Report Number : ICRR0022455

1. Project Data

Operation ID	Operation Name
P120860	PERU CAT DDO
Country	**Practice Area(Lead)**
Peru	Urban, Resilience and Land

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-79760	09-Dec-2013	0.00
Bank Approval Date	**Closing Date (Actual)**	
09-Dec-2010	09-Dec-2019	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	100,000,000.00	0.00
Revised Commitment	0.00	0.00
Actual	0.00	0.00

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2. Project Objectives and Policy Areas

a. Objectives

The Program Development Objective (PDO) as stated in the Program Document (PD, page 1) was: "**To strengthen the Government's capacity to mobilize resources in case of disaster and to promote risk reduction".**

For the purpose of this evaluation, the individual objectives of this Development Policy Operation (DPO) are identified as follows:

PDO 1. To strengthen the Government's capacity to mobilize resources in case of disaster.

PDO 2. To promote risk reduction.

b. Pillars/Policy Areas

The PDOs were to be achieved through reforms under three policy areas /pillars (PD, page 22).

1. Risk reduction policies in public investment. Under this policy area, reforms supported the budgetary program for Disaster Risk Management (DRM) and emergency response activities. Specifically, the policy area aimed to allocate annual budget for DRM activities.

2. Vulnerability reduction actions in priority sectors. Under this policy area**, r**eforms aimed to promote DRM in the two priority sectors identified in the Government's Disaster Vulnerability Response Program. Specifically, the policy area aimed to incorporate DRM in the health and water and sanitation sectors. These sectors had been affected by the 2007 earthquake, and faced challenges associated with resuming service delivery in the wake of the earthquake.

3**. Mechanisms for financial protection against disasters resulting from natural events.** Under this policy area, reforms aimed to implement a financial protection strategy to reduce the financial impact of disasters. Specifically, the policy area aimed to: (i) provide liquidity in the case of medium-size disasters that cannot be funded with internal reserves, and to provide bridge financing while other sources of financing are being mobilized: and (ii) supporting the Ministry of Economy and Finance (MEF) in developing guidelines for public investment projects in a post-disaster context.

c. Comments on Program Cost, Financing, and Dates

Financing This DPO, with a Catastrophe Deferred Drawdown Option (CAT DDO) was financed by an IBRD Loan of US$100.0 million. There were no requests for withdrawals under this operation. There was parallel financing for complementary DRM operations by the Inter-American Development Bank (IADB).

Dates. The operation approved on December 20, 2011, was scheduled to close on December 9, 2013. The operation was renewed for three-year periods in 2013 and 2016 respectively. The operation closed on December 9, 2019.

Other changes. The following changes were made when the operation was renewed in 2013 and 2016. Six of the seven expected results under the three pillars were fully achieved by June 2013. No new target for the health sector indicator was set, as the target for this indicator was fully achieved later in 2013. New targets for the results indicators for the three policy areas were established, when the operation was renewed in 2016.

3. Relevance of Objectives & Design

a. Relevance of Objectives

Country context. Peru with six major earthquakes in the past century, is vulnerable to natural disasters, including earthquakes, droughts, floods, and other hydro-meteorological events. This operation was prepared against the backdrop of the country recovering from the 2007 earthquake, and the challenges encountered with resumption of delivery of critical services, in the wake of the earthquake.

This operation aimed to address two development challenges. In the years before this operation was prepared, Peru did not have budgetary allocations specifically aimed to promote Disaster Risk Management (DRM) activities. In the absence of adequate financing, the priority sectors had insufficiently mitigated disaster vulnerability. Likewise, the Government did not yet have a comprehensive financial strategy for addressing DRM measures. It was important for the government to access immediate liquidity for addressing medium-sized disasters, that could not be funded with internal reserves. This operation responded to the development challenges of promoting risk reduction in priority sectors through integrating DRM policies in Peru's development and planning processes, and ensuring immediate liquidity to resume service delivery in priority sectors following a natural disaster, as the Government was developing a comprehensive financial DRM strategy.

