

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

**PROGRAM TO IMPROVE EARLY EDUCATION IN AYACUCHO,
HUANCAVELICA, AND HUÁNUCO**

(PE-L1062)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35778055
2.	Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35776055
3.	Procurement plan – Complete http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35775022
4.	Environmental and social management report (ESMR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35770270
OPTIONAL	
1.	Proposed quality parameters for early education http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35227761
2.	Economic and social evaluation http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35776087
3.	Supply and demand estimates for early education services http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35776116
4.	Economic analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35782637

ABBREVIATIONS

AWP	Annual work plan
CEI	Centros de educación inicial [early education centers]
CGR	Office of the Comptroller General
KfW	Kreditanstalt für Wiederaufbau
MEF	Ministry of Economy and Finance
MINEDU	Ministry of Education
OCI	Oficina de Control Interno [Internal Control Office]
OM	Operations Manual
OR	Operating Regulations
PEU	Project execution unit
PRONOEI	Nonschool early education programs
SEPA	Procurement Plan Execution System
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Management System]
PEU	Program execution unit

PROJECT SUMMARY

PERU

PROGRAM TO IMPROVE EARLY EDUCATION IN AYACUCHO, HUANCABELICA, AND HUÁNUCO (PE-L1062)

Financial Terms and Conditions				
Borrower: Republic of Peru			Amortization period:	25 years
Executing agency: Ministry of Education (MINEDU)			Grace period:	5.5 years
Source	Amount	%	Disbursement period:	5.5 years
IDB (Ordinary Capital)	US\$25.0 million	39%	Interest rate:	LIBOR-based
KfW loan ¹	US\$8.3 million	13%	Inspection and supervision fee:	*
KfW grant ¹	US\$5.5 million	8%	Credit fee:	*
Local	US\$25.7 million	40%	Currency:	U.S. dollars from the Single Currency Facility of the Bank's Ordinary Capital**
Total	US\$64.5 million	100%		
Project at a Glance				
Project objective: The general objective of the program is to improve the quality of early education services for children ages 3 to 5 years in the departments of Ayacucho, Huancavelica, and Huánuco (see paragraph 1.19).				
Special contractual clauses: As special conditions precedent to the first disbursement: (i) the program execution unit (PEU) has been established, and the general coordinator contracted on terms previously approved by the Bank; (ii) the program Operations Manual (OM) has entered into force on terms previously agreed upon with the Bank; and (iii) the firm has been selected to conduct the program baseline survey (see paragraph 3.10).				
Special conditions: Retroactive recognition of expenditures: Expenditures of up to US\$2 million equivalent, incurred on or after 3 November 2011 until the date of approval of this operation by the Board of Executive Directors, may be reimbursed in accordance with Operational Policy OP-504. Such expenditures will be made to collect precise information in the field regarding the state of infrastructure, boundary demarcation and title clearances, and the hiring of key personnel. (see paragraph 3.3).				
Exceptions to Bank policies: None.				
Project consistent with country strategy:		Yes [X]	No []	
Project qualifies as:		SEQ [X]	PTI [X]	Sector [] Geographic [X] Headcount []

* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

** Option for conversion to Peruvian nuevos soles: Local Currency Facility.

¹ The financing from Kreditanstalt für Wiederaufbau (KfW) is expected to be approved in December 2012. In the event of any issue that delays approval, the Government of Peru has agreed to finance this amount with ordinary resources.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, rationale

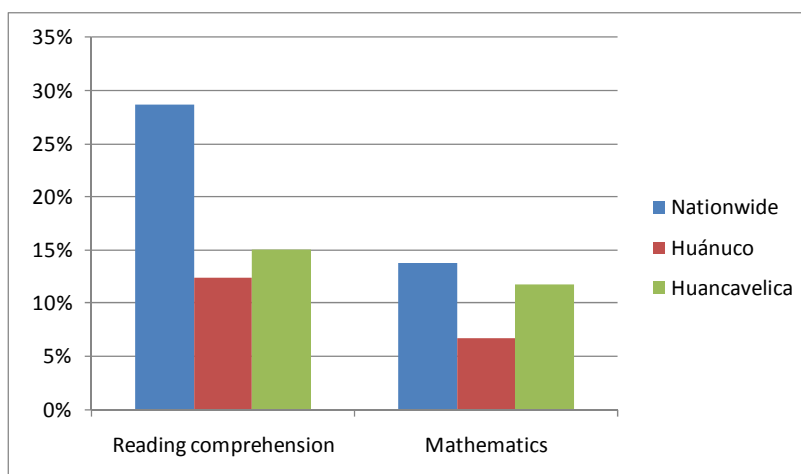
- 1.1 Peru has made great strides in expanding its education system in recent decades. Today, coverage stands at 66% in early childhood education,² 96% in primary education, and around 73% in secondary education. In terms of enrollment rate, Peru scores relatively well, above average among Latin American countries. Around 70% of pupils complete the first cycle of secondary school, compared to a regional average of just over 54%. However, the quality of instruction remains a challenge, particularly in the early years when the foundations for future learning are being laid. According to the school census for the year 2010, only 28.7% of pupils in the second year of primary school had achieved the level of reading comprehension expected for their grade, while the corresponding figure for logical-mathematical reasoning was 13.8%. These performance levels are of even greater concern given the inequalities associated with poverty, living in rural areas, and speaking a language other than Spanish.
- 1.2 Approximately 135,000 children between three and five years of age live in the departments of Ayacucho, Huancavelica and Huánuco, where total poverty and extreme poverty rates far exceed the national averages. According to the 2009 National Household Survey, total poverty in these departments exceeds 62%, compared to the national average of 34.8%; extreme poverty exceeds 33%, compared to the national average of 11.5%. Illiteracy among women in these areas is around 10 percentage points higher than the national average, and this influences the communication skills of children at very early ages.³ In rural areas, where poverty is most severe, some 60% of the population is indigenous and speaks Quechua or other indigenous languages.
- 1.3 Education indicators for Ayacucho, Huancavelica and Huánuco fall short of the national averages. For example, while at the national level the repetition rate in primary school is 6.7%, in these three departments the figures are 11.5%, 13.4% and 10% respectively. This pattern is reflected subsequently in the primary school completion rates: while at the national level 79.1% of students between 12 and 14 years of age complete primary school, in these departments the figure is only 67%. In terms of learning achievement, although the national averages are not very good, the children in Huánuco and Huancavelica learn even less. In the case of Huánuco, only 12.4% of second grade students achieve the expected levels in language, and 6.7% in mathematics. In Huancavelica, the outcomes are better but still lacking (see

² In this program, early education refers to the cohort of children ages 3 to 5.

³ Schady and Paxson (2006) in Ecuador and Hart and Risely (1995) in the United States point out that the less education the mother has, the lower the linguistic development of the children, especially in terms of their vocabulary.

Figure 1.1).⁴ These findings point to learning problems that begin in the early years, where the role of early education is key.

