



1. Operation Information

Operation ID P156858	Operation Name PE Boost. Hum. Cap. and Productivity DPL
Country Peru	Practice Area (Lead) Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-85830	18-Feb-2019	1,250,000,000.00
Bank Approval Date	Closing Date (Actual)	
11-Feb-2016	30-Sep-2020	
	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	1,250,000,000.00	0.00
Revised Commitment	1,250,000,000.00	0.00
Actual	1,250,000,000.00	0.00

Prepared by Antonio M. Ollero	Reviewed by Clay Wescott	ICR Review Coordinator Jennifer L. Keller	Group IEGEC
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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The program development objective of Peru Boosting Human Capital and Productivity Development Policy Financing With a Deferred Drawdown Option (DPF-DDO) was "to support Peru's efforts to boost human capital and productivity by: (i) enhancing the education policy framework to enable better quality of skills, (ii) facilitating the entry, operation, and exit of firms; and (iii) reducing transaction costs in trade."



For purposes of this ICR Review, IEG parses the objectives into:

Objective 1 - To boost human capital and productivity by enhancing the education policy framework to enable a better quality of skills;

Objective 2 - To boost human capital and productivity by facilitating the entry, operation, and exit of firms; and

Objective 3 - To boost human capital and productivity by reducing transaction costs in trade.

b. Pillars/Policy Areas

The DPF-DDO had three pillars.

Pillar 1 - Enhancing the Education Policy Framework to Enable Better Quality of Skills supported: (a) the adoption of a new recruitment and promotion system for teachers and principals under the merit-based Teaching Career System; (b) the introduction of an extended school-day model for secondary schools; (c) the provision of performance-based financial incentives for sub-national school administrators; (d) the establishment of the General Directorate for School Infrastructure; and (e) the creation of the National Superintendence of University Education (SUNEDU) and the General Directorate of University Education (DIGESU).

Pillar 2 - Facilitating Entry, Operation, and Exit of Firms supported: (a) the introduction of business online registration by the National Superintendence of Public Registry (SUNARP); (b) the provision of financial incentives for large municipalities covering operating licenses for businesses; (c) the introduction of a risk-based classification system for technical safety inspections; (d) the adoption of measures empowering the National Competition and Consumer Protection Agency (INDECOPI) to sanction non-compliance with the national legal framework for business regulation; (e) the simplification of the withholding regime for value-added tax (VAT) payments; (f) the introduction of electronic auctions for asset foreclosures; (g) the creation of a registry for judicial delinquent debtors; and (h) the modification of the general law on insolvency.

Pillar 3 - Reducing Transactions Costs in Trade supported: (a) the modernization of the Customs Law to incorporate critical elements of the revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures and the Bali World Trade Organization (WTO) Trade Facilitation Agreement; (b) the elimination of all stamp duties for customs declaration to reduce trade transaction costs; and (c) the establishment of the National System for Quality and the National Quality Institute (INACAL) to enhance the system of metrology (scientific measurement), standardization, and accreditation of export products in support of enhanced export competitiveness.

c. Comments on Program Cost, Financing and Dates

Program Cost and Financing. The DPF-DDO was estimated to cost US\$1.25 billion at appraisal and was financed with an IBRD development policy loan of the same amount to the Republic of Peru. The loan was fully disbursed.

Dates. The Bank approved this stand-alone DPF-DDO on February 11, 2016, it became effective on April 28, 2016, and it closed on September 30, 2020, nineteen months after the original closing date of February 18, 2019.



3. Relevance of Design

a. Relevance of Objectives

Binding Constraints. This program aimed to help the government address "key bottlenecks" in three of six "priority areas for action" (micro-structural reforms) identified in the *Systematic Country Diagnostic* of February 2017 – raising human capital, reducing factor and product market rigidities, and improving government capacity, coordination, and law enforcement.

- The "low quality of services in education" was a critical bottleneck to raising human capital: (a) despite some progress, Peru still lagged other countries in student performance in Reading, Mathematics, and Science, according to the 2012 Programme for International Student Assessment (PISA) of the Organization for Economic Cooperation and Development (OECD) and there were significant disparities in performance among socio-demographic groups and across geographic regions; (b) the lack of qualified teachers posed a significant obstacle to improving the quality of education; (c) school infrastructure was particularly inadequate in rural areas; (d) although it rose lately, spending on education remained low by international standards.
- "Regulatory barriers to competition that hampered productivity and formalization" were critical bottlenecks to reducing factor and product market rigidities: (a) bureaucratic barriers to operate and compete, especially those posed by licenses and permits, was considered by formal firms as one of the top five constraints to growth, according to most enterprise surveys; (b) meanwhile, regulatory constraints accounted for half of the difference in labor informality between Peru and Chile (Loayza. 2016. "La productividad como clave del crecimiento y el desarrollo en el Perú y el mundo," Banco Central de Reserva, *Revista Estudios Económicos* 31); (c) regulatory barriers to competition were significant – Peru ranked poorly among Latin America and Caribbean countries in terms of the costs to start and close a business; (d) many of the laws, rules, and procedures which hindered entry and competition and raised firms' operating costs occurred at the subnational level – investment projects worth around US\$670 million were stalled by one-to-three years because of regulatory restrictions and arbitrary actions by local authorities (Goodwin, Licetti, and Villaran. 2015. "Peru-Tackling Regulatory Barriers to Competition and Local Economy Development". World Bank).
- The "low level of government coordination and red tape" was a key bottleneck to improving government capacity: (a) inefficiencies in government service delivery reflected a lack of coordination among, and within, institutions; and (b) the policy coordination failures surfaced in business environment and science, technology, and innovation. Moreover, both the "regulatory barriers to competition" and the "low level of government coordination" impinged on the country's export performance: (a) commodity exports, predominantly of hydrocarbons, minerals, and metals, continued to account for 70 percent of total exports well into 2014-15, and total exports, for 25 percent of GDP; (b) non-mining firms traded very little, with most firms not integrated or poorly integrated into global value chains; (c) the economy lost revealed comparative advantage (RCA) in three, but gained RCA in only one, medium-technology sector in 2000-2010; (d) in contrast, a special economic regime for agribusiness had helped drive an eleven-fold increase in agribusiness exports since 2000, offering a model for business-friendly policies that could help expand non-traditional exports.

Country Priorities. The program objective was consistent with the development priorities of the government.

- The *National Education Project to 2021* (NEP) envisioned a renewed educational system that would help build a modern, democratic, and efficient state. Therefore, the program objective to enhance the



education policy framework was consistent with the strategic objectives of the NEP, including equal educational opportunities for all citizens, relevant and quality learning delivered by educational institutions, well-qualified professional teachers, and higher quality education for national development.

