

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

<Date>

Report No.: AB7592

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<b>Operation Name</b>	PE Social Inclusion DPL II
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Peru
<b>Sector</b>	Other social services (60%);Public administration- Other social services (20%);General education sector (10%);Health (10%)
<b>Operation ID</b>	P147216
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	REPUBLIC OF PERU
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<b>Implementing Agency</b>	
	Ministry of Economy and Finance Peru
<b>Date PID Prepared</b>	June 12, 2014
<b>Estimated Date of Appraisal</b>	September 3, 2014
<b>Estimated Date of Board Approval</b>	November 26, 2014
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
<b>Other Decision <i>{Optional}</i></b>	N/A

**I. Key development issues and rationale for Bank involvement**

1. **During the past decade, Peru has become one of the best performers in Latin America.** Over the last 10 years, growth has been strong, averaging 6.4 percent. Growth was also broad, particularly in the second half of the 2000s, when almost 33 percent of population escaped poverty between 2004 and 2012. The country managed to keep inflation low, to be in fiscal surplus since 2011, and to reduce its public debt to below 20 percent of GDP for the past two years. International reserves represent 33 percent of GDP and will serve as a buffer in case of external shocks. Nevertheless, the external environment remains challenging (weaker commodity prices, the Federal Reserve's tapering, impacts of natural phenomena such as *El Niño*, the economic slowdown of China affecting terms of trade?, among other things). In order to cope with these challenges and to sustain high growth, Peru needs to maintain its pace of structural reform, especially in human capital and infrastructure, and improve competitiveness.

2. **Despite some deceleration, economic growth remained strong and grew by 5.6 percent in 2013.** Due to economic slowdown, combined with decreasing terms of trade and the *Nuevo Sol* depreciation, private investment growth significantly lost momentum, generating concerns about sustainability of the current high growth rates.

3. **Prudent monetary policy and currency appreciation have resulted in high levels of international reserves.** Peru's Central Bank adjusted its policy interest rate from 4.25 to 4 percent in November 2013. It also loosened reserve requirements in local currency from 20 percent in June 2013 to 12 percent in April 2014 to encourage credit in local currency, as the US dollar was steadily appreciating. Despite somewhat elevated inflationary pressure, annual inflation remained in the target range fixed by the Central Bank in 2013. But since January 2014, the Consumer Price Index is breaking through the 3 percent ceiling fixed by the Central Bank and core inflation has remained above the upper band since June 2011.

4. **The current account deficit worsened from 3.3 to 4.6 percent of GDP in 2013 but it was compensated by the financial account.** This trend was mainly driven by the deterioration of trade balance, which displayed a deficit for the first time since 2001. Falling commodities prices (in particular copper and gold) mainly contributed to a fall in exports by 9.5 in 2013.. Despite decreasing FDI, short-term capital outflows and a fall in long-term loans, the financial account remained positive notably thanks to a surge of corporate bonds amounting to 2.8 percent of GDP that compensated partly the slowdown in capital inflows.

5. **Despite some deterioration, the fiscal account continued to remain in surplus.** Compared to 2012, fiscal account of Non-Financial Public Sector (NFPS) closed in 2013 with a surplus of 0.8 percent of GDP. In 2013, current general Government revenues grew by 3.7 percent reaching 21.7 percent of GDP; at the same time, current expenditures rose by 11.1 percent to represent 20.1 percent of GDP. This is the result of lower income tax revenues strongly affected by decreasing terms of trade as well as increasing current expenditures. The latter was mainly driven by salary rises in the public sector and transfers to provide financial support to environmental and social programs. In 2013, Central Government income tax revenues dropped from 7.3 to 6.7 percent of GDP due to a sharp decrease of income tax revenues from the mining sector. It was only partially offset by an increase in value-added taxes and other minor taxes.

## II. Proposed Objective(s)

6. The Project Development Objective continues to be that of the previous DPL operation: **to enhance the inclusiveness, performance and overall results-orientation of MIDIS programs and policies.** This PDO will be reached through two pillars: *(A) Reviewing Social Inclusion Programs' Design and Improving their Performance; and (B) Strengthening MIDIS institutional capabilities to implement Social Inclusion Programs.* While DPL I focused on the framework and the establishment of MIDIS reforms, this new operation will focus on the implementation and performance of the programs as well as the strengthening of MIDIS' core functions. Through the support provided by this proposed Project it is expected that Peru's authorities will be able to improve the targeting of social inclusion programs, enhance

their performance and, consequently, make them more effective at reducing poverty and promoting shared prosperity.