Figure 1.1. Satisfactory Performance Rates in Second Grade



- 1.4 The importance of investing in early education has long been recognized, not only because of its positive impact on children’s performance and on their subsequent achievements throughout their lives, but also because it helps “level the playing field” for children from disadvantaged backgrounds.⁵ It has been demonstrated that high-quality programs can mitigate or offset cognitive and aptitude deficiencies and behavioral problems among children from poor families. Based on this evidence, and taking into account existing inequalities, the Ministry of Education (MINEDU) has made investment in early education a priority. As a result, access to early education services has expanded and, although still insufficient, the net enrollment rate now stands at 48%, 69% and 57%, respectively, in the three departments. The State is the principal provider of early education services. The government-run early education centers (known by their Spanish-language acronym, CEI) account for around 70% of enrollment, with the remaining 30% covered by the “Nonschool Early Education Programs” (PRONOEI). Both programs fall under MINEDU.
- 1.5 A CEI or kindergarten is characterized by an educational environment specifically organized for learning and targeted exclusively to children between three and five years of age. Generally, CEIs are located in urban areas and are staffed with

⁴ Education Quality Statistics, 2010, Ministry of Education. The results for Ayacucho are not shown because they are not statistically representative, owing to the low rate of pupil participation in the tests conducted in those departments.

⁵ [Carneiro and Heckman \(2003\)](#) and [Heckman and Masterov \(2007\)](#) found that investments in early childhood produce greater returns than investments at any other time of life. [Currie \(2001\)](#) argues that it is more effective to invest during early childhood than to make corrective investments during youth and adulthood. [Huggett et al. \(2007\)](#) used a model that features idiosyncratic shocks to human capital to show that, as of age 20, differences in initial conditions are more important than learning ability and initial wealth in explaining differences in lifetime earnings and total wealth.

certified teachers. PRONOEIs are a response to the demand for education in rural communities, periurban neighborhoods, and the informal settlements known as *pueblos jóvenes* that have no kindergarten, and are considered a transitional solution. These educational services are provided by a member of the community known as the “community educational outreach worker,” usually a woman who has completed secondary school. Both approaches—CEIs and PRONOEIs—have proven their effectiveness in childhood development, although the standard of services offered by CEIs is generally higher, and learning experiences more successful,⁶ since the teachers are better trained, and the educational facilities more suitable.

- 1.6 The quality of education services is a fundamental issue. The academic literature notes that the factors that have had the greatest impact on early childhood learning include well-trained teachers, an appropriate curriculum, materials that stimulate thinking and creativity, a setting that emphasizes language development and communication skills, active participation by children and positive interaction between adults and children. While coverage has been growing in Ayacucho, Huancavelica and Huánuco, challenges remain with the quality of service, particularly school infrastructure, teaching practices, and management.⁷
- 1.7 The **features of educational offerings in Ayacucho, Huancavelica and Huánuco** are as follows:
- 1.8 **Education facilities.** Educational facilities, including buildings, furnishings and recreational areas, are an important factor in educational quality, as they have an impact both on the attendance and on the performance of children.⁸ In particular, the environment must be suitable and comfortable enough for children to concentrate on their work. There is also evidence that the condition of the school influences children’s attitude and, directly or indirectly, the attitude of teachers and

⁶ In Peru, Cueto and Diaz (1999), analyzed the impact of CEIs and PRONOEIs on a small sample of 304 children in the first grade of public school in the Lima metropolitan area, and found that the probability of a satisfactory outcome was greater if the child had attended a CEI. More recently Diaz (2007) only found favorable differences for those who had attended a CEI in a sample of broader national coverage than the first study.

⁷ “Prácticas de docentes y promotoras educativas comunitarias del nivel inicial y niveles de desarrollo infantil en los departamentos de Ayacucho, Huánuco y Huancavelica” [Practices of teachers and community education promoters at the initial level and child development levels in the departments of Ayacucho, Huánuco and Huancavelica]. Gabriela Guerrero, Santiago Cueto, Juan León, Claudia Sugimaru, Elisa Seguin and Ismael Muñoz, September 2009; Gabriela Guerrero, Santiago Cueto, Juan León, Claudia Sugimaru, Elisa Seguin e Ismael Muñoz, Parámetros de Calidad, September 2009. Ofelia Reveco, May 2009; “Capacidades de gestión a nivel local” [Management capabilities at the local level], Universidad Ruiz Antonio de Montoya, October 2009. “Oferta y Demanda de los Servicios de Educación Inicial” [Supply and demand for early education services], SASE Consultores, February 2011.

⁸ In an analysis of results from SERCE, Duarte, Bos and Moreno (2010) found that schools with better physical facilities and good services have a clear advantage in student test results, regardless of the socioeconomic level of families.

parents.⁹ Currently, the infrastructure of the CEIs in the priority departments needs improvement to help create a setting conducive to learning (see Table 1.1) and to meet the MINEDU technical standards for infrastructure. Conditions vary widely: some classrooms have uneven dirt floors or cement floors in bad shape; doors and windows may be out of plumb and in poor condition; and some schools have no playgrounds.

Table I-1: Evaluation of Infrastructure for Early Education Services

Needs of existing classrooms	Ayacucho	Huancavelica	Huánuco
Replacement	43%	18%	37%
Rehabilitation and/or maintenance	57%	82%	63%

Source: Supply and demand study, SASE Consultores, February 2011.

- 1.9 The vast majority of early education services are provided in small centers with one or two classrooms, in which teachers typically look after up to 20 children ages 3 to 5 years in mixed settings, i.e. with one teacher instructing all children within that age group in a single classroom. In these cases, the teacher also serves as director of the center. Having to teach a group of children at different levels of development in a single classroom, together with the tasks of managing the school, puts an extra burden on teachers.
- 1.10 **Teaching practices.** International empirical evidence indicates clearly that teaching is a key factor in the learning and educational performance of students.¹⁰ A great challenge in Peru is that most teachers fall short of the level of knowledge and expertise that the government deems essential for a high-quality public education. When it comes to planning their teaching day, teachers in early education may choose among different activities or moments,¹¹ all equally important. Despite the broad range of options, a study of teachers in Ayacucho, Huancavelica and Huánuco showed that teachers most frequently tend to schedule only activities in the academic unit, where they cover content from one of the standard subject areas, at the expense of working with the children on other activities covered in the early education curriculum such as music, psychomotor skills, or free play time. They thereby lose the opportunity to stimulate the children in other important aspects of their development.¹²

⁹ Carol S. Cash, "A model for building condition and student achievement and behavior," Educational Facilities Planner, 31/4, pp. 6-9, 1993.

¹⁰ In the view of Rockoff (2004), among the factors that can be affected by education policy, teachers accounted for up to 23% of learning variations. Wright, Horn and Sanders (1997) found that teacher effectiveness dominates among learning factors, so the teacher has a great influence on learning.

¹¹ The routine options include the academic unit, psychomotor activity or corporal expression, literary activity or "story time," graphic/plastic activity, physical activity, and free play time.

¹² "Estudios de prácticas de docentes y promotoras educativas comunitarias" [Studies of practices of teachers and community educational outreach workers], Guerrero, Cueto et al., September 2009.

