1. Country and Sector Background

Despite the sustained growth and declining fiscal deficits of the last years, Peru’s Human Development Outcomes continue to be lagging. In the last decade, Peru has enjoyed a period of sustained growth and manageable and declining fiscal deficits. Poverty indicators have also improved. However, progress in basic human development outcomes – such as the stunting rate and the reading and mathematics attainment of children— continues to be lagging. Given the demonstrated links between investments in early childhood, cognitive development and socioeconomic performance in the adult life, tackling the problem of malnutrition, is essential to unleash skills formation and productivity to sustain recent economic growth, poverty reduction and promote more equality of opportunities.

A. Country and sector issues

In recent years, Peru has experienced its strongest period of rapid growth of the last decades, which has led to a significant fall in poverty. However, inequality still remains a critical challenge for the country’s long-term economic and social prospects. The country has been one of the strongest growth performers in the Latin America and the Caribbean Region, with growth accelerating from 6.4 percent in 2005 to 9.8 percent in 2008. Poverty fell from 48.7 percent to 36.2 percent and extreme poverty from 17.4 percent to 12.6 percent during the same period. This reduction in poverty has been largest in the Coastal region, including Lima, although in recent years it has also been important in the poorest Sierra and Selva regions of the country. The Gini income inequality coefficient has improved only modestly, moving from 0.408
to 0.383 between 2004 and 2008. However, increased public investments in water, sanitation and electricity during the last three years are expected to support a trend of reduction in inequality of opportunity.

**While Peru is being confronted by the global economic crisis with a sharp slowdown of economic activity, medium-term prospects for Peru remain positive as long as the global economy slowly recovers and a sound policy framework remains in place.** Economic growth fell from double-digit growth in the first three quarters of 2008 to 6.5 percent in 4Q2008, to 2.0 percent in 1Q2009, to -1.1 percent in 2Q2009 and to -0.4 percent in 3Q2009. Yet Peru will be one of the few economies in the region that is likely to avoid a recession in 2009. In order to mitigate the risks associated with the global financial crisis the government designed a policy package, which includes large contingency lending from the World Bank and others. The authorities have launched a fiscal stimulus package amounting to about 3.5 percent of GDP (over US$4 billion), which aims at an economic stimulus in the short term and support to medium-term infrastructure priorities and a range of social protection policies.

**Government efforts in the next two years will likely be directed to mitigating the negative impact of external conditions and addressing latent social conflict, in the context of sub-national and national elections.** Frustrations due to unmet expectations, higher food prices, and tensions over natural resource management in the context of the decentralization process have already resulted in social unrest and incipient conflict in some regions. This fragile situation could be exacerbated if the deceleration of economic activity resulting from the global financial crisis persists much longer. Elections for sub-national authorities (Regional Presidents and Majors) scheduled in late 2010 will be followed by presidential elections in April, 2011.

**Despite improvements in the last decades, Peru’s human development outcomes continue to lag behind the country’s economic impetus.** In health, the decrease in the national infant mortality rate (IMR) has been one of the most important achievements, being on track to achieve its Millennium Development goal target. Health inequalities are large and persistent among socioeconomic groups and regions, particularly in rural areas and among indigenous communities. In education, while there is near-universal coverage of primary education, secondary coverage remains below desired levels, and ultimately less than 20 percent of second grade students reached full sufficiency in literacy and basic arithmetic (almost half were unable to read at all).

**Chronic malnutrition affects almost a quarter of children under-5 years old, with significant geographic differences across the country.** The stunting rate in Peru stagnated in the 1990s. However, using the new WHO standard, malnutrition went down from 30 percent in 2000, to 28 percent in 2005, and 27.5 percent in 2007; and a further decline is expected in 2009 (24.2 in the first semester)\(^1\). The number of chronically malnourished children fell by about 124,000 nationally from 2000 to 2008 (a 16 percent decline), largely in rural areas. There is, however, a worrisome increase in recent years in the number of malnourished in urban areas. There is also great variation in malnutrition rates across regions. About two thirds of the malnourished live in rural areas. Chronic child malnutrition rates range from a high 52 percent in

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\(^1\) INEI data from ENDES 2000, 2005 and 2007. A child is considered chronically malnourished if it is more than two standard deviations below the mean for its age and sex.
Huancavelica, the poorest region of the country, to a low 4.7 percent in Tacna. Chronic malnutrition causes permanent damage to a child’s intellectual development and irreversible losses of human capital formation, affecting future productivity and economic growth. It will be difficult for Peru to make substantial progress in reducing poverty and inequality and sustained growth in the long term when about half a million children start life with such a severe disadvantage.