### **III. Preliminary Description**

7. The proposed DPL will focus on the implementation of the Government's Program in regards to its Social Inclusion Strategy. The operation is structured around two pillars. First, the DPL will support the development and implementation of policy actions corresponding to three of the five strategic areas described in the previous section (Infant Nutrition, Early Childhood Development, and Elderly Protection). The second pillar will support the strengthening of MIDIS in its role as coordinator and implementing agency of social inclusion policies.

### **PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS**

8. The proposed Social Inclusion DPL II is organized around two pillars. The first pillar supports authorities' initiatives to advance in the design, revision, and implementation of social programs aimed at increasing social inclusion in Peru. The second pillar supports the ongoing efforts to strengthen MIDIS institutional capabilities, including the targeting system, procedures to determine beneficiaries' eligibility, and use of data within the Ministry in a more effective way to review and monitor programs' implementation. In the following paragraphs a detailed discussion of the issues, proposed prior actions, and expected results for each pillar is presented.

#### ***Pillar A: Reviewing Social Inclusion Programs' Design and Improving their Performance***

This pillar will support the GoP's effort to design and implement programs aimed at increasing social inclusion through the five lines of the "*Incluir para Crecer*" strategy. Existing programs (*Foncodes, Juntos, Pension 65, Qali Warma, Cuna Mas*) are already aiming at increasing social inclusion results, and new initiatives will complement them. In particular, this Project will support the GoP's initiatives to advance in the strategic lines I (Infant nutrition), II (Early childhood development), and V (Elderly support) of the Social Inclusion Strategy.

#### **Prior Action I.1: Approval of Directives and Action Plan for Infant Nutrition and Early Childhood Development by an Inter-ministerial Council**

9. **Key Issues.** Recent statistics indicate that there are important challenges regarding ECD in Peru. In 2013, 17.5 percent of children younger than five years were chronically malnourished and 46.4 percent of children younger than three years were anemic. In addition, in 2012, only 4.7 percent of children younger than two years and 76.9 percent of children 3 to 5 years had access to early education services, while coverage for water and sanitation was 75 and 61.9 percent, respectively. Moreover, in 2012, the use of physical violence as a way of disciplining children exceeded 30 percent.

10. The gaps in terms of ECD are significantly larger in rural areas. The prevalence of chronic malnutrition in rural areas tripled that of urban areas in 2013 (32.3 versus 10.3 percent). In addition, the share of rural children with anemia was 7.9 percentage points higher than children living in urban areas (51.7 versus 43.8 percent). Similar gaps between rural and urban

children can be found in terms of education, access to water and sanitation, and violence indicators.

11. **Relevance.** ECD has been identified as one of the most relevant areas where societies should invest to increase human capital and foster future economic development. To maximize its impacts, investments in ECD should be managed as an integrated strategy involving multiple sectors, such as health, education, infrastructure and social protection. Also, a strong focus on results has been shown to produce more effective policies. However, in order to achieve these goals, it is critical that the involved institutions take ownership of this policy, by adopting a participatory model to design and implement these policies.

12. **Actions Implemented by GoP.** In October 2013, to address the gaps in ECD, the GoP launched an ECD initiative as a public sector priority along with ministers and regional and local authorities. As a result, in December 2013 with a supreme decree, a multi-sectoral commission was created to develop the guidelines "Children First" and an integrated action plan for the period 2014-2016. The decree defined the roles of stakeholders from different sectors and government levels and established a set of seven core goals to be reached at the national level. In addition, it identified and declared as priority 22 policy interventions, assigning responsibilities to implement them to different institutions.

13. The seven core goals defined by the guidelines are that: (i) children are born between 37 and 41 weeks of gestation with a healthy weight, (ii) children younger than 12 months have a safe caregiver attachment; (iii) children 0-36 months have an adequate nutritional status, (iv) children 9-36 months are able to communicate effectively verbally; (v) children 12 to 18 months can walk alone, (vi) children 2-5 years have learned to regulate their emotions and behaviors, and (vii) children 2-5 years have developed their ability to symbolic function (representing their experiences). Complementing the guidelines, the GoP created the Fund for Performance Incentives (*Fondo de Estímulo al Desempeño*, FED) to promote improved performance by those responsible of achieving results related to nutrition and early childhood development, by allocating additional budgetary resources to government agencies at the national and sub-national levels through results agreements.

