

**PERU**

**PROGRAM FOR MODERNIZATION OF THE  
OFFICE OF THE COMPTROLLER GENERAL OF THE REPUBLIC  
AND DECONCENTRATION OF THE NATIONAL CONTROL SYSTEM**

**(PE-L1002)**

**LOAN PROPOSAL**

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## PROPOSED RESOLUTIONS

### ELECTRONIC LINKS AND REFERENCES

Abbreviations	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418471">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418471</a>
Basic Socioeconomic Data	<a href="http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata">http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata</a>
Status of Loans in Execution and Loans Approved	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418476">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418476</a>
Tentative Lending Program	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418475">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418475</a>
Information available in the RE3 files	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=342532">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=342532</a>
Logical Framework	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418472">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418472</a>
Procurement Plan	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418473">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418473</a>
Glossary	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418474">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=418474</a>
Minutes of the Management Review Committee meeting	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=333157">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=333157</a>

## PROJECT SUMMARY

### PERU

#### PROGRAM FOR MODERNIZATION OF THE OFFICE OF THE COMPTROLLER GENERAL OF THE REPUBLIC AND DECONCENTRATION OF THE NATIONAL CONTROL SYSTEM

(PE-L1002)

Financial Terms and Conditions <sup>1</sup>					
<b>Borrower:</b> Republic of Peru <b>Executing agency:</b> Office of the Comptroller General of the Republic (CGR)			<b>Amortization period:</b>		20 years
			<b>Grace period:</b>		5 years
			<b>Disbursement period:</b>		5 years
<b>Source</b>	<b>Amount</b>		<b>Percentage</b>	<b>Interest rate:</b>	Libor-based option
IDB (OC)	US\$12.000	million	70%	<b>Inspection and supervision fee:</b>	0%
Local	US\$ 5.143	million	30%		
Total	US\$17.143	million	100%	<b>Credit fee:</b>	0.25%
				<b>Currency:</b>	U.S. dollars from the Single Currency Facility
Project at a Glance					
<b>Project objective:</b> The program’s general objective is to support the principles of due process and administrative probity, provide greater protection of the State’s assets, and promote public-sector efficiency by modernizing the Office of the Comptroller General of the Republic (CGR) and strengthening and deconcentrating the National Control System (NCS). The project’s specific objective is to make control over public funds more effective, reform control approaches and methods, strengthen and deconcentrate the NCS, encourage a culture of values and promote better coordination among government agencies, society at large and the private sector.					
<b>Special contractual clauses:</b> See paragraphs 3.12 and 3.13.					
Once the loan contract enters into force and the general conditions precedent to the first disbursement of the loan proceeds under the General Conditions of the loan contract are met, the Bank may disburse up to US\$20,000 equivalent, charged against the loan proceeds, to start the program activities, including the hiring of project management unit staff (paragraph 3.12).					
Prior to the first disbursement of loan proceeds following the above disbursement, the CGR will submit to the Bank evidence that: (i) it has signed a document with the borrower, assuming its obligations in relation to program execution; (ii) it has delivered, for approval by the Bank, the final annual work plan for program year one; and (iii) the project management unit (PMU) has been formally established and possesses the physical space and equipment, furnishings and technology to operate, the PMU coordinator has been hired, and the financial manager and procurement manager for the program have been selected. Prior to the first disbursement of loan proceeds for training activities under the component for interagency coordination, promotion of probity and processing of complaints, the CGR will deliver, to the Bank’s satisfaction, evidence that representatives of the training schools of the CGR, Public Ministry, and judicial branch have entered into a three-way agreement for joint activities (see paragraph 3.13).					
Exceptions to Bank policies: None.					
Project consistent with country strategy:		Yes [X]	No [ ]		
Project qualifies as:		SEQ [ ]	PTI [ ]	Sector [ ]	Geographic [ ] % of Beneficiaries [ ]
Verified by CESI on: 27 August 2004.					
Environmental/social review: See paragraph 4.10.					
Procurement: See paragraphs 3.14 and 3.15.					

<sup>1</sup> The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount. With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## **I. FRAME OF REFERENCE**

### **A. General framework**

- 1.1 There is general consensus in Peru as to the importance of implementing effective, sustainable strategies to strengthen systems providing control over, and transparency of, government employees. This consensus represents a collective rejection of the conditions that led to major crimes against the government during the past decade. These conditions involved insufficient independence and capacity on the part agencies responsible for monitoring governmental management.
- 1.2 In the case of the Office of the Comptroller General of the Republic (CGR), failure to fully achieve its mission in the past decade was the result of two main factors: (i) the inadequacy of the existing legal framework (which was exclusively oriented to monitoring due process), along with insufficient political will to carry out the control function; and (ii) weak institutional capacity in the National Control System, preventing adequate coverage and quality. During the 1990s, the CGR was dramatically downsized, and its operational capacity suffered.
- 1.3 As a result, Peruvian society has less confidence in the probity of its public institutions. Surveys define corruption in government as the second biggest challenge facing the country.<sup>1</sup> For these reasons, with the enactment of Law 27785 the CGR's current administration has begun modernizing and reforming the National Control System (NCS). The present program is part of that process.

### **B. Peru's National Control System**

#### **1. Regulatory framework**

- 1.4 Peruvian law defines the National Control System (NCS) as the set of governmental entities responsible for controls, standards, methods, and procedures functionally structured and integrated to exercise governmental controls. The NCS includes (i) the CGR; (ii) the institutional control entities (ICEs); and (iii) audit firms.
- 1.5 Entities subject to control include the executive branch, regional and local governments, autonomous agencies, the administrative units of the legislative and judicial branches, public enterprises and regulatory bodies, the armed forces and national police, and private entities receiving support from the State. In total, 2,506 entities are subject to control with 73% of these being local governments.

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<sup>1</sup> A. Melo. "La competitividad de Perú después de la década de reformas: diagnóstico y propuesta [Peru's competitiveness after the decade of reforms: diagnostic assessment and proposal]." IDB, 2003. Eighty-seven percent of those surveyed included corruption as one of the biggest challenges facing the country, second only to unemployment.

- 1.6 In order to ensure an effective regulatory framework, the new law governing the NCS and the operations of the CGR (Law 27785) was enacted in July 2002. It supplements due process and financial controls with measures to oversee governance outcomes, in order to ensure efficiency, effectiveness and transparency in the administration of the State's resources and assets. The law makes the CGR responsible for controls in relation to the environment, natural resources and the nation's cultural heritage, as well as for preaudits of external debt operations, procurements in areas involving military secrets, approval of additional public works budgets, and audits of government employees' sworn statements of income, assets and earnings.