Malnutrition in Peru is a complex issue but encouraging efforts to address it are under way. Malnutrition is related to high prevalence of infectious disease, inadequate feeding and caring practices and low birth weight. In addition, the lack of awareness of the problem - and of the solution - by parents (especially mothers), the lack of accountability from providers, and the weak incentives to improve services, contribute to rampant malnutrition. The Government devotes significant resources to food assistance programs and to programs that are not targeted to the appropriate age group or exclude activities that can influence those variables that have an impact on nutritional outcomes. However, Peru has developed a high level of national commitment around nutrition goals and has already taken steps to address it. President García has placed nutrition at the forefront of its social policy, committing to reduce by 9-points-in-5-years (by 2011) chronic malnutrition in children under 5. Ensuring access to adequate and quality basic health and nutrition services is a key first step to generate changes needed to improve nutrition practices and results within families and communities.

In this context, and to promote the integration of nutrition initiatives, the Government launched in 2007 the CRECER strategy. This strategy provides an inter-institutional coordination platform under the leadership of the Inter-ministerial Commission for Social Affairs (CIAS) for the agencies that lead relevant programs to address malnutrition. This initiative seeks to benefit a million children at the national level and emphasizes participation of both beneficiaries and sub-national governments.

In addition, the Ministry of Economy and Finance (MEF) formalized the commitment to achieving results and accountability around nutrition by including the Nutrition strategic program (PAN for its acronym in Spanish) in the key strategic programs to be monitored within the Performance-based Budgeting (PBB) pilots. PAN is one of the first five key strategic programs promoted within the PBB policy of MEF. The objective of PBB through the

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2 In 2002, a study reported that Peru's budget devoted more than US$250 million annually to food and nutrition programs and that over half of the resources were devoted to two programs, Vaso de Leche and Comedores Populares, that are not well targeted to the poor nor to the populations most vulnerable to stunting. These programs deliver food without complementary health, sanitation, or behavior change services (Tufts University, 2002, Reducing Chronic Malnutrition in Peru: A Proposed National Strategy, Tufts Discussion Paper No 2, Tufts University, Boston).

3 Juntos, National Food Aid Program (Programa Nacional de Asistencia Alimentaria, PRONAA), National Program for the Mobilization for Literacy (Programa Nacional para la Movilización para la Alfabetización, PRONAMA), National Watershed Management Program (Programa Nacional de Manejo de Cuencas Hidrográficas y Conservación de Suelos, PRONAMACHS), National Water and Sanitation Program (Programa Nacional de Agua y Saneamiento, PRONASAR), National Registry of Identification and Civil Status (Registro Nacional de Identificación y Estado Civil, RENIEC), and Integral Health Insurance (Seguro Integral de Salud, SIS).

4 PBB is a new planning tool geared towards increasing efficiency and improving quality of public expenditure, with an emphasis on social sector outcomes. The five strategic programs are: (a) Nutrition, (b) Maternal and Neonatal Health, (c) Basic Education, (d) Identity, and (e) Transport. To date, new programs have been incorporated.
PAN is to concentrate the different efforts (budgetary, logistical, and organizational) in those regions with the highest malnutrition rates.

**PAN offers the opportunity to break the institutional budgetary inertia and start assigning budgetary resources as a function of achieving better results in nutrition rather than on the basis of historical allocation.** In 2009 budgetary programming for nutrition has improved, and this is expected to continue in the following years. The allocations of resources for regions where malnutrition rates are highest is increasing significantly with *Europa* which is a grant from the European Union of 65 million Euros to support the goal of the PAN through direct support to the national budget under an agreed framework to track progress in selected indicators such as increasing the coverage of CREDs and child immunizations.

**In order to achieve rapid results and to prevent new generations of children from being malnourished, it is essential to concentrate efforts not only on regions with higher malnutrition rates but also on those actions that have proven to be the most cost effective.** International evidence shows that reductions in chronic malnutrition are associated with activities that promote behavioral changes in mothers with respect to child health, hygiene, care and feeding practices. In line with the international evidence, the GoP has implemented child growth monitoring associated with individualized counseling to mothers through the “*Control de crecimiento y desarrollo* (CRED)”. Similarly, demand-side interventions like Conditional Cash Transfer (CCT) programs, such as the *Juntos* program in Peru, have shown significant results in reducing chronic malnutrition when accompanied by adequate coverage and quality of health and nutrition services to complement the potential income effect coming from the transfers. Currently, both the CCT and CRED interventions in Peru present important limitations to replicate the types of impacts seen elsewhere.

**The World Bank has supported the GoP in these efforts through the *Juntos* for Nutrition NLTA.** The focus has been the design and implementation of a strategy to effectively articulate the demand and supply needs of *Juntos* with emphasis on the provision of health and nutrition services. This effort was piloted in the area of San Jerónimo, in the Apurímac Region, where the Technical Secretariat for Social Affairs (ST-CIAS) and CRECER, jointly with the Ministry of Health (MoH), SIS, CENAN, *Juntos*, and with technical assistance from the Bank, initiated a “laboratory” to identify and address proactively the operational challenges for institutional coordination needed to achieve results in chronic malnutrition.

