

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

**PROJECT TO IMPROVE THE FINANCIAL ADMINISTRATION OF THE PUBLIC
SECTOR THROUGH DIGITAL TRANSFORMATION**

(PE-L1266)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Belinda Pérez (IFD/FMM), Project Team Leader; Ana Calderon, Axel Radics, and Maria Lorena Kevish (IFD/FMM); Ariel Nowersztern (IFD/ICS); Maria Sofia Greco (LEG/SGO); Allizon Milicich and Freddy Andara (VPC/FMP); José Martinez (SPD/SDV); Jaime Fernandez Baca and Aloisio Lopes (CSD/CCS); and Carmen Zuleta, Andrés Alarcón, Horacio Nemeth, and Marcio Cracel (consultants).

In accordance with the Access to Information Policy, this document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING.....	1
A.	Background, problem addressed, and rationale.....	1
B.	Objectives, components, and cost.....	6
C.	Key results indicators	8
II.	FINANCING STRUCTURE AND MAIN RISKS.....	8
A.	Financing instruments.....	8
B.	Environmental and social risks	9
C.	Fiduciary risks	9
D.	Other key issues and risks.....	10
III.	IMPLEMENTATION AND MANAGEMENT PLAN.....	11
A.	Summary of implementation arrangements	11
B.	Summary of arrangements for monitoring results	13

APPENDIXES

Proposed resolution

ANNEXES	
Annex I	Summary Development Effectiveness Matrix
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

LINKS
REQUIRED <ol style="list-style-type: none">1. Multiyear execution plan / Annual work plan2. Monitoring and evaluation plan3. Procurement plan
OPTIONAL <ol style="list-style-type: none">1. Project economic analysis2. Project Operations Manual3. Coordination Committee for the Public Sector Financial Management Project Portfolio4. New legal framework (2018)5. Digital transformation plan6. Climate change annex7. Safeguard Policy Filter and Safeguard Screening Form

ABBREVIATIONS

CCAFSP	Public Sector Financial Management Coordination Committee
CGR	Office of the Comptroller General
ICAP	Institutional Capacity Assessment Platform
ICB	International competitive bidding
IMF	International Monetary Fund
IT	Information technology
MEF	Ministry of Economy and Finance
OGIP	Oficina General de Proyectos e Inversión [Projects and Investment Office]
OGTI	Oficina General de Tecnologías de la Información [Information Technology Office]
PIA	Presupuesto institucional de apertura [initial institutional budget]
PIM	Presupuesto institucional modificado [amended institutional budget]
PCU	Project coordination unit
QCBS	Quality- and cost-based selection
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Management System]
SIAF-RP	Sistema Integrado de Administración Financiera de los Recursos Públicos [Integrated Financial Management System for Public Resources]
SIAF-SP	Sistema Integrado de Administración Financiera del Sector Público [Integrated Financial Management System for the Public Sector]

PROJECT SUMMARY

PERU

PROJECT TO IMPROVE THE FINANCIAL ADMINISTRATION OF THE PUBLIC SECTOR THROUGH DIGITAL TRANSFORMATION (PE-L1266)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility^(a)	
Republic of Peru			Amortization period:	17 years
Executing agency:			Disbursement period:	6 years
Ministry of Economy and Finance			Grace period:	7.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	74,000,000	80	Credit fee:	^(c)
			Inspection and supervision fee:	^(c)
Local:	18,500,000	20	Weighted average life:	12.22 years
Total:	92,500,000	100	Approval currency:	U.S. dollar
Project at a Glance				
Project objective/description: The general objective is to increase the quality of information services for public sector financial management. The specific objective is to increase the effectiveness of the main stages of expenditure: certification, commitment, verification, and payment.				
Special contractual conditions precedent to the first disbursement of the loan: As a special contractual condition precedent to the first disbursement, the borrower will provide evidence that: (i) a project coordination unit attached to the Office of the Deputy Minister of Finance has been established and its core staff appointed (general coordinator and administrative coordinator); and (ii) the project Operations Manual has been approved in accordance with the terms previously agreed upon with the Bank (paragraph 3.5).				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges:^(d)	SI <input type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes:^(e)	GE <input type="checkbox"/> and DI <input type="checkbox"/>		CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

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

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(c) 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 applicable policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** Between 2005 and 2019, Peru achieved robust, stable economic growth averaging 5.2% annually in real terms,¹ higher than the regional average of 3.2%.² Peru consolidated its fiscal discipline during that period, posting a deficit of 2.7% and debt of 27% of gross domestic product (GDP), less than half the regional average (75.4%) for 2019 ([World Economic Outlook 2020](#)), which yielded savings of approximately 2.4% of GDP for the Fiscal Stabilization Fund. This was the result of an effective institutional framework comprising two main components: (i) fiscal rules involving deficit, debt, and expenditure controls, which the government has successfully adhered to;³ and (ii) a medium-term fiscal framework establishing an expectation of and commitment to sustainability.
- 1.2 Thanks to the financial strength over the 2005-2019 period, the country was able to implement a substantial package of measures to tackle the 2020 public health crisis, which, at 20.3% of GDP, was one of the largest in the region.⁴ The package included tax relief measures and measures to boost public spending amounting to 7.2% of GDP (2.6% and 4.6%, respectively), an injection of liquidity backed by government guarantees (10.8%), and private savings liquidity (2.3%). To implement the package, the country suspended its fiscal rules for the 2020-2021 period⁵ and published a [Multiyear Macroeconomic Framework \(2021-2024\)](#), which provides for a gradual convergence to the fiscal rule limits over the medium term.⁶
- 1.3 GDP contracted 11.1% in 2020 due to the pandemic. However, the International Monetary Fund (IMF) projects that the economy will grow 8.5% in 2021,⁷ more than double the rate forecast for the region (4.1%) but not enough to offset the 2020 decline. To tackle the crisis, the Peruvian government increased nonfinancial public sector spending from 20.1% in 2019 to 25% of GDP in 2020, not only to finance the fiscal measures (support transfers for vulnerable groups and support for economic reactivation) but also to address gaps in public service delivery brought to light by the crisis. As a result, public investment was replaced by current expenditure, though both posted increases in late 2020.⁸ Given the lower level of economic activity and the tax relief measures, tax revenue fell 15.1% in real terms from 19.7% of GDP in 2019 to 18% of GDP in 2020.
- 1.4 With lower tax revenue and higher public expenditure, the fiscal deficit jumped from 1.6% of GDP in 2019 to 8.9% of GDP in 2020. The measures adopted were financed by using fiscal assets and issuing debt. Financing requirements increased from 4.2%

¹ [IMF \(2021\)](#): 6.57% from 2005 to 2013 and 3% from 2014-2019.

² [IMF \(2020\)](#).

³ [Mendoza, 2021](#).

⁴ [IMF](#). The averages for advanced, emerging, and low-income economies were 24% of GDP, 6% of GDP, and 2% of GDP, respectively.

⁵ [Legislative Decree 1457-2020](#).

⁶ [Multiyear Macroeconomic Framework](#). Deficit converging to 1% in 2026, and GDP debt converging to 30% in 2040.

⁷ [IMF 02/2021](#).

⁸ [Central Reserve Bank of Peru](#). Investment stood at 5.8% of GDP in 2010-2013, 5.4% in 2014-2016, and 4.7% of GDP in 2017-2020.

of GDP in 2019 to 9.2% of GDP in 2020. Debt climbed to 35% of GDP in 2020, which is the second lowest in the region despite being the highest rate posted by the country since 2005.

