

INDEPENDENT EVALUATION GROUP
EVALUATION OF THE WORLD BANK GROUP'S DEVELOPMENT
EFFECTIVENESS IN PERU, FY03-09

APPROACH PAPER

Introduction

1. **This evaluation will assess the World Bank Group's development effectiveness in Peru since 2003.** Since that time, Peru has seen a period of sustained economic growth that places it on the verge of becoming an upper middle income country. Yet nearly 40 percent of the people continue to live in poverty. The three institutions of the World Bank Group (WBG)—the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA)—have had varying degrees of involvement in Peru since 2003. While Peru was one of MIGA's top four exposure countries in the early 2000s, its engagement has declined to one active guarantee in the country; IFC's average annual commitments more than tripled in the period FY03-09 vis-à-vis the prior seven-year period; and IBRD has had substantial engagement across a range of sectors in Peru, particularly through development policy lending. This evaluation of WBG support in Peru therefore offers the opportunity to assess the development effectiveness of a broad range of WBG instruments in a country that has seen rapid economic growth but still faces the challenges of poverty reduction. The evaluation is expected to inform current and future WBG support for development in Peru as well as other countries with similar development contexts.

2. **The Independent Evaluation Group (IEG) will take an integrated country view across Bank, IFC and MIGA interventions.** The planned "Evaluation of the World Bank Group's Development Effectiveness in Peru, FY03-09" is part of IEG's country program evaluation series. To date, IEG's in-depth country evaluations have comprised IEG-WB Country Assistance Evaluations (CAEs) and IEG-IFC Country Impact Reviews (CIRs). Both the CAEs and CIRs have involved comprehensive evaluations of the respective institutions' activities in a country, typically over a ten-year period. In contrast, this evaluation will be prepared by a single IEG team that will evaluate the WBG's development interventions across the three institutions. In assessing outcomes, the evaluation will aim to provide an assessment of the WBG's overall effectiveness in the country as well as distinct assessments for each institution. The evaluation will also draw lessons of experience that apply to either the WBG as a whole or to one or more of the three institutions. A consultative approach involving substantial interactions with both WBG staff and stakeholders in the country will be sought throughout the evaluation process.

Country Background

3. **Peru saw a significant economic transformation and rapid growth in the early to mid 1990s, although progress slowed in the latter part of the decade.** In 1990, Peru had a gross national income (GNI) per capita of US\$1,140, with 55 percent of the people living in poverty. The economy was characterized by dominant state-owned institutions in the productive sectors, hyper-inflation, an inward-looking protectionist regime, large fiscal deficits, and a

distorted financial system. Several economic reforms to deregulate the economy and enhance the role of the private sector were implemented in the 1990s that stimulated a strong private sector supply response. The gross domestic product (GDP) grew by 5.3 percent a year in 1993-1997 and by 1997 GNI per capita had risen to US\$2,240 and the proportion of poor had declined to 50 percent. After 1997, several external events affected progress, including *El Nino*, the 1997 financial crisis, and a deterioration in mineral commodity prices. A period of political instability and slow-down in economic reforms then ensued in the approach to and aftermath of the 2000 elections. The reform agenda was put on hold and macroeconomic management loosened. In late 2000, a corruption scandal ended the government of President Fujimori and an interim administration then governed until the election of President Toledo in mid-2001. During the period 1998-2002, economic growth slowed to an average of 0.9 percent a year, poverty increased once again, and increased concerns arose as to the degree of centralization of authority and perceptions of high levels of corruption.

4. **After 2002, growth accelerated again and Peru is now on the verge of becoming an upper middle income country.** Under President Toledo and continuing under President Garcia, who was elected in 2006, the government implemented an additional set of reforms to enhance the private sector supply response, improve participation in growth, and strengthen governance and the rule of law. With the support of a 2002 International Monetary Fund stand-by agreement, disciplined macroeconomic management helped reduce fiscal deficits, contain inflation, maintain a stable exchange rate, and triple international reserves from US\$9 billion in 2001 to US\$27 billion in 2007. Privatization was restarted, albeit at a slower pace; some regulatory constraints to doing business were reduced; a substantial public infrastructure development program was initiated; and access to world markets was enhanced through a succession of free trade agreements. A major effort was also initiated to improve the efficiency and effectiveness of the social protection system and increase access to basic social services and infrastructure for the poorest. Supported by favorable external conditions, these policies resulted in GDP growth of over 6.2 percent a year since 2002, driven by mining, manufacturing (including agri-business and textile exports), tourism, and construction. Exports increased sharply from 16 percent of GDP in 2002 to 29 percent in 2007. With this sustained economic growth, Peru's GNI per capita increased to US\$3,410 in 2007, placing it on the verge of becoming an upper-middle-income country.¹