**The *Juntos* program played an important role in unveiling coverage gaps in the provision of health and nutrition services.** A recent evaluation highlighted the quality of the program and its achievements in terms of poverty reduction, and facilitation of access to health services. Still, the program is not showing impact on final outcomes such as reduction of chronic malnutrition, partly because of the lack of coverage and quality of the associated health and nutrition services, and partly because of shortcomings in its design and implementation, such as the verification of compliance with health and nutrition co-responsibilities. Its potential to achieve the desired impact is large, and a series of recommendations for improving its operation and coordination with the provision of health services were brought to light during the experience in Apurímac. The Apurímac Pilot has set the grounds for the necessary articulation between *Juntos* demand-
side incentives and the supply of basic health and nutrition services synergies between Juntos, the MoH, and SIS.

The Government’s program supported under the proposed operation aims at closing coverage gaps and implementation challenges of the priority programs of the PAN in the 14 poorest regions of the country where Juntos operates. In particular, it is expected that changes in the design and operation of Juntos to strengthen its coordination with health services, together with improvement in quality and coverage of health and nutrition services, will lead to important reductions in chronic malnutrition.

A key operational challenge is to ensure that PAN is built on an accountability framework that sets mechanisms and incentives that tie the budget formulation with the performance of fragmented executing units. In spite of the clear intentions of the PBB system, budgetary fragmentation (between MoH, SIS, and the Regions) is a major obstacle to ensuring the funding and budgetary incentives needed to attain the stated nutrition goals. Rigidities in the allocation of budget resources along the chain of services providers prevent the flexibility required to effectively assign funds at each level to meet these goals.

With the decentralization of the Peruvian health care system, a critical challenge is to ensure that funds reach down to the health networks, are linked to key performance indicators, and are used with sufficient discretion to improve performance. Performance Management Agreements (PAs) for health networks and regions/municipalities (e.g. Regional Health Directorates, DIRESAs for their Spanish acronym) were the main instruments used till 2007, but the roll-out of the PBB system has eclipsed their role. Further, the Integrated Administrative Management System (SIGA, from its acronym in Spanish), though an important element of the government’s PBB process for the identification of gaps in capital goods, materials and supplies and services, does not constitute a sufficient set of tools for improving performance. Last, the development in the last few years of the “Comités Locales de Administración de Salud” (CLAS) model was an important step towards greater local flexibility and accountability as it used to finance primary health care centers organized under a quasi-private management scheme with community participation. However, in late 2004, the CLAS model lost momentum and was seriously undermined.

One of the most important initiatives to address the lack of harmonized supply of health care services is the Integral Health Insurance (Seguro Integral de Salud, SIS). Although most of the beneficiaries of SIS come from the two poorest quintiles and from rural areas, the majority of the population within these quintiles is still not covered by any health insurance. Recently, there has been an ad-hoc expansion of its mandated coverage which has contributed to serious limitations in SIS financial flows and management of incentives for providers to produce services. The ex-post reimbursement flow from MEF defeats the notion of financing of an insurance premium to guarantee access to maternal and child health services. In an effort to improve the predictability of funding flows, and rescue the insurance scheme to ensure access to maternal and child health services, a capitation system for the primary health funding of SIS is being piloted in three regions (Apurímac, Ayacucho and Cajamarca) with the support of the

Belgian cooperation agency.

2. Objectives

**The proposed operation has been designed to support the demand, supply, and governance of nutrition services provided by the GoP, as articulated in the PAN.** The objectives of the proposed operation are to (i) address demand for nutrition services by strengthening the operational effectiveness of the *Juntos* Program; and (ii) improve coverage and quality of the supply of basic preventive health and nutrition services in the *Juntos* communities. Activities to support both objectives include a strong emphasis in promoting good governance to monitor the impact of the Government Programs and of the proposed intervention in nutrition outcomes.

**These objectives would be achieved through three main components:** (i) support the strengthening and consolidation of the design and operational capacity of the *Juntos* Program for families with children under 5; (ii) improve the coverage and quality of the provision of basic preventive health and nutrition services; and (iii) strengthen the GoP’s capacity to influence nutritional outcomes by improving the oversight capacity of PBB vis-à-vis the PAN. Given the short timeframe covered by the proposed operation, and the difficulties to discern direct measurable impacts of the operation on national chronic malnutrition, the results of the project are framed in terms of changes in key processes, systems and behaviors of the agencies and actors which are deemed essential to reduce malnutrition rates, and important for the delivery of intermediate outputs that have shown to produce results.

**The key outcome indicators to track progress towards the objectives are:**

(i) Percentage of *Juntos* children under 12 months that have received the complete CRED scheme according to their age in the areas of intervention of the *Juntos* Program targeted by this operation.