- 1.5 Although Peru has successfully managed the economic and fiscal impacts of the public health crisis, additional measures need to be introduced, especially in relation to expenditure, so that public resources are used more efficiently. To achieve this, the country will need to improve its public sector financial management tools.
- 1.6 In this context, the government approved a [Digital Transformation Plan](#) in February 2021 to strengthen its fiscal management tools through a modernization strategy that will be implemented in three phases. Phases 1 and 2 are already being carried out with the government's own resources and include: (a) migrating the existing computerized Integrated Financial Management System (SIAF) from a client-server platform to the web;⁹ and (b) reviewing the conceptual model prepared with Bank support in 2020¹⁰ and approved by the steering agencies in April 2021. Phase 3 will entail the development of an operational model for the new Integrated Financial Management System for the Public Sector (SIAF-SP), the adoption of new processes and associated software modules (in the new web-based version), expansion of technological infrastructure, and the training and/or certification of staff involved in the modernization. This phased implementation strategy is in line with international best practices.¹¹
- 1.7 As an institutional support for the modernization strategy, Peru has a [new legal framework \(2018\)](#) aimed at improving the management, productivity, efficiency, and effectiveness of public agencies. Under this framework, the country can strengthen the interoperability, linkages, and integration of country systems¹² that factor into public sector financial management and their respective steering agencies in order to guarantee more comprehensive public treasury management. The law also provides for the implementation of the SIAF-SP,¹³ which will provide support to all public sector financial management processes and procedures, ensuring the integration of the data it administers.
- 1.8 The institutional framework for public sector financial management falls under the responsibility of the Office of the Deputy Minister of Finance and comprises entities and organizations involved in the planning, collection, allocation, use, custody, registration, control, and evaluation of public funds. These include the following steering agencies: (i) the Public Budget Office; (ii) the Treasury and Public Credit

⁹ In Peru, use of a client-server platform means that the system's features and most of its data (accounting) are shared across computers at more than 3,500 execution units, which hinders system maintenance and data timeliness.

¹⁰ Technical cooperation operation [ATN/OC-17627-PE](#).

¹¹ See [Public Financial Management in Latin America](#) (IDB, Pimenta and Pessoa) and the [guide on SIAF projects](#) (Pimenta).

¹² For terminology purposes, the term "system" will be used in a general sense to refer to the country systems including their legal framework, procedures, staff, and computerized systems. When referring to the country systems' technological support tools, the terms "computerized system," "application," or "software" will be used.

¹³ The SIAF-SP encompasses the country budget, treasury, public debt, accounting, procurement, multiyear programming and investment, and human resources systems. The Core SIAF-SP is the computerized system that will support the country budget, treasury, public debt, and accounting systems.

Office; (iii) the Public Accounting Office; (iv) the Public Procurement Office; and (v) the Fiscal Management of Human Resources Office. Public sector financial management involves approximately 3,000 operational units that execute the budget at the national, regional, and local levels.

- 1.9 To implement Phase 3 of the modernization strategy, the Peruvian government asked the Bank for technical and financial assistance through implementation of a specific investment operation.
- 1.10 The general problem to be addressed is the poor quality of public resource management.¹⁴ The root cause of this problem is the ineffectiveness of the main stages of the public expenditure process (certification, commitment, verification, and payment).¹⁵ The drivers of these problems are discussed below.
- 1.11 **Public sector financial management processes have the following weaknesses:** (i) There is a lack of timely information for programming and cash management because the three expenditure stages (commitment, verification, and payment) are essentially carried out at the time of payment;¹⁶ (ii) payments and bank reconciliation involve a large number of manual processes;¹⁷ (iii) it is difficult to firm up accounting data because (a) the budget classifiers, chart of accounts, and catalog of goods and services are not compatible; (b) as a result, there is a need for considerable manual interaction by accountants in the posting process (accounting entries);¹⁸ (c) accounting data is spread out across a large number of execution units; and (d) the unit costs of public production are mostly unknown; (iv) physical documents are used for debt registry, monitoring, and projections; (v) centralized payroll management is difficult because there are multiple public procurement regimes, which are processed using methodologies with different calculations;¹⁹ (vi) management and accounting of asset data is hindered by shortcomings in the registration and administrative management of assets by public enterprises;²⁰ and (vii) the lack of specialization and certification among public sector financial management staff makes operational excellence management difficult.²¹
- 1.12 **Information technology (IT) systems have the following weaknesses:** Most software applications cannot effectively perform the following functions, which are

¹⁴ From 2018 to 2020, the average difference between the initial institutional budget and the amended institutional budget was 18.5%, whereas best practices under the Public Expenditure and Financial Accountability Assessment recommend that the difference not exceed 5%. [Consulta Amigable](#).

¹⁵ Performing all four expenditure stages takes approximately 69 minutes. In countries that have modernized these procedures, they can be completed within 15 minutes. This has an enormous effect on the availability of data for decision-making because it considerably increases the total time between certification and payment, putting suppliers at considerable disadvantage (these steps are performed at different times).

¹⁶ IMF report, 2020.

¹⁷ Public Accounting Office – Bank reconciliation is performed by 15 employees, when it could be automatic.

¹⁸ Public Accounting Office – Approximately 3,500 accountants are assigned to these tasks at the execution units.

¹⁹ Public Accounting Office – There are 15 types of employment regimes (IDB – SIAF diagnostic assessment).

²⁰ Fixed assets in the asset balance sheet account for 80% of total assets.

²¹ [National Civil Service Authority \(SERVIR\)](#). Evaluations of public sector financial management employees' knowledge show that, on average, 79% of employees did not score high enough to pass the tests.

required under the new public sector financial management regulations: (i) budget execution with a multiyear horizon;²² (ii) budget amendments;²³ (iii) effective cash management;²⁴ (iv) automatic online accounting; (v) integration of [front, middle, and back office](#) debt management functions;²⁵ (vi) centralized payroll management for all public enterprises;²⁶ (vii) administrative management of public goods; (viii) estimation of public costs; (ix) operating under workflow mode with an automatic sequence of expenditure steps and consultation of the documents generated; and (x) direct registration of invoices by suppliers.

1.13 **The technological infrastructure has limitations** in providing efficient and effective technological support due to: (i) insufficient infrastructure security for application access and management due to an obsolete technological platform;²⁷ (ii) insufficient capacity to support the new features of a centralized system, in terms of both processing and storage capacity; (iii) a lack of tools for data mining and reporting; (iv) an interoperability system with inadequate technological integration mechanisms, which hinders maintenance and the addition of new connections;²⁸ and (v) systems whose maintenance depends heavily on specialists,²⁹ with insufficient documentation and system development and monitoring methodologies.

1.14 **Rationale.** Public sector financial management plays a key role in public resource allocation and use. The progress made in improving the institutional, operational, and technological frameworks for public sector financial management systems contribute to budget transparency and public accountability, with positive effects for expenditure, public debt, and budget deficit levels.³⁰ This progress has been very significant in Latin American countries, as governments seek to enhance the coverage, reliability, and timeliness of financial data. Significant progress has also been made in streamlining procedures and implementing more sophisticated models and technologies in national treasuries, debt management offices, accounting departments, and budget and procurement agencies ([Pimenta and Pessoa, 2016](#)). According to [Izquierdo, Pessino, and Vulentin](#), Peru's annual goods and services and capital expenditures are approximately 5% of GDP and 4.9% of GDP, respectively, above the regional averages of about 4% of GDP and 4.6% of GDP. With the exception of fixed expenses from the wage bill, the debt, and transfers to subnational governments, goods and services expenditure and capital

²² The system cannot process a multiyear commitment (IMF 2020).

²³ The process is complex, with multiple manual steps (IMF 2020).

²⁴ It is limited to payment management.

²⁵ The functions are spread out across three systems: the Integrated Debt Management System (SIAD), SIAF-Cliente, and SIAF-MEF (Information Technology Office – OGTI).

²⁶ There are more than 100 different IT systems across the three levels of government (OGTI).

²⁷ The system has approximately 15,000 users (OGTI).

²⁸ The only systems that have interoperability with it are the Banco de la Nación, National Customs and Tax Administration (SUNAT), Public Procurement Supervisory Body, National Registry of Identification and Civil Status (RENIEC), and Pension Fund Administrator systems (OGTI).

²⁹ SIAF-SP maintenance requires 101 specialists at the operation units (OGTI).

³⁰ a) Kirchgaessner, G. (2001), The Effects of Fiscal Institutions on Public Finance: A Survey of the Empirical Evidence, CESifo Working Papers, 617. b) Abiad, A., and T. Baig (2005). Underlying Factors Driving Fiscal Effort in Emerging Market Economies. IMF Working Paper. WP/05/106. c) Benito, B., and F. Bastida (2009), Budget Transparency, Fiscal Performance, and Political Turnout: An International Approach. Public Administration Review, 69: 403-417.

expenditure present the greatest opportunities for enhancing the efficiency and effectiveness of management tools, which is the focus of the main activities planned under this operation. The strengthening measures financed by this project will help the government more swiftly bring down the fiscal deficit and public debt levels that have deteriorated as a result of the public health crisis.

