

PROGRAM TO IMPROVE THE PUBLIC INVESTMENT PROGRAMMING MECHANISM

(PE-0039)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: Republic of Peru

EXECUTING AGENCY: Ministry of Economic Affairs and Finance (MEF), through the Investment Bureau (ODI)

AMOUNT AND SOURCE:

IDB (OC):	US\$4,000,000
Local contribution:	US\$1,000,000
Total:	US\$5,000,000

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	20 years
Disbursement period:	4.5 years
Execution period:	4 years
Interest rate:	Variable
Inspection and supervision:	1%
Credit fee:	0.75%

OBJECTIVES: The objective of this operation is to improve the allocation of public investment resources in Peru and to strengthen the system for public investment planning, by providing assistance to the Investment Bureau of the Ministry of Economic Affairs and Finance.

DESCRIPTION: To achieve this objective, the technical-cooperation project proposed in this document consists of three components: (a) strengthening of the Investment Bureau of the Ministry of Economic Affairs and Finance; (b) advisory assistance for the sector planning offices; and (c) training.

ENVIRONMENTAL CLASSIFICATION: At its meeting of July 25, 1995, the Environment Committee classified this as a Category II operation.

BENEFITS: The benefits of the program will stem from the design and implementation of mechanisms for institutional coordination of public investment information and monitoring at each stage of the public investment project cycle (design, formulation, prefeasibility, feasibility, final design, execution, operation, and ex post evaluation). This includes the adaptation and use of project evaluation methodologies consistent with Bank policies.

In addition, the program will help train public sector personnel in techniques for preparing and presenting annual investment budgets and for preparing, evaluating, executing, and administering public investment projects.

RISKS:

The chief risks for the success of the program have to do with the limited administrative capacity of the ODI and of the offices responsible for investment in the various sectors, compounded by the risk of high turnover among the already small technical staff currently on board the ODI. Furthermore, it may not be possible to arrange financing in due time for the preinvestment studies for projects included in the public investment program.

To eliminate these risks, the government has agreed to ensure proper operation of the ODI and is negotiating the necessary financing for the preinvestment studies, particularly through grants from other governments.

THE BANK'S COUNTRY STRATEGY:

The IDB's operating strategy in Peru is geared toward providing support for five priority areas: (i) consolidation of the structural adjustment and reform program; (ii) institutional strengthening of the public sector; (iii) privatization and private-sector development; (iv) poverty alleviation and social development; and (v) rehabilitation of the sectors of production and economic infrastructure. By providing funds to help improve the process of investment project selection, this program will help to achieve objectives (ii), (iv), and (v) referred to above.

IMPACT ON POVERTY: N/A

PROCUREMENT:

The proposed program does not call for the construction of any works. No goods or services in amounts greater than US\$250,000 are to be procured, but if they were, the procedures for international competitive bidding would be followed. Services will be hired according to the procedures set forth in Annex C to the loan contract with the Bank.

SPECIAL CONTRACTUAL CONDITIONS:

In addition to the general contractual conditions, it is recommended that the agreement include the following special conditions:

- a. Prior to the first disbursement of the financing, the executing agency must fulfill the conditions set forth in paragraph 3.12, to the satisfaction of the Bank.

- b. The long-term consultants required for the program are to be hired within four months after signature of the agreement.
- c. Within six months after the first disbursement, the executing agency must submit to the Bank the preliminary design for the public investment programming process, and within 12 months after that date, the final design.
- d. One year after the effective date of the agreement, the executing agency will submit to the Bank: (i) a plan for the final structure of the ODI; and (ii) the operations and project preparation and evaluation manuals.
- e. The executing agency must agree to ensure that the Investment Bureau and at least six sectors will be interconnected through an electronic information network within two years after the effective date of the agreement.
- f. Two years after the effective date of the agreement, the executing agency must submit to the Bank a mid-term evaluation, in the terms set forth in paragraph 3.14.
- g. The executing agency must submit to the Bank the reports indicated in paragraph 3.24.

