

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PERU**

**INVESTMENT PROGRAM TO IMPROVE THE HISTORIC CENTERS OF  
LIMA, AREQUIPA, TRUJILLO, AND AYACUCHO**

**(PE-L1246)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: Ophélie Chevalier (CSD/HUD), Project Team Leader; Jaime Fernández Baca (CSD/CCS), Alternate Project Team Leader; Carolina Piedrafita (CSD/CSD); Avelina Ruiz, Daniel Stagno, Raimundo Arroio, Beatriz González, Mauricio Bouskela, Mario Durán, and Jesús Navarrete (CSD/HUD); Allizon Milicich and Gabriele del Monte (VPC/FMP); Maricarmen Esquivel (CSD/CCS); Gustavo Crespi (IFD/CTI); Andrea Ruy Sánchez (KIC/ICD); Ana Cuesta Bernal (SPD/SDV); Natasha Ward and Julio Rojas (VPS/ESG); Verónica Tejerina (SCL/GDI); Carolina Verissimo Da Silva and Louis-Francois Chretien (LEG/SGO); Eva Buendia (INE/INE); and Jele Baskovich (CAN/CPE).

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## ABBREVIATIONS

|          |  |
|----------|--|
| AECID    | Agencia Española de Cooperación Internacional para el Desarrollo<br>[Spanish Agency for International Development Cooperation] |
| AWP      | Annual work plan   |
| CCI      | Cultural and creative industries   |
| CGR      | Contraloría General de la República [Comptroller General of the<br>Republic]   |
| FONPRODE | Development Promotion Fund   |
| IAF      | Independent audit firm   |
| ICT      | Information and communication technologies   |
| MEF      | Ministry of Economy and Finance  |
| MEP      | Monitoring and evaluation plan   |
| MINCUL   | Ministry of Culture  |
| SEPA     | Procurement Plan Execution System  |
| SIAF     | Sistema Integrado de Administración Financiera [Integrated Financial<br>Administration System]                                 |
| UE008    | Unidad Ejecutora 008 [Executing Unit 008]  |
| UNESCO   | United Nations Organisation for Education, Science, and Culture  |
| WHO      | World Health Organization  |

## PROJECT SUMMARY

### PERU INVESTMENT PROGRAM TO IMPROVE THE HISTORIC CENTERS OF LIMA, AREQUIPA, TRUJILLO, AND AYACUCHO<sup>(a)</sup> (PE-L1246)

| Financial Terms and Conditions   |               |                                     |  |                                     |  |
|--|---------------|-------------------------------------|--|-------------------------------------|--|
| Borrower:  |               |                                     | Flexible Financing Facility <sup>(b)</sup> |                                     |  |
| Republic of Peru   |               |                                     | Amortization period:                       | 8 years                             |  |
| Executing agency:  |               |                                     | Disbursement period:                       | 4 years                             |  |
| Ministry of Culture (MINCUL), through Project Executing Unit 008: Special Projects (UE008)   |               |                                     | Grace period:                              | 5 years <sup>(c)</sup>              |  |
| Source   | Amount (US\$) | %                                   | Interest rate:                             | LIBOR-based                         |  |
| IDB (Ordinary Capital):  | 30,000,000    | 60                                  | Credit fee:                                | <sup>(d)</sup>                      |  |
| Cofinancing from the Spanish Development Promotion Fund (FONPRODE): <sup>(e)</sup>   | 10,000,000    | 20                                  | Inspection and supervision fee:            | <sup>(d)</sup>                      |  |
| Local counterpart: <sup>(f)</sup>  | 10,000,000    | 20                                  | Weighted average life: <sup>(g)</sup>      | 6.58 years                          |  |
| Total:   | 50,000,000    | 100                                 | Approval currency:                         | U.S. dollars                        |  |
| Project at a Glance  |               |                                     |  |                                     |  |
| <b>Project objective/description:</b> Enhance the cultural heritage of the historic centers of Ayacucho and Lima-Rímac. To achieve this objective, the project seeks to improve the urban and natural environment, foster local economic development, and strengthen institutional capacities in the Ministry of Culture and the municipalities.   |               |                                     |  |                                     |  |
| <b>Special contractual conditions precedent to the first disbursement of the loan:</b> The borrower, either directly or through the executing agency, will provide evidence to the Bank's satisfaction of: (i) the signing and entry into force of a credit agreement between the Kingdom of Spain and the borrower for project cofinancing equivalent to US\$10 million, using FONPRODE resources. Among other things, the agreement will specify that the project will be executed in accordance with the applicable Bank policies and procedures; (ii) approval and entry into force of the <a href="#">program Operating Manual</a> in accordance with the terms previously agreed with the Bank, including an annex containing the Environmental and Social Management Plan; and (iii) selection of the executing agency's management team, which will include, at a minimum, a general coordinator and a specialist for each of the following areas: (a) finance-accounting; (b) budget; (c) treasury; (d) procurement; (e) planning and monitoring; (f) legal; (g) enhancement of heritage assets; and (h) socioenvironmental, consistent with the terms of reference agreed with the Bank (paragraph 3.5). For other special conditions, see Annex B of the <a href="#">Environmental and Social Management Report</a> . |               |                                     |  |                                     |  |
| <b>Special contractual clauses relating to execution:</b> The borrower, through the executing agency, will provide evidence to the Bank's satisfaction prior to the launch of each of the works identified in Component 1 of the project that all necessary permits have been obtained for the works, in particular the interagency agreements with the District Municipality of Rimac, the Provincial Municipality of Huamanga, the Archdiocese of Lima, the Archdiocese of Ayacucho, and the Peruvian army, as appropriate, setting out the obligations of each party during project execution and for operation and maintenance of the works (paragraphs 3.6). For other special contractual conditions, see Annex B of the <a href="#">Environmental and Social Management Report</a> .  |               |                                     |  |                                     |  |
| <b>Exceptions to Bank policy:</b> None.  |               |                                     |  |                                     |  |
| Strategic alignment  |               |                                     |  |                                     |  |
| Challenges: <sup>(h)</sup>   | SI            | <input checked="" type="checkbox"/> | PI   | <input checked="" type="checkbox"/> | EI <input type="checkbox"/>            |
| Crosscutting themes: <sup>(i)</sup>  | GD            | <input checked="" type="checkbox"/> | CC   | <input checked="" type="checkbox"/> | IC <input checked="" type="checkbox"/> |

<sup>(a)</sup> This loan proposal will exclusively finance the activities for the historic centers of Lima-Rímac and Ayacucho. Those activities correspond to the first stage of the investment program declared viable in the borrower's National Multiyear Programming and Investment Management System. In this loan proposal, "the project" will be understood to refer to the Lima-Rímac and Ayacucho activities.

<sup>(b)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(c)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail

any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

- <sup>(d)</sup> 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 relevant policies.
- <sup>(e)</sup> FONPRODE is one of the Spanish Agency for International Development Cooperation's financial instruments, regulated by Spain's Law 26/2010 (22 October 2010) and Royal Decree 597/2015 (3 July 2015). The Cofinancing Framework Agreement between the Bank and the Kingdom of Spain, signed on 11 April 2017 (Framework Agreement), states that the Bank will charge a service fee to cover the expense of preparing the project. This fee will be distributed to Bank departments that have provided support to project preparation, execution, and monitoring (paragraph 2.2). FONPRODE's Executive Committee is expected to consider this cofinancing for approval in December 2019, and funding will be provided directly by Spain to the Republic of Peru.
- <sup>(f)</sup> The borrower will contribute US\$7.54 million through a loan contract to be signed between the borrower and the Bank and US\$2.46 million under the credit agreement to be signed between the borrower and the Kingdom of Spain.
- <sup>(g)</sup> The borrower opted for a non-standard amortization schedule, yielding an estimated weighted average life of 6.58 years. To calculate the weighted average life, 15 December 2019 was used as the estimated date for signature of the loan contract.
- <sup>(h)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- <sup>(i)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problems addressed, and rationale

- 1.1 **Background.** Historic centers offer a concentration of assets of architectural and cultural value, creating points of reference that help to build community identity and strengthen social capital. They can also help to drive local development by fostering tourism and supporting business creation. Historic centers also serve as urban centers for their cities [1].<sup>1</sup>
- 1.2 Historic centers have been adversely affected by the excessive demands placed on their infrastructure, as well as forces such as informal urbanization, urban blight, and a loss of economic dynamism in traditional districts. When the public and private sectors' ability to preserve urban and cultural assets is weakened by these forces, the architectural and cultural features of historic centers deteriorate. The deterioration of historic centers limits their capacity to provide services to the population and hampers their ability to serve as anchors for community identity [2]. These challenges are common to all of Peru's 63 historic centers.
- 1.3 In light of this, the Government of Peru has requested the support of the Inter-American Development Bank (IDB) and the Spanish Agency for International Development Cooperation (AECID) in restoring the cultural heritage of the cities of Lima, Ayacucho, Arequipa, and Trujillo as part of the Program to Revitalize Peru's Historic Centers [3-4]. This program will initially target the historic centers of Ayacucho and Lima-Rímac ([optional link 10](#)).
- 1.4 The District of Ayacucho is the capital of the Province of Huamanga, with a population of approximately 216,000. Its historic center has a population of 32,400 and some of the country's greatest historic and cultural assets are to be found there. Its cultural personality is physically reflected in 33 churches, 287 monuments, and 10 national heritage areas. The historic center of Ayacucho is also an important destination for domestic tourism during carnival and Holy Week: in 2018, the District received 318,578 tourists [5].
- 1.5 The District of Lima-Rímac is one of 43 districts in the Province of Lima and has a population of approximately 42,678. Its historic center contains around 40% of Lima's historic buildings and public spaces. In 1991, it was listed as a World Heritage Site by the United Nations Organisation for Education, Science, and Culture (UNESCO), and in 2015 it joined the Organization of World Heritage Cities. The district's wealth of heritage assets (82 national heritage monuments) means that Rímac has considerable tourism potential, but this has not yet been exploited. Recent estimates suggest that tourist inflows to the District account for only 1%-3% of annual visits to Lima.<sup>2</sup>
- 1.6 **Problem addressed.** Although the situations of the Districts of Ayacucho and Rímac are different, their sustainability nonetheless depends on their responses to the following challenges:

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<sup>1</sup> [Optional link 12](#) identifies bibliographical references by their number in brackets [#].