(ii) Percentage of children under 36 months that have received complete CRED scheme according to their age in the areas of intervention of the *Juntos* Program targeted by this operation.

**The proposed operation would target geographically three of the 14 poorest regions of the country where the *Juntos* program is operating: Amazonas, Cajamarca, y Huánuco.** These are mainly rural areas with an estimated 370,262 families totalizing about 5.8 percent of Peru’s population. About 58,076 of these families are beneficiaries of the *Juntos* program. However, supply side interventions would benefit most of the population of these target districts.

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6 At the Government’s request, these are different from those where the government is piloting the *Europan* project.

7 Number of households in rural areas in the 3 regions, *Censo de Población de Vivienda* 2007.

8 Households living in rural areas in the 3 regions as percentage of the total population of Peru, *Censo de Población y Vivienda* 2007.

9 [www.juntos.gob.pe](http://www.juntos.gob.pe), May 2009 data.
3. Rationale for Bank Involvement

The proposed operation builds on the World Bank support to the Social Development Program for Peru, a key Pillar in the current 2006-2011 Country Partnership Strategy (CPS), and its recent (January 2009) Progress Report. In particular, it would support the cluster of activities that aims at promoting and developing a new social contract in education, health, and nutrition, with an emphasis on investing in people to reduce extreme poverty and social exclusion. In addition, the operation would also support the goal to promote good governance (Pillar III) by supporting actions that would improve the quality of public spending and help develop a culture and capacity to link financing to results.

The Bank is well positioned to support the country’s efforts to improve nutritional outcomes and can therefore provide valuable support in the implementation of the PAN. The proposed operation would support policy areas in which the Bank has gained broad expertise worldwide, such as nutrition and CCT programs. In nutrition, the work builds on recent reviews which pull together global evidence on what can be done to generate results, and on the experience gained in designing and implementing community-based nutrition programs in Central America. As for CCTs, the Bank has financed interventions of this type in various countries in the region (such as Brazil, Colombia, and Bolivia), aiming at improving effectiveness of both the demand-side and the supply-side components of these interventions.

The operation would leverage lessons learned from other World Bank interventions in this area. The sectoral efforts to instill greater results orientation will leverage the PBB initiative promoted by MEF and supported by several Bank interventions such as the Social TAL, the REACT series, the Fiscal DPL series, the Fiscal TAL, and the Governance and Governability NLTA. Problems with the governance and financing of the health system have been examined in detail by the Bank team through the Recurso work on governance and incentives in health, and some reforms have already been supported through the REACT series. In addition, the proposed operation complements an ongoing health operation (APL II for the Health Reform Program) which aims at strengthening the supply of health services in the poorest regions of the country. The proposed operation also builds on non-lending technical assistance provided for the Juntos program, carried on in coordination with the Peru Extreme Poverty Effectiveness NLTA and with the IADB. Finally it builds on previous work on nutrition in Peru (RECURSO 2 and the video “Mi futuro en mis primeros centímetros” and the REACT DPL) which supported the strengthening of political commitment around nutrition in the country and the definition of clear understandable standards to strengthen accountability and parents’ understanding.

4. Description

Project components
Component 1. Strengthening and consolidation of the Juntos Program for families with children under 5 (US$3.5 million). This component would support an incentive for the affiliation of newborns (younger than 1 month) to the Juntos program and an incentive for the

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verification of the health co-responsibility of children younger than 36 months affiliated in the
Juntos program\textsuperscript{11}. Specifically, this component would finance two separate “output payments”.
The first output payment (“densification of newborns” output) would disburse against the number of children younger than 1 month affiliated in the Juntos program while the second output (“verification” output) would disburse against the number of children younger than 36 months affiliated in the program whose health and nutrition co-responsibilities have been verified. The value of these disbursements would be tied to the cost of those activities aimed at improving the registration and verification of co-responsibilities, which include: (i) the affiliation process; (ii) improvements in the information system and (iii) a revised communication strategy (see Annex 4.B for details on the output).

Activity 1.1. Affiliation Process (Community Based Self-enrollment programs). The Juntos program envisions undertaking community meetings to improve and validate beneficiaries’ affiliation to the program, through the utilization of a registry form. Meetings are expected to increase the coverage of Juntos beneficiaries (densification).

Activity 1.2. Management Information System. This subcomponent aims at expanding the capacity of the program’s Area of Technological Information (ATI) in order to develop, enhance and implement the necessary information systems that would support the program’s operational processes. A company specialized in the development and maintenance of Management Information Systems (MIS) will be hired under the outsourcing scheme for this purpose.

