

IFAD INSTITUTIONAL SCALING UP REVIEW

Phase 2

Background Paper

Scaling Up of IFAD Programs in Peru

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SCALING UP IFAD INTERVENTIONS IN PERU
AN UPDATED CASE STUDY

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ABBREVIATIONS AND ACCRONYMS

ALIADOS	<i>Programa de apoyo a las alianzas rurales productivas de la Sierra</i> Productive Rural Alliances in the Highlands Support Programme
CEPES	<i>Centro Peruano de Estudios Sociales</i> Peruvian Centre for Social Studies
CIAS	<i>Comision Interministerial de Asuntos Sociales</i> Interministerial Commission for Social Affairs
COSOP	Country Strategy Opportunities Papers
CPM	Country Programme Manager
ENAHO	<i>Encuesta Nacional de Hogares</i> National Household Survey
EIRR	Economic internal rate of return
FONCODES	<i>Fondo Nacional de Compensación y Desarrollo Social</i> National Social Development and Compensation Fund
DTR-RIMISP	<i>Programa Dinámicas Territoriales Rurales-Centro Latinoamericano de Desarrollo Rural</i> Territorial Development Programme- Latin-American Rural Development Centre
GDP	Gross Domestic Product
GRADE	<i>Grupo de Analisis para el Desarrollo</i> Development Analysis Group
IBRD	International Bank for Reconstruction and Development
ICO	In Country Officer
IDB	Interamerican Development Bank
IDRC	International Development Research Centre
IEE	Independent External Evaluation
IEP	<i>Instituto de Estudios Peruanos</i> Peruvian Studies Institute
INEI	<i>Instituto Nacional de Estadística e Informatica</i> National Statistic Institute
JBIC	Japanese Bank for International Cooperation
LRAC	Local Resource Allocation Committee
LSMS	Living Standards Measurement Survey
MARENASS	<i>Manejo de Recursos Naturales en la Sierra Sur</i> Management of Natural Resources in the Southern Highlands
MEF	<i>Ministerio de Economía y Finanzas</i> Ministry for Economy and Finance
MIDIS	<i>Ministerio de Desarrollo e Inclusion social</i> Ministry of Development and Social Inclusion
MINAG	<i>Ministerio de Agricultura</i> Ministry of Agriculture
MINDES	Ministry of Women's Affairs and Social Development
NEC	<i>Nucleo Ejecutor</i> Central Main executing group
NRM	Natural Resource Management

ODEL	<i>Oficina de desarrollo local</i> Local Development Office
PBAS	Performance Based Allocation System
PEIR	<i>Programa de escalonamiento de innovaciones rurales</i> Scaling-up Programme for rural innovations
PCM	<i>Presidencia del Consejo de Ministros</i> Prime Minister's Office
PCR	Project Completion Report
PMU	Project Management Unit
PRONAMACHS	<i>Programa Nacional de Cuencas Hidrográficas y Conservación de Suelos</i> National Program for Watershed Management and Soil Conservation
PROSAAMER	<i>Programa de Servicios de Apoyo para Acceder a Mercados Rurales</i> Support Services to Access Rural Markets Programme
REMURPE	<i>Red Municipalidades Rurales de Peru</i> Network of rural Municipalities Peru
RIMS	Result and Impact Management System
SNIP	<i>Sistema Nacional de Inversion Pública</i> National Public Investment System

Exchange Rate:
US Dollar 1 = Peru Nuevos Soles 2.78

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1. BRIEF COUNTRY SUMMARY

A. Agricultural and rural development¹

Rural development in Peru must be viewed in the context of its varied geography which requires adopting approaches and solutions to existing problems based on distinct area conditions. With an area of 1,285,216 km², Peru is the fourth largest country in Latin America. From a geographical point of view the country includes three different areas: (i) the *Costa*, a desert plain interrupted by irrigated valleys occupying 11% of the total land mass and accounting for 60% of agricultural Gross Domestic Product (GDP); (ii) the *Sierra*, a mountainous region covering 30% of the land mass that contributes about 25% of agricultural GDP; and (iii) the *Selva*, a tropical rain forest in the eastern lowlands of the Amazon basin, which covers 60% of the total area and contributes about 15% of agricultural GDP. In terms of population, 54% of the population lives on the *Costa* while the *Sierra* is home to 32% and the *Selva* 13.4% of the total population. The average population density is approximately 22 inhabitants/km², with a growth rate of 1.6% per year.

Agriculture

According to the latest agricultural census (1994), around 5.4 million hectares are arable land. This equates to 1.7 million farm units with an average size of just over three hectares, reflecting a high level of land fragmentation. The agricultural structures and production are based on the agro-ecological characteristics and social and economic conditions of the *Costa*, *Sierra* and *Selva* regions described above. In the *Costa*, agriculture is concentrated in 53 valleys that have the most productive soils in the country and is characterized by relatively high market integration for export products such as asparagus, mangoes and paprika. Agriculture in the *Sierra*, on land situated between 800 and 4 000 meters, is mainly rain fed, and soil fertility is low. Production is intended largely for home consumption. In the lowlands of the *Selva* region, agricultural activities are limited, however, at higher altitudes, coffee, cocoa, rice, maize, cassava and oil palm are grown.

The heterogeneity of agriculture in Peru gives rise to social, economic and technological differences; Peruvian agriculture and society are characterized by a distinct duality. On the one hand, there is efficient and modern agricultural production mainly for export products such as asparagus, mangoes and paprika produced in the rich coastal valleys and, on the other hand, more than one million households are engaged in subsistence farming, mostly located in the *Sierra*, diversifying their income through off-farm employment, crafts and other activities.

About 24% of households in Peru are considered to be engaged in agricultural production representing approximately 1.6 million households considering that their income earnings from agricultural activities is more than 40% of their total earnings. In rural areas, however, 60% of farm households would fit this definition. Moreover, approximately 39% of all households are engaged in agricultural activities which would represent about 2.6 million households, while in rural areas this percentage reaches up to 90%. For rural households engaged in agriculture as

¹ See IFAD, 2010, Programme for Local development Support in Highland and High Altitude Rain Forest Areas.

their main occupation, agricultural income accounts on average for just over 45% of their total income, non-agricultural income for 30% and income from both public and private transfers to 25%.

Recent studies on rural development in Peru² indicate that in general there are three major constraints to achieving a competitive and inclusive rural economy. First, there are limited linkages to national and world markets for rural products. Second, local markets lack in dynamism. Both these factors can be attributed to market failures caused by the presence of risk, uncertainty and lack of information, as well as the structural characteristics of rural areas that includes fragmentation of ownership, limited cooperation between producers, organizational weakness, geographical dispersion, vulnerability to external and market and climate shocks, which limit larger production scales and access to financial services and innovation. These conditions are exacerbated by the absence of infrastructure, such as electrification, rural roads, highways and telecommunication services. A third limiting factor for rural development is the lack of appropriate national institutions, regional and local, public and private, which would help to overcome the first two sets of constraints.

B. Rural poverty context

Overall poverty in Peru is declining, from 54.8% in 2001 to 31.3% in 2010. Regionally disaggregated data show that during the last decade rural poverty in the Highlands has diminished by 22.9%. In contrast, poverty in rural highlands remains at 61.2% whilst 28.5% of rural highlands population is still in extreme poverty.

Table 1: Poverty and extreme poverty in Peru

Area	% of Poverty 2001	% of Poverty 2010	Poverty reduction (2001-2010) %	Extreme Poverty 2001	Extreme poverty 2010 %	Extreme poverty (2001-2010) %
Peru	54.8	31.3	23.5	24.4	9.8	14.6
Urban	42.0	19.1	22.9	9.5	2.5	7.4
Rural	78.4	54.2	24.2	51.3	23.3	28.0
Highlands	72.0	49.1	22.9	45.6	20.1	25.5
Selva	68.7	37.3	31.4	39.7	12.8	26.9
Costa	39.3	17.7	21.6	5.8	2.0	3.8

Poverty reduction strategies

The responsibility for implementing the government's poverty reduction strategy lies in the Prime Minister's Office (PCM) which coordinates and supervises multisectoral policies and programmes. Under the Toledo Administration (2001–2006), a number of important norms for

² Agreda and Mendieta (2006) "Propuestas para una economía rural competitiva e incluyente, en el marco de un desarrollo territorial" Lima, CIES y Trivelli y De Los Ríos (2007) "Lineamientos y criterios operativos para implementar una estrategia de desarrollo rural para la Sierra"

guiding poverty reduction actions were adopted, including: (a) a strategy for overcoming poverty and creating economic opportunities for the poor (2003); (b) a national strategy for food security (2004); and (c) a national strategy for rural development (2004). All these strategic approaches assigned responsibility for implementation to the Inter-ministerial Commission for Social Affairs (CIAS), a multisectoral body of the PCM.

Under the Garcia Administration (2006–2011) and as part of state reform, several programmes and projects to combat poverty have been streamlined, with a focus on the Ministry of Agriculture and the Ministry of Women and Social Development. The role of the CIAS as a coordinating entity was strengthened, with CIAS developing the *Crecer Productivo* (“productive growth”) strategy in an effort to coordinate State action along three main pillars: Pillar 1 including programmes to combat hunger, focusing on reducing chronic malnutrition among children; Pillar 2 concerning the development of economic opportunities for the poorest; and Pillar 3 aiming at establishing and strengthening the social safety net. At the centre of the *Crecer Productivo* strategy is a conditional cash transfer programme, known as JUNTOS, which focuses on the poorest districts by providing a monthly payment of around US\$30 per family for four years. By mid-2008, JUNTOS had already served more than 400,000 beneficiaries in more than 600 districts, most of which were rural.

The new Humalla Administration, elected in April 2011, created the Ministry of Development and Social Inclusion (MIDIS) and late 2011 had not published its new Poverty Reduction Strategy which would articulate how the government plans to achieve its national poverty target of 20% by 2015. The government has indicated that it will continue to use JUNTOS as one of its main delivery instruments. Since the operations of AGRORURAL, the main scaling up agency of IFAD innovations, currently under the Ministry of Agriculture, are mainly of a social nature, this agency may eventually be merged with the new MIDIS.

2. IFAD OPERATIONS IN PERU

A. IFAD’s country strategy

Over three decades (1980–2011) IFAD has consistently funded poverty reduction efforts in the highlands or *Sierra* region of Peru where poverty levels are severe. Its Country Strategy Opportunities Papers (COSOPs) clearly set out the course for its support to the country.

In 2005, the Independent External Evaluation (IEE)³ of IFAD commented on IFAD’s strategy in Peru as contained in the first COSOP (April 2002⁴). It concluded that the strategy for Peru was well aligned with IFAD’s strategic framework, as it addressed the following key objectives: (i) strengthening the capacity of the rural poor and their organizations; (ii) improving equitable access to productive natural resources and technology; and (iii) increasing access to financial assets and markets.. It further noted that the strategy had evolved in a coherent manner over time and that there was evidence of local ownership as described in the COSOP consultation process.

³ An Independent External Evaluation of the International Fund for Agricultural Development IFAD Office of Evaluation September 2005

⁴ EB 2002/75/R.16/Rev.1

Peru's second COSOP⁵ considered by the Executive Board in September 2009 reaffirmed IFAD's commitment to reducing poverty conditions in the Highlands and consolidating gains obtained through the use of a number of social mechanisms. Its three main objectives further deepened tried approaches, including: (i) improved management and technical capacities of rural communities to assure sustainable use and control of natural resources and physical assets; (ii) increased access to quality public and private, financial and non-financial services, improved competitiveness and enhanced market linkages and, (iii) increased community involvement in decentralized policy and decision-making processes by regional and local governments. This ongoing COSOP explicitly includes a scaling up strategy.

This strategy encompasses an institutional and policy objective aimed at strengthening regional and local institutions and promoting a territorial development approach with the potential to reduce rural poverty in regions in which secondary cities are located, thus making investments in rural development more effective than in the past. In agreement with government authorities future IFAD operations in the country would consider a larger than usual intervention allowing for scaling up of tried approaches and methodologies.

IFAD's past and current operations in Peru are part of an agreed overall IFAD - government strategy that aims to:

- increase and/or add value to the human, social, natural, physical and financial assets of rural poor;
- strengthen the capacity of local institutions, communities and rural organizations to manage their assets with special attention to sustainable use and control of natural resources;
- strengthen and empower the organizations of the rural poor in terms of their management capacities, market positioning, entrepreneurial activities and capacity to contract financial and non-financial services;
- improve access to services, such as technical assistance and financial services, by fostering the development of local service markets, including private and public service providers;
- foster local development by making local institutions and communities responsible for decisions regarding project funds and implementation, transforming participation into empowerment by designing projects that transfer not only decision-making but also, more importantly, financial resources to community groups;
- promote rural-urban linkages by helping small-scale entrepreneurs expand their non-agricultural activities and support local farmers who establish agriculture-related enterprises in nearby small and medium-size towns and;
- support the decentralization process of regional and local governments within a territorial development approach.

