

## Executive summary

1. **Background.** The Independent Office of Evaluation of IFAD (IOE) carried out a project performance evaluation (PPE) of the Market Strengthening and Livelihood Diversification in the Southern Highlands Project (PDSS) in Peru. The PPE's objectives were to independently evaluate the performance of the project and to generate findings, recommendations and lessons learned that will serve to guide IFAD and the Government of Peru in implementation of similar present and future projects. In addition, it sought to provide inputs for the country strategy and programme evaluation (CSPE),

2. The **project environment**, which is to say the Peruvian highlands, is marked by: high poverty rates; the vulnerability of the population to the risk of natural disasters and climate change; limited access to banking and financial services; the processes of division of the land into smaller plots; the feminization of agriculture; and the abandonment of rural areas by the youth.

3. Within this context, the **objective** of the PDSS was to reduce the number of poor people among the rural families of the Southern Highlands, by means of a sustained increase in their human, natural, physical, financial, cultural and social assets. This was to occur through implementation of four components: (i) management of natural resources; (ii) strengthening of local markets; (iii) knowledge and cultural asset management; and (iv) organization and administration.

4. The project duration was nearly seven years (April 2005 to December 2011). Prior to the closing date of the project, it was decided to finance a supplementary loan in the Southern Highlands of Peru. The duration of the supplementary loan was to have been three years (2010-2013), but it had an actual duration of five years. Although the two phases had the same objectives and components, the subsequent phase was not designed to consolidate the results of the first phase, and their goals and geographical coverage were different.

5. It should be noted that the report uses the acronym PDSS to refer to the project as a whole (Southern Highlands Development Project plus supplementary loan). However, the acronyms PDSS I and PDSS II are used when it is necessary to distinguish the characteristics of the two phases, and the results achieved over the period 2005-2011 (PDSS I) from those achieved by the supplementary loan (PDSS II).

6. The total funding for PDSS I was US\$21.7 million and the supplementary funding came to US\$12.74 million. The total amount of PDSS financing is therefore US\$34.4 million. PDSS I was carried out in 16 provinces of five regions, while PDSS II was carried out in 34 provinces of the same regions, in addition to Apurímac, which is to say, a total of six regions. The body responsible for execution of PDSS I was initially the Social Development Cooperation Fund (FONCODES). In 2007, FONCODES came to fall under two ministries, and after a new restructuring process, in June 2008 the project passed to the Rural Agricultural Productive Development Programme (AGRORURAL), a body within the Ministry of Agriculture and Irrigation (MINAGRI).

7. **Project performance.** PDSS was highly **relevant** with respect to the policies of Peru's national and subnational public authorities, to IFAD policies and strategies, and principally to the expectations of the local users and stakeholders, in particular due to its demand-driven approach. The areas covered by the project corresponded to the areas or municipalities defined by the national authorities as being areas of poverty.

8. Nevertheless, its relevance is only moderately satisfactory, due to two major shortcomings in the design. Firstly, expansion of the geographical area with the supplementary loan and the absence of a well-defined exit strategy limited the consolidation and deepening of the results for the communities served. In addition, the design did not adapt its demand-driven approach nor its activities to the different target groups, and was characterized by certain aspects (for example, the requirements for

monetary contributions on the part of the beneficiaries of between 20 per cent and 30 per cent of assets such as land and water, as well as participation in groups), which limited access for the poorest segments (in particular, young people lacking in land and assets). Modification of these aspects in the design stage of the projects could have been an effective measure for improving the targeting strategy and reaching the very poor.

9. **Effectiveness.** PDSS exceeded the total number of direct beneficiaries envisaged in the design (30,911 families), reaching 76,768 families. Expansion of project coverage is noteworthy; nonetheless, the fact of reaching many more beneficiaries was one factor, together with the change in geographical coverage of PDSS II, that limited the process of consolidation of the results and their sustainability.

10. Regarding the effectiveness of the targeting strategy, the analysis for the supplementary loan that IOE carried out based on the databases of the IV Agricultural Census and the National Household Survey indicates that PDSS had a clear capacity for geographical targeting. This is to say that the project was oriented more towards the poorest clusters or localities. Nonetheless, it did not have the ability to generate more specific targeting among the group of farmers within its areas of intervention.

11. These findings are consistent with the demand-driven approach, the selection mechanisms and the organizational requirements for participating in the project's initiatives for businesses and natural resource management, which became an obstacle limiting the participation of the poorest and most vulnerable.

