BASIC INFORMATION

A. Basic Project Data

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<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tr>
<td>Peru</td>
<td>P170477</td>
<td>Investing in Human Capital (P170477)</td>
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<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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<td>30-Sep-2019</td>
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Proposed Development Objective(s)

The Program Development Objective (PDO) of the DPF series is to support authorities' efforts in developing effective policies for human capital accumulation towards (a) improving delivery of social protection and Early Childhood Development services, and (b) improving teacher management and professional development systems.

Financing (in US$, Millions)

| SUMMARY                        | 150.00 |

| DETAILS                        |        |

| Total World Bank Group Financing | 150.00 |
| World Bank Lending              | 150.00 |

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. Peru’s macroeconomic policy framework is deemed adequate and sustainable over the medium-term, and hence adequate for a DPF. Nonetheless, the positive macroeconomic outlook is vulnerable to downside risks, which come predominantly from the external environment. Growth prospects, and thus poverty reduction trends, could potentially be affected by lower commodity prices or a sudden capital outflow. These events could be linked to an introduction of new trade protectionist measures, a growth slowdown in China, an accelerated tightening cycle in the
US, or contagion effects coming from other emerging economies. Domestic risks, stemming from the political situation have declined in 2019 compared to the previous year. Nonetheless, the positive macroeconomic outlook is vulnerable to downside risks, which come predominantly from the external environment. Growth prospects, and thus poverty reduction trends, could potentially be affected by lower commodity prices or a sudden capital outflow. These events could be linked to an introduction of new trade protectionist measures, a growth slowdown in China, an accelerated tightening cycle in the US, or contagion effects coming from other emerging economies. Domestic risks, stemming from the political situation have declined in 2019 compared to the previous year. Nonetheless, the political situation remains a source of uncertainty due to continuous disputes between the Executive and the opposition-led Congress. Labor markets have not fully recovered, with additional risks come from increased migration inflow of Venezuelan refugees, which could impact labor market conditions within certain sectors and lead to higher demand for Government services. Overall, the risks to macroeconomic outlook are tilted to the downside with domestic risks related to political upheaval partially materializing in the second quarter 2019 and heightened tensions around international trade disputes.

2. Poverty and inequality have dropped dramatically in Peru over the last decade, yet disparities remain across groups of the population and regions of the country. For most of the 2000s, Peru’s rapid economic growth, coupled with well-targeted social policies, boosted income growth among the bottom 40 percent of the population at rates much higher than average growth. As a result, poverty rates halved from 42.4 in 2007 to 20.7 in 2016 and inequality fell substantially during that period. More recently, modest economic growth, a stagnation of the labor market, and a halt in the expansion of social spending stopped the longtime trend of poverty reduction. The total national poverty rate increased to 21.7 percent in 2017, and women are slightly overrepresented when compared to the share of women in the national population (52.4 percent of the poor are women, while as part of the national population they represent 51.3 percent). Metropolitan Lima was the area most affected by the increase in poverty, but rural areas have higher overall poverty rates than urban areas (around 30 percentage points higher). Inequalities in assets and access to markets and quality of public services remain a challenge, including spatial inequalities and those across genders and ethnic groups. Gender-based violence remains perturbingly high, with more than 60 percent of women having experienced an episode of violence in their life; associated costs to the economy can fluctuate between 3.7 and 5.7 percent of GDP.¹ The Human Capital Index (HCI)² – which measures the potential productivity of the next generation of workers – estimates that a child born in Peru today will be 59 percent as productive when she grows up as she could be if she enjoyed complete education and full health.³ The country has made significant progress in child and adult survival rates (99 percent of children born today will survive to age 5 and 88 percent of 15-year-olds will survive to age 60), as well as in healthy growth (87 percent of children are not stunted).⁴ However, some challenges remain on important factors associated with cognitive and socio-emotional development, such as stunting rates in certain areas of the country (hard-to-reach population and rural areas), anemia, inadequate childcare practices and exposure to domestic violence. Inequalities can be observed with important gaps between children of the highest and lowest income quintiles. For example, while anemia affects 43 percent of all children under 3 years of age, it affects 53 percent of the poorest quintile and only 27 percent of the richest. Similarly, stunting burdens 2 percent of children under age five of the highest quintile, and 27% of the lowest. Physical punishment for children under five is also most frequently used and most accepted as a necessary disciplinary practice among mothers of the lowest quintile (18 and 19 percent, respectively). And despite an expected schooling attainment of 12.7 years, on average, when learning is considered, children in Peru can expect