Activity 1.3 Communication strategy. This sub-component aims at developing the contents and mechanisms to disseminate the main messages associated to the readjustment of the Juntos Program to the beneficiaries as well as detailed information on the objectives and co-responsibilities. It would seek to design, develop and distribute communication material using culturally appropriate formats. Information, education, and communication strategy will be developed to encourage beneficiary families to participate in the program, and inform them about the co-responsibilities and their relevance for human capital development. The strategy’s goal would be to ensure the best understanding of the program and its results among stakeholders; and to complement program efforts to improve awareness, controls, and messages during the implementation of the operation.

Component 2. Improve the coverage and quality of the provision of basic preventive health and nutrition services in the Juntos areas (US$14.0 million). The objective of this component is to support a stronger governance system for the PAN and create incentives to MOH providers, for increasing coverage and improving quality of basic health and nutrition services through additional funding for PAN, under capitation payment modalities, in order to allow beneficiaries of the JUNTOS CCT to comply with their health and nutrition co-responsibilities.

Improving coverage and quality of nutrition services in Peru requires additional funding for the service provision and for strengthening governance of the health system. In this order the project would strengthen activities under 4 of the 27 budget lines that comprise the PAN, that are: (i) monitoring, supervision, evaluation and control; (ii) healthy municipalities

\textsuperscript{11} Two separate outputs have been proposed in view of the higher costs of affiliating newborns and children younger than one and to the higher opportunity costs of not “capturing” children when they are youngest.
promoting child care and adequate feeding practices; (iii) healthy families with adequate knowledge on child care, exclusive breast-feeding and feeding and protection of children younger than 36 months; and (iv) children with complete CREDs by age.

The vehicle for financing this component will be an "Aggregated Capitation Payment" (A-Capita), analogous to an insurance premium. The A-Capita is analogous to a health insurance premium to be transferred from the Borrower to MEF. The A-capita finances a set of guaranteed and targeted results related to health and nutrition to be delivered to the population in the Juntos areas in eligible health facilities.

The final amount of the A-capita will be based on the aggregation, by health facility, of the unit costs and potential use of a guaranteed package of health and nutrition services by a defined population (i.e. adjusted for the probability of the demand for these services). The guarantee package of health and nutrition services refers to: (i) complete CRED check-ups; (ii) complete immunization scheme; and (iii) community-based interventions for behavioral change (sesiones demostrativas). A "Registry" of enrolled health facilities defines the level of final aggregation of the A-capita.

Component 3: Strengthen the GoP's capacity to influence nutritional outcomes by improving budgetary planning and monitoring of results for selected activities of the PAN. (US$5.0 million). This component is expected to support the monitoring capacity of PBB for the PAN through four sub-components:

Sub-Component 3.1. (0.9 million) Strengthen the planning and monitoring capacity of health facilities. This subcomponent includes activities related to complement training and technical assistance related to the implementation of Integrated Management Information System (SIGA, from its acronym in Spanish), in the implementing units of the health sector in the eligible regions. SIGA aims at improving the quality of the national public budget by enhancing the consistency between planned and executed budgets. This is particularly relevant in the context of PBB – including the Articulated Nutrition Program – due to the fact that the relation input-output is closely monitored through the system.

Sub-Component 3.2. (US$1.6 million) Social Monitoring. This sub-component supports the establishment of a social monitoring mechanism run by Local Governments with the participation of local civil society organizations, media, users, and service providers. The social monitoring will oversee nutrition results and the quality of primary health and nutrition services at the district level. The sub-component would include technical support for (i) the provision of user-friendly information to local actors on coverage of key nutrition services and outcomes, and on the capacity of health facilities to meet minimum conditions of effectiveness to provide the guaranteed package of services; and (ii) the use of this information by multi-stakeholder fora involving municipal authorities, service providers and local civil society representatives, organized by the local governments to oversee progress in the achievement of local nutrition goals. Monitoring results will be linked to the award of non-monetary incentives.12 Social

12 The FY2010 National Budget will allocate additional S/.1300 million (approximately US$400.0 million) to be transferred to the most vulnerable municipalities against verifiable results related to nutrition outcome and improvement in tax collection. This initiative provides an additional incentive for local governments to hold local primary health providers accountable for their performance.
monitoring guidelines will ensure culturally adequate formats and the participation of indigenous representatives in districts with a relevant number of indigenous households.

**Sub-Component 3.3. Technical Verification (US$1.0 million).** This subcomponent will support the implementation of activities aimed at (i) improving local planning capacity by making the flow of resources from the Budget Executing Units (BEU) to the local health facilities transparent; and (ii) verifying the technical capacity of the health facilities to provide the guaranteed package of services, including the use of intercultural formats. This verification will be made by INEI through an additional module of the ENDES continuous survey. The technical verification mechanism will be used to support the disbursement of the A-capita, and aims at serving an equivalent function in a sustainable way to technical or concurrent audits used in other performance-based Bank supported operations.

**Sub-Component 3.4. Technical Support to SIS (US$1.5 million).** This subcomponent will support the implementation of activities aimed at improving the quality of information provided by SIS to Juntos and to DNPP. The information would be used by Juntos to verify the health and nutrition co-responsibility and by DNPP as an input to the social monitoring and the technical verification.