12. As regards effectiveness in achievement of the objectives, most of the targets envisaged in the design, or readjusted at the time within the three components, have been met and even surpassed. The families and organizations developed their businesses and ventures, with the consequent diversification of their activities and an increase in their income and assets, through business plans and technical assistance services. PDSS facilitated enhanced appreciation of local and ancestral knowledge, as well as the strengthening of cultural identities and the empowerment of families and communities, with these being aspects that have increased the economic, social and cultural value of their assets.

13. Despite such notable results, the women savers subcomponent – although it contributed to financial inclusion – did not achieve the objective of transforming the financial assets of the female beneficiaries into productive assets and of enabling processes of capital accumulation.

35. **Efficiency.** Budget execution was above 95 per cent in both phases. Likewise, the disbursement rates for the IFAD loan were close to 100 per cent. The project's returns were positive. Nonetheless, there were lags between approval and the signing of the loan agreement on the part of the Government. Despite this, the first disbursement following the signing of the agreement was rapid in both cases. Notably, the strengthening of local markets component, which in PDSS I and PDSS II represented 49 per cent and 47 per cent respectively of the investment, reached an execution percentage of 80 per cent, which was lower than the other components. The share of the management and administration component was high (25 per cent in the PDSS and 27 per cent in the supplementary loan), explained to a large extent by the wide geographical dispersion of the operations carried out.

14. **Impact.** The quantitative analysis carried out by IOE for PDSS II, using the database of the National Agricultural Census (CENAGRO) of 2012 and the National Household Surveys (ENAHOs) of 2008 and 2012 determined that poverty declined by 12.6 per cent more in the clusters covered by PDSS II than in those not served by the project.

15. A number of factors explain the project's contribution to rural poverty reduction. Firstly, the income of the population served grew and diversified during the years of project implementation. Secondly, the incorporation of technological changes that were

small but effective. Lastly, there was improvement in the physical and natural assets of the families served by the project.

16. It should be noted that the effects on the level of consolidation of the business plans would have been even greater if the project had continued longer, with a deepening of the technical assistance services. In addition, the PPE takes the view that the factors that would have made an even greater impact on income and assets possible include, on the one hand, adoption of differentiated approaches for a greater adaptation to the various geographic and socio-economic contexts and, on the other, a better harnessing of the synergies between project components.

17. The project also had a notable impact on the development of human capital and on the empowerment of the beneficiaries, generated a high level of self-esteem on the part of the families involved and promoted local leadership. In addition, the fact of economically valuing the cultural assets of the farming communities generated a knowledge market made up of professionals and campesino technical assistants, partially replacing the traditional system of agricultural extension and stimulating a virtuous circle of uplifting campesino culture itself.

18. With regard to food security and agricultural productivity, PDSS had an impact on increased agricultural productivity, in particular due to the incorporation of significant technological changes into the productive systems. Nonetheless, the quantitative data was not available on yields from crop and livestock production and the levels of productivity at project start-up and end, nor the effects of increased productivity on the improvement in food security.

19. **Sustainability.** The participation of local authorities and governments in the various activities of PDSS implementation, the institutionalization of the public policies achieved by a central part of the intervention instruments – local resource allocation committees (CLARs) and business plans (PDNs) – as well as the levels of ownership, empowerment and leadership generated by the PDSS, constitute a guarantee of sustainability.

20. Nonetheless, we observe the absence in the project design of an exit strategy with a clear definition of the role that the national and local institutions would assume once the project is finished and which would ensure the long-term sustainability of project benefits. The strengthening of the results and their subsequent scaling up requires the necessary public investment, which at present is not assured.

21. The organizations and associations promoted require support in technical assistance, business management, working and investment capital and marketing channels, in order to consolidate and avoid the risk of returning to poverty. Along these lines, the producer associations and their businesses needed longer-term technical assistance for their consolidation and sustainability, as well linkages with financial services for access to working and investment capital. Collaboration with a broader set of private sector operators could have provided more specialized technical and business services to the beneficiaries.

22. In this regard, the technical assistance did not envisage this scope of the financial services, and the financial inclusion subcomponent was limited to women and solely to savings and micro-insurance. Although it permitted progress, this initiative did not have the continuity hoped for in the savings accounts, nor the desired effect on access to credit.