I. FRAME OF REFERENCE

A. Introduction

- 1.1 Until recently, the Government of Peru lacked a comprehensive mechanism for coordinating and consolidating information on public investment and prioritizing public investment projects in accordance with internationally accepted technical standards.
- 1.2 The National Planning Institute [Instituto Nacional de Planificación] was in operation until 1992. It had become such a primarily bureaucratic institution that it was eliminated in the course of the structural reforms carried out in the country. Its public investment planning responsibilities were transferred to the Ministry of Economic Affairs and Finance [Ministerio de Economía y Finanzas] (MEF), which lacked the resources and organization necessary to shoulder these new responsibilities effectively.
- 1.3 Moreover, as a consequence of the changing role of the public sector in the economy, the government has reduced not only the number of government agencies, but also the number of professional staff responsible for preparing public investment studies and executing public investment projects.
- 1.4 In July 1993, in Supreme Decree 050-93-PCM, the government established the Commission for Public Investment Projects funded through International Cooperation [Comisión de Proyectos de Inversión Pública con financiamiento de la Cooperación Económica Internacional] (COPRIN) with financing from international cooperation. The Commission for Public Investment Projects was entrusted with evaluating investment projects that require external financing; determining their multisector priority; and making recommendations as to the advisability of allocating resources obtained from external borrowing to such projects. At the same time, the Public Investment Unit [Unidad de Inversiones Públicas] of the Ministry of Economic Affairs and Finance remained in operation, leading to duplication of effort which, institutionally speaking, had a deleterious effect on public investment decision-making. Under these circumstances, activities for public investment programming and project preparation that were being supported by the Bank were postponed.
- 1.5 The government enacted Supreme Decree 91-94-PCM in October 1994, deactivating COPRIN and stipulating that the annual public investment program and the multiyear investment programs to be negotiated with multilateral organizations now had to be approved by the Cabinet Council.
- 1.6 In November 1994, Law 26404 established the Investment Bureau [Oficina de Inversiones] (ODI) under the Ministry of Economic Affairs and Finance to carry out the functions assigned to the

Ministry of Economic Affairs and Finance pursuant to Article 5 of Decree 25548.

- 1.7 The establishment of the Investment Bureau is the first step in building a system to coordinate public investment activities that will approach the decision-making process from a broad-based perspective, predicated on a unified vision of the overall public investment strategy.
- 1.8 The purpose of the Investment Bureau is to evaluate proposed investment projects submitted to the MEF by ministries and other government agencies for inclusion in the national public investment budget. Accordingly, the ODI is to have the following responsibilities in particular: (i) to coordinate public investment planning; (ii) to monitor physical and financial execution of the investments; (iii) to identify priority projects in light of the government's development policy; (iv) to conduct intersector evaluations of investment projects to determine their priority in the allocation of external financing; and (v) to coordinate activities with missions from multilateral and bilateral lending agencies to ensure that Peru's priorities are addressed in an orderly and systematic fashion.
- 1.9 The Peruvian authorities have decided to ensure that the resources necessary for the preinvestment studies are obtained, whether in the form of budget appropriations or from other sources. Negotiations are in progress to obtain grant funding from other governments to cover the costs of the studies. In addition, the government has indicated that it is indefinitely committed to continuing the efforts to reorganize public investment programming procedures, of which the proposed operation would only be the beginning. The establishment of the Investment Bureau at the Ministry of Economic Affairs and Finance and the appointment of its Chief constitute evidence of the government's commitment in this regard.

B. The investment strategy

- 1.10 In its first year of operation, the ODI has succeeded in establishing principles for systematizing decision-making on investments and prioritizing investment, redirecting it toward programs with a higher rate of return. The ODI's specialists are assisting the ministries and investment bureaus in formulating new projects, and preparing technical reports on the sectors' investment proposals. The ODI has been coordinating the preparation of the 1995 public investment program since mid-1994, and it is currently coordinating the 1996 program.
- 1.11 Peru's social and economic development strategy is designed to consolidate the structural reforms currently being implemented by the government with the aim of modernizing the public sector and its institutions, deregulating the economy, and streamlining

government agencies. The Peruvian authorities have announced the following investment priorities for 1995:

- a. rehabilitation of the economic and social infrastructure of the country: highways, energy, agriculture, education, health, and sanitation;
- b. emphasis on government action in emergency zones and marginal urban areas; and
- c. construction of infrastructure to support the productive sector, with private-sector participation.