- 1.11 When it comes to organizing the children in the classroom, to a large extent learning activities in early education are conducted individually. Working in pairs does not exist, and the percentage of pupils working in groups is very low despite the fact that groupwork is an important part of an active teaching methodology.
- 1.12 An effective teacher will regularly monitor the progress of students and provide feedback on their learning. Yet a considerable portion of teachers in early education (40%) in the target departments take no initiative for monitoring the progress of learning. They work with the children and provide feedback only when the children ask for it, thereby highlighting the need to improve strategies to monitor teaching practices in the classroom.
- 1.13 **Family participation.** Participation by parents in the education of their children could supplement the work that takes place at the school, and is considered a key factor for ensuring a successful school experience. While many parents show an interest in the development of their school-age children, attending meetings called by the teacher and helping with school supplies, research data in the target departments show the need to continue work in this area (see Table 1.2).

Table I-2: Parents' Participation in Their Children's Education

	Ayacucho	Huancavelica	Huánuco
Attendance at school meetings	93%	98%	94%
Participation in parent/teacher associations	26%	93%	69%
Parents who read to their children at least once a week	38%	39%	54%
Parents who never take their children to school or pick them up	55%	27%	26%

Source: Supply and demand study, SASE Consultores, February 2011.

- 1.14 **Demand for services.** The supply and demand study shows that 62% of children ages 3 to 5 in Ayacucho, Huancavelica and Huánuco were enrolled and attending classes at some early education institution in 2010, with significant differences according to age (29%, 62% and 88% for those aged three, four and five years respectively). Among the reasons cited by parents for not sending their children to preschool were that the children were too young, there was not enough income to afford the cost of education, and it was too far to the nearest school (or the route was dangerous). There was no difference in the attendance rate between boys and girls. Fewer than half (47%) of the parents of children enrolled in a CEI were satisfied or very satisfied with the school's facilities, while barely more than a third (37%) were content with the educational materials.
- 1.15 To encourage children to participate in education programs and to foster the human capital development in rural, indigenous and poor areas, the government is promoting various compensatory programs as part of its social strategy. Thus, in the target departments the school breakfast program has benefited 68% of households; school uniforms and footwear, 64%; school textbooks and supplies, 35%;

immunization campaigns, 73%; the adult literacy program, 22%; and the cash transfer program, 61%. These supplementary efforts are important and are encouraging children to enroll and remain in the school system. Moreover, the national Wawa Wasi program serves children from six months to three years of age in low-income areas, supporting their integral development and well-being before they are ready for the early education services offered by MINEDU.

- 1.16 Given the importance of early education and its impact on the future academic performance of children, and in light of the current shortage of services, with this program Peru is launching an initiative to improve the quality of early education, which could become a national strategy. The initiative targets the early education centers of the three neediest departments. It is the first step in implementing an integrated and enhanced intervention model that builds on the findings of the extensive research done in Ayacucho, Huancavelica and Huánuco in recent years, as well as the lessons that have been learned from its own experience but not yet tested empirically. The pedagogical model is based on the National Curriculum Design, which stresses the development of communication skills, mathematical and social thinking, encouraging children to contribute to constructing their own learning within their sociocultural, geographic and linguistic setting. Among other noteworthy aspects of this integral approach are the improvement of school infrastructure to comply with the new technical standards for early education, training and coaching for teachers in active pedagogy with the use of a variety of materials, the new importance accorded to interculturalism and bilingualism, and greater participation by parents in the education of their children. The model will be subjected to rigorous evaluation with a view to generalizing its adoption throughout the country if it proves to be successful.
- 1.17 **Bank support in the sector in recent years.**¹³ Since 2007 the Bank has been supporting MINEDU in several areas with the emphasis on preparing this investment program in early education, evaluating the “One Laptop Per Child” program and assessing the modalities of secondary education. This operation, which will support early education and the improvement of teaching, is fully aligned with the Bank’s and the country’s sector priorities. It is included in the Bank’s country strategy with Peru 2007-2011 (document GN-2472-2), which gives priority to fighting poverty, as well as to ensuring conditions for universal access to education. It is also aligned with the objectives of the Bank’s Ninth General Capital Increase (GCI-9), which emphasizes attention to early childhood and expanding the coverage of preschool education services.
- 1.18 Other important players in the financing of education programs and projects include the World Bank, UNICEF, UNESCO, USAID, the Canadian International

¹³ The last education loan financed by the IDB in Peru was the Program to Improve the Quality of Secondary Education (loan 1237/OC-PE), which was completed in December 2006 and involved a disbursement of \$87 million. It contributed to improving the resources channeled into the system (schools, materials, textbooks, teacher training).

Development Agency, the Peru-Spain Fund, the Education Ministry of Japan, and Kreditanstalt für Wiederaufbau (KfW). All the current international support is in the form of technical assistance; there are no existing loan operations. In some cases, the IDB has worked jointly with these organizations in the development and implementation of projects and initiatives. The proposed early education program presented in this document will be an initiative financed jointly with KfW.

B. Objectives, components, and cost

- 1.19 The general objective of the program is to improve the quality of early education services for children ages 3 to 5 years in the departments of Ayacucho, Huancavelica, and Huánuco. The specific objectives are: (i) to ensure suitable, safe educational facilities for children that will aid the teaching/learning process; and (ii) to improve teaching practices and management of education agents through support, relevant educational materials, and family participation, to encourage the children's learning.
- 1.20 **Component 1. Educational facilities** (US\$49.6 million). This component will improve the quality of the infrastructure of the early education centers, in light of existing safety and technical standards for the design of school premises and educational facilities. In addition to building classrooms, it will provide adequate school furnishings and facilities and equipment for the storage, handling and preparation of food. Program interventions will be comprehensive in the sense that they will consider the entire CEI as an intervention unit, addressing both classrooms and special modules (such as sanitary services and kitchen/dining halls) and furnishings in accordance with specific parameters and criteria established by the ministry.
- 1.21 The technical standards for the design of early education premises were recently updated by MINEDU and address architectural planning, the basic dimensions of educational facilities and functional organization. These standards have sufficient flexibility to be adapted to technical and pedagogical changes as well as to local geographic conditions, without losing sight of quality and safety.
- 1.22 This component will also include financing of technical assistance to the MINEDU Education Infrastructure Office for review of preinvestment studies, and will support the preparation of baseline surveys for works, the supervision and approval of technical files, the boundary demarcation and title clearance for properties and buildings, and the supervision of component execution.
- 1.23 **Component 2. Teaching practices, management and family participation** (US\$6.4 million). This component will enhance teaching and education management practices, improve educational materials, and promote parent participation in their children's education.
- 1.24 **Subcomponent 1. Teaching and management support.** The program will enhance the skills and effectiveness of teachers in early education. To this end, tools will be designed to improve teaching practices identified as critical to learning