Government strategy. The tenth policy of the National Agreement of 2004, highlighted the importance of allocating resources for promoting DRM policies. In the years before appraisal in 2011, the government enacted several laws, signaling its intention to move away from the hitherto emergency response approach to natural disasters and moving towards integrating DRM policies in the development and planning processes. These laws, included authorizing the Ministry of Economy and Finance (MEF) to access contingent credit for disasters, implementing a results-based budgeting approach for allocating public resources to sectors, incorporating a "disaster protection" category in public investment projects, and establishing a new national DRM system and related policy framework.

Bank strategy. The PDOs were and remain priorities for Bank support, given the economic losses and social impacts due to natural disasters in Peru in the past, and most recently in the wake of the El Nino Costero event in March 2017. This first pillar of the World Bank's Country Partnership Strategy (CPS) for 2007 - 2011, emphasized the need for sustaining economic growth through reducing vulnerabilities to natural disasters. The pillar three of the Country Partnership Framework (CPF) for 2017 -2021, highlighted the importance of addressing natural and climate management risks.

The Bank has supported Peru's development goals in the past through a mix of Development Policy Loans (DPLs), investment lending and technical assistance. This operation approved in 2011, was the first Catastrophe Development Policy Operation with a Deferred Drawdown Option (DPL -DDOs). The analytical underpinnings of the operation were sound, and the operation was designed on the practical experiences from operations executed by the Bank in Latin America (discussed in section 8a). Alongside this operation, the Bank approved a second DPL-DDO in 2015, with activities complementary to this operation. The second DPL built on the progress of the first operation, adding policy areas aimed to support DRM practices in the education and housing sectors. The two operations intended to provide bridge financing in the event of natural disasters, that would enable a quicker response to emergency needs. Although there were no withdrawals under the first operation, Bank funds under the second operation aided in responding to the national state of emergency caused by landslides and flooding, in the wake of the Nino Costero event.

Rating

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b. Relevance of Design

Rating
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4. Achievement of Objectives (Efficacy)

Objective 1

Objective

Pillar one objective. Risk reduction policies in public investment.

Rationale

The Strategic Budgetary Program on Disaster Vulnerability Reduction and Emergency Response Program (PREVED) was created in 2010 to provide public resources to sectors for emergency response, and promote DRM measures in public investment projects. Unlike in the past when there was no dedicated public resources for this program, the budget was to allocate funding annually specifically for this program. Through this program, the Government aimed to address some of the challenges it faced, such as dispersed information on investments, lack of an institutional planning process, and monitoring and evaluation mechanisms for the DRM activities. The program allocated funding for the three levels of government - 12 ministries at the national level, 26 regional governments and over 1,000 local level governments - along products related to risk identification, estimation, prevention, risk reduction, emergency response and rehabilitation processes.
The National Budgets from 2011 -2019 annually allocated funding specifically for this program. The ICR provides no information on the share of Gross Domestic Product (GDP) allocated to the program each year. The absolute amount allocated for the program in US$ terms (using the conversion rate One US$ = 3.57 Peruvian Nuevo Solo (PEN).;

- 2011. US$15.4 million.
- 2012. US$39.6 million.
- 2013. US$202.4 million.
- 2014. US$229.6 million.
- 2015. US$280.1 million.
- 2016. US$596.5 million.
- 2017. US$ 245.0 million.
- 2018. US$245.0 million.

- 2019. US$377.8 million.

The ICR (paragraph 28) notes that funds allocated were more in 2015 and 2016 due to the forecasts of potentially strong El Nino events, which affected the country in 2017. The amounts allocated to the program is publicly available through the website of the Ministry of Economy and Finance. Given that unlike in the past, there is now a dedicated source of funding for emergency response and DRM activities, this pillar made a major contribution to the achievement of the PDO. This pillar is rated as satisfactory.
When this operation was prepared, the MEF identified two lines of action relating to public investments: (a) update the procedures for post-disaster investments in the National Public Investment System (SNIP) and (b) integrate DRM considerations in public investments. In 2017, a new investment system was approved, which required an upgrade to all processes. The general guidelines to formulate and evaluate public investment projects was approved in 2019, included guidelines to integrate DRM considerations in public projects. The ICR lacks evidence on what changes have been made for implementing post-disaster public investments. Given this, the contribution of this pillar is rated as moderately satisfactory.
The overall relevance of this pillar is rated as satisfactory.