² The HCI is made up of five indicators: probability of survival to age five, child’s expected years of schooling, harmonized test scores as a measure of quality of learning, adult survival rate, and proportion of children who are not stunted.
³ The difference in the HCI between girls (0.59) and boys (0.56) in Peru is small and not statistically significant.
⁴ While Peru managed to reduce its stunting rate to half in children under the age of 5 between 2008 and 2014, 20 percent of children under the age of 5 in rural areas still suffer from this condition.
to attain only 8.3 learning-adjusted years of schooling – a learning gap of 4.4 years.\(^5\) A disaggregated picture of the HCI within Peru shows large regional disparities.\(^5\)

3. **In recent years, the GoP has made substantial progress in rolling out important reforms in the social sectors with substantial improvements in some human development outcomes, including child malnutrition.** These also include, among others: (a) the creation of MIDIS to provide a common framework for development of social inclusion policies and review and reform existing programs under the new ministry; (b) the adoption of a Results-based budgeting (RBB) approach to strengthen the link between public spending and sector outcomes; (c) the approval of the Teacher Reform Law (*Ley de Reforma Magisterial*, LRM) to make the teaching career more attractive and create a single meritocratic teacher career path; and (d) the implementation of interventions aimed at strengthening social safety nets, improving health and nutrition of vulnerable populations\(^7\), and ensuring access to education for all children. As a result, substantial improvements have been achieved in several key human development outcomes. One of the most important improvements was observed in the reduction of childhood malnutrition: following a series of policy reforms initiated in 2007 with the new CRECER national strategy and maintained across successive governments with each administration setting new and ambitious targets, the prevalence of infant stunting was cut in half from 28 percent in 2008 to 13 percent by 2017.\(^8\)

**Relationship to CPF**

4. **The proposed DPF is fully consistent with the World Bank Group’s Country Partnership Framework for Peru covering the period FY17-FY21 and is complementary with several recent, ongoing, and planned operations.** This Operation would be instrumental in influencing the outcomes identified under Pillar 1 of the CPF: Productivity for Growth, especially those under Objective 3, which aims to facilitate the absorption of skills and technology. Ongoing Bank engagements that the proposed Operation would complement include the Boosting Human Capital and Productivity DPF-DDO, the Peru Human Development Flagship (P167570, P167460, P167417), and several recently completed operations. Furthermore, this DPF establishes the policy framework for a comprehensive package of interventions across areas upon which further operations would be built. In particular, complementary IPF operations in social protection and education are being prepared to support the implementation of the proposed policy changes.

**C. Proposed Development Objective(s)**

5. The Program Development Objective (PDO) of the DPF series is to support authorities’ efforts in developing effective policies for human capital accumulation towards (a) improving delivery of social protection and ECD services, and (b) improving teacher management and professional development systems.

**Key Results**

6. The DPF is structured around two pillars which aims to strengthen country-wide policies to sustainable

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\(^5\) Girls (12.8) and boys (12.6) in Peru have statistically similar levels of expected years of schooling, according to the HCI.

\(^6\) Some of these vulnerabilities are exacerbated by the risk posed by climate change, which disproportionately affects poor and marginalized populations (especially those in rural areas) through, among other factors, disruptions agricultural production and access to adequate nutrition, which can negatively affect human capital accumulation.

\(^7\) MIDIS’ policy instruments define vulnerable population as certain population groups who suffer discrimination and/or are exposed to uninsured risks: girls, boys, adolescents, women, elderly, disabled people, and internally displaced people and migrants. Women are particularly vulnerable given their high exposure to gender-based violence.

interventions from early childhood to adolescence that can improve children development, overcome the gaps in their cognitive, social, physical and emotional development, and achieve their full potential when they are ready to go on the job market.

