PERU: COUNTRY ASSISTANCE STRATEGY

1. This CAS envisages a marked reduction in the scale of Bank assistance compared to previous levels, and seeks to concentrate resources in those sectors were recent economic reforms have not been translated into an improvement in social indicators. This is sensible approach, which I can wholeheartedly endorse.

2. The reduction in overall lending levels makes much sense given that mobilization of Bank resources is no longer a priority for Peru. I note that FDI flows continue to grow, that international reserves are relatively buoyant, and that loans from other sources, such as the IDB, continue to finance social support and infrastructure projects. Moreover, fiscal constraints mean that it is prudent to limit future debt burdens. In this context I note that despite recent debt renegotiations which should reduce total public sector foreign debt, debt service payments are projected to rise over the next two to three years.

3. I welcome the CAS' focus on improving poverty and social indicators, and on health and education services in poorer communities. Attention to these areas is not only desirable in its own right; such efforts will also support private investment initiatives, and thereby strengthen poorer communities’ ability to share in the benefits of continued economic growth.

4. I note that recent initiatives aimed at government revenue-sharing have shifted resources in the direction of rural municipalities in the fight against rural poverty. However, government spending in 1996 contracted sharply, and further reductions are set for 1997. Does this pose a threat to the priority areas of the government’s program for poverty reduction, such as the pledge to gradually increase teachers salaries over the next 10 years?

5. Peru’s impressive macroeconomic progress over recent years puts it at an important stage of development, where extensive structural reform is required to consolidate the benefits of stabilization. I note that Peru has made great efforts to implement an extensive, transparent privatization programme. But, as the CAS rightly notes, further institutional reforms are critical.
In particular, if Peru is to realize its full potential, and if investor confidence is to be maintained, legal reform will be necessary, not only of property rights, but wider judicial reform.

6. I welcome the Government’s vision of private-sector-led growth, and its commitment to an increased role for IFC. I wonder whether next time we should have a joint IBRD/IFC CAS.

7. Finally, I am pleased to note the agreement of the Government and the Bank on the need to maintain tight macroeconomic discipline. I would expect nothing less. However, bearing in mind the strong macroeconomic record of the Government, and its close relationship with the IMF, I very much welcome the downplaying of macroeconomic policy advice in the Bank’s projected programme. This is an encouraging example of the Bank re-prioritizing in the face of changing circumstances, and of playing to its comparative advantage.