14. **Prior Action.** The policy guidelines "Children First" produced by the National Commission led by MIDIS, and integrated by the Ministries of Economy and Finance, Education, Health, Women and Vulnerable Populations, Housing, Construction and Sanitation, Justice and Human Rights, Culture, Labor and Employment Promotion, and Energy and Mines, have been approved by a Supreme Resolution. These guidelines include definitions of: (i) institutional roles of the participants, (ii) verifiable goals and indicators of national early childhood policy, and (iii) identification of cost-effective interventions and criteria for allocating resources to priority interventions and territories.

### **Prior Action I.2: The Program Pension 65 reaches National Coverage**

15. **Key Issues.** *Pension 65* was introduced in Peru in 2011, responding to the very low coverage of traditional contributory pensions among the poorest and most vulnerable elderly. In 2010, only 1.5 percent of the population older than 65 years with household income per capita in the lowest quintile was receiving a pension benefit, compared to 58 percent for the richest

quintile. This serious inequity in a system that receives substantial support from general revenue taxes spurred a debate that resulted in the creation of the new social pension program. The initial coverage of *Pension 65* was limited to a few municipalities, due to financial restrictions and administrative difficulties. However, the strategy to gradually expand coverage proved very effective, including first the poorest and most vulnerable areas (where targeting was not an issue given the high incidence of poverty among the elderly in rural areas) and then expanding to urban and more complex settings. The main challenges for the GoP were to: (i) expand the program minimizing the risk of generating adverse incentives towards formal employment (hence, ensuring the adequate targeting of benefits); and (ii) manage the registration and payment processes in an effective way.

16. **Relevance.** By reaching nearly 345,000 beneficiaries by early 2014, *Pension 65* provides income to nearly 20 percent of the elderly population in Peru. The Program has been a critical component of the GoP effort to reduce extreme poverty among the elderly, with particular emphasis in rural areas. As a result, extreme poverty incidence for this age group declined from 8.3 percent to 5.1 percent between 2010 and 2013. In rural areas the decline was even faster, the extreme poverty headcount fell from 24.5 to 15.1 percent over the same period.

17. **Actions Implemented by GoP.** The implementation of *Pension 65* started in late 2011 in six departments identified as those where poverty incidence was higher than 50 percent, according to the Poverty Map prepared by INEI in 2009. Coverage began to expand to other departments soon after the Program's creation. However, a two stage targeting strategy that combined geographic and then individual targeting was maintained until recently.<sup>1</sup> As of March 2014, all districts in Peru have been included in the Program, and targeting is now done exclusively at the individual level. Hence, Peruvians from all districts can now benefit from this program, although it does not cover all eligible elderly, given budgetary restrictions.

18. **Prior Action.** *Pension 65* has reached national coverage, as it accepts beneficiaries from all districts of the country, as long as they comply with requirements defined by the National Household Targeting System (SISFOH). A detailed report indicating coverage rates by district will be submitted by the GoP as evidence for this prior action.

### ***Pillar B: Strengthening MIDIS institutional capabilities to implement Social Inclusion Programs***

19. This pillar will focus on the process of consolidating MIDIS structure and strengthening its analytical, policy design, implementing and monitoring capabilities. MIDIS' creation resulted in the absorption of previously existing institutions and programs that need to be integrated to work in coordination and effectively. Also, some areas, such as the Monitoring and Evaluation Directorate, as well as Targeting Unit, are either new or have gone through a deep redesign, and they need particular support to produce the expected results. A discussion of each prior action and the rationale for its inclusion in this DPL is presented next.

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<sup>1</sup> In the first stage, vulnerable departments were selected based on their aggregate poverty levels, in the second stage, individuals residing in those departments were included based on a proxy-means test using SISFOH - the National Household Targeting System.

**Prior Action II.1: Census collecting targeting data of potential beneficiaries has been completed**

20. **Key Issues.** The National Household Targeting System, SISFOH, began in 2004 as an initiative of the Ministry of Finance with the purpose of providing information to social programs to be used for the selection of users, thereby improving their equity and effectiveness. The system includes information on the socioeconomic characteristics of households, in the General Household Registry, operated by a Central Targeting Unit. Since January 2012, the system's administration has been managed by the General Directorate for the Management of Users (DGGU) in MIDIS. Since its establishment and operation, it has been providing information to various social programs, from the local food programs (*Vaso de Leche*, or Glass of Milk) to *JUNTOS*, health insurance (SIS) and *Pension 65*.