## **2. Office of the Comptroller General of the Republic (CGR)**

- 1.7 **General.** The CGR is a constitutional entity that has been in existence for over 74 years. It is a decentralized public entity with administrative, functional, economic and financial autonomy<sup>2</sup> headed by the Comptroller General, who is nominated by the executive branch and appointed by Congress to a 7-year term. The current term ends in 2008.
- 1.8 As the entity that directs the operations of the NCS, the CGR (i) guides and directs the planning of controls; (ii) issues standards and procedures for the NCS; (iii) supervises the activities of the system's constituent bodies; and (iv) evaluates the achievement of annual control plans and ICE reports. Its responsibilities include (i) postaudits of government action in its various forms at the micro level (due process controls, financial audits, management controls and special reviews); (ii) preaudits in special cases; and (iii) postaudit at the macro level through review of the nation's general account. It also exercises preliminary control (consultation of public entities prior to administrative and other actions) as a means of improving process management within entities subject to control, and audits government employees' sworn statements of income, assets and earnings. For a glossary of control terminology, [click here](#).
- 1.9 **Organization, human resources and budget.** The CGR's organizational structure has recently been revised. It is made up of the Comptroller, Deputy Comptroller, Secretary General, General Manager, and 24 managers of various ranks. The staff consists of 1,160 individuals, 514 of whom are auditors. The 2004 budget is nearly US\$40 million—including regular resources, revenue collected directly by the agency, and funds from grants and transfers—representing 0.35% of the public budget. The CGR headquarters is in Lima, and there are 12 regional control offices

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<sup>2</sup> Article 34. "The Office of the Comptroller General shall have economic, administrative and financial autonomy for the effective fulfillment of its functions. It shall prepare, approve and execute its annual budget in the amount necessary for its institutional operation, which it shall submit to the Congress for approval" (from the CGR's Internal Regulations). Administrative autonomy is the authority to issue its own rules and regulations; functional autonomy is the authority prepare its audit reports and select entities to be audited.

(RCOs) covering primarily regional governments and provincial and district municipalities.

### **3. Institutional control entities and audit firms**

- 1.10 **Institutional control entities (ICEs).** There are 2,506 entities subject to control. Though, in principle, each should have an institutional control entity (ICE), only 700 have actually been set up. They employ 2,537 individuals, including 1,208 auditors. Under the new internal regulations, the Comptroller General appoints the heads of the ICEs (a function previously carried out by the head of each controlled entity) through an open competition. The appointees fall under the supervision of the CGR, both functionally and administratively. The entity subject to control is required to provide the head of the ICE with the physical resources and additional personnel required for the control process. To date, 175 ICE heads have been appointed under the new internal regulations.
- 1.11 **Audit firms (AFs).** There are 80 AFs, which are private audit firms approved by the CGR to be hired by public agencies for financial audits. The CGR conducts competitive selection processes and sets the eligibility requirements for registry through a system for inscription in the Business Registry.

### **4. Other branches of government involved in the control chain**

- 1.12 The system for the detection and punishment of corruption involves other institutions that work hand-in-hand with the CGR. These include the Public Ministry, which is headed by the nation's Attorney General, and the judicial branch, headed by the Chief Justice of the Supreme Court. The CGR's control reports are sent through its Public Prosecutor's Office to the Public Ministry, which as the criminal prosecution agency is responsible for filing criminal charges with the courts when there is evidence of a crime. In cases involving civil liability only, the CGR files the complaint directly with the courts.

### **C. Principal weaknesses of the NCS**

- 1.13 The number of institutions subject to control (2,506), combined with the few agencies that have ICEs (28%), the limited number of field offices (only 12 in 25 regions), the focus on monitoring due process of acts of government (over 85% of cases) and the scant development of planning instruments, works against the system's efficiency and effectiveness, and undermines the CGR's image. The quality of the reports issued is also less than ideal. Over 90% of those prepared by ICEs and regional control offices need to be rewritten. This indicates a need for better training of human resources, a review of procedures and methods, and reliable access to information.
- 1.14 The organization's image is also tarnished by its limited ability to be responsive to citizen complains, the need for a more effective policy for communicating with

society and the entities audited.<sup>3</sup> Its current capacity allows it to process approximately 40% of the citizen complaints received each year.

- 1.15 In order to establish effective sanctions to combat corruption, the NCS, as well as other branches and agencies of the government, such as the Office of the Attorney General and the courts, must function properly. “Demonstrative” actions, which send a clear signal to society that acts of corruption will be punished, require more effective coordination between the two: the courts dismiss a great number of cases brought by the Public Ministry, and financial recovery is practically nil (less than 1%). In January of 2004, 33 new criminal cases were brought, and 30 concluded out of a backlog of nearly 1,100.
- 1.16 These weaknesses are being addressed by the current administration, which has succeeded in creating a new regulatory framework, an increased budget and more selective and diversified hiring. These and other advances need to be solidified, if the organization is to carry out effective controls and improve coverage, quality, timeliness and diversity. Coordination with the rest of the control apparatus also needs to be strengthened, as does communication with citizens. The problems of the NCS therefore require a three-pronged approach: (i) institutional and organizational issues; (ii) an expanded local presence; and (iii) interagency coordination along the value chain and with citizens.

## **1. Institutional and organizational issues**

- 1.17 **Instruments of control and diversity of controlled entities.** Although more than 73% of the entities subject to control are municipalities, the current regulations and manuals are not easily adapted to small municipalities. A similar situation exists for audits of public enterprises. Information on the entities being controlled needs improvement, since there are few baseline studies or established and proven methods for control of management. Moreover, the instruments used for supervision by ICEs and AFs need to be updated and readjusted.
- 1.18 **Planning of control actions, and subsequent follow-up.** The programming of control actions is constantly being changed as a result of complaints by members of Congress or citizens, or because of the need for rapid action.<sup>4</sup> Constraints on access to basic information (risk maps, financial management, budget and budget execution) and the shortcomings of current methodologies limit the CGR’s capacity

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<sup>3</sup> During program preparation a study was commissioned on the CGR’s image within government agencies. It showed that there was “a certain fear or hesitancy to speak about the organization,” and that the “auditors, particularly the old-timers (sic), have a poor image, because they are seen as always looking for errors, as if they were police. They are seen as highly inflexible, and as not providing advice.” (See “[Evaluation of the CGR’s Image](#).”)

<sup>4</sup> The new system of management introduced rapid action as an innovative method of investigating complaints with support from the police assigned to the CGR.

for strategic planning, and make it difficult to follow up properly on its recommendations. According to a preliminary survey, over 60% of recommendations made in 2003 have yet to be implemented by entities subject to control.

- 1.19 **Procedures.** The CGR is starting to design new processes to address situations such as the fact that approval of a routine special review requires approximately 60 steps, involves over 10 organizational areas, and takes 176 working days. A Processes Office has been established to standardize processes and move operations away from “customary practices” and toward a system governed by rules and procedures.
- 1.20 **Organizational structure of the CGR.** The CGR’s principal activity has traditionally been to monitor due process. These actions have been largely of a legal nature, neglecting other areas of control. Despite long experience, efficiency has not yet improved substantially enough to meet the growing demand for control. This has led to an increasing backlog of cases that have been initiated but not concluded (from 15% in 2001 to 35% in 2003, or 961 cases).
- 1.21 The current administration launched a process of organizational change that is still in progress. It is designed to raise productivity and improve coverage, quality and timeliness in the monitoring of due process, while developing expertise in new types of control mandated by the internal regulations. This will require multidisciplinary teams, better use of information technology and certain changes in organizational structure, additional to those already made, consistent with the new institutional system.
- 1.22 **Human resources.** The current administration has begun a process to improve the selection, assignment, training and promotion of its human resources, and is placing emphasis on the need for all new hiring to be competitive and on seeking higher and more diverse qualifications.<sup>5</sup> This is to counter the current bias in favor of backgrounds in accounting and engineering, when multidisciplinary skills are needed to implement the new legal framework. The CGR has legal authority to create its own workforce and remuneration structure, and is starting to build differentiated incentives for performance or efficiency into its wage and salary policy.
- 1.23 **Training.** The Escuela Nacional de Control [National Control School], or ENC, which trains NCS personnel, has suffered from budget cutbacks. Its physical infrastructure, equipment, processes and systems are in need of upgrades. In

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<sup>5</sup> The CGR is still able to attract talented staff. In the last two years, there have been competitions to fill midlevel and senior positions, in which over 2,600 people applied for 160 positions. Many of the candidates held graduate degrees.

addition, the range of courses it offers (close to 155) needs to be reviewed and coverage increased.

