

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PERU**

**IMPROVEMENT AND EXPANSION OF EMPLOYMENT CENTER SERVICES FOR  
FORMAL JOB PLACEMENT OF YOUTH IN THE REGIONS OF AREQUIPA, ICA,  
LAMBAYEQUE, LA LIBERTAD, PIURA, SAN MARTÍN, AND  
METROPOLITAN LIMA**

**(PE-L1152)**

**LOAN PROPOSAL**

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## ABBREVIATIONS

ABE	Asesoría para la Búsqueda del Empleo [Job Search Advisory Service]
ALMP	Active labor market policies
AWP	Annual work plan
CGR	Contraloría General de la República [Office of the Comptroller General of the Republic]
CUL	Certificado único laboral [single employment certificate]
DGSNE	Dirección General de Servicio Nacional de Empleo [National Employment Service Department]
EC	Employment Center
ECAPs	Entidades de capacitación [training entities]
ENAH	Encuesta Nacional de Hogares [National Household Survey]
ENVME	Encuesta Nacional de Variación Mensual de Empleo [National Survey on Monthly Variation in Employment]
FONDO EMPLEO	Fondo Nacional de Capacitación Laboral y de Promoción del Empleo [National vocational training and employment promotion fund]
IMF	International Monetary Fund
JP	Jóvenes Productivos [Productive Youth]
MEF	Ministry of Economy and Finance
MTPE	Ministry of Labor and Employment Promotion
NEO	MIF regional initiative for New Employment Opportunities
OGETIC	Oficina General de Estadística y Tecnologías de Información y de Comunicaciones [General Office of Statistics and Information and Communication Technologies]
PCR	Project completion report
PES	Public employment services
SENEP	Servicio Nacional de Empleo de Perú [National Employment Service of Peru]
SILNET	Red Informática Única de Servicios de Empleo [Single Information Technology Platform for Employment Services]
VMPECL	Viceministerio de Promoción del Empleo y Capacitación Laboral [Office of the Deputy Minister for Employment Promotion and Vocational Training]
VUPE	Ventanilla Única de Promoción del Empleo [One-stop Employment Promotion Window]

## PROJECT SUMMARY

### PERU

#### IMPROVEMENT AND EXPANSION OF EMPLOYMENT CENTER SERVICES FOR FORMAL JOB PLACEMENT OF YOUTH IN THE REGIONS OF AREQUIPA, ICA, LAMBAYEQUE, LA LIBERTAD, PIURA, SAN MARTÍN, AND METROPOLITAN LIMA (PE-L1152)

Financial Terms and Conditions				
<b>Borrower:</b> Republic of Peru			Flexible Financing Facility <sup>(a)</sup>	
			Amortization period:	10 years
<b>Executing agency:</b> Ministry of Labor and Employment Promotion (MTPE)			Original WAL:	9.75 years <sup>(b)</sup>
			Disbursement period:	5 years
Source	Amount (US\$)	%	Grace period:	9.5 years
IDB (Ordinary Capital)	30 million	77%	Inspection and supervision fee:	(c)
Local	8.9 million	23%	Interest rate:	LIBOR-based
Total	38.9 million	100%	Credit fee:	(c)
			Currency:	U.S. dollars from the Ordinary Capital (OC)
Project at a Glance				
<b>Project objective/description:</b> The project objective is to improve and expand employment center services for formal job placement of the economically active youth population of the regions of Arequipa, Ica, Lambayeque, La Libertad, Piura, San Martín, and Metropolitan Lima. The specific aim is to improve the effectiveness, efficiency, and relevance of Employment Center services to better match urban youth with formal-sector businesses looking for workers. The project seeks to develop a “strengthened Employment Center” model and fully implement it in these seven regions.				
<b>Special contractual conditions precedent to the first disbursement:</b> The executing agency will provide evidence, to the Bank's satisfaction, that the following conditions have been met: (i) the executing agency has approved the project Operations Manual, with the Bank's prior no objection; (ii) the project execution unit has been created with its specialized technical staff, including the executive director, on the terms previously agreed upon with the Bank, the Ministry of Labor and Employment Promotion (MTPE), and the executing agency; the specialized technical staff will comprise the chief of the administration unit, the chief of the planning, budget, and systems unit, the chief of the youth workforce integration promotion unit, the chief of the job information and training unit, and the chief of the service enhancement and institutional strengthening unit; and (iii) at least three cooperation agreements have been entered into between the borrower, acting through the executing agency, and the regional governments, specifying the roles and responsibilities of each party and indicating at least: (a) the MTPE's commitment to equip and make improvements to the regional employment centers, (b) the MTPE's commitment to hire staff and lease premises, and (c) the commitment of each regional government to assume the respective employment center operation and maintenance expenses, once the project ends, to ensure sustainability (see paragraph 3.6).				
<b>Special contractual execution condition:</b> The start of activities in the regional governments, except Metropolitan Lima, will be contingent upon the signature of a cooperation agreement on the terms previously agreed upon with the Bank. These agreements will specify the roles and responsibilities of the MTPE and regional governments, indicating at least the MTPE's commitment to equip and make improvements to the regional employment centers, hire staff and lease premises, and the commitment of each regional government to assume the respective employment center operation and maintenance expenses, once the project ends, to ensure sustainability (see paragraph 3.7).				
<b>Exceptions to Bank policies:</b> None.				
<b>Project classified as:</b> <sup>(d)</sup> <div style="display: flex; justify-content: space-around; width: 100%;"> <span>SV</span> <span>PE</span> <span>X</span> <span>CC</span> <span>CI</span> </div>				

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

<sup>(b)</sup> The original weighted average life (WAL) may be less, depending on the loan contract signature date.

<sup>(c)</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 applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

<sup>(d)</sup> SV (Small and Vulnerable Countries), PE (Poverty Reduction and Equity Enhancement), CC (Climate Change, Sustainable Energy, and Environmental Sustainability), CI (Regional Cooperation and Integration).

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem to be addressed, and rationale

- 1.1 **Economic and social context.** For over a decade Peru's economy has been one of the fastest growing in Latin America and the Caribbean, with rates of economic growth of 6.0% in 2012 and 5.8% in 2013. Although growth slowed to 2.4% in 2014, the forecasts for future growth are favorable (IMF, 2014).<sup>1</sup> The economy's strong performance has translated into high employment rates: in 2013, for example, the unemployment rates for men and women were just 4% and 5%, respectively.<sup>2</sup> However, young people ages 15 to 24 were hurt by unemployment, with a rate of 9%. Moreover, the quality of jobs generally remains low. Thus, in 2013, the bulk of Peru's workers (59%) were employed in the informal sector. This problem was particularly severe in the case of women and young people, in particular, for whom the respective informality indicators were 62%<sup>3</sup> and 80%.<sup>4</sup>
- 1.2 There are two main reasons why young people have difficulty getting jobs in the formal sector. Firstly, the low quality and relevance of their education/training profile translates into limited skills and/or skills incompatible with the vacancies existing on the market. This can be explained by the quality and relevance problems affecting both basic education<sup>5</sup> and vocational training<sup>6</sup> (Chacaltana et al., 2015).<sup>7</sup> The skills shortage is not limited to technical skills, but also affects general skills, particularly noncognitive skills.<sup>8</sup>
- 1.3 Secondly, young people are poorly informed about the job vacancies available. Eighty percent of the population resorts to informal job search methods (friends and/or family members), which have limited reach (Mazza, 2011) and are relatively less effective for the young and population groups with limited resources.

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<sup>1</sup> See [Bibliography](#).

<sup>2</sup> It should be noted that unemployment in Peru is primarily an urban problem. For example, the unemployment rate among young people was 9% in the urban sector and just 2% in the rural sector.

<sup>3</sup> There is also an income gap in the case of women. While the percentage of people in employment earning less than the minimum wage is 36% in the case of men, it rises to 49% in the case of women. This is consistent with recent studies reporting serious gender wage gaps in Peru's labor market (Ñopo, 2012).

<sup>4</sup> Source of labor figures: SIMS-LMK, IDB, based on the National Household Survey (ENAHO). All indicators are representative at national level. Informality is calculated on the basis of the ratio of the number of social security contributors or affiliates to the total number of wage earners. As it refers to wage earners, this definition of informality is primarily urban.

<sup>5</sup> This explains the country's poor results on the 2012 PISA tests, where Peru came last in Latin America for reading, math, and sciences.

<sup>6</sup> This refers to university and nonuniversity higher education, and the training that firms offer to their employees. On the problems of quality, see Chacaltana et al. (2014) and Escarate (2012).

<sup>7</sup> The Peruvian authorities have launched reforms to solve the problems plaguing basic education and job training. For example, in 2014 the Ministry of National Education initiated a reform to raise the quality of the higher education system, based on four pillars: (i) create an information system for students to make decisions on what and where to study; (ii) promote quality through funds awarded by competition and government scholarship programs; (iii) improve the accreditation system to ensure the quality of teaching; and (iv) improve mandatory licensing and oversight of basic quality standards. In addition, the education sector budget expanded by 0.5% of GDP between 2014 and 2015, rising from 3.0% to 3.5%, reflecting the priority that the government puts on education.

<sup>8</sup> Jaramillo and Silva-Jáuregui (2011) find that employers in Peru want their potential employees to have soft skills as well as technical skills.