- outcomes. These practices have to do with planning the curriculum, its application in the classroom, learning evaluation, use of methodologies, interaction with children, self-evaluation and feedback from practice. Teachers will be trained and supported in the use of reference materials, manuals, teaching aids and other tools, to help them improve their practice.
- 1.25 This subcomponent will also promote good practices in education management, which include institutional planning, monitoring and coaching of teachers in carrying out the curricular program, evaluating and disseminating children's learning, promoting the keeping of attendance and workday completion. This process of improvement will also involve early education specialists from the Local Education Management Units. Furthermore, a system will be designed for periodic monitoring of teachers' progress in executing the curriculum program in the classroom, so that corrective measures can be taken as necessary.
- 1.26 The principal strategies of pedagogical and management support will be visits to the classroom and to institutions and programs, as well as training workshops (regional and local). Over a period of three years, education agents will take part in more than 500 hours of technical advisory and coaching sessions.
- 1.27 **Subcomponent 2. Educational materials.** The program will provide suitable educational materials relevant to individual and cultural characteristics, to help children learn. Materials will be adapted to the social and cultural context of the children, taking into account their native language and intercultural reality. There will be a system for monitoring practices and a process for reinforcement and feedback, in order to ensure that the prioritized practices take root.
- 1.28 **Subcomponent 3. Parents' participation.** This subcomponent will support the development and implementation of an education and awareness-raising strategy that will disseminate information about child development and learning to parents and will work with them to expand their repertoire of parenting practices, heighten their awareness of the importance of early childhood, and reinforce their role as educators in the home by helping them identify learning opportunities in the course of daily family life. It will also encourage parents and grandparents to participate in promoting intercultural bilingual education by inviting them into the classroom to share stories, songs, games and traditions. Parents will also be encouraged to provide educational materials and toys for the home, so as to ensure continuity of the education process being developed in the classroom.
- 1.29 **Intersector synergies.** The intent is to strengthen partnerships with social and institutional programs targeted at early childhood (health, nutrition, social protection, etc.) that are being implemented in the context of the program, and in this way to help improve the services offered to children at the early education centers. In each department, the regional coordinator, together with the early education specialist of the Local Management Units, will convene coordination and information meetings with institutions that provide supplementary early childhood services. At the start of the year, these local meetings will present the services

offered by the social programs under way, discuss the achievements and problems encountered, and reach agreements and joint commitments to strengthen and improve the functioning of the services offered to children during the school year. At the end of the year, a meeting will be held to conduct a joint evaluation of what has been achieved, to propose strategies and to renew commitments for the following year. Beneficiaries' participation in supplementary social programs, such as school breakfasts, school uniforms and footwear, immunization campaigns, and cash transfers, will be monitored. These coordination meetings and the partnerships established are expected to help raise the percentage of children covered by the program who will access these additional services.

- 1.30 **Targeting.** The program will be conducted in the education administration zones of La Mar, Ayacucho; Pachitea, Huánuco; and Acombamba, Huancavelica. The zones were selected on the grounds that 100% of their districts are included on the list of the 174 poorest districts,¹⁴ and are thus accorded priority for intervention. With all the early education centers, teachers and pupils in the targeted areas participating in the program, it should be easier to conduct the activities to be financed, and their potential impact will be greater by allowing more sharing of teaching and management practices among teachers and directors.
- 1.31 **Sustainability.** The financial sustainability of this operation, and hence of the program's benefits once concluded, relates directly to the following recurrent costs: hiring of additional teachers for the CEIs, regular supply of teaching materials and physical maintenance of the education facilities. The sustainability analysis performed during design of the operation concluded that MINEDU has the capacity to absorb those costs, the fiscal impact of which should not exceed 0.15% of the ministry's accrued budget during 2010.
- 1.32 **Costs.** The cost of the operation is US\$64.5 million, of which US\$25 million will be financed by the Bank with resources drawn upon the Single Currency Facility of the Ordinary Capital, subject to the operational framework of the Local Currency Facility (documents GN-2365-6 and GN-2365-12); US\$13.8 million by KfW (US\$8.3 million loan and a US\$5.5 million grant); and \$25.7 million as the local counterpart contribution. Table 1.3 summarizes the estimated costs.

¹⁴ In the case of Ayacucho, it was decided to add one district not included on the original list.

Table I-3: Program Costs (US\$000)

Category	IDB	KfW loan	KfW grant	Local	Total	%
1. Component 1. Education facilities	21,076	5,650	5,479	17,388	49,593	76.9%
1.1 Improvement of CEI infrastructure	21,076	5,650	5,479	15,932	48,137	74.6%
1.2 Technical support to OINFE				1,456	1,456	2.3%
2. Component 2. Teaching practices, management and family participation	2,674	2,677		1,053	6,404	9.9%
2.1 Teaching support	1,519	1,519			3,038	4.7%
2.2 Education materials	1,155	1,155			2,310	3.6%
2.3 Family and community participation		3		590	593	0.9%
2.4 Technical support to DEI				463	463	0.7%
3. Program monitoring and administration	1,250	-		7,253	8,503	13.2%
3.1 Program coordination	-	-		6,200	6,200	9.6%
3.2 Evaluation	800	-		700	1,500	2.3%
3.3 Technical, operational, and financial audit	450	-		353	803	1.3%
Total	25,000	8,327	5,479	25,694	64,500	100.0%
Percentage	39%	13%	8%	40%	100%	

C. Key results indicators

- 1.33 Table 1.4 presents the most important indicators of expected outcomes and impacts (see details in the Results Matrix, Annex II). The project is expected to have an impact on the development of children 3 to 5 years old in vulnerable areas where educational quality is low. The expected outcomes relate to improving the quality of education services received by beneficiary children.

Table I-4: Key Results Indicators

Indicator	Target
• Early education teachers trained	100% (398)
• Early education centers replaced and operating	190
• Teachers applying teaching methodologies and content promoted by the project	80% (318)
• Results from psychomotor development and language tests	Pending
• Percentage of pupils of official age entering first year of primary (“on-time entry”)	Pending

II. FINANCING STRUCTURE AND RISKS

A. Financing instruments

- 2.1 Table II.1 shows the projected disbursement schedule for the operation:

TableII-1: Disbursement Schedule (US\$000s)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Total	2,533	15,873	17,840	18,983	8,421	850	64,500
%	4%	25%	28%	29%	13%	1%	100.0%

B. Environmental and social safeguard risks

- 2.2 This program should not produce any adverse environmental or social impacts. On the contrary, since it targets the country's poorest departments with low education indices, the program is expected to have favorable impacts on attendance in early education programs, particularly for indigenous children in rural areas. The construction of school infrastructure will be done in accordance with Peruvian regulations for mitigating the environmental impacts of works and services.
- 2.3 The main adverse social and environmental impacts will come during construction of the education infrastructure, and will include: (i) generation of dust; (ii) noise and vibrations; (iii) production of solid wastes and effluents from construction. However, given the small scale of the construction works, these impacts will be modest, localized, temporary and readily manageable through standard procedures. The operation has been classified as category "B" under the Bank's Environment and Safeguards Compliance Policy (OP-703) (see the Environmental and Social Management Report).