<sup>2</sup> The Patronato del Rímac heritage organization estimated that there were around 75,000 annual visits to the district in 2013 (Patronato del Rímac, 2014). Recent tallies by the firm Allinpaq suggest tourist inflows of around 30,800 visits per year (Allinpaq, 2019).

- a. **Challenges relating to tangible heritage assets.** Tangible heritage assets consist of cultural public spaces, public thoroughfares, and the historic and cultural landscape [6].
- (i) **Deterioration of historic buildings.** According to research by the National Civil Defense Institute (INDECI) in 2013, half of all declared buildings in Rímac's historic center are in poor or very poor condition, while 57% of buildings exhibit structural damage [8]. More than two-thirds of facades in the historic center exhibit cracking, high levels of moisture, and collapse [7]. In the case of Ayacucho, buildings in the historic center are in poor condition:<sup>3</sup> 70% are at risk of becoming uninhabitable or unusable if problems are not addressed, while around 70% of facades require large-scale intervention [9]. The vulnerable state of buildings puts them at risk of collapse in the event of an earthquake, while flooding and landslides also pose risks. Accordingly, the issues of disaster risk and climate change need to be addressed ([optional link 7](#)).
  - (ii) **Deterioration of public spaces.** Rímac's historic center lacks a sufficient number of parks accessible to persons with disabilities and older adults. According to data from the Municipality of Rímac, the historic center has 1.45 m<sup>2</sup> of public space per inhabitant [11]—16% of the minimum percentage recommended by the World Health Organization (WHO).<sup>4</sup> Church atriums are the main cultural spaces in the historic center, but they are fenced in and are not integrated with the district's pedestrian thoroughfares. In Ayacucho's historic center, in contrast, the population makes routine use of the atriums, squares, and boulevards. Despite this, the center's public spaces are insufficient to meet citizen demand, providing only 0.74 m<sup>2</sup> per inhabitant [11]. A lack of maintenance, together with intensive, largely unregulated use, means that these spaces exhibit significant deterioration.
  - (iii) **Deterioration of environmental and landscape features.** The deficit in natural areas, together with weak coordination between built heritage and the natural landscape, limits the ability to leverage the services provided by historic centers and the ecosystems in these areas. The Rímac historic center offers only 1.05 m<sup>2</sup> of green space per inhabitant in the targeted area. Moreover, these areas are generally populated by non-native species that require large amounts of water, placing pressure on their environmental sustainability [11]. The lack of a healthy, well-conserved urban tree canopy contributes to the "heat island" effect experienced in Rímac.<sup>5</sup> The Ayacucho historic center provides 0.63 m<sup>2</sup> of green space per inhabitant. Given that these areas are not a priority on the municipalities' agendas, vegetation is planted without prior consideration of its environmental characteristics and is poorly maintained thereafter. In addition, the

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<sup>3</sup> Urban Development Plan for the City of Ayacucho 2008-2018.

<sup>4</sup> The WHO recommends that cities provide between 9 m<sup>2</sup> and 15 m<sup>2</sup> (WHO, 2012).

<sup>5</sup> Urban heat islands in Lima using satellite images. Soberón, Vanessa. Universidad Nacional Agraria La Molina. 2014. Heat islands are associated with increased energy use and higher greenhouse gas emissions.



Río Seco and Alameda rivers are two important environmental assets that enrich Ayacucho's urban environment, yet because they are not linked to built heritage, their potential for enriching the experience of Ayacucho's historic heritage is wasted ([optional link 7](#)).

- b. **Challenges in leveraging cultural heritage.** The deterioration in the historic centers is not only physical, but also encompasses the array of knowledge, expressions, customs, and other elements that constitute cultural heritage [12]. The following key challenges have been identified:

- (i) **Limited capacity for developing assets.** Cultural ownership interviews<sup>6</sup> found that the population values cultural and historic spaces: 9 out of every 10 people interviewed expressed a willingness to care for and preserve historic assets. However, over 35% of those interviewed in the Rímac historic center were unaware of the history of the district. Moreover, no historic heritage interpretation initiatives were identified that could offer parameters for the preservation of that heritage. At the same time, there is a lack of skilled workers with experience in restoring historic buildings; as a result, the maintenance and improvement of buildings does not always respect their original significance. This limits the effectiveness of investments to improve heritage assets. AECID's Cultural Heritage Program<sup>7</sup> analyzes the role of interventions that complement investments to restore buildings and monuments. This evaluation suggests that both awareness-building and the creation of local preservation capacity are essential for the sustainability of investments. It highlights the positive role of workshops and training sessions in generating knowledge applicable to the preservation of heritage assets, as well as the use of technologies to facilitate a community's interaction with its heritage.
- (ii) **Limited cultural entrepreneurship.** International experience with programs to develop heritage assets highlights the importance of linking public and private investment to ensure the sustainability of interventions. It also suggests a need to combine regulatory frameworks to protect assets using economic incentives that foster private investment in cultural and creative activities [13]. Economic activity in Ayacucho and Rímac is largely unrelated to cultural heritage [14], and cultural and creative industries (CCI) and tourism services are not a significant source of income and employment in either district.<sup>8</sup> This is partly because the current poor condition of built heritage reduces the attractiveness of the historic center to tourists and the local population, limiting expected returns on creative, cultural, and tourism activities. In addition to their importance as a nexus between economic activity and cultural heritage, CCI are a growing source of economic opportunities in Peru.<sup>9</sup> In 2008, CCI

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<sup>6</sup> Allinpaq, 2019. Interviews with 35 residents of the Rímac historic center.

<sup>7</sup> [Evaluación del Programa de Patrimonio Cultural de la Cooperación Española, 2003.](#)

<sup>8</sup> In Rímac, 12.23% of the district's economically active population works in administrative services, lodging, and food preparation (Target Euro, 2019). In Ayacucho, only 1.2% of the economically active population works in tourism-related services (Perfil de Ayacucho, Patrimonio Vivo. IDB, 2019).

<sup>9</sup> CCI in Latin America and the Caribbean account for 2.2% of regional GDP, compared to 10% in the United States.

generated around 1.58% of Peru's GDP and 4.3% of formal employment nationally.<sup>10</sup> Since 2018, in recognition of the window of opportunity presented by CCI, the Ministry of Culture (MINCUL) has provided approximately US\$6 million per year in [economic incentives](#) to promote cultural, artistic, and creative expressions.<sup>11</sup> The operation will include the use of grant funds associated with the potential of CCI in Rímac and Ayacucho, to encourage private sector participation in leveraging cultural heritage, thus laying the foundations for the sustainability of the investments.

- (iii) **Lack of adequate spaces for cultural offerings.** The historic centers of Rímac and Ayacucho currently lack facilities that connect and facilitate the experimentation, creation, and marketing of the various offerings that make up the cities' cultural heritage. Recent international experience supports the creation of cultural hubs. These are usually refurbished spaces that have been adapted to cater for culture-related events and businesses, art, and complementary services. Cultural hubs are nourished by the heritage assets that surround them. They generate agglomeration economies that encourage artists and small-scale vendors to work collaboratively, and they represent a cost-effective approach to showcasing artistic and cultural offerings.<sup>12</sup>

- c. **Governance challenges in historic centers.** The Ministry of Culture is responsible for preserving the country's cultural heritage<sup>13</sup> and promoting CCI. To this end, it enjoys the institutional support of both the Vice Ministry of Cultural Heritage and Industries (which has a separate department for each of these areas), the Ayacucho Regional Cultural Office, and Executing Unit 008 (UE008) for Special Projects.<sup>14</sup> The latter is responsible for public investment projects mandated through ministerial resolutions. The country's municipal governments, such as those of Rímac and Ayacucho, are responsible for the physical preservation of their historic centers. Despite MINCUL's experience in developing the country's cultural heritage, the Ministry and the municipalities nonetheless have institutional weaknesses that must be addressed if they are to effectively fulfill their legal mandate [15]. These include: (i) limited information regarding assets, their condition, and ways in which cultural heritage assets are used in the country's historic centers; (ii) a scarcity of tools for managing historic centers, including, in particular, a lack of risk plans for possible disasters and the obsolescence of municipal cadastre;<sup>15</sup> (iii) the limited capacity of municipal staff for developing and implementing maintenance tools for their historic centers; (iv) limited

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<sup>10</sup> [National Culture Policy to 2030](#).

<sup>11</sup> In 2018, the Annual Plan to Foster Cultural Industries and the Arts received a total of 865 applications and awarded an average of S/ 23,000 per project. MINCUL, 2019.

<sup>12</sup> *Cultural Hubs. How to create a multidimensional experience* (Art Fund, 2015).

<sup>13</sup> National Cultural Heritage Law 28296 and associated regulations. 2007.

<sup>14</sup> Created pursuant to the Public Sector Budget Law for the 2014 fiscal year ([Law 30114](#)), formalized through Ministerial Resolution [050-2014-MC](#), and assigned specific responsibility for this program through Ministerial Resolution [287-2019-MC](#).

<sup>15</sup> Updating of Huamanga's property register began in 2014 but was not completed due to lack of resources. In the case of Rímac, the register was last updated in 2002 (report by the consultant César Marcovich, IDB, 2014).

capacity for gathering and processing statistical information regarding the functioning of historic centers; (v) a relative lack of knowledge regarding the activities carried out by different public institutions relating to the cultural use of public spaces; and (vi) obsolescence of the information and communication (ICT) equipment used to manage the historic centers.

- 1.7 **Rationale and strategy.** Evidence from multiple programs to restore and improve historic centers—as compiled in the study [“The Economics of Uniqueness”](#)—suggests that a revitalized historic center can: (i) improve the quality of life for the entire city by providing citizens with spaces for recreation and gatherings; (ii) preserve a location’s historic assets and heritage; (iii) improve conditions for small and medium-sized enterprises and vulnerable populations by creating employment and business opportunities; (iv) boost property values; and (v) expand the municipal tax base, thus promoting sustainable management [16].
- 1.8 The program strategy is based on specific investments and complementary actions along the main arteries of the selected historic centers. It uses a comprehensive Historic Urban Landscape approach, which is characterized by: (i) identifying risk factors affecting the preservation of heritage assets; (ii) leveraging the various elements that make up tangible and intangible heritage [17]; and (iii) including the community and private sector in the diagnostic assessment and implementation of identified solutions. The operation’s design and execution strategy is based on a vision of sustainability in which heritage is a tool that creates the conditions for inclusive, green urban development with economic opportunity.
- 1.9 **Government strategy.** MINCUL’s strategic vision includes: (i) encouraging the population to value artistic and cultural expressions; (ii) promoting the development of physical and digital cultural infrastructure; (iii) fostering the participation and coordination of cultural organizations; and (iv) promoting the sustainable social use of heritage assets.<sup>16</sup> As part of the celebrations surrounding the bicentennial of Peru’s independence in 2021, several cultural events are planned in Huamanga and Rímac.
- 1.10 **Climate change.** In Rímac, climate change is expected to increase vulnerability to heatwaves, floods, and drought. In Ayacucho, climate change will aggravate vulnerability to geoclimatic phenomena such as landslides and flooding.<sup>17</sup> The Republic of [Peru’s](#) Intended Nationally Determined Contribution under the United Nations Framework Convention on Climate Change establishes the need to promote resilient cities and create guidelines for incorporating climate change issues into investment projects. This program will support both efforts ([optional link 7](#)).