D. Project Description

7. **This operation aims to strengthen policies for sustainable interventions that boost human capital throughout the life cycle, with a focus on the start of the child’s human capital development trajectory and the quality of teaching and learning along the child’s trajectory from early childhood to adolescence.** These interventions aim to ensure that every child in Peru has access to a range of integrated social services that support healthy and stimulated growth during early childhood, protect her household from adverse shocks that can hamper human capital development, and ensure that she arrives to school ready to learn where she will be taught by well-prepared teachers who will help her reach her full potential. From access to prenatal and neonatal social and health services, to early childhood interventions, and quality education during the school years and adolescence, these interventions can improve children’s cognitive, social, physical and emotional development and help overcome the disadvantages faced by children from marginalized backgrounds. By ensuring access to basic social services and safety nets for all of Peru’s children, these policies address several important gaps in human capital development—such as those by gender, language, region, and ethnic group. The policy actions supported under Pillars 1 and 2—targeting improvements in the social protection and education systems, respectively—complement each other by simultaneously strengthening critical points in the development of children from birth to age 18, reinforcing the impact of the reform program on human capital accumulation.

8. **Pillar 1 supports the GoP to improve the effectiveness of human capital investments.** Under the leadership of MIDIS, the GoP seeks to increase the territorial coordination of social programs, restructure the comprehensive National Targeting System (**Sistema Nacional de Focalización de Hogares, SINAFO**), and ensure that ECD services are adequately financed and delivered in an integrated manner. Furthermore, the GoP recently approved the National Plan to Fight Against Anemia (**Plan Multisectorial de Lucha contra la Anemia, PMLCA**), establishing effective interventions through 8 programs to be implemented by various ministries at the central and decentralized levels, as well as sub-national governments. These country-wide interventions are aimed improving child development outcomes and closing the gaps in children’s cognitive, social, physical and emotional development to ensure that all of Peru’s children are ready to learn upon entering school.

9. **Pillar 2 supports the GoP’s new wave of national policies to boost the impact of prior reforms aimed at strengthening the effectiveness of school teachers and managers.** The focus on teachers has been evident since the LRM was passed in 2012, consolidating the different existing teacher career paths into a single, meritocratic one. The reform aimed at making the teaching career more attractive and rewarding for those with the right talent and vocation. It raised the standards for entry into the profession, regulated promotions across a more remunerative career path based on competency, and mandated regular evaluation of teacher performance. MINEDU’s current policy interventions – supported by this DPF – aim to enhance the teacher career policy framework by (i) strengthening the quality of teacher graduates entering the profession; (ii) optimizing the allocation of teachers to schools; and (iii) making better use of teacher evaluations to provide timely feedback on their job performance. These interventions are complemented by interventions to improve support systems for teachers and schools, which: (i) improve interoperability of social sector information systems; (ii) strengthen the career track for school principals and pedagogical specialists; and (iii) restructure the roles and responsibilities of Local Education Management Units (**Unidad de Gestión Escolar Local, UGEL**). The chain of policy and institutional improvements supported by this DPF strives to improve the human capital development of Peru’s children and increase the productivity of the next generation of its workers by ensuring that all young Peruvians have access to early development and educational opportunities that make it possible for all of them to learn and to reach their
full potential.

E. Implementation

Institutional and Implementation Arrangements

10. The Ministry of Finance (MEF) is responsible for the implementation of the program supported by the DPF. As the main implementing agency, the MEF will coordinate with other government agencies involved in the implementation of the DPF, including MINEDU and MIDIS. Together with the MEF and the INEI, these institutions will collect the necessary data to assess implementation progress and evaluate results. MINEDU has an Office for the Monitoring and Evaluation of Education Services and MIDIS also manages important dashboards to monitor social outcomes and indicators, including at the Regional and local levels (MiRegion and MIDIStrito platforms). The technical capacity of these institutions is adequate to perform regular monitoring of the indicators and outcome measures shown in the monitoring and results framework of the policy matrix.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

11. This DPF supports actions that are expected to have positive direct effects on poverty reduction in the short term and positive impacts in the long term. The analysis carried out on the potential effects of the reforms supported under this operation suggests an overall positive direct effect on poverty reduction, with impacts in the short-term through more equitable delivery of social services, and in the long-term from increased human capital as health and educational outcomes improve. Moreover, through enhanced coordination, monitoring and capacity, the reforms are expected to increase the equity and efficiency of public spending, and make policies more pro-poor over time.