As part of its regular reviews of COSOPs, IFAD in 2011 undertook a Midterm Review of its Peru COSOP. The Country Review team concluded with national authorities that it would be necessary to prepare a new RB COSOP during 2012 bearing in mind changes being brought about by the new Humalla Administration and the establishment of MIDIS. The new COSOP will put a sharper focus on social inclusion as the cornerstone of interventions in the struggle against poverty conditions in the country

⁵ EB 2009/97/R.11

B. Overview of IFAD's operations

Portfolio of IFAD projects

Since 1980, IFAD has provided nine loans to Peru for a total of US\$124.0 million targeting 120,000 households. In comparison with other donors, IFAD has a relatively small loan portfolio in Peru. Between 2003-2009 the agricultural portfolio of the International Bank for Reconstruction and Development (IBRD) amounted to US\$ 201 million. The total engagement of the World Bank Group in Peru was US\$4.8 billion during this time.⁶ With the exception of one project in the *Selva Alta (Alto Mayo)*, all projects have addressed the needs of small-scale farmers in the highlands.

Table 2: Loan Portfolio⁷:

Name of project	Duration	Total cost	IFAD loan	Target households
		US\$ '000	US\$ '000	
Credit for Small Farmers on the Highlands	1980 - 1985	17.0	11.9	6,500
Alto Mayo Rural Development Project	1983 - 1993	79.7	19.0	8,500
Cuzco-Arequipa Highlands Rural Development Project	1987 - 1993	14.7	7.0	4,800
Promotion of Technology Transfer Project to Peasant Communities in the Highlands (FEAS)	1993 - 1999	26.8	15.9	40,680
Management of Natural Resources in the Southern Highlands Project (MARENASS)	1997 - 2004	19.1	12.3	30,000 ⁸
Development of the Puno-Cusco Corridor Project (CORREDOR)	2000 - 2008	30.9	18.9	14,400
Market Strengthening and Livelihood Diversification in the Southern Highlands Project (SIERRA SUR I) ⁹	2005 - 2011	21.7	16.0	15,000
Project for Strengthening Assets, Markets and Rural Development Policies in the Northern Highlands(SIERRA NORTE)	2009 - 2015	22.0	14.4	20,000
Market Strengthening and Livelihood Diversification in the Southern Highlands Project II (Sierra Sur II)	2011-2013	12.7	8.2	14,000

⁶ WBG/IEG: Country Programme Evaluation Peru, 2003-2009

⁷ Summarized from IFAD web page by author

⁸ In the last four operations a clear distinction was made between direct and indirect beneficiary households

⁹ Supplementary funding of SIERRA SUR approved by the Executive Board in December 2009 is not included

IFAD's latest operation started in the Northern Highlands of Peru in 2009, whereas from 1997 until 2009, MARENASS, CORREDOR and SIERRA SUR were all concentrated in the Southern Highlands.¹⁰

Over more than 15 years and through a sequence of projects, IFAD and the government of Peru introduced a series of innovations that included: (i) transforming a supply based system for the provision of technical assistance or extension services to a demand-driven service under market conditions by transferring monetary resources directly to beneficiary communities for them to contract services provided by private technicians (FEAS), (ii) focusing on management of productive natural resources, through the use of a competition-based methodology known as "*Pacha Mama Raymi*" (MARENASS) and (iii) expanding the scope of projects by furthering the concept of socio-economic development corridors, recognizing the relevance of urban-rural linkages, the importance of micro enterprises activities and the need to foster business opportunities and the development of local markets for goods and services (CORREDOR).

Innovation in the MARENASS project was understood as a series of concepts, criteria and instruments that the Government of Peru and IFAD implemented systematically for the first time in a considerable scale over time, in a large area and with considerable resources and in a way that was novel in Latin America. Implementation of this project synthesized other fragmented and incomplete experiences.¹¹

The CORREDOR project replicated successful practices from FEAS and MARENASS and expanded the geographical coverage in the Southern highlands (650 communities) and included an initiative to add value to beneficiaries' cultural assets including the identification of market potential for products with a cultural content. Additionally a pilot programme to promote savings among rural poor women was introduced as a new innovation in the context of a sub component to enhance financial markets.

In SIERRA SUR I and II projects, the accumulated experiences and tried innovations introduced in predecessor projects are being deepened in pursuit of enhanced impact. The projects include distinct knowledge management components, which are strengthened through grant funding. Project staffs participate in the Regional Research and Dissemination Program for Scaling up Rural Innovations (PEIR), a joint IFAD-IDRC initiative. This programme aims to identify, understand and expand the use of successful rural innovations that value the rural poor's strategies and assets. It encourages public policies and investment that facilitate sustained, decentralized scaling up of those innovations. Activities are carried out to systematize and disseminate experiences gained.

The SIERRA NORTE project expands coverage and tests approaches in a similar geographical setting but with distinct social organizational structures. It also faces and addresses new challenges, as communities are widely spaced apart with difficult road connectivity and includes new actors, such as mining companies. The SIERRA NORTE project aims to protect and enhance the natural and cultural heritage of poor rural households in the northern highlands of Peru, strengthening community organizations in rural areas and opening new markets for entrepreneurial activities. The earlier Sierra Sur approaches have been modified to extend its awards systems for the allocation of resources and the participatory mapping for natural resources assessment not only to communities but also to municipalities.

¹⁰ See map at the beginning of the paper.

¹¹ See Pierre de Zutter, 2004, Diez claves de éxito para el desarrollo rural, MARENASS y el CORREDOR project

In agreement with the Government of Peru, the COSOP (2009) included a concept note for Local Development Support in Highland and High Altitude Rain Forest Areas (“SIERRA/SELVA HIGHLANDS”). This concept note led to a project design process which was initially under the leadership of IFAD. In parallel, the Ministry of Economy and Finance (MEF) tasked the Ministry of Agriculture (MINAG) to develop project design documents in conformity with procedures of the ‘Sistema Nacional de Inversion Publica’ (SNIP). These design documents were cleared internally by MEF in September 2011 with the conditionality that design passes new sensitivity tests and refers to ex-post IFAD project impact assessments.

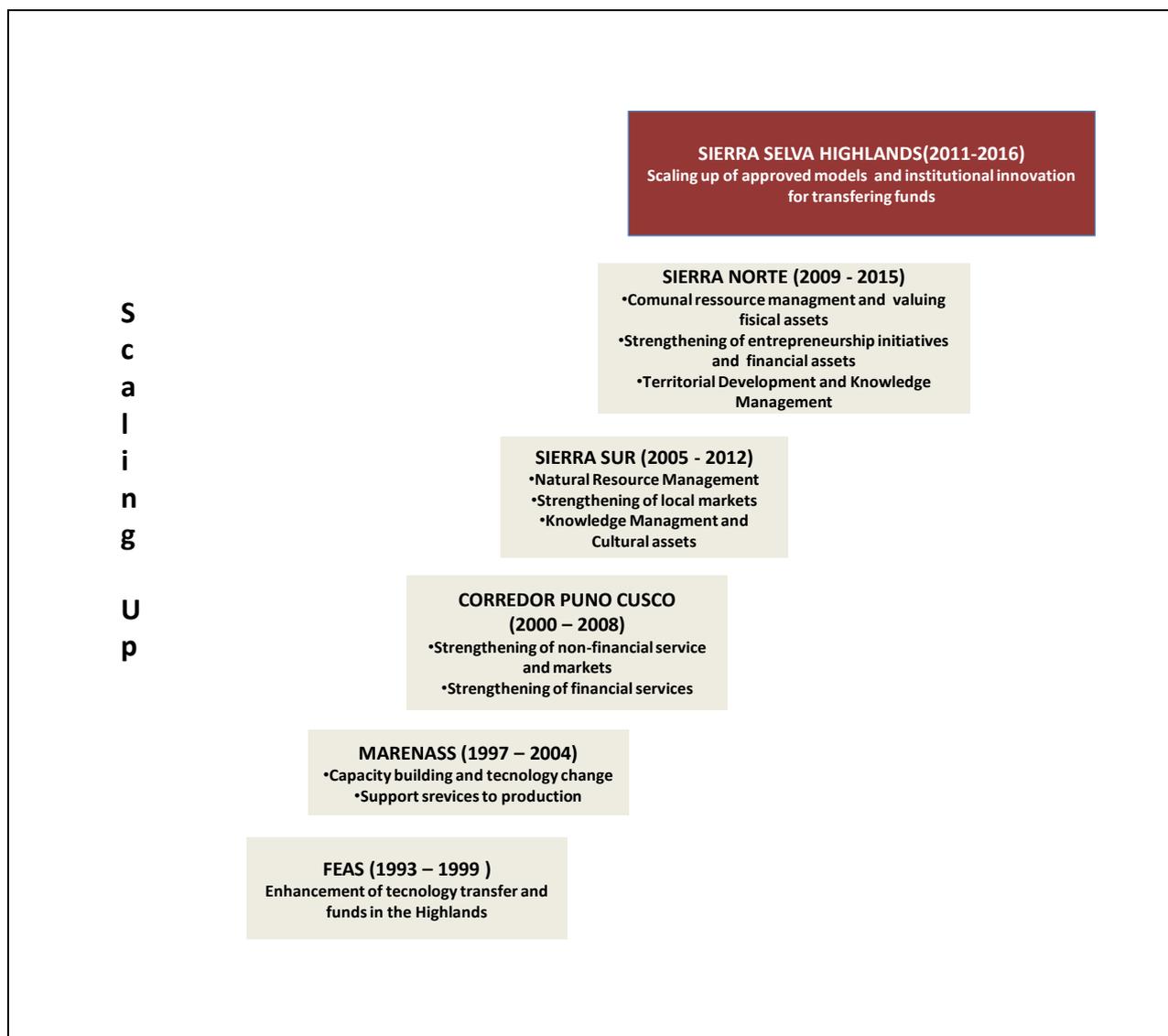
The new proposed programme can be considered as a scaling up effort, since it extends to new areas innovations developed and successfully applied in prior IFAD-funded operations in Peru. The main components are: (a) scaling up and appropriation of operational modalities by local stakeholders; (b) strengthening decentralized management of local development; and (c) strengthening of the implementing agency. The programme will benefit ca. 40,000 families in approx. 85 municipalities directly and indirectly benefit another 200 municipalities. Total planned investments amount to approx. US\$30 million.

The most significant element for scaling up included in the project design was the use of a competition between jurisdictions (local governments or municipalities), aimed at providing assistance and incentives to municipalities so that they could improve their management skills, invest and manage their budgetary resources to meet the economic initiatives of citizens in their jurisdictions and, at the same time, introduce reforms to ensure that available budgets, including royalties from mining companies, transferred to them by the central government, are used in a transparent and competitive manner

Timelines and synergies between IFAD operations are graphically illustrated¹² in Figure 1 below.

¹² MINAG, Estudio de Preinversión a nivel de PERFIL, Programme for Local development support in Highland and High Altitude rain forest areas, Junio, 2011

Figure 1: Scaling up IFAD operations in Peru: timelines and key aspects.



C. Implementation arrangements and institutional set up

IFAD funded projects have been under the responsibility of different government entities. Some of them, as in the case of the CORREDOR and SIERRA SUR projects, have been under four different agencies: the National Compensation and Social Development Fund (FONCODES), the Ministry of Women’s Affairs and Social Development (MINDES), the Management of Natural Resources in the Highlands (MARENAS) as a unit of the Ministry of Agriculture and lastly under AGRORURAL, established in January 2009 as an umbrella organization of the Ministry of Agriculture.

As the lead agency responsible for agriculture and rural development, the Ministry of Agriculture (MINAG) has the mandate to reduce poverty and improve living conditions in rural areas by integrating small-scale producer and subsistence farmers into the marketplace and

supporting them in natural resource management, quality control, technology transfer and increased productivity to help them achieve greater profitability and competitiveness.

Under the Humalla Administration the Ministry of Development and Social Inclusion (MIDIS) was set up. Its mandate has not yet been translated into institutional and operational arrangements. This may affect AGRORURAL as mentioned above.

MINAG's strategy for poverty reduction gives special attention to the Peruvian *Selva* and *Sierra* regions with the objectives to: (a) increase access to and improve use of water resources; (b) provide better access to local and foreign markets; (c) strengthen agricultural research; and (d) further rural development. The inclusion of rural development as a priority represents a substantial change in traditional Ministry of Agriculture approaches.

AGRORURAL's mission is to "promote and manage successful models of rural development, facilitate the articulation of public-private investment and contribute to the inclusion of rural families". The strategic objectives of AGRORURAL are to: (a) promote the streamlining of programmes and projects for more efficient State interventions in rural areas; (b) strengthen the institutional framework for public-private management of rural development at the national, regional and local levels; (c) promote knowledge management to highlight successful experiences in rural development; and (d) promote investment in the rural sector by mobilizing resources through public-private partnerships.

The decision by the authorities to place a number of rural development projects under AGRORURAL augurs well for scaling up comprehensive and harmonized interventions in reducing poverty conditions in the Highlands. These projects are SIERRA SUR (I and II), SIERRA NORTE, the future SIERRA/SELVA HIGHLANDS, the World Bank funded project, *Programa de apoyo a las alianzas rurales productivas de la Sierra* (ALIADOS), the Japanese Bank for International Cooperation (JBICs), *Manejo de recursos naturales para el alivio d la pobreza en la Sierra*, the two IDB-funded project *Programa de Servicios de Apoyo para Acceder a Mercados Rurales* (PROSAAMER) and the pilot project *Recuperacion de Andenas*".