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<sup>16</sup> Strategic guidelines for the National Culture Policy to 2030, [MINCUL](#) website.

<sup>17</sup> Third National Communication, p. 141.

- 1.11 **Gender and diversity.** There are gender gaps in the cultural sphere in Peru that have not yet been fully identified through robust statistics.<sup>18</sup> Accordingly, a ministerial resolution was issued in 2018 to create a commission for the mainstreaming of gender and intercultural approaches.<sup>19</sup> The commission is working to identify gender gaps in the cultural sphere and create capacities that will facilitate a comprehensive approach to gender issues within MINCUL. The program will help to strengthen this effort ([optional link 6](#)).
- 1.12 **Universal accessibility.** In Ayacucho and Rímac, 4.7% and 12.6% of the population, respectively, has at least one disability. At the same time, adults over 60 represent 9% and 15% of the total populations of the city of Ayacucho and the District of Rímac, respectively [19]. Access to cultural and historical assets is enshrined as a right in the [Convention on the Rights of Persons with Disabilities](#), which Peru has ratified. Consistent with the recommendations of the League of Historical & Accessible Cities ([LHAC](#)), the program's bidding conditions will include explicit and replicable elements aimed at ensuring that the improvements to built cultural heritage incorporate universal accessibility.<sup>20</sup>
- 1.13 **Indigenous peoples.** The preamble to the Convention for the Safeguarding of Intangible Cultural Heritage identifies indigenous peoples as playing a key role in the production and safeguarding of intangible cultural heritage. Within MINCUL, the Vice Ministry for Interculturalism is responsible for developing policies and programs to improve the insertion of indigenous peoples in the heritage sphere. The program will include MINCUL's areas of work in a crosscutting manner, with a view to prioritizing indigenous peoples in training, technical assistance, and business development activities.
- 1.14 **Innovation and creative industries.** UNESCO has acknowledged the capacity of technological and digital innovation to facilitate access to heritage assets and improve their management, based on three actions: (i) simplifying management of the assets; (ii) connecting products, processes, and development challenges; and (iii) strengthening collaboration with the private sector, universities, and research centers [21]. The program will use innovation and creative industries as an engine for driving private sector involvement in historic centers, leveraging improvements to built heritage assets to unleash entrepreneurship. A series of preparatory activities will be included that will strengthen local technical capacities, connect public bodies with the private sector in each historic center, and provide suitable management tools ([optional link 5](#)).
- 1.15 **Donor coordination.** Through cofinancing from FONPRODE,<sup>21</sup> the program will benefit from AECID's experience in rehabilitating historic centers. AECID supports Peru's Network of Historic Centers and, in partnership with UNESCO, focuses its efforts on both gender issues and the resilience of the country's historic centers. It is currently providing support for the management of Cajamarca's historic center

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<sup>18</sup> [Gender Equality, Heritage, and Creativity. Paris, France](#), UNESCO, 2014.

<sup>19</sup> Ministerial Resolution 352-2018-MC.

<sup>20</sup> Including paving adaptations, ramps, signage, universally accessible public toilets, etc.

<sup>21</sup> FONPRODE is one of the financial cooperation instruments established by the Spanish government. Once the loan proposal has been approved by the IDB Board of Executive Directors and the loan to Peru has been authorized by the Spanish Council of Ministers, the IDB and Spain will sign an Individual Cofinancing Agreement based on the model in Annex A of the Cofinancing Framework Agreement between the IDB and the Kingdom of Spain.

and is also supporting Escuelas Taller (vocational training schools) in the Colca Valley, Arequipa, and Cajamarca. In collaboration with the Ministry of Tourism and the Cuzco Regional Cultural Department, it will also provide support for the project to restore the cultural landscape of the Inca Trail. In Rímac, the Bank is working with the Austrian Finance Ministry and Austrian universities to develop an [Urban Design Laboratory](#) aimed at including new participatory spaces in urban planning and socioenvironmental interventions in neighborhoods. Preparation of this program was also coordinated with the Bank's Living Heritage initiative in Ayacucho, which is supported by the Government of Spain. The long-term strategic plan was used to determine the areas of intervention, which were validated in participatory workshops that are part of the program methodology ([optional links 13](#) and [14](#)).

- 1.16 **Lessons learned.** The program takes into account the following lessons learned from both international experience and, particularly, the Bank's experience in the country and the region:<sup>22</sup> (i) actions to ensure the project's social sustainability are key; (ii) political commitment to continuity is important; (iii) a nimble executing unit is needed that can effectively coordinate the efforts of multiple institutions working in the area; (iv) the creation of public-private partnerships stimulates investment and facilitates long-term sustainability; (v) the possibility that increased land prices will displace lower-income families needs to be taken into account; and (vi) having a communication strategy that informs and involves the population in the main features of the program is key.
- 1.17 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and with the development challenges of: (i) Social Inclusion and Equality, through both universal access measures in investments and awareness-building and communication actions aimed at promoting culture-related entrepreneurship; and (ii) Productivity and Innovation, through studies and actions that allow the use of digital techniques to improve the interpretation, management, and dissemination of cultural heritage.
- 1.18 The program is aligned with the crosscutting themes of: (i) Climate Change and Environmental Sustainability; (ii) Gender Equality and Diversity; and (iii) Institutional Capacity and Rule of Law. In terms of climate change, the program proposes a set of measures to improve urban resilience, reduce greenhouse gas emissions, improve drainage, and expand green spaces. Actions to promote climate change mitigation and/or adaptation account for 51.36% of financing under the operation, according to the Multilateral Development Banks' joint [methodology](#).
- 1.19 With respect to gender equality and diversity, the program will improve the availability of gender-related statistics in the cultural sphere and will support public management of gender and interculturalism issues. It will also promote equitable access to historical and cultural heritage in the targeted historic centers.
- 1.20 In terms of institutional capacity and the rule of law, the program will finance activities to strengthen the capacities of both subnational entities and MINCUL's regional offices in the management of their historic centers. The program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6)

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<sup>22</sup> The Bank has supported the work of several urban centers with heritage value in the region, including: Bogota (ATN/FG-8494-CO), Cuenca (1761/OC-EC), downtown São Paulo PROCENTRO (1479/OC-BR), Montevideo (1094/OC-UR), La Paz (1557/SF-BO), and Quito's historic center (822/OC-EC and 1630/OC-EC).

through the indicator of the number of government agencies that benefit from projects that strengthen management instruments for improving the delivery of cultural services.

- 1.21 This program contributes to the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2) as it builds institutional capacity. It also supports the Strategy on Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), as it fosters entrepreneurship in the area of cultural innovation. The program is consistent with the following sector framework documents: Urban Development and Housing (document GN-2732-6), through preservation of the cities' historic heritage; Innovation, Science and Technology (document GN-2791-8), through the use of grant funds to promote innovation in the area of intangible heritage; and Gender and Diversity (document GN-2800-8), through a focus on women and indigenous women in the selection criteria for those funds, as well as training activities and universal access provisions in works contracts for public spaces. The program is consistent with the Climate Change Sector Framework Document (document GN-2835-8) as it supports urban resilience. Lastly, the program is aligned with three of the priority areas in the IDB Country Strategy with Peru 2017-2021 (document GN-2889): productivity (Components 1 and 2); institutional strengthening (Component 3); and environmental sustainability (a crosscutting theme in all three components). The operation is included in the Update of the Annex III of the 2019 Operational Program Report (document GN-2948-2).
- 1.22 Given that the operation is cofinanced by FONPRODE, it is aligned with the strategic framework laid out in the Fifth Master Plan for Spanish Development Cooperation (2018/2021), which contains the crosscutting principles, management principles, and strategic objectives of Spain's development cooperation. The intervention is consistent with the Sustainable Development Goals and the targets and lines of action included in that document, as well as the strategic areas and thematic and geographic priorities. The program is also consistent with the Economic Growth Strategy of the Spanish cooperation agency and with the Spain-Peru Partnership Framework (2019-2022) signed in February 2019.

## **B. Objectives, components, and cost**

- 1.23 **Program objective.** Enhance the cultural heritage of the historic centers of Ayacucho and Lima-Rímac. To achieve this objective, the project seeks to improve the urban and natural environment, foster local development, and strengthen institutional capacities in the Ministry of Culture and the municipalities. The operation has three components:
- 1.24 **Component 1. Improvements to tangible heritage US\$40.1 million (IDB US\$25.5 million; Local counterpart US\$6.1 million; FONPRODE US\$8.5 million).** The objective of the component is to restore historical and traditional features, consolidate urban spaces for cultural expression, develop architectural heritage, and restore the landscape of the historic centers in Ayacucho and Rímac.<sup>23</sup> Financing will be provided for the following interventions:
- a. **Improvements to the facades of historic buildings.** A minimum of 32,000 m<sup>2</sup> of the facades of various historic buildings will be restored in

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<sup>23</sup> The interventions will involve both public and private spaces, and the relevant legal provisions will be followed (paragraph 3.6).



Rímac and Ayacucho, including structural improvements and facade preparation and reconstruction. The facades in each city were selected from in the historic centers' strategic areas, and priority was given to renovations accompanied by structural improvements to buildings. Interventions affecting two churches will be limited to the front facades.