- The *National Competitiveness Agenda 2014-2018* (NCA) aimed to increase competitiveness and foster formal employment. The program objective to enhance the education policy framework was consistent with the second of nine NCA strategic objectives, "to strengthen human capital," in particular by improving the quality of education, improving teachers' performance through better incentive mechanisms, implementing the New University Law, and increasing investment in school infrastructure, especially in remote areas. The project objective to facilitate the entry, operation, and exit of firms was consistent with the sixth NCA objective, "to develop conditions for a productive business environment," in particular by eliminating existing barriers to entrepreneurship, reducing the complexity of the regulatory procedure, and eliminating the administrative burden on start-ups. Finally, the project objective to reduce transaction costs in trade was aligned with the seventh NCA objective, "to facilitate conditions for foreign trade in goods and services."

Bank Group Strategy. The program objective was aligned with the Bank Group strategy in Peru at appraisal and closing.

- The *Country Partnership Strategy for the Republic of Peru for the Period FY12-FY16* (CPS) committed Bank Group support to the country's development strategy organized around four "strategic objectives" – increased access and quality of social services for the poor, connecting the poor to services and markets, sustainable growth and productivity, and improved public sector performance for greater inclusion. The program objective on education policy was aligned with the first CPS strategic objective, in particular with two "results areas" – "a national strategy for a more efficient and results-oriented education system" and "an education model adjusted to most disadvantage context," as well as with the third CPS strategic objective, in particular with three results areas – "increased number of higher education programs and institutions with accreditation," "policy and regulation framework for safe public health and education infrastructure," and "investment projects pipeline generated for reinforcement of public education and health infrastructure in metropolitan Peru." In addition, the program objectives to facilitate the entry, operation, and exit of firms and reduce transaction costs in trade were aligned with the fourth CPS strategic objective, particularly with the results area "administrative bottlenecks removed to speed up private investment development."
- The *Country Partnership Framework for the Republic of Peru for the Period FY17-FY21* (CPF) committed Bank Group support to the government's development strategy organized around three "pillars" – productivity for growth, services for citizens across the territory, and natural resource and climate change risk management. The program objectives to facilitate the entry, operation, and exit of firms and reduce transaction costs in trade were aligned with the first CPF pillar, in particular with the objective "to ease barriers to formalization."

b. Relevance of Prior Actions

Rationale



Objective 1 - Boost Human Capital and Productivity by Enhancing the Education Policy Framework to Enable a Better Quality of Skills

PA1 - The Borrower, through MINEDU, has increased the teaching quality of education in economically disadvantaged areas by introducing a balanced and equitable system for recruiting and promoting qualified teachers and principals within the merit-based Teaching Career System, as evidenced by Resolution of the General Secretariat No. 813-2014-MINEDU of June 16, 2014, and Vice-Ministerial Resolution No. 021-2015-MINEDU of May 15, 2015.

PA2 - The Borrower, through MINEDU, has improved the school graduates' learning outcomes by: (i) introducing an extended school-day model for secondary education that strengthens the teaching of Mathematics, Science, English language, and soft skills; and (ii) creating performance-based financial incentives for subnational government institutions that manage schools to improve the learning environment in schools, as evidenced by Ministerial Resolution No. 451-2014-MINEDU of September 30, 2014, and Ministerial Resolution No. 591-2014-MINEDU of December 30, 2014.

PA3 - The Borrower, through MINEDU, has created the General Directorate for School Infrastructure within MINEDU, to foster the participation of the private sector in school infrastructure upgrading, and to separate the functions of policy formulation and planning from construction, as evidenced by Supreme Decree No. 001-2015-MINEDU published in the Official Gazette on January 31, 2015.

PA4 - The Borrower, through MINEDU, has improved the framework of university education by creating the National Superintendence of University Education (Superintendencia Nacional de Educacion Universitaria - SUNEDU) and the General Directorate of University Education (Direccion General de Educacion Superior Universitaria - DIGESU) within MINEDU, to guarantee that university programs and institutions meet quality standards and to lead the implementation of the university reform, as evidenced by Law No. 30220 published in the Official Gazette on July 9, 2014; Supreme Decree No. 012-2014-MINEDU published in the Official Gazette on December 31, 2014; and Decree No. 001-2015-MINEDU published in the Official Gazette on January 31, 2015.

Objective 2 - Boost Human Capital and Productivity by Facilitating Entry, Operation, and Exit of Firms

PA5 - The Borrower has adopted policies for the facilitation of business entry of firms by: (i) integrating online registration procedures into the system of public registries under the management of SUNARP; (ii) creating financial incentives for large municipalities to deliver operating licenses faster than required by Law No. 28,976 of February 4, 2007; and (iii) introducing a more effective risk-based classification system for technical safety inspections for new firms, as evidenced by the issuance of Supreme Decree No. 007-2014-JUS published in the Official Gazette on September 13, 2014, Supreme Decree No. 015-2014-EF of January 16, 2014, and Legislative Decree No. 1200 published in the Official Gazette on September 23, 2015.

PA6 - The Borrower has taken measures to limit the discretion of all government bodies to impose regulations and administrative procedures outside the national legal framework, by strengthening INDECOPI's power to sanction non-compliance with the national legal framework, as evidenced by the enacting of Law No. 30230 published in the Official Gazette on July 12, 2014, modifying Law 27444 of April 10, 2001 (Ley de Procedimiento Administrativo General), and Legislative Decree No. 1212 published in the Official Gazette on September 24, 2015.

PA7 - The Borrower has taken measures to simplify the withholding regime for VAT payments to reduce operating costs for firms, as evidenced by the enactment of Law 30230 published in the Official Gazette on July 12, 2014, modifying Law 29173 of December 23, 2007.

PA8 - The Borrower has adopted policies to facilitate the exit of firms by: (i) introducing electronic auctions for asset foreclosures to reduce costs and risks of insolvency; (ii) creating the registry for judicial delinquent debtors, simplifying the legal framework for insolvency; and (iii) modifying the general law of



the insolvency system in terms of quality and registry of administrators and liquidators, simplification of administrative procedures under the responsibility of INDECOPI, and the system of offenses and penalties, as evidenced by the enactment of Law No. 30229 of July 12, 2014, Law 30201 published in the Official Gazette on May 28, 2014 and Legislative Decree No. 1189 published in the Official Gazette on August 21, 2015.