1.12 In light of these priorities, the Investment Bureau prepared a public investment program for 1995 totaling US\$2.328 billion, which exceeds the previous year's total by 16.5%. Some 70% of the proposed investment program will be funded with resources from the Treasury and domestic borrowing, 22% with external resources, and 8% from other sources. The sector breakdown of the investment is 51% for infrastructure, 28% for social programs, 16% for other sectors, and the remaining 5% for productive sectors.

C. Macroeconomic situation

1.13 The Peruvian economy is on an upswing. In 1994, gross domestic product (GDP) rose 12.9%. The construction sector increased 34.5%, fisheries 31.5%, manufacturing 17.8%, and agriculture 13.2%.

1.14 Economic growth in Peru has been characterized by price stability. Inflation fell from 39.5% in 1993 to 15.4% in 1994, and has continued downward in the early months of 1995.

1.15 The main factors accounting for the economic upturn are the vitality of investment and the growth in exports (29.9% in 1994). However, with the increase in imports (38.8%) exceeding the growth in exports, the current account deficit has risen from US\$1.774 billion (3.9% of GDP) to US\$2.261 billion (4.9% of GDP). The deficit has been financed by means of the capital account surplus, primarily attributable to the privatization of government enterprises, as a result of which, Peru's international reserves have risen from US\$2.701 billion to US\$5.696 billion.

1.16 The rate of economic growth is projected to slow down somewhat in relation to 1994, but is nonetheless expected to remain at a high level at end-1995 (approximately 7.5%). Furthermore, inflation is expected to continue falling and to have reached approximately 10% by year-end. However, the current account of the balance of payments is projected to worsen further, and the current account deficit may exceed US\$2.9 billion (6.3% of GDP in 1995), again due to an increase in imports (19%) that exceeds the growth in exports (7%). It is likely that the capital flows associated with privatization will continue to be sufficient to finance the current

account deficit in 1995 and to generate an increase of about US\$300 million in the international reserves. However, in the medium term (through 1996 and 1997), as the privatization program draws to a close, the Peruvian economy could begin to encounter balance of payments difficulties.

D. Other investment-related programs

- 1.17 The program for the institutional strengthening of the Ministry of Economic Affairs and Finance (ATN/JF-4540-PE) is designed to assist the MEF by strengthening its institutional, technical, and analytical capacity to prepare medium-term and long-term economic and sector plans and to manage Peru's economic reform program. The program includes the following activities: (a) support for the MEF's analytical capacity through an advisory group on macroeconomic analysis and sector policy [Grupo Asesor de Análisis Macroeconómico y Política Sectorial] (GAPMAS) consisting of 13 economists specializing in macroeconomic policy; (b) modernization of the data base and computer system; (c) training; (d) preparation of an organizational reform program; and (e) a macroeconomic and sector study for formulation of a suitable public investment program.
- 1.18 The technical-cooperation operation is achieving its objectives satisfactorily. As of August 31, 1995, the mid-point of the two-year program, US\$1.04 million, or 52% of the resources, had been applied, using advances from the UNDP, so that only 13.5% of the IDB funds had been disbursed. As for the macroeconomic study, according to the agreement with the IMF, the GAPMAS makes projections for the parameters used as the basis to estimate the general public and investment budget, which in turn is used as input for the ODI to prepare the investment budget for each year. Progress in the training component is also proceeding on schedule.
- 1.19 There are other units of the Ministry of Economic Affairs and Finance that are directly involved in public investment. In conjunction with the ODI, the Deputy Minister for Economic Affairs oversees the Directorate of Economic and Financial Affairs [Dirección de Asuntos Económicos y Financieros] (DGAEF), and the Deputy Minister for Finance oversees the General Directorate of Public Credit [Dirección General de Crédito Público] (DGCP) and the General Directorate of the Budget [Dirección General de Presupuesto Público] (DGPP).

II. THE PROGRAM

A. Objectives

- 2.1 The overall objective of the program is to improve the allocation of public investment resources in Peru by modernizing the mechanisms for program public investment programming.
- 2.2 The program will contribute towards the design and implementation of an institutional mechanism centering around the Investment Bureau (ODI) of the Ministry of Economic Affairs and Finance (MEF) and the sector offices and agencies involved in public investment activities.