- 1.4 The problems of information and the poor quality of educational offerings causes a mismatch between the skills companies require to fill their vacancies and the skills the workforce can offer. This skills gap is wide in Peru, even by international standards. Sixty-seven percent of Peruvian companies have difficulty filling their vacancies, ranking Peru second out of 42 countries (Manpower, 2014). Companies also report difficulties meeting their staffing requirements due to the lack of relevant experience and low quality of training of workers with nonuniversity higher education (GRADE, 2012). Other possible evidence of the skills gap is that 77% of employees pursue careers different from those for which they trained (Chacaltana and Ruiz, 2012).
- 1.5 **In this context in which young people have difficulty finding jobs in the formal sector, active labor market policies (ALMPs) have a key role to play.** The problems faced by young people, discussed above, justify public intervention. Thus, governments in most countries around the world implement ALMPs, as they seek a rapid and efficient means of workforce integration or reintegration for workers, the unemployed, or vulnerable people who have difficulty finding jobs, such as young people and women (IDB, 2013). The main ALMPs include job placement services, such as public employment services (PES), which lower the cost of job search for individuals and the cost of recruitment for employers. Evaluations conducted in developed countries generally show these services to be cost-effective and that they give better results when they have a stronger focus on companies, with specialist personnel being designated to work with them and register job vacancies (Kluve, 2006, 2010; Behncke et al., 2007). The evidence on the effectiveness of these services in Latin America and the Caribbean is limited, and the findings are mixed. There is evidence that Mexico's PES helps unemployed men find better-paid jobs and a higher proportion of jobs in the formal sector, relative to job-seekers searching by other means (Flores Lima, 2010). In contrast, Vera (2013) finds that the National Employment Service of Peru (SENEP) is unable to shorten the time its beneficiaries spend unemployed. In a related study based on an experimental impact evaluation in Peru, Dammert et al. (2013) found that offering public and/or private job placement services that send text messages to cell phones has a positive short-term effect on employment.<sup>9</sup>
- 1.6 ALMPs also include skills development services for the unemployed, young people and other vulnerable groups, with a view to facilitating their workforce integration by improving their skills. The evidence from developed countries suggests that this training generally has limited effects, particularly among the young (Card, et al., 2010). In the case of Latin America and the Caribbean, the impact of this kind of program is more positive, although there is evidence that the effects are heterogeneous (e.g., some programs only benefit women) (González et al., 2012).<sup>10</sup> In the case of Peru, a recent experimental evaluation of the government's

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<sup>9</sup> There is also some evidence to suggest that interventions designed to provide information on the return on different educational options (e.g., technical education versus general education) and information about pay and employment rates in various occupations, can be a cost-effective way of achieving better decision-making (IDB, 2013).

<sup>10</sup> Robust evidence on the impact of vocational training programs for young people in the region is limited to those of short duration that combine classroom training with in-company internships. Unlike the case of developed countries, there is no evidence on the impact of longer programs, such as, for example, dual or apprenticeship type programs; nor is there evidence on solely in-company training programs.

vocational training program for urban young people, Projoven, which ran until 2010,<sup>11</sup> found positive impacts on formal employment, particularly for women.

- 1.7 **Since 2012, the main ALMPs in Peru for the urban sector have been provided by the Employment Center (EC),** which until early 2014 was known as the One-stop Employment Promotion Window (VUPE).<sup>12</sup> The Employment Center was created by the Ministry of Labor and Employment Promotion (MTPE) to coordinate and provide a single venue for twelve employment promotion services<sup>13</sup> under the Office of the Deputy Minister for Employment Promotion and Vocational Training (VMPECL),<sup>14</sup> responsible for workforce integration, enhanced employability, and the development of sustainable enterprises.<sup>15</sup> There are currently 28 EC offices located in urban areas in 23 of the country's regions.<sup>16</sup> They all share a uniform corporate image and are required to offer all twelve services.
- 1.8 Regional governments are in charge of their respective EC offices, acting through the Regional Director for Labor and Employment Promotion, who is the regional authority and coordinator for the MTPE, providing technical assistance through the SENEP Directorate General. Although the implementation of the EC was almost entirely financed by FondoEmpleo,<sup>17</sup> regional governments now shoulder some of the operating expenses for the EC's offices, and the MTPE covers the remainder of these expenses through its deconcentrated programs (see FondoEmpleo, 2014). Thus, the EC's services may be decentralized, i.e., managed by the regional governments; or deconcentrated, if they are provided and executed by the programs with national scope for which the MTPE is responsible.
- 1.9 Of the total services the EC offers, two are crosscutting and essential to the functioning of the others: business outreach<sup>18</sup> and job bank. There are also two services explicitly targeting young people: the single employment certificate (CUL)

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<sup>11</sup> With certain adjustments to its design, this program was replaced in 2011 by "Jóvenes a la Obra" in order to improve employability and promote formal job placement for young people ages 15 to 29 with limited economic resources and/or living in vulnerable conditions.

<sup>12</sup> With Supreme Decree 002-2015-TR, published in Peru's official gazette, El Diario Oficial, on 25 March 2015, the Government of Peru changed the name from One-stop Employment Promotion Window (VUPE) to Employment Center.

<sup>13</sup> The VUPE's services are: (i) bolsa de trabajo [job bank]; (ii) asesoría para la búsqueda de empleo [job search advisory service] (ABE); (iii) certificado único laboral [single employment certificate] (CUL); (iv) trabajo temporal [temporary work]; (v) capacitación laboral [vocational training]; (vi) certificación de competencias laborales [job skills certification]; (vii) orientación para el emprendimiento [entrepreneurship coaching]; (viii) capacitación para el emprendimiento [entrepreneurship training]; (iv) acercamiento empresarial [business outreach]; (x) orientación vocacional e información ocupacional [career counseling and occupational information]; (xi) orientación al migrante [guidance for migrants]; and (xii) información del mercado de trabajo [labor market information]. Annex 1 includes a table with a more detailed description of the 12 services.

<sup>14</sup> Information on how the EC is organized and currently operates, together with the services it offers, can be found at the following link: [Employment Center operating structure](#).

<sup>15</sup> Supreme Decree 001-2012-TR. MTPE.

<sup>16</sup> There are also 12 employment offices in zonal administrations, 19 employment offices in municipalities, 6 employment offices at partner entities, and 4 regional employment offices.

<sup>17</sup> The National Vocational Training and Employment Promotion Fund (FondoEmpleo) was created in 1998 to finance projects to train workers and promote sustainable employment opportunities. It is financed with contributions from firms that run a surplus after distributing profits to their workers.

<sup>18</sup> The Employment Center defines a business as a public or private institution, individual, or corporation registered with one of the EC's offices or one of the employment offices that requests the business outreach service.



and vocational training, which is provided through the deconcentrated Jóvenes Productivos [Productive Youth] program, known until March 2015 as Jóvenes a la Obra. The job search advisory service (ABE) program caters mainly to urban youth, although it is not targeted exclusively to this population group. In addition to these services, a screening process known as Triage channels the candidates to employment center services, depending on their characteristics. As discussed below, the project focuses on these five services and the screening process.

- 1.10 The Employment Center's potential is considerable, and it represents a major step toward a modern job placement system. Its management model, based on the one-stop window, has been implemented in developed countries, as it enables a more efficient service to be delivered (Mazza, 2011). Peru and Mexico are pioneers in the integration of this type of service in Latin America and the Caribbean.
- 1.11 According to the diagnostic assessment of the EC conducted for this project, it has been determined that, despite the progress made, the EC has a number of challenges to overcome in terms of coverage and quality. The EC is still relatively unknown and its level of operation is low with respect to the size of the target population. Between 2008 and 2014, the EC registered a total of 26,742 firms, i.e., just 2.84% of the country's nearly one million registered firms. Similarly, in 2013 the number of young people registered as looking for work with the EC (58,767) was less than 4% of the total urban unemployed or informally employed young people.<sup>19</sup> Moreover, of the total number registered in the EC, just 30% were placed in a job,<sup>20 21</sup> and, of this percentage, just 38% had a formal job in at least one of the six months following the date of their placement.<sup>22</sup> Improvements therefore need to be made to the EC so that it can advance to a new stage in its consolidation and offer broader coverage and more efficient and effective service. These improvements will be addressed with through the interventions proposed in Section B and described below.
- 1.12 **Closer attention to the needs of businesses.** Business outreach is the only service catering to companies, and its main aim is to register job vacancies. However, this service has little understanding of staffing demands in the productive sector, which explains the limited number of businesses enrolled with the EC (see paragraph 1.11).
- 1.13 To enable young people to find jobs in the formal sector, the EC needs to expand its register of companies and vacancies. This requires better linkages with businesses (e.g., through a strategy of reaching out to business and better dissemination and communication). It also needs to change the structure of its services and the screening process from one based on supplying services mainly

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<sup>19</sup> It should be noted that the Employment Center caters to proportionally more men (60%) than women (40%). However, the relative importance of women beneficiaries increases in the case of young people. In the 18-24 age bracket, the proportion of men and women is 52% and 48%, respectively.

<sup>20</sup> This is equal to at least 1% of unemployed or underemployed urban youth. These figures do not include the total volume of young people who are unemployed or underemployed at some point in the year due to rotation.

<sup>21</sup> Prepared using data from the public investment project profile database (MTPE, 2014) and data from the Peruvian National Institute of Statistics and Information Technology.

<sup>22</sup> Proportion obtained for 2013 based on cross-referencing spreadsheet data (administrative data from companies collected monthly by the National Tax Administration Authority) with the Single Information Technology Platform for Employment Services (SILNET).

for job-seekers, to one based on meeting company staffing needs (see [Annex II](#)).<sup>23</sup> As the EC expands its capacity to meet companies' needs, it will also improve its capacity to respond to job seekers effectively.

**1.14 Increased coverage and quality of job placement services for urban youth.**

The EC offers a vocational training service through the Jóvenes Productivos (JP) program. This program is aimed at young people ages 15 to 29 with limited economic resources and/or living in vulnerable conditions. However, its coverage is small: in 2013 it trained just 12,151 young people, i.e., 1% of the target population (MTPE, 2014).<sup>24</sup> The JP's current design includes an initial business outreach phase to identify vacancies that beneficiaries could fill.<sup>25</sup> In the second phase, classroom-based technical training courses are contracted, tailored to these vacancies. JP signs agreements under which companies hire 60% of course graduates. However, these agreements are nonbinding.

1.15 The following areas for improvement to JP have been identified: (i) adding new training modalities. JP offers only one modality of short classroom training and has not diversified its offering to include other models, such as longer training courses that combine classroom teaching with in-company training, or running training directly in companies, where young people can learn by working in the company with the support of a mentor. On this point, Peruvian labor law provides for various training modalities including alternative vocational training models to those currently offered by JP;<sup>26</sup> (ii) strengthening business linkage activities. Business outreach activities depend on employment consultants with limited resources and networks of contacts. Moreover, information on job demand collected by the MTPE is not used systematically, and there is no strategy of reaching out to the large business associations; (iii) changing the rules by which entities offering training (known as ECAPs) are contracted and/or the contract length. Due to contractual limitations, JP can currently contract only public suppliers, which restricts the entry of more prestigious, higher quality private entities; (iv) improving the targeting rules, since several of the criteria used by JP to select beneficiaries are not easily verifiable and lead to excessive rigidity; (v) adding a crosscutting skills module (soft skills), since participant companies have explicitly identified deficiencies in these skills as a weakness of the program; and (vi) improving monitoring and evaluation. JP lacks a monitoring and evaluation system (e.g., no basic indicator, such as data on young people placed with companies at the end of the course, is available in real time).