- 1.15 **Internal and external validity.** Empirical evidence shows the need for strong fiscal institutions in order to build an environment that promotes fiscal sustainability.³¹ Banerjee et al. (2017) find that the cost of public program execution decreases when the government uses an electronic platform to distribute benefits. Dhaliwal and Hanna (2014) find that using automated programs to monitor processes related to staff attendance can improve efficiency in public resource use and enhance the quality of public services. Arenas de Mesa (2016) summarizes evidence showing that management, together with transparency and fiscal accountability, help strengthen the fiscal institutional structure, one of the four dimensions of public finance that contribute to fiscal sustainability.
- 1.16 **The Bank's experience in the sector and lessons learned.** The Bank has been supporting the modernization of public sector financial management in Peru since 1990. Most recently, the Program for the Modernization of the Public Financial Administration System to Improve Public Resource Programming, Execution, and Reporting (loan 2445/OC-PE), executed between 2011 and 2017, sought to improve macroprocesses and implement a new computerized system. The [project completion report](#) revealed that the system was not implemented due to: (i) a failure to appropriately prioritize between (business) process improvement activities and automation of those activities; (ii) inadequate governance, since nearly all technical and implementation decisions were delegated to the execution team; and (iii) a lack of effective participation by the steering agencies in the development of the conceptual model.³² This project applies the lessons learned from loan 2445/OC-PE through: (i) [a new regulatory framework](#), which establishes guidelines for the new processes and a governance framework for implementation through the creation of the Public Sector Financial Management Coordination Committee (CCAFSP) (see paragraph 3.4); (ii) an arrangement for the steering agencies' participation in the validation of the conceptual model; and (iii) a [phased implementation strategy](#).
- 1.17 **Complementarity with other operations.** The Bank is supporting the strengthening of public finance through the following operations: (i) Project to Boost Efficiency in Public Investment Management and Public Procurement (loan [4428/OC-PE](#)), approved in 2017 for US\$73.75 million; and (ii) Improving Tax and Customs Revenue Collection Services Through Digital Transformation (loan [4725/OC-PE](#)), approved in 2018 for US\$100.7 million. Both operations have been eligible since 2019, but their execution began in 2020.³³ In addition, the latter

³¹ Poterba, James M., and Jürgen von Hagen. *Fiscal Institutions and Fiscal Performance*. University of Chicago Press, 1999, and Alesina, A., et al. "Budget Institutions and Fiscal Performance in Latin America." *Journal of Development Economics* (1999): pages 253-273.

³² The conceptual model sets out the specifications for the macroprocesses, laying the foundation for the development of the system's operational model.

³³ As of June 2021, loan [4428/OC-PE](#) had disbursed 18.3% of its IDB financing (US\$65 million). Meanwhile, loan [4725/OC-PE](#) had disbursed 3.3% of its IDB financing (US\$50 million) since its execution was especially affected by the COVID-19 crisis.

project provides for the implementation of the new integrated financial management system (SIAF-RP), whose conceptual model was financed with resources from technical cooperation operation [ATN/OC-17627-PE](#). This operation strengthens the commitment, verification, and payment stages of public expenditure, as well as debt, payroll, and procurement management. Between this operation and the revenue and investment/procurement operations, all systems involved in public sector financial management are covered, which will help accelerate economic and fiscal recovery after the downturn caused by the public health crisis.

- 1.18 **Strategic alignment.** The project is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and is aligned with the development challenge of productivity and innovation through the use of technology to improve public expenditure management efficiency and effectiveness. The project is also aligned with the following crosscutting themes: (i) climate change, as the operation involves an estimated 8.17% of climate financing related to digitalization and efficient equipment, based on the [joint methodology of the multilateral development banks for tracking climate finance](#), (see [optional link 6](#)); and (ii) institutional capacity and rule of law through the improvement of the public sector's capacity to manage the public sector budget and ensure greater transparency. The project will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following indicators: (i) agencies with strengthened digital technology and managerial capacity; and (ii) agencies with strengthened transparency and integrity practices. It is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) and is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8) with respect to increased efficiency in the use of public resources. Lastly, it is aligned with the IDB Group Country Strategy with Peru 2017-2021 (document GN-2889) through the strategic objective of improving public management.
- 1.19 **Gender considerations.** This project supports gender equity efforts through the implementation of budget classifiers including tags for gender-related reporting, which will facilitate monitoring and evaluation of program outcomes. The project will also support improvements in results-based management through a review of budget program consistency with activities and outcomes, including a manual for mainstreaming gender. The operational model will involve a diagnostic assessment of methodological gaps that will be used to mainstream gender in public finance management (paragraph 1.21).

B. Objectives, components, and cost

- 1.20 The general objective is to increase the quality of information services for public sector financial management. The specific objective is to increase the effectiveness of the main stages of expenditure: certification, commitment, verification, and payment.
- 1.21 **Component 1. Improvement of organizational capacity for public sector financial management (US\$4.3 million).** This component will finance: (i) the review and development of a detailed operational model of the public sector financial management macroprocesses associated with the programming, management, and evaluation of public resource management;³⁴ (ii) the review and update of budget,

³⁴ The operational model elaborates on the conceptual model for system development purposes.

accounting, and goods and services classifiers, including the consolidation of the table of operations;³⁵ (iii) the review of public sector financial management regulations and methodologies and adjustment of those regulations and methodologies to conform to the new features; and (iv) the design of a public cost estimation methodology.³⁶ Financing will be provided for individual consultants, consulting firms, and nonconsulting services.

- 1.22 **Component 2. Improvement of human resource competencies for public sector financial management (US\$19.1 million).** This component will finance: (i) the implementation of a technical assistance program for adoption of new processes and systems at execution units; (ii) the implementation of a training and certification program for public sector financial management employees; and (iii) the implementation of a change management program for the transition to the organizational, process, and technological modernization of public sector financial management. Financing will be provided for individual consultants, consulting firms, and nonconsulting services.
- 1.23 **Component 3. Modernization of IT systems for public sector financial management (US\$24.7 million).** This component will finance: (i) the development and implementation of modules for the public resource programming phase of public sector financial management; (ii) development and implementation of modules for the public resource management phase of public sector financial management; (iii) development and implementation of modules for the public resource evaluation phase of public sector financial management; (iv) the development and implementation of an electronic archive for all public sector financial management processes and documents;³⁷ (v) the development and implementation of an invoicing dashboard for direct supplier registration in the system; (vi) the development and implementation of data analytics tools for data mining and reporting; and (vii) the development and adoption of a public cost management system. Financing will be provided for individual consultants, consulting firms, and nonconsulting services.
- 1.24 **Component 4. Expansion of technological infrastructure for public sector financial management (US\$37.3 million).** This component will finance: (i) the expansion of IT equipment (including servers, storage devices, telecommunications, and workstations);³⁸ (ii) the implementation of a cloud environment for processing and storing data generated by public sector financial management systems; (iii) the implementation of a technological solution monitoring tool to improve service quality for users; (iv) the implementation of a security framework (software/hardware) with identity management for authentication and authorization; (v) the implementation of a common information exchange and support platform for the Integrated Financial Management System for Public Resources (SIAF-RP); and (vi) the implementation of base software and a database. Financing will be provided for consulting services, training, hardware procurement, and software licenses.

³⁵ The conceptual model includes an option to record gender- and climate-change-related topics.

³⁶ Beginning with four sectors.

³⁷ This will help mitigate climate change by reducing trips and paper consumption.

³⁸ A sustainable approach will be promoted in equipment procurements, in accordance with the provisions of the Bank's procurement policies.

