### I. Project Context

#### Country Context

For the last few years, Peru has experienced strong economic growth and employment creation, but inequality remains high. Growth has been strong, averaging 5.7 percent between 2000 and 2011. Sound macroeconomic management underpinned the fast growth recorded until late 2008, helped mitigate the effects of the international crisis of 2008-10, and contributed to rapid recovery reaching 8.8 percent in 2010 and 6.9 in 2011, despite the continuing global slowdown. Fast economic growth was accompanied by significant poverty reduction and job creation.

Although overall poverty rates and income inequality have declined, increased prosperity has not been evenly distributed. Poverty incidence remains geographically concentrated in the rural areas, with some regions (Ayacucho, Huancavelica, Apurímac) posting poverty rates above 60 percent.

Improving Peru’s human capital base is essential for sustained economic growth, more equitable poverty reduction, and broader social and human wellbeing. A recent Bank study provides evidence that a binding constraint to labor market insertion in Peru, especially for workers from low-income families, is the lack of a core set of skills. Ensuring the access of low income and otherwise vulnerable children to good quality basic education is essential to unleash skills formation and productivity. Equally relevant for Peru is the substantial body of global research which supports the importance of education for broader social and human wellbeing. More equal access to quality education raises the health of women and children, improves social mobility, reduces inequality of income and opportunity, and supports more informed democratic participation. Access to quality education allows citizens to develop their full “human capabilities”, which enhances economic efficiency, economic and social equity, and personal wellbeing.

### II. Sectoral and Institutional Context

Peru’s relative success in expanding coverage has come without commensurate success in improving basic education quality. In Peru, the Basic Education System comprises preschool (ages 3 to 5), primary school (grades 1 to 6), and secondary school (grades 1 to 5, equivalent to 7 to 11). There is near-universal coverage of primary education in Peru, with a net enrollment rate of 98 percent; access to preschool education (children 3 to 5 years old) has tripled in the past five years, reaching 70 percent; and the secondary net enrollment rate (75 percent) is above the regional average. Yet, schools graduate high numbers of students who lack basic mastery of math and literacy skills. On the 2009 Program of International Student Assessment (PISA) exam administered to a national sample of 15-year old students, even with significant improvement from its scores in 2000, Peru still finished last among the nine participating Latin American and Caribbean (LAC) countries and close to the bottom among the 65 participating countries globally. Learning outcomes in Peru continue to be far below what is expected based on the country’s income per capita and educational investment as a percent of GDP. Peru’s PISA results are echoed by the country’s own national assessment of reading and math skills –less than a quarter of second grade students in 2011 demonstrated “adequate” reading proficiency and almost half were unable to do basic math. Outcomes in national tests were by far the worst among children from rural, indigenous communities; and according to the latest PISA results, Peru is the country where the socio-economic characteristics of students have the greatest effect on learning gaps, even when they attend the same schools. On the positive side, gender gaps in both schooling completion and learning are negligible in Peru.

To raise learning outcomes in public schools, the Government has designed and launched the Results-Based Budgeting (RBB) Program for Student Learning (Programa Presupuestal Logros de Aprendizaje, PELA). The RBB approach was formerly introduced by the Ministry of Economy and Finance (MEF) in 2008 to prioritize public resource allocation to comprehensive sector-wide strategies and activities for which there is substantiated evidence of impact on the end result (in this case, student learning). Under this methodology, a first phase of the PELA was implemented from 2009-2011, with mixed results (see Annex 6). A redesigned program, built on the lessons learnt from the first phase of implementation, was approved by MEF on June 06, 2012 for 2013-2016. The total estimated budget allocated to PELA in the 2013 Budget Law, approved on November 30, 2012, is 10.1 billion soles (about US$3.9 billion), which represents 89 percent of the total budget for basic education.