5. Financing

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<td><strong>Total</strong></td>
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6. Implementation

**Institutional Arrangements**

The operation builds on the institutional arrangements defined in Peru’s regulatory framework. Chapter IV of the 28927 Law of Public Sector Budget for 2007 identifies DNPP as the entity responsible to implement Performance Based Budgeting (PBB). Directive 010-2007 complements this law by defining the programming and formulation of strategic programs for the implementation of PBB, and identifying the agencies in charge of implementing the PAN (article 7). Additionally, the Universal Health Insurance Law 29344 establishes the regulatory framework to provide universal health insurance in Peru, and includes the roles and responsibilities of each of the actors in charge of its implementation. The proposed implementation arrangements build on the regulatory framework already in place by identifying the sections of the law pending implementation and providing support to the relevant agencies to remove the bottlenecks that are hindering its effective implementation and ultimately affecting nutrition results.

The operation also considers the Government’s existing budget cycle to ease the introduction of results-informed financing into the current budget processes. Results-informed disbursements from the project are being built into the existing budget cycle and budget processes. Since the Bank will be reimbursing the Government for reaching milestones and outputs achieved through activities funded with the Government’s own resources, the Government has committed to the transfer of results-informed incremental budget resources
associated with the disbursement-linked indicators defined during the preparation of this project. The existing budget cycle has been considered for the identification of milestones and the disbursement schedule.

**The Performance-Based Budget (PBB) unit in the Dirección Nacional de Presupuesto Público (DNPP) would be responsible for coordinating the implementation of the operation (See Annex 6).** The complexity inherent in the implementation of an operation involving several implementing agencies, justifies the need for a strong coordinating unit with the political and legal mandate to achieve the objectives of the operation. DNPP’s main responsibilities include to: (i) monitor progress in the operation development objectives by the main implementing agencies (*Juntos*, SIS), especially with respect to the disbursement and results indicators defined for each component; (ii) maintain the dialogue and coordination among implementing agencies to identify and whenever possible remove implementation bottlenecks; (iii) ensure quality and timely preparation and updates to the Operational Manual; (iv) establish and chair the inter-institutional committee of the operation to monitor progress in implementation; and (v) consolidate progress and financial reports and check for compliance with Bank fiduciary requirements as established in the Loan Agreement to initiate the processing of disbursements from the Bank.

**Institutional and Implementation Arrangements for Component 1.** This component would support an output-based incentive to promote the early affiliation of newborns and children younger than 1 to the *Juntos* Program. The main implementing agencies for this component are the *Juntos* Program and the PBB Unit in DNPP.

**The Juntos program** would be responsible for: (i) defining and implementing each subcomponent and registering them in its Annual Operating Plan (POA for its acronym in Spanish) under the “Management of the PAN Strategy” budget line; (ii) the fiduciary execution of the subcomponents; (ii) providing timely information to DNPP on the progress towards the objectives of each subcomponent for technical and fiduciary purposes.

**The PBB unit in the DNPP** would be responsible for: (i) monitoring progress in the results and disbursement linked indicators; (ii) consolidating progress and financial reports to initiate the processing of disbursements with the Bank and check for compliance with Bank fiduciary requirements as established in the loan agreement; and (iii) assigning and transferring the incremental budget resources to the *Juntos* Program against progress in the implementation of these activities.

**Institutional and Implementation Arrangements for Component 2.** This component would support a stronger governance system for the PAN and create incentives to the MoH providers for increasing coverage and improving the quality of basic health and nutrition services to children younger than 5 in the areas targeted by this operation.

The following implementing agencies would be in charge of the implementation of this component:

- **The DNPP/PBB Unit in MEF** would be responsible for: (i) monitoring progress in the results and disbursement linked indicators at the aggregate level; and (ii) consolidating
progress and financial reports to initiate the processing of disbursements with the Bank and check for compliance with Bank fiduciary requirements as established in the loan agreement.

- **The Ministry of Health (MoH)** would be responsible for updating the health protocols. In addition, the Ministry of Health would participate in the Inter-institutional Committee and would collaborate closely with the PBB/DNPP to report interim and final reports and to identify and report any problems that may result in delays in implementation.

- **The Regional Health Directorates (DIRESA)** would be the custodians of the participation agreements (*cartas de adhesión*) issued by the health facilities expressing their interest in participating in the operation. The DIRESAs would be in charge of enrolling and certifying the health facilities following their fulfillment of the eligibility and certification criteria. The DIRESAS would transfer the resources to the network of health facilities (*Redes*) and would provide integrated and individual monitoring reports of the health facilities to the PBB unit in the DNPP. They would also evaluate and provide comparative performance reports across health facilities, evaluate bottlenecks and obstacles that might be hindering progress against the objectives, and provide recommendations for potential solutions.