D. Effectiveness and impact of scaling up process

IFAD's Peru operations have been extensively reviewed and evaluated¹³ by the Government, IFAD and external consultants. Overall experience in implementing rural development programmes and projects has been analysed and useful lessons disseminated by the Ministry of Agriculture, highlighting IFAD's contributions.¹⁴ The IEE of IFAD concluded that the Peru country programme was remarkably rich and innovative, with a strong, demand-driven approach that allowed target groups to make their own decisions, resulting in a surprisingly large amount of household resources being invested in project-supported activities. Gains made under the country programme included: (a) rising levels of food security directly attributable to the projects; and (b) a dramatic improvement in the self-esteem of beneficiaries. Communities and

¹³ Completion evaluations of the Credit for Small-Scale Producers in the Highlands project (1988), the Rural Development Project in the Highlands of Cusco and Arequipa (1995) and the Strengthening Extension Services in the Highlands project (2002), MARENASS (September 2005), CORREDOR (December 2008) and mid-term evaluations of MARENASS (2002) and CORREDOR projects (April 2006) and SIERRA SUR (MTR: September 2009; CPR: October 2011). Additionally, Peru has benefited from a thematic evaluation of innovative experiences in IFAD projects in Peru and an in-depth analysis of the country programme carried out as part of the Independent External Evaluation of IFAD (2005)

¹⁴ Ministry of Agriculture, 2006, "Experiencias Exitosas de Programas y Proyectos de Desarrollo Rural en el Perú".

groups were enabled to manage their activities and plan new ones and to call on the Government and agencies to protect and enhance their interests. Project performance was found to be highly satisfactory, supported by a strong, locally resident CPM, project staff and a stable group of consultants and associates in Peru’s ministries and social science research centres.

Although the interim evaluations of the MARENASS and CORREDOR projects did not specifically refer to a scaling up process they implicitly suggested it. The agreement at completion point¹⁵ for the Independent Office of Evaluation (IOE) interim evaluation (2002) of the MARENASS project recommended that national authorities, the institutions concerned, MARENASS and IFAD initiate a policy dialogue and an analysis/debate in order to begin “translating” the MARENASS experience into policy lines and methodologies for rural development, especially in the following areas: (i) transfer and management of funds by organizations; (ii) outsourcing and the market for services; (iii) natural resource management and organic farming; (iv) technology transfer and farmer-to-farmer training; and (v) the role and relationships of communities and families. The agreement at completion point for the interim evaluation of the CORREDOR project suggested that both IFAD and the Government of Peru should make use of the valuable experience of the project to gain a deeper understanding of the positive outcomes obtained. It noted that experiences should be promoted in other regions and contexts so as to leverage, adapt and improve upon mechanisms or models used by the project. The agreement also recommended that the usefulness and possible inclusion in public policy of the project experiences and mechanisms should be explored, specifically the allocation of public investment resources by local competition and mechanisms such as the local resource allocation committees.

Main Results: Effectiveness, outreach and impact of IFAD projects

The outreach and impacts achieved go beyond the expected targets as illustrated in the following table.

Table 3: Effectiveness and efficiency¹⁶

Projects	Outreach # households		Impact # households ¹⁷		Total costs per household	
	Design	Completion	Out of extreme poverty	Out of poverty	Design US\$/HH	Completion US\$/HH
MARENASS	30,000	36,000	10,000	3000	630	530
CORREDOR	15000	63,000	38,000	25,000	2000	480
SIERRA SUR	15,000	37,500	8,000 ¹⁸	15,000	1000	430

With coverage of 300 communities in FEAS, 360 in MARENASS, 650 in CORREDOR and around 300 in SIERRA SUR and considering overlapping assistance by projects to communities,

¹⁵ This is the last step in an evaluation and involves the agreed management response in terms of follow up actions.

¹⁶ Source: prepared by author based on Completion and Mid-term Reports; scaling-up was not an issue to be covered by these evaluations

¹⁷ At moment of completion (see completion reports)

¹⁸ These 8,000 families did not improve their poverty status. However, as they did not drop off of the social inclusion ladder, this may be considered a success per se.

the four IFAD funded operations reached around 30 percent of the total 5,000 poor communities in the Southern Highlands which makes its contribution highly relevant and effective.

The challenge for future scaling up is how to build up a strategy that may increase coverage from 30 percent to 50 or 60 percent of all poor communities as a future target. Half of the 1,500 poor districts are already covered by old and on-going IFAD funded operations. Under SIERRA/SELVA HIGHLANDS, 85 Municipalities will be targeted directly and around another 200 indirectly.

The impact of the Peru portfolio is strong yet varies according to the specific conditions and challenges as illustrated in the following Table¹⁹.

Table 4: Main indicators of IFAD projects

Main Indicators	MARENASS (1)	CORREDOR (2)	SIERRA SUR (3)
% incremental income (with project)	35		
% increase in business sales		119	
% of contribution of business sales as part of total HH income		68	
% of active savers at the end of contract		266	360
% of savers using financial services		207	
% of households out of poverty based on business plans (BP)			43
Increase of value of physical assets attributed to BP (USD)			376
Increase of annual income attributed to BP (USD)			150
% reduction of chronic malnutrition			40 (from 36 to 22)
Gender equity (women as presidents, resp. as committee members)			21, 33
(1) Final Impact Report, 2009			
(2) Completion Report, 2008			
(3) Completion Report, 2011			

The MARENASS impact evaluation²⁰ published in 2009 shows that an Economic Internal Rate of Return (EIRR) of 25%, well over the 11% at design (1996/1997). Details include that annual household income increased by 25%, yields of main commodities increased (148% in peas, Lima beans 91%, corn 51%, quinoa 5%), 20,048 dwellings were improved and families were able to support their children in education outside their home with US\$100, an increase of 30% as to the beginning of the project.

¹⁹ MINAG, Estudio de Preinversión a nivel de PERFIL, Programme for Local Development Support in Highland and High Altitude Rain Forest Areas Junio, 2011

²⁰ MAG-IICA, 2009, MARENASS, Evaluacion de impacto

Furthermore, in 2009, a post-project self-evaluation²¹ covering 360 communities in the MARENASS area indicated impact of 75% of households achieving food security, investment leverage effects of 1:3 (for every US\$.00 invested, US\$3.12 was gained) and high adoption rates (12 types of natural resource management technologies were adopted).²² Livestock activities created an average communal income of around USD 29,000/yr.

Of overarching importance is the impact on poverty. MARENASS clearly graduated the poverty segments from the lowest class to a slightly ‘better of’ one (see matrix below):

Before project %			After project completion %		
Extreme poor	Poor	Out of poverty	Extreme poor	Poor	Out of poverty
73.2	25.6	1.2	45.3	45.2	9.5
			- 27.9	+ 19.6	+ 8.3

Impacts on poverty reduction by segments are also well illustrated by the CORREDOR project in which the bulk of investments in business plans and communal investments was addressed at the lowest two quintiles of extreme poverty and very poor. Well over 2/3 of those investing managed to get and stay out of poverty. This success rate was well above the targeted 50% success rate. Figure 2 illustrates this distribution.

Efficiencies also improved: CORREDOR reports operational cost below 20%. Slightly higher rates apply for costs to deliver the investments: for every US\$ invested, the cost was 25 to 30 cents. Overall CORREDOR generated over US\$12m investments in the Cusco area during its 8 years lifespan. By 2006 the bulk of these investments in business plan development and in the communities (over 90%) was target at districts representing the 1st and 2nd lowest quintiles of poverty.²³

In SIERRA SUR, Municipalities were able to mobilize their own resources matching 50% of beneficiary contributions. The latter amounted to USD3.06m, slightly more than envisaged at design (108% of target). The contributions of municipalities and beneficiaries significantly reduced the operational costs of SIERRA SUR. They brought the relatively high delivery cost of 45cents per USD invested down to the level of CORREDOR, or 33 cents per USD invested by all stakeholders. The relatively high operational cost is attributed to the large distances, the dispersed nature of interventions and the many small investments made corresponding to household and community needs and financial possibilities.

²¹ Proyecto de sistematización seleccionado en la convocatoria 2009 “Cambio Climático en el Uso y Gestión del Agua: las respuestas de las poblaciones excluidas en América Latina y el Caribe”, fue financiado por el Grupo Mink’a de Chorlaví, la Unidad Operativa MARENASS del Programa Desarrollo Productivo Agrario Rural (AGRORURAL) y la Municipalidad Distrital de Huac-Huas

²² Entre las respuestas de adaptación a la escasez del agua y desertificación de los suelos, se lograron: 140 292 especies forestadas, 76 km de zanjales de infiltración, 62 reservorios rústicos familiares construidos para cosecha de agua, 6.5 km de canales de riego mantenidos y/o mejorados, 134 has de bofedales manejados con tecnologías ancestrales, 87 módulos de riego por aspersión utilizando recursos y tecnologías locales

²³ FONCODES , 2006, Mapa de la pobreza

3. IMPLEMENTATION PROCESS AND SCALING UP OF INNOVATIONS

Several assessments of the process of innovative interventions in Peru have underlined the centrality of citizenry and empowerment especially in areas of the country where years of violence and social conflicts affected especially the rural poor. Based on the experience gained what can systematically be scaled up as innovations are essentially approaches, actions and instruments that would solidify a process of empowerment defined as the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives²⁴.

Five key innovations were scaled up within the IFAD projects. They do not represent silver bullets or blue-prints. These approaches and tools are all interrelated and used in different proportions and degrees of maturity:

1. Competitions (*‘concursons’*)
2. Transferring funds
3. Local Resource Allocation (LRACs, or CLARs in Spanish)
4. Local Talents
5. Women saving accounts

A. Encouraging competitions (*‘concursons’*) among potential project beneficiaries

One of the driving factors to achieve mass dissemination and application of farmer-led best practices is the “*Pacha Mama Raymi*” methodology which was introduced by IFAD as an innovation in the MARENASS project. This approach was originally developed under the Netherlands and European Commission financed *Proyecto Especial de Desarrollo Rural en Microregiones* (PRODERM) project around Cusco, Southern Highlands, in 1987.

Box 1: *Pacha Mama Raymi*²⁵

Pacha Mama Raymi- the celebration of Mother Earth- is based on the use of competitive awards with rural families voluntarily competing among themselves, either within individual communities or between communities. Participation is motivated by project-financed monetary awards given to the winning households in each community and the winning communities organized on a territorial level. The three keys to the success of this methodology are: (i) the “competitiveness” of the farmers, (ii) the possibility of winning cash prizes, and (iii) the fact that Pacha Mama Raymi is basically managed by the beneficiaries themselves or applied as selection instrument of the LRACs (see below), reducing the project’s presence to a minimum. By

²⁴ Empowerment Source Book Chapter II, World Bank, 2002

²⁵ The *Pacha Mama Raymi* (PMR) approach may be considered a Prospective Inter Jurisdictional Competition (PIJC), an incentive mechanism defined by Zinnes and identified by the Brookings Institution’s Wolfensohn Center for Development as a potentially powerful instrument for ensuring sustainability and scalability of development interventions. For Zinnes, prospective means that players—whether local government jurisdictions, agencies within a central government, or NGOs—explicitly agree in advance to compete in a game with predefined explicit rules and rewards, which may be in the form of goods, services, financing, or recognition and publicity; see: Clifford F. Zinnes, July 2009, Effective Development Assistance through Competition, The Brookings Institution.

*managing their own programme of experimentation and learning the participants multiply existing potential of knowledge at local, communal and regional level.*²⁶

The competitions are a catalyst, and an efficient and effective means for sharing, disseminating and replicating local technological innovations throughout the entire project area. Two objectives can be achieved: community cohesion, and mass dissemination of technologies and skills. The level of participation in the competitions between households varies widely²⁷.

Not only have competitions allowed for replication of knowledge and techniques but they have also had significant economic and social impacts:

- The surplus generated by agricultural production and small businesses, including the prizes won by villagers in the competitions has led to increases in beneficiaries' financial and fixed assets such as housing, corrals, terraces and irrigation infrastructure.
- The cash prizes received through the competitions were small in comparison to the pre-investment made by participants prior to the competitions as a condition for participation.²⁸ Through the competitions additional financial resources were mobilized by the beneficiaries in order to participate in the competitions
- Prizes were invested in social and economic assets which allowed improvement of living conditions for the family and the community as a whole.²⁹
- Production doubled or tripled on a large part of the land farmed by each family participating in the competitions between the households
- Self-esteem and social organizational capacities to resolve conflicts were boosted as participation in the competitions represents honour, social merit and social coherence

Concerns over exclusion of the most vulnerable have been met by minimum transfers even to such proposals with lesser economic development potential but with high social development and inclusion content. This procedure is now practised in the SIERRA SUR and SIERRA NORTE projects.

While in MARENASS the '*concurso*' were mostly applied in the field of natural resource management and housing improvements, the CORREDOR project used this methodology for promoting market initiatives and business plans. In the SIERRA SUR and SIERRA NORTE project, it is used for natural resource management and business development. The household coverage of the '*concurso*' in the different projects corresponds to the project coverage presented in Table 2 in Chapter 2 above, as every single household participates at least once in a '*concurso*' during the project life time.³⁰ The 2009 MINAG impact evaluation study pointed out that 73% (26,750 of 30,000 families) had joined a '*concurso*' four times and 27% between five to eleven times.³¹

²⁶ Massler, B., Innovative Strategies for Reducing Poverty in the Southern Highlands of Peru, Scaling-Up Poverty Reduction: The World Bank; A Global Learning, Process and Conference Shanghai, May 2004)

²⁷ In MARENASS, an average of 40 percent of the families participated in each community, but the competitions between communities necessarily involved all families in each community.