21. To ensure that social programs reach their target population, MIDIS requires appropriate mechanisms. Any targeting strategy involves three clear steps: (i) data collection; (ii) use of algorithm with eligibility rules to identify potential beneficiaries; and (iii) validation of the results. By consolidating SISFOH, MIDIS will be able to guarantee effective targeting of its interventions. The census collecting work recently completed is the most difficult and expensive step in terms of logistics, as it requires extensive field work. Currently, the system faces challenges in three main areas: (i) definition of clear and transparent processes for information gathering, updating and management of the General Household Registry; (ii) strengthening the function of Local Targeting Units as the unique "window" for the enrollment of new households; and (iii) defining clear, transparent and technically sound targeting algorithms and processes to identify, re-certify and graduate beneficiaries.

22. **Relevance.** The consolidation of the Household Targeting System contributes to the GoP's goal of improving the inclusiveness and effectiveness of social programs by providing standardized and transparent rules for the targeting of social programs, allowing the GoP to move towards an institutional framework with clear rules and division of roles and responsibilities between SISFOH, its users, and those who exercise stewardship of social policies and social spending.

23. **Actions Implemented by GoP.** MIDIS has identified and has been working on several areas aimed at strengthening the institutional capacity of SISFOH: (i) an update of the General Household Census for all 24 regions of Peru; (ii) the construction of a Unified Registry of Beneficiaries of Social Programs; (iii) the revision of the current algorithm to estimate a welfare index and the development of a new algorithm to minimize inclusion and exclusion errors; (iv) the development of standards and protocols for quality, security and confidentiality in the SISFOH system; and (v) the strengthening the function of Local Targeting Units.

24. **Prior Action.** The prior action in this policy area is the update of the General Household Registry with the collection of socio-economic information for 24 million Peruvians in the 24 regions of the country. This action is a key milestone in ensuring that the information to identify and select the population eligible to social programs is more current and with good coverage. Moreover, this information can serve as a valuable tool for the design and improvement of social policies. Specifically, MIDIS will provide a report detailing the data collection work, the number of interviews completed by district, and the delivery records of the dataset by INEI.

**Prior Action II.2: Approval of Directive by MIDIS regarding procedures to join, remain and exit social programs managed by MIDIS**

25. **Key issues.** As MIDIS was created, the Vice-ministry of Social Benefits became responsible for managing the five core social programs in Peru. The Vice-ministry of Social Benefits is responsible for the coordination of the programs ensuring the harmonization of processes to provide services, guaranteeing the quality of the services delivered, and facilitating the articulation across programs at the subnational level. This Vice-ministry includes two offices in charge of the coordination and quality control of the social programs: The General Office of Decentralization and Coordination of Social Programs and the General Office of Quality of Social Benefits.

26. Each of the five targeted social programs has its own operational regulations with eligibility criteria and implementation procedures, reflecting a level of heterogeneity that complicate the operation of the programs as a coordinated social strategy. In some cases, these rules are not clearly defined, but adopted at the operational level and in a case-by-case basis. In particular, the programs *Cuna Mas*, *Juntos*, and *Pension 65*, which are all targeted to poor and excluded populations, need a comparable and coherent set of rules defining how beneficiaries join and exit the programs.

27. **Relevance.** One of MIDIS priorities is the coordination and articulation of actions at the territorial level, where the programs offer their services. Such coordination across programs requires standardization of the programs rules whenever possible, given that they are targeted to similar populations. Even in the case of *Qali Warma* and FONCODES, where operations are based on schools and territories instead of individuals or households, the services are provided to poor and excluded populations. Thus, their eligibility, entry and graduation criteria should be consistent with the rules used by the other programs.

28. **Actions Implemented by GoP.** MIDIS has been making important efforts on three fronts: (i) revision of the current entry, permanence and exit rules for each of the programs; (ii) identification of the complementarities across programs in terms of those rules; and (iii) definition of common criteria for the eligibility, entry, permanence and exit, in addition to specific criteria for each program.

29. **Prior action.** The prior action in this policy area is the approval of a Ministry Resolution that defines clear criteria for beneficiaries to join, remain, and exit the programs for each of the three programs targeted to individuals or households.