C. Fiduciary risks

- 2.4 As part of the operation's design, a risk management exercise was conducted for the program, following the Bank's methodology. The issues identified during the analysis included: (i) complex interagency coordination with regional and local governments, which could delay implementation or obstruct the agreements necessary for certain activities; and (ii) low execution capacity on the part of some municipalities. The program is considered medium risk.
- 2.5 To mitigate the complexity of interagency coordination, execution agreements will be signed between the districts/municipalities and MINEDU, stating the obligations of each party for program operation, and a program Operations Manual (OM) will identify the processes and responsibilities of each party. With regard to low execution capacity at the local level, operational audits will be performed semiannually, in addition to the annual audit, and Bank staff will conduct two visits per year.

III. IMPLEMENTATION AND ACTION PLAN

A. Summary of implementation arrangements

- 3.1 The Ministry of Education (MINEDU) will execute the program through a program execution unit (PEU), to be created, which will report to the Office of the Vice

- Minister for Pedagogical Management. The PEU will have a program general coordinator and the following key areas: (i) technical support; (ii) preinvestment; (iii) administrative; and (iv) planning, monitoring, and evaluation. To streamline program implementation, the PEU will have budgetary autonomy. The chiefs of the mentioned areas will be appointed or contracted upon terms of reference agreed upon in advance with the Bank. To ensure consistency with sector directives, however, the Education Infrastructure Office will have technical/functional responsibility for the execution of Component 1, and the Early Education Office will have the same responsibility for Component 2.
- 3.2 The program will have a Steering Committee comprised of the Vice Minister of Pedagogical Management, the vice Minister of Institutional Management, the Secretary-General, the Office of the Secretary of Strategic Planning, and a representative of the Ministry of Economy and Finance. The Steering Committee's main functions will be to: (i) ensure that the program's objectives are met; (ii) supervise the timely participation of the technical/functional units responsible for the program components; (iii) determine corrective measures to facilitate program execution and supervise their performance; (iv) approve the first program implementation plan; (v) approve the annual evaluations of program operations; and (v) approve the program completion report.
- 3.3 **Retroactive recognition of expenditures.** Expenditures of up to US\$2 million equivalent, incurred on or after 3 November 2011 until the date of approval of this operation by the Board of Executive Directors, in accordance with Operational Policy OP-504, may be recognized against the local counterpart, provided that requirements substantially analogous to those established in Bank policies were met. Such expenditures will be made to collect precise information in the field regarding the state of infrastructure, boundary demarcation and title clearances, and the hiring of key personnel.
- 3.4 **Disbursements.** Disbursements will be made in accordance with the project's actual liquidity needs (expenditure program). The PEU will submit disbursement requests to the Bank, together with an expenditure program linked to the annual work plan (AWP) for the next 120 days. Justification for at least 80% of the advance of funds will be provided in the subsequent disbursement request. An initial financial plan for the project will be submitted to the Bank, reflecting the disbursement schedule for the entire project, and will be updated annually. Supporting documentation for expenditures will be subject to ex post review by Bank staff and/or consultants and by the external auditors. Reports will be produced for each ex post review visit.
- 3.5 **Reports.** During program execution, MINEDU will deliver status reports to the Bank within 30 days after the close of six-month periods with a disbursement request. The reports will include information on progress made and problems encountered during the relevant period. In addition, in December of each calendar year of execution, the executing agency will submit an AWP for Bank approval, consistent with previously agreed standards and guidelines.

- 3.6 **System for execution supervision.** The program will adopt the monitoring and supervision mechanisms developed at the Bank's Country Office in Peru, which link the design stage with the execution stage and the different supervision mechanisms. The project execution plan will be developed with the executing agency and validated during the launch workshop. It will contain a multiyear schedule of the sequence of activities and the resources necessary to achieve the expected outputs and outcomes.
- 3.7 **Operations Manual.** The rules governing program execution will be described in detail in the program Operations Manual (OM), now in preparation.
- 3.8 **Procurement.** The procurement policies governing the operation will be those established in documents GN-2349-9 and GN-2350-9. The procurement plan contains details on procurements to be conducted during the first year and a half of the program, covering: (i) contracts for the required works, goods, nonconsulting services, and consulting services; (ii) the proposed procurement methods for works, goods and nonconsulting services and for the selection of consultants; and (iii) the procedures applied by the Bank for procurement review. Once the project begins, the remaining procurements will be identified and indicated in the procurement plan. Given the project's dynamics and associated risks, the borrower will update the procurement plan on a six-monthly basis, or whenever changes occur. Works may be procured in lots or individually by national competitive bidding, shopping or force account, considering whether the works are located within the same district and on the availability of construction firms in that area. The Bank will employ the ex post review modality.
- 3.9 **Audits.** External audit will be conducted by independent auditors acceptable to the Bank in accordance with Operational Policy OP-273-1 and the document "Guidelines for financial reports and external audit of operations financed by the Inter-American Development Bank." The annual audited financial statements for the program will be delivered within 120 days after the last disbursement. The audit costs will be part of the program cost and financed with the loan proceeds.
- 3.10 **Special contractual clauses.** As special conditions precedent to the first disbursement: (i) the PEU has been established, and the general coordinator contracted on terms previously approved by the Bank; (ii) the program OM has entered into force on terms previously agreed upon with the Bank; and (iii) the firm has been selected to conduct the program baseline survey.

B. Monitoring and evaluation

- 3.11 **Monitoring.** MINEDU and the Bank will be responsible for monitoring progress in implementation of the program. The monitoring of results will be based on the AWP and the disbursement plan. The executing agency will deliver status reports with data on execution progress, including the monitoring and output indicators. These reports will be delivered semiannually, starting six months after the start of program operations. To facilitate monitoring, the Education Division (SCL/EDU) will conduct field visits and administration missions.

- 3.12 **Ex ante cost-benefit evaluation.** The results of the cost-effectiveness and cost-benefit analysis of the operation show that the effects of the project are positive in that they will reduce repetition rates, increase the likelihood of graduation from primary, secondary and higher education, and improve academic performance for project beneficiaries. For example, the proportion of pupils earning a “satisfactory” grade on national mathematics and language skills tests may improve by 50% and 100%, depending on the region. Moreover, in the conservative scenario, the economic benefits generated by the beneficiaries, attributable to the project activities, exceed projected costs of the operation by at least US\$30 million.
- 3.13 **Impact evaluation.** The program will combine monitoring with an impact evaluation study using the highest technical standards to evaluate outcomes in the short, medium and long term. That evaluation will measure childhood development in its multiple dimensions, learning readiness among preschool children, their performance in the first years of primary school, and their progress thereafter during school. Participation trends of beneficiary children in other, supplemental social programs to be implemented under the program will also be evaluated in order to examine their impact on the services provided to children in the early education centers. The resulting data will be disaggregated by beneficiaries’ gender and self-identified ethnic group. A specialized firm with demonstrated experience will be commissioned for the evaluation.
- 3.14 **Baseline.** The baseline for the program will be surveyed between the third quarter of 2012 and the first quarter of 2013. To a large extent, use will be made of instruments already developed and validated during program preparation in the course of the supply and demand studies and the examination of teaching practices, supplementing these with batteries of psychometric instruments and anthropometric measurements.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The operation is aligned to the goal of reducing poverty and enhancing equity.		
Regional Development Goals	The operation contributes to the goal of increasing the Share of youth ages 15 to19 who complete ninth grade.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	The operation will benefit 7500 boys, 7500 girls and will train 398 teachers.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN 2472	The operation will contribut to objective of increasing coverage of preschool education in the poorest areas of the country	
Country Program Results Matrix	GN-2617	The operation is included in the 2011 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	7.8		10
3. Evidence-based Assessment & Solution	7.2	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	6.6	25%	10
6. Risks & Mitigation Monitoring Matrix	7.5	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium-High		
Environmental & social risk classification	B		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)			
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	yes	Over ten technical studies were carried out in preparation for the project.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	yes	Longitudinal evidence on the effect of ECD.	