Objective 3 - Boost Human Capital and Productivity by Reducing Transactions Costs in Trade

PA9 - The Borrower has improved the customs regime through: (i) the modernization of the Borrower's Custom Law enacted by Legislative Decree No. 1053 published in the Borrower's Official Gazette on June 27, 2008 by introducing key elements of the revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures of February 3, 2006 and the Bali WTO Trade Facilitation Agreement of November 27, 2014, particularly improving the authorized economic operators' regime, and adopting a more targeted system of fines; and (ii) the elimination of all stamp duties for Customs Declaration reducing transaction costs and in alignment with the Bali WTO Trade Facilitation Agreement, as evidenced by the enactment of Legislative Decree No. 1235 published in the Official Gazette on September 26, 2015 and Law 30230 published in the Official Gazette on July 12, 2014.

PA10 - The Borrower has established the National System for Quality and INACAL to enhance the system of accreditation, standardization and metrology, supporting export competitiveness and access to markets, as evidenced by the enactment of Law No. 30224 published in the Official Gazette on July 11, 2014.

Objective 1 - Enhance the Education Policy Framework to Enable a Better Quality of Skills

- **PA1.** The quality of the teaching staff, vital to the quality of education, was poor. Law 2994 (*Teacher Reform Law*) of 2012 adopted a merit-based system for the hiring and promotion of tenured teachers but lacked incentives to attract teachers and principals to poorer areas outside of Lima and Callao. In addition, 70-90 percent of teachers in rural areas were employed as contract teachers and not covered by the Teaching Career System. This prior action introduced an algorithm-based system setting the location for promotion slots and new tenure positions, and open them up to competition. In addition, underserved regions would be allocated a quota for entry-level and mid-level positions. These incentives would encourage qualified teachers to compete for higher level posts outside of Lima and Callao. However, it might still be that additional economic incentives, like pay differentials and hardship allowances would be needed to attract the best qualified teachers. Therefore, the relevance of PA1 is rated **moderately satisfactory**.
- **PA2.** Learning outcomes were inferior: (a) despite higher net enrollment rates in secondary schools (78 percent in 2009 from 69 percent in 2000), the quality of education remained deficient across the board, according to the 2012 PISA; (b) only 33 percent of students in secondary schools (versus 83 percent in the OECD) reached the basic PISA level ("Level 2") of proficiency for Reading Comprehension; (c) only 25 percent of 15-year-olds (versus 77 percent in the OECD) reached the basic level ("Level 2") of proficiency in Mathematics. This prior action would improve learning outcomes: (a) the *extended school-day reform* would add 10 hours to the weekly school schedule focused on strengthening instruction in English, Mathematics, and Science; (b) the link between extended school-day reform and learning outcomes was provided by a study which found that increasing the number of teaching hours in public high schools raised Mathematics and Reading scores on standardized tests by the end of the first year (Aguero and Favara. 2021. "Do More School Resources Increase Learning Outcomes? Evidence from an Extended-Day School Reform"); and (c) the *performance-based incentives for the subnational agencies* would provide financial rewards for the Regional Education Directorate (DRE) and the Local



Education Management Unit (UGEL) to include learning outcomes in their institutional objectives. Therefore, the relevance of PA2 is rated **satisfactory**.

- **PA3.** Education infrastructure was deficient: (a) 75 percent of school buildings lacked ownership titles, 34 percent lacked access to water or sanitation, and 69 percent would not survive a high-magnitude earthquake; (b) the infrastructure was poorer in rural areas, where 900,000 students did not have access to basic facilities; (c) the institutional responsibilities for infrastructure overlapped among three levels of government and the private sector did not participate in infrastructure investment. This prior action would reform institutional responsibilities to meet infrastructure deficiencies: (a) a new General Directorate for School Infrastructure (DIGEIE) would be responsible for infrastructure planning; (b) the DIGEIE would facilitate private sector participation in infrastructure construction and maintenance. However, while it created a new body with a focused mandate, this prior action did not offer a more concrete program for mobilizing private investment in education infrastructure. The reform of the legal and institutional framework for public-private partnerships (PPPs) had not been completed at the time of this operation, rendering PPP vehicles inaccessible for private investment in education infrastructure. Therefore, the relevance of PA3 is rated **moderately unsatisfactory**.
- **PA4.** The quality of higher education was low: (a) the country only had a few institutions of comparatively high quality; (b) on average, the quality of higher education was low and marked by wide variations across programs and institutions; (c) weak institutional capacity, low qualification of professors (only 40 percent had post-graduate degrees), and outdated academic programs marred higher education. This prior action would institute a quality assurance system for higher education: (a) Law 30220 (*New University Law*) would enable the government to regulate the education sector better, accelerate the quality assurance process, and clarify the responsibility of the MINEDU in higher education; (b) the SUNEDU would license and issue operation permits to universities based on the latter's degree of compliance with binding quality standards in eight areas (*Las Condiciones Basicas de Calidad* [<https://www.sunedu.gob.pe/8-condiciones-basicas-de-calidad/>]) – academic objectives and study plans for degrees and academic titles issued, educational offerings compatible with the academic objectives, infrastructure and facilities, academic research programs, qualified teaching staff, complementary educational services, job placement programs, and transparency mechanisms; and (c) the DIGESU would ensure the efficient supervision of higher education. Therefore, the relevance of PA4 is rated **satisfactory**.

Objective 2 - Facilitate Entry, Operation, and Exit of Firms

- **PA5.** Administrative processes posed barriers to business entry: (a) 20 percent of firms in Peru (versus 5 percent in the OECD) cited business licenses and permits as a significant constraint to business; (b) the time required to start a business was 26 days in 2014 (versus median 14 days among 176 countries); (c) the time spent to obtain a license from the municipality was 15 days (technical inspections consumed part of that time). This prior action would streamline processes to facilitate business entry: (a) online registrations (proved to be effective in promoting entry into the formal sector, according to the Bank's *World Development Report 2016 - Digital Dividends*) would be shifted from the Prime Minister's Office to the SUNARP – the SUNARP would be more efficient than the Prime Minister's Office at managing online business registrations because it maintained an extensive back-office of notaries, had direct communication lines to the tax and customs administration, and operated an integrated technology system using electronic signatures; (b) large municipalities would be offered incentives to issue operating licenses within 10 days; and (c) safety inspections would be shifted to a risk-based system that focused on firms whose plant, structures, and machinery posed significant safety hazards. Therefore, the relevance of PA5 is rated **satisfactory**.