- 1.24 **Technology and information systems.** Despite recent progress, the CGR still lags significantly in terms of information systems and technological support. Work takes place within information “islands,” where some processes are done manually and computer applications are out of date. Few specific programs have been developed for the various types of control activity, there is limited storage capacity, and the network is not sufficiently secure. The ability to share information with other agencies in the effort to combat corruption is also limited.
- 1.25 **Physical space.** The CGR’s headquarters is a 10-story building over 30 years old and a large house next door called “La Casona.” The building’s structure is not suited to the organization’s operations and needs to be remodeled. In addition, lack of space led to the construction of a number of rooms between the large building and the house, in which working conditions are poor, especially in hot weather. The 12 regional control offices are located mostly in leased or rented buildings, which are as much in need of work as the ENC (in Lima).

## **2. An expanded local and institutional presence**

- 1.26 **Regional control offices.** Peru has begun a process of intense decentralization, and regulations<sup>6</sup> make regional and local governments subject to control and supervision by the CGR. This means that both resources and skills must be shifted to regions and municipios. As this occurs, the complexity of the management of public funds by subnational governments can be expected to increase. Furthermore, the territorial dispersion of government entities throughout the country (25 regional governments, 1,829 municipalities and 218 State-run enterprises) means that the central headquarters cannot realistically be expected to assume sole responsibility for the control process, despite the fact that audits are based on sampling. Hence, the regional control offices must play a major role.
- 1.27 The current administration has opened new regional control offices and transferred staff from headquarters to the provinces, broadening the agency’s territorial coverage. Yet the regional control offices still face such limitations as: (i) little training on the part of staff in management and organizational skills; (ii) low operating capacity at some offices; (iii) a tendency to conduct municipal controls on the basis of complaints received (100% of the actions of regional control offices in 2003 were of this type); (iv) connectivity difficulties with headquarters; (v) low operational capacity (out of 251 control actions in 2002 and 2003, only 84 were done by regional control offices); and (vi) limited capacity to address citizen

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<sup>6</sup> Decentralization Guidelines Act (Law 27783), Article 21; Regional Governments Act (Law 27867), Article 75; draft Municipalities Act, Article 30.

complaints (only 35% of complaints received by the CGR were handled by regional control offices).

- 1.28 **ICEs.** The ICEs vary in their capacities, with serious shortfalls in the municipal sector and in state corporations reporting to government agencies. The 700 ICEs, with over 2,500 employees, have out-of-date manuals and little capacity to prepare special reports. Thus, the CGR must constantly revise them, and nearly 90% of reports require some rewriting. This is due, in part, to a low training level. Of 547 ICEs studied, only 25% had employees who had received any training. Though only 170 of the new ICE heads report to the Comptroller, their daily work takes place within the organizational setting of the institution being controlled, which can have the result that the two organizations tend to “mirror” each other. For this reason the CRG is beginning to institute evaluation and rotation mechanisms for the ICE heads.
- 1.29 **Audit firms.** The country has only 80 AFs certified by the CGR. This is a small number, given the quantity and complexity of the financial audits to be done. In addition, some parts of the country have no AFs, making it difficult for public-sector entities to produce audited financial statements as required by law. Moreover, the rules and regulations governing competitions and certifications are in need of review, so as to increase the number of firms and individuals certified to perform financial audits.

### **3. Relations among agencies and with citizens**

- 1.30 **Interagency coordination.** An effective anticorruption effort requires dedication by various actors at different steps of the processes of investigation and punishment of illegal acts. Specifically, at a minimum the CGR, Public Ministry and judicial branch must be involved. There are also important actors in the control chain within the CGR, such as its Prosecutor’s Office (the unit responsible for judicial proceedings)<sup>7</sup> and the police assigned to the agency.<sup>8</sup>
- 1.31 The control process, however, faces such problems as poor institutional coordination, which makes it difficult to unify efforts to detect and punish acts of corruption; isolated anticorruption policies in each of the sector’s entities; and a culture of secrecy at control entities that takes the form of reluctance to share non-confidential information among themselves. Processing of complaints is extremely slow due to complementary investigations by different prosecutorial offices, which delays the initiation of judicial action; and the slowness of the judicial process itself and differing definitions of crimes in the judicial rulings. Thus, interagency

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<sup>7</sup> State entities have a judicial defense entity known as the Public Prosecutor’s Office. Together, they form the State Judicial Defense Council within the Ministry of Justice.

<sup>8</sup> The police assigned to the CGR represent a structural innovation designed to accelerate the processing of complaints that appear to involve criminal responsibility.

relations within the control community need to be improved, and work needs to be done to agree on areas of action, procedural consistency and implementation of systems for following up on actions.

- 1.32 **Probity of public officials.** According to recent studies by the CGR, one of the principal problems in Peruvian public administration is the low level of administrative probity among its civil servants. Areas particularly affected include procurement and hiring, subsistence allowances and special bonuses. Some of the contributing factors are the absence of a clear public ethics policy and a lack of funding for the CGR to promote values. Although government employees are required to file sworn statements of income, assets and earnings, the CGR still lacks the capacity to check the veracity of a significant sample or compare statements over time. There is also a lack of knowledge regarding the specific weaknesses of each institution subject to control. Thus, tools and methodologies must be developed to gauge vulnerability to corruption within institutions. There has been little study of this issue, and, despite the fact that Studies and Research Office has begun promoting a systematic approach, more investigative effort needs to go to gathering statistics and tracking indicators to accurately measure progress or backsliding in anticorruption efforts.
- 1.33 **Response to citizen complaints.** Though action has been taken to increase and improve citizen participation in reporting illicit activity, it has had little impact on corruption. Citizens have very little knowledge regarding what can be reported and how complaints can be filed. Moreover, though improvements have been made to complaint centers, their operational capacity is insufficient to meet demand, and the information systems are weak and ill-suited for effective control and monitoring.

#### **D. The country's sector strategy**

- 1.34 In 2001 the CGR approved its "Strategic Plan 2002-2006" with four general objectives: (i) to modernize governmental control; (ii) to help eradicate corruption; (iii) to strengthen the NCS; and (iv) to foster the CGR's institutional development. The country has made progress on the plan,<sup>9</sup> and this program is consistent with its objectives.
- 1.35 The new framework lays the foundation for the CGR's work in regard to: (i) deconcentrating control of due process to the ICEs; (ii) deconcentrating financial control to the AFs; (iii) concentrating within the CGR actions related to its role as a regulatory agency, management control, in special cases of preaudits and controls of programs with a social impact; and (iv) establishing a local presence through regional control offices to expand local coverage.

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<sup>9</sup> Major achievements include the new regulatory framework, the establishment of four new regional offices, setting up an office at CGR for the police assigned to the agency, institutional standardization through competitive appointment of heads of ICEs, internal reorganization and improvements to complaint centers.

**E. The Bank's country and sector strategy**

- 1.36 The Bank's Modernization of the State Strategy (OP-1004) identifies strengthening the democratic system (including entities for State oversight) as an area for action. It also acknowledges the need to overcome institutional weaknesses that hinder modernization, including those related to corruption.
- 1.37 The country strategy approved in August 2002 and updated in 2004 (document GN-2205-1) set as a priority the creation of a modern, decentralized and efficient State. The proposed program supports this objective by promoting institutional change in that regard.