5. **Peru's positive economic progress notwithstanding, a high proportion of the population continues to live in poverty.** While the proportion of poor declined from 50 percent in 1997, 40 percent of the people continued to live in poverty in 2007. The continuing high level of poverty, despite strong economic growth, can be partly attributed to the relatively low labor absorption and linkages to other economic activities of key growth sectors such as minerals and large-scale commercial agriculture. In addition, physical, cultural, and social barriers prevent the poor, particularly those in the rural highland areas, from better engaging in economic activities. Current government priorities toward reducing poverty include stimulating further economic diversification into labor-intensive activities such as agro-processing, manufacturing, and tourism; strengthening the rule of law; and enhancing social policies to address extreme poverty.

¹ The World Bank currently classifies countries with a 2007 GNI per capita of US\$3,706 -US\$11,455 as upper middle income.

Key constraints to be overcome include inadequate transport, electricity and water infrastructure in the highlands and rural areas of Peru; limited access to financial services outside the formal sector; inflexibilities in the labor code that discourage formal sector employment creation; administrative obstacles to doing business; continuing weaknesses in the justice system; and inadequate reach of quality basic social services among the poor.

6. **In the short term, Peru faces some challenges in overcoming the current global financial crisis.** To date, strong fundamentals have helped limit the contagion from the global financial crisis in Peru, but key sectors of the economy are showing signs of a downturn. A slowdown in economic activity has been detected since the third quarter of 2008, driven by falling mineral prices and lower demand for exports. After reaching an average real GDP growth rate of 10 percent in the first three quarters of 2008, Peru's growth decelerated to 7.5 percent (annualized) in the fourth quarter of 2008 and is expected to drop to below 5 percent in 2009. Falling export prices and deteriorating international conditions have adversely affected fiscal revenues, external accounts, and stock market valuations. The fiscal surplus for 2008 has been revised downward to 2.4 percent while the current account balance deteriorated from a surplus to a deficit of 3.2 percent of GDP. The stock market fell by 60 percent in 2008, driven by the drop in commodity-linked stocks, although it has been recovering since February 2009. The crisis also prompted significant capital outflows leading to the depreciation of the Nuevo Sol between September 2008 and February 2009. Since then, the exchange rate has stabilized due to central bank interventions. With almost 50 percent of exports going to the US, Europe, and Japan, Peru's economy remains vulnerable to a protracted global slowdown and there are fears that some of the poverty gains made in recent years will be reversed if the crisis continues. The government is aware of the risks associated with the global financial crisis and has requested contingency lending from IBRD as well as other lenders.

WBG Objectives and Activities in Peru since 2003

(i) World Bank Group Objectives

7. **Since 2003, the WBG has supported a broad set of country objectives to help realize sustainable growth and poverty reduction.** These include support for (i) broad-based economic growth; (ii) improved social service delivery; and (iii) strengthened public institutions. The WBG's objectives in Peru were defined in two WB/IFC Joint Country Assistance Strategy (CAS) documents dated FY03 and FY07 that included coverage of MIGA's objectives in the country.² In addition, two CAS Progress Reports (CASPRs), presented to the Board in FY05 and FY09, provided updates on progress toward the objectives. Each of the CASs identified the government's development priorities at the time and defined a (derived) set of objectives to be supported by the WBG. These objectives are presented in Table 1 below.

² The FY07 strategy document was presented as a "Country Partnership Strategy" (CPS). OPCS does not maintain a formal distinction between CPSs and CASs, and in this review "CPS" is used interchangeably with "CAS".