- b. **Improvements to public thoroughfares and signature spaces.** A minimum of 30,000 m<sup>2</sup> of streets, sidewalks, plazas, and church atriums will be restored with a view to connecting and improving the public spaces associated with the facades of the targeted city blocks. This will include the repair, preservation, and paving of these spaces. Twenty percent of the interventions will target green spaces, linking them to improvements to riverbanks and boulevards.
  - c. **Improvements to the historical and cultural landscape.** A minimum of 38,000 m<sup>2</sup> of historical and cultural landscape will be improved. In Ayacucho, landscaping along the banks of the Río Seco and Alameda rivers will be improved as will their historic bridges. In Rímac, automatic irrigation systems will be installed in the landscaped and tree-lined areas of Alameda de los Descalzos and el Paseo de Aguas. Existing natural areas will be improved in both historic centers.
  - d. **Improvement and adaptation of cultural spaces.** Interventions will target a minimum of 12,000 m<sup>2</sup>. The enhancement (including repair and preservation) of spaces with historical significance is planned in both cities, including the old San Juan de Dios hospital and Andrés A. Cáceres museum in Ayacucho and Convento de los Descalzos and churches in Rímac.
- 1.25 Design of the different interventions will include materials, ecotechnologies, and design and construction practices that will improve thermal comfort, energy efficiency, and integration of the natural landscape with heritage assets.
- 1.26 **Component 2. Promotion of cultural heritage US\$3.8 million (IDB US\$2.4 million; Local counterpart US\$576,000; FONDDPRODE US\$800,000).** The objective of this component is to support the different elements that make up the cultural heritage of the historic centers. Financing will be provided for the following interventions:
- a. **Enhancement and strengthening of heritage.** A vocational training school (Escuela Taller) will be financed in each historic center with the aim of strengthening capacities for restoring and promoting heritage, using the intervention methodology designed by AECID. The program will train residents of the historic centers to work in the design, execution, and maintenance of interventions targeting cultural and natural heritage ([optional link 11](#)). This activity will be supplemented by actions to build awareness regarding historic centers, with the aim of encouraging the rehabilitation of homes taking into account environmental sustainability, disaster risk, and climate change. In Lima-Rímac and Ayacucho, financing will also be provided for: (i) interventions aimed at highlighting the cultural heritage of the historic centers. The first such intervention will be for the design of symbolic urban landmarks in each historic center; (ii) studies of the demand for Smart City technologies and their possible applications; (iii) cultural interpretation studies using multimedia solutions to represent historical and ethnographic features

in the context of living heritage; and (iv) interventions that makes use of social media to create viral heritage-related campaigns.

- b. **Support for the creation of creative and cultural businesses.** The project will finance a Cultural Grant Fund aimed at creating and offering services to CCI entrepreneurs wishing to invest in the historic centers. The grant fund program will help to prepare business plans, subprojects, and innovative tools that use technology aimed at maintaining the historic centers as living spaces for Peruvian heritage, and it will facilitate collaboration with universities and the private sector, among other things. Financing will also be provided for activities to help develop CCI ventures that are either active or wish to be active in the historic centers. The program will provide nonreimbursable support and will be accessible to private individuals or companies. The total amount of the contribution for each subproject will not exceed the amount set forth in the program operating manual. Each subproject under the Cultural Grant Fund will have to have cofinancing, as established in the program operating manual. The executing agency will be responsible for the Cultural Grant Fund. Project evaluation and selection will be the responsibility of a public-private technical committee headed by MINCUL. Cultural Grant Fund operations are described in the [Program Operating Manual](#), including eligibility criteria, evaluation procedures, funding limits, beneficiary contribution requirements, and execution periods. A summary of the main features can be found in [optional link 15](#).
- c. **Actions to develop cultural offerings in the historic centers.** To increase citizens' exposure to and participation in activities in the historic centers and facilitate creative and collaborative work, the program will use rehabilitated spaces<sup>24</sup> as cultural hubs. The two hubs have the capacity to host exhibition centers for artistic work and expression, coworking spaces for ventures benefitting from the cultural grant program or other cultural stakeholders, and cultural centers for children. The Program Operating Manual describes the operating arrangements for these spaces, as well as the selection criteria and processes for the activities there.

1.27 **Component 3. Strengthening the governance of historical heritage US\$3.3 million (IDB US\$2.1 million; Local counterpart US\$504,000; FONDPRODE US\$700,000).** The objective of this component is to improve the efficiency and sustainability of the historic centers through institutional strengthening activities in both MINCUL and the municipalities:

- a. A knowledge platform will be designed to support the sustainable management of historical heritage in the historic centers by coordinating information on: (i) the inventory of built heritage assets, including their condition, vulnerability, risk level, and type of usage; (ii) standards, decrees, ordinances, and other legal instruments, as well as manuals and methodologies for the management and preservation of cultural heritage; (iii) natural threats, including climate change scenarios; and (v) the environmental performance of heritage in terms of greenhouse gas emissions and energy efficiency.

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<sup>24</sup> These spaces will be the old San Juan de Dios Hospital in Ayacucho and rooms available in the Convento de los Descalzos in Rímac.



- b. The preparation of urban and risk management tools, including: (i) updating and digitalization of MINCUL's catalog of real estate for the two historic centers and valuation of the buildings; and (ii) a disaster risk plan with climate change scenarios for the historic centers.
  - c. Capacity-building, through: (i) preparation of a methodological guide with technical guidelines for municipios, developers, owners, and users of built heritage, providing technical guidelines for the preservation and restoration of buildings, including risk criteria, climate change, and environmental sustainability standards; and (ii) training workshops for the implementation of this guide.
  - d. Creation of a heritage observatory in MINCUL<sup>25</sup> to facilitate the gathering and processing of updated qualitative and quantitative information on the historic centers, such as: (i) numbers and types of visitors by season; (ii) surveys of satisfaction with the use of public spaces; (iii) impact on natural surroundings; and (iv) events organized.
  - e. Preparation of a strategic communication plan regarding program activities and benefits, aimed at strengthening intra- and extra-institutional relations and fostering the interest, participation, and ownership of civil society, heritage organizations, and investors.
  - f. Provision of ICT systems (hardware and software) and office furnishings and equipment, as well as adaptation of premises to allow the installation of workstations. The information systems will facilitate interaction with the observatory and its platform and will also help to resolve equipment needs for management of the historic centers.
- 1.28 **Program administration costs.** MINCUL will cover the estimated program administration costs of US\$2.8 million. These costs are broken down as follows: management team (US\$1,096,000); equipment (US\$260,000); monitoring and evaluation (US\$300,000); and audit (US\$280,000).

### C. Key results indicators

- 1.29 **Expected outcomes.** The main impact of the operation will be enhancement of the historic centers of Rímac and Ayacucho, reflected in a greater sense of ownership on the part of their inhabitants and visitor satisfaction with their historical and cultural heritage. This is directly related to the following outcomes and improvements in: (i) built heritage, resulting from the restored buildings; (ii) the historical and cultural landscape, resulting from the expansion of green areas; (iii) new creative initiatives and enterprises supported by cofinancing; (iv) training in the preservation of this heritage; and (v) improvements in municipal management, expressed as an increase in local revenue that will improve the sustainability of the investments.
- 1.30 **Beneficiary population.** The total number of direct program beneficiaries is estimated at 75,078 individuals. Some 480 people will be trained for work in heritage conservation. The cultural grant program will benefit between 48 and 240 businesspeople located mainly in the targeted area.

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<sup>25</sup> This observatory will be located in MINCUL's Office of Statistics and Information and Communication Technologies.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Cost and financing.** The total program cost is US\$50 million, of which US\$30 million will be from the Bank's Ordinary Capital, US\$10 million from local counterpart funds, and US\$10 million from Spanish FONPRODE cofinancing (managed by AECID). The project is structured as a specific investment loan with a four-year disbursement period<sup>26</sup> that will apply to both the Bank and FONPRODE (see Table 2).

**Table 1. Estimated program costs and financing (US\$ thousand)**

| Components   | IDB           | Local        | Subtotal 1    | FONPRODE      | Local        | Subtotal 2    | Total         | %           |
|--|---------------|--------------|---------------|---------------|--------------|---------------|---------------|-------------|
| Component 1. Improvements to tangible heritage                   | 25,500        | 4,590        | 30,090        | 8,500         | 1,530        | 10,030        | 40,120        | 80.2%       |
| Component 2. Promotion of cultural heritage                      | 2,400         | 432          | 2,832         | 800           | 144          | 944           | 3,776         | 7.6%        |
| Component 3. Strengthening the governance of historical heritage | 2,100         | 378          | 2,478         | 700           | 126          | 826.00        | 3,304         | 6.7%        |
| <b>Other costs</b>   |               |              |               |               |              |               |               |             |
| Management of the investment program                             | -             | 2,140        | 2,140         | -             | 660          | 660           | 2,800*        | 5.5%        |
| Management team  | -             | 1,500        | 1,500         | -             | 460          | 460           | 1,960         | -           |
| Equipment  | -             | 200          | 200           | -             | 60           | 60            | 260           | -           |
| Monitoring and evaluation  | -             | 230          | 230           | -             | 70           | 70            | 300           | -           |
| Audit  | -             | 210          | 210           | -             | 70           | 70            | 280           | -           |
| <b>Total</b>   | <b>30,000</b> | <b>7,540</b> | <b>37,540</b> | <b>10,000</b> | <b>2,460</b> | <b>12,460</b> | <b>50,000</b> | <b>100%</b> |

\*Total of the following categories: Management team, equipment, monitoring and evaluation, and audit.

- 2.2 In accordance with the Cofinancing Framework Agreement, the Bank will charge a service fee as negotiated with FONPRODE to cover the expense of project administration. The service fee will be distributed to the IDB departments for which administration of the cofinancing agreement will create additional work in the form of project preparation, execution, and monitoring, as well as any other additional type of work generated. A cost center will be established to this end.
- 2.3 Spain is also preparing financing of €6 million from the European Commission's Latin America Investment Facility, aimed at supporting new investments consistent with the program.<sup>27</sup>

<sup>26</sup> This execution period is based on the Bank's experience with similar projects and also the size of the project, which took into account execution timeframes at MINCUL based on previous experiences.

<sup>27</sup> At the time of writing, the Latin America Investment Facility proposal had been submitted and was under consideration by the European Commission.