²⁸ The range is between US\$ 20 for a winning household up to US\$ 3,000 for the group or community per competition

²⁹ An illustrative example shows that one community bought computers for the school after having won the competition

³⁰ With support of one of the originators of the *Pacha Mama Raymi*, the methodology has spread to several regions and projects of Peru (MASAL 7000 HH, DEXCEL 3000HH) Bolivia (5,700 HH) , Guatemala (600 HH), Chile (8,000 HH) and Ecuador outside IFAD's project area, but with quite lower outreach of households (Cabero, J. and van Immerzel, W., 2007, Building learning networks for small-scale farmers: *Pachamama Raymi* as an innovative knowledge management system, Knowledge Management for Development Journal 3 (2):p.52-63.

³¹ MAG-IICA, 2009, MARENASS, Evaluacion de impacto

AGRORURAL has institutionalised the ‘*concurcos*’ in nearly all its projects. The ALIADOS Programme has used the ‘*concurcos*’ to finance 561 rural businesses and 563 community development projects.

During 2008-2010, PACHAMAMA RAYMI, a Peruvian NGO, organised ‘*concurcos*’ in 93 villages with the participation of 6,353 households in the Cusco and Puno area. The regional government of Cusco and private companies, such as Interbank Cisco and Casa Andina Cusco, are supporting this initiative³². In just three years, in the Cusco area the poverty level of 2,500 families has been reduced in 43 communities. All projects are implemented through agreements with local governments, who provide between 15% and 30% of the investments. Over 70% of the investments from projects and local governments are invested in peer learning and motivational tools. These investments are dwarfed by the participants’ own contributions, who typically invest 5 to 10 times more than project financiers.

In the SIERRA NORTE project 548 prizes were distributed to 65 organizations for good natural resource practices between January and June 2011. At the same time, 1052 families of 73 organisations benefited via ‘*concurcos*’ in establishing a small enterprises.

B. Transferring public funds directly to communities and community organizations

The direct transfer of resources in the form of grants to community organizations is a key instrument for empowerment. Since the implementation of FEAS, local organizations are fully responsible in all projects for the use of project funds to contract technical assistance providers, organize *in situ* training and implement a myriad of project-related activities. The transfer of funds to recognized local organizations who manage these funds without outside interference has been a radical change from the conventional public investment paradigm.

Communities play a significant role in the organization of Andean society and are major players in local development.³³ They are the organizational and political centre for interventions where community or farmer organizations, individual households, men and women are empowered by i) the transfer of funds to communities and their organizations and ii) the definition of a clear relationship between the individual households and the community. Economic interests and asset building are left to individual households whereas the community assumes a role in facilitation, regulation, control and policy making, thereby strengthening a citizenship building role. The resulting empowerment concerns both, individual households and the communities.

This innovation was developed under FEAS and consecutively fine-tuned in MARENASS and CORREDOR. Public funds are transferred to communities and organizations in a framework of trust and transparency. The process implies: (a) a contract between the projects and the user organizations, embodying a set of mutual and legal commitments; (b) counterpart cash contributions by those directly receiving the funds and (c) using conventional mechanisms for administering funds such as bank accounts.

³² Web page www.PachaMamaRaymi.com 2011

³³ The Andean community is understood as master social and economic organization characterized by (i) the control of its physical space (land and territory) by a group of families (ii) preservation of communal organization based on lineage, reciprocity and provision of services and (iii) preservation of common socio cultural characteristics

The use of a contract as a legal instrument raises a sense of commonality and partnership, involving rights and responsibilities different from those arising from the traditional benefactor (project)-beneficiary relationship. Counterpart contributions in cash, deposited at the bank account to be provided by the direct beneficiaries, are a core requirement for the transfer of funds from the project to the organization. Cost-sharing helps to foster the self-selection of projects with the highest economic or social returns. Opening of bank accounts encourages organizations to establish formal relations with the financial system as contributions, from project and beneficiaries are deposited in one bank account.

A second contract between the organization and its service providers is signed. (See box 2 below.) Procurement and recruitment of required services is done by the beneficiary organizations themselves, where their own criteria for the selection process are applied. Monitoring of results is carried out by beneficiaries themselves, thus ensuring ownership of their initiatives and responsibility for implementation.

According to a review in 2004³⁴ this process of transferring funds to communities constitutes “a powerful instrument to incorporate communities into civil society and the formal economy. This process furthers empowerment through direct management of the projects’ resources, and strengthens the communal organization”³⁵. In CORREDOR project 57% of the investments, representing 44% of the total budget, was transferred directly to beneficiaries to finance their business plans or for community development

Regarding leverage of public funds, direct cash transfers can be very effective as demonstrated in the SIERRA SUR project. The project finances technical assistance to organizations in support of business plans which represents only 19 percent of the estimated household investment. This level of effectiveness is in strong contrast with the great majority of rural development projects that subsidize 80-to 90 percent of household investments.

C. Democratizing the allocation of financial resources: The Local Resource Allocation Committees (LRAC)

Since 2004, the Government of Peru applies an administrative and financial decentralization process set in its strategy for overcoming poverty and creating economic opportunities for the poor. This facilitated the creation of the Local Resource Allocation Committee (LRAC). The Project Completion Report (PCR) for the CORREDOR project stressed that allocating funds through the LRAC’s, which, includes the participation of central, regional and local governments as well as local actors and users, has ensured transparency and has had a positive impact on human and social capital. LRACs are instrumental in the transfer of public funds (see above).

LRACs foster a pro-positive, pro-active attitude of the rural population. At the same time its process of allocation funds warrants transparency in the selection of priority investments by the ‘*campesino*’ population which must supplement public funds with their own private funds (around 1: 5 leverage).

³⁴ Innovative Experiences of IFAD Projects in Peru ,IFAD 2004

³⁵ In FEAS, 50 percent of operational budget was transferred to communities or community organizations, in MARENASS, around 10 000 contracts with a value of US\$ 800,000 USD were directly signed.

This delegation of decision making power is coupled to a financial transfer of public funds and constitutes the backbone of local empowerment and citizenship building.

Table 5: Functioning of LRACs³⁶

Projects	Coverage of Communities	Coverage of Municipalities	Municipalities Supported by Project with LRACs	Replication of LRAC by Municipalities without Project Support
MARENASS	360	80	20	30 ³⁷
CORREDOR	859 ³⁸	167	149	42
SIERRA SUR ³⁹	262	110	66	3
SIERRA NORTE (- June 2011) ⁴⁰	410	115	12	Not yet
Pilot REMURPE	n.a.	560	18	Not known
ALIADOS	647 ⁴¹	187	n.a	n.a.

Between 30 and 60 municipalities have held sessions with a LRAC without any support from IFAD funded projects in order to select project proposals presented by community organisations. Scaling up took place through two organizational paths: replication and expansion. Major implementation strategies as the LRACs with ‘*concurso*s’ were replicated by government institution as municipalities and by AGRO RURAL within the JBIC III project⁴² or externally funded projects like the World Bank financed Sierra Rural Development Project (ALIADOS). In the public sector, local governments such as district municipalities replicated this strategy leading to approximately potential 300 municipalities independently of IFAD’s project support.⁴³ Additionally, the creation of so-called ‘Local Development Offices’ opened the space to institutionalize the LRAC at municipal level and to prioritize the demand on investments.

Sustainability of LRACs

A 2011 study⁴⁴ on the municipal resource allocation and rural enterprises as a strategy for local economic development showed insight in the effectiveness of LRACs outside of IFAD funded projects. As part of closure activities the CORREDOR project transferred a toolbox with LRAC mechanisms to rural municipalities willing to implement the LRACs on their own. A fund for inter-municipal competitions allowed 8 municipalities to have a starting capital for the LRACs and the ‘*concurso*s’ on rural enterprises.

³⁶ See Completion reports MARENASS and CORREDOR

³⁷ The number is an estimation of several reference persons

³⁸ 519 had signed direct project agreements

³⁹ These are the typical ‘Andean communities’

⁴⁰ In the northern highlands there are not the typical ‘Andean communities’, but the project works with communities and associations which represent the whole community..

⁴¹ Up to July 2011, Out of 875 targeted

⁴² Proyecto “Manejo de recursos naturales para el alivio de la pobreza en la sierra - JBIC III” Japenes Bank for International Cooperation

⁴³ According to CPM and targeting exercise of design team for new IFAD operation

⁴⁴ Glave Remy Maria IEP, 2011, Estrategias de adaptación del mecanismo CLAR en municipios rurales: Avances y limitaciones en la asignación de recursos municipales a emprendimientos rurales como estrategia de desarrollo económico local

A positive impact was seen in the strengthening, consolidation and development of producer organizations and the importance for the municipality to promote them as partners. It opened the municipality a way to implement local economic development policies. Municipalities were able to focus their territorial development beyond physical works. The extended development scope was accompanied by strengthening the municipal planning offices (ODELs).

The LRACs replaced the traditional targeting process of the municipalities towards the more powerful, better-off by incorporating all social segments of the population. The winners of LRACS bids had to contribute at least 10% of the investment which applied to all, including the less poor. The LRACs with their targeting approach to include the poorer communities and municipalities to fund productive capital and required technical assistance complemented or partially replaced the common investments in public goods only (e.g. squares).

Municipalities with scarce budgets face a bottleneck which may hinder further adoption of LRACs by municipalities. Municipality have two major expenditures categories, one for recurrent costs and staffing, and another one for investments, mainly in infrastructure. Funds invested via the LRACs were taken out of the first category, although this category is usually the least funded one, as the current legal framework does not allow to use the second category of expenditures. Additional funds from royalties and local taxes may represent a solution in some cases.

Box 2: Local Resource Allocation Committees

The LRACs in the IFAD-funded CORREDOR project illustrate how public funds may be delegated to local actors in contracting technical assistance services. The project cannot provide subsidies to all organizations that express a need for technical assistance. Proposals are therefore considered for funding if they appear more advantageous in terms of returns to investment and social development in communities and among groups. LRACs are responsible for identifying the proposals that are to receive the available resources.

LRACs are composed of members of the community who are recognized for their knowledge about development. This includes small-scale entrepreneurs, local professionals, teachers, mayors and local leaders, and other individuals who have demonstrated a commitment to development. Members have practical experience in areas related to the proposals they evaluate and, in most cases, have direct information on the characteristics and the potential of the proposals presented to them. LRACs:

- Promote the careful preparation of the proposals. Although they may not be financed through the project, the proposals may be presented to other funding sources or may be pursued by proponents using their own resources. By operating in this way, LRACs help expand awareness on the demand side.*
- Allow for competitive allocation at the local level through a selection process in which local stakeholders participate. Through the adoption of this approach, the direct project-beneficiary relationship is avoided that could result in unsatisfied demand and the development of client dependency.*
- Institute a transparent process that promotes social accountability. The community knows the people on the juries. Thus, proponents recognize implicitly the legitimacy of the juries.*

- *Ensure non-intervention and neutrality among project staff in resource allocation decisions.*
- *Avoid providing information on the types of proposals that may or may not be supported. Otherwise, the demand for technical assistance services may become distorted.*
- *Contribute to the establishment of links between local community authorities and private initiatives. This generates a positive externality because it allows local entrepreneurs to share their plans and initiatives with other key stakeholders in the process of local development.*⁴⁵

In 2011, AGRORURAL and the *Instituto de Estudios Peruanos* (IEP) signed an agreement with the Network of Rural Municipalities of Peru (REMURPE), which includes 530 rural municipalities in Peru, to institutionalize the LRAC approach. Under this agreement, The Regional Research and Dissemination Programme on Innovation (PEIR), an IFAD-IDRC grant project and the United Nations Food and Agriculture Organization (FAO) provide technical support to municipal initiatives in the application of the procedures of the PROCOMPITE and to implement the LRACs. Municipal staff is trained in local management and mechanisms for better participation and advocacy of rural citizen in territorial development. The training is embedded in the REMURPE municipal education programme.

Building upon previous efforts to scale up the LRACs undertaken by IFAD-funded projects in Peru, 18 rural municipalities throughout the country are piloting this mechanism, and about 200, out of a total of 1500 rural municipalities, are expected to adopt it during 2012. Research-based recommendations elaborated to enhance national public resource allocation procedures are currently being developed under the aforementioned tri-partite agreement and will be proposed to high level national policymakers ('policy dialogue').

D. Supporting a market for local talents as a key mechanism for dissemination

A fundamental change in the approach to rural development in IFAD funded project areas was moving from a traditional supply-driven state extension and related services to an empowered beneficiary who is – or was assumed to be – able to define and select his/her priority on technical assistance and the required corresponding service providers. IFAD and the GOP introduced this approach under the FEAS project. With the direct funding poor '*campesinos*' contracted private '*técnicos or Yachacchiqs*' of their choice to deliver technical assistance (see Box 4). In MARENASS over 3,000 *Yachacchiqs* (of which 6% women) were trained. Over 12% of these still render private services and about 11% have been absorbed by municipalities. The bulk, 58%, is self-employed in natural resource management (NRM).