- **PA6.** Regulations hindered business operations: (a) complaints against bureaucratic barriers rose sharply in 2014; (b) however, the authority of the INDECOPI to reduce regulatory barriers and promote competition was constrained by inadequacies in the legal framework; (c) moreover, 75 percent of the complaints against bureaucratic barriers in 2013 were related to the actions of local governments, with municipalities controlling essential aspects of the regulatory environment and imposing most of the barriers for the operations of local businesses. This prior action would improve the legal framework for business regulation: (a) the INDECOPI's power to sanction non-compliance with national laws would be strengthened – the INDECOPI would now have the authority to sanction rules, procedures, and fees at any level of government; (b) at the national level, the discretion of agencies to impose regulations outside of the national legal framework would be restricted, with regulatory bodies issued mandates to align their processes with best practice – public officials who imposed regulatory barriers declared illegal would be sanctioned; and (c) at the sub-national level, the discretion of local governments to discriminate among firms in the application of business rules and regulations would be curtailed. Accordingly, the relevance of PA6 is rated **satisfactory**.
- **PA7.** The withholding system for VAT payments was inefficient: (a) the *perception regime* required a seller to collect a portion of the VAT ultimately due from the buyer, but before the delivery of a good to the buyer; (b) the *withholding regime* required the buyer (usually a large firm) to retain a portion of the VAT that would have otherwise been left with the seller (usually a small firm) and forward the amount directly to the National Customs and Tax Administration Superintendence (SUNAT); (c) the *deduction regime* required a buyer to deposit a portion of the VAT in an account of the seller with the National Bank. This prior action would simplify the VAT withholding regime and shift more goods toward the regular VAT payment channels: (a) the number of goods subject to the *perception regime* would be reduced from 41 to 12; (b) for the *deduction regime*, from 39 to 26; and (c) deduction rates would be reduced for the 26 goods remaining in the *deduction regime*. However, the impact of these reforms on VAT revenues does not appear to have been firmly settled at appraisal. According to the Central Reserve Bank of Peru, as cited in the Program Document (page 21), "[the] reforms could potentially reduce VAT revenues by up to 800 million [Peruvian] Soles (about US\$250 million)." However, Program Document (page 21) contended that the reforms would not reduce VAT revenues if the dues and payments were properly audited, i.e., "if [the] tax authorities used the historical transaction information stored in the accounts at the National Bank or SUNAT effectively for tax auditing." Therefore, the relevance of PA7 is rated **moderately satisfactory**.
- **PA8.** Administrative processes posed hurdles to business exit: (a) the bankruptcy regime delayed the winding down of the least productive firms; (b) it raised the cost of insolvency; and (c) reduced the value of asset recovery – only 28.5 percent of asset values were recovered on average in Peru in 2014 (versus 36 percent in Latin America and 72 percent in the OECD). This prior action would facilitate winding down businesses: (a) Law 30229 (*Law Adjusting the Use of Information and Communications Technologies in the Judicial Auction System*) would modify the general law on insolvency, facilitate the exit process, and increase the recovery rate of insolvent firms' assets; (b) Law 30201 (*Law Establishing the Registration of Delinquent Debtors*) would create the Registry for Judicial Delinquent Debtors, which would be public, free of charge, and managed by the judiciary; and (c) Legislative Decree 1189 (*Modifying Law 27809, General Law of the Bankruptcy System*) would adopt more stringent criteria for liquidators and administrators, separate business from non-business disputes, and set penalties for non-compliance with reporting requirements. Therefore, the relevance of PA8 is rated **satisfactory**.

Objective 3 - Reduce Transactions Costs in Trade

- **PA9.** Customs services were deficient: (a) Peru launched the Authorized Economic Operators (AEO) regime in 2013 – the framework promoted by the World Customs Organization to secure and facilitate



global trade – but only 21 firms had been certified as AEOs (qualified to obtain advanced customs clearance) by 2015, servicing just 2 percent of the country’s exports; (b) the system of fines and penalties imposed by the customs office did not distinguish between fraud and administrative errors; and (c) stamp duties on documents imposed an additional administrative burden on firms. This prior action would reduce the administrative burden and transactions costs in trade: (a) Legislative Decree 1235 (*Amending the General Customs Law*) would now include critical elements of the 2006 Kyoto Convention on the Simplification and Harmonization of Customs Procedures and the 2014 Bali WTO Trade Facilitation Agreement; (b) the amended Customs Law would improve the AEO regime, simplify accreditation, and adopt a targeted system of fines; and (c) Law 30230 (*Law Establishing Tax Measures, Simplification of Procedures and Permits for the Promotion and Revitalization of Investment*) would scrap all stamp duties for customs declarations. Therefore, the relevance of PA9 is rated **satisfactory**.

- **PA10.** The export accreditation system was lacking: (a) the country lacked an internationally-recognized system of technical standards and quality accreditation for international trade; (b) mandates over technical standards overlapped between the INDECOPI and line ministries; (b) there was no national system for quality accreditation, with few laboratories for product testing. This prior action would upgrade the country's system of technical product standards, testing laboratories, and quality accreditations to help improve the competitiveness of exporters: (a) the government would adopt the *National Policy on Quality* which would establish a system to enhance the competitiveness, productivity, and trade of goods and services; (b) Law 30224 (*Law Creating the National System for Quality and the National Quality Institute*) would unify the disconnected systems for quality accreditation and trade facilitation and create the INACAL as the sole agency issuing technical regulations, establishing testing laboratories, and certifying quality standards; (c) the adoption of the *National Policy on Quality* and the creation of the INACAL would be included as essential parts of the *National Competitiveness Agenda 2014-2018*, the five-year program to diversify the economy, facilitate transport connectivity, and foster formal employment. Therefore, the relevance of PA10 is rated **satisfactory**.

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

Results Indicator	Associated Prior Action	Relevance Rating	Baseline	Target	Actual Value	Actual Change in Results Indicator Relative to Targeted Change	Achievement Rating
Objective 1 - To boost human capital and productivity by enhancing the education policy framework to enable a better quality of skills							



RI1 - Increase the share of programmed merit-based promotions and appointments for teachers and school principals within the Teaching Career outside Lima and Callao	PA1	Moderately Satisfactory	60 percent (2014)	80 percent (2020)	75 percent (2019)	75 percent of targeted change	Substantial
RI2 - Increase in the proportion of students that attain the Level 2 or higher for Science, Mathematics and Reading	PA2	Satisfactory	41.5 percent Science 33.9 percent Mathematics 46.1 percent Reading (2015)	44.5 percent Science 36.9 percent Mathematics 49.1 percent Reading (2018)	45.5 percent Science 39.7 percent Mathematics 45.7 percent Reading (2018)	133 percent of targeted change Science 193 percent of targeted change Mathematics -13 percent of targeted change Reading	Substantial
RI3 - Increase private sector investment (commitments through signed contracts for works for taxes and PPPs) in the construction and/or maintenance of public schools	PA3	Moderately Satisfactory	0 (2014)	US\$300 million between 2015 and 2020 (2020)	US\$ 23.9 million between 2014 and 2017 (2020)	8 percent of targeted change	Negligible
RI4 - Increase in the number of universities and university programs under review to be licensed	PA4	Satisfactory	0 percent (2014)	100 percent (2020)	95 percent (2020)	95 percent of targeted change	Substantial



