Statement by Alexey Kvasov  
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**Peru: Country Assistance Strategy Progress Report, Second Programmatic and Competitiveness Structural Adjustment Loan, and Fourth Programmatic Social Reform Loan**

Since the beginning of the current CAS period Peru has made impressive progress in achieving macroeconomic stability and maintaining fiscal discipline. Taken together with a strong effort at difficult but necessary structural reforms, Peru’s recent achievements leave no doubt that the country has moved into the high case CAS scenario. We welcome this positive development and believe that the Bank can continue playing an important role in supporting economic reforms in Peru. We also hope that in the future the Bank will follow best practice examples in other countries and call its strategy in Peru a partnership strategy: in our view such a title would be a much better description of our relationship with this country.

Despite clear progress, Peru continues to face some of the same risks and challenges as at the beginning of the CAS period. This is not surprising because structural improvements take years of persistent effort and cannot be rushed. Key structural vulnerabilities that Peru will need to address in the medium term are well articulated in the CAS PR. They are: sharp income inequality and persistent poverty on the one hand, and a relatively narrow export base on the other.

Inequality and poverty are not only a challenge in themselves; they also complicate prospects for political stability and, consequently, for continued commitment to reforms. Examples in Peru and elsewhere in the region clearly demonstrate that economic success remains vulnerable to political shocks if its results are not broadly shared. Regional inequality also has clear implications for the decentralization agenda. Expanding and diversifying Peru’s exports is necessary for attaining greater long term economic stability. In this respect the priorities of the Government reflected in the Bank’s assistance strategy appear well chosen, and we are happy to support them.

We note the intention to expand the use of country systems in Bank projects in Peru and are confident that this is a sensible decision. We hope that this experience will find due reflection in the analytical work on the use of country systems as it can be useful in other client countries.

Finally, we have a comment on the match between Bank strategy and Peru’s political cycle. It appears that the reliance on programmatic operations as a key component of Bank lending to Peru has worked well. These operations with their longer term perspective have helped the authorities keep the focus on essential reforms through periods of political transition and
administrative instability, thus strengthening the continuity and persistence that are essential for the long term success of any structural transformation. However, it appears that all of the current series of programmatic loans are due to be completed prior to the next CAS period, which will start after the new elections. We wonder whether it would not have been more useful to have at least some of these series stretched into the next CAS period, thus supporting the continuity of structural reform that would need to be preserved across administrations.

**Second Programmatic Decentralization and Competitiveness Loan.**

The Government has chosen sound principles for pursuing its decentralization agenda. We are particularly gratified to note special emphasis on fiscal neutrality and determination to a gradual transition, allowing for the local implementation capacity to develop. A conscious link between decentralization and competitiveness agenda is also an important positive feature of the approach.

As before, however, we are concerned whether the right balance is struck between the potential efficiency gains of decentralization, and ensuring that regional inequality and poverty are not further exacerbated. We hope that access to quality social services and to infrastructure investment in the poorer regions will not suffer as a result of decentralization, and we would like these effects to be carefully monitored as the reform progresses.

We are also intrigued by the plan to seek regional consolidation through a series of referenda. When an efficiency case for consolidation can be made, it is more usual to achieve consolidation through administrative means, by a central decision. Why was a more complicated and costly route chosen in this case? What is the incentive for a more affluent region to join with a poorer one and thus subsidize it, just as the unfolding decentralization is promising it more control over its resources? If this proposed voluntary regional consolidation fails, what effect would it have on the Government decentralization strategy?

Overall, we believe that the program as defined in the Decentralization and Competitiveness Loan is largely on track, and we are happy to support the second operation in this series. We note however that changing laws and regulations, although important, does not in itself define a success in such a complicated task as decentralization and increased competitiveness. We hope that real outcomes of this program, such as efficiency in the use of public funds, trends in regional disparities, access to investment, etc. will be monitored and analyzed, including after the completion of this loan series.

**Fourth Programmatic Social Reform Loan**

We note the extension of the series and a substantial increase in the loan amount associated with this Social Reform Loan, but we believe that both are well justified by the recent solid macroeconomic performance of the country and the importance of the social agenda. Protecting key social expenditures during fiscal consolidation is an important achievement in itself, especially in the short term. Measures to improve targeting and efficiency of social spending undertaken within the Bank supported social reform program are laying the foundations for the future. Future progress and sustainability of reforms already undertaken will need to be
monitored, even though this particular series of loans is coming to an end. In particular, Bank could build stronger linkages between the social and decentralization agendas in future loans. Recent steps to address the pension reform also suggest that future Bank operations in this area are possible. We will look forward to a comprehensive discussion of these issues in the next CAS for Peru.