Box 3: Yachaq and Yachacchiqs

One of the major project strategies of MARENASS was the expansion of services offered basically through local services providers. A cascade training programme with special emphasis on traditional local leadership and knowledge was implemented with the so called yachaq and yachacchiqs were trained. The yachaq or lead trainers transferred their knowledge to yachacchiq (contract farmers in the community or paratechnicians.) who directly assist the households in their respective communities. The community contracts and pays the yachaqs as service providers; the yachacchiqs provide the services ad honorem. With the Yachacchiqs system demand for direct assistance to farmers increased especially during the preparation phase for the

⁴⁵ World Bank, 2005, Oportunidades para Todos, Informe de Pobreza del Peru

*competitions. Costs of technical assistance decreased significantly. Many trained Yachaq and Yachachiqs are now able to offer their services outside the communities ranging throughout the Southern Highlands. The yachaqs and yachachiqs contribute to reducing social and knowledge isolation of the marginalized rural poor and assume a bridging role between the rural world and the urban service centres.*⁴⁶

The approach responded well to the decision by the Administration of President Fujimori in the early 1990s to considerably reduce public expenditure based on macroeconomic considerations. It also affected, in a major way, how the government provided agricultural extension and other Ministry of Agriculture services as structural adjustment measures resulted in a substantial reduction in government employees. The immediate effect was that it created a private rather than a government provided market for technical services putting extension workers, formerly government officials, under a competitive system.⁴⁷ Only those who performed according to the requirements and standards which the ‘campesinos’ and their organizations established by themselves were hired. This process led to a differentiation of service providers in which ‘campesinos’ themselves turned into change agents, so called “local talents” (see box) as urban based technicians generally did not live up to the expectations of the contracting ‘campesinos’. Such profound shift from formally trained technicians to local talents was first strongly supported in MARENASS and then scaled up in CORREDOR and SIERRA SUR (I and II). This process was known as well with the slogan “from client to citizen”⁴⁸

In CORREDOR twice as many local talents (almost 2,400) were trained as foreseen at design thus responding to communal demand.

Box 4: Local talents

*A group of campesino women in a community in Cusco gather to question a number of technicians that have attended the meeting in search of a job announced in the local radio station. The announcement said that the women were going to contract the services of a technician in livestock fattening. Some of those attending were engineers who have worked for PRONAMACHS. The women question them using technical criteria asking them where they had worked previously and how much had the cows under their supervision had gained weight. But they then move on to question them using a different set of questions uncommon in these types of job interviews. They ask them if they speak Quechua fluently and if they don't have problems in eating the food they eat as they will have to live in the community for some time staying in their homes and sharing their food. They finally tell them that they do not wish to be in an uncomfortable situation during the time they have to work together.*⁴⁹

⁴⁶ Massler, 2004,

⁴⁷ IFAD, 2002, External Review of Results and Impact of IFAD Operations, Peru

⁴⁸ In MARENASS 3111 local experts were contracted for provision of technical assistance, in CORREDOR 4898 and in the SIERRA SUR project (mid- term) 1436.

⁴⁹ Revista Agraria, September 2009

E. Encouraging savings among rural women - A promising approach

Savings accounts opened by rural women, who never had access to such rural financial services, are viewed by all stakeholders in Peru as a most effective tool for empowerment of women. Savings mobilization is one of the most promising thematic innovations in the Andean region. It has been scaled up not only in IFAD projects but is being mainstreamed in the JUNTOS programme with the support of AGRORURAL. PROCAPITAL, a programme implemented by Fundacion CAPITAL with the support of the Ford Foundation, is one the main drivers to scale up saving accounts beyond Peru.

The CORREDOR project was the first IFAD funded project in Peru that assisted rural women in improving their access and use of financial services through a subsidized program of financial savings accounts. The main challenge was to test whether it was possible to build a sustainable connection between rural (poor and indigenous) women and regulated financial intermediaries, in such a way that both, women and financial intermediaries, could benefit from the relationship.

The approach reflected changes in the financial service environment, making it a programme to promote: a) savings among rural poor women, and b) competition between financial intermediaries to support financial innovation. Savings by women confirmed both their ability to save and the key role such capacity plays in the livelihood coping strategies and initiatives of poor families.⁵⁰

As of April 2007, the CORREDOR project made deposits for 1.3 million Nuevos Soles (US\$ 413,000) with the use of incentives to match the women's savings. These incentives represented 20 percent of the total deposits made in the women's accounts; i.e. for each incentive dollar, 4 dollars were deposited by the women. At the completion point of the CORREDOR project, 7,500 women had a saving account (as compared to the project design of 2,000 women). According to the design target only 35 percent were expected to keep the accounts after project completion. In fact, 92 percent of the women wished to continue with their saving accounts⁵¹. A representative survey of 297 women with a savings account carried out by IEP in 2008 showed that at the completion point of the CORREDOR project the women had an average of about US\$ 230 in their accounts. One year later they still maintained around US\$ 120 and they had just withdrawn the incentives provided by the project. 93 women or 31% of the interviewed women got a credit from the formal banking system. Of these, 72 women never had a credit before. 17 women have opened a long term saving account.⁵²

The SIERRA SUR project reported at completion it had worked with approximately 9,200 women savers (originally planned: 2,500). In 2009, with the complementary contributions (incentives) deposited by the project, a total of more than USD 1million accrued in their saving deposits in the project area⁵³.

In July 2011, after two years of implementation, SIERRA NORTE counted with 1,200 women savers and 696 people covered by micro insurance. An IFAD grant project managed by PROCAPITAL encourages women receiving remittances to utilize saving accounts as part of

⁵⁰ IFAD, 2007, Mid- term evaluation CORREDOR project. Agreement at completion point

⁵¹ Trivelli, C., IEP, Improving womens' access to financial services through subsidized saving accounts

⁵² Trivelli, C., Yancari, J., IEP, 2008, Las primeras ahorristas del proyecto Corredor: Evidencia de la primera cohorte de ahorristas de un proyecto piloto

⁵³ Trivelli, C, Gutierrez, M.C, Sept. 2009, Promoting the use of individual saving accounts: the case of savers assisted by the SIERRA SUR Development Project, INSHORT, No. 12

their investment capital and thus complementing the savings account activities of SIERRA NORTE.

Scaling up beyond IFAD projects: JUNTOS

JUNTOS ("Together" in Spanish) is a Conditional Cash Transfer (CCT) Programme initiated in 2005 targeting the poorest and most vulnerable populations in Peru, i.e., those in a situation of extreme poverty and exclusion. The program's coverage has increased exponentially over the course of the last few years, from 22,550 households in 70 districts located in the 4 poorest departments of the country in 2005 to 468,136 households in 638 districts in the 14 poorest departments at the end of 2010.⁵⁴ This programme is subject to expansion (2011)

In 2008, the JUNTOS programme and The National Bank of Peru (Banco de la Nación-BdN) signed an agreement that each JUNTOS beneficiary would automatically be granted a savings account, through which the CCT are made. Based on experiences with saving accounts in CORREDOR and SIERRA SUR, the JUNTOS programme and the BdN signed an agreement to scale up the use of such saving accounts to deposit the CCT. This agreement, illustrating the use of policy space, allowed JUNTOS to implement a pilot project entitled, *Savings Promotion Amongst the Women Beneficiaries of JUNTOS*. The objective was to promote and encourage the access and use of financial services amongst the women beneficiaries, especially the use of savings accounts and financial savings.

Utilizing the agreement between BdN and JUNTOS a working group was formed and made up of: JUNTOS (management of CCT), AGRORURAL (training and financial sensitization), the National Bank (saving accounts), a team from Technical Secretary of the Interdepartmental Commission on Social Affairs (ST-CIAS, policy dialogue) under the National Strategy CRECER ("to grow") and the Institute of Peruvian Studies (IEP) (main driver in creation of financial culture among the poor), representing PROYECTO CAPITAL.

The pilot programme has three components. i) financial education and training provided by AGRORURAL, ii) financial capacity building to reinforce and encourage the fulfillment of shared responsibility, and iii) incentives and saving promotion through raffles that reward savings efforts with food baskets in order to maintain a positive balance in their account.

The pilot initially targeted two districts, for a total of 3,700 families, but it will be expanded to 24,000 families in 2011. As of October 2010, an amount of US\$105,532 in savings were mobilized for approx. 2,200 women in the JUNTOS Pilot area.

This pilot program has shown that coordination by different partners to provide all three components is vital to implement the three components. JUNTOS the lead institution, works with BdN (the financial intermediary), AGRORURAL as technical assistance provider and with CRECER (CIAS) at policy level. Additionally, the programme counts with technical support of the PROYECTO PROCAPITAL financed by the Ford Foundation.

A study undertaken by PROYECTO PROCAPITAL and IEP on experiences of participants in incentivized savings and CCT Programmes in Rural Peru offers valuable insights for effective establishment of women savings accounts under JUNTOS (see Box 6).

⁵⁴ Trivelli, Montenegro, Gutiérrez, M.C., 2011, Un año ahorrado: Resultados del primer año del Programa "Promoción del ahorro en familias JUNTOS." Proyecto Capital.

- 1. **Despite lack of previous experience with banks, women were able to overcome their distrust and fears and begin to save.** Access to basic information about banks through financial education enabled many women to overcome their initial fear of banking and begin to use financial institutions.*
- 2. **Pilot participants perceive their CCT savings as secure (reliable).** Financial education classes and first-hand experience of seeing that their money is safe at the bank most likely fostered this sense of security.*
- 3. **Perceived reliability of banks is critical to promoting savings and financial inclusion.** The perceived reliability of banks often overshadows other program incentives and benefits.*
- 4. **Convenience, information, and accessibility of financial services are also highly valued.** Savings-linked CCTs are perceived as convenient because participants are already required to visit the bank. Many savers require bank staff who speak Quechua in order to understand the financial services being offered.*
- 5. **Unless they are well above market value, incentivized interest rates may not be a powerful savings motivator.** A subsidy of 1.5% has a practical value of mere cents (or is not well-understood) by low-income savers.*
- 6. **Savings Groups can increase convenience factors and promote social capital.** Group members often take turns going to the bank to make deposits, making it easier to save and providing a source of ongoing support and motivation.*
- 7. **Traditional savings often complements, or is transformed into, financial savings.** Women who are saving at banks often also maintain livestock to sell in case of emergency, or to transfer into financial savings*
- 8. **Participants and their families began using other financial services, especially when offered accessible and reliable products.** Many participants (and family members) began using other financial products, even fixed-term, structured accounts, when they perceived financial products to be reliable and accessible (low-cost).*
- 9. **Interviewees disliked financial program/product requirements when the terms were not well understood or enforced.** Participants were averse to structured financial products under these circumstances, and often perceived the bank as untrustworthy as a result.*
- 10. **The majority of participants surveyed have regular access to mobile phones.** Widespread access to mobile phones presents opportunities for introducing new banking*

4. REPLICATION OF TRIED INNOVATIONS BY OTHER DONORS

A. The Sierra Rural Development Project (ALIADOS)

IFAD's innovations in Peru have been scaled up not only by IFAD but by others as well, e.g., the World Bank through its Sierra Rural Development Project also known as ALIADOS (2007-2012).

⁵⁵ Quotes from: Rosen Barbara, PROYECTO CAPITAL/IEP, 2010, experiences of participants in incentivized savings and CCT Programmes in Rural Peru

ALIADOS has scaled up LRACs and ‘*concurso*s’. This was achieved as it is embedded in AGRORURAL which counts on staff formerly engaged in earlier IFAD co-funded innovations such as MARENASS. The major distinction between the IFAD SIERRA SUR and IBRD ALIADOS is that the decision making facility is lodged in the PMU of SIERRA SUR, while in the case of ALIADOS decisions have to pass MEF’s SNIP process.

ALIADOS through SNIP first tenders the subprojects by ‘*concurso*s’ and LRACs and then formulates the project concepts according to SNIP formats with the use of consultants. After approval, ALIADOS signs the contracts with the beneficiaries. The whole process takes 5-6 months, rather than the shorter (some weeks) on-the-spot decision making in Sierra Sur.

All investments in rural businesses and natural resource management have led to the following results after two and half years of implementation:⁵⁶ Achievements to date have increased the number of subprojects to 1,124 (rural business 561 and community development 563). This represents 91% of the target for rural businesses subprojects and 65% of the target for community development subprojects. The Project has benefited 35,142 families (66% of goal) and 175,712 producers. To date, the project has disbursed a total of US\$18.22 million. IBRD disbursement is 57% of plan so far. From a sample of 10 productive subprojects, it was observed that the net family income had increased by US\$800/yr. Besides the direct benefits to the rural population, indirect benefits were created such as local employment. Furthermore, ALIADOS prepared easy to use hands-on manuals for farmer use on LRACs, ‘*concurso*s’ and the like.

Box 6: Key data of ALIADOS

The project was designed and nurtured by the successful experiences of the MARENASS project and is being implemented in an expanded area in the Southern highlands where IFAD funded projects had partially intervened earlier. The project started operating by the end of 2007 and has a duration of five years. The total investment amounts to US\$ 34.9 million with the objective of improving the assets and economic conditions of 53,600 rural families in 43 provinces, in six regions (Apurímac, Ayacucho, Huancavelica, Junín, Pasco and Huánuco). It is estimated that 875 rural communities and 620 rural production organizations will take part in the program.

The Program aims at promoting access to markets and the creation of new human, institutional and infrastructural capital assets, and sustainable use of natural resources. The ALIADOS project uses IFAD methodologies such as the competitive awards that are central to the *Pacha Mama Raymi*, methodology and the use of LRAC’s for selecting and funding proposal from beneficiary communities and groups. It was recognized that there is a need in the *Sierra* to establish mechanisms that consider poor people and their organizations as assets and partners in the development process and give control and decisions to them and to local governments. As a community demand driven programme with a decentralized structure it was pronounced as a scaled up approach of IFAD experiences.

⁵⁶ WB, 2011, Implementation status and results, Supervision report, July 2011.