B. Description

1. Formulation of the public investment program

- 2.3 This component will include the following:
 - a. Modernize public investment programming procedures, and design and implement intrasector and intersector coordination mechanisms to optimize the use of public investment resources.
 - b. Coordinate the participation of the various units of the Ministry of Economic Affairs and Finance, including the Directorate of Economic and Financial Affairs, the General Directorate of Public Credit, and the General Directorate of the Budget, in the formulation of the public investment program.
 - c. Support central government agencies in the formulation of their own investment programs.
- 2.4 The consultants will prepare a detailed design for the public investment programming process, based on a brief diagnostic study of the current conditions, including a mid-term program (which will be revised yearly during the budget programming exercise) and instruments for investment project selection. Within six months after the first disbursement, the executing agency must submit to the Bank the preliminary design for the public investment programming process, and within 12 months after that date, the final design.

2. Support for the formulation, evaluation, and execution of public investment projects

2.5 The activities that fall into this category are as follows:

- a. Adapt project evaluation methodologies that provide for the systematic use of cost-benefit and cost-effectiveness analysis, that include environmental impact assessment and analysis of income distribution effects, and that seek to enhance economic opportunities for women, promote such methodologies in the various units of government, and identify possible mechanisms for public input on large-scale investment projects.
- b. Support the design and implementation of administrative and institutional mechanisms for preparing sector-specific public investment budgets in line with the government's overall policy.
- c. Design and implement methods to strengthen the system used to monitor physical and financial execution of public investment projects and for ex post evaluation of public investment procedures.

2.6 The support will be in the form of preparation, by the short-term consultants, in association with ODI specialists, of preinvestment activities in at least six sectors, and in on-the-job training for officials in those sectors in project preparation and evaluation techniques.

3. Training

2.7 The Investment Bureau will organize and coordinate the following training activities:

- a. An annual course on the preparation, evaluation, and administration of public investment projects at the master's level equivalent, for government employees;
- b. approximately 10 12-week basic courses to train government employees in techniques for the preparation, evaluation, execution, and administration of public investment projects; and
- c. 10 specialized workshops, 10 internships, and 10 technical seminars for government employees on issues relevant to public investment projects.

2.8 Execution of this component will result in the training of approximately 35 government officials at the master's level in investment project preparation and evaluation. The trained staff must work in their respective sector offices for a period of no less than two years. Through the basic three-month courses,

approximately 300 government employees from at least six sectors will be trained, and will also be hired by their respective offices.

4. Interagency coordination

2.9 The Investment Bureau will carry out the following activities in this area:

- a. It will design and implement a computerized information network on public investment projects, which will enable it to compile and analyze: (i) information on proposals for new projects submitted by the various sectors, together with the respective studies; and (ii) information on the main public investment projects currently under way.
- b. It will design and implement public investment information and monitoring mechanisms for each stage of the public investment project cycle (preliminary design, prefeasibility, feasibility, final design, execution, and ex post evaluation).

2.10 To achieve such interagency coordination, at the end of year one of the life of the agreement, the investment project preparation and evaluation manuals and the operations manuals will be applied. By the end of year two of the life of the agreement, an electronic information network on public investment will connect the Investment Bureau with the respective investment offices of at least six sectors.

C. Use of program resources

2.11 The institutional support for public investment programming procedures and for development of the coordination mechanisms will consist of financing for consultants for the Investment Bureau of the Ministry of Economic Affairs and Finance, and for technical advisory services, equipment, and training for the offices responsible for public investment in the country.

2.12 Under the program, US\$1.87 million will be allocated to support the Investment Bureau as the executing agency of the program. The proposed consulting services will supplement the staff assigned by the ministry to public investment and will help consolidate the programming process. The funds will be used to hire approximately five high-level specialists and four mid-level professionals as consultants during the four-year period of program execution. In addition, one year after the effective date of the agreement, the executing agency will submit to the Bank a plan containing the final organizational structure of the ODI. Appendix I of Annex A contains the terms of reference for the ODI specialists and professionals to be hired under the program.

- 2.13 Approximately 50 months of short-term consulting services (at an estimated cost of US\$250,000) will be hired to assist the various sector offices in the programming of investments and in the preparation of investment projects. Accordingly, the beneficiary entities will sign with the executing agency a subsidiary agreement. The support for the sector offices includes the provision of equipment for which some 25 computers and computer programs will be procured, at an estimated cost of US\$236,000.
- 2.14 Under the training component, approximately 350 government employees will be trained, at an estimated cost of US\$1.88 million. This component includes specialized workshops, technical seminars, and internships, and 10 basic courses of approximately 12 weeks' duration. The basic courses will be conducted by a university selected in accordance with the IDB's usual procedures; the university will issue training certificates in each case. Financing will also be provided for a master's-level equivalent pilot course, which will also be conducted by a university selected in accordance with IDB procedures. See Annex I.

