PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB7770
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Operation Name	Peru DPL DDO 2
Region	LATIN AMERICA AND CARIBBEAN
Country	Latin America
Sector	General industry and trade sector (50%);Public administration- Industry and trade (30%);General public administration sector (20%)
Operation ID	P156858
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF PERU
Implementing Agency	
Date PID Prepared	August 31, 2015
Estimated Date of Appraisal	
Estimated Date of Board Approval	November 5, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
Other Decision *{Optional}*	*Teams can add more if they wish or delete this row if no other decisions are added*

I. Key development issues and rationale for Bank involvement

Sound macroeconomic and structural policies over the last 20 years rendered significant growth and poverty reduction dividends for the country. Peru grew at an average of 4.5 percent per year during 1990–2013 (compared to regional and global growth of around 3 percent). Under a more favorable external environment for its commodities, Peru grew at an even faster average rate—above 6 percent per year—during the last decade. Growth helped Peru to reduce poverty from 54.8 to 25.8 percent of the population between 2001 and 2012, faster than other countries with similar income levels. Growth was also widely shared: between 2004 and 2013, real income per capita of the bottom 40 percent grew at an average 6.8 percent, above the 4.4 percent national average. Throughout this period of growth and good external conditions, and unlike many countries, Peru saved the windfall, leaving itself with significant savings to continue to afford needed investments and strong macroeconomic buffers to face more challenging times.

Peru continues to have a sound macroeconomic policy framework. Growth slowed to 2.4 percent in 2014, but the ample macroeconomic buffers allowed the country to undertake moderate, prudent, and temporary counter-cyclical fiscal policy in 2014 and 2015, without compromising macroeconomic stability. The fiscal impulse is expected to be withdrawn gradually, starting in 2016. The fiscal deficit is projected to reach 1.9 percent of GDP in 2016 and 1.5 percent in 2017. Monetary policy has been prudent, and the central bank adheres to a well-established inflation targeting regime. The current account is hovering around 4 percent of GDP, and remains mostly covered by FDI and portfolio investments. Foreign exchange reserves stand at 31 percent of GDP or 18 months of imports and public debt remained relatively low at 20 percent of GDP by end 2014.

But the headwinds of the new global context, the need to continue advancing the social gains of the last years, and the ambition of Peru to continue its path of income convergence towards OECD levels, requires a new reform momentum. Sustaining the pace of economic development and poverty reduction in times of lower external demand for commodities requires that Peru's engine of growth relies even more on higher productivity and export competitiveness. Against this background, the authorities have started a new wave of reforms to further improve the policy environment to foster firms' productivity. The DPF-DDO supports the objectives of the authorities' reform agenda focusing measures (i) facilitating entry, operation, and exit of firms and (ii) facilitating trade**.** The objectives of the DPF-DDO are fully aligned with key parts of the Country Partnership Strategy (CPS).

II. Proposed Objective(s)

The DPF-DDO supports the Peruvian government's National Competitiveness Agenda 2014-2018. The proposed DPF-DDO supports measures to foster productivity and trade competitiveness in the private sector that are part of the country National Competitiveness Plan 2014-18. Although a portion of Peru's growth has been driven by improvements in productivity, in the next stage of convergence, and under the new external conditions, a larger contribution to economic growth will have to come from increasing productivity. There is firm-level evidence that Peruvian markets tend to misallocate labor and capital to less productive workplaces, that small and medium size firms in Peru grow very slowly compared to firms in countries at the same level of income, and that Peruvian firms trade relatively little despite a liberalized trade regime. The National Competitiveness Agenda starts a new wave of reforms to deal with these issues. The DPF-DDO is structured around two pillars: (i) facilitating entry, operation, and exit of firms; and (2) facilitating trade.

A contingent financing alternative such as the one provided by the DPF-DDO is very important for the authorities' financial planning. The deficit for 2015 is already fully financed, and the authorities have started pre-financing for 2016. Like in past engagements with DPF-DDOs in Peru, the contingent financing embedded in this DPF-DDO is not seen as immediate financing, but rather as a buffer to help support the authorities financing plans in coming years. The authorities see the DPF-DDO as a very useful alternative, particularly as borrowing costs for emerging economies may increase in the context of the tapering of monetary policy in the United States. The authorities also value the support of the Bank through policy financing since the DPF-DDO embeds technical advice and it signals the Government's commitment to critical reforms to support economic growth.

III. Preliminary Description

The proposed Boosting Productivity for Growth Development Policy Financing with a Deferred Drawdown Option (DPF-DDO) aims to support Peru's efforts to foster productivity growth and competitiveness under a more challenging external environment. Lower export demand, including from China, worsening terms of trade, and the prospects of higher borrowing costs is affecting a large number of emerging economies. In this context, a larger portion of economic growth in Peru will have to come from further increasing productivity growth and trade competitiveness in the economy. The proposed DPF-DDO supports measures to foster productivity and trade competitiveness in the private sector that are part of the country National Competitiveness Plan 2014-18. First, the reforms will facilitate business regulations and harmonize them among different municipalities across the country. The will make the implementation of laws and regulations more consistent and predictable for all firms in Peru. It will further encourage the entry of new firms and formal sector job creation. Second, the reforms will reduce the administrative burden for firms to trade and support firms in producing higher quality goods to meet international quality standards. This will further promote firm entry, export competitiveness, and job creation in the formal sector.

IV. Poverty and Social Impacts and Environment Aspects

The short term poverty and social impacts of policy measures supported under this DPF series are expected to be either positive or negligible, and to be positive over the medium term. The policy areas covered by the operation are: (i) facilitating entry, operation, and exit of firms and (iii) facilitating trade. All policies aim to promote private sector-driven growth by facilitating the entry, operations, and exit of firms and enhancing their export competitiveness. The reforms are expected to result in more private sector competition raising firm productivity and inducing stronger economic growth in the medium and long term. The higher growth is expected to be inclusive, with poorer segments of society experiencing a sustainable increase in well-being through better access to services and economic opportunities. The reduction in the administrative burden for formal firms is expected to reduce informality which disproportionally benefits the bottom 40 percent of the income distribution. The impact of each individual reform is expected to have only marginal effects on formalization but taken together, the synergies in the proposed operation can have a noticeable impact.

The specific policies supported by the DPF series are not likely to have significant effects on Peru's environment, forests, water resources, habitats or other natural resources. The policy areas covered by the operation are: (i) facilitating entry, operation, and exit of firms; and (iii) facilitating trade. The risk of unanticipated adverse effects to the environment and natural resources is very small. Credible scenarios for any significant, direct or indirect negative impacts appear very unlikely. Peru has adequate environmental controls in place and environmental legislation and regulations are aligned with best international practices. In particular, Peru has adopted international guidelines for integrating environmental assessments into project planning and programming for both public and private projects.

V. Tentative financing

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

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