**F. Program strategy**

- 1.38 It is important to understand the political and institutional context in which the Bank was working during the preparatory phase of this program. The NCS's regulatory framework and the roles assigned to its actors enjoyed political consensus as reflected in the recent passage of the Act Establishing the NCS and its internal regulations. Efforts focused on actions to strengthen the CGR so that it could fulfill its principal mission of exercising control of due process, and on development the expertise needed to perform the new functions mandated by law. Consistent with the country's sector strategy (see paragraph 1.35) and progress already made in consolidating the CGR (see paragraph 1.16), the program's strategy is to support the institutional modernization that has begun, strengthen and move forward with deconcentration of the NCS, improve interagency coordination, promote probity and process citizen complaints.

**G. Lessons learned, the Bank's contribution, and coordination with other donors**

- 1.39 The Bank has had a range of experiences<sup>10</sup> from which lessons applicable to this operation have been drawn. The lessons include the following: (i) modernizing control agencies is a necessary condition for improving transparency in the public sector; (ii) projects should consider changes to systems of incentives for those responsible for applying the instruments; and (iii) reforms require a sense of ownership by those directly involved and by society at large. Moreover, in many of these projects, it is essential for risk maps to be created as a means of selecting entities/actions for audits, and for deconcentrated offices to be strengthened so that they can more efficiently audit entities in their respective geographic areas.

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<sup>10</sup> Similar programs include modernization of the Accounts Tribunal of Uruguay (827/OC-UR); support for Nicaragua's General Auditing Office (1100/SF-NI); the program to strengthen the Office of the Comptroller General in the Dominican Republic (DR-0106); the program to strengthen the offices of the Comptroller General and Auditor General in Colombia (1243/OC-CO); and the program to modernize the Office of the Comptroller General of the Republic of Chile (1391/OC-CH).

- 1.40 In Peru, the Bank also supported the modernization of the control system through a technical-cooperation operation (ATN/SF-5599-PE, US\$700,000, with Bank financing in the amount of US\$500,000) from 1997 to 1999. Despite the problems at that time in exercising control, the headquarters and some regional control offices are better equipped than before; a media campaign was conducted; and CGR staff were trained in the use of the SIAF financial management system.
- 1.41 The Bank's presence in the preparatory phase of the operation also contributed to:
- (i) **Better communication:** Bank funds underwrote an analysis of how the CGR is viewed by other public agencies, to ascertain their views and give the CGR a clearer understanding of its problems and responsibilities.
  - (ii) **Better coordination with other agencies:** the Bank served as liaison among the CGR, the Public Ministry and the judicial branch. This took the form of preliminary agreements on areas of joint training. This initial improvement in relations, which would not have been possible before, is expected to serve as a basis for subsequent exchanges designed to create uniform criteria for investigating cases of corruption with positive repercussions all along the control chain.
  - (iii) **Strengthening the CGR's technical capacity:** the Bank collaborated in conducting the economic analysis that the Ministry of Economy and Finance (MEF) requires of projects, resulting in a positive response to the methods used.
  - (iv) **Better internal coordination:** the Bank promoted and held two workshops for senior agency officials, including the Comptroller. Although, technically, this provided an opportunity to review action plans, it also created a greater sense of ownership of the project among line managers responsible for execution. The Bank also served as a link among staff in different areas of the CGR who have little or no daily interaction.
- 1.42 During the design phase, the Bank placed particular emphasis on complementarity and coordination with activities that the CGR is conducting with funding from the United States Agency for International Development (USAID) and the Government of the Netherlands. USAID's technical cooperation supports a project to ensure transparency and control of decentralization through regional governments, while the Netherlands has focused on environmental management and cultural heritage.

## II. THE PROGRAM

### A. Objectives and description

- 2.1 The program's general objective is to support the principles of due process and administrative probity, provide greater protection of the State's assets, and promote public-sector efficiency by modernizing the Office of the Comptroller General of the Republic (CGR) and strengthening and deconcentrating the National Control System (NCS). The project's specific objective is to make control over public funds more effective, reform control approaches and methods, strengthen and deconcentrate the NCS, encourage a culture of values and promote better coordination among government agencies, society at large and the private sector.

### B. Program structure

- 2.2 The program has three components, which are described below.

#### 1. Component 1. Institutional modernization (US\$11.4 million)

- 2.3 The objective of this component is to give the CGR the instruments it needs to fulfill its mission more efficiently and improve its internal management.

##### a. Modernization of instruments (US\$661,000)

- 2.4 The objective of this subcomponent is to optimize existing control processes, regulations and instruments, in order to improve the quality and effectiveness of control measures and activities, as well as to design new products to improve governmental controls and governance. The program will provide funds to (i) update and improve the internal regulations framework; (ii) review current processes and products and make improvements; and (iii) design new products.
- 2.5 **Updating and improvement of internal regulations framework.** Consulting services will be contracted to review, improve and update the technical standards of control mechanisms, such as specific standards for audits of small municipalities and public enterprises. Funds will also be provided to set rules for new products (macro and sector controls and management audits), and current guidelines governing the flow of documentation between controlled entities and the NCS will be reviewed and improved.
- 2.6 **Review of current processes and products; identification and implementation of improvements.** Using appropriate approaches to improve procedures, and incorporating the results of the risk analysis,<sup>11</sup> priority will be given to funding a

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<sup>11</sup> This is included in activity (b) under the "Improving Internal Management" subcomponent.

proposal to adapt and improve methodologies used in monitoring due process. The new processes will first be implemented on a small scale, and then expanded to the entire NCS once the managers responsible for this component evaluate the outcomes and make any necessary adjustments. The Bank will monitor the application of these methodologies through the annual work plans and midterm review.

- 2.7 **Designing new products.** In complementary fashion, and in light of the CGR's need for greater expertise in these areas, enforcement of the internal regulations will be supported by the design, development and implementation of new methodologies, processes and technological applications for control actions related to governance, the general account, programs with a social impact, the environment, and the nation's cultural heritage.

**b. Improving internal management (US\$10.7 million)**

- 2.8 The objective of this subcomponent is to develop and implement a new model of internal management to improve technical support, operations and administration.

**(i) Redefining the management model and improving administrative systems (US\$635,000)**

- 2.9 Consulting services will be funded to review and improve internal processes, including (i) human resources, finance, logistics and internal control; (ii) implementation and monitoring of improvements to procedures; (iii) optimization of the budget management process; and (iv) design and implementation of an electronic document management system that includes processing, management and filing. Funding will also be provided to prepare proposals for adapting the CGR structure to the new products and processes identified in the first subcomponent.
- 2.10 **Strengthening the process of government planning with an emphasis on operational planning.** This includes reviewing, developing and integrating two levels of planning: planning of control activities to improve the selection of entities audited and identify key areas, and improving the institution's own planning process by integrating strategic, operational and budgetary planning. Funding will be provided to: (i) develop and implement a methodology for creating a risk map; (ii) design the entity-based, georeferential information system;<sup>12</sup> (iii) design and implement a system of indicators for governmental control; (iv) redesign, optimize and integrate strategic, operational and budgetary planning; and (v) validate and implement the new planning methods.

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<sup>12</sup> To be implemented by the "Development of Information Systems" subcomponent.