Rating
Substantial

Objective 2

Objective
Pillar two objective. Vulnerability reduction actions in priority sectors.

Rationale
2a. Vulnerability reduction actions in health sector.
Reforms in this area aimed to promote risk reduction in the health sector. Three results were expected: (a) completing at least 20% studies of structural vulnerability of the Ministry of Health's (MINSA) hospitals that qualified for retrofitting: (b) evaluating 90% of the MINSA's existing hospitals with the Hospital Safety Index: and (c) incorporating risk analysis during the formulation phase in all new hospitals built after 2011.
In 2010, the health sector approved the National Safe Hospitals Policy. This policy included a broad framework for vulnerability reduction actions in health facilities, that were to be implemented through master investment plans. Activities to operationalize the policy included: (a) using the Pan American Health Organizations Hospital Safety Index (HSP) to provide a snapshot of the probability that a hospital will maintain operations during and after an emergency situation: (b) carrying out structural vulnerability studies of MINSA's hospitals : (c) structural retrofitting: (d) vulnerability reduction of non structural elements: (e) update of technical specifications for new infrastructure: and (f) contingency plans. The first National Safe Hospitals Policy and the corresponding action plan were valid from 2010 - 2015. A new policy and action plan for 2017 - 2021 was updated and approved through a Supreme Decree 027-2017. The ICR notes that between 2016 -2017 Peru did not have an active national health policy.

Fifteen structural vulnerability studies of MINSA hospitals were completed in 2016, as compared to one at the baseline in 2010. By 2015, 91% of hospitals were evaluated under the Hospital Safety Index, exceeding the target of 90%. In 2017, MINSA signed an agreement with the Peruvian-Japanese center for Seismic Research and Disaster Mitigation for retrofitting works in five hospitals in Lima. The ICR (paragraph 33) notes two of the hospitals were determined to be cultural heritage and hence required coordination with the Ministry of Culture to preserve the historic buildings. All the technical details were only completed by early 2020. The five hospitals were allotted US$24 million by the PREVED program. Retrofitting works on these hospitals are expected to be completed by March 2022, on account of the delays in initiating the works due to the COVID - 19 pandemic. All Public Investment Projects for new hospitals built after 2011 included risk analysis in the formulation phase. This pillar is rated as satisfactory.

2a. Vulnerability reduction actions in the water and sanitation sector.

In 2007, the National Superintendence of Sanitation Services (SUNASS) approved a regulation for the Quality of Provision of Sanitation Services. This regulation mandated the Water and Sanitation Services (EPS) to develop plans to respond to emergency situations, including disasters caused by natural hazards. As of October 2019, 42 of the 50 EPS had set aside funds to implement DRM and climate change adaptation actions, at an estimated US$119 million. The goal was to set two percent of the annual income of the EPS on average for DRM activities. SUNASS also had an indicator for DRM for monitoring the following activities: (a) establish an emergency Committee: (b) present a plan for mitigation measures: (c) present an emergency plan: and support the dissemination of the emergency plan. By 2019, only 16 of the EPS had fulfilled all the four activities. Given the limited achievement of reducing vulnerability in the water and sanitation sectors, the overall contribution is rated as moderately satisfactory.

The overall contribution of this pillar is rated as moderately satisfactory.

Rating

Objective 3

Objective

Pillar three objective. To strengthen the Government's capacity to mobilize resources in case of disaster.

Rationale

Reforms in this area aimed at strengthening the Government's capacity to quickly mobilize resources in the wake of a disaster. Two results were expected originally: (a) The Ministry of Economy and Finance (MEF) mobilized a pool of financial instruments to better respond to the financial impact of disasters: and (b) the MEF revised its current framework for implementing post-disaster public investments.