Objective 2 - To boost human capital and productivity by facilitating entry, operation, and exit of firms							
RI5 - Increase in the number of new firms incorporated online in the System of Online Registration (Sistema de Intermediación Digital - SID)	PA5	Moderately Satisfactory	0 (2014)	40,000 (2020)	41,778 (2019)	104 percent of targeted change	High
RI6 - Increase in the number of bureaucratic barriers voluntarily removed from the legal framework by entities of the Public Administration due to an action of INDECOPI	PA6	Satisfactory	91 (2013)	6,000 (2020)	17,555 (2019)	296 percent of targeted change	High
RI7 - Reduction in the average amount of monthly withholdings (which would increase liquidity for firms) due to the system	PA7	Satisfactory	0 (2014)	180,000,000 (2020)	42,000,000 (May 2020)	23 percent of targeted change	Negligible
RI8 - Increase the number of electronic auctions for asset foreclosures	PA8	Moderately Satisfactory	0 (2015)	3,500 (2020)	4,627 (2019)	132 percent of targeted change	Substantial
Objective 3 - To boost human capital and productivity by reducing transactions costs in trade							



RI9 - The time to import (measured as TTLM - total time to release good imports) (decline of 40% by 2020 compared to 2014)	PA9	Moderately Unsatisfactory	155 hours, monthly average (2014)	93 hours, monthly average (2020)	65 hours, monthly average (June 2020)	145 percent of targeted change	Substantial
RI10 - Increase in the number of Conformity Assessment Bodies for products, processes, and management systems	PA10	Moderately Unsatisfactory	115 (2014)	190 (2020)	228 (March 2020)	151 percent of targeted change	Substantial

Objective 1 - Enhance the Education Policy Framework to Enable a Better Quality of Skills

- **RI1** – Share of programmed merit-based promotions and appointments for teachers and school principals within the Teaching Career System outside of Lima and Callao – was mainly adequate to measure the extent to which disparities in the availability of teachers across geographic locations would have been remedied as a result of PA1. An increase in the indicator would imply a reduction in the locational imbalances in teacher deployment that previously disadvantaged peripheral and poorer areas. However, this indicator omits any reference to the sizable number of contract teachers in rural areas. The inclusion in the merit-based Teaching Career System would have been similarly vital to addressing imbalances in teacher deployment across geographic locations. Therefore, the relevance of RI1 is rated **moderately satisfactory**.
- **RI2** – Proportion of students that attain the "Level 2" or higher for Science, Mathematics and Reading – was fully adequate to measure how much learning outcomes in secondary schools would have improved by adding a total of 10 hours of schooling per week, devoted principally to Reading, Mathematics, and Science, and providing performance-based incentives to sub-national bodies to improve the learning environment. Accordingly, the relevance of RI2 is rated **satisfactory**.
- **RI3** – Private sector investment (commitments through signed contracts for "works for taxes" and PPPs) in the construction and/or maintenance of public schools – was mainly adequate to measure the extent to which the newly-created General Directorate for School Infrastructure would have raised private sector participation in the provision of infrastructure for education ("works for taxes" is a scheme in Peru by which private companies execute priority public works in exchange for compensatory reductions in their income tax liability). Measuring the value of private investment, the indicator lacked the equivalent target on the infrastructure volume to be built (e.g. the number of school buildings constructed or rehabilitated). Hence, the degree to which the



shortfall in infrastructure would have been closed cannot be ascertained. Moreover, private investment was narrowly defined to mean "commitments" rather than "actual outlays or expenditures," making the results target weaker than it appears. Nevertheless, the relevance of RI3 is rated **moderately satisfactory**.

- **RI4** – Number of universities and university programs under review to be licensed – was fully adequate to measure the degree to which universities would have met the new quality assurance standards for higher education set by the newly-created SUNEDU and the DIGESU. Assuming that the standards were sufficiently stringent (a license, granted after a systematic review, would be valid for 6-10 years and an institution denied a license must cease operations in 2-3 years), then the attainment of this target would reflect an enhancement to the quality of university education as set in the program objective. Therefore, the relevance of RI4 is rated **satisfactory**.

Objective 2 - Facilitate Entry, Operation and Exit of Firms

- **RI5** – Number of new firms incorporated under the System of Online Registration – was mainly adequate to measure the result of one of three actions to facilitate business entry – the integration of online registration procedures into the system of public registries managed by SUNARP. However, there were no indicators to measure the results of two other actions – the provision of incentives for large municipalities to issue operating licenses within 10 days and the adoption of a risk-based classification system for the safety inspection of new firms. Therefore, the relevance of RI5 is rated **moderately satisfactory**.
- **RI6** – Number of bureaucratic barriers voluntarily removed from the legal framework by the Public Administration entities due to an action of INDECOPI – was fully adequate to measure the result of limiting the discretion of government agencies to impose regulations outside of the national legal framework. The intended result of the legislative and administrative reform was the removal of those bureaucratic barriers to the operations of businesses that were extraneous to the national regulatory framework. Therefore, the relevance of RI6 is rated **satisfactory**.
- **RI7** – Average amount of monthly withholdings (which would increase liquidity for firms) due to the system – was fully adequate to measure simplifying the withholding system for VAT payments. The intended result of the reform was the shift toward more "regular" VAT payment channels and, hence, the reduction of the amounts of VAT payments withheld from businesses. Therefore, the relevance of RI7 is rated **satisfactory**.
- **RI8** – Number of electronic auctions for asset foreclosures – was mainly adequate to measure the result of one of three actions to facilitate business exit – the introduction of electronic auctions for asset foreclosures. However, there were no indicators to measure the results of two other actions – the creation of a registry for judicial delinquent debtors, and the modification of the general law on insolvency, which, among others, aimed to upgrade the quality of liquidators and administrators. Therefore, the relevance of RI8 is rated **moderately satisfactory**.

Objective 3 - Reduce Transactions Costs in Trade

- **RI9** – Total time to release good imports – only partly measured the collective effect of three actions meant to reduce trade transactions costs – harmonizing customs procedures with international norms, improving the AEO regime, and scrapping stamp taxes on customs declarations. A material reduction in the time it would take the customs office to release imported goods would signify an improvement in customs processes and hence a decrease in trade transactions costs. However, this indicator would not reflect the result of improvements to the



AEO regime or the adoption of the targeted system of fines under Legislative Decree 1235. Therefore, the relevance of RI9 is rated **moderately unsatisfactory**. Additional indicators, including the number of exporters, importers, and shippers acting as AEOs, would reflect the results of the other prior actions.