B. Rural Development Project in Jaén, San Ignacio, Bagua and Utcubamba .

This Agro-Environmental Program financed by the *Kreditanstalt für Wiederaufbau* (KfW) started in March 2003, with the aim of contributing to reclamation and preservation of natural resources and improvement of incomes obtained from agricultural activities by farmers of the project area. It covered provinces of Jaén and San Ignacio in the Cajamarca, region and Bagua and Utcubamba in the Amazonas region. The area is ecologically fragile, and has been occupied over decades by migrants from the highlands fleeing poverty conditions.

Based on experience gained in other projects, the Agro-Environmental Program was built around three mechanisms of transferring cash directly to the organized population. One of these mechanisms is the methodology C+P, also called *Minga*, which uses “peer learning + Contests + Prizes”. The C+P methodology corresponds to the ‘concursos’. Its main elements include:

- Accelerating change processes through a very dynamic transfer-of-technology approach.
- Mobilizing the population’s resources to optimize project resources.
- Promoting capacity development and use of local technologies, full participation of farmers’ organizations and recognition of their own initiatives.

Two other mechanisms were used: (a) a Local Capital Fund (FCL) and (b) a Local Investment Fund (FIL), both managed by producer organizations. The FCL was meant for improvements in housing and the farm, while the FIL was for new ventures and financing business plans. Both funds⁵⁷ were highly successful in reaching their objective to capitalize family microenterprises, intensively promoting people's own resource mobilization guaranteeing sustainability.

The recent end-of-project evaluation of this project noted that there had been up scaling of the competitive awards mechanism and other instruments used in the IFAD funded projects and that these approaches had been successfully introduced in a different geographic area demonstrating the validity of the approach on a country wide basis.⁵⁸

Design goals were outperformed: 12,000 households benefitted instead of the originally planned 6,000 while leading to 41% increase in coffee production throughout the Cajamarca region, another doubling of the originally planned impact. Investments were US\$ 15 million. The project has generated an estimated 11,000 new permanent jobs, with very important environmental impacts (e.g. eliminating discharges of polluted water from coffee processing).

5. AN ASSESSMENT OF VISION, DRIVERS AND SPACES IN SCALING UP

A. Overview of the scaling up process

Political and policy context

The innovations described in Chapter III were introduced during three distinct political periods. The first one under the Fujimori Administration (1990-2000) was characterized by its efforts to combat civil strife led by the Maoist Shining Path guerillas. In the context of Structural

⁵⁷ Proyecto Especial Jaén, San Ignacio, Bagua (PEJSIB), Cooperación Financiera Alemana (KfW). 2008, Programa Agro - Ambiental , Evaluacion Final del Programa Agroambiental

⁵⁸ idem

Adjustment programs privatization of technical assistance services was seen as a solution for providing extension services to the rural poor *campesinos* in the highlands. The FONCODES approach, basically a social investment fund, transferred resources to community organized groups (*nucleos ejecutores*). The IFAD FEAS and MARENASS projects were designed and implemented during this period (see Table 1). IFAD prepared a first COSOP for Peru and agreed with the Toledo Administration on the centrality of FONCODES for its intervention in Peru and designed the SIERRA SUR project for implementation under FONCODES.

This cemented IFAD interventions as ‘social’ investments implemented by a ‘productive’ Ministry, MINAG.

Under the Garcia Administration IFAD designed the SIERRA NORTE project and prepared a new project to scale up tried innovations, SIERRA/SELVA HIGHLANDS. The current COSOP (2010- 2014) reflects government policies for decentralization and transferring more power and resources to regional and local governments.

The current Humalla Administration focuses on further reducing rural poverty and has created the Ministry of Development and Social Inclusion (MIDIS). It is set to continue with the successful JUNTOS programme (see *Scaling up beyond IFAD*). The Paris Declaration is taken literally in the sense that MEF insists and awaits to be convinced by MINAG (not IFAD) on the expected benefits from its new operations. In fact, original design led by IFAD has now virtually stalled. The design process is now firmly delegated to MINAG needing to follow SNIP-MEF procedures in order to enter into MEF’s approval pipeline. As a consequence, MEF has dropped the use of competitions between the 280 targeted Municipalities and insists to address only 85 Municipalities thus leaving aside inter-municipal LRACs, the core innovation adapted from scaling up.

B. Scaling up drivers

Ideas and vision

IFAD’s funded projects in Peru are demand-driven projects fostering the transfer of responsibility and decision-making power to rural organizations. This approach does not represent an innovation *per se* but did trigger the sequential innovative development and use of the various implementing organizations, mechanisms and approaches described earlier in Chapters 2 and 3.

Scaling-up oftentimes starts with the concept of a pilot project to learn lessons to be replicated a larger scale once successful. This would then imply fiscal and institutional consequences off-set by a ‘loss’ of specificities such as targeting and poverty relevance. Although IFAD projects followed a clear sequence with geographic and time overlaps (see Figure 1), the concept of pilot projects was not fundamental to IFAD operations and was never specifically engrained in its approaches in Peru. The one exception to confirm the rule was piloting the saving mobilization initiative in the CORREDOR project replacing the rural finance services component which did not perform as designed.

During the 1980s and 1990s a vision and strategy on how to proceed beyond the life time of the projects’ disbursement periods did not represent a key feature of design in IFAD projects—it simply wasn’t yet part of the corporate culture. Impact and sustainability considerations were

weakly developed all throughout IFAD. Projects initially emerged on an *ad hoc* basis, and followed the availability of funding in IFAD⁵⁹.

When the CORREDOR project was designed its implementation phase overlapped with MARENASS in areas and approaches. Similarly the later SIERRA SUR project overlapped with the CORREDOR project in approaches and time. A permanent ongoing learning process by the responsible national project management unit (PMU) staff, supervising Country Programme Manager (CPM) and coaching academics (see “Leadership” below) backed by experienced consultants, regional supporting grants⁶⁰ and research programmes led to critical reflections of pathways out of poverty and modifications of the developed/developing innovations. Initial innovations were revised, adapted, consolidated and replicated as an ongoing process for more than 15 years. Consistency and coherence in approaches were thus achieved. Innovations were adjusted and enhanced during implementation as a result of suggestions from staff and especially from beneficiaries.

The above mentioned learning group, strengthened by dialogue with beneficiaries and national ministerial authorities, slowly replaced the *ad-hoc* character of planning projects by a phased programmatic approach in the early 2000s. However, this approach was never considered as “scaling-up” until it formally appeared in the recent COSOP.

As indicated in the section on political/policy context (see above), Peru is now firmly the owner/developer of its own ideas and visions with regard to innovative and effective rural poverty reduction strategies and scaling-up tools.

Leadership and Champions

The leadership of the scaling up process described above cannot be attributed to one single actor, person, agency or authority. Neither was there a single, well-defined strategic or political ‘window of opportunity’ for scaling up as the whole organic process developed over 15 years.

Leadership was (and is) an organic process involving the well functioning set of actors described above. IFAD’s long-time, Lima-based Country Program Manager (CPM)⁶¹ created the basis for this effective and sustained leadership by mobilizing resources from grants and IFAD loans and opening up political space enabling this informal group of committed Peruvians and core long-term consultants to carry out investigations, impact studies and discussion forums on learning lessons for replication of innovations, i.e., scaling up.

Leadership may be assigned *inter alia* to a well functioning learning group of practitioners and social scientists such as those of the *Grupo de Analisis para el Desarrollo*, (GRADE), the *Instituto de Estudios Peruanos* (IEP) and the *Centro Peruano de Estudios Sociales* (CEPES), project staff and community leaders. Everybody has played his or her part through a permanent process of exchange of ideas.

The development and dissemination of innovations was probably made possible by the existence, in the sphere of IFAD’s projects, of a group of Peruvian and international specialists,

⁵⁹ COSOP and PBAS did not exist.

⁶⁰ IFAD’s regional grant programmes like PROCASUR and PREVAL supported the projects in order to compensate for the Fund’s limited internal capacity for research and replication. PROCASUR has played a special role with its Learning Routes approach (see Learning space).

⁶¹ The CPM was out-posted from 1995 till 2009

researchers and consultants who shared the experience gained over time. This dissemination was backed up by a wide range of publications and studies⁶² have also contributed towards a better understanding of the process albeit mostly written in the Spanish language which has somewhat limited reaching a wider audience.

Several, not one windows of opportunity, such as the National Strategy for Rural Development, the *Crece Productivo* strategy, the creation of AGRORURAL and the explicit focus of the Government to streamline the decentralization process, were used by the leadership-cum-learning group to engage in testing and assessing new opportunities.

Setting the stage, creating and maintaining enabling conditions for these creative processes and their consideration and up-take by IFAD and by actors in Peru were influenced to a considerable degree by IFAD's CPM and his field presence.⁶³

The key concept of champions in this context relates to defending a cause. The cause here is social inclusion and 'equal citizenship'. Its main characteristic is 'trust', i.e., trust vested by national authorities in lower-level administrative organizations (e.g. municipalities and the '*comunidad andina*') in the management of public resources (land and water) and public funds (e.g., money, administration procedures and audits). This trust was to use knowledge, resources and '*campesino*' institutions and transfer their outputs into leveraged private assets.⁶⁴ Authorities were convinced of the 'cause' by the positive/impressive performance record of each (earlier) step leading to scaled-up interventions. These 'local champions' were well connected to the learning group of practitioners and played a significant role in creating an effective and sustained leadership.

External Drivers

As referred to under political/policy context, a serious economic crisis in the beginning of the nineties affected the capacity of the State to assume the provision of agricultural extension services. Concurrently, the Shining Path guerilla movement, focused on Southern Rural Highlands, limited government presence in the highlands and endangered the life of local authorities and *campesino* leadership. The impact on this internal war has been amply documented in the exhaustive report of the Truth and Reconciliation Commission.⁶⁵

The economic crisis and adoption of structural adjustment policies resulted in the practical dismantlement of the government agricultural research and extension system. Public investment in agricultural research and extension had declined from 10.3 percent of the total investment in agriculture to 2.7 percent in 1990 and was only 1 percent in 1995⁶⁶. The total number of government employees was reduced by 14 percent. A 1994 World Bank Peru Public Expenditure review⁶⁷ noted in this respect that staff reductions had left most public agencies without the human resources necessary to execute their mandates. Most government agencies were shells of their former selves, as they had lost their most qualified employees. Moreover, they did not have sufficient resources or authority to offer potential new employees an employment and

⁶² See long list of publications in the annex

⁶³ IFAD IEE, Thematic evaluation, 2005

⁶⁴ See completion report CORREDOR

⁶⁵ Informe Final, Comisión de la Verdad y Reconciliación, 2003

⁶⁶ Eduardo Zegarra, Minaya Verónica, Gasto Público, Productividad e Ingresos en el Perú, GRADE, 2007,

⁶⁷ World Bank Report No. 13190-PE Peru Public Expenditure Review, October 31, 1994.

compensation package sufficiently competitive with private sector options to attract top quality candidates.

These two elements (dismantled government services, rebuilding social fabric) contributed toward shaping IFAD's intervention in Peru by finding a new way for the provision of technical and other type of advice to the rural poor and reducing the visibility of government presence in the countryside.

Incentives and accountability

Considering incentives and accountability, which were never explicitly fostered, a set of key elements emerges at different stakeholder levels.

Table 6: Incentives and Accountability according to different stakeholders⁶⁸

Stakeholders	Incentives	Accountability
IFAD/PMU	<ul style="list-style-type: none"> • Economies of scale • Impact • Leverage • Leading the international scaling up discussion • Developing knowledge products for MIC 	<ul style="list-style-type: none"> • Commitment to rural poor • Supervision • (Self) evaluations • Completion Reporting
MINAG/MEF/Min of Social Inclusion	<ul style="list-style-type: none"> • Economic growth • Political power • Peace and justice • Social Inclusion • Rural Poverty Reduction 	<ul style="list-style-type: none"> • direct transfer of funds • decentralization mechanism • SNIP • Impact studies
Municipalities	<ul style="list-style-type: none"> • Convergence of own investment resources • Commitment to the community • Improved status of municipality and mayors • Competition (concursons) 	<ul style="list-style-type: none"> • LRACs • Competitions (Concursons) for transparency and good governance • Financial and social Audits • PROCOMPITE • Elections
Comunidad <i>campesina</i>	<ul style="list-style-type: none"> • Building physical and productive assets • Social and financial assets • Knowledge sharing • Citizenship • Political empowerment • Competition (concursons) 	<ul style="list-style-type: none"> • Competitions (Concursons) • Book keeping • Talking maps • Voting
Farmer/Entrepreneurial interest groups	<ul style="list-style-type: none"> • Building economic and financial assets • Market access • Diversification of income options 	<ul style="list-style-type: none"> • LRACs • PROCOMPITE • Financial and administrative audits

⁶⁸ Elaborated by author

The incentives relate to tangible and intangible ones; difficult to separate as they closely interlink in the Andean society.

C. Issues of space

Fiscal space

Economic growth in Peru has steadily improved over the last three decades. The Gross Domestic Product (GDP) per head is equally increasing. Peru has now graduated to a Middle Income Country status (MIC). Earlier, under more attractive lending terms, the government opened its financial space to utilize IFAD, WB and similar loans for ‘trial and error’. These operations led to considerable impact (see Chapter 4).

Lending at ordinary terms and at predictable conditions (e.g., referring to Special Drawing Rights (SDR), interest rates, grace period) means that MEF is now all the keener to have a very precise picture of the social and economic impact, effectiveness and efficiency of new loan operations. Hence fiscal space may be reduced, if IFAD operations cannot meet higher expectations on innovations and new knowledge products for impact.