- 1.25 **Project management, studies, evaluations, and audits (US\$7.1 million).** Financing will mainly be provided for: (i) the execution and fiduciary team; (ii) studies;³⁹ (iii) evaluations; and (iv) audits.
- 1.26 **Beneficiaries.** The main beneficiaries will be: (i) government employees, through better information for public resource management; and (ii) the public, through better allocation of public resources to promote public policies.
- C. Key results indicators**
- 1.27 The general objective will be measured through the reduction of the difference between the amended institutional budget and the initial institutional budget. The specific development objective will be measured through: (i) the decrease in the average amount of time (minutes per person) taken to perform an expenditure transaction (certification, commitment, verification, and payment authorization); (ii) the increase in the percentage of electronic payments made to suppliers; (iii) the decrease in the cost of IT support specialists for SIAF operation within the execution unit; and (iv) the increase in public sector financial management employees' knowledge relative to the basic knowledge required.
- 1.28 **Economic evaluation.** The evaluation considered the outcome of reduction of the time taken to conduct expenditure processing focusing on the certification, commitment, verification, and payment steps, which will be modernized and supported by a new computerized system that will operate in an electronic archive workflow modality.⁴⁰ By the end of 2037 (20 years from the launch of execution), the project benefits should yield a net present value of US\$16.2 million, with an internal rate of return of 16%. A sensitivity analysis was also conducted using one of the risks listed in the Risk Matrix, which concerns delays in obtaining project results due to the change in administration. Should this scenario materialize, the project investments would generate a net present value of US\$7.1 million, with an internal rate of return of 14% (see [economic analysis](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation was designed as a specific investment loan since the scope of activities is clearly defined. The total estimated cost is US\$92.5 million, of which US\$74 million (80%) will be financed from the Bank's Ordinary Capital resources and US\$18.5 million (20%) with a counterpart contribution. Table 1 breaks down the resources by financing source and category. Details of costs disaggregated by activity are available in the [itemized budget](#).

³⁹ Equivalent documents under the country system for multiyear programming and investment management (invierte.pe).

⁴⁰ Electronic archive workflow is a solution for automating the sequential execution of the steps in a process; generating supporting documents electronically as the steps are carried out; using electronic signatures to guarantee step and document security; and, above all, facilitating consultation of and support for a given process with the ability to show step progress and associated documents in various forms.

Table 1. Estimated project costs (in millions of U.S. dollars)

Component	IDB	Local	TOTAL	%
Component 1. Improvement of organizational capacity for public sector financial management	4.01	0.29	4.30	4.65
Component 2. Improvement of human resource competencies for public sector financial management	16.20	2.86	19.06	20.61
Component 3. Modernization of IT systems for public sector financial management	21.25	3.46	24.71	26.72
Component 4. Expansion of technological infrastructure for public sector financial management	31.94	5.36	37.30	40.32
Project management, studies, evaluations, and audits	0.60	6.53	7.13	7.70
Total	74.00	18.50	92.50	100

- 2.2 **Disbursement schedule.** Disbursements will be made over six years. Determination of the disbursement period took into account the average execution time for SIAF improvement projects observed over the past 10 years.⁴¹ Due to their nature, these projects require time for the design, development, and adoption of new processes and systems, as well as for change management. The schedule is shown in Table 2 below.

Table 2. Disbursement schedule (in millions of U.S. dollars)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
IDB	3.15	11.88	17.23	18.51	14.81	8.42	74.00
Local	0.79	2.97	4.31	4.63	3.70	2.10	18.50
Total	3.94	14.85	21.53	23.14	18.51	10.52	92.50
% Total	4.26	16.06	23.28	25.01	20.01	11.38	100.00

B. Environmental and social risks

- 2.3 In accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703) and the results of the Safeguards Policy Filter, the project has been classified as a Category "C" operation. The project will support the strengthening of public financial management and will not finance civil infrastructure or works. Therefore, no socioenvironmental risks are expected.

C. Fiduciary risks

- 2.4 The following high-level internal process risk was identified: a low level of participation by beneficiary departments in the development of project deliverables could lead to delays in the issuance of payment approvals for the goods and services procured, upending the planned timeline for payment execution and justification of eligible expenditures to the Bank within the term of the financial plan. This would impact the planned execution of annual forecasts for operation disbursements. This risk will be mitigated by: (i) involving the beneficiary departments in the process of

⁴¹ IDB project database.

developing the output specifications in the terms of reference; and (ii) setting deadlines for the issuance of approvals.

D. Other key issues and risks

2.5 The risk workshop held with the counterpart's participation found that the project's overall risk classification was medium-high. Two institutional risks were identified, as detailed below.

- a. **Political (medium-high):** If authorities within the Ministry of Economy and Finance (MEF) were to change and disagreements with the conceptual vision for the project were to arise, there could be delays in the project execution plan. This risk is partially mitigated for two reasons: (i) the conceptual model was approved by the CCAFSP in late April 2021; and (ii) the operational model will be developed in 2022, meaning that, if the new authorities disagree with the conceptual model, there will be a window of opportunity to make the required adjustments (from August to December 2021) without significantly impacting the project timeline.
- b. **Institutional (high):** Resistance to change at the steering agencies regarding adoption of the disruptive approach to the new integrated processes and procedures established in the current regulatory framework and embodied in the new conceptual model would affect the achievement of the expected project results. This risk is partially mitigated because: (i) the project has a governance structure established by Legislative Decree [1436](#) and an execution structure established by the [project Operations Manual](#), which promotes synergies between the project coordination unit (PCU) and key project actors; (ii) the project provides for the execution of a change management program as part of its components; and (iii) the MEF is taking actions to improve the SIAF-SP, in technological and operational terms, which contribute to change management strategies (migration of the SIAF and the integrated administrative management system (SIGA) to a web-based environment).

2.6 **Sustainability.** (i) Procurement processes will incorporate sustainability criteria (environmental, social, and economic) at several stages, including: planning; preparation of standard bidding documents; definition of technical specifications; bidder selection and evaluation criteria; and bid evaluation and award; (ii) with regard to environmental considerations, "[Green Procurement: How to Encourage Green Procurement Practices in IDB Funded Projects?](#)" provides guidance on features to consider when designing green procurements; (iii) with respect to technological infrastructure, there should be no significant increase in the maintenance budget as it currently stands because the MEF has an annual budget allocated for the maintenance of its IT infrastructure and most procurements will replace obsolete equipment with higher capacity equipment; (iv) with regard to the new system, the MEF has been periodically maintaining and improving the existing SIAF (client-server) for over 20 years. The maintenance required for the new web-based system is less expensive, simpler, and more centralized, making it more sustainable; (v) the interoperability actions will also contribute to the sustainability of project-related actions and investments in the medium and long term; (vi) change management actions help employees accept new management tools, thereby making the modernization process more sustainable; and (vii) the implementation of the MEF cybersecurity strategy will support the availability and integrity of the

systems procured, help uphold the rights of citizens, and strengthen public trust in the MEF.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Peru. The MEF will be the project executing agency acting through its Projects and Investment Office (OGIP),⁴² which will work in close coordination with the PCU. The OGIP will be responsible for the project's fiduciary management, while the PCU will be responsible for the project's technical management.⁴³
- 3.2 The OGIP will be responsible for activities pertaining to fulfillment of the commitments established in the loan contract for project implementation, as concerns fiduciary management and monitoring and supervision for attainment of the targets set. The institutional capacity assessment found that the OGIP has the legal mandate, governance, and capacity to manage the project. The main area of weakness identified (low risk) is insufficient staff and high turnover of OGIP permanent staff, especially in procurement. The assessment identified opportunities for improvement in connection with limited capacity for: (i) project monitoring and evaluation; and (ii) planning and procurement (related to understaffing). The risk section includes a response to these recommendations by means of recruitment of senior procurement and monitoring and evaluation staff, who will be assigned to work exclusively on project activities (see Annex III, Appendix I, and operation budget).
- 3.3 For project execution, a PCU attached to the Office of the Deputy Minister of Finance will be established. The PCU will comprise a technical team consisting of, at a minimum: (i) a general coordinator; (ii) four component coordinators and an administrative coordinator; and (iii) three specialists (technological, legal, and monitoring and evaluation). The PCU will coordinate project planning, execution, and evaluation activities with the OGIP and the agencies involved in the project. The PCU's main duties will be to: (i) plan the execution of activities; (ii) support the preparation and update of the project's operational tools, namely the [multiyear execution plan](#), [annual work plan](#), [procurement plan](#), and [monitoring and evaluation plan](#); (iii) oversee technical execution and submit progress reports; (iv) prepare terms of reference and technical specifications for the procurement of goods and services; (v) provide technical approvals for goods and services, subject to coordination with and approval by the steering agencies and the Information Technology Office (OGTI), where applicable; and (vi) submit the project evaluation. The component coordinators and the technological specialist will play a key role in defining the specifications and requirements for the goods and services to be procured and in determining technical compliance of the goods and services received. The administrative coordinator will support administrative activities,

⁴² Attached to the Office of the Secretary, the OGIP is the support body in charge of managing investments and projects financed with debt operations. Its functions are established in the [Regulation on the Organization and Functions of the Ministry of Economy and Finance](#).