- **RI10** – Number of Conformity Assessment Bodies for products, processes, and management systems – only partly measured the result of actions to enhance accreditation, standardization, and metrology. An increase in the number of these certification bodies, inspections units, and testing laboratories that evaluate compliance with technical regulations and consensus standards would only partially reflect the result of PA10. The indicator does not measure the extent to which the volume of accreditation, standardization, and product measurement would have expanded with the increase of these service providers. The relevance of RI10 is rated **moderately unsatisfactory**. Indicators, such as the number of quality assurance certifications issued by Conformity Assessment Bodies, would better measure of the degree to which the system of accreditation, standardization, and metrology was enhanced.

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To boost human capital and productivity by enhancing the education policy framework to enable a better quality of skills

Rationale

- The share of programmed merit-based promotions and appointments for teachers and school principals within the Teaching Career System outside of Lima and Callao (where the number of teachers was 320,000 in both urban and rural areas, compared to 80,000 in Lima and Callao, also both urban and rural) rose from 60 percent in the baseline to 75 percent by closing, almost achieving the target of 80 percent. Therefore, the achievement of the target is rated **substantial**. Additionally, the government started to consider "regularizing" contract teachers, but based on merit, according to the Bank staff.
- The proportion of students who attained the "Level 2" or higher score for Science increased from 41.5 percent in the baseline to 45.5 percent by closing, exceeding the target of 44.5 percent. For Mathematics, the proportion increased from 33.9 percent to 39.7 percent, exceeding the target of 36.9 percent. For Reading, the proportion decreased from 46.1 percent to 45.7 percent, failing to meet the target for an increase to 49.1 percent. Therefore, the achievement of the target is rated **substantial**.
- Private sector investment (defined as commitments through signed contracts for "works for taxes" and PPPs) in the construction and/or maintenance of public schools amounted to US\$23.9 million between 2014 and 2017. However, there is no data for the period from 2018 to 2020, and thus insufficient evidence to determine if the government met the investment target of US\$300 million between 2015 and 2020. Therefore, the achievement of the target is rated **negligible**.



- The number of universities and university programs under review to be licensed rose from a baseline of 0 percent to 95 percent (94 of 99 university programs) by closing, almost meeting the target of 100 percent. The remaining five of the 99 university programs were awaiting licensing at closing. Therefore, the achievement of the target is rated **substantial**. Post-closing, three of the five university programs under review were granted licenses while two were denied licenses, according to the Bank staff.

Rating

Moderately Satisfactory

OBJECTIVE 2

Objective

To boost human capital and productivity by facilitating the entry, operation, and exit of firms

Rationale

- The number of new firms incorporated online in the System of Online Registration (*Sistema de Intermediación Digital*) rose from 0 in the baseline to 41,778 by closing, exceeding the target of 40,000. Therefore, the achievement of the target is rated **high**.
- The number of bureaucratic barriers voluntarily removed from the legal framework by Public Administration entities due to actions by INDECOPI rose from 91 in the baseline to 17,555 by closing, exceeding the target of 6,000. Therefore, the achievement of the target is rated **high**.
- The average amount of monthly withholdings due to the system – which would increase liquidity for firms – rose from US\$0 in the baseline to US\$42 million by closing, failing to meet the target of US\$180 million. Therefore, the achievement of the target is rated **negligible**.
- The number of electronic auctions for asset foreclosures rose from 0 in the baseline to 4,627 by closing, exceeding the target of 3,500. However, because the results indicator does not completely measure the impact of all facets of the prior action, the achievement of the target is rated **substantial** instead of **high**.

Rating

Moderately Satisfactory

OBJECTIVE 3

Objective

To boost human capital and productivity by reducing transaction costs in trade.

Rationale

- The "time to import" – measured as *tiempo total de liberación de mercancías*, the total time to release goods imports – declined from a monthly average of 155 hours in the baseline to a monthly average of 65 hours by closing, exceeding the target for a reduction to a monthly average of 93 hours. However, despite exceeding the target, the achievement is rated **substantial** rather than high because of



shortcomings with the results indicator. Although not included as a results indicator, the number of AEOs rose from 21 in the baseline to 280 by closing, according to the Bank staff, providing additional evidence of the efficacy of PA9 to achieve the objective to reduce the transaction costs in trade.

- The number of Conformity Assessment Bodies for products, processes, and management systems rose from 115 in the baseline to 228 by closing, exceeding the target of 190. However, despite exceeding the target, the achievement is rated **substantial** rather than high because of shortcomings with the results indicator. The number of Conformity Assessment Bodies increased further post-closing to 263 by 2021. Although not included as a results indicator, the number of firms with International Organization for Standardization (ISO) certifications issued by Conformity Assessment bodies rose from 1,981 in the baseline (2016) to 3,774 by closing, according to the Bank staff, providing additional evidence of the efficacy of PA10 to achieve the objective to reduce the transaction costs in trade.

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

With the efficacy of the first, second, and third objectives rated moderately satisfactory, the overall efficacy of this operation is rated moderately satisfactory.

Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

The relevance of the prior actions is rated satisfactory. The four prior actions for the objective to enhance the education policy framework were satisfactory or moderately satisfactory. The same holds for the four prior actions for the objective to facilitate the entry, operations, and exit of firms, while the two prior actions for the objective to reduce transactions costs in trade were both satisfactory. The overall efficacy is rated moderately satisfactory. The program either exceeded or mostly achieved three of four results targets for the objective to enhance the education policy framework. The same holds for three of four results targets for the objective to facilitate the entry, operations, and exit of firms, while the program exceeded the two results targets for the objective to reduce transactions costs in trade. The outcome of this operation is rated moderately satisfactory.



a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

Political Risk. Political risk to the sustainability of the development outcomes of this operation may arise from various sources.

- According to the ICR (page 27), measures to enhance the accountability of teachers were unpopular with teachers' unions. With the teachers unions gaining newfound political power under the current administration, any attempt to derail teacher accountability measures would pose risks to teacher reform under the first objective.
- The omnibus nature of Law 30230 embroiled this operation in challenges to other provisions of the legislation, the enactment of which was part of PA6. For example, in October 2017, two local Indigenous organizations filed a Request for Inspection with the Bank's Inspection Panel, claiming harm caused by the passage of Law 30230. Although conceding that the law simplified doing business processes, the complainants contended that the law significantly weakened environmental and social regulations in Peru, "reducing or eliminating the government's capacity to guarantee the territorial rights of Indigenous peoples and prevent local communities from being affected by oil spills and other environmental harms caused by extractive industries." The Inspection Panel did not register the request, responding that this operation neither supported Law 30230 in its entirety, nor any of the provisions which were alleged to impact the environment and land rights negatively, but only those provisions that pertained to the reduction of bureaucratic barriers related with INDECOPI, the withholding of VAT, the modernization of the Customs Law, and the elimination of stamp duties on customs declarations. Complaints against environmental provisions of the omnibus Law 30230 muddles public support for those parts of the legislation that advanced the second and third objectives of this operation.
- Electoral politics and the chronic political polarization in Peru typically raise the intensity of political risk to reform programs. For now, however, it does not appear that either the ruling or the opposition political parties oppose the development objectives of this operation. However, at the sub-national level, opposition by local governments to the incursions by the INDECOPI into their regulatory powers poses risks to gains made under the second objective of this operation.