The loan proposal includes a comprehensive diagnosis of the state of preschool education in three of the poorest departments in Peru, Ayacucho, Huancavelica and Huanuco. The problem of low coverage and low quality is well documented, the proposed solution is well defined and while there is only scant evidence on the effectiveness of the particular intervention model, the Government has requested to incorporate a rigorous impact evaluation in the project to measure the results of the program. Although this is a pilot project, the needs of the three selected departments have been dimensioned. The indicators selected to track the project are adequate, although some are pending until the instruments to measure the specified dimensions of language and psicomotor development are developed, which is part of the activities to be financed with the project.

The economic analysis is well done, including impacts of early education in the short and long run, both for the kids and for their families. Monitoring arrangements are in place to track that activities take place and outputs are produced, while the evaluation will verify that the new teaching methods are applied and that learning takes place. There is a longitudinal study that will be part of the evaluation, as explained in the evaluation plan. The impact evaluation is well conceptualized but it is not completely defined as some operational and implementation issues need to be defined before finalizing the evaluation arrangements. In any case, the evaluation questions, the evaluation strategy and the budget are well defined. The project includes a risk matrix that rates the main risks and proposes mitigation measures, however it lacks indicators to track those measures.

RESULTS MATRIX

Project objective:	To improve the quality of early education services for children ages 3 to 5 years in the departments of Ayacucho, Huancavelica, and Huánuco.
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Intermediate indicators of purpose or impact	Base line	Target	Comments
Percentage of pupils of official age entering first year of primary (“on-time entry”)	X%	X%	MINEDU and PEU records
Results from psychomotor development and language tests.	X%	X%	Instruments to be defined

Component	Base line	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
Component 1. Education facilities								
Output indicators								
1.1 Early education centers rehabilitated or replaced, equipped and operating.	0		50	50	50	40	190	CEIs rehabilitated or replaced and operating must: (i) meet safety and technical standards for the design of school premises and educational facilities; (ii) have the following modules: sanitary services, administrative services (director's office) kitchen/dining hall and playground; and (iii) furnishings in accordance with ministry criteria.

Component		Base line	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
1.2	Early education centers with a maintenance plan.	0		50	100	200	296	296	PEU reports.
Initial outcomes									
1.3	Percentage of CEIs that meet the safety and technical standards for design of school premises and educational facilities.	X%	X%	X%	X%	X%	80%	80%	Midterm and final evaluation reports.
1.4	At the end of the program, early education services reach 80% of children ages 4 and 5 years in the program target areas in the regions of Ayacucho, Huanavelica and Huánuco.	75%	X%	X%	X%	X%	80%	80%	Midterm and final evaluation reports.
Component 2. Teaching practices, management and family participation									
Output indicators									
2.1	Teachers receiving training materials.	0		398	398	398		398	PEU reports.
2.2	Early education teachers trained and receiving coaching in the classroom.	0		398	398	398		398	Training will cover use of reference materials, manuals and other tools that will improve practice in the classroom. Active means that teachers have concluded their training and are back in the classroom.
2.3	CEIs receiving collections of bilingual intercultural books.	0		296				296	Materials must take into account the children's mother tongue and interculturalism.
2.4	A system has been developed for periodic monitoring of teachers.	0	1						PEU reports.
2.5	Teachers being monitored by the system.	0	0	198	398			398	PEU reports
2.6	An education and awareness strategy targeted at parents has been implemented.	0		1	1	1	1	1	PEU reports

Component	Base line	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
2.7 Parents targeted by the strategy reached.	0	0	3,000	6,000	9,000	9,000	15,000	Survey of parents. Since some parents will participate for several years, the final target is 15,000, one parent for each participating child.
Corporate indicators								
2.8 Beneficiary pupils (children).	0			9,000	9,000	9,000	15,000	PEU reports. Note that a cohort of 5-year-olds leaves each year, and a cohort of 3-year-olds enters. In total, 15,000 children will have benefited from the program.
2.9 Teachers trained.	0		398				398	PEU reports.
Initial outcomes								
2.10 Teachers and outreach worker using teaching methods and content promoted by the project .	0		60%	65%	70%	80%	80%	Evaluation methodology based on classroom observation.
2.11 Increase in the rate of parental participation in development and learning activities organized by the CEL.	XX%		XX%	XX%			XX%	Survey of parents.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Peru

Project: PE-L1062, Early Education Improvement Program in Ayacucho, Huancavelica, and Huánuco

Executing agency: Ministry of Education (MINEDU)

Prepared by: Ezequiel Cambiasso, Guillermo Lopez and German Zappani

I. EXECUTIVE SUMMARY

- 1.1 The fiduciary evaluation was conducted on the basis of an analysis of the institutional capacity of the Ministry of Education (MINEDU), the risk analysis, meetings with key personnel of MINEDU, a study by a consultant contracted by the Bank, and ongoing meetings with the project team. The evaluation also considered previous experience of the ministry and the Bank in the execution of investment projects in the sector. The Bank is currently executing a technical cooperation (TC) operation to support project design.
- 1.2 The country's financial management systems are adequate and reliable. The 2009 study found some weaknesses with respect to the quality and timeliness of budgetary control in the country and the internal and external control system, which needs to be modernized in order to become more efficient. With respect to country procurement systems, no country procurement modality is being used at present in loans financed by international lending agencies, since they do not contemplate all the principles consistent with international good practices and established in the Bank's procurement policies and procedures.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 MINEDU had no specialized unit for execution of projects of this kind when these agreements were being prepared. Past Bank experience has revealed weaknesses on the part of MINEDU in project execution and a lack of operating capacity. The Bank has consequently been conducting a TC operation in the last two years, at MINEDU's request, to support it with several initiatives in basic education. For these reasons the Ministry of Economy and Finance (MEF) and MINEDU requested that a program execution unit (PEU) should be created with administrative and financial autonomy to ensure proper and timely execution of the project.

III. FIDUCIARY RISK ASSESSMENT AND MITIGATION ACTIONS

- 3.1 Based on the risk analysis conducted during the design stage, the overall risk in the Program to Improve Early Education was rated as medium. In fiduciary terms, however, the risk is rated as high, in light of the operating capacity of MINEDU and the features of the project itself, in particular the operational complexities resulting from the territorial dispersal of activities and the difficulties of access to the program target areas.