1.16 The EC also offers a job search advisory service (ABE), which consists of three thematic counseling workshops lasting between two and three hours. In 2013 ABE served 26,714 young people, i.e., less than 2% of its target population (MTPE,

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<sup>23</sup> This annex presents two diagrams on business outreach and services to job seekers, the redesign of flows of services to business and job seekers to improve the EC's effectiveness.

<sup>24</sup> The target population exceeds three million young people. It takes into account the total number of urban young people with an insecure job or who are currently out of work.

<sup>25</sup> The JP's design represents progress with respect to other programs for youth in Latin America and the Caribbean, which do not target their courses based on vacancies identified at companies. For a summary of these programs, see Gonzalez, et al. (2012).

<sup>26</sup> These modalities offer different types of agreements, such as apprenticeship contracts and/or in-company work experience. Given that the program is part of the Employment Center, and its beneficiaries will go through the screening process, different training alternatives will make it possible to better reflect the characteristics of these job seekers in terms of their past experience and level of studies.

2014). The objectives of the respective workshops are to: (i) advise on writing a CV; (ii) advise on recruitment processes and job interviews; and (iii) identify employment skills (e.g., strengths, weaknesses, contacts) and provide information on search strategies (networking, websites). Workshops are run two or three times a week.

- 1.17 The ABE's main areas for improvement are: (i) strengthening diagnostic instruments to assign beneficiaries to each workshop. The current instruments do not necessarily allow users' job counseling needs to be identified, as they are limited to evaluating users' basic understanding of staff selection processes (e.g., whether or not the beneficiary knows what the various types of psychometric assessments are). Moreover, these instruments are not used systematically in all regions; (ii) reviewing the composition of workshop attendees and adjusting the design. These workshops can bring together individuals with very different educational and employment profiles, which means that they can have very different support needs. However, the content and materials are standardized, and so do not take this heterogeneity into account; (iii) increasing and strengthening the service's human resources. In many regions, ABE employment consultants are also engaged on other services, and the rate of churn is high. Moreover, there are just two employees responsible for the task of designing materials, supporting, and supervising regional EC offices; and (iv) improving monitoring and evaluation. ABE does not have a monitoring and evaluation system (e.g., it does not know how effective the service is).
- 1.18 Finally, the EC runs the single employment certificate (CUL) service, which offers young people the option to process a series of documents commonly asked for by employers (e.g., identity verification, background checks, and formal occupations) quickly and free of charge, so as to facilitate the job application process. To provide this service, the MTPE coordinates with the Ministry of the Interior, the National Police, and the regional government. There are two modes of access to the CUL: a young person with a job offer applies for the EC to issue the certificate; or the young person is sent by a company that has registered vacancies with the EC. This service is functioning effectively, but its coverage is limited. In 2013 the CUL benefited 9,377 people and was provided only at the ECs in Metropolitan Lima, Tacna, Arequipa, Chiclayo, and Ayacucho.
- 1.19 **Improvement of EC operating processes.** Employment Center offices need to improve their operating processes, IT management systems, and office organization. Improvements need to be made to: (i) eliminate the fragmentation of working processes. The processes installed in employment offices were not designed to provide integrated services, but are actually isolated production flows; (ii) develop service protocols that match users' profiles. The current profiles are general and not necessarily used by all the ECs; (iii) improve management systems. The Single Information Technology Platform for Employment Services (SILNET), over which the various different systems talk to one another, has some instabilities and slow response times during peak transaction demand. Apart from SILNET, which is the main tool for employment consultants, there is another remote system called Empleos Perú [Jobs Peru]. The logic of the two systems is different and they have separate databases, which can lead to redundancies in the records and low data quality. Nor are there data warehouse tools for data processing, the development of labor market supply/demand linkage strategies, and the definition of more effective work plans for the ECs based on management-

generated information; and (iv) improve the organization of regional ECs. The EC is subdivided into the offices around services that do not have a shared vision of the activities,<sup>27</sup> which reduces the efficiency of working processes and the quality of services.

- 1.20 **Institutional capacity-building.** The Office of the Deputy Minister for Employment Promotion and Vocational Training (VMPECL) suffers from weaknesses that limit its ability to perform its functions effectively as part of the EC.<sup>28</sup> Improvements are needed to: (i) strengthen its leadership, as it has weaknesses along the whole length of the planning, regulation, and policy design and evaluation macroprocess. For example, it has no policy management model that promotes evidence-based policy design, and the VMPECL has limited incentive-linked mechanisms allowing it to effectively steer employment policy; (ii) improve strategic management processes. Each VMPECL department and each of the program execution units understands their task in isolation, with nonstandardized processes, lacking support by indicators allowing operating performance to be verified for policies or programs as a whole. Moreover, the EC's management audit mechanisms are limited and siloed, leading to fragmentary and low quality information. The system of indicators does not link the work-objectives-targets-results plan sequence; and (iii) gear information systems toward strategic management. The fragmentation of the systems mirrors the fragmentation of the work processes, with each system trying to address the specific needs of each service. Moreover, there are no tools to generate management reports or build integrated management indicator systems. These weaknesses cut across all the VMPECL departments and units, and also affect the employment departments of regional governments and EC offices.
- 1.21 **Lessons learned and relationship to other Bank activities in the sector.** The IDB has supported the efforts of several Latin American and Caribbean countries to develop their public employment services (PES).<sup>29</sup> The main lessons learned include the need to: (i) link job placement services with vocational training services; (ii) apply different business outreach strategies to achieve close linkages between the services and the productive sector; and (iii) implement monitoring and evaluation systems that allow for ongoing improvements to employment systems. These lessons have been incorporated into this project. Thus, the aim is to forge closer linkages between the EC and the productive sector, as well as strengthen the JP program and integrate it into the job bank service, and develop EC management indicator systems. Additionally, for several years the Bank has been

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<sup>27</sup> This difference is yet more marked in the case of decentralized services (e.g. the job bank and ABE) than in that of the deconcentrated services (e.g., JO).

<sup>28</sup> From the point of view of its institutional mandate, the VMPECL acts as the lead agency for employment policies, i.e., responsible for policy design, formulation, monitoring, and evaluation. The VMPECL also has legislative jurisdiction to inspect, monitor, and evaluate compliance with these policies, particularly by regional governments charged with executing them.

<sup>29</sup> For example, the Bank has conducted projects aimed at strengthening employment services in Chile (CH-L1024, 1882/OC-CH), Mexico (ME-L1004, 1936/OC-PE), and the Dominican Republic (DR-L1036, 2546/OC-DR).

supporting MTPE's management of its ALMPs and the creation of the EC.<sup>30</sup> This operation represents the continuation of such support.<sup>31</sup> The lessons learned are as follows: (i) to improve the relevance and quality of the JP's training, it is necessary to adapt training courses to the productive sector's skills requirements and strengthen supervision of the ECAPs; (ii) to ensure effective operation and management of the EC, it is necessary to develop the technical skills of human resources and also develop information and monitoring and evaluation systems; and (iii) to achieve effective program execution, it is necessary to strengthen the institutional capacity of the VMPECL, in particular its ability to perform its leadership and management role regarding its ALMPs and ECs. As a result of these lessons, the project envisages activities geared toward strengthening linkages between JP and companies, deploying EC staff training activities; developing a comprehensive information system, and improving the capacity of the VMPECL to exercise leadership and strategic management functions.

- 1.22 **Strategic alignment of the program.** The program will contribute to the lending program priority target of poverty reduction and equity enhancement under the Ninth General Increase in the Resources of the Inter-American Development Bank (document AB-2764). It will also contribute to the regional target for the share of formal employment in total employment; and the output individuals benefited from programs to promote higher labor market productivity, as defined in the Results Framework. It is also aligned with the Labor Sector Framework Document (document GN-2741-3), which prioritizes interventions including those geared toward ensuring that the region's young people, unemployed, underemployed or hard-to-employ make the transition to work faster, more effectively, and with better earnings prospects. These interventions include the transformation and strengthening of employment services. It is also aligned with the Bank's country strategy with Peru (document GN-2668), which includes labor markets as a dialogue area on the issues of informality, pensions, and vocational training. It is also aligned with the principles of the Strategy on Social Policy for Equity and Productivity (document GN-2588-4).
- 1.23 **Project scope.** The project seeks to place young people ages 18 to 29 in formal jobs. It has been developed to support the MTPE's efforts to launch a progressive process of improvement of EC offices. Rather than national, its scope is limited to urban areas of seven regional governments: Arequipa, Ica, La Libertad, Lambayeque, Piura, San Martin, and Metropolitan Lima.<sup>32 33</sup> These regional

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<sup>30</sup> The Projovent program, which was replaced by JP, was financed by the Bank through an investment loan (PE0241, 1534/OC-PE) between 2005 and 2010. Nonreimbursable technical cooperation operations PE-T1149, ATN/OC-11628-PE, PE-T1233, and ATN/FI-12853-PE financed evaluations of processes and program impact, together with the analysis of its supervision and monitoring system. Additionally, since 2009, diagnostic studies and external technical advisory support were financed, and proposals for the conceptual and/or operational redesign of the main ALMPs were prepared under a programmatic loan (PE-L1072, 2234/OC-PE; PE-L1078, 2446/OC-PE; and PE-L1105, 2783/OC-PE) and technical cooperation operations PE-T1196, ATN/OC-11570-PE; PE-T1149, ATN/OC-11628-PE; and RG-T2276, ATN/OC-13888-RG.

<sup>31</sup> The operation is supplemented by a new technical cooperation operation (PE-T1302, ATN/OC-14539-PE) geared toward advancing the design of some of the activities envisaged in the project. It is worth noting that this technical cooperation will finance an in-depth institutional analysis of the VMTPE and the model of linkages with regional governments, as well as a functional and operational design of the EC.