- **The network health facilities (Redes)** would be in charge of providing the required inputs to the health facilities for the provision of a guaranteed package of services. They would also provide to the DIRESAS timely reports on the provision of nutritional services and would be responsible for planning, budgeting, and tracking in SIGA the inputs required for the provision of these services.

- **The Health facilities** would be in charge of providing the package of nutritional services as detailed in Annex 4. They would also provide to the DIRESAS timely reports on the provision of nutritional services and would be responsible for planning, budgeting, and tracking in SIGA the inputs required for the provision of these services. Reporting annual action plans and procurement plans in SIGA would allow health facilities to be “enrolled” in the operation. The census (*Padrón*) of enrolled health facilities would define the level of final aggregation of the A-Capita (see Annex 4 for more details).

*Institutional and Implementation Arrangements for Component 3.* Four subcomponents would support this objective: (i) Strengthening the Planning and Monitoring Capacity of the PAN with a focus on the integrated management information system and its implementation in the health facilities of the targeted regions; (ii) Implementation of a Social Monitoring mechanism run by local governments with the participation of local CSOs; and (iii) Technical Verification of the flow of resources from the Budget Executing Units to the local health facilities, and of the technical capacity of the health facilities to provide the nutrition services in the regions targeted by this operation; and (iv) Technical support to SIS to provide critical information of health service production.
The following implementing agencies would be in charge of the implementation of this component:

- **The Sectoral Projects Coordinating Unit (UCPS)** would be in charge of the implementation of this component. They will manage all the fiduciary processes, including procurement and financial management required for the implementation of each subcomponent.

- **PBB/DNPP** would be in charge of supporting the planning and monitoring capacity of the health facilities and implementing the technical verification subcomponent. In this capacity they are responsible for providing the training and technical assistance required for the implementation of SIGA in the implementing units of the health sector for the eligible regions. PBB is also responsible for making the information on flow of resources to health facilities transparent. PBB/DNPP would develop and inter-institutional agreement with INEI to include a new module on the ENDES survey to be able to conduct the technical verification of health facilities. In addition, PBB will support the local governments in their role to do the social monitoring. As such, PBB will develop a web-based application to make district-level information available to the local governments. PBB will also provide training to local officials to strengthen their capacity to analyze information on the nutritional status of their populations and to prepare monitoring reports to be used in the social monitoring fora.

- **The Local Governments** will be in charge of the social monitoring mechanism related to the quality of the provision of nutritional services by the health facilities and tracking nutrition outcomes in their respective districts. To this end, municipalities will partner with local civil society organizations, business associations, local media and other key actors to establish an organization committee and mobilize awareness to prevent chronic malnutrition. In districts with high prevalence of indigenous populations, the municipalities would facilitate an appropriate representation and participation of indigenous communities.

7. **Sustainability**

The policy, institutional and financial framework supporting the *Juntos* Results for Nutrition SWAp suggests a high level of sustainability for the operation. Through articulation of the PAN, the GoP has made nutrition a priority and has established a target of reducing malnutrition by nine percentage points by 2011. Further, the operation would have to comply with the PBB framework, and be implemented through other already existing institutions and channels such as *Juntos*, MoH and SIS. Moreover, the Bank will reimburse the Government for expenditures already funded with its own resources.

8. **Lessons Learned from Past Operations in the Country/Sector**

The Bank has been working with the Government to strengthen the design of the CCT program, one of the key interventions of the Government’s poverty reduction strategy. The country is currently in the process of improving the effectiveness of the *Juntos* program, the best targeted social program in Peru (Perova and Vakis, 2009). The basic design follows lessons from
regional and international experiences, especially in the areas of targeting, linking with nutritional outcomes, definition of co-responsibilities, transparency and local level participation. For instance, the program has adopted a two-step mechanism to select beneficiaries - as in Colombia, México, El Salvador, Panamá, and Guatemala - based on geographical targeting and proxy-means testing.

**Preventing early chronic malnutrition is the first step in creating and protecting human capital; it can only be done through supporting both demand and supply-side interventions.** International evidence shows that chronic malnutrition in children younger than 24 months affects physical, cognitive and psycho-social development. Focused and cost-effective interventions, like those implemented in Central America\(^{13}\), can greatly contribute to reducing early childhood malnutrition. Based on this evidence, the proposed operation would support the Government’s efforts to tackle chronic malnutrition through (i) supporting households’ food expenditures and promoting the use of available maternal and infant services provision through the *Juntos* CCT program; and (ii) improving the quality of health and nutrition services such as growth promotion program (CRED), immunizations and community based activities to change behavioral practices. Further, international experience has demonstrated the need for combined demand and supply-side interventions needed to reach the expected impact of the interventions. Lack of economic resources, combined with limitations in access and quality of health services prevents poor families in Peru from receiving basic health and nutrition services. Following these lessons, PAN includes the *Juntos* conditional cash transfer program to address demand-side barriers to social services, and very significant interventions to expand and strengthen basic health services (CRED, micronutrient supplementation, immunizations and healthy families and communities’ activities).