⁴³ This will require close coordination between the public sector financial management steering agencies and the OGTI, as needed.

whereas the monitoring and evaluation specialist will support planning and monitoring activities. The [project Operations Manual](#) discusses the structure, processes, procedures, and positions needed for project execution, including coordination between the OGIP and the PCU.

- 3.4 **Strategic coordination.** The CCAFSP, created by Legislative Decree [1436](#), will be responsible for strategic coordination, acting through the MEF's Office of the Deputy Minister of Finance. According to this legislative decree, the CCAFSP is responsible for strategic decisions aimed at ensuring extra- and intersystemic integration of the SIAF-RP as well as the proper implementation of the public sector financial management regulatory framework.⁴⁴ It is structured as a joint committee whose membership consists of the directors of all of the public sector financial management steering agencies with the Deputy Minister of Finance acting as chair, and it meets regularly every four months. It has a Technical Secretariat that coordinates and harmonizes the implementation strategy with all public sector financial management actors and other donors, if any are involved in supporting public sector financial management, in addition to being in charge of the gradual implementation of the provisions of the legislative decree. Its [internal rules of procedure](#) are approved by way of an MEF ministerial resolution. In addition, an Advisory Committee for the Public Sector Financial Management Project Portfolio has been created, comprising project coordinators engaged in public sector financial management,⁴⁵ a representative from the OGTI, and a representative from the MEF's OGIP.⁴⁶ It will be coordinated by the PCU. Its duties include: (i) supporting the SIAF-RP's extrasystemic and crosscutting operational definitions, as needed; (ii) promoting streamlined use of information and communication technology resources; and (iii) supporting the collection of information needed from institutions outside the MEF.
- 3.5 **Special contractual conditions precedent to the first disbursement of the loan.** As a special contractual condition precedent to the first disbursement, the borrower will have provided evidence that: (i) a program coordination unit (PCU) attached to the Office of the Deputy Minister of Finance has been established and its core staff appointed (general coordinator and administrative coordinator); and (ii) the [project Operations Manual](#) has been approved in accordance with the terms previously agreed upon with the Bank. These conditions are essential because the PCU and its core staff are needed to initiate project execution. The [project Operations Manual](#) ensures that project execution is carried out in accordance with the terms agreed with the Bank and guarantees coordination and interoperability between public sector financial management support projects.

⁴⁴ See Article 7 of Legislative Decree 1,436, published in *El Peruano* on 16 September 2018. This includes strategies, regulations, guidelines, procedures, methodologies, and operational system requirements. According to the CCAFSP [internal rules of procedure](#), ordinary sessions are held once every four months, whereas extraordinary sessions are held whenever the Committee Chair decides to do so.

⁴⁵ Includes all projects that support initiatives linked to the SIAF-RP system, whether financed with external or domestic resources, including the Project to Boost Efficiency in Public Investment Management and Public Procurement (loan [4428/OC-PE](#)) and the project guided by this [project Operations Manual](#) (operation PE-L1266).

⁴⁶ Representatives from other institutions under the information exchange framework may be invited.

- 3.6 **Fiduciary agreements and requirements.** The fiduciary agreements and requirements establish the operation's fiduciary framework (Annex III). Loan proceeds may be disbursed as advances, as reimbursement of expenditures, or as direct payments to suppliers. For the advance of funds modality, disbursements will be made based on a financial plan covering the project's real liquidity needs for up to 180 days. Disbursements will be made when supporting documentation has been provided for at least 80% of the cumulative balance pending justification, using Bank forms. The OGIP will maintain a specific bank account in U.S. dollars and another in soles (monetization) to manage the loan proceeds. The OGIP will submit audited financial statements annually and at the end of the project, within the terms and time limits required by the Bank. The OGIP will select and hire a Bank-eligible independent audit firm for the duration of the project.
- 3.7 All procurements financed in whole or in part with loan proceeds will be carried out in compliance with Bank policies (document GN-2349-15, Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank, and document GN-2350-15, Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank). However, since the Bank's Board approved advanced use of Peru's country procurement system in 2017 (document GN-2538-22), the country system may be used after completing the implementation and monitoring actions set out in the approved Report for Acceptance of Use of the Country Procurement System in Peru, subject to modification of the [procurement plan](#). The electronic reverse auction and framework agreement-based electronic price list subsystems can be used once the recommendations have been implemented.
- 3.8 According to the analysis of the OGIP's capacity, procurement processes financed by the Bank will be reviewed ex post, except in cases where ex ante supervision is warranted, as indicated in the [procurement plan](#). Whenever procurements are executed using the country system, the country system will also be used for supervision. The [procurement plan](#) will be managed through the Procurement Plan Execution System or another system specified by the Bank. Procurement processes will incorporate sustainability criteria (environmental, social, and economic) at several stages, including: (i) planning and preparation of bidding documents; (ii) preparation of technical specifications; (iii) bidder evaluation and selection criteria; and (iv) bid evaluation and award.
- B. Summary of arrangements for monitoring results**
- 3.9 **Monitoring.** The executing agency will monitor the project through the OGIP and the PCU. On a semi-annual basis, the executing agency will submit to the Bank, within 60 days of the end of each six-month period, reports on the progress achieved toward the output and outcome indicators established in the Results Matrix and the [monitoring and evaluation plan](#). Likewise, reports for the second half of the year will also include an [annual work plan](#), a [procurement plan](#), and a review of the targets for the rest of the project.
- 3.10 **Evaluation.** The outcome targets contained in the Results Matrix will be verified through two midterm evaluations. The first will take place 90 days after the date on which 30% of the loan proceeds have been disbursed or 24 months into project execution, whichever occurs first. The second will take place 90 days after the date on which 60% of the loan proceeds have been disbursed or 48 months into project

execution, whichever occurs first. A final evaluation will also be carried out, to be submitted within 90 days of the final project disbursement.⁴⁷ This final evaluation will be coordinated with the preparation of the project completion report.

- 3.11 **Impact evaluation.** The final evaluation will include an impact evaluation based on a difference-in-difference analysis, in collaboration with the PCU, in order to identify the causal effect on the decrease in the average time taken to process payment transactions when the SIAF-RP's treasury management system feature is implemented. The PCU will be responsible for implementation of the evaluation, in close coordination with the Bank's project team. The final evaluation will also develop an ex post economic evaluation of the intervention, replicating the cost-benefit analysis methodology used for the ex ante economic analysis.

⁴⁷ The OGIP will be responsible for contracting these evaluations, and the terms of reference will require the Bank's no objection.

Development Effectiveness Matrix		
Summary		PE-L1266
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Agencies with strengthened digital technology and managerial capacity (#) -Agencies with strengthened transparency and integrity practices (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2889	Improve public management
Country Program Results Matrix		The intervention is not included in the 2021 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.8
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.8
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		7.8
5.1 Monitoring Mechanisms		2.8
5.2 Evaluation Plan		4.9
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
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, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Supports the implementation of the new financial administration system (SIAF-RP), whose conceptual model was financed by resources from the TC, ATN / OC-17627-PE

The specific objective of the operation is to increase the effectiveness of the main stages of public spending related to certification, commitment, accrual, and payment. The achievement of this objective will contribute to the overall objective of increasing the quality of information services for the management of public sector financial administration. The diagnosis presented clearly expresses the need and opportunity to modernize the integrated system for public financial management in Peru (SIAF) and thus, to increase the quality of spending management. Among others, the program helps to solve the following specific problems: (i) insufficient timely information to schedule and execute expenses, as well as to effectively manage cash; and (ii) an excessive amount of manual processes related to payment management and accounting consolidation.