**Table 2. Tentative disbursement schedule (US\$ thousand)**

| Source            | Year 1           | Year 2            | Year 3            | Year 4           | TOTAL             |
|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| <b>IDB</b>        | 2,400,000        | 10,200,000        | 13,800,000        | 3,600,000        | <b>30,000,000</b> |
| <b>FONPRODE</b>   | 800,000          | 3,400,000         | 4,600,000         | 1,200,000        | <b>10,000,000</b> |
| <b>Local</b>      | 800,000          | 3,400,000         | 4,600,000         | 1,200,000        | <b>10,000,000</b> |
| <b>Total</b>      | <b>4,000,000</b> | <b>17,000,000</b> | <b>23,000,000</b> | <b>6,000,000</b> | <b>50,000,000</b> |
| <b>% per year</b> | <b>8%</b>        | <b>34%</b>        | <b>46%</b>        | <b>12%</b>       | <b>100%</b>       |

- 2.4 **Cofinancing with FONPRODE.** The Bank and FONPRODE have worked together with MINCUL in the project preparation phase, reaching agreement on the objectives, components, and structure of the financing. Pursuant to the Framework Agreement signed between FONPRODE and the Bank, the latter may, by signing the respective individual financing agreement, agree with Spain on the mechanisms for collaboration, supervision, information-sharing, and assistance for coordinating implementation of their respective loans, as well as distribution of the project preparation service fee, in accordance with the IDB's applicable policies and procedures. The executing agency will follow the Bank's policies and procedures.

## **B. Environmental and social risks**

- 2.5 In accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this is classified as a category "B" operation," with a moderate level of environmental and social risk and of natural disaster risk. At the program level, there are positive and negative socioenvironmental impacts. The negative socioenvironmental impacts are expected to be mainly localized, short-term, and typical of small civil works in urban areas, and mitigation measures similar to those used in projects of this nature will be applied. The main environmental, social, health, and safety impacts during the construction phase will be noise, dust, and solid waste. The main social impacts will be the interruption of pedestrian traffic and the temporary closure of public spaces that host formal retail establishments and street vendors. This will require the temporary economic displacement of small-scale or informal vendors during execution of the works.
- 2.6 None of the interventions in the historic centers will affect natural areas or housing, and there will be no involuntary resettlement processes. In the case of Ayacucho, the studies undertaken indicate that no indigenous populations will be affected. Nonetheless, special provisions will be made for street vendors whose first language is Quechua: interactions with this interest group will be culturally appropriate and in their language, consistent with Directive B.6. of operational policy OP-703.
- 2.7 In light of the nature and scale of this operation, and in accordance with Directive B.5 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), an environmental and social impact assessment was prepared for each historic center, including an Environmental and Social Management Plan (ESMP) and a Consultation Plan. These documents are [posted](#) on the Bank's website.
- 2.8 Significant general public consultations were carried out with affected and interested stakeholders in each historic center (16 and 18 July in Rímac and Ayacucho). On the same day, significant additional consultations were held with the street vendors of Plazoleta Ventura Ccalamaqui in Ayacucho. Based on these, specific mitigation measures will be adopted for the temporary relocation of these

vendors for the duration of the construction works in this square. As a result of the consultations, the economic and social impact assessment for Rímac remains unchanged and the one for Ayacucho has been updated. The updated documents and consultation reports are [posted](#) on the Bank's website.

### **C. Fiduciary risks**

- 2.9 As a result of MINCUL's lack of experience and knowledge of executing loan operations using the Bank's fiduciary policies, the risk of higher costs and extended timeframes for program implementation was identified during the design phase. To mitigate this risk—classified as medium—the following actions were identified: (i) the strengthening of fiduciary capacities in UE008; (ii) the inclusion of fiduciary process flows in the Program Operating Manuals, with descriptions of functions, roles, responsibilities; and (iii) Bank fiduciary assistance/support. The Bank's fiduciary policies will be used in the operation between MINCUL and Spain, based on the Cofinancing Framework Agreement between the Bank and Spain.

### **D. Other key issues and risks**

- 2.10 **Public management and governance.** Two medium-level risks were identified: (i) the complexity of interagency coordination between MINCUL and the rest of the participating entities—particularly municipalities and private service providers; and (ii) a weak response from citizens and beneficiary sectors to the proposals to promote creative industries in the areas targeted under the program. The following mitigation actions are proposed in response to the first risk: (i) the signing of framework agreements with the municipalities laying out the commitments made by each side; (ii) keeping the beneficiary municipalities informed about the project and ensuring their close participation in preparing the diagnostic assessment and proposed interventions; and (iii) timely appointment of the management team staff responsible for providing technical assistance to participating entities. With regard to the second risk: (i) establishing a methodology for preparing an informational campaign surrounding CCI before designing strengthening activities and requesting proposals; (ii) ensuring that residents in the targeted areas participate in all cultural heritage-related interventions; and (iii) implementing a social communication plan to inform specific target populations and society in general regarding the different alternatives and funds available for these companies. Moreover, changes in senior officials and turnover among the public employees involved in this operation were identified as a key element in the design of the program execution framework, thereby including the various stakeholders in program outcomes.
- 2.11 **Sustainability.** Two medium-level risks have been identified related to: (i) maintenance of the works performed to improve tangible heritage; and (ii) the sustainability and updating of the information generated by the knowledge platforms, urban management tools, and observatory supported by the project. With regard to the first, the country's legislation establishes that the municipalities are responsible for maintaining works. Accordingly, three mitigation measures are planned: (i) using the social communication plan as a means of fostering participation and commitment among residents, neighboring municipalities, businesspeople, heritage organizations, social organizations, and visitors with respect to preservation of the improvements in cultural heritage; (ii) training the relevant municipal employees in managing heritage assets and fiduciary resources; and (iii) updating the taxpayer registers for the Rímac and Ayacucho

historic centers (paragraph 1.7). With regard to the second risk, MINCUL is responsible for maintaining the tools and the observatory. Accordingly, the following measures are planned: (i) temporary technical assistance to train a number of staff in the Office of Statistics and Information and Communication Technologies in using a targeted system of statistics relevant to cultural heritage; and (ii) developing data-gathering tools that will allow the ongoing updating of cultural heritage and observatory data.<sup>28</sup>

- 2.12 **Economic analysis ([optional link 1](#))**. The ex ante economic evaluation was performed using a cost-benefit analysis that included the total costs of the three components at both the program level and at the level of the two projects (Ayacucho and Rímac). The methodology for estimating the economic impact of the interventions to improve the historic centers incorporated the following: (i) increased property prices in the area of influence due to the interventions in Rímac and Ayacucho; and (ii) increased total spending by tourists due to a higher number of tourists visiting the historic centers. The result of the cost-benefit analysis suggests that the program has a high rate of economic return (internal rate of return of 23.4%) and that the level of sensitivity of this return to variations in economic benefits and investment costs is low (cut-off rates of +50.3% for investment costs and 33.5% for economic benefits).

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Peru, and the executing agency will be the Ministry of Culture, acting through UE008.<sup>29</sup>
- 3.2 The executing agency will be responsible for the technical and financial management of all components. To this end, it will be supported by a management team located in the UE008 in MINCUL.<sup>30</sup> The user areas, in particular the Cultural Heritage, Museums, and Cultural Industries Branches and the administrative units of MINCUL will support the management team in fulfilling their responsibilities, which will include coordinating, preparing, and consolidating all management information to be submitted to the Bank, as described in the monitoring and evaluation plan ([MEP](#)). The coordinator will submit semiannual progress reports to the Bank no later than 60 days after the end of each six-month period. These reports will indicate the degree of physical and financial compliance and progress in the project with respect to the indicators and activities set out in the results matrix and the activities programmed in the [multiyear execution plan](#), [annual work plan](#) (AWP), and [procurement plan](#), analyzing the problems encountered and presenting corrective measures. The reports for the second half of each year will include—in addition to the multiyear execution plan and the AWP for the following calendar year (including projected disbursements)—the updated procurement plan, the status of maintenance plan for works executed under the project, possible

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<sup>28</sup> The same type of technical assistance will be provided to the municipios, but this will be focused exclusively on generating local data that will be sent to MINCUL for processing. As the technical assistance will be for public employees, it will not entail any new hiring. In the case of the Ministry, procurement of the equipment required for the database is included in the program budget.

<sup>29</sup> Assigned responsibility for this program under Ministerial Resolution [287-2019-MC](#).

<sup>30</sup> In the Lima office and the regional office in Huamanga.

modifications to the budget allocations for each component, and monitoring of the project risk matrices.

- 3.3 The management team will also prepare cash flow projections and disbursement requests with supporting documentation, submitting the relevant documents in accordance with the formats and requirements of the Bank. It will also be responsible for implementing control measures to ensure the appropriate use and transparency of the funds for which the executing agency is responsible. To this end, the management team will have, at a minimum, one general program coordinator<sup>31</sup> and one specialist for each of the following areas: finance-accounting, budgeting, treasury, procurement, planning and monitoring, legal, enhancement of cultural heritage, and socioenvironmental. The latter specialist will monitor the socioenvironmental management plans for works. An expert in institutional strengthening will be recruited to launch the observatory planned under Component 3. Specific responsibilities and execution flows are described in the [Program Operating Manual](#).
- 3.4 The operation does not envision the execution of fiduciary activities by the municipios or any other stakeholders other than MINCUL. Nonetheless, the UE008 in MINCUL will coordinate the programming and execution of activities with all stakeholders. Interagency agreements will be signed with each municipio and with the owners of heritage assets (paragraph 3.6).
- 3.5 Based on the institutional analysis performed, and given that this is MINCUL's first operation with the Bank, the technical, operational, environmental, and social guidelines set out in the [Program Operating Manual](#) are designed to ensure the efficient launch of program execution, ensure proper administration and execution of program resources, and guarantee that the borrower has appointed the minimum staff for operation of the executing agency. **As special contractual conditions precedent to the first loan disbursement, the borrower, either directly or through the executing agency, will provide evidence to the Bank's satisfaction of: (i) the signing and entry into force of a credit agreement between the Kingdom of Spain and the borrower for project cofinancing equivalent to US\$10,000,000, using FONPRODE resources. Among other things, the agreement will specify that the project will be executed in accordance with applicable Bank policies and procedures; (ii) approval and entry into force of the [Program Operating Manual](#) in accordance with the terms previously agreed with the Bank, including an annex containing the Environmental and Social Management Plan; and (iii) selection of the executing agency's management team, which will include, at a minimum, a general coordinator and a specialist for each of the following areas: (a) finance-accounting; (b) budget; (c) treasury; (d) procurement; (e) planning and monitoring; (f) legal; (g) enhancement of heritage assets; and (h) socioenvironmental, consistent with the terms of reference agreed with the Bank.**
- 3.6 To ensure satisfactory execution, and consistent with MINCUL's practices when working with heritage assets, the following **special contractual clauses relating to execution will apply**: the borrower, through the executing agency, will provide evidence to the Bank's satisfaction prior to the launch of each of the works

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<sup>31</sup> The terms of reference for the coordinator will require private sector experience in the area of CCI and experience in managing funds.



identified in Component 1 of the project that all necessary permits have been obtained for the works, in particular the interagency agreements with the District Municipio of Rímac, the Provincial Municipio of Huamanga,<sup>32</sup> the Archdiocese of Lima, the Archdiocese of Ayacucho,<sup>33</sup> and the Peruvian army,<sup>34</sup> as appropriate, setting out the obligations of each party during project execution and for operation and maintenance of the works. These conditions are justified by the legal framework applicable to various of the targeted goods and will enable MINCUL to take action on them.

