (years) ^b	3.5	3.2	2.8	3.0
Percent of Problem Projects by Number ^{a, c}	20.0	11.8	20.0	26.3
Percent of Problem Projects by Amount ^{a, c}	12.8	3.9	12.7	11.5
Percent of Projects at Risk by Number ^{a, d}	20.0	11.8	20.0	26.3
Percent of Projects at Risk by Amount ^{a, d}	12.8	3.9	12.7	11.5
Disbursement Ratio (%) ^e	11.5	7.7	8.4	12.6
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				
<hr/>				
Memorandum Item	Since FY80	Last Five FYs		
Proj Eval by IEG by Number		114	10	
Proj Eval by IEG by Amt (US\$ millions)		7,898.4	343.1	
% of IEG Projects Rated U or HU by Number		31.3	20.0	
% of IEG Projects Rated U or HU by Amt		13.3	20.8	

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 2.4. DPF and DDO instruments with Peru FY17-FY22

(Millions of US\$)

ID	Instrument	Status	Project name	Board approval	Closing	Amount	Disbursed
P174440	DPF	Active	Strengthening Foundations for Post-Covid19 Recovery	2021	2022	750	750
P176387	DPF	Active	Investing in Human Capital II	2021	2022	350	350
P170477	DPF	Closed	Investing in Human Capital	2020	2021	50	50
P154981	DPF/DDO	Closed	Public Expenditure and Fiscal Risk Management DPF-DDO	2016	2020	1250	1250
P156858	DPF/DDO	Closed	Boosting Human Capital and Productivity Development Policy Financing	2016	2020	1250	1250
P149831	DPF/DDO	Closed	Peru Second CAT DDO	2015	2018	400	70
P120860	DPF/DDO	Closed	Catastrophe Development Policy Loan DDO	2010	2019	100	100
Total disbursed FY17-FY22							3820

Annex 2.5. Peru ASA Program, FY17-21

FY17-22 RAS Completed Activities

Peru - FY17-22 RAS completed activities

	Task ID	Task Name	Lead GP/Global Themes	Agreement Value (\$000)	Status
2017	P156673	Programmatic Engagement on Trade, Logistics and Investment Promotion (*)	Other	75,000	Completed
	P158087	Financial Literacy and Consumer Protection (*)	Finance, Competitiveness and Innovation	251,000	Completed
	P158930	Peru Investment Reform Map	Other	75,000	Completed
	P158973	PE RAS National Plan Financial Literacy	Finance, Competitiveness and Innovation	149,289	Completed
	P159906	PE RAS Disclosure of Information	Finance, Competitiveness and Innovation	101,642	Completed
2018	P163256	Peru Affordable Housing Programmatic RAS	Urban, Resilience and Land		Dropped
	P163637	Strengthening the Control Framework for PPP Projects in Peru	Governance		Dropped
	P164495	Peru Slum Upgrading RAS	Urban, Resilience and Land	126,672	Completed
2019	P163236	Peru ESSALUD Separation of Functions: Health Insurance	Health, Nutrition & Population	110,750	Completed
	P165519	Phase 2: Peru Essalud Separations of Functions	Health, Nutrition & Population	127,000	Completed
	P169564	Strategic Reforms to expand Broadband Connectivity and Services to Rural and Remote Communities	Digital Development	123,000	Completed
	P170484	Strategic Reforms to expand Broadband Connectivity and Services to Rural and Remote Communities II	Digital Development		Dropped
	P170485	Strategic Reforms to expand Broadband Connectivity and Services to Rural and Remote Communities II	Digital Development	127,118	Completed
	P170566	Technical Study for the Development of an Early Warning Messaging System (SISMATE)	Digital Development	127,118	Completed
	P170567	Technical study for the development of a Centralized Emergency Response system (911)	Digital Development	127,118	Completed
2021	P170488	Peru Strengthening the PPP control and oversight framework in the Contraloria General de la Republica	Governance	150,000	Completed
	P173829	Strengthening Road Safety Management Capacity in Peru	Transport		Dropped
	Total			1,670,707	

Source: Standard Reports, PowerBI (2/7/22, apm) and (*)Information provided by OPCS RAS Unit.

