I. Project Context

Country Context

The Government of Peru (GoP) is highly committed to tackling the country’s major challenge of achieving more inclusive growth and reducing social gaps. After a stagnation that lasted about a quarter of a century, Peru became one of the fastest growing economies in Latin America during the past decade and weathered the recent crisis well. Between 2000 and 2011, GDP growth was strong averaging 5.7 percent over this period. Economic growth was particularly strong between 2004 and 2011, when almost 31 percent of the population was lifted out of poverty. Other social indicators improved significantly, e.g., chronic malnutrition, which dropped from 28.5 percent in 2007 to 23.2 percent in 2010.

During the 2008-2009 global economic crises, the government was able to utilize a successful set of monetary and fiscal measures that helped set conditions for a fast recovery. Countercyclical fiscal and monetary policies served to mitigate the effects of the global crisis and rapidly bring about an economy recovery. An Economic Stimulus Plan equivalent to 3.4 percent of GDP was launched in 2009, and kept GDP growth positive. On the monetary side, the Central Bank made significant reductions in its policy rate and provided additional liquidity through a set of policy tools equivalent to 9 percent of GDP. Growth recovered rapidly reaching 8.8 percent in 2010 and 6.9 in 2011, despite the continuing global slowdown.

The effects of strong growth on employment and incomes have yielded an important decline in poverty rates. Urban employment in formal firms has grown steadily between 2001 and 2008, and bounced back quickly after the crisis. Between 2004 and 2011, poverty declined by 31 percentage points, from nearly 60 percent of population to just nearly 28 percent. During the same period, extreme poverty was reduced by more than 60 percent, from 16.7 percent to 6.3 percent of the population. Inequality also experienced a modest decrease during this period. Inequality fell slightly over the past decade, consistent with a proportional increase in consumption among the poor. Between 2004 and 2011, the expenditure-based Gini coefficient declined from 0.44 in 2004 to 0.38 in 2011 whereas the income-based Gini fell from 0.51 to 0.46.

Despite the impressive advances and significant decline in poverty rates, disparities persist across the country. Major challenges in reducing inequality remain: high poverty is still persistent in rural areas where 56 percent of the population lived below poverty line in 2011, compared to only 28 percent for the total population as a whole. Poverty reduction performance has also been uneven across the country’s regions. Despite poverty decreases in all regions the percentage of people living in poverty in the Sierra Norte (61 percent) is more than double the national total for 2011. By contrast, the central coast and Lima have the lowest poverty rates (around 10 percent). Thus, despite strong economic growth and improved employment conditions, Peru’s regions have uneven rates of job creation, earnings and labor productivity.

The indigenous population is more likely to be excluded from socio-economic development and is economically disadvantaged. Despite the reduction of more than 30 percentage points between 2004 and 2011, poverty is 32 percent among indigenous populations compared with 20 percent for non-indigenous populations. Furthermore, in 2011, the rate of extreme poverty among the indigenous population doubled that among the non-indigenous population. The life expectancy of indigenous peoples in the highlands is 30 years shorter than in Lima. This imbalance is mainly due to poor access to health services and other forms of social exclusion. The highest percentage of people without access to healthcare has an indigenous language as their mother tongue, such as Quechua (61 percent of exclusion) and Aymara (80 percent). Only 41 percent of indigenous Amazonian communities have a community health center, and about 90 percent of their childbirths occur without institutional assistance. Indigenous people have also less access to formal education: according to the last national census, 19 percent of indigenous Amazonians do not know how to read or write (28 percent of women), and only 51 percent of the population under 24 are receiving formal education (only 47 percent of the above-15s have completed primary education. Finally, a significant proportion of indigenous people have no identification documents (15 percent of Indigenous Amazonians): a further impediment to receiving social assistance.

Despite significant advances in recent years for Peruvian women’s social and economic inclusion – as in other countries of the region – gender gaps persist. In terms of endowments, women educational outcomes and health conditions have remarkably improved in Peru in recent years. In education, gender gaps have closed in primary and secondary education and even reversed in tertiary education. Similarly, fertility rates have been on the decline. These advances were critical in the observed increases in the female labor force participation rates over the last decade. Nonetheless, this has not been fully translated in enhanced economic opportunities for women. In spite of higher levels of human capital, female
workers have more difficulties to reach the top paid occupations and are more likely to be in low productive sectors than their male counterparts. Labor market segmentation and wage gaps still persist even if one accounts for educational attainment differences. Such differences are more acute in rural areas where teen pregnancy and violence against women remain obstacles to human capital formation for young women. This lack of agency (the capacity to aspire and make own decisions) continues to affect women and potentially undermines the rate of poverty reduction and overall growth of the country. Taken together, dealing with market constraints, improving aspirations and empowering women can provide a necessary input to help women integrate better in the overall economy and allow them take advantage of their improved human capital by expanding their income generating opportunities in the labor force.

