Statement by Herwidayatmo
Date of Meeting: December 7, 2004

PERU: Country Assistance Strategy Progress Report; Second Programmatic Decentralization; and Competitiveness Structural Adjustment Loan & Fourth Programmatic Social Reform Loan

We would like to welcome the opportunity to discuss The Peru CAS Progress Report, Peru Second Programmatic Decentralization and Competitiveness Structural Adjustment Loan (DECSAL II) and Peru Fourth Programmatic Social Reform Loan (PSRL IV).

CAS Progress Report

We are grateful for the staff works in monitoring and ensuring that the targets decided in CAS are achieved. We also would like to take this opportunity to praise the current administration for its commitment in continuing to undertake the ongoing programs amid social and political challenges.

As the report points out, the Government has successfully maintained macroeconomic stability, and fiscal policy has been prudent while the growth has remained steady and a surplus was achieved in 2003. We believe this is a sign of a sound macroeconomic, monetary and exchange rate policy that should be maintained for a sustainable economy which would attract economic activities to invest in Peru’s future. We recognize the conditions that some of the growth benefits have not reached the majority of the population. We do not find it unusual since we understand that it would require stabilization and growth period to be present before the majority could take advantage of the economy. As we find it true that stabilization and growth are primary keys to attract private participation in one’s economy. We encourage the Government and the Bank to consolidate on such achievements for the ongoing programs.

For all of the achievements been made, we have one concern on the issue of perceived risk in the case of changing cabinet posts, especially on how the Bank deals with the continuation program and the pace of disbursement. We hope the staff already have plans to ensure that the agreed programs would be undertaken in a timely manner and to benefit the intended receivers.
DECSAL II

We share the view of Bank’s staff that the Government of Peru commit itself to the set target as indicated in progress on DECSAL II triggers. We believe that reform programs under DECSAL II should be supported as it would facilitate the decentralization transition. We are pleased to note that the process will benefit the country of promoting sustained, broadbased economic growth and improving the quality of access to government services by all citizens. We also note that most of the reform areas need Government’s persistence and tolerance in the implementation as it would not be easy to engage many different actors in the full implementation of decentralization. Many experiences show that managing changes in the transition period of decentralization could be demanding. Therefore, we urge the Bank to work closely with the Government to ensure the smoothness of the process and implementation.

We find the reform areas are widespread and quite ambitious to be achieved by the end of 2005. We hope that the current administration would be able to manage such program in a way so it would not jeopardize the achievements made during DECSAL I. We are particularly concerned with the view of the fact that there is low political support for the current Government and growing regional unrest, which would jeopardize the success of the implementation. We wonder as to how to ensure a greater consensus among key actors at the central government to ensure the sustainability of the program.

PRSL IV

We are pleased to note that the current administration undertakes the prudent macroeconomic policy without sacrificing its commitment to social spending. We are delighted to find out that six priority social programs (PSPs) protected under PRSLs. These series of PRSL are important in supporting reforms in the social sectors. We find that most of the triggers have been met and we believe that the PRSL IV would succeed in consolidating the previous reform programs.

However, we have only one concern, related to sustainability of the program in view of the fact that the country is now facing the dynamic of political situation which if it is not well managed, it would depart from its intended outcome, and how the Bank could ensure that this final program would be undertaken as proposed.

With these comments, again we commend staff for their achievement and support the two loans for Peru and wish the Government of Peru every success in the implementation of the programs.