Where MEF at central level is cautiously optimistic about its fiscal projections, the Regional Governments from Apurimac, Huancavelica and Pasco (the poorest regions in the Southern Highlands) have expressed their willingness to co-funding future engagement with ALIADOS. As a consequence, the World Bank is considering sub-sovereign lending to Regions.

At municipal level, the new PROCOMPITE Law, allows to allocate 10% of municipal expenditures to territorial and productive investments.

Policy and political space

In the early nineties FONCODES introduced the term ‘*Núcleos ejecutores*’⁶⁹ to define a purposely established community organisation that would receive government funds to implement projects. Participation of the population took place through the formation of these *Núcleos ejecutores* to represent the community. FONCODES embraced the basic principles of demand-driven approach applied by IFAD projects and others. Projects were identified and proposals prepared by the local community itself, with some technical assistance from the local FONCODES office. Projects were then ranked according to a number of technical criteria, and the best among all local projects were selected. This procedure maintains competition and project quality while at the same time guarantees that projects selected really meet local needs and desires.⁷⁰

From 2003 the CORREDOR project was organized as a *Núcleo Ejecutor Central* (NEC), as a private endeavour and established by Decreto Supremo N° 015-96-PCM and Decreto Supremo N° 020-96-PRES. The NEC provides the flexibility to channel resources which are then allocated through the LRACs providing the necessary transparency in the allocation process.

⁶⁹ Main executing group

⁷⁰ The NECs are legally recognized entities thus are able to sign contracts, intervene in administrative and judicial procedures, and carry out all other functions required to execute funded projects. They are responsible for: (i) maintenance of separate and specific accounts for managing programme resources; (ii) maintenance of proper records; (iii) accountability regarding the use of programme resources; and (iv) the preparation and submission of financial information required.” (FONCODES, 2004)

Using the NEC modality for channelling resources for development allowed the PMUs to have financial autonomy by being able to manage special accounts, and use specific procurement guidelines based on an approved project implementation manual.⁷¹ Existing project management units have the ability to undertake and implement the necessary internal changes. Project management has the flexibility to adapt the project's strategy and had the technical and financial autonomy to transfer funds directly to the communities. Neither the project nor the other actors interfere in the selection, hiring and supervision of technical service providers. As the NEC is fully embedded in government institutions and regulations, the Paris Declaration rejecting 'autonomous PMUs' is wholeheartedly supported.

Implementation of the World Bank funded ALIADOS project is following SNIP procedures as required by the National System for Public Investment.⁷² ALIADOS sub-projects are submitted to SNIP in Lima resulting in more time required for processing approval. This procedure reduces the decentralization and decision making powers of LRACs and the inherent use of 'concursons'.

The LRACs were established in CORREDOR in the early 2000's as a public space for the transfer of public resources to private organizations through the use of competitive mechanisms- 'concursons'. The Law to Support Productive Competition, *Ley ProCompite*, which was introduced late 2009, clearly refers to 'concursons' and LRACs introduced by the IFAD co-funded Corredor Cusco-Puno projects. This Law allows municipalities to allocate up to 10% of its income via 'concursons' to productive investment projects without having to go through the (cumbersome) SNIP procedures. Municipalities can hence fund equipment, inputs, infrastructure and technical assistance. They are not allowed to make cash transfers to beneficiaries or finance operation and maintenance.

One of the most important organizational support efforts in the policy domain to foster the scaling up process was the evolution of MARENASS and CORREDOR, originally as national dependencies of MINAG, being institutionally mainstreamed in 2008 into AGRORURAL – the operational office of the otherwise normative MINAG. This set the stage for Sierra Norte and Sierra Sur projects whose PMUs are firmly embedded into AGRORURAL for oversight and guidance yet are financially autonomous (living the Accra Declaration).

Organizational and institutional capacity space

Capitalizing on its former CORREDOR staff experiences, in 2009, AGRORURAL, initiated sustainability and impact studies with the 'Sustainability Investment for Strengthening Rural Markets in Puno Cusco' project . It will further the knowledge base used for staff capacity development.

⁷¹ The Loan Contract No. 602-PE, between the Republic of Peru for SIERRA SUR and the International Fund for Agricultural Development-IFAD signed the first of October 2004 provides for the implementation of the Southern Highlands Development Project the following arrangement: FONCODES is the responsible agency, which monitors and implements it in a decentralized way through the UEP, which operates under the mode of central executing unit FONCODES-NEC

⁷² The National Public Investment System is a State administrative system that certifies the quality of public investment projects through a group of principles methods , procedures and technical norms related to the different phases of an investment project aiming at efficiency in the use of investment resources sustainability in improved quality and expansion of the services provided by the projects and increased socio economic impact in terms of the wellbeing of the population . All sectors of the National, regional and local governments included in the system must comply with the principles processes and methodologies of SNIP In general all projects whose purpose is to create, improve or recover the capacity to produce goods and services and that are financed with public resources , regardless of the amount to be invested must be evaluated under the SNIP framework

Human resource factors played a major role in the scaling up process. Key staff moved on to new operations after having successfully developed earlier projects. This was the case with MARENASS and CORREDOR. Continuity was secured to AGRO RURAL where key staff play a leading role in disseminating the validated project approaches. IFAD was able to incorporate key staff into its Country Office thus ensuring local knowledge be utilized at the highest levels of policy dialogue and implementation support to its operations.

Professional staff from CORREDOR when transferred to SIERRA SUR replicated experiences and lessons learnt as they were already shaped by practice and interactions with the learning group. They were open to experiment and adapt the innovations to be scaled up in their new project context.

Inappropriate staffing of SIERRA NORTE delayed progress and adherence to scaling up in its initial implementation period. With the nomination of key staff from MARENASS recuperating this delay is addressed successfully. Core to this success is the training and capacity building towards a different mind-set and attitudes which seek to move away from mechanical approaches to valuing farmers' opinions and views of new actors such as municipal staff. This applies to service staff and other local stakeholders alike.

In SIERRA NORTE it has been particularly necessary to inform staff and potential beneficiaries, users or clients of the project that the five key innovations (see Chapter 3) and this particular form of interaction is different from past interventions. It recognizes the community groups and municipalities as the protagonists, giving its members space to develop their creativity and their own initiatives. Project and municipal staff and community groups will need to be accompanied to be weaned off from the prevailing dependency syndrome and appreciate their newly created spaces for self-determination in a decentralized manner.

Cultural space

The particularity of the Southern Andes indigenous Quechua culture is best illustrated with legal recognition of its key features, namely the '*comunidad andina* or Andean Community'.⁷³

This organizational/cultural space is the common denominator in all IFAD's operations in the Southern Peruvian highlands. The scaling up of the innovations out-of-area into a different cultural context, namely that of the SIERRA NORTE, and possibly SELVA, is characterized by a major modification of concepts, attitudes and timelines in order to fit that particular setting (see also the KfW-funded Rural Development Project in Chapter 4). In the Northern provinces, there are few Andean Communities, and hence the project concept was turned to municipalities and private sector services (e.g. mining sector) rather than insisting on Andean communities and their common resource/asset development. This focus on municipal agents represents its major change and challenge to scaling up.

Learning space

Project Management Units and IFAD's implementation and direct supervision arrangements proactively created a learning and leadership space by enhancing a "learning by doing" culture,

⁷³ Another feature is gender equity and inclusiveness especially via saving accounts (see chapter 3).

flexibility and openness to change. This process was fostered by :(i) the experience gained from projects implemented in the 1980s; (ii) the broad availability of socio-economic studies on the situation of small farmers and the Andean context; and later (iii) IFAD’s presence in the country, through its Lima office, and the continuity of the CPM) responsible for Peru since 1985, which made it possible to lend solid support to project operators and ensure continuity in approaches and dialogue with the country’s authorities.

The learning space was built up by: (i) strengthening capacity for mutual learning (ii) providing earmarked resources and opportunities for local actors to experiment, implement and validate technical solutions, (iii) cooperating with a “learning group” (see Leadership) and (iv) preparing and disseminating documentation (mostly in Spanish) of experience gained learning processes and products.⁷⁴

Today one of the main vehicles for learning is provided by PROCASUR, a Latin American training organization specialized in building capacities for rural development.⁷⁵ Since 2001, with the support of IFAD, PROCASUR, has promoted an innovative learning approach known as ‘learning routes’.

An evaluation of the first Learning Route programme in September 2008⁷⁶ indicated that it had been highly successful and its impact was greater than expected by IFAD and PROCASUR. The evaluation concluded that Learning Routes were: (a) an effective methodology for training and education focused on the exchange of experiences, knowledge and practice, combining theoretical training with visits to innovative case studies that can be replicated through the creation of innovation plans tailored to the needs of each participant; (b) a flexible mechanism that allowed for developing new management skills among various actors involved in rural development initiatives (farmers, rural operators, technicians, professional staff working in projects) and in a wide range of thematic domains⁷⁷; and, (d) a relevant approach to allow local talents and development practitioners to systematically organize their knowledge, experiences and processes of innovation. Learning Routes mobilized partners and stakeholders, leveraging additional resources and furthering replication as many other international organizations adopted the methodology in their strategies for capacity building, as well as government agencies in the region.

Learning Routes have been scaled up in Latin America, Asia, Africa and Europe. A significant catalyst for scaling up was the existence of valid and tested approaches in Peru. Between 2006-2010, in collaboration with IFAD, FORD Foundation, RIMISP and other development agencies, PROCASUR implemented 55 Learning Routes with 823 participants and 58 themes. Impact is currently subject to a study financed by PEIR.

Further uptake of the scaling up of innovations is under way in Vietnam (LRACs), Colombia (women savings accounts) and continental spread of Learning Routes.

⁷⁴ This was supported by the regional programmes FIDAMERICA, PROCASUR and PREVAL and by national research institutes like GRADE, IEP and CEPES)

⁷⁵ Halpern Ariel, Pulgar Dario, 2011, Scaling Up “Learning Routes”, As A Knowledge Management And Capacity Building Tool

⁷⁶ Programa Regional de Rutas de Aprendizaje. Donación N° 854 – PROCASUR. Evaluación pre-terminal. noviembre, 2008.

⁷⁷ (i) micro-enterprise and dynamic markets; (ii) local governance (iii) territorial development with cultural identity; (iv) gender and political participation; (v) services, products and technology for rural microfinance; (vi) management and use of water resources; (ii) innovations in project management; (viii) participatory monitoring and evaluation; (ix) recognition of cultural assets as a development tool; (x) information and communication technology and; (xi) administrative and technical operation of IFAD funded projects.

Box 7 : Cross-continental Learning routes⁷⁸

During a recent Learning route in Peru, IFAD project staff from Vietnam expressed their interest to implement the methodology of the LARCs as they believed that this was a good approach for transparency in using public resources. They requested detailed instruments for implementation and look to develop other activities to fully adapt the methodology to their national settings. The Vietnam Programme Officer expected that mechanisms such as LARC could be included in the COSOP for Vietnam (under preparation). Furthermore she suggested preparing strategic guidelines for existing project and programmes especially for a large future public-private value chain programme.

Natural resources/environmental space

Concern about climate change and water scarcity is now common place in Peruvian public opinion. Water scarcity, and more precisely access and allocation of water to particular uses and users, affects farmers and city dwellers alike in their entrepreneurial development of food-based value chains. Small tanks and reservoirs introduced by IFAD projects through the ‘*concurso*’ principles may have contributed to alleviate local water scarcity and mitigate conflicts. Mining of minerals and timber, pipelines and new roads in sensitive areas are growingly recognized not just as a menace to the environment but also as a contributor to public discontent with the loss of investments and economic growth and job security.

Scaling up of Natural Resource Management (NRM) innovations originated in the Southern Andes may have contributed to lessened tension in those areas by prioritizing best bet investments. This may have been widely recognized. Monitoring of NRM/E space hence merits to grow well beyond traditional bio-physical indicators.

D. Monitoring and evaluation of results and scaling up processes

Demonstrating clear results and impacts has become key to justifying public investments (see MEF considerations in the section on fiscal space). M&E systems, however, of COSOP and projects, remains weak at outcome and impact levels. M&E of scaling up processes is hitherto not developed.

Indicators used at outcome and impact levels include income development, accrued assets and production values, equity distributional effects, economic and internal rate of return EIRR⁷⁹, operational efficiencies, social inclusion, gender, environment, nutrition and similar categories. Chapter 2 highlights several of these indicators for the different projects. Shortcomings in the IFAD result and impact management (RIMS) reporting on these levels are related to considerable differences in opinion on the degree to which national projects are to report on indicators which are perceived as being alien to reporting on outcome and impact be it to IFAD or higher national authorities such as CIAS or MEF. In short, projects are often overburdened and under-capacitated to engage in higher level M&E and may revert to outsourcing (e.g. SIERRA SUR completion).

⁷⁸ Halpern Ariel, Dario Pulgar, 2011, Scaling Up “Learning Routes”, As A Knowledge Management And Capacity Building Tool

⁷⁹ EIRR and other Cost-Benefit analysis have been identified by IFAD QA as important tools for result and impact measurement (QA wrap-up sessions, June/October 2011)

In order to address these shortcomings SIERRA NORTE in 2009 commissioned a baseline survey to the National Institute of Informatics and Statistics (INIE). Between 2002 and 2009 documentation of M&E results⁸⁰ was fostered by the Regional Programme on Evaluation in Latin America (PREVAL), which supported qualitative and quantitative data collection. Several IFAD evaluations⁸¹ complemented the monitoring studies and independently confirmed the validity of the positive results gained in scaling up innovations.