**The Bank’s experience in supporting health sector interventions indicates that financing should be closely linked to results, both outputs (explicit enrollment of beneficiaries), and, when appropriate, outcomes (improvement of final or intermediary health indicators).** Focusing reform on the health system using traditional input financing mechanism has proven difficult and insufficient to address the health problems of the poor. The introduction of capitation payment mechanisms and performance agreements along with effective monitoring and information systems has created the right incentives to achieve measurable improvements to access to health services in underserved communities in other countries in the region. The operation would introduce innovations for Peru in capitation and performance-based lending, utilizing a mix of different “expenditure” classifications for purposes of reimbursement of loan proceeds: reimbursements based on the costs incurred to complete key milestones and outputs for components 1 and 3, and capitation payments based on improvements in the provision of services and implementation of governance processes for component 2. Bank fiduciary practices will be followed to procure the inputs needed to complete the milestones and outputs for components 1 and 3, in order for them to qualify as eligible expenditures. Standard fiduciary assessments have been carried out in the implementing units involved in fiduciary activities needed for the implementation of these components as detailed in Annexes 7 and 8. The

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\(^{13}\) Community-based growth promotion strategy has shown significant results in changing families’ knowledge and behaviors in critical areas like exclusive breastfeeding, complementary feeding, child care and hygienic practices, as well as improving awareness on the importance of regular child growth monitoring. See World Bank, 2009, *Promoción del Crecimiento para prevenir la desnutrición crónica*. 

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capitation scheme of component 2 will be composed of non-procurable items. Reimbursements from the Bank’s loan would be made semi-annually to the MEF on the basis of the sum of these actual costs, unit costs and capitation payments disbursed to MEF. Similar performance-based mechanisms linking disbursements to achievement of milestones have been used in several countries, including most prominently in the state-level SWAps in Brazil. In others countries like Argentina, Honduras, Panama and Brazil similar models have resulted in the correct incentives to enroll, monitor and ensure that providers actually deliver services.

The operation would leverage lessons learned, tools, methodologies and capacities built in Water and Sanitation Project (WSP)’s Peru Scaling Up Handwashing Project (HWP), a public-private partnership of 50 allies organizations from 23 regions of Peru which fights against malnutrition and promotes behavioural change in hygiene.

9. Safeguard Policies (including public consultation)

The proposed operation triggers one Bank safeguard: Indigenous Peoples (OP/BP 4.10).

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered</th>
<th>Yes</th>
<th>No</th>
<th>TBD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>The operation has been categorized as a Category “C”. It does not trigger the environmental safeguard; therefore, and Environmental Assessment will not be required.</td>
<td></td>
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<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
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<td>X</td>
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<tr>
<td>Forests (OP/BP 4.36)</td>
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<td>Pest Management (OP 4.09)</td>
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<td></td>
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<tr>
<td>Physical Cultural Resources (OP/BP 4.11)</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples (OP/BP 4.10)</td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
| The Operation triggers the Bank’s Indigenous Peoples Policy (OP 4.10). Although it is not expected that the operation would have negative impacts on indigenous households, its success will, to a great extent, depend on how well the operation manages to meaningfully involve indigenous communities. The government has conducted a social assessment and is preparing an Indigenous Peoples Planning Framework (IPPF), and consulting it with indigenous communities and organizations.
| Involuntary Resettlement (OP/BP 4.12)                    |     | X  |     |
| Safety of Dams (OP/BP 4.37)                               |     | X  |     |
| Projects on International Waterways (OP/BP 7.50)          |     | X  |     |
| Projects in Disputed Areas (OP/BP 7.60)                   |     | X  |     |

*Indigenous Peoples (OP/BP 4.10).* Indigenous communities, especially those settled in remote rural areas, remain amongst the most vulnerable groups. In order to minimize and mitigate any potential adverse impact and to enhance positive impacts an Indigenous Peoples Planning Framework (IPPF) has been prepared, as required by Bank policies. The IPPF will be informed by secondary information, data processed for the project design on the program coverage for indigenous communities, and by a social assessment (SA) and consultations being carried out by the Government in areas with a major number of indigenous peoples’ population. The IPPF will guide the project to ensure the indigenous peoples’ participation and consultation protocols during project preparation and implementation. The IPPF will ensure the project’s compliance.
with the Bank safeguard policy OP/4.10, the ILO Convention 169 and pertinent national laws by reflecting free, prior and informed consultation and culturally appropriate participation.

10. List of Factual Technical Documents

See Annex 12 of the Project Appraisal Document (PAD).

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