Table 1. Development Objectives Supported by the WBG in Peru since 2003

WBG Objective	WB	IFC	MIGA
Overall Objective: Sustainable poverty reduction	X	X	X
1. Enhancing broad-based and sustainable growth through:	X	X	X
Maintaining macroeconomic stability and reducing vulnerability to shocks	X		
Supporting progress on privatization and trade liberalization	X		
Improving infrastructure, including transport, electricity and water through both the public and private sectors, particularly for the poorest	X	X	X
Deepening the financial system, including capital markets	X	X	X
Strengthening property rights	X		
Supporting growth of agricultural/agribusiness activity	X	X	
Supporting growth of the tourist industry	X	X	X
Supporting growth of the extractive industry	X	X	X
Supporting growth of non-traditional exports	X	X	X
Improving the regulatory framework for business, including reducing informality	X	X	
Ensuring the environmental sustainability of growth	X	X	X
2. Enhancing human development through:	X	X	
Increasing the efficiency of social safety net programs	X		
Expanding access to high quality health services from both public and private sector providers	X	X	
Expanding access to high quality education services from both public and private sector providers	X	X	
3. Strengthening public institutions through:	X	X	
Rationalizing public administration and improving public service delivery	X		
Strengthening state and local governments	X	X	
Improving the judicial system	X		
Addressing corruption and transparency	X		

Source: WBG Country Assistance Strategies for Peru since FY98

(ii) WBG Strategic Emphases and Proposed Programs by Institution

World Bank

8. Since 2003, IBRD has placed increasing emphasis on policy lending instruments. The FY03 CAS was prepared in response to a new national development strategy elucidated by

the government of President Toledo. It indicated the WBG's intention to support each of the government's main strategic thrusts toward reducing poverty: (i) enhancing economic competitiveness and employment generation; (ii) improving equity and social justice; and (iii) creating an efficient, transparent, and decentralized state. The Bank's areas of focus were to include macroeconomic management and structural reforms; a continued emphasis on social sector institutional reform; and a new emphasis on competitiveness and public sector management. The strategy laid out in the FY03 CAS included a greater reliance on adaptable program loans and development policy lending; stronger partnerships with other international development agencies; and a reinforced effort to improve the implementation performance of IBRD's portfolio. The Bank planned to lend US\$920 million over the four-year period, including two sets of programmatic loans to support reforms in social protection and economic policy; and three technical assistance loans in social reform, municipal development, and trade facilitation. Planned non-lending services included a development policy review and sector reviews in rural infrastructure, poverty and vulnerability, indigenous peoples programs, and sub-national fiscal policy and management.

9. **After 2007, IBRD introduced greater flexibility in its program and maintained the emphasis on policy lending.** The FY07 CAS followed a period of strong economic performance and coincided with the beginning of the new administration under President Garcia. The main priority of the new government was to expand the benefits of economic growth to the poorer segments of the population and it proposed to give equal weight to economic and human development. The CAS indicated a range of areas of prospective Bank engagement, including reducing vulnerability to shocks; improving competitiveness; specific activities to better engage the poor in growth, particularly the indigenous population in the Sierra; ensuring environmental sustainability; improving access to basic services and infrastructure for the poorest; and strengthening public sector management. The strategy provided for greater flexibility to the government in the amount of financing as well as in the timing and content of lending operations in line with a broader shift in the Bank's approach in middle income countries; enhanced partnerships with stakeholders; greater replication of good practices; increased synergy among WBG institutions; and an emphasis on results to support the government's strong interest in improving the results-orientation of its public expenditures. The CAS envisaged a flexible base-case lending scenario of up to US\$700 million per year over the five year FY07-11 CAS period. Within this envelope, three investment projects and two DPLs per year were expected, with DPL coverage to include fiscal management, the social sectors, and environment. Analytical and advisory services were planned in public expenditure management, reducing the high level of SMEs that operate outside the legal and regulatory frameworks ("informality"), and addressing income inequality, among other areas.

IFC

10. **IFC aimed to support growth in several productive sectors and placed an increasing emphasis on social and environmental issues in the mining sector.** Throughout the period under the review IFC sought to support (i) development of the mining sector, with an increasing emphasis on environmental and social sustainability in the sector, particularly through rationalization of municipal government use of royalties; (ii) deepening of the financial sector, through the modernization of the banking sector, support for small and medium enterprise (SME)

and microenterprise lending, capital market development, and housing finance, (iii) infrastructure development through support for further private participation in infrastructure, particularly in the more difficult sub-sectors; and (iv) potential investments in agribusiness, tourism, petroleum, manufacturing sectors, and the social sectors. In FY07, IFC introduced a focus on helping reduce the high level of SMEs operating outside the legal and regulatory through IFC-Advisory Services (IFC-AS) and reiterated its intention to seek investments in the social sectors, including higher education. An enhanced role for IFC-AS in Peru was also envisioned, with the establishment in mid-2005 of a dedicated IFC-AS facility for the LAC Region based in Lima.