The results matrix presents adequate indicators (SMART) to measure the achievement of the specific objective. The project appropriately addresses the monitoring and evaluation requirements. The MEP includes an evaluation proposal using the difference-in-differences method to measure the impact of the introduction of the new treasury management model on the average time required to effectively execute a spending operation, which includes four stages: certification, commitment, accrual and payment. It should be noted that some aspects of the proposal have yet to be defined.

The project presents a cost-benefit analysis with properly supported assumptions. The benefits of the project come from monetizing the decrease in time to carry out a spending process considering its four stages. It was estimated that at the end of the year 2042 (20 years from the beginning of the execution) the benefits of the project will be generating an Internal Rate of Return (IRR) of 16%.

The operation risk is medium-high. The main risks identified are those related to the political (medium high) and institutional (high) environments. As mitigation measures, the team plans (i) to work with future ministry authorities to define the final project model without significantly damaging its initial schedule; and (ii) to work together with the ministry on a change management program that has been considered as part of the project outputs.

RESULTS MATRIX

Project objective:	The specific objective is to increase the effectiveness of the main stages of expenditure: certification, commitment, verification, and payment. Achievement of this specific objective will contribute to the general objective, which is to increase the quality of information services for public sector financial management
---------------------------	---

GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Project end	Means of verification	Comments
General development objective: Reduce the difference between the amended institutional budget (PIM) and the initial institutional budget (PIA).												
{{PIM / PIA} – 1}	%	18.0	2020 ¹	18.0	18.0	15	10	5	5	5	Budget Execution Monitoring (Consulta Amigable)	Calculation formula: PIM / PIA Baseline: 18.0% PIM (2018) = S/ 187.5 billion PIM (2019) = S/ 188.6 billion PIM (2020) = S/ 217.2 billion PIA (2018) = S/ 157.2 billion PIA (2019) = S/ 168.1 billion PIA (2020) = S/ 177.3 billion

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Project end	Means of verification	Comments
Specific development objective: To increase the effectiveness of the main stages of expenditure: certification, commitment, verification, and payment.												
Indicator 1: Decrease in the average time taken (minutes per person) to perform an expenditure transaction (certification, commitment, verification, and payment authorization)²												
Average amount of time to perform an expenditure transaction	Minutes	69	2020	69	69	50	30	29	15	15	Consolidated report on hours spent performing expenditure processes generated by the new SIAF-SP system	Formula: Time = pre-commitment + commitment + verification + payment authorization Baseline: 69 minutes Time = 10 + 15 + 40 + 4 = 69 minutes

¹ This impact indicator has been affected by the pandemic crisis in 2020. To better gauge the progress made under this project, the baseline will be the average value from 2018 to 2020. The average was measured in 2020.

² The baseline value for Indicator 1 is an estimate based on the process survey conducted for the SIAF-SP diagnostic assessment and interviews with government employees who are experts in operating the system. The final value of the indicator will be re-estimated based on the records of the new web-based version of the SIAF-SP system (an improved version of the existing SIAF-SP that will be rolled out by the third quarter of 2021). However, the process improvement target will remain the same; in other words, the target will still be a 79% reduction of the time spent, in minutes, performing an expenditure transaction.

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Project end	Means of verification	Comments
Indicator 2: Increase in the percentage of electronic payments to suppliers												
Number of electronic payments / Total number of payments	%	53	2019	53	53	60	65	70	80	80	Execution report from the SIAF Treasury module, submitted by the Public Treasury Office	Formula: Electronic payments / Total payments Baseline: 53% Electronic payments = 5,993,476 Total payments = 11,237,257
Indicator 3: Decrease in the cost of IT support specialists for SIAF operation within the execution unit												
Cost of IT specialists at execution unit / Cost of IT specialists at the OGTI	%	24	2020	24	24	24	15	15	10	10	Information Technology Management Office (OGTI) management report	Formula: Cost of IT specialists at execution unit / Cost of IT specialists at the OGTI Baseline: 24% Cost of IT specialists at execution unit = S/ 4.3 million Cost of IT specialists at the OGTI = S/ 17.6 million (annually) ³
Indicator 4: Increase in public sector financial management employees' knowledge relative to the basic knowledge required												
Number of employees with basic level of knowledge / Total employees	%	51	2020	51	51	51	60	70	80	80	Report: Census analysis and evaluation of knowledge assessment	Formula: Number of employees with basic level of knowledge / Total employees Baseline: 51% Employees with basic level of knowledge = 2,067 Total employees = 4,062

³ OGTI = 254 employees * S/ 5.81; Execution unit = 72 * S/ 5,000.

OUTPUTS

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
Component 1. Improvement of organizational capacity for public sector financial management												
1.1 Detailed operational model for public sector financial management macroprocesses associated with the programming, management, and evaluation of public resources	Model ⁴	0	2021	1	0	0	0	0	0	1	SIAF Committee minutes stating that the steering agencies have approved the operational model	The output is considered completed when the specialists who will program its features say the specifications include all necessary requirements.
1.2 Budget, accounting, and goods and services classifiers, including consolidation of the table of operations	Tools ⁵	0	2021	3	1	0	0	0	0	4	Management report from the Public Accounting Office accepting the harmonization of the three tables and the preparation of the table of events	The tools are considered completed when the specialists who will program their features say the specifications include all necessary requirements.
1.3 Public sector financial management regulations and methodologies harmonized with the new features	Regulations	0	2021	0	0	0	0	0	1	1	Report from the Legal Department of the Ministry of Economy and Finance (MEF) approving adjustments to the regulation	The regulation is considered accepted when it has been published in the Official Gazette.
1.4 Methodology for estimating public costs ⁶	Methodology	0	2021	0	0	0	1	0	0	1	Report from the Public Budget Office accepting the proposed model	The model is considered completed when the specialists who will program its features say the specifications include all necessary requirements.

⁴ The model includes: (i) procedures and business rules that define its operation; (ii) the application or computer system (software) supporting its operationalization; (iii) training on how to execute procedures and operate the software; and (iv) in many cases, expanded processing capacity through more servers, computers for system users, storage devices due to increased data volume, and improved communication for remote users.

⁵ Tools here refers to the set of tables, management applications, and user manuals for the: (i) budget classifiers; (ii) chart of accounts; and (iii) goods and services catalogue.

⁶ Beginning with four sectors.

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
Component 2. Improvement of human resource competencies for public sector financial management												
2.1 Technical assistance program for adoption of new processes and systems at the execution units	Districts assisted	0	2021	0	0	0	10	10	5	25	Report from the Treasury Office outlining progress in implementation of the assistance	The output is considered completed when the first district that received assistance attests to its effectiveness.
2.2 Training and certification program for public sector financial management employees	Persons	0	2021	0	3,000	3,000	4,000	5,000	3,500	18,500	Report from the MEF Human Resources Department confirming that the program is being executed	The output is considered implemented when the first employee becomes certified in one of the courses.
2.3 Change management program for the transition to organizational, process, and technological modernization	Program ⁷	0	2021	0	0	0	0	0	1	1	Report from MEF Management stating that the program was successfully implemented	The output is considered implemented when the first change management seminar has been held.
Component 3. Modernization of IT systems for public sector financial management												
3.1 Modules for the public resource programming phase of public sector financial management	Software modules	0	2021	0	11	1	0	0	0	12	OGTI report confirming that the modules were tested and accepted by the steering agencies	Each module is considered accepted when the first user successfully performs a specific transaction.
3.2 Modules for the public resource management phase of public sector financial management	Software modules	0	2021	0	0	8	6	0	0	14	OGTI report confirming that the modules were tested and accepted by the steering agencies	Each module is considered accepted when the first user successfully performs a specific transaction.
3.3 Modules for the public resource evaluation phase of public sector financial management	Software modules	0	2021	0	0	0	2	3	0	5	OGTI report confirming that the modules were tested and accepted by the steering agencies	Each module is considered accepted when the first user successfully performs a specific transaction.
3.4 Electronic archive (workflow) for all public sector financial management processes and documents	Software	0	0	0	1	0	0	0	0	1	OGTI report confirming that the electronic archive was customized for all system modules	The electronic archive is considered implemented when the first user runs a specific process and the support documents are generated electronically.