- 3.7 **Fiduciary agreements and requirements.** The fiduciary agreements and requirements establish the financial management and planning framework for execution of the operation, as well as the framework for supervision and execution of the relevant procurement processes. Loan proceeds may be disbursed as advances of funds, reimbursements of expenditures, or direct payments to suppliers. In the case of advances, disbursements will be based on projected expenditures for up to 180 days. At least 80% of the total amounts disbursed from Bank and FONPRODE loan resources will be documented, using the Bank's forms.
- 3.8 The procurement plan will be managed through the online electronic Procurement Plan Execution System (SEPA) or a system designated by the Bank. Procurements will be executed in accordance with the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), or subsequent updates. Nonetheless, given that both the partial and advanced use of Peru's country procurement system has been approved by the Bank's Board (documents GN-2538-11 and GN-2538-22 of 2013 and 2017, respectively), this system may be used once the monitoring and implementation actions included in the approved "Report for Acceptance of Use of the Country Procurement System in Peru" have been implemented, subject to modification of the procurement plan. In the case of the subsystems for Electronic Reverse Auctions and Electronic Catalogs for Framework Agreements, these may be used once the recommendations governing their use have been implemented.
- 3.9 The design of procurement processes will ensure that environmental sustainability criteria are incorporated at all stages, including the preparation of standard bidding documents, formulation of technical specifications, and criteria for the evaluation and selection of bidders and the evaluation and award of bids. This will help to ensure that the different interventions affecting facades, sidewalks, and cultural spaces incorporate materials, ecotechnologies, and design and construction practices that will improve thermal comfort, energy efficiency, and integration of the natural landscape with heritage equipment and infrastructure, while also reducing risk. Procurement processes will also ensure that LED lighting systems are used for facades, sidewalks, and public spaces, and that permeable concrete is used in sidewalks and squares to allow rainwater to pass through, thus reducing pooling and flooding. The manual [Green Procurement: How to Encourage Green Procurement Practices in IDB Funded Projects?](#) provides guidance to project

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<sup>32</sup> Given the interventions affecting public spaces.

<sup>33</sup> Given the interventions affecting churches and atriums in both cities.

<sup>34</sup> The Andrés A. Cáceres Museum in Ayacucho.

teams and executing agencies regarding the issues to be taken into consideration when designing green procurement.

- 3.10 **Audit.** The UE008 will submit annual and final audited financial statements for the program within 120 days of the end of each financial period. The final audit report will be presented within 120 days of the end of the original disbursement period (or any extension). To this end, the UE008 has agreed to appoint an independent audit firm acceptable to the Bank for the duration of the program.

**B. Summary of arrangements for monitoring results**

- 3.11 **Monitoring and evaluation system.** The outcome and output indicators included in the results matrix and reflected in the progress monitoring report will be used to measure progress under the program and assess fulfillment of its objectives. The executing agency will be responsible for maintaining data gathering and monitoring systems. The annual work plan will include: (i) an estimated budget; (ii) an updated procurement plan; (iii) the planned indicators for the results matrix; (iv) planned activities; and (v) an execution timeline. The executing agency will also submit semiannual progress reports within 60 days following the end of each six-month calendar period, including progress in executing the AWP and a socioenvironmental compliance report. Program monitoring tools are described in the MEP.
- 3.12 **Monitoring by the Bank.** Administration missions and inspection visits will be conducted jointly with AECID. The Bank has agreed that the executing agency will use the progress monitoring report, which covers disbursement projections and the fulfillment of physical targets and outcomes. The executing agency and the Bank will meet annually to discuss: (i) progress with respect to the activities in the AWP; (ii) fulfillment of the indicators in the results matrix; (iii) the AWP for the following year; (iv) the procurement plan for the following 12 months and possible modifications to budget allocations by component; and (v) compliance with the program's socioenvironmental requirements. The executing agency will maintain a monitoring and evaluation system for all components and will use this to prepare data and reports for submission to the Bank. A specialist in the executing agency will be responsible for monitoring its activities (MEP).
- 3.13 **Evaluation.** The results matrix and the MEP will be used to evaluate the project, including preparation of the project completion report. Midterm and final evaluations will be prepared for the project, covering technical, administrative, and financial issues. The midterm evaluation will take place when at least 40% of the loan proceeds have been disbursed or when two years have elapsed since the loan contract entered into force (whichever occurs first). The final evaluation will take place once at least 90% of the loan proceeds have been disbursed. Its objective will be to verify progress towards fulfilling the targets for each of the expected outcomes, as well as the generation of outputs by component. Ex post cost-effectiveness evaluations are also planned.



| Development Effectiveness Matrix   |   |   |
|--|---|---|
| Summary  |   | PE-L1246  |
| I. Corporate and Country Priorities  |   |   |
| 1. IDB Development Objectives  |   | Yes   |
| Development Challenges & Cross-cutting Themes  | -Social Inclusion and Equality<br>-Productivity and Innovation<br>-Gender Equality and Diversity<br>-Climate Change and Environmental Sustainability<br>-Institutional Capacity and the Rule of Law                         |   |
| Country Development Results Indicators   | -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*<br>-Beneficiaries of improved management and sustainable use of cultural capital (#)* |   |
| 2. Country Development Objectives  |   | Yes   |
| Country Strategy Results Matrix  | GN-2889   | Productivity, institutional strengthen and environmental sustainability   |
| Country Program Results Matrix   | GN-2948-2   | The intervention is included in the 2019 Operational Program.   |
| Relevance of this project to country development challenges (If not aligned to country strategy or country program)  |   |   |
| II. Development Outcomes - Evaluability  |   | Evaluable   |
| 3. Evidence-based Assessment & Solution  |   | 6.3   |
| 3.1 Program Diagnosis  |   | 2.4   |
| 3.2 Proposed Interventions or Solutions  |   | 1.7   |
| 3.3 Results Matrix Quality   |   | 2.2   |
| 4. Ex ante Economic Analysis   |   | 9.0   |
| 4.1 Program has an ERR/NPV, or key outcomes identified for CEA   |   | 3.0   |
| 4.2 Identified and Quantified Benefits and Costs   |   | 3.0   |
| 4.3 Reasonable Assumptions   |   | 0.0   |
| 4.4 Sensitivity Analysis   |   | 2.0   |
| 4.5 Consistency with results matrix  |   | 1.0   |
| 5. Monitoring and Evaluation   |   | 8.5   |
| 5.1 Monitoring Mechanisms  |   | 2.5   |
| 5.2 Evaluation Plan  |   | 6.0   |
| III. Risks & Mitigation Monitoring Matrix  |   |   |
| Overall risks rate = magnitude of risks*likelihood   |   | Medium  |
| Identified risks have been rated for magnitude and likelihood  |   | Yes   |
| Mitigation measures have been identified for major risks   |   | Yes   |
| Mitigation measures have indicators for tracking their implementation  |   | Yes   |
| Environmental & social risk classification   |   | B   |
| IV. IDB's Role - Additionality   |   |   |
| The project relies on the use of country systems   |   |   |
| Fiduciary (VPC/FMP Criteria)   | Yes   | Financial Management: Budget, Treasury, Accounting and Reporting, External Control.<br><br>Procurement: Information System, Price Comparison. |
| Non-Fiduciary  | Yes   | Statistics National System.   |
| The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:                            |   |   |
| 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   | PE-T1394  |

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The objective of the program is to enhance the value of the cultural heritage of the historical centers of Ayacucho and Lima-Rímac. To achieve this objective, the program will seek to improve the urban and natural environment, promote local economic development, and strengthen the institutional capacities of MINCUL and municipalities.

The project presents a complete diagnosis; with a precise description of the challenges related to tangible heritage, cultural heritage, and governance of historical centers. The results indicators included in the results matrix are SMART and have means of verification.

The economic analysis of the project was carried out through a cost-benefit analysis (CBA) and focuses on expected benefits related to the valuation of real estate assets in the area of intervention and the increase in the number of tourists visiting the historic centers. The CBA has an adequate sensitivity analysis. The analysis concludes that both the project of the historical center of Ayacucho and Lima-Rímac are economically viable (IRR of 25.8% and 20.7% respectively). The project is economically viable, with an IRR of 23.4%, using a rate 12% discount.

The project includes a monitoring and evaluation plan that is consistent with Bank standards. The effectiveness of the proposed intervention will be measured following an ex-post cost-efficiency analysis.

## RESULTS MATRIX

|                           |   |
|---------------------------|---|
| <b>Project objective:</b> | The objective is to restore and enhance the cultural heritage of the historic centers of Ayacucho and Lima-Rímac. To achieve this objective, the project seeks to improve the urban and natural environment, foster local economic development, and strengthen institutional capacities in the Ministry of Culture (MINCUL) and the municipalities. |
|---------------------------|---|

## EXPECTED IMPACT

| Indicators   | Unit of measurement | Baseline         |      | Targets            |      | Means of verification  | Comments <sup>1</sup>  |
|--|---------------------|------------------|------|--------------------|------|--|--|
|  |                     | Value            | Year | Value <sup>2</sup> | Year |  |  |
| 1. Satisfaction among residents and visitors with historical and cultural heritage in the historic centers of Rímac and Ayacucho | % score obtained    | N/A <sup>3</sup> | 2020 | -                  | 2023 | Surveys of the sense of ownership and satisfaction with historical and cultural heritage among residents and visitors to the historic centers of Rímac and Ayacucho. | The survey will offer five alternative responses: (1) not at all satisfied; (2) unsatisfied; (3) neither satisfied nor unsatisfied; (4) satisfied; and (5) highly satisfied. The proportion of respondents choosing options 4 or 5 in the final survey will be compared with that in the initial survey.<br><br>There will be gender-differentiated monitoring of the responses to the survey on satisfaction with the historical and cultural heritage in Rímac and Ayacucho. |
| 2. Sense of ownership of historical and cultural heritage among residents of the historic centers of Rímac and Ayacucho          | % score obtained    | N/A              | 2020 | -                  | 2023 | Surveys of the sense of ownership and satisfaction with historical and cultural heritage among residents and visitors to the historic centers of Rímac and Ayacucho. | Idem.  |

<sup>1</sup> The [Monitoring and Evaluation Plan \(MEP\)](#) provides details of the observations of impacts, outcomes, and (where appropriate) outputs.