- 2.11 **Institutional performance evaluation system.** In order to conduct ongoing monitoring and evaluation of institutional performance, both administratively and with regard to the institution's mission, funding will be provided to create a set of objectively verifiable indicators for periodic review of critical points in the management process and decision-making regarding the institution's operations and strategic direction. The system will have indicators to evaluate process, outcomes and impact. Special emphasis will be placed on improving the module that determines cost, based on individual actions, activities, programs and strategic objectives.
- 2.12 **Incorporation of knowledge management principles.** Mechanisms will be implemented to capture the institution's collective know-how, including the individual knowledge of its members, as well as the institution's experience as reflected in documents. To this end, funding will be providing for consulting assignments and information technology systems to: (i) set criteria for the selection of information required by the new procedures and products; (ii) classify the available information; (iii) establish mechanisms to translate individual knowledge into physical and electronic documents; and (iv) identify functional requirements for developing an information system capable of effectively organizing and disseminating information.

**(ii) Integral development of human capital (US\$1.8 million)**

- 2.13 Here, the objective is to integrate human resources management, employing a skills-based approach, and create a career structure. Given the multiethnic character of Peruvian society, it is important that the system be socially inclusive in terms of income, roles, positions and functions in the institutional structure and as related to the processes, products and impact of governmental control activity. It should also take into account requirements and performance criteria for each level, opportunities for advancement, and job descriptions for each category.
- 2.14 For this purpose, a skills-development training plan will be funded, along with a performance measurement system. In view of the particular importance of environmental controls and their complexity and scope, special training in this area will be developed in coordination with other relevant public institutions. To strengthen the National Control School, funds will be provided to redesign its operations, both academically and in the management area, and to review its curricula, teaching methods (given developments in distance learning), and courses in relation to different areas of control for which the CGR is responsible, with particular attention to areas that the CGR is now addressing, such as management, macro analysis and social programs.
- 2.15 The program will also fund the design and implementation of a plan for professional career paths. This includes identifying, selecting and adapting new human capital based on both the skills needed for each position in the CGR's new

organizational structure and its new processes and products. A model for individual evaluation will be implemented, reflecting strategic, management and individual objectives, and a related incentive system will be put in place. Finally, an organizational culture and climate appropriate to the institution's new approach will be promoted. This will include periodic assessments of the organizational climate, and formulation of strategies to improve it.

**(iii) Development of information systems (US\$4.7 million)**

- 2.16 The objective of this subcomponent is to provide optimal technological support to develop, administer and guarantee the sustainability of the modernization process as it relates to the CGR's mission and to the institution as a whole, as well as in relation to the NCS components.
- 2.17 During program preparation the Bank funded consulting services to formulate the strategic plan for information technology (PETI), which identified the activities to be funded by the program. In this connection, (i) hardware, software and telecommunications equipment will be purchased, consistent with the improvement and design of new processes established; (ii) internal and remote connectivity will be developed for the NCS components; and (iii) new entity-based, georeferential systems will be developed, and current systems maintained, including systems for (a) specific control measures; (b) control activities; (c) response to complaints; (d) examination of sworn statements; (e) management of the NCS (regional control offices, ICEs and AFs); (f) liaison with outside entities; (g) document processing and filing; and (h) administrative management (planning and budgetary, logistical, financial and human resources modules).
- 2.18 In addition, funding will be provided to design and implement a corporate management system to select, store and process data from different offices and areas. This activity includes providing facilities for data entry, storage, access and use, pursuant to the needs and criteria of NCS procedures. There are plans to pilot the use of information from special reports employing case-based reasoning (CBR), as well as to design and implement ICT architecture that provides blanket security.

**(iv) Improvement of physical infrastructure (US\$3.6 million)**

- 2.19 Here, the objective is to create a proper environment for the functions and tasks of the different CGR offices: headquarters, National Control School (ENC) and regional control offices.
- 2.20 In combination with counterpart resources, and pursuant to Peruvian environmental law and regulations, funding will be provided to develop infrastructure and equip the institution's headquarters, regional control offices and ENC. This will include:

- (i) completing construction of a new headquarters building and equipping it;<sup>13</sup> and
- (ii) remodeling and improvements to the existing headquarters facilities (optimizing layout, furnishings and equipment).<sup>14</sup>

## **2. Component 2: Strengthening and deconcentration of the NCS (US\$2.8 million)**

- 2.21 Here, the objective is to improve the performance of the ICEs, AFs and regional control offices. This will involve strengthening the capacity of the ICEs and the rules governing contracting with, and evaluation of, AFs. Efforts will also be made to support deconcentration of the NCS's activities by improving the capacities of the regional control offices.

### **a. Strengthening of ICEs and AFs (US\$1.6 million)**

- 2.22 The capacity, scope and effectiveness of the NCS will be enhanced by improving coordination among its component entities, strengthening the ICEs and optimizing the work of the AFs. To this end, four groups of activities will be funded.
- 2.23 **Transfer of capacities for control activity to ICEs.** The process of postaudits and preaudits overseen by the ICEs will be improved. Training will be funded for the technical refresher training for ICE heads and staff, and due process controls will be conducted jointly by ICE and CGR personnel. Management courses will also be provided to prepare some ICEs to assume supervisory and evaluation functions over ICEs for smaller entities with which they are functionally or sector related. Teaching will be provided by the ENC and/or specialized entities on a case by case basis. Specific policies, including staff rotation and supervision, will be provided to prevent "mirroring" of controllers and controlled.
- 2.24 **Design of management and interagency coordination instruments to strengthen the ICEs.** Funding will be provided by contracting consultants to help design and develop the ICEs' organizational models, design and implement mechanisms to select and prioritize the ICEs slated for strengthening by the CGR, develop a preaudit policy, prepare the organizational and functional rules and manual, and promote and disseminate these instruments. The creation of mechanisms to communicate and coordinate with the various agencies will also be

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<sup>13</sup> Includes a three-story building for offices, a below-ground level for filing and other facilities, an employees' cafeteria, and furniture and equipment.

<sup>14</sup> The following have been considered for regional offices: (i) building seven regional offices in Ayacucho, Arequipa, Cajamarca, Cuzco, Piura, Puno and Tacna. These offices are currently located in functionally inadequate rented facilities; (ii) remodeling four regional offices (Junín, Lambayeque, Loreto and San Martín); and (iii) providing furniture and equipment for these offices. The current facilities do not have enough space for the work that needs to be done, and will be even more inadequate after the planned staffing increases.

funded, in order to facilitate timely implementation of recommendations on control activities and measures designed to improve public management.

- 2.25 In order to stimulate the external audit market and standardize the process of selecting and contracting AFs and independent auditors, a study of the existing and potential market, as related to AFs and independent auditors, will be funded. The object is to make auditing available to entities with smaller budgets, especially outside the capital. The findings of the study will be validated against existing regulations, and specific regulations issued for the appointment of independent auditors. At the same time, funding will be provided to develop and implement policies to stimulate the participation of AFs and independent auditors, and to create a database and register of these. Training of AFs with funding from the firms themselves will also be encouraged.
- 2.26 Funding will be provided for the development and implementation of a system to supervise and evaluate ICEs and AFs, including the issuance of a policy to govern the process.