In 2010, with support of GIZ, CIAS has started to build up a National System for M&E and Social Information- SINAMEIS- to monitor results. It forms part of management for results of State programs aiming to reduce poverty. With regard to rural development, SINAMEIS will provide results of the contribution of any social or rural development project to the defined government goal, i.e., rural poverty reduction. AGRORURAL reports to SINAMEIS.

Table 5 shows the recently adopted AGRORURAL logical framework which is aligned with SINAMEIS requirements.

This logical framework shows consistency between IFAD's approaches in Peru and with the proposed new SIERRA/SELVA HIGHLAND programme. This consistency may be ascribed to the significant weight of the overall efforts of the IFAD funded projects within AGRORURAL. The ALIADOS project is also in line with AGRORURAL's general approach.

Table 7: AGRORURAL Logical Framework

Agro Rural Logical Framework Narrative	Verifiable indicators
Purpose Improve income levels of rural producers and families and develop their capacities to manage their assets and respond to climate change.	Increased family income of agricultural producers Increased value of assets of rural producers Increased number of rural families that manage natural resources in a sustainable manner
Results Component 1 Sustainable management of natural resources and adaptation to climate change Families and rural producer organizations manage their natural resources adequately	Component 1 Sustainable management of natural resources and adaptation to climate change # of organizations with natural resources management plans Forested and reforested areas Hectares under improved soil management s N° of farmers that manage their water resources
Component 2 Agricultural production , processing and rural infrastructure Agricultural producers improve their levels of production and productivity	Component 2 Agricultural production , processing and rural infrastructure Agricultural income per family Agricultural production yields % of agricultural production destined for primary transformation # of hectares under improved irrigation % of producers that have irrigation systems % of producers that make use of technical assistance services Investments made in communal productive infrastructure
Component 3 Strengthening and articulation of markets Campesino families and rural micro entrepreneurs manage profitable business ventures	Component 3 Strengthening and articulation of markets # of families implementing profitable business plans and ventures Value of sales from business ventures # of persons inserted in the banking system market # of organizations legally established that have business management instruments Investments made in community commercial and

⁸⁰ Molano, Olga Lucía, 2006 Esta casa es con plata de cuyes. Identificación y valorización de de los activos de los pobres rurales

⁸¹ The thematic evaluation on innovations (2004), the IEE (2005), and several project completion evaluations

	services infrastructure
Component 4 Information and knowledge management	
Campesino families, micro entrepreneurs and other actors use information and value intangible local cultural assess	<p>Campesino families and micro entrepreneurs access and use agricultural information</p> <p>Agro Rural staff access and use agricultural information</p> <p>Regional Directorates and Zonal agencies implement one or more of the four management tools available</p> <ul style="list-style-type: none"> • Capacity Development Training System • Integrated Strategic operational and budgetary system I • Integrated Organization and Methods System • Integrated Monitoring and Evaluations System <p>% of the population that benefits from valuing cultural assets</p>

E. IFAD's role in the scaling up process

In Peru, an attempt has been made to design projects that incorporate a flexible approach, introducing effective mechanisms to ensure the users' participation in decision-making on objectives, activities and managing resource administration. The main elements of this flexibility have been: (i) a demand-driven approach; (ii) recognition of the central role of communities and families; and (iii) a strategy of developing local goods and service markets.

The scaling up process in Peru showed that successful innovations were championed through the main protagonists of its projects (the 'campesino-citizen') by continuing its own engagement albeit in different geographical locations. The out-posted CPM put much attention on innovations and using scaling up possibilities.

The CPM served more as a coach for project managers and staff as project supervision was initially outsourced to the Andean Development Corporation (CAF). Direct exposure to both national policy challenges and the situation of individual farmers did in effect enrich the design process and ensure results with a solid pro-poor focus. Cross-fertilization among consultants involved in IFAD project design and implementation support has been considered highly relevant and has enabled replication of results beyond the immediate scope of IFAD's portfolio as reflected in the out scaling to the World Bank and other International Financial Institutions (IFIs) in the Andean region and elsewhere.

Institutional logic would have it that from the start of its Peru operations IFAD headquarters had pro-actively created space and corporate guidance for the out-posted CPM to develop mainstreaming and scaling up innovations. Such support did indeed materialize but not until the positive impact of the portfolio performance in Peru was well documented and accepted, both in Peru and at IFAD headquarters.

In the opinion of the CPM⁸² he was encouraged and given confidence and support by equally 'out-of-the-box' thinking headquarter colleagues who offered intellectual space to discuss and develop innovations along the promising path. This way the strategies elaborated by the large national and international team ('learning group') would be fine tuned. The process would explicitly involve joint learning from mistakes and facing and resolving polemical situations

⁸² Roberto de Haudry, e-mail 5 March 2010.

such as resistance to innovations like substantial cash prizes to capitalize social organizations and enterprises, joint ventures with mining companies, life insurance or citizenship identification documentation (IDs). In his appreciation these innovations were initially also misunderstood in IFAD however the CPM qualifies IFAD as ‘a nice environment for innovation and dialogue’. The CPM values exchanges with interested colleagues and informal presentations to have been more useful than general guidelines, planning and formal reporting exercises.

The IEE (see Box 9) seems to downplay the role of IFAD headquarters in offering a guiding spirit and concludes that it was more in a ‘no objection’ than supportive mode.

Box 8: Role of the CPM and IFAD

The role of the CPM has been significant, though he himself credits much to the project staff. CPM is also well connected in social science circles (for which the cities of Lima and Cusco are noted) and it was they as much as anyone who put a shape to the emerging project pipeline. Within IFAD, it would appear that the CPM operated largely single-handed in designing this innovative programme. There is no evidence that there was at any time a guiding spirit from headquarters that was helping him shape the emerging overall plan. The best that can be said about headquarters’ role in the evolution of this plan is that it provided the CPM and his project teams an environment of ‘no objection’ in which they could push along. Of course, headquarters’ acceptance of the plan and the use of these consultants during the 1990s, and its efficient processing of the loans, were indispensable to any success.⁸³

The Peru scaling up exercise has been initially documented and presented at the 2004 Shanghai Conference on Scaling up Poverty Reduction⁸⁴, being the first corporate effort by the Latin America and Caribbean Division of IFAD to promote scaling up. Following the 2005 IEE recommendations, scaling up innovations was mainstreamed by IFAD in its 2008 Innovation Strategy, which refers to the Peru case. Further in-house scaling up of innovations is illustrated by the adoption by the Office of Evaluation (OE) of a specific evaluation domain on the issue.

6. OVERALL ASSESSMENT

All five essential innovations described earlier are in the process of being institutionally scaled up. Their mainstreaming is characterized by different degrees of maturity in their respective spaces and drivers. Key to this success was that the exit strategy was transformed into a learning pathway with sequential projects building up on proven innovations. After 20 years scaling up was born. 10 years later, scaling up has been mainstreamed into national policies and agencies.

IFAD’s first moves to scaling up, which date from the mid-90s where FEAS reached out to over 40,000 households and which were further exemplified by the quantity leap in CORREDOR, are now consolidated by national partners.

The earlier suite of rural development projects clearly demonstrated impact (e.g. a major shift out of extreme poverty in MARENASS, incremental value created by local talents in

⁸³ IEE, page 124, Box 6: Peru- an exception or a model for the future

⁸⁴ Barbara Massler, Roberto Haudry, 2004 Innovative Strategies for Reducing Poverty in the Southern Highlands of Peru, , Scaling Up Poverty Reduction: A Global Learning Process and Conference Shanghai, May 2004

CORREDOR, accrual of assets and access to rural financial services for women by SIERRA SUR).

Following this lead, the 2009 COSOP saw a bold move away from projects to a more holistic programme approach which scales up almost 30 years of successful innovations (i.e. transfer of funds and use of LRACs at community and municipal, competitions, use of local service providers, and mobilizing savings accounts) in the Sierra.

Two main pathways for scaling up can be identified – one for geographic expansion, replication, adaptation, and sustainability, i.e. the transfer of experiences from the IFAD projects in the Southern highlands to the Northern highlands, and one for policies, i.e. the institutionalisation of proven innovations in State financed rural development projects.

Peru fared well during the recent world financial crisis and because of long term growth there should be sufficient fiscal space to finance scaling up. There is also an enabling legal framework as described in the COSOP that allows for the decentralized implementation of rural poverty reduction programmes mainly by regional and municipal governments. Implementation modalities such as “*nucleos ejecutores*” have been legally recognized through a Presidential Decree in July 2009 and by Law 29030 on ‘*nucleos municipales*’.

Further legislation late 2009, in form of PROCOMPITE, formalized the necessary conditions for municipalities to implement LRACs and channel their financial resources to organized beneficiary groups. Direct transfers from the central government (and extraordinary income accruing from extractive industry royalties) provide certain municipalities with sufficient financial capital to also invest in enhancing productive assets of the rural poor. REMURPE, a network of rural municipalities, provides the necessary technical assistance for scaling up to those municipalities not covered by IFAD services. It is also instrumental in policy dialogue lobbying for wider application of the transfers.

Economic growth of Peru has been steady. This has resulted in growing net transfers to rural poor areas. Peru as a MIC wants to lessen its dependence on foreign debts for scaling up and wishes to engage its own institutions (MINAG, AGRORURAL, others) and its own domestic resources in proven impact generating investments for equitable growth and wealth. This indicates full adherence to the Paris and Accra Declaration.

Country leadership, ownership and donor cooperation/partnerships

The Ministry of Finance, MEF, originator of domestic and international funded investments, is firmly leading the decision making process on the use of IFAD and other Official Development Assistance (ODA) funds. MEF now requires *ex ante* evidence from MINAG that public investments in ‘social projects’, such as IFAD’s poverty reduction projects, offer an adequate rate of return before engaging in loan negotiations. Its SNIP process uses updated *ex post* impact assessments from closing projects and *ex ante* studies on demonstrated demand and surveys of adequacy of supply services (feasibility studies) prior to making a fiscal commitment.

The prospective IFAD loan for SIERRA/SELVA HIGHLANDS is thus subject to this process. Such assessments and surveys to be done by MINAG require time and other resources and may thus affect IFAD’s design cycle initiated in 2009 for this project. Hence, in future, IFAD may need to modify its design cycle fitting the Peruvian model, and not vice versa.

AGRORURAL, set up in 2009 as the rural development agency within MINAG, mainstreamed knowledge gained from IFAD projects into its routine operations throughout the country. Key to the success in the Highlands was the continuity of using former IFAD Sierra project field staff as drivers and managers of new AGRORURAL projects.

The Conditional Cash Transfer programme JUNTOS, in which AGRORURAL participates, is in the process of scaling up saving accounts to 20,000 families in 2011. It is built on experiences gained in the CORREDOR and SIERRA SUR projects.

Partnerships of AGRORURAL, based on IFAD experiences, with the International Development Research Centre IDRC (REMURPE-the Rural Municipal Network), Ford Foundation (Savings accounts), World Bank ALIADOS (Rural enterprise and community development), IADB PROSAAMER (Marketing), and Japan's JBIC III (Natural resource management in the Highlands) allowed for replication these AGRORURAL partners of IFAD-led innovations.

AGRORURAL has thus taken leadership of the scaling up process. Its predecessor staff influenced rural development policies (direct transfers and NEC) to be focused on the rural poor. It used CIAS as a policy platform to launch savings accounts for women (JUNTOS).

Certain challenges remain. These concern consolidation of the scaling up process in Peru by the new authorities such as MEF and the newly created Ministry of Social Inclusion. IFAD faces a challenge in identifying 'new' innovations which cater to the MIC status of Peru. It can no longer scale up 'old' innovations.

Institutional Capacity and Capability of major stakeholders

The institutional capacity and capability of IFAD and project staff composing PMUs, and later AGRORURAL, grew organically over a period of several decades as such staff was close to the beneficiaries and rural development agendas (learning group).

Capacities and capabilities to manage public funds and transparent resource allocation mechanism of *comunidades* and municipalities were developed step by step through LRACs, '*concurros*', the use of *talentos locales*, learning routes, and support to territorial development.

Inclusion of poorer municipalities still poses a challenge as these do not have sufficient fiscal space to allocate funds to the LARC process. Twinning of poorer municipalities into local networks ('*mancomunidades municipales*') and training mayors and their staff may overcome this barrier and is supported by REMURPE. The experiences so far gained in the SIERRA NORTE project show that transferring the Andean community approach from the South to the municipalities of the North requires substantial adaptations, staff skills and capacities, and attitudes to change. Direct supervision by IFAD of both areas facilitates to address this challenge.

The pace and scope of embracing innovations by the Peruvian stakeholders will oblige IFAD to mobilize new ideas such as territorial development based on cultural identity and assets, and new economic models (e.g. tourism) via the municipalities, social inclusion and responsibilities, public-private management of scarce resource, gastro-culinary development and mining. IFAD grants to PEIR and DTR-RIMISP are experimenting with 'new' innovations.

Results Management and M&E of results and scaling up processes

Spanning both Peruvian stakeholders and IFAD is the issue of M&E of results and impact of scaling up. MEF, in order to direct domestic and international funding, wants to see hard-nosed figures on impact of 'social' investment projects which cannot easily be furnished by local project management. Outsourcing, e.g. to INEI, may alleviate pressure on the projects to deliver M&E of results and impact. This is currently practiced by SIERRA SUR. IFAD has as yet to define its M&E system for scaling up.

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