23. **Innovations.** PDSS is a landmark within a virtuous circle of creativity and innovation for the IFAD programme in Peru. In accumulating and enhancing the experience of the Management of Natural Resources in the Southern Highlands Project and the Development of the Puno-Cusco Corridor Project, PDSS has not only maintained the approaches and methodologies that were innovative at the time; it also improved them and adapted them to the conditions and respective intervention contexts, for greater impact. PDSS introduced adaptations and innovative instruments that take in everything from the methodological approach up to the administrative and management innovations, like the Central Executing Nucleus, and including instruments like the Territorial Investment Plan, the Meetings for Exchange of Experiences and Dissemination of Local Expertise (INTERCON) and campesino life insurance. Lastly, the Southern Highlands project introduced an improvement in the mechanism of for the local resource allocation committees, in applying them to deliver pending funds.

24. **Scaling up.** Application on a larger scale of the innovative elements of PDSS is evidenced fundamentally in the local municipal spheres and in certain public entities. As a way of allocating resources in a transparent and efficient manner, the CLARs are the instrument with greatest reach and institutionalization within the management of the Peruvian state. In 2016 MINAGRI officially institutionalized the CLARs by means of Supreme Decree No. 015-2016, which approved the Regulation of Law No. 30355, the Law for Promotion and Development of Family Farming.

25. The business plans are applied by the main productive and social development programmes of the central government and of the subnational governments that finance groups of organized producers. Other instruments show a level of intermediate institutionalization and enjoy legal backing, but lack budget support for their wider application, or display even more limited coverage. This is the case of rural micro-insurance. Along the same lines, coordination with state projects should be broadened.

26. In summary, the results in terms of scaling up of PDSS are positive. Nonetheless, MINAGRI, through AGRORURAL, together with other ministries - the Ministry of the Economy and Finance and the Ministry of Women and Social Development (MIMDES), for example - and in liaison with the subnational governments, faces the challenge of operationalizing the experiences and lessons in an even broader way and on a larger scale.

27. **Gender equality and empowerment of women.** PDSS stressed the importance of working with women, and in general exceeded the targets for women beneficiaries in the various components and in the subcomponent of women savers. In the subcomponent of savings and micro-insurance, the PDSS generated a base of 11,436 financially educated rural women.

28. A large part of the production lines that were supported benefited women, in particular activities carried out close to home (raising of guinea pigs and trout, among others), that do not require large endowments of land (which most lack) and that generate a weekly and monthly income. On the other hand, in relation to IFAD's policy objectives of gender equality in the reduction in gender gaps in income, use of time and representation in the local authorities, the project did not have indicators to measure progress.

29. The impacts of PDSS on the **environment and management of natural resources** were positive and may be regarded as satisfactory. One aspect that was not explicit in the design was risk management; an aspect that should be contemplated in the intervention strategies for IFAD projects.

30. PDSS did not have a direct or specific orientation to working within the framework of a strategy for **adaptation to climate change**. Nonetheless, the activities under the natural resources management component, through the investments in improvement of those resources, strengthened the position and conditions of the producers to address

and mitigate the impact of climate change. This assessment – coming out of the field work – cannot be measured however, since the project did not incorporate indicators of vulnerability to climate change and to the risk of disasters.

## **Recommendations**

**31. Recommendation 1: Consolidation of performance.** It is recommended that the Government of Peru promote development of a programme directed to strengthening the initiatives moved forward within the PDSS intervention communities, focused mainly on women and youth, and that:

(i) identifies the associations and organized groups with potential for linkage with the markets, for management and administration of their businesses, and for working and investment capital;

(ii) promotes replicability and the scaling up of the innovations of PDSS at the various levels of the public administration and within the framework of sector policies;

(iii) involves the private sector in providing technical assistance; and

(iv) incorporates risk management and climate change adaptation and mitigation.

**32. Recommendation 2: Targeting of the poorest.** In addition to considering the trio for poverty targeting as defined by IFAD (geographic, self-targeting and direct targeting of poor women), starting from project design it is necessary to take into account the barriers to entry, in order to have criteria for inclusion and effective targeting in favour of the poorest; for example, an identification of the diverse needs of the poorest families in a community and of specific strategies for their inclusion or access to resources or assets such as land, transformation or processing equipment, and marketing, among others.

**36. Recommendation 3: Inclusive and innovative financial services.** It is recommended that IFAD – within the framework of the first two recommendations, and based on its experience with financial inclusion – promote a comprehensive proposal for innovative financial services that actually reduces transaction costs and galvanizes the initiatives of the campesino economies and family farming. This presupposes influencing public policies and sector-specific regulations for incentives to operators, in order for them to sustain such financial inclusion holistically, and to go beyond savings and micro-insurance.