<sup>2</sup> Value to be determined in the first few months of the operation.

<sup>3</sup> The baseline will be calculated based on a survey of residents and visitors in the Rímac and Ayacucho historic centers during the first six months of program execution. This survey and the one to be conducted at completion are included in the program budget for monitoring and evaluation activities.

### EXPECTED OUTCOMES

| Indicators  | Unit of measurement   | Baseline |      | Intermediate measurements |      | Targets |      | Means of verification   | Comments  |
|---|---|----------|------|---------------------------|------|---------|------|---|---|
|   |   | Value    | Year | Value                     | Year | Value   | Year |   |   |
| Specific objective 1: Improve the urban and natural environment   |   |          |      |                           |      |         |      |   |   |
| Expected outcome 1: Tangible heritage improved  |   |          |      |                           |      |         |      |   |   |
| 1.1 Increase in the value per m <sup>2</sup> of properties in the historic centers of the targeted cities | Index   | 100      | 2019 | 0                         | 0    | 120     | 2023 | Rímac and Ayacucho property registers. The <a href="#">MEP</a> will describe the methodology used to construct this index.                        |   |
| 1.2 Historic buildings restored   | Number of historic buildings restored   | 0        | 2019 | 0                         | 0    | N/A     | 2023 | The outcome will be measured using a planned census of owners and renters in the historic centers of Rímac in Ayacucho at the end of the program. |   |
| Expected outcome 2: Historical and cultural landscape improved  |   |          |      |                           |      |         |      |   |   |
| 2.1 Green areas expanded  | Index   | 100      | 2019 | 0                         | 0    | 120     | 2023 | Works acceptance reports reviewed by the Bank. Semiannual project progress reports sent to and approved by the Bank.                              |   |
| Specific objective: Promote local economic development  |   |          |      |                           |      |         |      |   |   |
| Expected outcome 3: Creative and cultural initiatives and enterprises supported                           |   |          |      |                           |      |         |      |   |   |
| 3.1 Cofinanced enterprises active after one year/total enterprises cofinanced under the program           | Cofinanced enterprises active after one year/total enterprises cofinanced under the program | 0        | 2019 | 0                         | 0    | 20%     | 2023 | Semiannual progress reports. Database and reports of the Cultural Grants Fund.  | There will be gender-differentiated monitoring of the individual or representative of the legal entity receiving financing. |
| 3.2 Cultural events held in the historic centers of the cities targeted under the program                 | Number of annual events recorded  | 0        | 2019 | 0                         | 0    | 45      | 2023 | Event permits received by the district municipalities, supplemented by the administrators' records from each public space.                        |   |

| Indicators  | Unit of measurement   | Baseline |      | Intermediate measurements |      | Targets |      | Means of verification  | Comments   |
|---|---|----------|------|---------------------------|------|---------|------|--|--|
|   |   | Value    | Year | Value                     | Year | Value   | Year |  |  |
| Outcome 4: Population of the district trained in the restoration and preservation of cultural heritage                              |   |          |      |                           |      |         |      |  |  |
| 4.1 People trained in preservation of cultural heritage   | Numbers graduating or with completed training compared to total enrollment in training supported by the program | 0        | 2019 | 0                         | 0    | 86      | 2023 | Semiannual project progress reports approved by the Bank.<br>List of graduates by course in the Escuelas Taller (vocational training schools). | There will be gender-differentiated monitoring of the people trained in the preservation of cultural heritage.   |
| Specific objective: Strengthen institutional capacities in the Ministry of Culture and the municipalities                           |   |          |      |                           |      |         |      |  |  |
| Expected outcome 5: Improved management of cultural heritage  |   |          |      |                           |      |         |      |  |  |
| 5.1 Property tax revenue in Ayacucho as a proportion of the municipio's local revenue   | Property tax revenue/local revenue  | 29.9%    | 2018 | 0                         | 0    | 35%     | 2023 | Municipal revenue statistics posted by the municipality to the MEF's transparency website.   |  |
| 5.2 Property tax revenue in Rímac as a proportion of the municipio's local revenue  | Property tax revenue/local revenue  | 20.4%    | 2018 | 0                         | 0    | 30%     | 2023 | Municipal revenue statistics posted by the municipality to the MEF's transparency website.   |  |
| 5.3 Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery | Agencies  | 0        | 2019 | 0                         | 0    | 3       | 2023 | Annual and final program reports.  | The program contributes to the Corporate Results Framework 2016-2019 through the indicator on the number of government agencies that benefit from projects that strengthen management instruments for improving the delivery of cultural services. |

## OUTPUTS

| Outputs   | Unit of Measurement | Baseline | Year 1 2020 | Year 2 2021 | Year 3 2022 | Year 4 2023 | Final Target | Means of Verification   | Comments  |
|---|---------------------|----------|-------------|-------------|-------------|-------------|--------------|---|---|
| <b>Component 1. Improvements to tangible heritage</b> |                     |          |             |             |             |             |              |   |   |
| Facades of historic buildings improved                | m <sup>2</sup>      | 0        | 1,357       | 16,380      | 12,583      | 3,194       | 33,514       | Semiannual program execution reports approved by the Bank. <sup>4</sup> |   |
| Public thoroughfares and signature spaces improved    | m <sup>2</sup>      | 0        | 147         | 5,345       | 11,839      | 2,582       | 19,913       |   |   |
| Improved historical and cultural landscape            | m <sup>2</sup>      | 0        | 4,344       | 19,546      | 5,303       | 0           | 29,193       |   |   |
| Improved cultural spaces                              | m <sup>2</sup>      | 0        | 0           | 3,153       | 10,312      | 3,566       | 17,031       |   |   |
| <b>Component 2. Promotion of cultural heritage</b>    |                     |          |             |             |             |             |              |   |   |
| Escuelas Taller implemented                           | Workshops           | 0        | 4           | 4           | 2           | 2           | 12           |   | Statistics, disaggregated by gender, will be generated on the enrollment and training of persons in each city.                        |
| Cultural Grant Fund for business plans                | US\$ (thousands)    | 0        | 15          | 91          | 104         | 90          | 300          |   | Statistics, disaggregated by gender, will be generated on the entrepreneurs and companies that apply for financing of business plans. |

<sup>4</sup> All outputs will be verified using the semiannual program execution reports approved by the Bank.

| Outputs   | Unit of Measurement | Baseline | Year 1 2020 | Year 2 2021 | Year 3 2022 | Year 4 2023 | Final Target | Means of Verification | Comments   |
|---|---------------------|----------|-------------|-------------|-------------|-------------|--------------|-----------------------|--|
| Cultural Grant Fund for cultural and creative enterprises                   | US\$ (thousands)    | 0        | 45          | 274         | 311         | 270         | 900          |                       | Statistics, disaggregated by gender, will be generated on the entrepreneurs, companies, and artists that apply for financing of cultural and creative enterprises. |
| Fund for the management of cultural hubs                                    | US\$ (thousands)    | 0        | 45          | 332         | 332         | 291         | 1,000        |                       |  |
| Competitions held for the design of signature cultural projects             | Competitions        | 0        | 4           | 4           | 4           | 2           | 14           |                       |  |
| Studies completed regarding the application of Smart City technologies      | Studies             | 0        | 0           | 1           | 1           | 0           | 2            |                       |  |
| Studies completed regarding cultural interpretation in the historic centers | Studies             | 0        | 2           | 0           | 0           | 0           | 2            |                       |  |
| Discover Your Heritage Program designed and implemented                     | Program             | 0        | 0           | 2           | 0           | 0           | 2            |                       |  |
| <b>Component 3. Strengthening the governance of historical heritage</b>     |                     |          |             |             |             |             |              |                       |  |
| Database for heritage preservation created                                  | Database            | 0        | 0           | 0           | 1           | 0           | 1            |                       |  |
| Property registers and valuations updated in Rímac and Ayacucho             | Property registers  | 0        | 0           | 2           | 2           | 0           | 4            |                       |  |
| Risk management plans prepared  | Plans               | 0        | 0           | 1           | 1           | 0           | 2            |                       |  |
| Manual prepared for the preservation and restoration of buildings           | Manual              | 0        | 1           | 0           | 0           | 0           | 1            |                       |  |

| Outputs   | Unit of Measurement | Baseline | Year 1 2020 | Year 2 2021 | Year 3 2022 | Year 4 2023 | Final Target | Means of Verification | Comments   |
|---|---------------------|----------|-------------|-------------|-------------|-------------|--------------|-----------------------|--|
| Workshops held on the methodology for the preservation and restoration of buildings | Workshops           | 0        | 0           | 2           | 3           | 1           | 6            |                       |  |
| Cultural Heritage Observatory created, including statistics disaggregated by gender | Observatory         | 0        | 0           | 0           | 1           | 0           | 1            |                       | Statistics will be disaggregated by gender in the indicators on use of public spaces, events, visits to monuments, and other indicators where possible, to help bridge information gaps. |
| Strategic communication plan for the program prepared                               | Plan                | 0        | 0           | 0           | 0           | 1           | 1            |                       |  |
| Information and communication systems installed                                     | Systems             | 0        | 0           | 0           | 1           | 0           | 1            |                       |  |

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Republic of Peru  
**Project number:** PE-L1246  
**Name:** Investment Program to Improve the Historic Centers of Lima, Arequipa, Trujillo, and Ayacucho  
**Executing agency:** Ministry of Culture (MINCUL)  
**Fiduciary team:** Allizon Milicich and Gabriele del Monte (FMP/CPE)

### **I. THE COUNTRY'S FIDUCIARY CONTEXT**

- 1.1 The country's financial administration systems are satisfactory and reliable. With regard to the country procurement system, the electronic reverse auction and electronic catalog subsystems are currently being used from the framework agreements in Peru's public procurement regime, approved through document GN-2538-11.