⁷ The change management program is a structured approach to managing aspects of change related to people and the organization in order to achieve the desired institutional results. Its objective is to help management, employees, and stakeholders accept the change in their current business environment. Activities include seminars, informational events, publicity materials, employee assistance, forums, and an informational website. The program depends greatly on the methodology to be used by the selected firm.

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
3.5 Invoicing dashboard for direct supplier registration in the system	Software	0	0	0	1	0	0	0	0	1	Report from the Public Treasury Office confirming that suppliers are submitting invoices through the invoicing dashboard support system	The output is considered implemented when the first supplier successfully submits their invoice electronically.
3.6 Data analytics tools for data mining and reporting	Software	0	0	0	0	0	0	0	1	1	Report on the use of data analytics generated by the tool and submitted by the OGTI	The output is considered implemented when the first user successfully performs data mining.
3.7 Cost management system	Software	0	0	0	0	0	0	1	0	1	Cost management system report submitted by the Public Budget Office	The output is considered implemented when four cost pilots have been carried out in a priority sector.
Component 4. Expansion of technological infrastructure for public sector financial management												
4.1 Expansion of IT equipment	Hardware	0	2012	0	0	0	0	0	1	1	OGTI report confirming that the technological infrastructure meets all the requirements for operating the SIAF system and meets the energy efficiency requirements	The output is considered implemented when the new equipment is turned on in the MEF data center.
4.2 Cloud environment for data processing and storage	Platform	0	2021	0	0	0	0	0	1	1	OGTI report confirming that the platform is operational for running applications and storing data	The output is considered implemented when the new SIAF system performs a transaction or stores data in the cloud.
4.3 Technological solution monitoring tools that improve service quality for users	Software	0	2021	0	0	0	0	0	1	1	OGTI report confirming that the monitoring tool is operational	The output is considered implemented when the first operation monitored in the SIAF is carried out.

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
4.4 Security structure (software/hardware) with identity management for authentication and authorization	Structure ⁸	0	2021	0	0	0	0	0	1	1	OGTI report confirming that the strategy was implemented	The output is considered implemented when the SIAF can use these features for performing transactions.
4.5 Common information exchange and support platform for the SIAF-RP	Platform	0	2021	0	0	0	0	0	1	1	OGTI report confirming the SIAF's interoperability with all MEF and external systems	The output is considered implemented when the first productive operation is executed on all the platforms.
4.6 Base software and databases	Software	0	2021	0	0	0	0	0	1	1	Report on use of database monitor submitted by the OGTI	The output is considered implemented when it is installed and configured for operational launch.

⁸ The security structure includes the security policy that must be applied to electronic system use. It is made up of a series of basic principles and minimum requirements to adequately protect information. It is focused on ensuring access to and the availability, integrity, confidentiality, authenticity, and conservation of data, information, and services managed when performing its responsibilities electronically.

Country: Peru

Division: IFD/FMM

Operation number: PE-L1266

Year: 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Ministry of Economy and Finance (MEF)

Operation name: Project to Improve the Financial Administration of the Public Sector through Digital Transformation

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country system in the operation¹

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reports	<input checked="" type="checkbox"/> Information system	<input checked="" type="checkbox"/> National competitive bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> Internal audit	<input checked="" type="checkbox"/> Shopping	<input checked="" type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External control	<input checked="" type="checkbox"/> Individual consultants	

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Special features of fiduciary execution	The executing agency (Ministry of Finance – MEF) will act through its Projects and Investment Office (OGIP), which will work closely with the project coordination unit (PCU) attached to the Office of the Deputy Minister of Finance that will be established for this project. The OGIP will be responsible for fiduciary management of the project, while the PCU will be responsible for its technical management.
-------------------------------------	---	---

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The Institutional Capacity Assessment Platform (ICAP) was used to assess the OGIP's fiduciary capacity and found weaknesses, opportunities for improvement, and measures consistent with the operation's Risk Matrix. The strengths identified by the ICAP include the OGIP's experience in executing Bank projects and its legal mandate, governance, and capacity to manage the project. The opportunities for improvement and fiduciary risks identified by the ICAP, as well as the associated mitigation measures, are discussed below.
--	--

4. Fiduciary risks and risk response

Area	Risk	Risk level	Risk response
Internal processes	A low level of participation by beneficiary departments in the development of project deliverables could lead to delays in the issuance of payment approvals for the goods and services procured, upending the planned timeline for payment execution and justification of eligible expenditures to the Bank within the term of the financial plan. This would impact the planned execution of annual forecasts for operation disbursements.	High	This risk will be mitigated by: (i) involving the beneficiary departments in the process of developing the output specifications in the terms of reference; and (ii) setting deadlines for the issuance of approvals

¹ Any system or subsystem approved subsequently may be used for the operation, under the terms of its validation by the Bank.

Area	Risk	Risk level	Risk response
Economic/financial	Despite being scheduled for 2022, launch of execution could be delayed if the counterpart's budget for the project is not allocated in a timely manner due to budget constraints and/or redirection of the budget due to the pandemic, upending the planned timeline.	Low	(i) Ensure that prior action is taken with the debt source. (ii) If the budget set out in the Operating Regulations is not available, an amendment to the budget for the corresponding counterpart contribution will need to be requested in January 2022.
Goods and services	If the procurement fiduciary team does not have sufficient capacity in (i) monitoring and evaluation, (ii) planning, and (iii) procurement, these processes might not be conducted, and there could be delays to the operation's physical and financial timeline.	Low	This risk is partially mitigated because the OGIP is familiar with Bank procedures. In addition, strengthening actions will also be taken concerning the recommendations related to development of the terms of reference and the profile of the individual consultants, so that the selection process can begin as soon as the special contractual conditions for the first disbursement are met. The project management budget includes resources for hiring staff with experience in monitoring and evaluation, planning, and procurement. Once the team has been formed, it will coordinate with the Bank for procurement training.

5. Policies and guidelines applicable to the operation

Financial Management Guidelines for IDB-financed Projects (document OP-273-12), Disbursement Instructions, Instructions on Audited Financial Reports and External Audit Management, Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15), and Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15).

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

Exchange rate: For the purposes of accountability and justification of eligible expenditures, the exchange rate used to determine the equivalent value, in the currency of approval or the currency of disbursement, of an eligible expense made in the local currency will be the exchange rate in effect on the date the currency of approval or disbursement is converted into the local currency of the borrower's country (Article 4.10(b)(i) of the General Conditions of the Loan Contract). For the purposes of determining the equivalent value of expenditures incurred in the local currency chargeable against the local contribution or the equivalent value of reimbursement of expenditure against the loan proceeds, the exchange rate will be the rate in effect on the date on which the borrower, the executing agency, or any other person or corporation with delegated authority to incur expenditures makes the respective payments to the beneficiary.

