



1. Project Data:		Date Posted : 09/30/2003	
PROJ ID: P073817		Appraisal	Actual
Project Name: Pe-programmatic Social Reform Loan li	Project Costs (US\$M)	100.00	100.00
Country: Peru	Loan/Credit (US\$M)	100.00	100.00
Sector(s): Board: SP - Other social services (40%), Health (25%), General education sector (20%), Health insurance (8%), Compulsory pension and unemployment insurance (7%)	Cofinancing (US\$M)		
L/C Number: L4678			
	Board Approval (FY)		03
Partners involved :	Closing Date	12/31/2002	12/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
The broad objectives of the on-going PSRL program have been to support the new government's social reform program through:			
<ul style="list-style-type: none"> • maintaining economic stability; • establishing a more transparent, participatory and efficient process for allocating social expenditures; • protecting critical anti-poverty expenditures from budgetary cuts; • improving the efficiency of social expenditures and the access of the poor to social programs . 			
b. Components			
As an adjustment loan, the operation did not allocate costs by component . Measures in the policy matrix were categorized according to three "pillars:"			
The Dignity Pillar: shift budget allocation to pro-poor programs and improve social protection .			
The Equity Pillar: improve access of the poor to health, education, and culture .			
The Institutionality Pillar: improve transparency in resource allocation and participation of beneficiaries for better social control.			
c. Comments on Project Cost, Financing and Dates			
This was the second in a series of single-tranche programmatic adjustment loans, of US\$ 100 million each, over a proposed three year period. Although the triggers to process this second loan had been met, Board approval was postponed for several months, until mid-September 2002, because of a turnover in key government posts, to ensure that the responsible officials had a full understanding of and commitment to the social reform program . The project closed as scheduled on December 31, 2002.			
3. Achievement of Relevant Objectives:			
<ul style="list-style-type: none"> • Macro-economic management continued to be highly satisfactory, with growth reaching 5.2%, low inflation, and rising international reserves . Employment growth, however, remained weak . • Progress was satisfactory in improving the anti-poverty focus . The 2002 actual aggregate expenditures for the social sectors were within agreed budget targets while military and security expenditures were reduced . Preliminary data on 2002 actual program expenditures indicate that expenditures on the 6 core protected social programs exceeded the budgeted amount by 2% . Five major food distribution programs were consolidated into two, exceeding the PRSLII target, and goals for re-targeting infant and school food programs were also exceeded . Existing rural infrastructure programs were consolidated and new targeted workfare programs initiated, as planned . A new law was passed to facilitate pension reform . • Agreed measures for improving access of the poor to health and education were not fully implemented, and had mixed and overall modest results . Agreed increases in 2002 budget allocations for maternal and infant health 			

insurance were met, the target number of beneficiaries was exceeded, and the package of covered services was formalized by decree. However, actual expenditures over the year fell short of the agreed minimum and the 2003 budget did not take account of the expansion. Progress was highly satisfactory in expanding community co-management of primary health facilities, increasing from 25% of public primary clinics when the operation was approved in September, 2002, to about 35% by March, 2003. Less progress was made, however, on politically difficult measures to rationalize health expenditures and hospital capacity, while no further progress was made under PSRLII on the proposed package of nutritional interventions to be delivered through rural primary health facilities. Actions to improve the quality of education, and of rural education in particular, focusing on teacher qualifications and incentives and parent participation through school councils, were not implemented as planned, although some progress was made in upgrading teacher language skills for bilingual education.

- Progress was satisfactory on most of the large number of activities to increase transparency in public expenditures and participation of beneficiaries. Citizens' access to budget and financial information was further extended through user-friendly channels. PSRLII supported rapid extension of the system to regional and municipal levels of government, extensive training to local community groups in use of the system and distribution of the data on CDs to those areas lacking internet access. Budget preparation for 2003 was based on regional and national roundtables to incorporate civil society views. Audit control over the budgets of defense and security services has been improved, and further progress was made in strengthening transparency and efficiency in public contracting.

4. Significant Outcomes/Impacts:

- At a time of turnover in many key government positions, the PSRLII contributed substantially to sustaining systematic attention to anti-poverty objectives, ensuring adequate funding and effectiveness of social programs, and mobilizing civil society participation unprecedented in the country.
- Urban and rural targeted workfare programs, new to the country, were successfully introduced: projects presented and executed by local organizations, with participation of civil society groups and municipal authorities, created 127,000 jobs as of March 2003.
- Co-management of health facilities by local communities, to make services more responsive to local needs and cultures, was successfully expanded to one in three of all primary clinics in the country, with strong government support despite resistance from traditional bureaucracy and political interests.
- Strong recent progress was sustained in increasing the transparency of public expenditure and participation in budget development. In particular, the Integrated Financial Management System is providing a model for use by other countries: the system ensures an accessible and user-friendly source of budget and financial information, enabling citizens as well as officials to monitor, analyze and evaluate the funding of social programs disaggregated to the district level.

5. Significant Shortcomings (including non-compliance with safeguard policies):

Institutionalization of many of the changes supported by the operation is inevitably a slow process and will require sustained public debate and committed leadership to change ingrained attitudes, overcome bureaucratic resistance, and build national consensus.

Progress among the numerous subcomponents and activities of the program has been very uneven. Particular difficulties have been experienced in the following elements:

- Efforts to rationalize health expenditure and reduce massive waste of resources have not prevented continuing construction of excess hospital capacity by the two powerful bureaucracies concerned.
- Malnutrition remains a major problem in Peru, despite huge expenditures over the last decade on food distribution programs. Plans under PSRLII to increase attention to nutrition education and promotion, and to dietary supplementation through local health clinics, were not implemented.
- Efforts under the PSRL to improve the quality of rural education have been unsuccessful. Although the triggers for PSRLII were met, agreements were not fulfilled on budget allocations for one of the three major education projects, on ceilings for teacher recruitment, and targets for teacher incentives, resulting in underfunding of programs, continuing oversupply of teachers, and lack of performance-based incentives.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- The PSAL instrument is useful for allowing flexibility to adjust program details over time and ensure continuity of

support to an agreed medium term program of reforms, but the management of conditionalities presents a trade-off between flexibility/continuity of support in changing circumstances and rigor in ensuring commitment and adherence to all the program components . A dilemma can arise (as experienced in the timing of approval of PSRLII), when the minimum "legal" requirements are met for proceeding to the next phase even though concerns exist about continued borrower commitment to some of the program components .

- The number of specific components, activities, conditions, and implementing agencies involved in a single operation should not be allowed to expand beyond the coordinating, monitoring and supervision capacities of the borrower and the Bank. The addition of new program elements to an already complex program under PSRLII strained implementation capacity and some of the important activities added to the operation might have been better handled through a separate investment operation .
- The probability of success of fast-disbursing programmatic loans that require substantial analytical foundations and significant institution building is enhanced when they are accompanied by investment lending for technical assistance and/or sector reform.

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR does a good job of presenting the relevant information and identifying issues and implications for the future of the program. It points out that the ICR format is not well suited to reporting on performance of single -tranche programmatic adjustment loans, which do not fit the traditional distinction between preparation and implementation/supervision of a discrete product: satisfactory performance might be assumed on Board approval, when contingent measures have been fulfilled, and the ensuing activities are, in effect, preparation for the next operation. The ICR mentions supporting TA operations and parallel investment loans in the HD sectors and draws the lesson that such operations enhance the probability of success of fast -disbursing programmatic loans . In assessment of multi-sector adjustment loans, it would be useful to have more information on the issues for coordination and on how, and how successfully, synergies have been exploited between the adjustment and related investment operations.