### **II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT**

- 2.1 This operation falls under the cofinancing framework agreement between the Bank and the Kingdom of Spain and the cofinancing agreement signed for the operation, according to which the Bank will be responsible for program supervision and monitoring. The Bank's fiduciary policies will apply to the operation between the Government of Peru and the Kingdom of Spain.
- 2.2 The program will be executed by Executing Unit 008 (UE008) in the Ministry of Culture (MINCUL), supported by a management team whose functions will be described in the Program Operating Manual. UE008 will act as the Bank's direct point of contact and will be responsible for program management with administrative and financial autonomy. It will be responsible for coordination and management functions relating, in particular, to the areas of budgeting, accounting, treasury, and procurement, following both IDB rules and procedures and national rules.
- 2.3 In the fiduciary area, the following specialists will be contracted to provide specific, full-time support to the program (key staff): finance and accounting, budget, treasury, and procurement.
- 2.4 In parallel, the UE008 will use the State Electronic Procurement System (SEACE) and the Procurement Plan Execution System (SEPA) to register the procurement plan and publicize contract processes. It will also use the Integrated Financial Administration System (SIAF) as the operating system for financial management and the SIAF's project execution module for generating financial reports.



### III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The risk assessment carried out during the program design phase identified the fiduciary risk of higher costs and extended timeframes for program implementation due to MINCUL's lack of experience and knowledge in executing loan operations using the Bank's fiduciary policies. To mitigate this risk—classified as medium—the following mitigation actions were identified: (i) strengthening of the UE008's fiduciary capacities; (ii) the inclusion of fiduciary process flows in the Program Operating Manual (with descriptions of functions, roles, responsibilities); and (iii) Bank fiduciary assistance/support.

### IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 Within 120 days of the end of each of the borrower's financial periods, and for the duration of the original disbursement period (or any extension), the UE008 will submit annual and final audited financial statements for the program, with specific terms of reference acceptable to the Bank. The final audit report will be presented within 120 days of the end of the original disbursement period (or any extension).
- 4.2 For the purposes of reporting and documenting eligible expenditures, the exchange rate used to determine the equivalent value (in the currency of either disbursements or approval) of an eligible expense in the borrower's local currency will be that in effect on the date of the conversion of the currency of approval or disbursement into the local currency of the borrowing country (Article 4.10(b)(i) of the general conditions of the loan contract). For the purposes of determining the equivalent value of expenses incurred in local currency as part of local counterpart funding, or for the reimbursement of expenses from loan resources, the agreed exchange rate will be that in effect on the day that the borrower, the executing agency, or any other natural or legal person to whom the authority to incur expenses has been delegated, makes the respective payments to a contractor, supplier, or beneficiary.

### V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 **Procurement execution.** Procurement will be governed by the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) of March 2011 and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). The threshold for international competitive bidding will be made available to the borrower, through the executing agency, via the [www.iadb.org/procurement](http://www.iadb.org/procurement) webpage. Notwithstanding the above, the procurement plan approved by the Bank will determine the method and amount of each procurement (including goods and works) based on its complexity. The objective of this approach is to promote principles of economy and efficiency in program execution, as well that of "fit for purpose," which will apply to both intended outcomes and procurement arrangements in determining the most appropriate approach to fulfilling project development objectives and outcomes (considering both the context and risks, value, nature, and complexity of the procurement transaction).

- 5.2 **Procurement of works, goods, and nonconsulting services.** Program-related contracts for works, goods, and nonconsulting services<sup>1</sup> subject to international competitive bidding will be carried out using the standard bidding documents issued by the Bank. Contracts subject to national competitive bidding will be carried out using national bidding documents agreed with the Bank (or accepted as satisfactory by the Bank if no agreement has been reached). The project team leader is responsible for reviewing technical specifications.
- 5.3 **Selection and contracting of consultants.** Irrespective of the contract amount, contracts for consulting services under the program will be executed using the standard request for proposals issued by or agreed with the Bank (or accepted as satisfactory by the Bank if no agreement has been reached). The project team leader is responsible for reviewing terms of reference.
- 5.4 **Ex ante procurement review.** The Bank will review selection, hiring, and procurement processes as set out in the procurement plan. The Bank may modify the type of review for these processes at any point during program execution, having previously notified the borrower or the executing agency. Changes approved by the Bank will be reflected in the procurement plan.
- 5.5 **Use of country procurement systems.** Given that advanced use of Peru's country procurement system has been approved by the Bank's Board, this system may be used once the monitoring and implementation actions included in the approved "Report on Acceptance of the Use of the Country Procurement System in Peru" have been implemented, subject to modification of the procurement plans. In the case of the subsystems for Reverse Electronic Auctions and Electronic Catalogs for Framework Agreements, these may be used once the recommendations governing their use have been implemented, subject to prior modification of the procurement plan.
- 5.6 **Initial procurement plan.** See the detailed [procurement plan](#) for the first 18 months. The executing agency will publish the procurement plan in the Procurement Plan Execution System (SEPA) or other system designated by the Bank. It will update the plan every six months at least, or as required by the Bank to reflect the actual execution needs of the program and progress achieved.
- 5.7 **Procurement supervision.** Procurement processes will be subject to ex ante review. Procurement processes may be reviewed ex post subject to Bank authorization (solely through approval of the procurement plan indicating the selection modality that will be used). The Bank's ex post review will involve a sample of contracts based on technical and professional criteria and will be conducted by Bank staff, consultants, or external auditors. Once the use of country procurement systems has been implemented, the approach may be updated depending on fiduciary risk.<sup>2</sup>
- 5.8 **Records and files.** Files must be located in the executing agency's offices and stored in conditions that ensure the integrity and security of the documentation.

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<sup>1</sup> Pursuant to the Bank's procurement policies, nonconsulting services are treated as goods.

<sup>2</sup> Once use of the Reverse Auction and Framework Agreement systems in operations has commenced as part of the strategy for the use of country systems, procurement processes will be systematically monitored and supervised through monitoring and verification of the stability of Peru's country system.

- 5.9 **Environmental considerations in procurement.** Procurement processes will incorporate environmental sustainability criteria at all stages, including the preparation of standard bidding documents; formulation of technical specifications; and criteria for the evaluation and selection of bidders and the evaluation and award of bids. This will help to ensure that the different interventions affecting facades, sidewalks, and cultural spaces incorporate materials, ecotechnologies, and design and construction practices that will improve thermal comfort, energy efficiency, and integration of the natural landscape with heritage equipment and infrastructure, while also reducing risk. Procurement processes will also ensure that LED lighting systems are used for facades, sidewalks, and public spaces, and that permeable concrete is used in sidewalks and squares to allow rainwater to pass through, thus reducing pooling and flooding. The manual [Green Procurement: How to Encourage Green Procurement Practices in IDB Funded Projects?](#) provides guidance on the issues to be taken into consideration when designing green procurement.

## VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 **Programming and budget.** The viability of program expenses will be reviewed pursuant to Ministry of Economy and Finance (MEF) rules. To this end, the National Multiyear Programming and Investment Management System (Invierte.pe) is aimed at expediting the approval of investment projects and introducing flexibility into their execution by the three levels of government. Preparation of the annual program and budget will be based on the guidelines issued by the MEF's Budget Department. The multiyear work plan will be prepared—and on this basis the annual budget—with reference to the disbursement schedule for the program. The budget allocation will be approved by the MEF and Congress, and the Bank will be informed thereof each year. The integrated financial administration system (SIAF) will be used to manage the budget. The same will apply to the operation between the Government of Peru and the Kingdom of Spain.
- 6.2 **Accounting and information systems.** The project execution module in SIAF will be used for project accounting and reporting, including disbursement requests, tracking of the exchange rate, and other Bank requirements. This will ensure transparency and specific controls in the area of budget execution. Program accounts will be prepared on a cash basis, based on international accounting standards and in compliance with the guidelines issued by the National Department of Government Accounting. The same will apply to the operation between MINCUL and the Kingdom of Spain.
- 6.3 **Disbursements and cash flow.** The country's treasury system will be used for this purpose, in compliance with the guidelines issued by the National Debt and Treasury Department. Expenditure will be subject to budgetary and financial execution processes, and the data relating to its formalization within the framework of the rules applicable to each stage must be registered in the SIAF's project execution module: committed, accrued, payment issued, payment effected. The UE008 will maintain a specific bank account in U.S. dollars and a separate one in Peruvian soles (monetization) for the management of loan funds. These bank accounts will be separate to those used by the UE008 for management of the loan from the Kingdom of Spain. Discussions are ongoing with the MEF regarding the use of the treasury

- single account in loan operations, and this option may therefore be implemented in the short term.
- 6.4 Disbursements will be made in accordance with the program's actual liquidity needs. The UE008 will submit disbursement requests to the Bank accompanied by a financial plan containing expenditure projections for a period of up to 180 days. At least 80% of the total amounts disbursed will be documented, using the Bank's formats. Loan proceeds may be disbursed as advances of funds, reimbursements of expenditures, or direct payments to suppliers.
- 6.5 The ex post review of records and supporting documentation for the activities and transactions performed will be carried out by the external auditors. All documents and records will be maintained for a period of at least three years following the date of last disbursement. Any expenses found to be ineligible for Bank funding will be reimbursed using local counterpart funding.
- 6.6 **Internal control and internal audit.** MINCUL's control environment, control activities, communication and information, and monitoring of activities will be governed by the country's regulations, which are based on the National Control System and Comptroller General of the Republic (CGR) Act.
- 6.7 **External control and reports.** In light of the role of the CGR (lead agency for the National Control System) and its regulations, external audit of the projects is outsourced to independent audit firms (IAFs) eligible for Bank-financed programs. The IAFs are periodically evaluated by the Bank. The CGR authorizes the selection and appointment of an IAF, consistent with Bank policies, for the entire program execution period, including extensions to the final disbursement period. The selection of a tier I or II IAF will be required.
- 6.8 The program's financial statements include a cash flow statement, a statement of cumulative investment, the notes to the financial statements, and certification by the program manager (UE008). The audit report will include an evaluation of the internal control system. External audits will be financed with resources from the loan, estimated at US\$280,000 over the anticipated four-year loan execution period.
- 6.9 **Financial supervision plan.** The financial supervision plan may be adjusted based on project execution and the external audit reports.

**Table 1. Supervision plan**

| Activities | Nature/scope   | Frequency        |
|------------|--|------------------|
| Financial  | Portfolio review with the executing agency and the MEF   | Two per year     |
|            | Submission of audited financial statements               | Annual and final |
|            | Review of disbursement requests and accompanying reports | Four per year    |
|            | UE008 supervision visit                                  | Annual           |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/19

Peru. Loan \_\_\_\_/OC-PE to the Republic of Peru  
Investment Program to Improve the Historic  
Centers of Lima, Arequipa, Trujillo,  
and Ayacucho

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Investment Program to Improve the Historic Centers of Lima, Arequipa, Trujillo, and Ayacucho. Such financing will be for the amount of up to US\$30,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2019)