Institutional Capacity Risk. This operation supported the creation of several new government bodies – the General Directorate for School Infrastructure, SUNEDU, DIGESU, and INACAL – the organizational and technical capacity of which would have to be progressively built up over time to enable them to fulfill their mandates. Continuing technical assistance and advisory services would help mitigate the institutional capacity risks expected in newly created organizations, according to the Program Document (page 33). Otherwise, the sustainability of outcomes achieved under the first and second objectives would be at risk.

8. Assessment of Bank Performance

a. Bank Performance – Design



Rationale

Analytic Foundations. The design of this program was informed by analytic work produced by the Bank, including various background papers prepared for the flagship report, *Peru - Building on Success: Boosting Productivity for Faster Growth* (World Bank, 2015). The program design was also underpinned by technical assistance provided by the Bank and the IFC to Peru in the policy areas supported by this operation.

- Pillar 1 – “Giving Peru a Productivity Boost: Towards a System of Continuous Education and Training,” “XXI Century Challenges in Education in Peru,” “Innovation and Firms’ Productivity in Peru,” “Tertiary Education in Peru,” and *Analysis of School Trajectories, Career Choice, and Insertion into the Peruvian Labor Market* (World Bank, 2010) informed PA1–PA4. *Analysis of School Trajectories, Career Choice, and Insertion into the Peruvian Labor Market* traced the mismatch between higher education and the labor market – 60 percent of university graduates did not work in their area of academic training and specialization – to the poor relevance and low quality of university education. The paper advocated for quality in higher education. The prior action enacting the New University Law and creating the SUNEDU and DIGESU would institute quality assurance system for university education.
- Pillar 2 – “Investment Climate and Competitiveness in Peru” and “Peru - Tackling Regulatory Barriers to Competition and Local Economy Development” informed PA5–PA8. Technical assistance was obtained from the: Strategic Plan for the Judiciary Advisory Services (P152242, FY2015), Effectiveness of Competition Policy Advisory Services (P152834, FY2015), and Improving Technical Security Inspections for Business Entry (IFC 600550, FY2015). “Peru - Tackling Regulatory Barriers to Competition” found that a third of all municipalities did not comply with the national legal framework for issuing operating licenses to business establishments. This included municipalities that “outrightly refused to issue operating licenses or construction permits to new establishments to protect local incumbents.” This finding about anti-competitive behavior by local regulators prompted the prior action to limit the discretion of local governments to impose rules and procedures that contravened competition objectives.
- Pillar 3 – “The Role of Imports for Exporter Performance in Peru” and “Services Trade Performance and Productivity in Peru: A Comparative Analysis” informed PA9–PA10. Technical assistance was obtained from the Strengthening Custom Risk Management Advisory Services (P151971, FY2016). “The Role of Imports for Exporter Performance in Peru” concluded that the greater use of imported intermediate imports was significantly correlated with higher exports and that advanced clearance procedures to clear customs for imports would boost the performance of exporters. The conclusion motivated the prior action to modernize the Customs Law and improve the AEO regime.

Linked Operations. This operation's program objectives and policy pillars complemented the objectives and components of three active investment projects at the time of this operation.

- Pillar 1 – The Basic Education Project (P123151), approved in 2013, aimed to improve the capacity of the MINEDU to evaluate student learning, instructional practice, and school leadership in basic education, and the Higher Education Quality Improvement Project (P122194), approved in 2012, aimed to improve the higher education quality assurance system through the promotion of self and external evaluations, the financing of improvement plans, and the provision of information.



- Pillar 2 and Pillar 3 – The Strengthening the Science, Technology, and Innovation System in Peru Project (P156250), approved in 2017, aimed to strengthen the science, technology, and innovation system to improve research skills and firm-level innovation.

Financing Instrument. The choice of the development policy loan with a deferred drawdown option as the instrument for funding this operation was appropriate, *ex-ante*. Peru did not need an immediate disbursement of the budget support provided by this operation because its fiscal position was relatively strong – although the fiscal account was in deficit at -2.3 percent of GDP at the time of the approval of this operation in 2016, the gross public debt remained low at 23.9 percent of GDP, and net public debt, 6.9 percent of GDP. Gross international reserves were also healthy at US\$61.7 billion, or 15.5 months-imports and 342 percent of short-term external debt. *Ex-post*, the choice proved advantageous, according to the ICR – five disbursements from December 2018 through August 2020 allowed Peru to gain funds in time to help address the challenges posed by the coastal El Niño in 2017 and 2020 and the COVID-19 pandemic in 2020.

Stakeholder Consultation. According to the Program Document (page 27), the National Education Project and the National Competitiveness Plan 2014-2018, which underpinned this operation, were submitted by the government to extensive consultations with stakeholders, including universities, research and policy institutes, trade unions, private business groups, and non-governmental organizations. The National Competitiveness Plan 2014-2018 was the product of joint work between the Ministry of Economy and Finance and the private-sector Competitiveness Council, with all pertinent materials made widely available in the Ministry's and the Council's websites. In addition, proposed laws were subject to the 30-day compulsory consultation process.

Donor Coordination. The Bank coordinated the design of parts of this operation with other development partners, including the International Monetary Fund (on tax administration, and on private investment), the Development Bank of Latin America (on competition policy), and the Swiss Agency for Development and Cooperation (on the implementation of the National Competitiveness Plan 2014-2018), according to the Program Document (page 27).

Risk Analysis and Mitigation Measures. The Bank assessed the operational risk to the project to be moderate overall and proposed several mitigation measures that it deemed were *ex-ante* adequate to address the risks. To mitigate institutional capacity risk, particularly in implementing innovative measures supported by the operation (e.g., introducing technical safety inspections), the Bank proposed and committed additional and continuing technical assistance to implementing agencies. Stakeholder risks would be addressed through continuing policy dialogue with the private sector. Political risk was considered moderate and would be mitigated by the strong commitment of the bureaucracy to the reform program. *Ex-post*, it would turn out that some of the risks were more substantial than initially thought, derailing the achievement of some of the results targets.