D. Cost and financing

- 2.15 The cost of the program has been estimated at the equivalent of US\$5 million, of which the IDB would finance US\$4 million in foreign exchange from ordinary capital. The Government of Peru would contribute the balance (equivalent to US\$1 million).
- 2.16 The IDB's contribution will be used to finance the costs of the consulting services in the area of institutional support for the Investment Bureau of the Ministry of Economic Affairs and Finance (with the exception of the Office of the Chief of the Investment Bureau) and to cooperate with the offices responsible for investment in the various sectors. It will also cover approximately 85% of the cost of the equipment and the training program.
- 2.17 The local contribution will be used to finance the Office of the Chief of the Investment Bureau, administrative support, and approximately 15% of the training component and equipment. A table showing the costs of the operation is given below.

REIMBURSABLE TECHNICAL-COOPERATION PROGRAM
FE-0039
COST AND FINANCING

	INVESTMENT CATEGORY	IDB	LOCAL CONTRIBUTION	TOTAL	%
1.	Individual consultants	1,834	288	2,122	42
1.1	ODI consultants	1,584	288	1,872	37
1.1.1	One Chief ODI	0	288	288	6
1.1.2	Five specialists	1,200	0	1,200	24
1.1.3	Four professionals	384	0	384	7
1.2	Short-term consultants	250	0	250	5
2.	Training	1,630	250	1,880	37
3.	Equipment	200	36	236	5
4.	Administrative personnel	0	144	144	3
5.	Contingencies	296	232	528	11
6.	Finance charges	40	50	90	2
6.1	Credit fee	0	50	50	1
6.2	Inspection and supervision	40	0	40	1
	TOTAL	4,000	1,000	5,000	100

III. PROGRAM EXECUTION

A. Executing agency

- 3.1 The executing agency of the program will be the Ministry of Economic Affairs and Finance (MEF), through the Investment Bureau (ODI). The ODI was established pursuant to Law 26404 of November 30, 1994 (sixth transitional provision). It is the technical arm of the MEF in charge of all matters relating to public investment. The ODI is to be organized and provided with the rules and regulations and personnel necessary to provide sufficient support to the central, regional, and local government agencies applying for resources under the program. It reports to the Office of the Deputy Minister of Economic Affairs, and its chief responsibilities will be officially established by means of a ministerial resolution that is currently being prepared. In an official letter dated July 19, 1995, the Minister of Economic Affairs and Finance informed the IDB that the Chief of the ODI had been appointed.
- 3.2 The technical staff of the ODI currently consists of the Chief, four specialists, and two professionals, financed with UNDP resources and other sources of external cooperation. The ODI receives general support, both technical and administrative, from the other units that report to the Deputy Minister for Economic Affairs, with which it has close ties. When the execution of the program gets under way, the number of specialists will increase to five (three specialists in infrastructure projects and two specialists in social projects), while the number of professionals will increase to four.
- 3.3 In executing the program, the ODI will coordinate its activities with the central, regional, and local government agencies that apply for resources under the program or that are responsible for formulating investment projects.
- 3.4 At present, the ODI is responsible for preparing technical reports on the requests for external borrowing which the sectors submit to the MEF and for supervising and inspecting the preparation of studies on investment projects. From the Office of the Deputy Minister of Economic Affairs to which it reports, the ODI thus constitutes a link with the General Directorate of Public Credit and the General Directorate of the Budget, which report to the Office of the Deputy Minister of Finance.
- 3.5 At the same time, the ODI provides the sectors with technical assistance in preparing investment projects and takes part in meetings for coordinating policies and procedures with the sectors and with representatives of funding sources. Apart from the ties the ODI has with the various sectors, additional contacts have been established with the macroeconomic analysis and sector policy

advisory group (GAPMAS) of the Ministry of Economic Affairs and Finance and with the Sector Loan Coordination Office (also at that Ministry), which together have the greatest technical capacity in the public sector in terms of formulating overall and sector-specific economic policy.