MIGA

11. **MIGA sought to catalyze foreign investment into Peru's main productive sectors as well as promote economic diversification.** While MIGA did not present formal country strategies to the Board, each of the CASs identified MIGA's main expected areas of engagement based on its assessment of demand in the country. MIGA aimed to catalyze additional foreign investment in mining, tourism, and infrastructure, as well as other sectors to promote economic diversification in the country. An emphasis was placed on supporting south-south investments, in line with MIGA's broader corporate goals. Given its active engagement in the mining sector, MIGA also sought to support good governance and transparency practices in its client mining companies, in collaboration with local governments. MIGA also sought to strengthen investment promotion activities in mining and tourism through technical assistance (TA) until its TA functions were transferred to the Foreign Investment Advisory Service (FIAS) in 2007.

Table 2: World Bank Group Financial Operations Active in Peru since 2003, by Sector

	World Bank Group Total			IBRD			IFC			MIGA		
	No	US\$ m	% of Total	No	US\$ m	% of Total	No	US\$ m	% of Total	No	US\$ m	% of Total
Economic Policy	6	1029	21%	6	1029	30%						
Infrastructure	16	645	13%	9	470	14%	6	163	15%	1	12	4%
Health and Education	8	644	13%	6	633	14%	2	12	1%			
Extractive Industries	11	529	11%				9	413	38%	2	117	36%
Finance	25	453	9%				21	295	27%	4	159	49%
Agriculture/Agribusiness	19	377	8%	6	201	6%	13	176	16%			
Public Sector Management	5	375	8%	5	375	11%						
Social Protection	4	358	7%	4	358	15%						
Environment	1	330	7%	1	330	10%						
Tourism	5	68	1%				4	34	3%	1	34	11%
Manufacturing/Service Industries	2	8	0%				1	7	1%	1	1	0%
Total	102	4816	100%	37	3395	100%	56	1099	100%	9	322	100%

Source: WBG data. Operations include all projects/guarantees that were active during the period 2003-2009. Non-lending services are excluded from this table.

(iii) WBG Activities in Peru by Institution

12. Since FY03, 102 WBG loans, investments, and guarantees have been active in Peru for a total value of US\$4.8 billion. Four broad sector groups accounted for 65 percent of total active operations: economic policy (21 percent); the social sectors (20 percent); infrastructure (13 percent); and extractive industries (11 percent). Of the total value of active operations, the WB accounted for 70 percent, IFC for 23 percent, and MIGA for 7 percent.

World Bank

13. The WB had 37 projects worth US\$3.4 billion active during the review period. Since 2003, IBRD has approved 29 new operations in Peru for US\$2.9 billion. In addition, a further 8 Bank-financed projects worth US\$469 million, approved before 2003, were active during the period. Two sector groupings accounted for over 65 percent of new lending: economic policy (35 percent) and the social sectors, including health, education, and social protection (31 percent). The volume of new lending after FY03 was 50 percent higher than the preceding seven-year period (FY96-02), during which 21 projects were approved for US\$2 billion. Development policy lending became the dominant instrument for IBRD, accounting for 79 percent of new commitments (by amount) after FY03. In terms of analytical and advisory services, IBRD prepared 30 studies (economic and sector work) and undertook 9 technical assistance activities after FY03 across a range of sectors, including public sector management, the financial sector, the enabling environment for business, and the social sectors.

IFC

14. IFC had 56 investments, worth US\$1.1 billion, active during the review period. Since FY03, IFC has made 28 new investments worth US\$780 million mainly in extractive industries (47 percent); finance (29 percent); and infrastructure (14 percent). In addition, 28 investments committed prior to FY03, worth US\$320 million, remained active in IFC's portfolio during the period under review, primarily in extractive industries and the financial sector. The volume of new IFC investments was over 3 times higher than the preceding seven-year period during which US\$251 million in new investments were made. At present, IFC's investment portfolio in Peru is its 10th largest in the world and 4th largest in the LAC region. Twenty nine IFC Advisory Services (IFC-AS) projects were also approved after FY03 for US\$11.5 million. The volume of IFC-AS was a substantial increase over the preceding seven-year period during which 7 projects were approved for US\$0.5 million. Of the IFC-AS approved since FY03, the main sectors of engagement were municipal development (38 percent); the business enabling environment (17 percent); and the financial sector (11 percent).