**Prior Action II.3: Approval of Directive by MIDIS regarding procedures to collect, use, and exchange information about potential and actual beneficiaries within all units of MIDIS and the MIDIS social programs.**

30. **Key Issues.** As part of its functions, MIDIS collects and manages significant information about potential and actual beneficiaries of the social programs that it coordinates. SISFOH has a database at the household and individual level that covers approximately 80 percent of the population in Peru from a census conducted in the 24 regions of the country. Such information is extremely useful not only to characterize the population of Peru in process of inclusion, but also

to support MIDIS programs in their territorial activities and for the identification of beneficiaries. In addition, each MIDIS program counts on a separate database with information about current beneficiaries, which can be valuable for the monitoring and evaluation of the programs. These different databases are managed separately by the units and programs that generate the data.

31. The exchange of information is a crucial process for the Ministry's functions. However, the process to exchange information within MIDIS is not regulated internally, which limits the access and use of information for evidence-based decision making.

32. **Relevance.** Access to information about potential and actual beneficiaries of social programs is essential for the optimal operation of MIDIS' programs. However, the management of detailed and personal information requires protocols to ensure the confidentiality and appropriate use of the information. Thus, it is critical to have a clear set of rules about the process to exchange and manage the information across different units in MIDIS to guarantee quality and the opportunity to access and use the information.

33. **Actions Implemented by GoP.** MIDIS has been working in several areas to facilitate the responsible use of information: (i) revision of current legal norms on the collection, management, and exchange of personal information; (ii) identification and harmonization of individual-level information available in different units of MIDIS and in each of MIDIS' programs; and (iii) identification of the information needs across de Ministry, including the type, the frequency, and specific uses of the information.

34. **Prior Action.** The prior action of this policy area is the approval of a directive by MIDIS, establishing procedures to collect, use, and exchange information about potential and actual beneficiaries within all units of MIDIS and its social programs

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### **Poverty and Social Impacts**

35. Despite the improvement in terms of poverty and inequality in the last decade, Peru still shows striking disparities. Extreme poverty is highly concentrated and persists in some areas of the country and some specific groups of the population (e.g., indigenous populations, the elderly, etc.) still experience high levels of poverty and social exclusion. The creation of MIDIS reflects the commitment of the Government to foster social inclusion and reduce the disparities across the territory. Since MIDIS creation, poverty reduction of rural areas has accelerated. While poverty in urban areas fell half a percentage point between 2012 and 2013, rural poverty fell by 5 percentage points. Even so, this trend cannot only be attributed to MIDIS operations; it suggests that some other efforts may be paying off. Back of the envelope analysis using information from ENAHO indicate that the CCT program, *Juntos*, and *Pension 65*, may have contributed to the poverty reduction of eligible populations in a range between 1 to 2 percentage points.

36. The reforms supported by the DPL are specifically intended to reduce poverty and increase social inclusion for vulnerable groups. Nonetheless, a detailed analysis of the distributional impact of some of the policies proposed will be conducted as part of the

preparation of the operation. Monitoring of those issues will be carried out during the implementation of the reforms.

37. Taking into account the prior actions proposed by the DPL, a Poverty and Social Impact Assessment (PSIA) will be prepared. The PSIA will conduct a series of analysis to assess and quantify their potential impact. Regarding the first pillar of the DPL, two studies will be conducted. The first analysis will assess the impact of the Directives and Action Plan for Infant Nutrition and ECD. The important feature of this initiative is its multi-sectorial and integrated nature, thus the analysis will aim to measure the complementary impact of the efforts with probabilistic models using the National Demographic and Family Health Survey (ENDES). The second analysis will focus on measuring the distributional impact of the expansion of *Pension 65* using data from the National Household Survey (ENAHO) and the recently collected census for the SISFOH. Regarding the Second Pillar, we will study the impact of updating SISFOH on targeting. Using the recently collected census, the analysis will measure inclusion and exclusion errors in MIDIS social programs and evaluate the distributional impact of reducing those errors.

38. MIDIS will design and implement the PSIA in collaboration with the WBG. The ministry has strong analytical teams that will work with the Bank to assure high quality and policy-relevant analysis. In addition, the WBG team will work with MIDIS to produce disaggregated data analysis on gender and indigenous populations to evaluate the specific impact of proposed policies on those groups.

## Environment Aspects

39. The policies supported by this DPL and the prior actions included in the Policy Matrix focus on social programs design and implementation, and have no expected impacts on the environment, forest or other natural resources.

## V. Tentative financing

Source:		(\$m.)
Borrower		0
International Bank for Reconstruction and Development		30
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	30

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