- 3.6 In recent months, the ODI organized a three-month course to provide training in investment projects, which was attended by 47 government officials from the various sectors. This course was financed by the policy analysis, planning, and implementation project (PAPI) of the Agency for International Development (USAID) and was conducted by Universidad del Pacífico.
- 3.7 The ODI took part in the procedures for preparing the budget for 1996, for which purpose it prepared a technical brief to be used by the various sectors when submitting investment projects as part of their budget proposals. The work on the 1996 budget placed considerable demands on the ODI's technical resources until August 1995. Since then, the ODI's attentions have been focused on the multiyear programming (1997-2001) of public investment and preparations for the 1997 budget. The ODI expects to prepare the budgets for 1998 and thereafter on the basis of a multiyear investment program approved by the Cabinet Council.
- 3.8 For the activities financed under this operation to be continued, the Government of Peru has agreed to fund the Investment Bureau under the budget of the Ministry of Economic Affairs and Finance upon completion of the program.

B. Execution and disbursements

- 3.9 The execution period will be four years from the effective date of the agreement.
- 3.10 The deadline for disbursement in full will be four and a half years after the date of the agreement. To ensure immediate availability of funds, the Bank will make up to 10% of the financing available in the form of an advance.
- 3.11 The loan resources will be credited to an interest-bearing program account opened in the name of the ODI, which will be used to make payments directly to consultants and to suppliers of equipment.
- 3.12 In addition to the conditions established in the general conditions, prior to the first disbursement the executing agency must submit to the Bank:
 - a. the legal instruments establishing the Investment Bureau as a budgetary subprogram and stipulating its functions and authority;
 - b. evidence that at least three specialists have been hired;

- c. evidence that a special account has been opened to administer the program resources;
- d. the standard secondary agreement agreed upon with the Bank, to be signed with the beneficiary institutions, for the purpose of financing activities to provide the sectors with institutional support; and
- e. an initial report containing: (i) a work plan and a schedule of execution for the program activities during year one of execution; and (ii) the final terms of reference for the long-term consultants.

3.13 Twelve months after the effective date of the agreement, the executing agency will provide the Bank with a plan for the final organizational structure of the Investment Bureau.

3.14 Two years after the effective date of the agreement, the executing agency must submit, to the satisfaction of the Bank, a mid-term evaluation of the program indicating the status of program execution, the progress achieved, and any measures or adjustments necessary to ensure fulfillment of the program objectives.

C. Environmental impact

3.15 At its meeting on July 25, 1995, the Environment Committee of the Bank classified this technical-cooperation program as a Category II operation, inasmuch as execution of the proposed activities would have no significant adverse impact on the environment.

D. Procurement of goods and services

3.16 The proposed program does not call for the construction of any works. Goods will be procured and contracts for services awarded according to the procedures set forth in Annex B to the loan contract. No goods or services in amounts greater than US\$250,000 are to be procured, but if they were, international competitive bidding would be required. This threshold is justified considering that in similar projects in the country international bidders can only be attracted for contracts in amounts above that threshold. For procurement in amounts below the threshold, the applicable provisions of national legislation will be followed. These require competitive bidding for amounts above US\$50,000 and allow restricted calls for bids for amounts below US\$50,000, and are compatible with the Bank's procedures.

3.17 The consultants required under the program will be hired and equipment procured in accordance with the Bank's procedures.

3.18 The long-term consultants are to be hired within four months after the date of the agreement and will complete their assignments within 48 months after that date. The short-term consulting services will also be completed 48 months after project initiation.

3.19 The ODI may approve short-term consulting services to provide support for the ministerial planning offices in the preparation of applications for funding under the agreement, following the Bank's standard procedures. The institution in question will provide the following basic information:

- a. a detailed description of the work to be done;
- b. the schedule of activities to be carried out by the consultants;
- c. the dates set for initiation and completion of the work;
- d. the number and type of professionals required;
- e. the number and content of the reports that the consultants will be required to submit to the beneficiary institution; and
- f. the format in which the final report is to be submitted.

3.20 Unless expressly authorized by the Bank, the program resources may not be used to finance contracts for one particular short-term individual consultant if the total cost of such contracts exceeds the equivalent of US\$30,000 in a given year.