No.	Risk	Risk rating		Probability factor	Risk mitigation actions
		Value	Level		
1	Inefficient use of resources	2	Medium	Weak institutional capacity of the beneficiary municipios to execute works on force account.	Periodic review by external auditors (at least twice a year on a sampling basis).
				Lack of accounting and reporting experience.	Ex post review of disbursements by consultants and Bank staff.
				Improper planning for the use of budgetary resources.	Training plan for personnel of the PEU and the units of the municipalities.
1	Procurement delays	3	High	Suitability of personnel responsible for procurement and independence in decision-making	Training.
				Improper planning of procurement.	Training. Use of SEPA.
				Failure to follow Bank policies.	Ex post review of procurement by consultants and Bank staff on a twice yearly basis.
2	Significant delays in contract performance	3	High	Poor coordination between beneficiary municipios and MINEDU.	Signature of interagency agreements.
				Territorial dispersal and difficulties of access to target areas.	The program will have zone supervisors in the field at all times to address the needs of the participating municipios.

IV. POINTS TO BE ADDRESSED IN THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 The points to be addressed are as follows:
- a. Conditions precedent to the first disbursement: Operations Manual approved by the Bank.
 - b. Exchange rate to be used in reporting: conversion rate.
 - c. Financial statements and other audited reports: the terms of reference for the audits must clearly detail the required outputs.
 - d. The key positions in the PEU must be clearly specified.
 - e. The two-envelope procedure will not be permitted for the procurement of goods, works and nonconsulting services.
 - f. As a condition for the submission of bids or proposals and/or for the award of contracts, bidders or consultants will not be required: (i) to be registered in Peru; (ii) to have a representative in Peru; and/or (iii) to be associated or sign subcontracts with Peruvian suppliers, contractors or consultants.
 - g. Requests for bids, bidding documents, records of bid openings, requests for expressions of interest, and summaries of evaluation reports on bids and proposals relating to all goods, nonconsulting services and consulting services will be published on the website of the State Procurement Supervision Agency (OSCE) in a manner acceptable to the Bank.
 - h. A considerable difference between the least-cost bid and the baseline value will not be deemed grounds for abandoning the bidding process unless an investigation of the reasons for the cost overrun reveals, to the Bank's satisfaction, that the baseline value is correct and realistic.
 - i. The borrower will publish the procurement plan in the Procurement Plan Execution System (SEPA) and update it at least semiannually or as required by the Bank, to reflect the project's actual needs and progress made.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements for procurement establish provisions that apply for the execution of all procurements planned for the project.
- 1. Procurement execution**
- 5.2 Procurements will be conducted through the program execution unit (PEU). Works, goods and nonconsulting services will be procured in accordance with the "Policies for the Procurement of Works and Goods Financed by the Inter-American

- Development Bank” (document GN-2349-9). Consultants will be selected and contracted in accordance with the “Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank” (document GN-2350-9).
- 5.3 **Procurement of works, goods and nonconsulting services.** Project works, goods and nonconsulting services¹ requiring international competitive bidding (ICB) will be procured using the standard bidding documents (SBDs) issued by the Bank. Procurement subject to national competitive bidding (NCB) will be undertaken using national bidding documents agreed upon with the Bank (or satisfactory to the Bank in the absence of an agreement). The project sector specialist will be responsible for reviewing the technical specifications of procurements during preparation of the procurement process.
- 5.4 The works to be contracted will consist of small projects involving one, two or three classrooms in remote rural areas. The goods to be procured under this project will include such items as school furnishings. The nonconsulting services will include, for example, the purchase of teaching materials and publications.
- 5.5 Bearing in mind that the planned works are of small scale and scattered in remote localities, making it unlikely that bids will be received from qualified construction firms, or that the prices will be reasonable, allowance will be made for these works to be built on force account. In such cases, the execution and supervision conditions will be detailed in the operations manual.
- 5.6 **Selection and contracting of consultants.** Consulting services for the project will be contracted using the standard request for proposals (RFP) issued by the Bank or agreed with the Bank, regardless of the amount of the contract (or satisfactory to the Bank in the absence of an agreement). The project sector specialist will be responsible for reviewing the terms of reference for contracting the consulting services.
- 5.7 The most important consulting contracts involved in the project will include those for expanding education coverage from 0 to 2 years, the base line, the impact evaluation, and social monitoring and support.
- 5.8 **Selection of individual consultants.** Individual consultants will be selected in light of their qualifications to perform the work, on the basis of a comparison of at least three candidates. When the situation so permits, notices may be published in the local or international press in order to obtain responses from qualified consultants.

¹ In accordance with IDB procurement policies, nonconsulting services are treated in a manner similar to goods.

2. Table of thresholds (US\$000)

Works			Goods ²			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International publicity	100% national short list
<input type="checkbox"/> 3,000,000	<input type="checkbox"/> 3,000,000 & <input type="checkbox"/> 250,000	<input type="checkbox"/> 250,000	<input type="checkbox"/> 250,000	<input type="checkbox"/> 250,000 & <input type="checkbox"/> 50,000	<input type="checkbox"/> 50,000	<input type="checkbox"/> 200,000	<input type="checkbox"/> 350,000

- 5.9 The establishment of prior review thresholds is determined by the type of procurement risk presented by the project, which in this case is rated high. The thresholds are summarized below.

Prior review thresholds³

Works	Goods ⁴	Consulting services
Processes exceeding US\$1,000,000, the first process of each procurement method, regardless of amount, and all direct contracts.	Processes exceeding US\$150,000, the first process of each procurement method, regardless of amount, and all direct contracts.	Processes exceeding US\$100,000, the first process of each selection method, regardless of amount, and all direct contracts.

- 5.10 **Recurrent costs.** Recurrent costs represent operating and maintenance costs required to keep the project operational during its useful life, and include: utility and communication costs, translations, office supplies, photocopies, mail and other expenses incurred within the PEU as needed for proper administration of the project. Such costs will be financed with the loan proceeds within the annual budget approved by the Bank, and will be handled in accordance with the PEU's administrative procedures, which will be reviewed by the Bank and accepted provided that they do not violate the fundamental principles of competition, efficiency and economy.
- 5.11 Recurrent costs also include the cost of consultants commissioned to assist the PEU during the useful life of the loan. Operating costs, however, do not include the salaries of public officials.
- 5.12 **Domestic preference.** Margins of preference for goods and services of domestic origin are not applicable.

² Includes nonconsulting services.

³ During project execution the Bank may routinely change the prior review thresholds if it considers that the fiduciary context of the executing agency and/or country has changed. In this case, the Bank will advise the PEU of that decision, which must be reflected in the new execution conditions in the Procurement Plan.

⁴ Includes nonconsulting services.