II. Sectoral and Institutional Context

Peru’s social protection programs historically comprised a contributory social security system that provides formal workers with income security in old age and a range of social assistance programs intended to provide income support to the poorest populations. It also included employment support programs, such as temporary employment programs and the social fund (FONCODES) to provide employment and productive earning opportunities for the poor. These programs have been characterized by covering a large portion of the population through very small benefits. Expenditure related social assistance continues to be among the lowest in Latin America, despite the sustained increase over the last decade, amounting to 0.77 percent of GDP in 2010.

Peru’s social protection programs have been characterized by their heterogeneity in terms of goals, target populations, programs institutional cultures, criteria for targeting and eligibility rules, and coverage levels. These programs include:

(a) Food assistance programs constituted a large proportion of the social protection programs in Peru for many years. In 2006, there were 27 food assistance programs that represented 40 percent of total expenditure in social assistance (0.3 percent of GDP). In 2009, these programs were rationalized and reduced to five, maintaining a budget of 0.3 percent of GDP. In 2012, the GoP decided to close the main food assistance program (the National Food Assistance Program – PRONAA) due to significant deficiencies identified in previous evaluations that pointed to problems of low coverage and at the same time inclusion errors, sub-optimal delivery processes causing delays and incomplete rations, and big difference between the amount of food delivered and the amount effectively consumed by the user and possible related to leakages in program delivery. A new program, Qali Warma, was created when the closure of PRONAA was announced, to replace feeding programs for school aged children and will be effective by March 2013 when the new school year starts. Qali Warma is expected to gradually become universal by 2016 and its design relies on local capacities (changing radically from the centralized approach of PRONAA). Given these plans, the program faces two main challenges: (i) the timing of the launch of the new program gives little space for the development of a comprehensive design and validation in different contexts (i.e., rural vs. urban settings, areas with more food insecurity, etc); and (ii) the limited capacity available especially at the local level to manage such a program (and to monitor its implementation). Until January 2012, food assistance programs were mainly administered by the Ministry of Women and Social Development (MIMDES), now the school feeding program will be managed by the new Ministry of Development and Social Inclusion (MIDIS) while the infant nutrition assistance by MINSA.

(b) The JUNTOS CCT program targets the poorest districts in the rural highlands and aims at protecting consumption and human capital of households in extreme poverty. The program transfers S/.200 every two months to households with children, in exchange for the fulfillment of certain health and education conditions. The program was part of the Government’s commitment to modernize and correct the exclusion of the vulnerable population from the social protection network. In recent years, the program has gained considerable importance and has established itself as a pillar of the social protection system. It is currently the second largest social program in the country, with a budget of 852 million soles in 2012 (or approximately 0.16 percent of GDP), covering over 476,000 households in 638 districts in the poorest 14 regions of Peru. Five main challenges have been identified in the implementation of JUNTOS, specifically, the need to: (i) strengthen the information system for targeting and affiliation to inform the Program’s expansion; (ii) improve the mechanisms for evaluating the capacity of health and education sectors to prioritize expansion of coverage to those areas where supply is adequate; (iii) enhance the mechanisms for verification of co-responsibilities to align with the program’s new challenges of chronic malnutrition and transition to secondary education; (iv) redesign the role of local promoters to include counseling and follow-up services for the most vulnerable families to stay in the program; and (v) revisit payment systems to ensure better technical and financial conditions. Until January 2012, JUNTOS was administrated by the Cabinet (Presidencia de Consejo de Ministros, PCM), now it is under MIDIS.

(c) FONCODES was created in 1991 to finance small scale public investment projects. The goal of this social fund was to increase employment, reduce poverty and improve access to social services. In general terms, this fund was created to benefit the most excluded rural communities identified through the poverty maps. However, over time, its relevance has diminished significantly as a result of declines in budget allocation. Until January 2012, FONCODES was administrated by the Ministry of Women and Social Development, now it is administrated by the new MIDIS.

(d) The temporary employment programs constitute an important aspect of Peru’s social protection policies. Trabaja Perú (former Construyendo Perú/A Trabajar Urbano), is a temporary employment program that provides an alternative model of resource transfer to impoverished populations. This program provides the opportunity of temporary employment to unskilled labor hired in exchange for a salary below the minimum wage rate. In 2012, this program had a public budget allocation of 173 million soles, which only represented 0.03 percent of GDP. Temporary employment programs are administrated by the Ministry of Labor and Employment Promotion.

(e) Peru’s old age income protection system has a long tradition of contributory programs, with benefits closely linked to previous work history offering protection to less than 20 percent of the labor force and 25 percent of the elderly. In August 2010, the Government launched the “pilot” program Gratuidad to provide a basic monthly income (S/.100 or US$38) to elderly older than 75 and living in extreme poverty. In October 2011, Gratuidad was replaced by a new non-contributory pension program, Pension 65, which provides a larger benefit (S/.125 or US$47) to those older than 65 and living in extreme poverty. Until January 2012, non-contributory pension programs were administrated by the Ministry of Women and Social Development, now Pension 65 is administrated by MIDIS.