E. Accounting and auditing

3.21 The ODI will maintain separate records on all expenditures paid for with the technical-cooperation funding, and these expenditures will be classified in accordance with the accounting system for the program to be agreed upon with the Bank prior to the first disbursement.

3.22 During program execution, the ODI will submit to the Bank audited financial statements and additional information on the program each year within four months after the end of the fiscal year. The accounts must show the sources and application of the funds. In addition, the ODI will hire an independent firm of public accountants to verify the annual financial statements beginning with the first year of program execution.

F. Inspection and supervision

3.23 In general, the Bank will supervise program execution through its Country Office in Peru, with the assistance of the project team where necessary.

G. Use of program resources

3.24 The program resources will be used to hire consulting services for the institutional support activities and to procure computer equipment and software.

H. Reports

3.25 The Investment Bureau will be required to submit the following reports to the Bank:

- a. prior to the first disbursement, an initial report containing the work plan for year one, the final terms of reference for the long-term consultants, and the semiannual schedule of activities;
- b. sixty days after the end of each six-month period, semiannual progress reports containing a detailed account of the activities performed during the period, and the work plan for the following six-month period, and indicating any institutional or organizational changes in the Investment Bureau;
- c. within 60 days after project completion, a final report containing information on the activities carried out, their results, and the impact of the project, and on incorporation of the Investment Bureau staff into the permanent staff of the Ministry of Economic Affairs and Finance, to provide advisory services for the Cabinet Council; and
- d. within three months after the final disbursement, final financial report audited by a firm of independent public accountants selected in accordance with IDB procedures.

I. Expected results

3.26 Annex III contains a table of the expected results and the indicators to be used to verify fulfillment of the program objectives.

IV. SPECIAL CONSIDERATIONS AND RISKS

- 4.1 The benefits of the program will stem from the design and implementation of mechanisms for institutional coordination of public investment information and monitoring at each stage of the project cycle (design, formulation, prefeasibility, feasibility, final design, execution, operation, and ex post evaluation), including the adaptation and implementation of project evaluation methodologies consistent with Bank policies.
- 4.2 In addition, the program will provide training for public-sector personnel in techniques for preparing and presenting annual investment budgets and for preparing, evaluating, executing, and administering public investment projects.
- 4.3 The main risks have to do with the limited administrative capacity of both the Investment Bureau and the sector investment offices, which may lead to an inordinately slow pace in the hiring of the consultants. Furthermore, there could be a high turnover among the already small staff on board the ODI. Accordingly, the Government of Peru has agreed to submit to the Bank, within 12 months after the effective date of the agreement, a plan for the final organizational structure of the Investment Bureau and to finance the Bureau under the budget of the Ministry of Economic Affairs and Finance upon completion of the program.
- 4.4 The Peruvian authorities have indicated that they are currently negotiating financing from other sources, particularly grants from other governments, to cover the costs of preinvestment studies. Should these negotiations yield no results, or if they are postponed, this could undoubtedly have an adverse impact on the effectiveness of the Investment Bureau's performance.
- 4.5 Another risk associated with the operation is that the government agency staff trained at the master's level with funding from this technical-cooperation program may not remain in project processing activities or may not assume responsibility for adapting project preparation and evaluation methodologies so that they can be incorporated into the operating manuals of the respective institutions. In this connection, the trained staff will be assigned to suitable positions in their respective sectors and officials having completed the master's level course will be required to work for at least two years in the public sector.

DESCRIPTION OF THE COMPONENT FOR TRAINING IN INVESTMENT PROJECT EVALUATION

The purpose of this component is to modernize the institutional capacity of specific sectors to formulate, evaluate, and monitor investment projects. This objective will be achieved through a master's-level course and approximately 10 basic courses, in addition to lectures, meetings, and seminars.

The specific objectives of this component are as follows: (a) to train government officials in the theory and specific techniques for preparing and evaluating public investment projects; and (b) to review with these officials the most recent studies on some of the investment projects in their own sectors, to identify the adjustments that may be necessary to bring the studies up to date, in the light of the theoretical training.

Pilot program at the master's level equivalent

A pilot course at the equivalent of the master's level will be organized for approximately 35 participants (officials from the various government agencies involved in public investment activities). This course will be conducted by a university selected in accordance with Bank procedures. The participants in this training must agree to work for the public sector for a period of at least two years. At least three international experts specializing in social projects will participate. This activity will cost an estimated US\$1 million.