**b. Strengthening the regional control offices (US\$1.2 million)**

- 2.27 Here, the objective is to consolidate a strategy for the deconcentration of CGR activities, through activities carried out by regional control offices, by structuring the delegation of authority and distribution of skills based on the technical and operational capacities of the regional control offices.<sup>15</sup> Their technical and administrative management systems will also be redefined. To accomplish this, the program will fund the following:
- 2.28 **Strengthening the technical capacity of regional control offices.** This activity is designed to transfer technical capacity for governmental control measures by implementing an advisory and classroom/distance training program on control activity, integrated with field work, under the supervision of the offices at CGR headquarters responsible for overseeing control activities. The purpose is to lay the foundation for due process controls at the regional level. At the same time, technical assistance will be provided, and joint action conducted with headquarters staff, so that regional control offices can improve their programs for supervising and evaluating the ICEs of regional entities.
- 2.29 **Strengthening the administrative management of regional control offices.** The management systems and procedures used at headquarters will be adapted to, and implemented at, the regional level. Manuals will be prepared, emphasizing logistics, budget management and planning. Human resources management will be improved, and the size of the specialized control staff will be increased. A staff

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<sup>15</sup> The general policy is to establish regional offices in accordance with the regional divisions that have been established and with the institutional regulations set forth as part of State decentralization.

classroom/distance training program will strengthen the technical and management capacity of the regional control offices.

- 2.30 **Design and implementation of the regional office supervision subsystem.** A subsystem for the supervision and evaluation of regional control offices will be designed and implemented, to optimize their functioning and maximize their efforts to achieve the goals of the control plans. This subsystem will make it possible to evaluate the performance of regional control offices and address their current management weaknesses.

### **3. Component 3: Interagency coordination, promotion of probity and processing of complaints (US\$1.5 million)**

- 2.31 The central objective of this component is to improve coordination, both with State entities that are part of the value chain and with private sector entities and civil society, in order to promote the dissemination of a culture of values and probity and to make the CGR more responsive to citizen complaints.

#### **a. Interagency coordination (US\$679,000)**

- 2.32 Joint coordination and training mechanisms will be promoted for the CGR, Public Ministry and judicial branch, in order to streamline the process of determining responsibility for criminal acts and liability for economic damage to the State beyond the scope of the NCS.
- 2.33 In coordination with judicial branch and Public Ministry personnel, the CGR will propose and fund a plan to train judges, court clerks, prosecutors, police assigned to the CGR, and auditors on crimes against the government. The training will be conducted jointly by the three institutions and include: (i) defining target qualifications and skills for the various participants; (ii) developing materials for support and dissemination; (iii) creating and disseminating teaching materials related to the activities and responsibilities of the various entities; and (iv) providing specialized training for the above-mentioned actors.
- 2.34 The development and implementation of mechanisms to improve interfacing between the CGR, the Public Ministry and the courts will also be funded.<sup>16</sup> This will include: (i) mapping joint procedures and proposing improvements; (ii) developing a campaign to disseminate the improvements and new procedures; and (iii) systematizing mechanisms to follow up on cases and provide access to information, integrating information to be shared by the CGR, Public Ministry and the courts.

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<sup>16</sup> An interagency committee will be formed to support execution of these activities.

- 2.35 At the same time, action will be taken to strengthen the CGR's Public Prosecutor's Office by reviewing its procedures, redesigning its organizational structure and training its human resources.
- 2.36 Funds will be allocated to improve communication with Congress. This includes redesigning the CGR's institutional management documents (which include the management report, the report on the audit of the nation's general account, and the report on control over activities to protect natural and cultural resources). This activity will facilitate Congressional oversight of the CGR.

**b. Promotion of probity (US\$577,000)**

- 2.37 Here, the objective is to institutionalize a culture of values in the society and State through communication strategies as part of the NCS to achieve compliance with codes of conduct in the public sector, and promote codes of conduct in the private sector. An awareness campaign strategy will be designed to disseminate the outcomes of the NCS's actions, and mechanisms will be put in place to enhance cooperation by the private sector. As part of the awareness campaign strategy, designed to keep citizens informed of the CGR's activities and their options for interacting with it, the following will be created: (i) a comprehensive communications plan for the CGR; (ii) mechanisms to measure the results of the plan once it is implemented; and (iii) a campaign to promote probity among public employees.
- 2.38 A "code of business ethics and corporate responsibility" will be developed in conjunction with the private sector. Since the Peruvian government has also expressed its intention to increase outside funding via public-private arrangements (concessions, guarantees, etc.), it is likely that some activities will increase the State's contingent liabilities. Accordingly, an attempt will be made to anticipate problems associated with these new modalities through special training for a select group of personnel.
- 2.39 Infrastructure, technology and equipment will be provided for public communications, so as to meet the project's strategic communications needs. Staff training and procurement of equipment will be included.

**c. Strengthening the processing of citizen complaints (US\$276,000)**

- 2.40 Here, the objective is to strengthen the internal processes of the CGR, in order to improve citizen services, access to follow-up and the ability to respond to complaints. A monitoring office will be set up to analyze and disseminate standardized citizen-reported information on crimes against the government, once the truth of the information has been confirmed.
- 2.41 The program will provide funding to improve the processing of complaints. This includes (i) setting targets to improve the process; (ii) redesigning the

organizational structure and procedures for managing citizen complaints; (iii) optimizing and defining the scope of the system for processing complaints; (iv) designing mechanisms for internal coordination and for the transmission of information calling for fast action; (v) providing technological support for the national police assigned to the CGR; and (vi) training personnel involved in the complaint processing system (SAD).

- 2.42 An office to track the processing of citizen complaints will also be funded. This will make it possible to track complaints, streamline processing of new cases, classify information on the most frequent types of cases and keep the public informed. The activities involved include: (i) analyzing the frequency of different types of cases based on information from the complaint processing system; (ii) designing protocols for data entry and output; and (iii) establishing the requirements of the system to be developed.

### C. Cost and financing

- 2.43 The estimated total cost of the program is US\$17.143 million, comprising a loan of US\$12 million from the Bank's Ordinary Capital (OC) and US\$5.143 million in local counterpart contributions. The counterpart resources will come from the CGR's investment budget and, specifically, from the source of financing of ordinary resources.<sup>17</sup>

**Table II-1. Project budget**  
(in US\$ thousands)

Items	Contributions				Total	
	IDB		CGR			
	US\$	%	US\$	%	US\$	%
I. Direct costs	10,659	62.18	5,050	29.46	15,709	91.64
1. Institutional modernization	6,966	40.64	4,411	25.73	11,377	66.37
1.a. Modernization of instruments	617	3.60	44	0.26	661	3.86
1.b. Improvement of internal management	6,349	37.04	4,367	25.47	10,716	62.51
1.b.1. Redefining the management model	567	3.30	68	0.40	635	3.70
1.b.2. Integral development of human capital	1,813	10.58	0	0.00	1,813	10.58
1.b.3. Development of information systems	3,865	22.55	792	4.62	4,657	27.17
1.b.4. Improvement of physical infrastructure	104	0.61	3,507	20.46	3,611	21.06
2. Strengthening and deconcentration of the SNC	2,400	14.00	400	2.33	2,800	16.33
2.a. Strengthening of ICEs	1,338	7.81	237	1.38	1,575	9.19
2.b. Strengthening of RCOs	1,062	6.19	163	0.95	1,225	7.15
3. Promotion of probity	1,293	7.54	240	1.40	1,532	8.94
3.a. Interagency coordination	598	3.49	81	0.47	679	3.96
3.b. Promotion of probity	493	2.88	84	0.49	577	3.37
3.c. Strengthening of the complaint processing system (SAD)	201	1.17	75	0.44	276	1.61
II. Administration	428	2.50	48	0.28	476	2.78

<sup>17</sup> The interest rate, credit fee, and inspection and supervision fee are established pursuant to document FN-568-3 Rev. Funds have been provided under contingencies to accommodate any change in the fees.