Under the redesigned PELA, a robust national assessment system will be established to support a standards-led reform program and contribute to improved learning outcomes. National assessments are an important tool for improving learning outcomes. They can operate through two
different channels to stimulate better school and school system performance. First, robust data on student learning progress helps policymakers and education practitioners track the impact of education policies and programs, thus strengthening quality control, instructional diagnosis, needs assessments and resource allocation. Second, teachers, principals and parents can use the information on their school’s results to design of improvement strategies and monitor learning progress. But unlike most middle-income countries in Latin America, Peru has yet to put in place a national student assessment system that covers all key grades and subject areas. The current assessment program in Peru – consisting of a test administered only at the 2nd grade level and participation in PISA every 3 years – does not meet the Ministry of Education’s (MINEDU) need for regular information on student learning progress at the end of preschool and across primary and secondary levels. On the positive side, the 2nd grade census tests that have been carried out annually over the past 5 years meet international standards of quality, and results have been well analyzed and broadly disseminated by gender, urban/rural, and geographic locations. School principals, teachers, parents and local authorities receive feedback on student learning outcomes thanks to tailored reports, allowing effective decision-making and accountability. All of these elements are consistent with global best-practice in the use of student assessment systems to support school improvement. In 2010, over 86 percent of schools declared having received the full package of reports (for parents, teachers, and principals) of the previous year’s test. Benefits from the annual census-based testing (ECE) at the second grade level will be scaled-up under PELA. First, the ECE has given schools useful comparative performance feedback that they have built into their school improvement plans. Second, it has allowed MINEDU for first time to analyze gaps in student learning across rural and urban districts within provinces and regions. Third, the Government's efforts to disseminate feedback on student and school results to parents have created perceptibly stronger accountability at the school and system level. Fourth, second grade tests were designed in alignment with the curriculum but that process evidenced the need for clear, measurable learning standards and the expertise gained with the assessments has informed the development of such standards (which are still a work in progress). Finally, learning outcomes have shown progress since introduced: between 2007 and 2011 the proportion of second grade students reaching Level 2 in the national reading comprehension assessment increased from 17 percent to 30.5 percent, and in math rose from 9.4 to 13.2 percent. But today, information for other grades beyond 2nd grade is required to analyze issues, inform teacher development programs, "anchor" the qualitative evaluations of teacher practice through peer observations and school principals' feedback, and to provide more extensive feedback to schools to underpin school development plans.

Second, the GOP will seek to increase teacher quality. Teachers in Peru are drawn from the bottom third of higher education students, and several different tests of teacher content mastery in the past decade have revealed troubling levels of performance. A pilot program of classroom observations in the San Martin and Callao regions also documented the least efficient use of instructional time in any of the seven LAC countries researched to date, poor lesson preparation, and the preponderance of highly traditional instructional methods such as copying from the blackboard. Global research provides evidence that teachers’ classroom effectiveness is an important determinant of student learning progress. MINEDU is introducing an innovative system for collecting periodic classroom observation data in a nationally representative sample of schools, a potentially valuable tool for monitoring whether new policies and interventions (such as the support to multigrade schools) actually translate into better instructional practice in the classroom. However, MINEDU recognizes that substantially upgrading teacher quality would be a long-term process that would depend on higher standards, higher pay, a more attractive career path, higher quality pre-service teacher education, and more effective in-service training, all of which need to be tackled in an integrated way. To that end, the GOP has recently passed a Teacher Reform Law (Nº 29944) to establish a performance based career that would raise the standards for entry into the profession, regulate promotions across a more remunerative career path based on competency, and implement regular evaluation of teacher performance.

A third leg of the government’s strategy is more effective school leadership. International research suggests that principals who combine managerial skills and capacity for instructional leadership at the school level are crucial elements to improve school management and to raise student outcomes. Even well prepared teachers cannot be productive in a dysfunctional school environment, that is, an environment with no clear goals and expectations for their work, limited support or formative feedback, and few opportunities to collaborate and share good practices with colleagues. In Peru, by law, school principals are appointed for a three-year period, after which they must be evaluated to be confirmed in their post. However, there have been no evaluations of school principals since 2006, and, as a consequence, about 75 percent of schools are currently managed by acting principals. MINEDU is developing a transparent, competency-based selection process, followed by a comprehensive program of training in management and instructional leadership for the selected candidates. Implementing this program and dealing with the backlog of close to 40,000 unconfirmed principals and vice principals is a major institutional challenge for which the Ministry has requested Bank support.