PERU - ASA activities FY17 - 2022

Project Id	Project Display Name	ACS FY	Product
P155564	Peru Disaster Risk Financing	2017	TA
P154530	Peru: Corporate Governance of CMACs	2017	TA
P158087	PE RAS Fin. Literacy & Consumer Protec.	2017	PA
P158973	PE RAS National Plan Financial Literacy	2017	TA
P159906	PE RAS Disclosure of Information	2017	TA
P156882	Peru Policy Note Fiscal Decentralization	2017	EW
P158618	Peru Programatic PER (FY17-FY18)	2017	EW
P156673	PE RAS Trade, Logistics and Invt Promot	2017	PA
P158930	PE RAS Investment Reform Map - IRM	2017	TA
P162765	Dissemination Activities on Peru OECD	2017	TA
P162766	Strategic Guidelines Peru and OECD	2017	TA
P162483	Peru Nutrition	2017	AA
P143505	Local Governance and Mining	2017	PA
P162084	Peru Agriculture Opportunities ASA	2017	AA
P145711	Socioenvironmental conflict resolution	2017	TA
P152216	Peru School Infrastructure Program	2017	PA
P152271	TA JP - DRM in Peru's Education Sector	2017	TA
P159177	Regional Pilot: LAC-Peru Urban Develop	2017	TA
P150824	PE: Support Water Sector Modernization	2017	TA
P129818	Peru - Government Debt and Risk Mgmt	2018	AA
P161496	Peru Health System Reform	2018	AA
P164495	Peru Slum Upgrading RAS	2018	AA
P163744	Peru FSAP Update	2019	AA
P158725	Supporting OECD Standards in Peru	2019	AA
P167683	Supporting Peru's AC Strategy	2019	AA
P168723	PE Subnational Capacity Building	2019	AA
P168236	Peru: Support to Decentralization Agenda	2019	AA
P168055	Peru Gender Based Violence	2019	AA
P167570	Peru HD Flagship	2019	AA
P163236	Peru ESSALUD Separation of Functions	2019	AA
P165519	Phase 2: Peru ESSALUD Sep of Functions	2019	AA
P167460	Peru - HD Flagship ASA - Health Agenda	2019	AA
P167417	HD Flagship: Social Inclusion Services	2019	AA
P169564	RDFNO and Regional Networks Reform	2019	AA
P170485	RDFNO and Regional Networks Reform 2	2019	AA
P170566	SISMATE	2019	AA
P170567	911 System Prefeasibility Study	2019	AA
P161420	Resilient and Secure Power System	2019	AA
P169061	JIT Reconstruction TA	2019	AA

PERU - ASA activities FY17 - 2022 (Cont.)