<sup>32</sup> According to the provisions of Law 27,867, Metropolitan Lima has political, economic, and administrative autonomy in matters within its regional and municipal jurisdiction. As of this writing, the Metropolitan Lima EC office reports directly to the MTPE.

governments were selected based on the following criteria: (i) larger target population according to the National Household Survey (ENAH0); (ii) strong demand, estimated on the basis of companies' staffing increases, according to the National Survey on Monthly Variation in Employment (ENVME); the volume of labor in private-sector companies with more than 10 employees, according to the labor data spreadsheet; and (iii) the institutional strengths of the regional ECs according to the score on an index built from consultation with key MTPE officials.<sup>34</sup> The target population in these regional government areas comprises 953,393 young people.

- 1.24 **Coordination.** FondoEmpleo is slated to fund an EC support project in 2015.<sup>35</sup> That project, which is not geared exclusively toward young people, aims to improve the coverage, effectiveness, and efficiency of the EC's employment and training services. To accomplish this, the EC's coverage will be extended with the creation of six new EC offices in cities with vibrant economies (Huacho, Juliaca, Chinchá, Sullana, and Huaraz). FondoEmpleo will also finance activities geared toward strengthening existing EC services. Some of the activities are complementary with those of this operation. For example, it aims to improve the instruments used to assess the psychological profile of job seekers, develop an EC communication strategy, improve Empleos Perú; and computerize the monitoring process. There will be close coordination with FondoEmpleo to ensure complementarities between the two projects and avoid potential duplication of efforts. Moreover, the Bank and the MIF, as part of the regional New Employment Opportunities for Youth (NEO) initiative, have been designing a workforce integration project for young people in the Callao Region. Along with the MIF and the Bank, this project involves the regional governments of Callao, the MTPE, and private training providers. This project will be coordinated with the efforts made by the MTPE as part of this operation.

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

- 1.25 **Objective.** The project objective is to improve and expand employment center services for formal job placement of the economically active youth population of the regions of Arequipa, Ica, Lambayeque, La Libertad, Piura, San Martín, and Metropolitan Lima. The specific aim is to improve the effectiveness, efficiency, and relevance of Employment Center services to better match urban youth with formal-

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<sup>33</sup> The project calls for the improvement of one EC office per regional government, except in the case of Metropolitan Lima, where three EC offices are envisaged.

<sup>34</sup> This consultation gathers information on how promptly and effectively regional governments comply with VMPECL policies and directives, how effectively regional governments respond to requests for information from the VMPECL within the framework of the EC, and the initiative for improvements to the regional EC offices' operations. For more details, see MTPE (2014).

<sup>35</sup> "Promoción del empleo y capacitación laboral para la mejora de la empleabilidad de grupos vulnerables a través de la VUPE" [Employment promotion and vocational training to improve employability of vulnerable groups through the One-stop Employment Promotion Window (VUPE)]. The approximate amount is US\$5 million (FondoEmpleo, 2014).

sector businesses looking for workers.<sup>36</sup> The project seeks to develop a “strengthened Employment Center” model and fully implement it in these seven regions. The following components are envisaged:<sup>37</sup>

- 1.26 **Component 1: Effective employment center linkages with the productive sector (US\$13.9 million).** This component seeks to forge closer linkages between ECs and companies. To accomplish this, it calls for: (i) sufficient linkage mechanisms with the productive sector at national level and with regional EC offices. Among other things, it will finance two CE pilots in Metropolitan Lima. One will consist of opening a service module directly in the Gamarra business cluster.<sup>38</sup> The second will consist of opening an EC office on the premises of a business association.<sup>39</sup> Both pilots will enable models of dealing directly with businesses and registering their vacancies promptly to be tested. Additionally, a strategy for coordinating services to businesses will be financed. This will also entail redesigning the service flows and instruments for referral to services, directly relating those geared toward job seekers with the job bank (see [Annex II](#) and Diagram 1); (ii) sufficient knowledge of productive sector demand and using this information to guide the employment center’s services. Among other things, an analysis and business linkage team will be formed at each regional EC office, which will guide business outreach and training tasks on an ongoing basis. For example, these teams will conduct studies on the business fabric and human resource needs in regions; and (iii) effective dissemination of employment center services to the productive sector. To this end, a new corporate image will be identified, and a dissemination campaign conducted.
- 1.27 **Component 2: Effective Employment Center services for youth (US\$10.8 million).** This component will improve the quality and coverage of these services in the seven regional government areas prioritized by the project, as well as the skills of employment consultants and staff providing the JP, ABE, and CUL services in the seven regional governments. To accomplish this, it calls for: (i) correct identification of young people’s employability needs; and (ii) effective training for young people. Improvements will be made to the design of the JP services. Among other things, thanks to closer linkages between EC offices and companies (see Component 1) and better integration between JP and other EC services, mainly the job bank and business outreach, it will be possible to better target the program’s training course offerings through the contracting of ECAPs. Efforts will also be made to improve procedures for contracting ECAPs and

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<sup>36</sup> Improving the effectiveness of services to strengthen the linkages between job seekers and formal employers translates into an increase in the incidence of formal hiring of program beneficiaries (i.e., increased transitions from nonformality—whether informality or unemployment—to formality). Improved efficiency translates into lower coordination costs for program beneficiaries (i.e., shorter formal job search times). In terms of improved relevance, the quality of coordination between job seekers and formal employers is expected to improve and translate into higher wages for program beneficiaries. The [monitoring and evaluation plan](#) develops these ideas in more detail and explains the outcome indicators for monitoring fulfillment of each of these objectives and measuring the program’s effectiveness in meeting these objectives.

<sup>37</sup> See “[Annex: Description of activities](#)” for more details on the activities to be financed under each component.

<sup>38</sup> Gamarra is South America’s largest commercial and industrial center for the textile industry. It comprises over 20,000 textiles firms.

<sup>39</sup> This second pilot and the selection of the association will be defined by the executing agency during project execution. It is expected that public-private partnerships will be formed, in which the EC offers its main services and part of the office’s operating expenses are met by the association.

supervising their program compliance. To this end, performance indicators will be incorporated for beneficiaries joining the job market. Additionally, an obligatory crosscutting soft skills module will be introduced for all training courses. The component will also finance implementation of two pilots to test new training modalities. These pilots will be defined during project execution and will consist of offering young people either an apprenticeship contract or mentored in-company training. Both pilots will be evaluated to determine whether they should be incorporated as alternative modalities in JP; (iii) greater and effective support for the job search advisory service (ABE), strengthening it and expanding its coverage. This will include a conceptual and operational redesign of service modalities; and (iv) greater and effective support for the single employment certificate (CUL), strengthening it and expanding its coverage. A technical and operational evaluation will be performed for improvements to be made to the service,<sup>40</sup> and the goal of offering the service in the seven regional government areas targeted by the project will be pursued.

- 1.28 **Component 3: Effective Employment Center operating processes (US\$7.3 million).** This component seeks to re-engineer existing processes, integrate information systems, and implement a new organizational design facilitating more efficient management of employment offices. To accomplish this, it calls for: (i) conceptual design, mapping, and process redesign, including development of a system of employment center management indicators; (ii) effective organization of the employment centers; (iii) an effective information system for managing youth employment promotion. The planned activities include: developing a comprehensive employment service management system, purchasing software and licenses for a database manager and data warehouse, and buying hardware; and (iv) adequate infrastructure and equipment at the nine regional employment centers (e.g., remodeling and/or leasing premises).
- 1.29 **Component 4: Sufficient MTPE apex authority with the regional governments for youth job placement (US\$3 million).** This component seeks to improve the capabilities of the VMPECL to exercise its apex authority and strategic management role. The following are proposed: (i) sufficient capacity for workforce integration strategy formulation. Among other things, the development of a new management model for the VMPECL and improving its relationship with the EC offices in the framework of process integration, improving the organizational unit responsible for managing the EC at the national level, and developing working processes and protocols for the VMPECL's organizational units linked to the EC; (ii) effective monitoring and evaluation of regional employment center service quality by the VMPECL, including mechanisms for user evaluation of service quality. This means that the VMPECL needs to have a monitoring and evaluation system, and that it should undertake periodic quality assessments of EC users; (iii) effective organization of the VMPECL and the regional governments for employment center management. A new model of interaction between the VMPECL and regional governments is therefore envisaged, operating through stable coordination mechanisms, along with a new regional government management performance monitoring and evaluation system; and (iv) effective interaction between the national government and the regional governments for

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<sup>40</sup> It is also worth noting that the project will also improve the monitoring and evaluation of the JP, ABE, and CUL. Component 3 envisages developing a comprehensive monitoring and evaluation system for the EC and its services.



employment center management. A new model of interaction between them will be designed and implemented through a budgetary incentive mechanism between the MTPE and the regional governments.

- 1.30 These four components are also considered training activities geared toward strengthening the EC's human resources. These are part of the activities planned for in each component.
- 1.31 **Management.** The project will also include activities for project management, audits, and the midterm and final evaluations (US\$3.9 million).
- 1.32 **Cost and financing.** The project's total cost is US\$38.9 million. The Bank loan will total US\$30 million, drawn from the Bank's Ordinary Capital (OC) resources, with a local counterpart contribution of US\$8.9 million. The breakdown by source of funds is shown in the table below:

**Table 1. Cost table**

Component	IDB (US\$)	Local (US\$)	Total (US\$)	Total (%)
Component 1: Effective Employment Center linkages with the productive sector	10,343,791	3,569,032	13,912,823	35.75
Component 2: Effective Employment Center services for youth	9,980,338	822,751	10,803,089	27.76
Component 3: Effective Employment Center operating processes.	6,641,312	680,727	7,322,039	18.81
Component 4: Sufficient MTPE apex authority with the regional governments for youth job placement	2,061,398	932,258	2,993,656	7.69
Project management, evaluation, and audit	973,161	2,916,355	3,889,516	9.99
<b>Total</b>	<b>30,000,000</b>	<b>8,921,123</b>	<b>38,921,123</b>	<b>100.00</b>

### C. Key results indicators

- 1.33 The outcome indicators relate to improvements for young people in the incidence of formal hiring, the average wage of formal employees, and the reduced average time spent seeking formal employment (see [Annex II](#)). These indicators will include GCI-9 indicator 3.1.5, "individuals benefited from programs to promote higher labor market productivity" as an output indicator and "beneficiaries of vocational training programs" as a sector indicator. The data from SILNET, the labor data spreadsheet, and the National Household Survey (ENAH) will be used to monitor these indicators. A direct survey of EC beneficiaries will also be conducted. The outcome indicators will be differentiated by gender, in order to produce information for employment policies with a gender perspective to be promoted and developed.
- 1.34 The project's cost-benefit analysis (see "[Economic analysis](#)") estimates that incremental net social economic benefits (i.e., compared with the counterfactual situation in which the project is not implemented) will be generated by expanding coverage and raising the quality of the EC services targeted by the project. This exercise will be performed by subtracting the incremental costs of the program from the discounted estimated incremental benefits. The expected earnings are the increase in young people's formal workforce integration rate, and income earned from formal jobs. In the base-case scenario, with conservative assumptions about the effectiveness of the interventions, over a ten-year horizon and at a

discount rate of 12%, the earnings net of costs come to US\$101 million. The project's high rate of return is consistent with the existing evidence on ALMPs, which generally show job placement services to be cost-effective. All the scenarios explored in the sensitivity analysis find the program to be cost effective.

## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Financing instruments**

- 2.1 The Bank's finance for this operation will take the form of an investment loan drawn from the Bank's Ordinary Capital under the Flexible Financing Facility (document FN-655-1).
- 2.2 **Disbursements.** The loan proceeds will be disbursed using the advance of funds modality, in accordance with projected liquidity requirements. The total loan amount will be disbursed over a period of five years running from the effective date of the loan contract, in accordance with the following estimated disbursement schedule:

**Table 2. Disbursement schedule**

<b>Year</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Total</b>
Total	6,089,683	13,983,714	8,795,561	5,254,201	4,797,964	38,921,123
IDB	4,858,338	11,653,773	6,963,787	3,422,427	3,101,675	30,000,000
Counterpart	1,231,345	2,329,941	1,831,774	1,831,774	1,696,290	8,921,123

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

- 2.3 The program will not finance activities with an adverse environmental and/or social impact, and will have a positive impact in terms of formal employment and income for urban youth in the seven regional government areas targeted by the project. In accordance with the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation has been classified as Category "C," so no socio-environmental risks are envisaged.

### **C. Fiduciary risks**

- 2.4 The fiduciary evaluation was based on the risk assessment exercise, with the involvement of MTPE, VMPECL, and the IDB, meetings with key staff from each of these bodies, and meetings with the project team. This fiduciary assessment process identified a medium risk of delay in the procurement processes and nondelivery of outputs (such as development of the software essential to upgrading the information system used by the employment center). To mitigate this risk, ex ante monitoring actions will be implemented for key procurements, and an administrative unit will be established for project execution, comprising a unit chief, fiduciary specialist, financial/accounting specialist, and treasurer.

### **D. Other project risks**

- 2.5 The principal risks are linked to the government changeover set to occur in July 2016. This may result in project execution delays due to the nonprioritization of the scheduled execution activities. As a mitigation measure, the project team (government and Bank) regard joint actions with the project stakeholders as important to position the project in such a way as to guarantee its priority and continuity. This will take the form of high-level technical meetings of the MTPE,

MEF, and IDB. Close coordination with sector representatives will also be necessary through periodic meetings during the execution period.

- 2.6 Other risks identified as medium and their respective mitigation measures are: (i) delay in institutional arrangements with regional governments for the implementation of new services and monitoring, supervision, and quality assessment systems; to mitigate this risk, ongoing technical meetings will be held and there will be close coordination with regional governments to implement institutional arrangements allowing the project to proceed normally; (ii) high turnover of program officials and ABE and CUL consultants; to mitigate this risk, a “fixed term” contract modality (linked to performance assessments) will be introduced in the operations manual for consultants who should be included in the program throughout its useful life; (iii) social and political pressure may arise to direct the service toward regions outside the scope of the project; to mitigate this risk, the measures necessary to ensure that project managers have sufficient independence to maintain priority for the regions already identified will be introduced in the operations manual; and (iv) implementation of the optimized processes may be inadequate; to mitigate this risk, ongoing technical assistance and monitoring visits to the regions included in the program will be scheduled.
- 2.7 It will be the responsibility of national government and/or regional governments, once the project resources have ended, to assume: (i) the payroll costs of skilled staff at regional EC offices; and (ii) the operation and maintenance costs of infrastructure financed and leased premises. Moreover, evaluations and/or descriptive analysis will be made of the pilots to be financed in Components 1 and 2, as a basis for deciding whether they should be scaled up. Thus, the business outreach pilots will be analyzed based on the number of vacancies and placements they manage to achieve, and their impact on vocational training will be evaluated.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

#### **A. Summary of implementation arrangements**

- 3.1 The executing agency will operate through a project execution unit (PEU) with administrative, economic, and financial autonomy, which will execute the project and report to the Office of the Deputy Minister for Employment Promotion and Vocational Training (VMPECL).
- 3.2 As part of its responsibilities, the PEU will: (i) plan, direct, supervise, and evaluate the performance of the project activities; (ii) act as liaison with the Bank; (iii) coordinate project execution with the regional governments; and (iv) approve the supervision documents for project execution and financial management.
- 3.3 The PEU will have an executive director and the following specialized technical staff: the chief of the administration unit; the chief of the planning, budget, and systems unit; the chief of the youth workforce integration promotion unit; the chief of the job information and training unit; and the chief of the service enhancement and institutional strengthening unit.
- 3.4 Strategic coordination of the project will be conducted by a technical committee, comprising the authorities of the current three directorates of the VMPECL (or those resulting from a possible restructuring), the executive director of the PEU, and the highest authority of the VMPECL, who will chair the committee. The

technical committee will monitor compliance with the approved work plans (AWP, quarterly plans, etc.).

- 3.5 Within their areas of jurisdiction and responsibility, the regional governments will be responsible for running the EC offices with MTPE technical support and supervision. They will also be responsible, through their regional departments, for the EC's strengthening of the (decentralized) programs under their responsibility.
- 3.6 **Special contractual conditions precedent to the first disbursement.** The executing agency will provide evidence, to the Bank's satisfaction, that the following conditions have been met: (i) the executing agency has approved the project Operations Manual, with the Bank's prior no objection; (ii) the project execution unit has been created with its specialized technical staff, including the executive director, on the terms previously agreed upon with the Bank, the Ministry of Labor and Employment Promotion (MTPE), and the executing agency; the specialized technical staff will comprise the chief of the administration unit, the chief of the planning, budget, and systems unit, the chief of the youth workforce integration promotion unit, the chief of the job information and training unit, and the chief of the service enhancement and institutional strengthening unit; and (iii) at least three cooperation agreements have been entered into between the borrower, acting through the executing agency, and the regional governments, specifying the roles and responsibilities of each party and indicating at least: (a) the MTPE's commitment to equip and make improvements to the regional employment centers, (b) the MTPE's commitment to hire staff and lease premises, and (c) the commitment of each regional government to assume the respective employment center operation and maintenance expenses, once the project ends, to ensure sustainability.
- 3.7 **Special contractual execution condition.** The start of activities in the regional governments, except Metropolitan Lima, will be contingent upon the signature of a cooperation agreement on the terms previously agreed upon with the Bank. These agreements will specify the roles and responsibilities of the MTPE and regional governments, indicating at least the MTPE's commitment to equip and make improvements to the regional employment centers, hire staff and lease premises, and the commitment of each regional government to assume the respective employment center operation and maintenance expenses, once the project ends, to ensure sustainability.
- 3.8 **Procurement.** Procurements will be conducted in accordance with the relevant procurement policies, documents GN-2349-9 and GN-2350-9.
- 3.9 **Audits.** The Office of the Comptroller General of the Republic (CGR), as the apex authority of the National Control System, subcontracts external project auditing to independent audit firms eligible for the Bank. The eligible independent audit firms are evaluated periodically by the Bank to ensure their high quality. The CGR authorizes the executing agency/execution unit to select and engage the independent audit firm in accordance with Bank policies, for the entire project execution period, including extensions of the final disbursement period. Given the complexity of the project and the diversity of subprojects to be financed and their geographical dispersion, a Tier I and Tier II independent audit firm needs to be selected. The cost of the external audits, which has been estimated at US\$350,000 for the five year period, will be covered with the loan proceeds.

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

- 3.10 The project calls for indicators to monitor outputs and activities (see [monitoring and evaluation plan](#)). In coordination with the participating Employment Centers, the MTPE will deliver six-monthly status reports to the Bank on the PMR and execution of the [annual work plan \(AWP\)](#) and of the [procurement plan](#), regarding support for execution processes and progress of disbursements. These reports will include the progress of the program's output and activity monitoring indicators, and the accounting/financial information on the management of resources. The MTPE will conduct a final evaluation at program-end. This evaluation will focus on verifying the attribution of outcome indicators described in the Results Matrix, [Annex II](#), from the quasi-experimental evaluations described in the [monitoring and evaluation plan](#) annex. This evaluation must be coordinated with the work of preparing the project completion report (PCR).

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives		Aligned	
Lending Program		-Lending for poverty reduction and equity enhancement	
Regional Development Goals		-Share of formal employment in total employment	
Bank Output Contribution (as defined in Results Framework of IDB-9)		-Individuals benefited from programs to promote higher labor market productivity -Number of jobs added to formal sector	
2. Country Strategy Development Objectives		Not Aligned	
Country Strategy Results Matrix			
Country Program Results Matrix			The intervention is not included in the 2015 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			Labor markets was included as an area of dialogue in the Country Strategy. In addition, this project was prioritized by the country and the Bank, as reflected in the programming Aide Memoire.
II. Development Outcomes - Evaluability		Evaluable	WeightMaximum Score
		8.9	10
3. Evidence-based Assessment & Solution		8.0	33.33%10
3.1 Program Diagnosis		3.0	
3.2 Proposed Interventions or Solutions		2.4	
3.3 Results Matrix Quality		2.6	
4. Ex ante Economic Analysis		10.0	33.33%10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0	
4.2 Identified and Quantified Benefits		1.5	
4.3 Identified and Quantified Costs		1.5	
4.4 Reasonable Assumptions		1.5	
4.5 Sensitivity Analysis		1.5	
5. Monitoring and Evaluation		8.6	33.33%10
5.1 Monitoring Mechanisms		1.5	
5.2 Evaluation Plan		7.1	
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		C	
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.  Procurement: Information System, Shopping Method.
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes	PE-T1302. This operation supported the design of required project activities. In particular, it financed an institutional analysis of the VMTPE and of the working scheme with regional governments; as well as a functional and operational design for the CE.
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		Yes	The proposed evaluations will allow closing gaps in two fronts. First, regarding intermediation services, as Component I aims to strengthen the relationship with the private sector. Second, regarding the effectiveness of innovative training mechanisms: dual training pilots (learning) and mentoring (in place training). For neither of these two topics is there rigorous evidence available for the Region.