A. Institutional and Implementation Arrangements

III. Project Development Objectives
The objective of the Project is to improve MINEDU’s capacity to evaluate student learning, instructional practice, and school leadership in Basic Education.

IV. Project Description
Component Name
Component 1. Evaluating student learning
Component 2. Evaluating instructional practice and school leadership
Component 3. Strengthening Minedu's implementation capacity

V. Financing (in USD Million)

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VI. Implementation

A. Institutional and Implementation Arrangements
MINEDU would implement the Project through its existing technical and administrative line units. The implementing units within MINEDU are:

- Quality Measurement Unit (UMC),
- General Direction of Teacher Development (DIGEDD),
- General Direction of School Development (DIGEDIE),
- Direction of Preschool Education (DEI), and
- Direction of Education Research and Documentation (DIDE).

The GOP would designate and maintain, until the completion of the execution of the Project an administrative unit within MINEDU to be responsible for the administrative coordination, supervision, monitoring, evaluation and fiduciary management of the Project (the “UEP”) with its fiduciary staff in place not later than sixty days after the Effective Date. The GOP would also designate a unit within MINEDU (UMC), to be responsible for the technical coordination of the activities implemented under the Project. The Planning Secretariat (SPE) would provide overall support. The GOP would ensure said units have at all times a structure, responsibilities, the necessary budget and key staff assigned with functions, experience, responsibilities and qualifications acceptable to the Bank, as described in the Operational Manual. Support to said units would be financed through Component 3.

Operational Manual (OM). The OM includes detailed guidelines for the implementation of Project components, monitoring and evaluation, procurement, financial management, and safeguards. An OM, satisfactory to the Bank, has been prepared and submitted to the Bank for comments, and would be adopted by the Borrower as a condition for effectiveness.

B. Results Monitoring and Evaluation

MINEDU would have primary responsibility for tracking progress related to Project outcomes and results. The UMC would coordinate inputs gathered by the different units within MINEDU. Project reports would be prepared by the UEP on the progress made under the different components of the Project, and progress towards targets established in the Results Framework. These reports should be submitted to the Bank twice a year, cover the period of one calendar semester, and be furnished to the Bank not later than 60 days after the end of the period covered by each such report.

In addition, Project reports would include: (i) budget execution performance over the period covered by the report; (ii) updated procurement plan for activities under each of the components; (iii) a section describing potential developments that could affect Project implementation, which could consist of a review of the main risks and the impact of mitigation measures as well as reports on any Safeguard issues that have arisen during implementation.

C. Sustainability

The improvement of MINEDU’s capacity to evaluate student learning, instructional practices and school management poses potential risks to technical, political and financial sustainability. Fiscal sustainability risks are considered low, thanks to the medium-term budgetary commitment the Government has already made to this program through its Result-Based Budgeting process. The approved 2013 Budget Law allocates over $35 million to this program, up from US$6.71 million in 2012. Projected recurrent budget implications of the student assessment and school principal performance evaluation programs, once they reach full scale in 2016, is $50-60 million per year. This represents a large increase over the previous low level of spending on these areas, but it is dwarfed by overall increases in education spending. The 2012 education budget was US$791 million (or 16 percent) higher than in 2011, and the 2013 Budget Law includes another US$541 million increase for education. The 2013 Budget Law includes explicit provision of a salary adjustment associated with the incorporation of all teachers and school principals into the new Public Teaching Career, which introduces, for the first time, the responsibility for all principals to undergo performance evaluations at regular intervals.

The improvement of MINEDU’s institutional capacity to handle the implementation of PELA would increase political and institutional sustainability of the policy reforms. Project resources are focused on ensuring that the Ministry has the necessary technical support to develop a testing program that provides reliable measurement of learning progress, is standardized to permit comparisons over time, and is implemented with integrity. Global experience suggests that national assessment programs that meet technical standards achieve political and public legitimacy. The first few years of implementation would be critical for consolidating political acceptance of the program. The Project’s focus on technical support for the design of the system, the training of highly competent, external evaluators, and provision of high-quality supplementary training opportunities for directors are designed to minimize these risks and ensure institutional and political sustainability.

VII. Safeguard Policies (including public consultation)

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