Audit: The program financial statements will be audited by a Bank-eligible external audit firm under specific terms of reference acceptable to the Bank. The OGIP will submit audited annual financial statements within 120 days after the close of each of the borrower's fiscal years during the original disbursement term or any extension thereof. The final audited financial statements will be submitted within 120 days after the end of the original disbursement period or any extension thereof.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Bidding documents	For the procurement of works, goods, and nonconsulting services carried out in accordance with the procurement policies (document GN-2349-15), and subject to international competitive bidding (ICB), the Bank's standard bidding documents or other documents that the executing agency and the Bank have agreed to for the procurement in question will be used. The selection and contracting of consulting services will be carried out in accordance with the Policies for the Selection and Contracting of Consultants (document GN-2350-15), and the standard request for proposals issued by the Bank or the request for proposals that the executing agency and the Bank have agreed to for the selection process in question will be used. The project sector specialist is responsible for reviewing the technical specifications and terms of reference for procurements during preparation of selection processes. This technical review can be ex ante and is independent of the procurement review method.						
<input checked="" type="checkbox"/>	Use of country systems	Since the Board has approved advanced use of Peru's country procurement system, the country system may be used after completing the implementation and monitoring actions set out in the approved Report for Acceptance of Use of the Country Procurement System in Peru, subject to modification of the procurement plan. The electronic reverse auction and framework agreement-based electronic price list subsystems can be used once the recommendations have been implemented.						
<input checked="" type="checkbox"/>	Procurement supervision	<p>Supervision will be ex post, except where ex ante supervision is warranted. Whenever procurements are executed using the country system, the country system will also be used for supervision. The supervision method, whether (i) ex ante, (ii) ex post, or (iii) country supervision system, will be determined for each selection process. Ex post reviews will be conducted annually, in accordance with the project supervision plan, subject to changes during execution. Ex post review reports will include at least one physical inspection visit, selected from the procurement processes subject to ex post review (no less than 10%). (The inspection verifies the existence of the procured items, leaving verification of quality and compliance with specifications to the sector specialist.) If a physical inspection is not possible, the team will coordinate a virtual session. The threshold amounts for ex post review are as follows:</p> <table border="1"> <thead> <tr> <th>Works</th><th>Goods/Services</th><th>Consulting services</th></tr> </thead> <tbody> <tr> <td>US\$3,000,000</td><td>US\$250,000</td><td>US\$200,000 firms US\$50,000 individuals</td></tr> </tbody> </table>	Works	Goods/Services	Consulting services	US\$3,000,000	US\$250,000	US\$200,000 firms US\$50,000 individuals
Works	Goods/Services	Consulting services						
US\$3,000,000	US\$250,000	US\$200,000 firms US\$50,000 individuals						

Main procurement processes

Procurement description	Selection method	Estimated date	Estimated amount (US\$)
Consulting firms			
Local technical assistance to support implementation of the modernization process at the 3,697 execution units (includes tickets and per diems)	Quality- and cost-based selection (QCBS)	Q1 2024	11,584,605
Local technical assistance to implement the change management strategy at agencies within the scope of the project	QCBS	Q2 2024	3,776,575
Technical assistance for the development and adoption of the public resource programming macroprocess, including: 1. The institutional classifier, the budget classifiers, and other catalogs; and 2. The linkages between the budget classifiers and the consolidated catalog of goods, services, and works; as well as the following processes: (i) multiyear budget programming;	QCBS	Q1 2023	5,289,454

Procurement description	Selection method	Estimated date	Estimated amount (US\$)
(ii) multiyear macroeconomic framework; (iii) financial planning; (iv) multiyear public investment and externally financed project programming; (v) budget preparation and approval; (vi) staff income planning; (vii) works, goods, and services planning; (viii) borrowing, disbursement, and debt servicing planning; and (ix) planning for other expenditures. Each process includes consultations, managerial reports, and specific operations.			
Technical assistance for the design, development, training, and operational launch of the public resource management macroprocess, including: 3. The chart of accounts and respective tables of events related to the budget classifiers, as well as the processes of: (i) opening of the fiscal year; (ii) execution programming; and (iii) budget amendments; 4. The processes of: (i) revenue and expenditure budget execution; (ii) investment management/project administration; (iii) treasury management; (iv) fiscal resource management; (v) public sector financial liability management; and (vi) automatic reporting in accordance with budget and nonbudget transactions; and 5. The processes of: (i) budget execution and interoperability of procurement management; (ii) contract management; (iii) warehouse management; (iv) management of assets, property, plants, equipment, and intangible and biological assets; and (v) staff income management. Each process includes consultations, managerial reports, and specific operations.	QCBS	Q1 2024	10,162,522
Technical assistance for the design, development, training, and operational launch of the public resource evaluation macroprocess, including: 6. The processes of (i) fiscal risk management; (ii) preparation of the fiscal year general account; and (iii) preparation of public finance statistics; and 7. The processes of: (i) investment monitoring and evaluation; (ii) physical and financial monitoring; and (iii) budget evaluation. Each process includes consultations, managerial reports, and specific operations.	QCBS	Q1 2024	2,905,868
Evolutionary support (warranty): 1.5 years from when 100% of the system has become operational.	QCBS	Q2 2022	3,923,240
Nonconsulting services			
Secure application development	QCBS	Q2 2023	1,437,279
Goods			
Web services and database protection	ICB	Q2 2023	4,736,842
Equipment for application storage: primary site and backup	ICB	Q2 2023	3,493,801
Perimeter security solutions (firewalls and switches for three data centers)	ICB	Q2 2023	3,200,000
Workflow manager (yearly subscription for each core)	ICB	Q2 2023	2,400,000
Primary and backup data center racks	ICB	Q2 2023	2,384,188

The initial 18-month procurement plan can be accessed [here](#).

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	Programming and budget	Preparation of the annual programming and budget for both financing sources will adhere to the guidelines issued by the MEF's Public Budget Office. A multiyear execution plan will be prepared and will serve as the basis for preparing the annual budget, taking the program disbursement schedule into account. The budget allocated to the program will be approved by the MEF and the Peruvian Congress and reported annually to the Bank. The budget will be administered through the SIAF.
<input checked="" type="checkbox"/>	Treasury and disbursement management	The country treasury system will be used in accordance with the guidelines issued by the National Borrowing and Treasury Office. Expenditure is subject to the budget and financial execution process, with the OGIP recording each expenditure in the MEP-SIAF under the regulatory framework applicable to each of its steps: commitment, verification, authorization, and payment. Bank loan proceeds may be disbursed as advances, as reimbursement of expenditures, or as direct payments to suppliers. The disbursement mechanism will be manual, and the operation will be managed in U.S. dollars. The OGIP will maintain a specific bank account in U.S. dollars and another in soles (monetization) to manage the loan proceeds. The Bank is currently analyzing with the MEF the possibility of switching to use of the Treasury Single Account for loan programs, and this option could be implemented in the short term. Based on the program's annual financial planning, the OGIP will request that the Bank disburse funds based on a financial plan covering the program's real liquidity needs up to 180 days. For disbursements, supporting documentation will be provided for at least 80% of the cumulative balance pending justification, using Bank forms.
<input checked="" type="checkbox"/>	Accounting, information systems, and reporting	The OGIP will use the MEP-SIAF. The systems provide transparency and specific controls for accounting and reports. Program accounts will be prepared on a cash basis in accordance with international accounting standards, while also adhering to the directives of the Public Accounting Office. All documents and records will be kept for at least three years from the date of the last disbursement. Expenditures found to be ineligible for Bank funding will be reimbursed using local counterpart funding. The applicable policies and guidelines will be supplemented with the program Operating Regulations, with documented workflows and internal controls.
<input checked="" type="checkbox"/>	Internal control and internal audit	The control environment, communications, reporting, and monitoring of executing agency activities are governed by the loan contract, the program Operating Regulations, and local regulations (Law on the National Control System and the regulations of the Office of the Comptroller General (CGR)).
<input checked="" type="checkbox"/>	External control and financial reports	The external auditors will conduct the ex post review of the supporting documentation and records for completed activities and transactions. The CGR, in its regulations and as part of its role as the lead agency for the National Control System, outsources external auditing of projects to Bank-eligible independent audit firms that are regularly evaluated by the Bank. The CGR authorizes the selection and contracting of an independent audit firm, under the OGIP's responsibility and in accordance with Bank policies, for the duration of the program execution period, including any extension of the disbursement period. The program will require the selection of an eligible- or eligible-plus-tier independent audit firm. The program's financial statements include the cash flow statement, the cumulative investment statement, and notes to the financial statements. The audit report will include an evaluation of the internal control system. The cost of the external audits will be covered with loan proceeds and is estimated at US\$360,000 for the six-year execution period.
<input checked="" type="checkbox"/>	Financial supervision of the operation	Financial supervision may be adjusted based on program execution and the external audit reports. The following activities are planned: review of the portfolio with the executing agency twice per year, review of disbursement requests four times per year, and an annual financial supervision visit.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Peru. Loan ____/OC-PE to the Republic of Peru
Project to Improve the Financial Administration
of the Public Sector through
Digital Transformation

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 the borrower, for the purpose of granting it a financing to cooperate in the execution of the Project to Improve the Financial Administration of the Public Sector through Digital Transformation. Such financing will be for the amount of up to US\$74,000,000 from the resources of the Bank's Ordinary Capital and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2021)