MIGA

15. **MIGA had 9 guarantee projects for a gross exposure of US\$322 million active during the review period.** All were provided prior to 2003, but were still active during the period under review. By sector, MIGA's guarantees were in the financial sector (49 percent of exposure); extractive industries (36 percent); and tourism (11 percent). In 2002, Peru was the fourth-largest host country in MIGA's guarantees portfolio. Since then, no new guarantees have been issued and MIGA's portfolio in Peru has declined sharply following termination or expiry of most of the guarantee contracts. At present, MIGA has one active guarantee in Peru, which supports a private concession for the rehabilitation and operation of Lima International Airport. MIGA also indicates that through its association with projects in the mining sector, it provided support to enhance good governance and transparency practices in its client companies. In support of its broader objective of enhancing south-south investment, in FY06 MIGA provided coverage for an outbound Peruvian investor.

Approach and Methodology

16. **The objective of this evaluation is to assess the outcome of the WBG's interventions in Peru since 2003 and develop lessons of experience.** In doing so, the evaluation will make assessments of: (i) the relevance of the WBG's interventions in relation to Peru's development needs; (ii) the effectiveness of WBG interventions in achieving their development objectives; and (iii) the performance of the respective institutions in contributing to achievement of relevant development objectives. The evaluation will also seek to develop lessons of experience and make recommendations to help enhance the WBG's contribution in the future. In particular, the Peru country evaluation will seek to address the questions set out below.

Overarching Question: How effective has the WBG been in contributing to sustainable economic and social development in Peru since 2003 and what factors account for this degree of effectiveness?

A. Development Outcomes

- 1) **Relevance.** Did the WBG support an appropriate set of development objectives in Peru?
 - a. To what extent were the WBG's (both overall and institution-specific) development objectives adequately adapted to: (a) country needs; (b) government priorities; and (c) the programs of other donors and private sector activity?
 - b. Did the WBG adjust its development objectives and priorities appropriately in line with evolving country circumstances?

- 2) **Efficacy.** To what extent were the development objectives supported by the WBG achieved?
 - a. To what extent were the WBG's instruments and activities consistent with its development objectives?
 - b. To what extent were the WBG's instruments and activities deployed effectively?
 - c. What were the development outcomes of the WBG's interventions as compared to the sought-after outcomes?
- 3) **Efficiency.** To what extent was the WBG able to deliver cost-efficient financial and knowledge services?
- 4) **Additionality.** To what extent have IFC and MIGA activities been "additional" to activities provided by the private sector?
 - a. To what extent did IFC/MIGA operations provide services that would not otherwise have been provided by the private sector in the financial, institutional, and operational areas?
 - b. Where has the IFC/MIGA additionality been highest and lowest in terms of time period, sectors, geographic areas, or development priorities?

B. Organizational Factors

- 1) **Overall.** What factors within the control of the WBG, both positive and negative, affected its effectiveness in contributing to development in Peru?
- 2) **Internal processes, organization, and management.** To what extent did the WBG's internal processes, policies, allocation of resources, and organizational structure affect the WBG's contributions to development?
- 3) **WBG cooperation and complementarity.** To what extent did the WBG institutions exploit synergies, avoid duplication and overlap, and implement to a consistent overarching strategy?