The loan proposal presents a solid diagnosis that documents high youth unemployment and informality levels in Peru. The document identifies two main factors as the causes of the observed problem: the low quality and pertinence of education, and the lack of information about existing labor market vacancies. The document supports its analysis in country-specific studies, as well as in concrete statistics that are in line with these hypotheses.

In order to solve the challenges identified, the project proposes strengthening the Employment Center, as a mechanism to increase the coverage and improve the quality of Active Labor Market Policies in Peru. The document presents empirical evidence on the effectiveness of labor market intermediation and training policies in other regions and in Latin-American countries. However, it acknowledges that specific evidence for the Peruvian case is mixed, particularly regarding the evaluation of Projoven.

The project's results matrix is adequate and presents valuable elements to monitor and evaluate the program. It is worth highlighting outcome indicators that will allow assessing changes in labor market outcomes and their attribution to the project. However, some of these indicators contain too much information, and the team should take into account that they will need to be disaggregated when entered in the monitoring systems. In addition, a concrete target needs to be defined for these indicators, as for now the only specify that they should be greater than zero. Finally, while the output indicators do refer to the project's deliverables, they are not SMART as they are not specific and do not establish a clear metrics to verify the completion of targets.

The project's economic analysis is adequate. It presents a cost-benefit analysis that estimates the project's benefits based on the existing literature and considers the project's real costs for the economy. The document includes a sensitivity analysis that varies assumptions related to the magnitude and duration of the project's impacts.

The project's monitoring and evaluation plan is adequate and proposes two impact evaluations: a first one using quasi-experimental methods to assess the effectiveness of the Employment Center; and a second one using random assignment to assess the effectiveness of the scholarship training program.

The project's risk matrix is adequate. It rates risks according to their magnitude and likelihood, and proposes mitigations measures with indicators to track their implementation.

## RESULTS MATRIX / INDICATORS

**Table of principal impacts / outcome indicators**

<b>Project objective</b>	The project objective is to improve and expand employment center services for formal job placement of the economically active youth population of the regions of Arequipa, Ica, Lambayeque, La Libertad, Piura, San Martín, and Metropolitan Lima. The specific aim is to improve the effectiveness, efficiency, and relevance of Employment Center services to better match urban youth with formal-sector businesses looking for workers. The project seeks to develop a “strengthened Employment Center” model and fully implement it in these seven regions.		
Outcome indicators <sup>1</sup>	Baseline	Target	Comments
<b>Outcome 1: Increase formal hiring (improve incidence)</b>			
<p><i>Incidence of hiring of young people trained by the EC on formal contracts through the EC's job bank</i></p> <p>Difference between the percentage change in the formal employment indicator for beneficiary young people and the percentage change in the indicator of incidence of formal employment of nonbeneficiary young people.</p> $IE^*(F) = \left( \frac{\bar{F}_{2020}^{B*} - \bar{F}_{2015}^{B*}}{\bar{F}_{2015}^{B*}} \right) - \left( \frac{\bar{F}_{2020}^{NB} - \bar{F}_{2015}^{NB}}{\bar{F}_{2015}^{NB}} \right)$ <p>Where</p> <p>F<sub>t</sub>: Young people not formally employed at t who fill a formal vacancy in t+1/young people not formally employed at t</p>	<p>IE*(F)=0</p> <p>F<sub>2013</sub>=10.7%</p> <p>Average for 7 regions</p>	<p>F<sub>2020</sub><sup>B*</sup>=17%</p> <p>IE*(F)&gt;0</p>	<p>Means of verification: Processed: SILNET, labor data spreadsheet Control: ENAHO<sup>2</sup> (continues with aggregate indicators for the seven regions)</p>

<sup>1</sup> Supplementarily, the indicators will be measured for both men and women, but will not be regarded as gender-differentiated indicators at the Results Matrix level, since the project has no activities specifically targeted to promote more and better workforce integration for a single gender.

<sup>2</sup> Supplementarily, workers included in the labor data spreadsheet are used as a pool from which to draw controls to control for employment history.

<b>Outcome 1: Increase formal hiring (improve incidence)</b>			
<p><i>Incidence of formal hiring of young people placed through the EC's job bank but not trained by the EC</i></p> <p>Difference between the percentage change in the formal employment indicator for beneficiary young people and the percentage change in the indicator of incidence of formal employment of nonbeneficiary young people.</p> $IE(F) = \left( \frac{\overline{F}_{2020}^B - \overline{F}_{2015}^B}{\overline{F}_{2015}^B} \right) - \left( \frac{\overline{F}_{2020}^{NB} - \overline{F}_{2015}^{NB}}{\overline{F}_{2015}^{NB}} \right)$ <p>Where</p> <p><math>F_t</math>: Young people not formally employed at t who fill a formal vacancy in t+1/young people not formally employed at t</p>	<p><math>IE(F)=0</math></p> <p><math>F_{2013}=10.7\%</math></p> <p>Average for 7 regions</p>	<p><math>F_{2020}^B=15\%</math></p> <p><math>IE(F)&gt;0</math></p>	<p>Means of verification: Processed: SILNET, labor data spreadsheet Control: ENAHO<sup>3</sup> (continues with aggregate indicators for the seven regions)</p>
<b>Outcome 2: Raise the quality of formal hiring (improve relevance)</b>			
<p><i>Wages of young people trained by the EC hired on formal contracts through the EC's job bank</i></p> <p>Difference between the percentage change in average real wages of beneficiary young people in formal employment and the percentage change in average real wages of nonbeneficiary young people in formal employment.</p> $IE^*(w) = \left( \frac{\overline{W}_{2020}^{B*} - \overline{W}_{2015}^{B*}}{\overline{W}_{2015}^{B*}} \right) - \left( \frac{\overline{W}_{2020}^{NB} - \overline{W}_{2015}^{NB}}{\overline{W}_{2015}^{NB}} \right)$	<p><math>IE^*(w)=0</math></p> <p><math>w_{2013}=5.49</math></p> <p>Average real wages per hour for seven regions</p>	<p><math>w_{2020}^{B*}=8</math></p> <p><math>IE^*(w)&gt;0</math></p>	<p>Means of verification: Processed: SILNET, labor data spreadsheet Control: ENAHO (continues with aggregate indicators for the seven regions)</p>

<sup>3</sup> Supplementarily, workers included in the labor data labor data spreadsheet are used as a pool from which to draw controls to control for employment history.



<b>Outcome 2: Raise the quality of formal hiring (improve relevance)</b>			
<p><i>Wages of young people obtaining formal employment through the EC's job bank but not trained by the EC</i></p> <p>Difference between the percentage change in average real wages of beneficiary young people in formal employment and the percentage change in average real wages of nonbeneficiary young people in formal employment.</p> $IE(w) = \left( \frac{\frac{-B}{W_{2020} - W_{2015}}}{-B} \right) - \left( \frac{\frac{-NB}{W_{2020} - W_{2015}}}{-NB} \right)$	<p>IE(w)=0</p> <p>w<sub>2013</sub>=5.49</p> <p>Average real wages per hour for seven regions</p>	<p>w<sup>B</sup><sub>2020</sub>=6</p> <p>IE(w)&gt;0</p>	<p>Means of verification: Processed: SILNET, labor data spreadsheet Control: ENAHO (continues with aggregate indicators for the seven regions)</p>
<b>Outcome 3:** Lower the cost of formal hiring (improve efficiency)</b>			
<p><i>Average search time for young people trained by the EC before finding formal work through the EC's job bank</i></p> <p>Difference between the percentage change in average days taken by a beneficiary formal job seeker to find a job and the percentage change in the number of days taken by a nonbeneficiary formal job seeker to find a job.</p> $IE^*(U) = \left( \frac{\overline{U}_{2020}^{B*} - \overline{U}_{2015}^{B*}}{\overline{U}_{2015}^{B*}} \right) - \left( \frac{\overline{U}_{2020}^{NB} - \overline{U}_{2015}^{NB}}{\overline{U}_{2015}^{NB}} \right)$	<p>IE*(U)=0</p> <p>U<sub>baseline</sub> to be calculated</p>	<p>Reduce U<sup>B*</sup> by 7%</p> <p>IE(U)&lt;0</p>	<p>Means of verification: Processed: Direct survey through the EC registration form Control: Survey of nonbeneficiaries to be conducted as part of the impact evaluation of the improvement to the EC training system</p>
<p><i>Average time spent by young people looking for formal work through the EC job bank but not trained by the EC</i></p> <p>Difference between the percentage change in average days taken by a beneficiary job seeker to find formal work and the percentage change in the number of days taken by a nonbeneficiary to find a formal job.</p> $IE(U) = \left( \frac{\overline{U}_{2020}^B - \overline{U}_{2015}^B}{\overline{U}_{2015}^B} \right) - \left( \frac{\overline{U}_{2020}^{NB} - \overline{U}_{2015}^{NB}}{\overline{U}_{2015}^{NB}} \right)$	<p>IE(U)=0</p> <p>U<sub>baseline</sub> to be calculated</p>	<p>Reduce U<sup>B</sup> by 5%</p> <p>IE(U)&lt;0</p>	<p>Means of verification: Processed: Direct survey through the EC registration form Control: Survey of nonbeneficiaries to be conducted as part of the impact evaluation of the improvement to the EC training system</p>

<b>Outcome 4:** Increase the length of formal contracts (improve sustainability)</b>			
<p><i>Employment stability in the formal sector of young people trained by EC who found work through the EC's job bank</i></p> <p>Difference in the percentage change in the average number of months per two-year period in the formal sector spent by program beneficiaries and the percentage change in the average number of months per two-year period in the formal sector spent by nonbeneficiaries.</p> $IE^*(T) = \left( \frac{\bar{T}_{2020}^{B^*} - \bar{T}_{2015}^{B^*}}{\bar{T}_{2015}^{B^*}} \right) - \left( \frac{\bar{T}_{2020}^{NB} - \bar{T}_{2015}^{NB}}{\bar{T}_{2015}^{NB}} \right)$	<p>IE(T)=0</p> <p>T<sub>baseline</sub> to be calculated</p>	<p>Increment T<sup>B*</sup> by 7%</p> <p>IE(T)&gt;0</p>	<p>Means of verification: Processing and control: SILNET, labor data spreadsheet</p>
<p><i>Employment stability of young people in the formal sector finding work through the EC's job bank but not trained by the EC</i></p> <p>Difference in the percentage change in the average number of months per two-year period in the formal sector spent by program beneficiaries and the percentage change in the average number of months per two-year period in the formal sector spent by nonbeneficiaries.</p> $IE(T) = \left( \frac{\bar{T}_{2020}^B - \bar{T}_{2015}^B}{\bar{T}_{2015}^B} \right) - \left( \frac{\bar{T}_{2020}^{NB} - \bar{T}_{2015}^{NB}}{\bar{T}_{2015}^{NB}} \right)$	<p>IE(T)=0</p> <p>T<sub>baseline</sub> to be calculated</p>	<p>Increment T<sup>B</sup> by 5</p> <p>IE(T)&gt;0</p>	<p>Means of verification: Processing and control: SILNET, labor data spreadsheet</p>
<b>Intermediate outcome</b>			
<p>Annual flow of firms participating in the job bank in the seven regions increased</p>	<p>3298***</p>	<p>5000</p>	<p>Administrative database of the National Employment Service Department (DGSNE)</p>

**Notes:**

\* Refers to the indicators corresponding to training and linkage services.

