SECTOR PROGRAM FOR PUBLIC FINANCE REFORM

(PE-0201)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Peru	
Executing agency:	Ministry of Economic Affairs and Finance	
Amount and source:	IDB sector loan (OC):	US$200 million
Financial terms and conditions:	Amortization period:	20 years
	Disbursement period:	24 months
	Grace period:	5 years
	Interest rate:	variable
	Inspection and supervision:	1.00%
	Credit fee:	0.75%
	Currency:	U.S. dollar from the Single Currency Facility

Objectives: The main objective of the program is to support the Peruvian government in implementing institutional reforms that: (i) contribute to fiscal sustainability and improve the efficiency of the tax system; (ii) improve the allocation and productivity of public resources; and (iii) improve the performance levels of deconcentrated public enterprises and agencies.

Description: There are two program execution modalities. The first consists of a program based on the adoption of public policy measures financed with a sector loan disbursed in two tranches. This will provide an incentive for executing the reforms, which are designed to facilitate permanent fiscal stability, improve the efficiency of public spending, and improve the performance of deconcentrated enterprises and agencies. The second execution modality consists of a reimbursable technical cooperation program to support the design and implementation of the reforms needed to fulfill program objectives.

The Bank's country and sector strategy: The program proposed here is consistent with the Bank's strategy of support for modernization of the State, given that the policies, legislation, and activities proposed are designed to improve the

efficiency of public resource administration and substantially increase the accountability of government officials and institutions to society.

Environmental and social review: The proposed program would not have environmental repercussions, since all of the measures planned would be limited to legal, institutional, and administrative reforms relating to the treatment of public finance. The Committee on Environment and Social Impact (CESI) considered that no evaluation was required.

Benefits: The main benefits of the program relate to the development of an institutional framework conducive to a sustainable, prudent fiscal policy, which has been essential to the success of the economic program. The introduction of institutional rules to strengthen fiscal discipline over the long term will help to consolidate progress in stabilizing the economy and improve the confidence of economic stakeholders, which is indispensable for sustained growth. The introduction of fiscal controls, i.e. permanent restraints on fiscal policy to prevent large, unsustainable deficits, will help to counteract the pressures for public spending often exerted during election periods and will send a clear message of government responsibility, nationally as well as internationally.

Risks: The imminent elections will affect political priorities and could influence the handling of legislation before Congress. This risk is mitigated, however, by the government's clear interest in passage and by the majority it enjoys in representing the country.

The arrival of a new administration in July 2000 will naturally bring changes in senior leadership and staff positions. A period of transition will therefore be necessary for the assimilation and continuity of previous commitments. During that period, however, many of the technical teams responsible for facilitating compliance with the conditionalities for the second tranche will remain under contract, with financing from the technical cooperation loan.

Finally, the risk of substantive change in the strategy and direction of macroeconomic policy is mitigated by an expanded facility agreement with the IMF for the next three years.

Special contractual clauses: The special contractual conditions are described in Annex III.

Poverty-targeting and social sector classification:	This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).
Exceptions to Bank policy:	None.