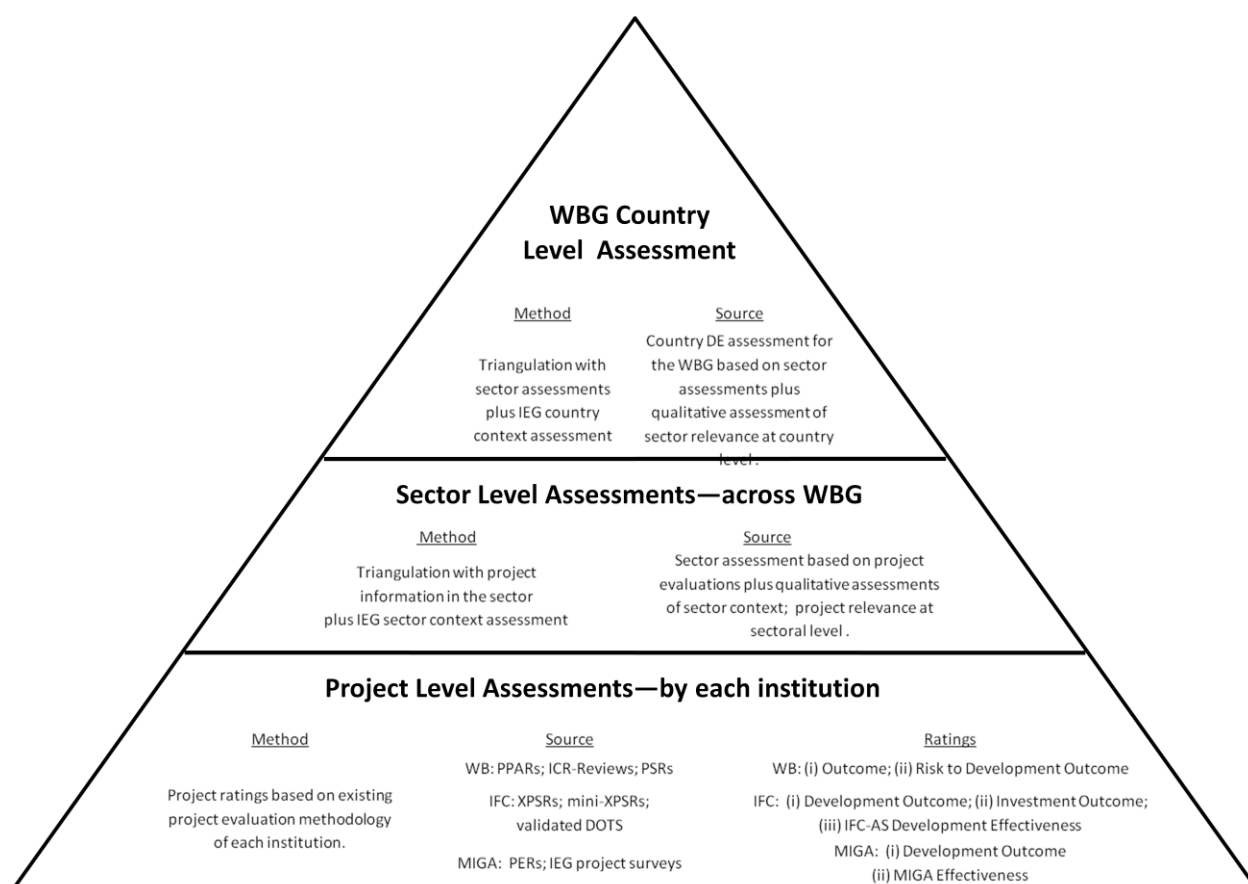
17. **Levels of Analysis.** The evaluation will address the above questions through analysis at three broad levels: the overall country level; the sector-wide level across the WBG; and the project level by institution (see Figure 2).

- *Country-level development effectiveness assessment.* At the country level, the evaluation will provide an overall assessment of the WBG's development effectiveness based on its relevance, effectiveness, efficiency, and additionality (for IFC and MIGA) in contributing to Peru's development. This assessment will be built up from sector-level analyses supplemented by a broader country context review. The approach taken in developing

the assessment will take into account the unique features of the WB's, IFC's and MIGA's business models as well as on-going IEG-WB efforts to refine the approach and methodology underlying its country program evaluations. To ensure comparability with past ratings of Bank program outcomes, the Peru country evaluation will also rate the outcome of the Bank's program as per the existing IEG CAE/CASCR-Review methodology and provide the ratings as an annex to the report. IEG currently does not provide country-level ratings for IFC country evaluations.

- *Sector-level analysis.* While project evaluations are the foundation of the evaluation, they will be supplemented by cross-institutional cluster and sector reviews of WBG interventions in each main area of engagement. These reviews will follow standard IEG sector evaluation methodology, supplementing project-level evaluation data with a broader review of sector policy, context, and outcomes. The evaluation will thus assess the effectiveness of the WBG in advancing the country's sector objectives from a mixed top-down-bottom-up perspective.

Figure 1. Components of a WBG Country-Level Development Effectiveness Assessment



Source: IEG

- *Project-level analysis and case studies.* The building blocks for the sector and country-level assessments will be WBG lending and non-lending interventions since 2003. The evaluation will as far as possible draw on existing evaluations of WBG lending and non-lending projects in Peru. When deemed necessary, the evaluation will validate self-assessment ratings or conduct independent project-level evaluations based on desk reviews and selected field reviews using the existing project evaluation methodology for each institution. A review of project documentation for WB, IFC, and MIGA projects will be conducted to extract the contributions of projects to development, institutional performance, and lessons of experience. For the WB, this will include Project Performance Assessment Reports (PPARs), Implementation Completion Report (ICR) Reviews, Quality Assurance Group (QAG) assessments, as well as project preparation and supervision documents. For IFC, it will include Expanded Project Supervision Reports, the Development Outcome Tracking System, Project Completion Reports, and project appraisal and supervision documents. For MIGA, it will include project evaluation and monitoring reports, where available.

