Board Meeting of July 22, 1997
Statement by Joaquim Carvalho

PERU: Country Assistance Strategy

We wish to commend the Peruvian authorities for their impressive achievements during the past seven years. In particular, the macroeconomic performance with the drastic reduction in inflation levels, the improvements in the agricultural sector, the privatization of the parastatals and the gains in the export sector, to name a few, have all been achieved despite a difficult political and social environment. While the road ahead is expected to be less difficult than when the government took over in 1990, it nevertheless presents new and additional challenges which will require the continued strong leadership of the government, particularly if the 5-6 percent growth rate projected for 1998-1999 is to be realized. We believe the CAS is supportive of government policies and we fully support it. We only have a few comments.

First, the authorities’ policies and results realized thus far in relation to poverty reduction provide valuable lessons for other countries not only in Latin America but in other regions as well. While the objective of halving the proportion of the population living in extreme poverty by the year 2000 appears rather ambitious, we believe a strong enough foundation has been laid to make such an objective achievable. Hence, we think that the policies aimed at improving performance in the social sectors (education and health), addressing gender issues, reestablishing clearly defined agricultural property rights, and infrastructure aimed at remote areas and those with high poverty concentration should, if well coordinated and implemented in a timely manner, result in adequately addressing the many poverty issues confronting the authorities. In this regard, we would urge that the long-term strategy noted in para 30 to improve the incomes and living conditions of the indigenous communities be completed as soon as possible since these groups risk being left behind in the absence of such a strategy.

Second, the implementation of the privatization program in Peru is exemplary, particularly given its coverage and speed. However, the speed of the privatization process can itself pose a political and social risk, as the situation in some sectors of the Peruvian economy indicates, and as experience in other parts of the world has shown. We would therefore urge caution in the next stages of the process so that the gains made thus far are not eroded by those groups that have benefited from previous arrangements. A policy of gradualism, even within specific time limits, could give the authorities adequate time to bring on board, through
dialogue, those groups that feel disadvantaged by the changes, and to indicate to them the potential advantages that the new order brings to the total population.

Third, we commend the authorities for their policies in relation to the modernization of the public sector, which should of necessity take on new responsibilities as the private sector gradually begins to bear a greater burden in the development process. We agree with the report that it will require, among other things, an appropriate incentive framework to assist in shifting responsibilities to the local authorities. Incentives alone, however, will not be adequate. In our view, this needs to be accompanied by an intensive program of civic education, particularly for the local authorities, in order to bring about a new way of approaching and solving problems at the local level. Equally, institutions will need to be realigned, and in some cases, new institutions will need to be built. A new feedback system to the center would have to be developed as well.

Fourth, as noted earlier, we support the Bank's assistance strategy as indicated in paras 56-63. We believe, however, that Peru is a country where a Bank Group strategy would be appropriate, given the Government's priorities and given the prospective decrease in IBRD lending. Hence we endorse IFC's intention to expand its investment program and to diversify its sectoral coverage. Equally, although constrained by the need to increase its capital base, we also hope MIGA will increase its operations in the country. Additionally, in view of the many development partners active in the country, including the IADB, there is need for greater donor coordination.

Fifth, although Peru has gone a long way in addressing the debt problem, especially with the DDSR operation, debt will remain a major development impediment for sometime to come. We endorse the efforts the government is making to improve debt management and its policy to reduce borrowing levels. This is an area, we believe, in which the Bank should assist the authorities, given its experience elsewhere in the world.

Finally, we too are concerned that the problems associated with the Bank's portfolio could negate many of the gains made thus far. We therefore agree with the strategy articulated in paras 66-67 on ways in which portfolio management improvements could be undertaken, and hope the authorities can endorse both the strategy and related action program in a timely manner in order to avoid further slippages.

In closing, we wish to commend Bank staff for working diligently with the authorities during the recent past. The impressive economic performance realized thus far is partly a result of this collaboration.