Items	Contributions				Total	
	IDB		CGR			
	US\$	%	US\$	%	US\$	%
III. Monitoring and evaluation	130	0.76	0	0.00	130	0.76
1. External audits	80	0.47	0	0.00	80	0.47
2. Project monitoring and evaluation	50	0.29	0	0.00	50	0.29
IV. Contingencies	783	4.57	2	0.01	785	4.58
V. Financial expenses	0	0.00	42	0.25	42	0.25
Project total	12,000	70%	5,143	30%	17,143	100%

### III. PROGRAM EXECUTION

#### A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Peru. The Comptroller General of the Republic (CGR) will be the agency responsible for executing the various components of the program, and will have a management committee responsible for general supervision and management of the operation's components and subcomponents.

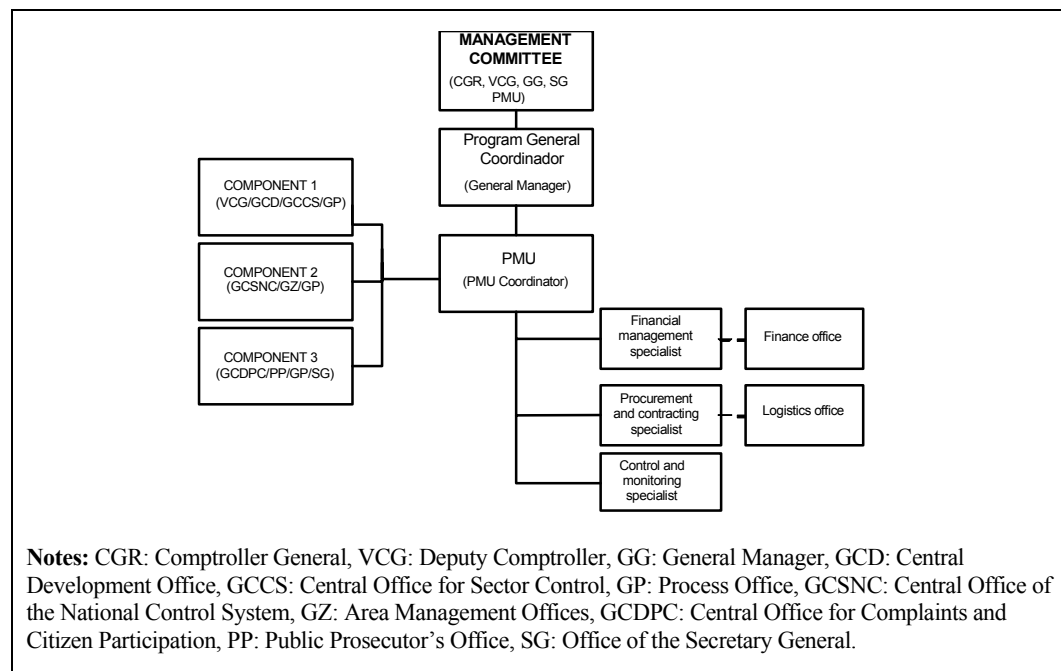
#### B. Project execution and management

##### 1. Execution

- 3.2 The CGR's line managers will have technical responsibility for execution of the components. However, because Bank programs require compliance with certain standards and hiring processes, the managers will be supported by the **project management unit (PMU)** for the duration of the program's execution. The PMU will have, at a minimum, a coordinator, a financial management and accounting specialist, a procurement and contracting specialist, and a planning and monitoring specialist, in addition to any necessary administrative support. The terms of reference for this staff are subject to the Bank's nonobjection, and efforts will be made to ensure the stability of personnel, with causes for dismissal established in the contracts, related essentially to incapacity/unfitness or violation of labor regulations. The PMU Coordinator will report directly to the CGR's General Manager, who will act as the program's general coordinator. In addition, the managers will have approximately five technical assistants, paid for by the counterpart, to help with their heavy workload. The assistants will provide support for the preparation and monitoring of the annual work plans (AWPs) and interact with the PMU's managers and coordinator in program execution.
- 3.3 **Management Committee (MC).** The Management Committee will be chaired by the Comptroller General and include the Deputy Comptroller, General Manager, Secretary General, and the PMU Coordinator, who will serve as Secretary. The Management Committee will support the Comptroller in carrying out his responsibility to: (i) review attainment of program goals; (ii) approve changes in program policy; (iii) approve AWPs; and (iv) review the use of program funds.
- 3.4 The PMU will support the General Coordinator in program execution, assist in the process of contracting consultants and procuring goods and services, and interact with the administrative sections of the CGR, particularly the offices of Logistics and Finance. The managers of the individual components will be responsible for the terms of reference, bidding conditions, and reports. The functions of the PMU will be as follows: **Technical:** (i) formulate the AWPs; (ii) review terms of reference,

prepare requests for proposals and interact with the CGR Logistics Office for contracting and procurement; (iii) monitor program progress to ensure compliance with operating procedures and contractual clauses; and (iv) prepare semiannual reports, in addition to any others required by the Bank. **Financial:** (i) prepare and deliver to the Bank disbursement requests and supporting documentation for eligible expenses, semiannual reports on the flow of funds from the revolving fund and audited financial statements; (ii) maintain an effective filing system of supporting documentation for eligible expenses, so that the information can be verified by Bank personnel and external auditors; (iii) maintain separate program operations records and integrate them in the CGR's system, so as to facilitate accounting and financial management of Bank loan proceeds and local counterpart resources in accordance with Bank requirements; and (iv) maintain separate, special bank accounts for the management of the loan proceeds and local counterpart funds. **Management/Control:** (i) establish operational controls; (ii) coordinate the evaluation of AWP's and corrective measures; and (iii) serve as program's liaison with the Bank and other public and private entities.

3.5 The following chart summarizes the proposed project execution structure:



3.6 AWP formulation and execution will be the responsibility of the respective offices and will be prepared by the PMU. Each year during the execution period, the executing agency will submit the AWP, which the Bank must approve before resources are committed. The executing agency may agree with the Bank to submit additional AWP's, if this facilitates monitoring and execution of the program.

- 3.7 AWP will be organized in three chapters: (i) **institutional modernization of the CGR**, overseen by the Office of the Deputy Comptroller, the Central Development Office and the Central Office for Sector Control with support from the Process Office; (ii) **strengthening and deconcentration of the NCS**, overseen by the Central Office of the National Control System and by the Northern, Central, Southern and Lima offices with the support of the Process Office; and (iii) **interagency coordination, promotion of probity and processing of complaints**, overseen by the Central Office for Complaints and Citizen Participation, and the Public Prosecutor's Office with support from the Process Office. The Office of the Secretary General will be responsible for the interagency coordination component.
- 3.8 The AWP will contain information on the activities and execution timetable for the year, establishing goals and indicators in accordance with the program's Logical Framework. AWP will also provide details of budget performance, describing sources of funding and consistency with the CGR budget, preliminary versions of terms of reference for consulting services and specifications for future tenders. Finally, beginning in the second year of execution, the AWP will include an evaluation of the prior-year AWP. By November 30 of each year, the Management Committee will approve the AWP to be submitted to the Bank. The final version of the AWP for year one is now ready, and includes the terms of reference for the principle contracts.