Shortcomings at Design. The Bank overestimated the readiness of the private sector to invest and participate in education infrastructure construction and maintenance. The legal and institutional framework for public-private partnerships, concurrently the target of a separate Bank development policy operation, was not ready for the targets set by this operation. The Bank also overestimated the pace by which the withholding system for VAT payments could be quickly overhauled and the scale by which the amounts withheld from businesses could be reduced.



Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

Supervision. The Bank filed three Implementation Status and Results Reports for the operation, each with extensive comments on progress with the results targets. The Bank also filed three Aide Memoires for the supervision missions of December 2017, December 2018, and May 2020.

Adaptation. The Bank revised several results indicators after program approval to improve the relevance and measurability of the indicators. The Bank also adjusted some of the results targets to reflect the extension of the duration of the program and the higher-than-expected progress with the reforms.

- The Bank dropped the "increase in the number of secondary schools that implement the new school-day model" as a results indicator for Pillar 1 after the government achieved the target in 2017, and instead focused on learning outcomes – the "increase in the proportion of students that attain the Level 2 or Superior [score] for Sciences, Math and Reading (RI2)" – as the relevant results indicator for PA2. The results indicator "include learning outcomes in the stated targets of the performance-based financial incentive mechanism for subnational entities" was dropped for lack of data. The results indicator "increase private sector investment in the construction and/or maintenance of public schools" was revised for clarity – "increase private sector investment (commitments through signed contracts through works for taxes and PPPs) in the construction and/or maintenance of public schools." For Pillar 2, the Bank dropped the results indicator "increase in the average recovery rate of creditors on insolvencies," a *Doing Business* indicator that was subject to many factors exogenous to the reforms. And, for Pillar 3, the Bank chose to apply the Peruvian Customs Authorities' metric, *tiempo total de liberación de mercancías (TTLM)*, for the results indicator, "time to import"; the government's metric measured the effective time from the arrival of an imported good at, to its release from, customs.
- The Bank also adjusted the targets for six indicators (RI1, RI4, RI5, RI6, RI7, and RI10).

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

With the quality of design/preparation and the quality of implementation both rated moderately satisfactory, the overall performance of the Bank is rated moderately satisfactory.



Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

The ICR (page 24) did not discuss any unexpected social and poverty impacts that were additional to those that were explicitly part of the program objectives.

b. Environmental

According to the ICR (page 24), the operation did not have any significant environmental impacts that were either positive or negative. Very little actual construction of school infrastructure took place during the duration of the program due to shortcomings in the PPP for school infrastructure implementation. The ICR adds that business exit would have contributed to the "recycling of resources" for more viable economic activities. However, the ICR offered no evidence for this statement.

c. Gender

The ICR did not provide gender-disaggregated data for student performance.

d. Other

SUNEDU unexpectedly benefitted from its knowledge of Bank procurement rules, which enabled it to retain high-quality professional development services for university faculty.

10. Quality of ICR

Rationale

Consistency with Guidelines. The ICR was prepared consistent with OPCS guidelines on DPF ICRs and included sections on the relevance of prior actions, the relevance and measurability of results indicators, and the appropriateness of results targets.



Conciseness. The account of the project's performance is well informed and concisely presented. The discussions are to the point.

Results Orientation. The assessment of the project's efficacy was outcome-oriented and based on the degree of achievement of the results targets. Some of the results indicators measured intermediate results, and the ICR candidly identifies these.

Quality of Evidence. In some cases, the ICR supported the assessment of the achievement ratings of the results targets with additional information available from separate analyses, including *Competition and Productivity: Evidence from Peruvian Municipalities* (June 2021) for PA1 and RI1 and PA6 and RI6, *Do More School Resources Increase Learning Outcomes? Evidence from an Extended School-Day Reform* for PA2 and RI2.

Quality of Analysis. The quality of the analysis was substantial and candid. In assessing the quality at entry, the ICR cited the analytic work underpinning the program reforms and linked the program reforms to those supported by related Bank operations. The ICR also discussed the merits of adding the deferred drawdown option to the development policy loan.

Lessons. The lessons were based on evidence and analysis and would be helpful for future operations, particularly those aiming to draw the private sector in infrastructure construction and maintenance.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

Three lessons are drawn from the ICR (pages 27-28), with some adaptation. The fourth is offered by this ICR Review, albeit in disagreement with another lesson cited by the ICR (paragraph 67).

Using objective criteria for the accreditation and licensing of schools can help counter political challenges to reforms in education. In this project, the Superintendence of University Education and the General Directorate of University Education set objective criteria for rating the quality of university programs and



for issuing operating licenses to universities. This technical method for licensing universities was easily understood and readily supported by the public, according to the ICR. Moreover, it is expected to serve as an effective deterrent to future attempts to politicize the licensing process, a likely reaction from vested interests that will be hurt by the strict implementation of the quality assurance program.

The private sector can make an important contribution to infrastructure investment, but it takes time to mobilize private participation in infrastructure. In this operation, targets for private participation in school infrastructure were set in terms of investment commitments rather than actual investment outlays, but even this diminished target was not achieved. Problems with the framework for public-private partnerships (PPP) and a past scandal with a PPP project derailed progress with the goal. It is vital that the legal, regulatory, and operational frameworks for PPPs in infrastructure exist and are sound and that there are both firm political commitments to and robust public support for the private provision of infrastructure.

The ability of government staff to publicly defend and communicate the merits of reform measures is vital to the success of a structural reform program. In this operation, the ICR made a distinction between the success reaped by measures to reform secondary and tertiary education versus the lack of progress with actions to reform the VAT withholding system. According to the ICR, education reform was facilitated by the MINEDU having a cohort of resolute and capable young staff who were able to project the strength of the government's commitment to the reform measures to the rest of the bureaucracy and to the public. In contrast, there was a "lack of conviction" about the necessity for, and benefits of VAT reform.

The deferred drawdown structure may offer the Bank leverage over additional reforms. In this operation, the DDO not only incentivized educational policy and regulation of business and trade but provided a buffer against unforeseen shocks. In the end, the Bank fully disbursed the DDO against two massive shocks – the infrastructure damage caused by El Niño and the economic effects of the COVID-19 pandemic. Thus, the financing structure of the operation gave the Bank leverage in policy dialogue not only over the original program development objective but over two additional, critical issues. In this case, it would seem that there was no tradeoff between "sustaining already implemented reforms against policy reversals" versus "reducing the options for new sets of reforms" – the Bank and its member country got it all.

13. Project Performance Assessment Report (PPAR) Recommended?

Yes

Please explain

It would be valuable to study and understand how the Bank deployed its leverage in policy debates surrounding both the original program development objective and the unforeseen shocks.