18. **Period of coverage.** The evaluation will cover the period FY03-09. While earlier IEG evaluations typically covered a 10-year period, more recent country evaluations have covered shorter periods. The shorter period of coverage is an effort to make the country evaluations more relevant to current priorities. The FY03 starting point for the evaluation was selected to coincide with the beginning of the FY03 CAS. This evaluation will thus cover both the FY03-06 CAS as well as the first two years of the FY07-11 CAS. The evaluation is being conducted at the present time rather than at the end of the second CAS period in FY11 in order to enable the evaluation to feed into the development of the next CAS for Peru.

19. **Underlying evaluation themes.** The underlying theme for the evaluation will be based around the *framework for growth and poverty reduction* contained in the government's strategies which the WBG supported (illustrated by IEG in Figure 2). As such, the focus of the report will be to assess the WBG's contributions toward identified intermediate development objectives in order to realize the over-arching goal of poverty reduction. The evaluation will also offer an opportunity for *an integrated assessment* of the WBG's contribution to development in a country where all three institutions have had active portfolios. The integrated approach will allow for observations as to synergies, overlaps, and coordination among the three WBG institutions. The report will also identify the main areas of engagement of other international development partners as part of an assessment of the relevance of WBG interventions and of the *extent of coordination with major partners*. Finally, the review will seek to extract lessons from the WBG's experience in Peru that may have broader applicability to the *WBG's role in middle income countries* as well as to its *response to the current financial crisis*.

Figure 2. Framework for Growth and Poverty Reduction Supported by the WBG in Peru

Goal	SUSTAINABLE REDUCTION IN POVERTY AND INCREASE IN LIVING STANDARDS		
	<i>Income through returns to capital and labor</i>	<i>Consumption of basic goods and services</i>	<i>Income through transfers</i>
Major Strategic Objectives	SUSTAINABLE GROWTH IN THE PRODUCTION OF GOODS AND SERVICES Private sector driven Market resource allocation Environmentally sustainable <u>Expected Sectors:</u> Agriculture/agribusiness, Tourism Mining, Non-traditional exports	UNIVERSAL ACCESS TO QUALITY BASIC SOCIAL SERVICES Cost-effective Public provision additional to that of private sector	SOCIAL SAFETY NET FOR THE POOREST AND MOST VULNERABLE Fiscally sustainable
	<i>Private Investment</i>		
Intermediate Objectives	STABLE MACROECONOMIC ENVIRONMENT Fiscal policy Monetary policy	IMPROVED REACH OF BASIC SOCIAL SERVICE DELIVERY	OPTIMIZED COVERAGE Maximized coverage of needy Minimized coverage of non-needy
	MARKET ALLOCATION OF RESOURCES Trade reform Price liberalization Removal of subsidies Anti-monopoly regime	IMPROVED QUALITY OF BASIC SOCIAL SERVICE DELIVERY	COST-EFFECTIVE TRANSFER DELIVERY MECHANISMS
	DEVELOPED FINANCIAL SERVICE SECTOR Adequate regulation Sufficient depth Adequate reach	IMPROVED COST-EFFECTIVENESS OF PRODUCTION AND/OR DELIVERY MECHANISMS	OPTIMIZED VALUE OF TRANSFERS TO BENEFICIARY
	UNIVERSAL COVERAGE OF BASIC INFRASTRUCTURE AND SERVICES Cost-effective public provision Public-private partnerships Private provision Targeted access for the most deprived	TARGETED INCREASE IN ACCESS FOR THE MOST DEPRIVED	
	OPTIMAL REGULATORY ENVIRONMENT FOR PRIVATE SECTOR Encourages private activity Protects public interest Entry/exit barriers removed		
	OPTIMAL NATURAL RESOURCE MANAGEMENT Encourages sustainable private activity Protects public interest (environment) Biodiversity conservation Safeguards in productive activities Optimal air, water, land management		
	EFFECTIVE LEGAL SYSTEM Law and order Adequate recourse Dispute resolution Property rights		

Source: Framework developed by IEG, based on WBG CAS objectives in Peru.