Project Id	Project Display Name	ACS FY	Product
P172418	National Competitiveness Plan of MEF	2020	AA
P171596	Peru HE QA ASA	2020	AA
P164103	Peru PHRD Grant - UHC	2020	AA
P166491	Peru: Reforming Social Health Insurance	2020	AA
P172699	Building Resilience Peru (HNP)	2020	AA
P172697	Building Resilience Peru ASA (SPJ)	2020	AA
P172702	Building Resilience Peru ASA (EAE)	2020	AA
P172698	Building Resilience Peru ASA (TDD)	2020	AA
P172696	Building Resilience Peru ASA (AGF)	2020	AA
P172701	Building Resilience Peru ASA (ENB)	2020	AA
P172700	Building Resilience Peru ASA (WAT)	2020	AA
P170488	RAS for PPP control in Peru CGR	2021	AA
P174540	Peru Policy Notes	2021	AA
P166203	Change in School Management in Peru	2021	AA
P173848	PE Agriculture Innovation Support ASA	2021	AA
P172506	Venezuelan Migration in Peru	2021	AA
P175303	Innovative approaches GBV Peru	2021	AA
P171251	Peru Subnational Resilience	2021	AA
P175354	Urban planning in Peru	2021	AA
P157577	Capital Markets and Infrastructure Fin.	2022	AA
P174743	Digitization of social transfers in Peru	2022	AA
P167682	Peru GDRM II	2022	AA
P177938	Supporting school reopening in Peru	2022	AA
P175409	Peru: Health Financing ASA	2022	AA
P177822	Peru: Health Information Systems	2022	AA
P177975	Peru SP Reforms for COVID-19 recovery	2022	AA
P175247	NPT and Infra cost-sharing Peru RAS	2022	AA
P173795	Peru Economic Corridors Development	2022	AA
P171140	PE Energy Systems and Access Engagement	2022	AA
P158917	IE-Peru PATS Project	2022	AA
P178088	Peru InfraSAP	2022	AA
P177137	Peru CCCR	2022	AA
P176715	PE Policy Analysis Social Sustainability	2022	AA
P173636	Policy Dialogues on Water Security	2022	AA
P177645	Peru Country Economic Memorandum	2023	AA
P176738	Peru Poverty Assessment	2023	AA
P170739	Business-Safety Inspections IE	2023	AA
P160517	Peru TA onTax	2024	AA
P176222	Strengthening Urban Cadasters in Peru	2026	AA

Source: *PowerBI, Standard Reports, 11/9/2021, apm.*

Annex 2.6. IFC Portfolio, FY17-21

Reporting Period	Committed -Millions
2017	707.9
2018	475.2
2019	400.0
2020	278.9
2021	257.6

Annex 2. 7: MIGA's Guarantee Portfolio, FY17-21
(Outstanding exposure in US million)

Project Name	Effective Date	Expiry Date	Sector	FY17	FY18	FY19	FY20	FY21
Jose Chavez International Airport (Lima Airport Partners SRL)	May 2002	May 2020	Infrastructure	6.2	6.2	6.2		
The Santander Mandatory Reserves Project (Banco Santander Peru, SA)	June 2018	June 2025	Financial		246.6	246.6	246.6	341.7
Total Outstanding Exposure				6.2	252.8	252.8	246.6	341.7
Number of projects				1	2	2	1	1

Annex 3: Selected Indicators of Bank Portfolio Management

Peru

Selected Indicators* of Bank Portfolio Performance and Management

As of Date 11/14/2022 (Business Intelligence)

Indicator	FY20	FY21	FY22	FY23
Portfolio Assessment				
Number of Projects Under Implementation ^a	17.0	15.0	18.0	15.0
Average Implementation Period (years) ^b	3.2	2.8	3.2	3.5
Percent of Problem Projects by Number ^{a,c}	11.8	20.0	27.8	46.7
Percent of Problem Projects by Amount ^{a,c}	3.9	12.7	15.1	25.4
Percent of Projects at Risk by Number ^{a,d}	11.8	20.0	27.8	46.7
Percent of Projects at Risk by Amount ^{a,d}	3.9	12.7	15.1	25.4
Disbursement Ratio (%) ^e	7.7	8.4	14.5	4.0
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				
<hr/>				
Memorandum Item	Since FY80	Last Five FYs		
Proj Eval by IEG by Number	116	7		
Proj Eval by IEG by Amt (US\$ millions)	9,187.3	1,459.1		
% of IEG Projects Rated U or HU by Number	30.7	28.6		
% of IEG Projects Rated U or HU by Amt	11.5	4.9		