1. To mobilize resources in the event of a disaster.

Under the National Disaster Risk Management System (SINAGERD) law, the MEF was responsible for identifying and evaluating mechanisms to ensure that Peru has the financial capacity to manage major disasters, the reconstruction phases and mechanisms for DRM. By 2013, the MEF created the Directorate

Risk Management, and three contingency loans were under preparation, with the Development Bank for Latin America (CAF), the Inter-American Development Bank (IADB) and the Japan International Cooperation Agency (JICA). At the time of the second renewal, the MEF had contingent credit line to respond to the impact of disasters of almost US$1.2 billion. This included both Cat DDO operations for a total of US$500 million, US$300 million from CAF, US$300 million from the IADB, and US$83 million from JICA.
In 2018, the Government signed the first catastrophe bond issued by the World Bank, as part of the Pacific Alliance for providing insurance protection of US$200 million against earthquake losses. The ICR (paragraph 40) notes that this was the first time the Pacific Alliance - Chile, Colombia and Peru - accessed the capital markets to obtain insurance for natural disasters. In May 2019, after the earthquake in the Amazonas region in the northeast of country, a partial payment of US$60 million was made and the funds were transferred to the Fund for Intervention in the Event of Natural Disasters (FONDES). The relevance of this prior action for the achievement of the program objective is rated as satisfactory.

Rating
Substantial

5. Outcome

The Peru CAT DDO's design relevance is Satisfactory. Of the three pillars, two were clear and credible. The operation achieved most of its results. Given these achievements, outcome is rated as satisfactory.

a. **Outcome Rating**
Satisfactory

6. Rationale for Risk to Development Outcome Rating

Macroeconomic and Government Commitment risk. The ICR (paragraph 5) notes that the Government is currently managing the COVID - 19 pandemic and its financial and economic impacts. This includes a financial response package estimated at 12% of the Gross Domestic Product (GDP). Given the economic impact of the pandemic, there is a risk that funding for DRM activities may be undermined.
Technical risk. There is a technical risk, given that the retrofitting of the hospital infrastructure is yet to be completed. .
Institutional risk. Although guidelines for formulating public investment projects incorporating DRM considerations were approved, it still remains to be seen whether there is adequate implementation capacity for executing such projects.

a. Risk to Development Outcome Rating

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7. Assessment of Bank Performance

a. Quality-at-Entry

Quality-at-Entry Rating

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b. Quality of supervision

Quality of Supervision Rating

Overall Bank Performance Rating

Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

Government Performance Rating

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b. Implementing Agency Performance

Implementing Agency Performance Rating

Overall Borrower Performance Rating

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9. M&E Design, Implementation, & Utilization

a. M&E Design

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b. M&E Implementation

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c. M&E Utilization

M&E Quality Rating

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10. Other Issues

a. Environmental and Social Effects

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b. Fiduciary Compliance

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c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Bank Performance	Satisfactory	Satisfactory	---
Relevance of Results Indicators		Moderately Satisfactory	---

Quality of ICR	Substantial	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

The ICR draws the following main lesson from the experience of implementing this operation, with some adaptation of language.

- When prior actions and indicators are selected appropriately, a cat DDO can provide significant assistance in influencing important disaster-related policy reforms. In this operation, annual budgetary allocation for DRM was clearly an appropriate quantitative indicator for driving sector reforms, aimed to promote disaster risk management in priority sectors.

The IEG draws the following lesson from this operation.

- For a Cat DDO that is renewed multiple times, revisions and updates of indicators and targets around each renewal are important for monitoring and providing evidence on downstream operationalization of reform trajectories. Where indicators are updated, this provides an opportunity to continue to influence sectoral reforms even without new prior actions. Where indicators are not updated, it becomes more difficult to know whether reform trajectories are being sufficiently sustained or are lagging.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is well prepared and concise. It provides a good analysis of the prior actions and for the most part, clearly discusses the causal links, between the prior actions and the project outcomes. The ICR, including annexes presents a robust evidence base to support the achievements achieved. The ICR is consistent with the guidelines with regards to ratings. The ICR appropriately includes the Borrower comments in an annex.

a. Quality of ICR Rating
Substantial