Framework for Policy Coordination and Administration

To address these challenges and promote socially inclusive growth, in October 2011, the GoP created a new Ministry of Development and Social Inclusion (Ministerio de Desarrollo e Inclusión Social, MIDIS). The goal of MIDIS is to “improve the quality of life of the population through support to the exercise of rights, access to opportunities and capacity building, in coordination with different public, private and civil society entities.”

MIDIS builds on important social reforms implemented in recent years that have improved the coherence of various social programs and contributed to the coordination of their goals. The national strategy, Crecer, led by Cabinet (PCM), and the implementation of the Performance-Based Budget (PBB) initiative, by the Ministry of Economy and Finance (MEF), contributed to building a framework for more coordinated social.
The project development objective is to strengthen MIDIS’ systems and capacity to improve the performance of MIDIS programs and to monitor social inclusion policy.

IV. Project Description

Component Name

Component 1: Strengthening capacity and accountability for quality improvement of MIDIS Programs (US$2,730,000).
Component 2: Improving management of knowledge, information and communication (US$2,850,000).
Component 3: Strengthening MIDIS capacity on results orientation, monitoring and evaluation (US$5,020,000).
Component 4: Strengthening human resource management and capacity (US$2,495,000).
Component 5: Project Administration (US$1,200,000)

V. Financing (in USD Million)

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VI. Implementation

The General Secretariat in MIDIS would be responsible for: (i) the overall coordination of this project’s preparation; and (ii) technical leadership of the implementation. The complexity inherent in the implementation of an operation involving several Social Programs and units in MIDIS justifies the need for a strong coordinating unit with the political and legal mandate to achieve the objectives of the operation. The General Secretariat carries sufficient weight to oversee implementation in the different Programs and Offices. The main responsibilities of the General Secretariat as the technical coordinator of the operation include the following: (i) ensure general coordination with the Bank, and other Government stakeholders; (ii) oversee implementation of all Project activities; (iii) monitor the achievement of project objectives as evidenced by progress against main project components, and monitor project outcome and intermediate outcome indicators; (iv) maintain the dialogue and coordination among MIDIS’ units and whenever possible remove implementation bottlenecks; (v) jointly with UCPS (see below), prepare and monitor the annual implementation plan, and adjust it as necessary; (vi) prepare and/or assist MIDIS units in the preparation of TORs; (vii) ensure quality and timely preparation and updates to the Operational Manual; (viii) monitor progress in the implementation of

The Government’s Social Inclusion Policy

Social inclusion is at the center of the new Government’s agenda. President Humala took office in July 28, 2011 with the goal of maintaining high growth rates and improving equity through an extended social inclusion agenda. The Government is highly committed to achieving more inclusive growth, recognizing that an important proportion of the population does not have access to basic and adequate services, particularly in rural areas. To close the main equity and inclusion gaps, the Government’s program announced a “growth with a social inclusion” plan aimed at: (i) providing equal access to basic services, employment and social security, (ii) reducing extreme poverty with emphasis on rural poverty, (iii) preventing social conflicts by restoring the credibility of public institutions, and (iv) improving the surveillance of environmental risks. The efforts of the new government are oriented towards creating an institutional framework that fosters greater inclusion, improves efficiency of social programs and enhances mechanisms for better access to basic services. These efforts are expected to enable a more coherent and effective social protection system. In order to implement the social inclusion reform, MIDIS was created on October 20, 2011.

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safeguards recommendations; and (ix) coordinate with implementation MIDIS’ units to ensure timely execution of activities. The participating units within MIDIS are: Qali Warma, JUNTOS, Pension 65, General Office of Monitoring and Evaluation, General Office of User Management, General Office of Decentralization and Coordination of Social Programs, General Office of Quality of Social Benefits, General Office of Policies and Strategies, and the General Secretariat itself.

All fiduciary responsibilities (procurement and financial management) will be carried out through MEF’s existing Coordination Unit for Sectoral Projects (UCPS). The UCPS has extensive experience with Bank-financed projects. Given the scope of the project and the significant number of activities to be carried out under it, the UCPS will be strengthened to provide support under the project, in particular in project procurement and financial management. The UCPS will be responsible for the preparation of the procurement audit of the Operation and for having the financial statements audited, as defined in the Operational Manual. UCPS has well established processes and procedures, as well as required tools and mechanisms, which are considered acceptable to the Bank; however, it continues to be a supporting Implementing Agency formed by external consultants financed out of different projects. Therefore, there is a need to ensure staff continuity and also to assess the need for further strengthening in terms of staff number to ensure adequate support to timely address the needs of the project; more precise activities will be clarified during appraisal.

An inter-institutional agreement will be signed between MIDIS and UCPS, detailing the responsibilities of the two entities. While recognizing UCPS expertise, the decision of having a separate administrative unit within MEF to support project implementation in the short term may be helpful. However, in the medium-long term, this may undermine the explicit objectives of capacity development, institutionalization and sustainability of actions within MIDIS itself. Therefore, the inter-institutional agreement is critical in providing clarity regarding specific responsibility areas while also improving coordination between MIDIS and UCPS and to ensure that over time, the fiduciary capacity is built in MIDIS.

VII. Safeguard Policies (including public consultation)

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