3. Initial procurement plan

Activity	Type of process	Estimated date	Estimated amount US\$000
Goods			
School furnishings	ICB	Q3/year 1	575
Educational materials	ICB	Q3/year 1	690
Works			
115 works in the three target regions	NCB, PC and/or FA*	Q3/year 1	19,550
Nonconsulting services			
Printing of methodological manuals and modules	NCB	Q3/year 1	200
Distribution of school furnishings, educational materials, and methodological guides and modules	ICB	Q1/year 2	300
Firms⁵			
Specialized consulting firm to formulate the preinvestment studies and technical files	QCBS	Q1/year 1	1,150
Baseline	QCBS	Q2/year 1	2,000
Preparation of methodological guides and modules	QCBS	Q1/year 1	150
Consulting firm to conduct pedagogical monitoring in the region of Ayacucho, Huancavelica and Huánuco	LCS	Q2/year 1	3,000
Financial audit	QCBS	Q2/year 1	500
Individuals			
Design of the admission tests	NICQ	Q2/year 1	30
Preparation of instruments for monitoring beneficiary teachers and outreach workers	NICQ	Q2/year 1	12
17 consultants for project administration	NICQ	Q1/year 1	2,400
Training			
Regional workshops	S	Q2/year 1	1,000

4. Procurement supervision

- 5.13 Given the special features of the project and MINEDU's weak operating capacity, project execution is expected to be complex, and require close supervision to ensure compliance with procurement policies and achievement of the proposed objectives. For this reason, each year two post reviews will be conducted of at least one in five contracts signed, and at least two physical inspections will be conducted of works and goods purchased.

⁵ In the case of consulting services, this means the short list composed of firms of various nationalities. See "Policies for the Selection of Contracting and Consulting Services" (document GN-2350-9), paragraph 2.6.

5. Records and archives

- 5.14 The records must be kept in the offices of the PEU, under appropriate security.

VI. FINANCIAL MANAGEMENT

1. Programming and budget

- 6.1 Preparation of the annual programming and budget will be based on the directives of the MEF's National Budget Directorate (DNPP). In coordination with the Bank and the General Directorate of Planning and Budget, MINEDU will formulate the project annual budget and identify and agree on the priorities for external financing under the project in question. The budget will be managed under the Integrated Financial Management System (known by its Spanish-language acronym, SIAF). The budget allocated to the program will be approved by the MEF and by the National Congress, and will be reflected in the SIAF. The Bank will reimburse eligible project expenses in accordance with the agreed conditions, and will recognize expenditures against the local contribution. As previously noted, a PEU will be created for program execution with administrative and fiduciary autonomy.

2. Accounting and information systems

- 6.2 The project will use the project execution module integrated into the SIAF, which offers transparency and specific controls in budgetary execution. This module is used to keep project accounting records and issue financial reports, including disbursement requests, exchange rate controls, project financial statements, and other statements in accordance with Bank requirements. Accounting will be on a cash basis in accordance with international accounting standards for the public sector, following directives issued by the National Public Accounting Directorate (DNCP).
- 6.3 Audited financial statements will be required for project supervision, including: statement of cash flows, statement of cumulative investments, a report on procurement processes and disbursements, and a report on the internal control system. These reports will be delivered annually.

3. Disbursements and flow of funds

- 6.4 The project will utilize the country's cash management system, following the directives issued by the National Public Treasury Directorate (DNTP). Expenditure execution is subject to budgetary and financial processes and must be recorded in the SIAF. Budgetary execution will be in accordance with the framework of laws and regulations applicable to each of its stages: commitment, obligation, warrant and disbursement. The country's cash management system still has no general treasury account, so separate accounts must be used.

- 6.5 Disbursements will be made in accordance with the project's actual liquidity needs, on the basis of the project's financial plan. The PEU will submit disbursement requests to the Bank, together with an expenditure program covering activities in the annual work plan for, at most, the next 120 days. In order to process the subsequent disbursement request, justification must be provided for at least 80% of the advance of funds. The PEU will submit the initial financial plan for the project to the Bank, reflecting the disbursement schedule for the entire execution period, and update it regularly. The PEU will open a bank account exclusively for management of the IDB resources.
- 6.6 Supporting documentation for expenditures will be subject to ex post review by Bank staff and/or consultants and by the external auditors. Reports will be produced for each ex post review visit.
- 6.7 The exchange rate will be the conversion rate, understood as the exchange rate for the date of conversion of U.S. dollars to soles.
- 6.8 Expenditures ineligible to be financed by the Bank will be reimbursed from the local contribution or with other resources, depending on the nature of the ineligibility.

4. Internal control and internal audit

- 6.9 The control environment, control activities, communication and information, and the monitoring of activities of the entity and the PEU will be governed by Peruvian standards, which have their basis in the National Control System Act.
- 6.10 The internal audit function at MINEDU consists of the Internal Control Office (OCI), whose staff report to the Office of the Comptroller General (CGR). The OCI's scope of work does not generally extend projects, but it will receive a copy of the external audit reports through the Government Audit System (SAGU), designed by the CGR, which can be used to conduct inspections, depending on time and resource availability.
- 6.11 The PEU will be required to include the principal processes of internal control in the operations manual, to ensure that controls are operating properly.

5. External control and reports

- 6.12 Although the CGR does not possess sufficient capacity to exercise external control over projects financed with borrowed resources, as the apex agency of the National Control System it has the authority to outsource external audits of projects to independent audit firms acceptable to the Bank. The Bank evaluates such firms periodically to satisfy itself as to their quality and reliability.

- 6.13 The CGR has authorized the PEU to select and contract independent audit firms in accordance with Bank policies for the entire project execution period, including any extensions to the final disbursement period.
- 6.14 Because the number of works to be financed and their geographic dispersal makes the project so complex, the following are required: (i) selection of a level I and level II independent external audit firm; and (ii) annual delivery of audited financial statements.
- 6.15 The estimated cost of external audits is US\$300,000, and will be covered with the loan proceeds.

6. Financial supervision plan

Supervision plan

Supervision activity	Nature and scope	Frequency	Responsibility	
			Bank	Other
OPERATIONAL	Review of physical progress of works under component 1 versus disbursements. Inspection visits to works on a sampling basis	Annual	Fiduciary and technical team	
	Review of portfolio with executing agency and MEF	Quarterly	Fiduciary and technical team	MEF
FINANCIAL	Ex post review of disbursements	Annual	Fiduciary team	External auditor
	Financial audit	Annual		External auditor
	Review of disbursement requests and related reports	Periodic	Fiduciary team	
	Inspection visit/analysis of internal controls and control environment	Annual	Fiduciary team	
COMPLIANCE	Annual allocation of budget resources necessary for project execution	Annual	Fiduciary team	Executing agency
	Presentation of financial statements	Annual	Fiduciary and technical team	Executing agency
	Conditions precedent to first disbursement	Once	Fiduciary and technical team	Executing agency

7. Execution mechanism

- 6.16 Considering the execution mechanism described in the proposal for operation development, what is required is to have an administrative and financial execution scheme centralized through the PEU, which would be responsible for annual formulation of the budget, in terms of the local contribution, the KfW and the IDB contribution. The PEU will be responsible for making payments and managing disbursements, as well as justifying the use of funds to the Bank, and coordinating

all activities with the municipios (in the case of delegated administration) and with the local supervisors.

8. Other financial management agreements and requirements

- 6.17 Given the project's nature and complexity, the PEU will need to have a system for monitoring project activities. In addition, the staff responsible for the project's fiduciary management must have extensive experience in public administration and management of projects financed by the Bank and/or the World Bank. There will also need to be an operations manual for managing the project.