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 4: WB Portfolio

Peru - FY23 Portfolio

Project ID	Project Name	Team Leader(s)	Lead GP/Global Themes	Inst	Approval	Closing Date	Total	IBRD	Other
P176387	Investing in Human Capital DPF II	Renata Freitas Lemos	Education	DPF	6/24/2021	12/31/2022	350.00	350.00	0.00
P177765	Peru: Enabling a Green and Resilient Development DPF	Paula Restrepo Cadavid	Urban, Resilience and Land	DPF	3/31/2022	6/30/2023	500.00	500.00	0.00
P132505	Cusco Transport Improvement Project	Felipe Targa Rodriguez;Irene Portabales Gonzalez;Yang	Transport	IPF	2/28/2014	10/31/2023	120.00	120.00	0.00
P132515	Support to the Subnational Transport Program Project	Li Qu	Transport	IPF	12/11/2015	2/28/2023	50.00	50.00	0.00
P151851	Integrated Water Resources Management in Ten Basins	Martin Benedikt Albrecht	Water	IPF	4/28/2017	12/31/2023	40.00	40.00	0.00
P155902	National Program for Innovation in Fisheries and Aquaculture	Griselle Felicita Vega;Juan Jose Miranda Montero	Environment, Natural Resources & the Blue Economy	IPF	1/27/2017	2/13/2023	40.00	40.00	0.00
P157043	Modernization of Water Supply and Sanitation Services	Malva Baskovich; Zael Sanz Uriarte	Water	IPF	7/26/2018	8/31/2025	70.00	70.00	0.00
P162278	National Urban Cadaster and Municipal Support Project	Gabriel Sergio Arrisueno Fajardo;Ivonne Astrid Moreno Horta	Urban, Resilience and Land	IPF	1/10/2020	2/28/2025	50.00	50.00	0.00
P162833	Improving the Performance of Non-Criminal Justice Services	Carolina Luisa Vaira	Governance	IPF	6/5/2019	9/30/2024	85.00	85.00	0.00
P163255	Peru Integrated Health Networks	Carlos Marcelo Bortman; Malva Baskovich	Health, Nutrition & Population	IPF	1/31/2019	1/31/2024	125.00	125.00	0.00
P170595	Lima Metropolitan BRT North Extension	Felipe Targa Rodriguez; Yang Chen;Irene Portabales	Transport	IPF	1/30/2020	1/31/2023	93.00	93.00	0.00
P170658	CENTRALIZED EMERGENCY RESPONSE SYSTEM PROJECT	Axel Rifon Perez	Digital Development	IPF	4/7/2020	1/10/2024	36.32	36.32	0.00
P174177	Peru: Strengthening of the Public Health Emergency Preparedness and	Carlos Marcelo Bortman; Malva Baskovich	Health, Nutrition & Population	IPF	6/24/2021	6/30/2026	68.00	68.00	0.00
P174812	Transmission Investment Plan (PIT) to support Post-COVID-19 Green	Janina Andrea Franco Salazar	Energy & Extractives	IPF	9/9/2021	11/30/2026	70.00	70.00	0.00
P176297	STRENGTHENING PERU'S NATIONAL SCIENCE, TECHNOLOGY AND	Thomas Edward Haven; Suhas D. Parandekar;Jade	Finance, Competitiveness and Innovation	IPF	2/17/2022	12/30/2027	100.00	100.00	0.00
P163023	Integrated Forest Landscape Management Project	Jiang Ru	Environment, Natural Resources & the Blue Economy	IPF	1/4/2019	8/31/2024	12.20	0.00	12.20
Total							1,809.52	1,797.32	12.20

Source: Standard Reports, 11/14/2022

WB Lending operations for FY23-24

Peru IBRD/IDA Program Summary

As of Date 11/14/2022 (Business Intelligence)

Proposed IBRD/IDA Base-Case Lending Program^a

Fiscal year	Proj ID	US\$(M)	Strategic Rewards b (H/M/L)	Implementation b Risks (H/M/L)
FY23	Irrigation Climate Resilient Agriculture	100.0		
	Lima Traffic Management (Phase 1)	100.0		
	SEDAPAL Preparing for the Future	300.0		
	Sustainable Growth and Finance DPF-DDO	750.0		
	Result	1,250.0		
FY24	Enabling a Green & Resilient Dev. II	500.0		
	Improving the management of SINAFO	50.0		
	Peru - Education for Human Capital	100.0		
	Peru PNIPA (Phase II)	120.0		
	Peru Tourism Project	50.0		
	Spatial Development Corridor	100.0		
	Urban Transport Authority Implementation	100.0		
	Result	1,020.0		
Total		2,270.0		