Basic three-month courses

About 10 basic courses will be conducted, at a cost of approximately US\$60,000 each, consisting of an eight-week theoretical stage and a four-week practical stage. It is estimated that 30-35 participants per course will be selected. At least two persons per sector will be included in each course, so that at least 300 government employees from the various sectors will have received training upon program completion.

Participants successfully completing the basic courses will receive a certificate attesting to the training which they have received from the university conducting the courses.

Each course will include one international instructor highly specialized in specific methodologies for evaluating projects in the social sectors (e.g., education, health, sanitation, and nutrition).

After the theoretical stage has been completed, the next four weeks will consist of the practical stage at the workplace, during which the participants will review studies on projects in their respective sectors that were previously proposed and selected for the training program.

In the event that demand for a given course exceeds the number of slots available, preference will be given to applicants that are currently involved in investment project preparation and evaluation activities for their respective sectors at their agencies.

The ODI may prepare a preliminary design for the basic courses, which will be reviewed by the university selected to conduct the courses. This design will be submitted to the Bank for consideration, together with a short-list of academic institutions having the best track record in the subject area in question. Once the Bank has indicated that it has no objection, the ODI will issue a call for proposals to the institutions to conduct the course, following the Bank's standard procedures.

Specialized workshops, internships, and technical seminars

Approximately 10 specialized workshops, 10 technical seminars, and 10 internships will be conducted to familiarize participants with the techniques used to prepare and evaluate investment projects, at a cost of approximately US\$200,000. At least one international expert will be invited to participate in each event, and approximately 500 people involved in these fields are expected to attend the proceedings.

IMPROVEMENT OF THE PUBLIC INVESTMENT PROGRAMMING MECHANISM (PE-0039)
EVALUATION INDICATORS

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
To improve management and institutional coordination of the public investment programming process in Peru	Interagency working meetings with the sector offices in charge of public investment Time required for preinvestment study processing	Minutes of meetings Comparison of time required for project processing Three-year public investment program, reviewed annually	Commitment on the part of the central government to reorganizing investment programming
To strengthen the institutional capacity of the Investment Bureau	Public investment experts hired and working with the sector offices Equipment and systems operational	Semiannual and annual progress reports, preinvestment studies, interconnection to the network	Allocation of human and financial resources
To formulate public investment programs	Annual investment programs formulated and submitted to the MEF according to applicable technical standards	At least three multi-year programs, reviewed annually, the first to be submitted within two years after signature of the contract	Commitment on the part of the central government to reorganizing investment programming
To support preparation of public investment projects	Preinvestment studies delivered by the short-term consultants, supported by ODI specialists, which studies include a technical, economic, environmental, institutional, and financial analysis	Preinvestment studies in at least six sectors submitted	
To train officials in public investment programming	Number of training events and number of professionals trained	Approximately 35 officials trained at the master's level and working in their respective sectors for at least two years; approximately 300 officials trained in the basic courses and working in their respective sectors; and some 10 specialized workshops, 10 technical seminars, and 10 internships conducted to disseminate project preparation and evaluation techniques	Interest on the part of universities in providing the necessary training

<p>To coordinate institutions and sectors</p>	<p>Electronic information network installed and operational</p> <p>Project preparation and evaluation manuals and operations manuals in use by the end of year one</p>	<p>The network will link the ODI with at least six sector offices by the end of year two of the program</p> <p>The manuals will be in use by at least six sectors by the end of year two</p>	<p>Timely allocation of human and financial resources</p>
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PROPOSED RESOLUTION

PERU. TECHNICAL COOPERATION LOAN FOR THE
PROGRAM TO IMPROVE THE MECHANISM FOR PROGRAMMING
PUBLIC INVESTMENT

The Board of Executive Directors

RESOLVES:

1. 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 agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document _____ with respect to a technical cooperation loan with the República del Perú for the execution of the program to improve the mechanism for programming public investment.

2. That up to the sum of US\$4,000,000 or its equivalent, is authorized for the purposes of this resolution, chargeable to the ordinary capital resources of the Bank.

3. That the above-mentioned amount is to be provided on a reimbursable basis, in accordance with the respective conditions which shall be set forth in the agreement to be signed for this operation.