20. **Stakeholder engagement.** A consultative approach, involving substantial interaction with both WBG staff and stakeholders in Peru will be sought throughout the evaluation process. Intensive consultations are aimed at improving IEG's understanding of the program; incorporating a broad range of perspectives in the evaluation; and enabling validation and substantiation of findings from documentation reviews. Stakeholders would include a broad range of government officials, private sector representatives, project beneficiaries, members of NGOs, academia and think-tanks, and other international development partners, particularly the Inter-American Development Bank and the Global Environmental Facility. Engagement, which would also include WBG operational team members and managers, will take several forms: one-on-one interviews, panel interviews, focus groups and workshops— each designed to catalyze learning and inform the evaluation. Following presentation of the report to the Committee on Development Effectiveness (CODE), further engagement of stakeholders through discussions of the findings and recommendations.

21. **Use of other related IEG evaluations.** Along with existing project evaluations, this evaluation will draw on existing IEG country and sector/thematic evaluations. This includes IEG's 2002 Country Assistance Evaluation (CAE) for Peru, which covered the period 1992-2001. The CAE concluded that Bank performance during the first half of the 1990s was commendable and that the Bank and other development partners played a critical role in advising and supporting the Fujimori administration on its stabilization and liberalization program. However, during the second half of the 1990s, the Bank's continued financing of projects that skirted necessary institutional reform gave the wrong signals to the government. Lessons and recommendations were that: (i) reconciliation at the macroeconomic level between sectoral needs and overall resource availability is imperative; (ii) if country commitment is weak, the Bank should build institutional development components into project and sector loans and condition disbursement on progress on the institutional front; and iii) increased investment in physical and human capital is essential to the long-term goal of sustained poverty reduction. IEG's CASCAR-Review of the FY03 CAS prepared in 2007 will also feed into the evaluation. In 2007, IEG completed an evaluation of Bank support for primary education in Peru from 1990 to 2005. The study found that Bank activities were appropriate to education sector conditions in the country at the time but that institutional development components were overly ambitious and that Bank assistance did not support development of a consensus around proposed reforms of school governance and administration. This evaluation will also draw on recently completed and on-going evaluations on the impact of WBG interventions in agriculture; an IEG-WB/IFC agriculture evaluation; project evaluations in the health sector; and the FY09 IEG-IFC Independent Evaluation of Development Results that focused on IFC Advisory Services.

22. **Challenges.** As the first fully integrated IEG country-level evaluation, the Peru evaluation is likely to face several challenges. These include:

- *Project objectives and evaluation methodologies.* The three institutions (WB, IFC and MIGA) retain distinct business models and evaluation methodologies. This evaluation does not propose to revisit the evaluation methodology of each institution, but rather to build on them to form an overall WBG development effectiveness assessment at the country level.

- *Process issues.* The process of conducting the evaluation is likely to confront some challenges. It will require interacting with the managements and staff of the three institutions, both in Washington and in the field. Following the experience of the recent IEG-wide Evaluation of the WBG's Guarantee Instruments, a coordinated response will be requested from the three management groups on the integrated IEG country evaluation.

Evaluation Team

23. The evaluation will be prepared by an IEG-wide team comprising Asita De Silva (Task Team Leader), Ethel Tarazona (Lead Advisor, based in Lima, Peru), Geoffrey Shepherd, David Berk, Andres Liebenthal, Jorge Garcia-Garcia, Maria Elena Pinglo, Carla Pazce, Sarwat Jahan, Ana Belen Barbeito, and Carlos Nunez. The team will draw on both international and locally-based consultants in Peru for inputs into the study, including Richard Webb. A panel of peer reviewers comprising both internal peer reviewers from the WBG as well as external peer reviewers will be appointed. The two peer reviewers for the Approach Paper were Dr. Miguel Martinez (Professor of the Universidad Nacional de Cuyo in Argentina, former IADB Vice President and former OED Staff) and Arup Banerji (Senior Advisor, IEGWB). The report will be prepared under the direction and guidance of Ali Khadr (Senior Manager, IEGCR) and Stoyan Tenev (Head, Macro Evaluation, IEG-IFC).

Schedule

24. The report will be submitted to CODE in May 2010. Milestones include:
- i. Learning Week with WBG Operational Teams: July 2009
 - ii. Approach Paper to CODE: August 2009
 - iii. Mission work in Peru: late August/September 2009
 - iv. Internal (IEG draft): December 2009
 - v. WBG Management Comments: January 2010
 - vi. Government Comments: March 2010
 - vii. Submission to CODE: May 2010