Annex 5: Statement IFC's Held and Disbursed Portfolio

\$ millions (as of June 30, 2022)

Industry Group	FIG	MAS	INR	CDF	Total
Committed Exposure	246.9	35.7	98.8	-	381.4
<i>Portfolio Outstanding</i>	146.9	24.7	30.8	-	202.5
<i>of which Loan Outstanding</i>	75.9	24.7	15.4	-	116.1
<i>of which Equity Outstanding</i>	71.0	-	15.4	-	86.4
<i>Undisbursed</i>	100.0	11.0	68.0	-	179.0
Non-Performing Loans (NPLs)	5.9	-	-	-	5.9
NPL Ratio (%)	7.8	0.0	0.0	0.0	5.1

Annex 6. MIGA's Guarantee Portfolio
(as of July 31, 2022)

Project Name	Effective Date	Expiration Date	Investor	Sector	Gross Exposure (Million)
Banco Santander Peru	06/28/2018	06/27/2025	Banco Santander	Financial	\$341.7
Fondo MiVivienda	06/27/2022	06/23/2032	JP Morgan Chase Bank	Financial	\$350.9
Total					\$692.6

Annex 7: Summary of CPF Consultation Findings with Key Stakeholders

The CPF was developed through a participative consultation process including government and non-governmental actors. This annex provides a brief summary of the main results from the consultations conducted March-June 2022. These consultations informed the finalization of the CLR, SCD, and CPF and involved both the Bank and IFC teams. A total of 142 stakeholders participated in the consultations: international organizations (26), private sector (29), civil society (31), including indigenous population organizations, representatives of youth organizations (17), academia (11), and Project Implementation Unit staff from WB projects (28).

The objectives of the consultations were to (a) share lessons learned from the implementation of the WBG program over the last CPF period (2016-2021); (b) discuss findings of the SCD Update and the Country Private Sector Diagnostic; and (c) seek participants' views about the priority areas for Peru's development over the next five years and how the WB can best contribute to these.

Main messages:

- **Improve the capacity of the state to deliver services, particularly at a decentralized level.** There was consensus among groups that this requires (a) more transparency to prevent corruption at all levels; (b) continuity of key staff within government given frequent staff turnover; and (c) digital transformation in the public administration to reduce the bureaucratic burden of government procedures. Private sector representatives emphasized the WBG's role in disseminating the positive contributions of this sector in the development of the country and best practices of joint partnership between the private and public sectors.
- **Provide better public education at all levels.** Both quality aspects and lack of adequate infrastructure were highlighted. In general, participants mentioned that many schools still do not have access to basic services, such as water and sanitation. This situation increases inequalities between rural and urban settings, and between Lima and the rest of the country. Participants also mentioned the importance of development of digital tools in education. Participants from cities outside of Lima emphasized the lack of access to higher education in their regions.
- **Continue investments to improve public services to foster social inclusion.** Particular attention was given to improving social services, such as education and health; achieving financial and banking inclusion; fighting discrimination; and generating better statistical data. Civil society participants stressed the importance of developing educational content that dignifies Indigenous people and Afro-Peruvians.
- **Digitalization and connectivity.** The country's varied geography causes challenges for connectivity, raising the cost-of-service delivery. However, efforts on this area are still very limited.
- **Improve labor regulation and promote formalization of markets.** Participants noted that Peru's large informal sector, which increased further during the COVID-19 crisis, continues to pose challenges for a more efficient projection of both labor and capital, and thus productivity growth.
- **Implement political reforms.** Participants noted that the country lacks a shared vision and that this acts as a limitation to having greater consensus on political reforms and stronger political parties.
- **Adapt to climate change and improve disaster-risk management.** Participants highlighted the impact of climate change on Peru, especially with regard to its impact on food security. They also noted the lack of protection of land from illegal activities, such as illegal mining and logging. Civil society in particular expressed their concern for the killing of environmental activists, and the challenges facing communities affected by environmental issues.