\*\* The information necessary for the purposes of the baseline measurement, monitoring of operating indicators, and sustainability was obtained by coordinating with the MTPE. Specifically, the program Operating Regulations state that "the MTPE will provide the execution unit with the information required to build the baseline for the outcome indicators in the program Results Matrix (for example, the information from the labor data spreadsheet)."

\*\*\* Information for 2013.

Given the frequency with which information is surveyed (annually), the initial differences may be measured at different intervals (annual, biannual). This will be considered for the evaluation robustness exercises.

**Table 2: Output indicators**

Indicator	Baseline (2015)	Target	Deadline	Means of verification
<b>Component 1: Effective Employment Center linkages with the productive sector</b>				
<i>1.1 Sufficient linkage mechanisms with the productive sector</i>				
1.1.1 Service pilots in implemented in business clusters	0	2	End of year 4	DGSNE annual report
1.1.2 Linkage events run	0	112	Annual	DGSNE annual report
1.1.3 Design of the strategy of new complementary services approved	0	1	End of year 1	DGSNE annual report
1.1.4 The strategy's new complementary services implemented, with trained staff	0	1	End of year 2	DGSNE annual report
1.1.5 Technical assistance BT-Triage: employment consultants (19 in regions and 20 in Lima).	0	39	End of year 5	DGSNE annual report
<i>1.2 Sufficient knowledge of productive sector demand and using this information to guide the employment center's services</i>				
1.2.1 Reports on business fabric prepared	0	35	Annual	Annual Report of the DGSNE and regional MTPE employment departments
1.2.2 Analysis units with productive sector created and implemented, with trained staff	0	7	End of year 5	Annual Report of the DGSNE and regional MTPE employment departments
<i>1.3 Effective dissemination of employment center services to the productive sector</i>				
1.3.1 Marketing strategy and advertising of services approved	0	1	End of year 2	Annual reports of DGSNE and institutional communication and image office
1.3.2 Media plan executed	0	1	End of year 5	Annual reports of DGSNE and institutional communication and image office
<b>Component 2: Effective Employment Center services for youth</b>				
<i>2.1 Correct identification of young people's employability needs</i>				
2.1.1 Mechanism for diagnosing employability needs designed and implemented, with trained staff	0	1	End of year 1	DGSNE annual report
<i>2.2 Effective training for young people</i>				
2.2.1 Vocational training service for young people redesigned and implemented, with trained staff	0	1	End of year 1	Jóvenes Productivos program report
2.2.2 Beneficiary young people of vocational training grants	0	2,600	End of year 2	Jóvenes Productivos program report
2.2.3 Mentoring pilot designed and running.	0	1	End of year 3	Jóvenes Productivos program report
2.2.4 Apprenticeship contract pilot designed and running.	0	1	End of year 3	Jóvenes Productivos program report
<i>2.3 Greater and effective support for the job search advisory service (ABE)</i>				
2.3.1 ABE service redesigned and implemented, with trained staff	0	1	End of year 1	ABE service report

Indicator	Baseline (2015)	Target	Deadline	Means of verification
<i>2.4 Greater and effective support for the single employment certificate (CUL)</i>				
2.4.1 CUL service redesigned and implemented, with trained staff	0	1	End of year 1	CUL service report
<b>Component 3: Effective Employment Center operating processes</b>				
<i>3.1 Conceptual design, mapping, and process redesign, including development of a system of employment center management indicators</i>				
3.1.1 Processes improved, optimized and implemented, with trained staff	0	1	End of year 1	DGSNE report
<i>3.2 Effective organization of the employment centers</i>				
3.2.1 EC office organization restructured and optimized	0	9	End of year 1	Reports by DGSNE and regional MTPE employment departments
<i>3.3 An effective information system for managing youth employment promotion</i>				
3.3.1 Architecture study completed	0	1	End of year 1	Report by DGSNE and OGETIC (General Statistics, Information, and Communications Technologies Department)
3.3.2 Application software developed	0	1	End of year 2	Report by DGSNE and OGETIC
3.3.3 Base hardware/software procured	0	1	End of year 2	Report by DGSNE and OGETIC
3.3.4 Training on use of software completed	0	1	End of year 2	Report by DGSNE and OGETIC
<i>3.4 Adequate infrastructure and equipment at the nine regional employment centers</i>				
3.4.1 Microlocalization study	0	1	End of year 5	DGSNE report
3.4.2 EC offices fitted out, furnished, equipped and in operation	0	9	End of year 5	DGSNE report
<b>Component 4: Sufficient MTPE apex authority with the regional governments for youth job placement</b>				
<i>4.1 Sufficient capacity for workforce integration strategy formulation</i>				
4.1.1 VMPECL processes and organization redesigned and implemented, with trained staff	0	1	End of year 1	Office of the Vice Minister for Employment Promotion and Vocational Training (VMPECL)
4.1.2 Organizational unit responsible for managing the EC	0	1	End of year 2	VMPECL
4.1.3 EC organizational unit strengthened (with trained staff)	0	1	End of year 4	VMPECL
<i>4.2 Effective monitoring and evaluation of regional employment center service quality by the VMPECL, including mechanisms for user evaluation of service quality</i>				
4.2.1 Service quality monitoring and evaluation system designed and implemented	0	1	End of year 1	VMPECL report and report by the regional employment departments
4.2.2 Quality evaluation mechanisms for EC services	0	1	End of year 5	VMPECL report and report by the regional employment departments

Indicator	Baseline (2015)	Target	Deadline	Means of verification
<i>4.3 Effective organization of the VMPECL and the regional governments for employment center management</i>				
4.3.1 National/regional government coordination and linkage model designed and implemented	0	1	End of year 2	VMPECL report and report by the regional employment departments
4.3.2 Management supervision system designed and implemented	0	1	End of year 2	VMPECL report and report by the regional employment departments
4.3.3 Support mechanisms for supervision systems implemented (fund)	0	1	End of year 5	VMPECL report and report by the regional employment departments
<i>4.4 Effective interaction between the national government and the regional governments for employment center management</i>				
4.4.1 National/regional government budget incentive mechanisms implemented	0	1	End of year 3	VMPECL

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Peru

**Project number:** PE-L1152

**Name:** Improvement and Expansion of Employment Center Services for Formal Job Placement of Youth in the Regions of Arequipa, Ica, Lambayeque, La Libertad, Piura, San Martín and Metropolitan Lima

**Prepared by:** Fernando Glasman and Ariel Rodríguez

### **I. EXECUTIVE SUMMARY**

- 1.1 The country's financial management systems are effective and reliable. With regard to the country procurement system, at present no country procurement procedures are being used for loans financed by international lending organizations. However, document GN-2538-11, "Guide for acceptance of the use of country procurement systems," approved the use of reverse auction subsystems and electronic catalogues of framework agreements under Peru's public procurement rules. Their use will be incorporated into the project procurement plan, once the implementation phase of the aforementioned subsystems has been completed.

### **II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY AND PROJECT EXECUTION UNIT**

- 2.1 The executing agency will operate through a project execution unit (PEU) with administrative, economic, and financial autonomy, which will execute the project and report to the Office of the Deputy Minister for Employment Promotion and Vocational Training (VMPECL). As part of its responsibilities, the PEU will: (i) plan, direct, supervise, and evaluate the performance of the project activities; (ii) act as liaison with the Bank; (iii) coordinate project execution with the regional governments; and (iv) approve the supervision documents for project execution and financial management.
- 2.2 The PEU will have an executive director and the following specialized technical staff: the chief of the administration unit; the chief of the planning, budget, and systems unit; the chief of the youth workforce integration promotion unit; the chief of the job information and training unit; and the chief of the service enhancement and institutional strengthening unit.
- 2.3 Strategic coordination of the project will be conducted by a technical committee, comprising the authorities of the current three directorates of the VMPECL (or those resulting from a possible restructuring), the executive director of the PEU, and the highest authority of the VMPECL, who will chair the committee. The

technical committee will monitor compliance with the approved work plans (AWP, quarterly plans, etc.).

- 2.4 The fiduciary evaluation was based on the risk assessment exercise, with the involvement of MTPE, VMPECL, and the IDB, meetings with key staff from each of these bodies, and meetings with the project team.

### **III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES**

- 3.1 The risk assessment exercise conducted during the design phase determined that the fiduciary risk for both financial management and procurement was medium.

