Board Meeting of July 22, 1997
Statement by Jan Piercy

PERU-- Country Assistance Strategy

1. Peru has benefited from a remarkable transformation during the 1990s as the structure of the economy shifted from a closed, centrally controlled system to one of openness. Nearly all trade, investment and foreign exchange controls have now been eliminated and there have been major successes in privatizing state-owned enterprises. The economy grew by nearly one-third in real terms during the 1993-1995 period, and growth -- after slowing to less than 3 percent in 1996 -- appears to have picked up strongly this year. Inflation (the harshest tax on the poor) for the twelve month period ending in February, dropped into single digits for the first time in twenty years. And there has been a major on-going improvement in Peru's external accounts.

2. Despite this impressive economic improvement, several major challenges face Peru. Institutional infrastructure is relatively weak, half the population is still below the poverty line, and payments due on external debt are expected to increase substantially. There is also the likely economic disruption of the "El Nino" phenomenon. The need to address these problems underscores the importance of sound economic management and continued strong commitment to stabilization, structural reform, and poverty reduction. Predictable, transparent governance anchored in a secure legal framework is also vital to maintain domestic and foreign investor confidence needed for the economy to maintain its development momentum. In this context, it is not surprising that recent developments have generated widespread public concern.

3. We believe the CAS sets out a pragmatic role for the Bank over the next three years. While the projected level of lending will be reduced by about fifty percent, the proposed Bank focus on the social sectors, basic -- largely rural-based -- infrastructure, and expanded non-lending services still provides a very strong basis for the Bank to play a major role in assisting the Government in its program to reduce poverty. We hope the Bank will be able to use its extensive expertise to assist the Government in developing a more strategic approach to investments in poor rural areas, and to build the institutional capacity -- now largely exercised by FONCODES -- to effectively deliver social and other basic services to the poorest regions. At the same time, the implementation experience of the Bank's existing social sector projects -- whose performance fortunately has improved -- also demonstrate the importance of careful project design and timely monitoring. I specifically wonder how the current network system will affect the Bank's ability to prevent and/or address the problems such as those noted in

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Annex C, which were encountered in the Primary Education Quality Project. I would also welcome staff comments on how this CAS's rural focus is affected by the Bank's recently approved rural sector strategy.

4. While the Bank expects that macroeconomic management will be less of a focus in coming years, we believe it important for the Bank to remain in an active policy dialogue with the Government on key macro issues. We urge the Bank to work particularly closely with the Fund in encouraging sound public expenditure practices and to discourage unproductive expenditures, including excessive military expenditures which also have adverse regional implications.

5. It is clear that governance reform has lagged far behind economic reform and that, as emphasized in the CAS, most state institutions have difficulty in delivering services efficiently. While the Government is not seeking assistance for a comprehensive program for modernization of the state, we hope that other Bank programs and its non-lending services can make an important contribution in this crucial area. We encourage the Bank to work closely with the Government in improving governance, and in minimizing the vulnerability of government agencies to inefficiency and corruption, by stepped up efforts in improving staff training, strengthening personnel systems, and encouraging government partnerships with the private sector and NGOs.

6. Judicial reform is also urgently needed. While progress has thus far fallen short of expectations, we hope that conditions will enable the Bank to work with the Government to establish an independent, transparent and modernized judiciary. This will be an increasingly important factor in Peru's ability to retain domestic and external business confidence, and to continue attracting large-scale external capital flows.

7. In formulating the design and geographic focus of specific projects, we encourage the Bank and the Government of Peru to give particular priority to improving the status of women, to developing sustainable employment opportunities in and around coca production areas, and to supporting recent positive trends in agriculture. While recent production trends suggest that the agricultural sector offers great promise, there is a need for improved access to credit for farmers and for the introduction of new agricultural techniques and technology to improve productivity. While the CAS calls attention to the status of women and their marginalized role in many aspects of the Peruvian economy, I would welcome staff elaboration on the Bank's efforts to address this fundamental issue. The only specific action mentioned is a 1998 conference on women and family planning, about which we would like to know more.

8. We are pleased that environmental considerations are playing a greater role in the development of economic and social policy. Peru faces severe environmental problems, especially in the poorest outlying urban areas of Lima. Despite persistent problems with the Lima Water Rehabilitation project, we commend the Bank for its efforts on urban water and wastewater. Land degradation, erosion and deforestation present significant obstacles to rural development. The Sierra Natural Resources project represents a good start, but a much more comprehensive approach is needed by the Government and the donor community to reverse the trend of environmental degradation. We also appreciate the Bank's work with the GEF on national parks management, but the GEF should not be regarded as the sole source of environment-related projects in Peru and elsewhere.
9. We welcome the increasingly active role projected for the IFC. We particularly endorse efforts to support microenterprise through Profund, and would appreciate staff comment on how this will work. Devising more efficient ways for the IFC and the Bank Group to more broadly reach small business is a challenge given our larger transaction size. The extent and distribution of poverty in Peru makes microenterprise an important resource which should be expanded to reduce poverty and increase economic mobility, especially for women.

10. We also believe it important to maintain the Bank's active dialogue with other assistance agencies. The fact that the Bank is moving away from large infrastructure projects and its traditional resource mobilization role in no way diminishes the importance of active donor consultations to promote coordination, avoid duplication, and share “best practice” experience. We found the inclusion of the column on “Complementary Activities of the IDB/IMF” in the CAS Program Matrix (Annex A8) to be very useful and informative, and we recommend this become a standard feature of CAS documents.

11. In closing, I would like to commend Bank staff for the pro-active stance they have adopted in consulting with organized civil society. We believe this outreach can play an instrumental role in deepening public ownership of, and appreciation for, the economic reform program underway.