Statement by Luis Marti  
Date of Meeting: December 7, 2004

**Peru: Country Assistance Strategy Progress Report (CAS PR), Second Programmatic and Competitiveness Structural Adjustment Loan (DECSAL II) and Fourth Programmatic Social Reform Loan (PSRL IV)**

We welcome the discussion of the DECSAL II, PSRL IV and the CAS Progress Report and we would like to comment the following:

**CAS Progress Report** - During the past two years, Peru has been one of the best performing economies in Latin America. The present Administration has implemented sound macroeconomic policies allowing for declining fiscal deficits, stable exchange rate and sustained growth with low inflation. The macroeconomic policies have been supported by structural reforms focusing in three strategic pillars—competitiveness, improving equity, and enhancing the quality of public institutions. We commend the Government of Peru (GOP) in their significant progress in implementing important reforms (i.e. public pension system, the revamping of the tax administration system) that has allowed the country to move to the high case scenario.¹

Despite this outstanding performance, there are significant challenges for the future. Employment generation has to be expanded to make considerable inroads in poverty reduction. There are important obstacles to achieve broader and more productive employment: the low quality of education, further streamlining of the delivery of basic services, and inadequate infrastructure. The GOP remains committed to maintaining a sound macro environment to attract private investment, and consolidate fiscal decentralization process and the social service delivery reform.

We consider the mix of instruments (programmatic and investment loans, and AAA services) proposed in the CAS PR to be appropriate in supporting the GOP priorities. We welcome the proposed use of the Partial Risk Guarantee facility to promote the attraction of private investment in infrastructure. Considering Peru’s good performance, the Bank should seriously consider scaling-up its activities and portfolio in the country for this CAS. We also support the policy notes that are being prepared to ensure policy continuity for the new administration in 2006. Past experiences show that engaging with local partners in the development of the policy notes provides tremendous advantages not only gaining a greater understanding of the local conditions, but it is also an effective mechanism to build consensus and partnerships around issues identified as national priorities.³ Therefore, we urge the Bank Team to actively engage with local counterparts in the development of the policy notes.
DECSAL II and PSRL IV - Against this remarkable performance background, we would like to express our strong support for both operations that will allow the Peruvian Government to continue deepening their extensive reform program and to ensure the sustainability of the reforms over the medium and long term. These operations support the main priorities of the GOP’s strategy to reduce poverty, as identified in the CAS approved by the Board in August 2002.  

The DECSAL II is the second in a series of three programmatic loans that responds to the GOP reform program for competitiveness and decentralization. It will complement the actions of the GOP to increase competitiveness and reduce the costs of doing business by reducing logistical costs through improvements in public services infrastructure. It will also support the Government’s effort to maintain fiscal sustainability during the transition to a more decentralized state. 

The PSRL IV is the fourth and last in a series of programmatic loans to improve the management of resources and the institutional framework to provide better access, quality and delivery of social services through better targeting of social expenditures. It will also promote transparency and accountability. This operation will help the consolidation of the reforms initiated with the previous loans focusing in social expenditures management. 

Finally, we want to wish the Peruvian authorities and society every success in the consolidation and implementation of these ambitious reform program. 

1 US $1.6 billion envelope. 
2 See México, Colombia and Ecuador Policy notes. 
3 The central objectives of the CAS are: a) competitiveness and employment generation; b) equity and social justice, including access to health, education and basic services; and c) institutionalism to promote democracy and the rule of law, and an efficient, transparent and decentralized state.