### **IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT**

- 4.1 **Special contractual conditions precedent to the first disbursement.** The executing agency will provide evidence, to the Bank's satisfaction, that the following conditions have been met: (i) the executing agency has approved the project Operations Manual, with the Bank's prior no objection; (ii) the project execution unit has been created with its specialized technical staff, including the executive director, on the terms previously agreed upon with the Bank, the Ministry of Labor and Employment Promotion (MTPE), and the executing agency; the specialized technical staff will comprise the chief of the administration unit, the chief of the planning, budget, and systems unit, the chief of the youth workforce integration promotion unit, the chief of the job information and training unit, and the chief of the service enhancement and institutional strengthening unit; and (iii) at least three cooperation agreements have been entered into between the borrower, acting through the executing agency, and the regional governments, specifying the roles and responsibilities of each party and indicating at least: (a) the MTPE's commitment to equip and make improvements to the regional employment centers, (b) the MTPE's commitment to hire staff and lease premises, and (c) the commitment of each regional government to assume the respective employment center operation and maintenance expenses, once the project ends, to ensure sustainability.
- 4.2 **Special contractual execution condition.** The start of activities in the regional governments, except Metropolitan Lima, will be contingent upon the signature of a cooperation agreement on the terms previously agreed upon with the Bank. These agreements will specify the roles and responsibilities of the MTPE and regional governments, indicating at least the MTPE's commitment to equip and make improvements to the regional employment centers, hire staff and lease premises, and the commitment of each regional government to assume the respective employment center operation and maintenance expenses, once the project ends, to ensure sustainability.
- 4.3 Exchange rate for accountability: monetization rate.
- 4.4 Audited annual financial statements, with specific terms of reference, including the report on review of procurement procedures.

- 4.5 The borrower will publish the procurement plan in the Procurement Plan Execution System (SEPA), updating it at least semiannually or as required by the Bank to reflect actual project implementation needs and the progress made.

## V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements for procurement establish the provisions applicable to the execution of all planned procurements under the project.

### 1. Procurement execution

- 5.2 Procurements will be conducted in accordance with documents GN-2349-9 and GN-2350-9.

- a. **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services<sup>1</sup> generated under the project and subject to international competitive bidding (ICB) will be procured using the standard bidding documents (SBDs) issued by the Bank. Processes subject to national competitive bidding (NCB) will be conducted using country bidding documents agreed upon with the Bank (or satisfactory to the Bank if not yet agreed upon). The project sector specialist is responsible for review of the technical specifications for procurements during the preparation of procurement processes.
- b. **Selection and contracting of consultants.** Consulting service contracts generated under the project will be procured using the standard request for proposals (RFP) issued by the Bank or agreed upon with the Bank (or satisfactory to the Bank if not yet agreed upon), regardless of contract amount. The project sector specialist is responsible for review of the terms of reference for the contracting of consulting services.
  - b1. **Selection of individual consultants.** Individual consultants will be selected on the basis of their qualifications to perform the work, based on a comparison of the qualifications of at least three candidates. When circumstances so require, notices may be published in the local or international press.

### 2. Table of threshold amounts (US\$)

Goods <sup>2</sup>			Consulting services	
International Competitive Bidding	National competitive bidding	Shopping	International publicity Consultants	Short list 100% national
□ 250,000	< 250,000 and □ 50,000	< 50,000	□ 200,000	< 350,000

<sup>1</sup> Under the IDB procurement policies, nonconsulting services are treated as goods.

<sup>2</sup> Includes nonconsulting services.



- 5.3 The thresholds for ex ante review are determined in accordance with the type of procurement risk presented by the project; this risk has been rated as medium. Below are the thresholds for ex ante review when processes are conducted by the executing agency.

Thresholds for ex ante review <sup>3</sup>		
Works	Goods <sup>4</sup>	Consulting services
Processes valued over US\$3,000,000; the first process of each method regardless of amount; all direct contracting	Processes valued over US\$250,000; the first process of each procurement method regardless of amount; all direct contracting	Processes valued over US\$200,000; the first process of each selection method regardless of amount; all single-source selection

- 5.4 **Domestic preference.** No margins of domestic preference will apply.
- 5.5 **Use of country procurement systems.** As approved by the Board of Executive Directors, the subsystems for auction procedures and framework agreements in Peru will be used, once the relevant implementation agreement and the conditions described therein have been signed, and the resulting modification has been made to the procurement plan.

### 3. Initial procurement plan (first 18 months).

- 5.6 See the itemized [procurement plan](#) for the first 18 months.

### 4. Procurement supervision

- 5.7 The Bank's ex post reviews will cover a sample of contracts based on technical/professional criteria, and will be conducted by Bank staff and external auditors. Once use of the country procurement system has been implemented, the arrangements may be updated in line with the fiduciary risks.<sup>5</sup>

### 5. Records and files

- 5.8 Files shall be kept in the offices of the execution unit under conditions ensuring the security and integrity of the documentation.

## VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

### 1. Programming and budget

- 6.1 Annual programming and the budget will be prepared in accordance with the requirements of the Public Budget Department (DGPP) of the Ministry of Economy and Finance (MEF). The Investment Policy Department (DGPI), in

<sup>3</sup> During the course of project execution, the Bank may automatically modify the thresholds for ex ante review, if it determines that the fiduciary context of the executing agency or of the country has changed. In such case, the Bank will communicate that decision to the executing agency, which will then reflect the new conditions of execution in the procurement plan.

<sup>4</sup> Includes nonconsulting services.

<sup>5</sup> Once the reverse auction and framework agreement systems have been brought into use in operations, as part of the strategy for the use of country systems, procurements executed will be monitored and supervised systematically through monitoring and verification of the stability of Peru's country system.

coordination with the General Office of Planning, Investments, and Budget (OGPIP), will formulate the project's annual budget on the basis of the project disbursement schedule, and will identify and agree on priorities for external financing under the project. The budget will be managed through the Integrated Financial Management System (SIAF). The budget allocated to the project will be approved by the MEF and by the Congress of the Republic, and will be reported to the Bank annually, conducting the committed activities under the project. The executing agency will have budgetary autonomy to execute the project. A project execution plan will be prepared, as well as an annual budget based on it.

## **2. Accounting and information systems**

- 6.2 Accounting and reporting during project execution will use the SIAF's project execution module, which offers transparency and specific controls on budget execution. This module is equipped to record the project's accounting information and issue financial reports, including disbursement requests, exchange rate control, project financial statements, and other reports, in accordance with the Bank's requirements. Accounting will be on a cash basis, in line with international accounting standards and the directives issued by the National Public Accounting Department (DNCP).
- 6.3 Financial statements will be required for project supervision and will include: statement of cash received and disbursements made, statement of cumulative investments and the notes to these financial statements, assurance report on procurement processes, supporting documentation for expenditures, and evaluation of the internal control system. These reports will be delivered annually.

## **3. Disbursements and cash flow**

- 6.4 The project will use the country's treasury system, in accordance with the directives of the National Debt and Treasury Department (DNET). Expenditures will be subject to the budgetary and financial execution process, and the data concerning their formalization under the legal rules applicable to each stage will be recorded in the SIAF project execution module: commitment, liquidation, authorization, and payment. The country's treasury system does not yet have a complete master account system, so a dedicated bank account will be opened for management of the loan proceeds.
- 6.5 Disbursements will be made in accordance with the project's actual liquidity requirements (financial planning). The execution unit will submit a disbursement request, along with a program of expenditures by AWP activity for the next 180 days. At least 80% of the expenditures will be accounted for in the subsequent request. The execution unit will provide the Bank with the project's initial financial plan, reflecting the disbursement schedule for the duration of the project, which may be updated periodically. The execution unit will open a bank account exclusively for the management of IDB resources.
- 6.6 Supporting documentation for expenditures will be subject to ex post review by the external auditors. The exchange rate will be the monetization rate, understood as the exchange rate on the day U.S. dollars are converted to soles. Expenditures ineligible for the Bank will be reimbursed with the counterpart contribution or other resources, depending on the nature of the ineligibility.

#### 4. Internal control and internal audit

- 6.7 The control environment, control activities, communication and reporting, and monitoring of the activities of the executing agency/execution unit are governed by the country's rules and regulations, which are based on the National Control System Law.
- 6.8 The internal audit function of the Ministry of Agriculture (MINAGRI) resides with the Internal Control Office (OCI), whose staff reports to the Office of the Comptroller General of the Republic (CGR). Although the scope of the OCI's work does not usually extend to the project level, it will receive copies of the external audit reports through the Government Audit System (SAGU), designed by the CGR, through which it may perform inspections depending on time and resource availability.
- 6.9 The execution unit will be required to include the principal internal control processes in the Operations Manual, in order to ensure that controls are working effectively.

#### 5. External control and reports

- 6.10 The CGR, as the apex authority of the National Control System, subcontracts external project auditing to independent audit firms eligible for the Bank. The eligible independent audit firms are evaluated periodically by the Bank to ensure their high quality. The CGR authorizes the executing agency/execution unit to select and engage the independent audit firm in accordance with Bank policies, for the entire project execution period, including extensions of the final disbursement period.
- 6.11 Given the complexity of the project and the diversity of subprojects to be financed and their geographical dispersion, a Tier I and Tier II independent audit firm needs to be selected.
- 6.12 The cost of the external audits, which has been estimated at US\$350,000 for the five year period, will be covered with the loan proceeds.

#### 6. Financial supervision plan

Supervision activity	Supervision plan			
	Nature and coverage	Frequency	Party responsible	
			Bank	Third party
OPERATIONAL	Project progress review	Annual	Fiduciary and technical team	-
	Review of portfolio with the executing agency and the MEF	Six-monthly	Fiduciary and technical team	MEF
FINANCIAL	Ex post review of disbursements	2 or 3 times a year		External auditor
	Financial audit	Annual	Fiduciary team	External auditor
	Review of disbursement requests and attached reports	2 or 3 times a year	Fiduciary team	-
	Inspection visit / analysis of internal checks and control environment	Annual	Fiduciary team	-
COMPLIANCE	Annual allocation of budgetary resources required for project implementation	Annual	Fiduciary team	Executing agency

Supervision activity	Supervision plan			
	Nature and coverage	Frequency	Party responsible	
			Bank	Third party
	Delivery of financial statements	Annual	Fiduciary and technical team	External auditor/ executing agency
	Conditions precedent to the first disbursement	Once	Fiduciary and technical team	-

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/15

Peru. Loan \_\_\_\_/OC-PE to the Republic of Peru  
Improvement and Expansion of the Services of  
the Employment Center for Formal Job  
Placement of Youth in the Regions of  
Arequipa, Ica, Lambayeque, La  
Libertad, Piura, San Martín,  
and Metropolitan Lima

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 a program for the improvement and expansion of the services of the Employment Center for Formal Job Placement of Youth in the regions of Arequipa, Ica, Lambayeque, La Libertad, Piura, San Martín, and Metropolitan Lima. Such financing will be for an amount of up to US\$30,000,000 from the Ordinary Capital resources of the Bank, 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 \_ \_\_\_\_ 2015)

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