12. Measures supported under Pillar 1 are expected to have a direct impact on poverty. The positive direct effect on poverty reduction will materialize from an expansion of the current scope of social programs and ECD services through the enactment of the new multisectoral RBB-ECD program (PPoR DIT) and SINAFO, which will include new targeting criteria for social programs and the mandate to develop an integrated system to monitor and increase efficiency of social interventions, with a special emphasis on those targeting the first 1000 days of life. This would allow the expansion of the availability of social protection instruments to the poor and those more vulnerable to fall into poverty. Groups like pregnant mothers and/or children under 3 years of age in rural areas, for example, are more vulnerable to external shocks such as a natural disaster.

13. With evidence on the linkages between lower educational outcomes and poverty in Peru, reforms in Pillar 2 are expected to have a positive direct effect on poverty reduction. Educational attainment is lower among the poor in Peru: around half of the poor reach primary education or less. Among children, progress has been made over the past decade in narrowing gaps in school attendance between socio-economic groups, but learning outcomes in Peru remain low overall, and particularly low for children of lower socio-economic status. While actions in Prior Actions 4 through 7 aim at improving teacher quality and thus learning outcomes among children will not have direct effects on household income in the short-term, they are expected to increase the income-generating capacity of future workers in the long-term, particularly those of lower socio-economic status attending disadvantaged schools, with positive implications for their

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9 Data from household surveys from 2007 to 2017 in the document by INEI “Evolución de la pobreza monetaria 2007-2017”.
10 OECD PISA 2015.
access to economic opportunities and living standards, as well as for the productive capacity of the Peruvian economy.

14. **The DPF is expected to have gender impacts.** Pillar 2, which focuses primarily on strengthening teachers through professional development and support services, will have an important impact on closing gender gaps in Peru since the teacher labor force is 70 percent female. Overall, the reforms will promote the professionalization of the teaching career, elevate the teaching profession, and bring it closer to other professions in the public and private sectors. In addition, within the public education system where female teachers are significantly underrepresented in managerial positions and in rural areas, specific actions such as improvement in the mechanisms for teacher allocation, introduction of better working conditions and pay for rural managerial posts, and institutionalization of the pedagogical specialist career path will help attract female candidates and help close the gender gap.

**Environmental Aspects**

15. **The measures supported under the proposed DPF are not expected to have significant direct effects on the environment, forests, or other natural resources.** The strengthening of human capital under this DPF is likely to improve the long-term balance of the contributions made by natural and human capital to the economy. Several policy actions supported by this operation are likely to generate positive indirect effects on resilience to environmental shocks. Measures to promote data sharing and institutional coordination among various public agencies—through the interoperability platform to be developed under SINAFO—will likely result in improved territorial coordination and, merged with disaster-related/climate risks information, could benefit environmental and climate related risk management and adaptation policies at the local level by providing accurate and updated information on social program users and their likelihood of being impacted by these events. The modern curriculum and training for teachers supported through this DPF advance the knowledge in the fields of sustainable use of energy and water, the promotion of responsible production and consumption, solid waste management, the promotion of health and well-being, adaptation to climate change and disaster risk management. The digital government services reforms are expected to promote a more resource-efficient operation and reduced travel times.

16. **Climate Intent.** The reform program supported by this DPF intends to reduce the vulnerability of the population to shocks that may adversely affect human capital accumulation. It is aligned with the priorities of the Country Partnership Framework (Pillar 3: Natural Resource and Climate Change Risk Management) and the National Climate Change Strategy. Among the program-supported actions that improve the climate adaptation capacity of the social sector of Peru are: (i) actions to strengthen the resilience of social sector information systems to climate risk through increased system interoperability and use of open-source and digital cloud-based platforms; (ii) improved training of school teachers and other education personnel on inclusion of environmental awareness in their teaching and management practices; and (iii) increasing the access of vulnerable populations to integrated social services to improve their resilience to climate change through, among others, improved health and nutrition and food source diversification. Among the higher-level objectives to which the program contributes is the greater societal awareness of and resilience to climate risks.

**G. Risks and Mitigation**

17. **This operation entails an overall moderate level of risk.** Reforms are all well entrenched in the institutional framework of the implementing agencies and the performance budgeting framework.
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APPROVAL

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06-Jun-2019