## **2. Revolving fund and recognition of expenditures**

- 3.9 A revolving fund equivalent to 5% of the financing will be established for program disbursements.
- 3.10 The CGR has asked the Bank to recognize as local counterpart resources up to US\$1.5 million expended from the time the project profile was approved on 5 November 2003 up to the time the Bank's Board of Executive Directors approves this operation. These expenditures were used primarily to contract for and carry out infrastructure works and to procure goods and services related to the program components. Specifically, the CGR has asked the Bank to recognize against the local counterpart approximately US\$590,000 spent to expand the CGR's headquarters. This was done recently through an interagency agreement with the National Engineering University and in accordance with national legislation, which is acceptable to the Bank. Since other expenditures up to the above-mentioned total have been shown to comply with procedural requirements substantially analogous to those of the loan contract, their recognition is recommended.

### **3. Disbursements**

- 3.11 **Opening of a Special Account.** The Comptroller General of the Republic will see that a special bank account is opened to manage the funds from the Bank's loan account.
- 3.12 **Special disbursement.** Once the loan contract enters into force and the general conditions precedent to the first disbursement under the General Conditions of the loan contract are met, the Bank may disburse up to US\$20,000 equivalent, charged against the loan proceeds, to start the program activities, including the hiring of project management unit staff.

#### **C. Special contractual conditions precedent to the first disbursement**

- 3.13 Prior to the first disbursement of loan proceeds following the above disbursement, the CGR will submit to the Bank evidence that: (i) it has signed a document with the borrower, assuming its obligations in relation to program execution; (ii) it has delivered, for approval by the Bank, the final annual work plan for program year one; and (iii) the project management unit (PMU) has been formally established and possesses the physical space and equipment, furnishings and technology to operate, the PMU coordinator has been hired, and the financial manager and procurement manager for the program have been selected. Prior to the first disbursement of loan proceeds for training activities under the component for interagency coordination, promotion of probity and processing of complaints, the CGR will deliver, to the Bank's satisfaction, evidence that representatives of the training schools of the CGR, Public Ministry, and judicial branch have entered into a three-way agreement for joint activities.

#### **D. Procurement and contracting authorization**

- 3.14 The thresholds for international publicity in competitive bidding for program procurements will be US\$350,000 equivalent or more for goods and related services, US\$200,000 equivalent or more for consulting services and US\$3 million equivalent or more for works.
- 3.15 For a 12-month period running from the effective date of the loan contract, and starting with the third competitive bidding or other contracting process, the Bank will conduct ex post reviews of the respective competitive bidding, procurement, and contracting processes for amounts under US\$35,000 equivalent. Thereafter, based on the review outcomes, the Bank may raise the threshold for supervision of competitive bidding, procurement, and contracting processes to up to US\$200,000 for consulting services on an ex post basis, and up to US\$350,000 for goods and related services.

## E. Disbursement period

- 3.16 The estimated disbursement period for the loan proceeds will be up to 60 months, running from the effective date of the loan contract.

**Table III-2. Disbursement timetable  
(in US\$ millions)**

Source	2005	2006	2007	2008	Total	%
IDB	2.7	3.7	3.3	2.3	<b>12.0</b>	70
Local	2.1	1.6	1.0	0.4	<b>5.1</b>	30
Total	4.8	45.3	4.3	2.7	<b>17.1</b>	100
Percentage	28%	31%	25%	16%	100%	

## F. Monitoring and evaluation

- 3.17 **Reports.** The CGR will submit program execution reports to the Bank during program execution by 31 May of each year for the period from 1 November of the prior year to 30 April of the current year, and by 30 November of each year for the period from 1 May to 31 October of the current year.
- 3.18 **Review of AWP.** See paragraphs 3.6 to 3.8.
- 3.19 **Midterm and final evaluations.** By the time 40% and 90% of the loan proceeds have been disbursed, respectively, a consulting firm hired by the executing agency with the Bank's prior nonobjection, acting in accordance with terms of reference approved by the Bank, will assemble and analyze the core data on the program, especially as it relates to the indicative targets for program monitoring set in the Logical Framework and the actions planned in each AWP delivered to date, so that the Bank and borrower can conduct a midterm review and final evaluation of the program's accomplishments.
- 3.20 The midterm review will evaluate the progress and outcomes of the program. It will focus on performance of the activities contemplated in each AWP, the effectiveness of the interagency dialogue with other NCS entities, the effectiveness of the planned awareness and citizen participation activities, and the implementation of the new management audit procedures. The review will assist the project team in judging attainment of the indicative targets for the first two years and in setting the goals for the following years.
- 3.21 The CGR's PMU will gather, store and maintain all information, indicators and parameters, including the AWP, the midterm review and final evaluation, necessary for the Bank to prepare the project completion report (PCR).

- 3.22 The program financial statements will be submitted annually during execution. An independent accounting firm acceptable to the Bank and hired with resources from the loan will audit the financial statements pursuant to Bank policies and procedures. Program audits will also include the procurement audit required by Bank policies.

## **IV. VIABILITY AND RISK**

### **A. Institutional viability**

- 4.1 The CGR has a wealth of successful experience in managing operations with international cooperation agencies, as described in paragraph 1.42. This advantage will be enhanced by bringing in personnel trained in Bank standards and procedures to provide administrative support for the project. The current line managers, with experience in their own areas, will be directly responsible for the activities funded by the program. However, given their daily workload, they will be supported by technical staff dedicated exclusively to program activities. Finally, a control and monitoring specialist will keep the Management Committee informed of possible deviations from the work execution timetables of the AWP and suggest corrective mechanisms where appropriate.

### **B. Financial viability and sustainability**

- 4.2 No risks connected with financial viability or sustainability are envisaged. The lack of financial viability risks is attributable to three factors: (i) the MEF has given the program high priority, as reflected in the approval of its feasibility study and its inclusion in the Bank's pipeline for the current year; (ii) the counterpart funds are modest, and a major portion has already been executed in infrastructure works for the program and should be recognized; (iii) the CGR enjoys administrative, operational, economic and financial autonomy (see paragraph 1.7); and (iv) the CGR budget has been rising steadily over the last several years (see paragraph 1.9), in view of the importance that the other branches of government have given to control.
- 4.3 Sustainability is ensured, insofar as possible, by the fact that: (i) the efficiency gains generated by the program (see the following paragraphs) will be more than sufficient both to fund the new activities and products to be developed and to continue training and updating staff; (ii) the training and refresher activities develop expertise, which produces effects beyond the limited period of the operation itself and have an impact on future control activity; (iii) improvements in infrastructure through works currently in progress, which promise high-quality outcomes, together with the renovations and improvements to headquarters, the ENC and all of the regional control offices, will also have repercussions beyond the program itself; and (iv) the telecommunications systems and equipment to be purchased, as well as the internal and remote connectivity to be implemented, are technologically up-to-date, and despite the rapid technological aging characteristic of the sector, they have a long useful life for the purposes at hand.

### C. Socioeconomic viability

- 4.4 The program is a good investment for both the State and society as a whole. It will have a positive impact on public finances by discouraging acts of corruption, recovering a greater quantity of public funds used fraudulently to the economic detriment of the State, and streamlining expenditures through specific measures. From society's perspective, efficiency gains in the NCS will free up resources for other uses. Moreover, as corruption is reduced, social equity will improve. The principal benefits are described below.
- 4.5 With greater labor productivity, **the cost of each control measure should drop** by 25% for the CGR and by 20% for the ICEs. Thus, if the number of control measures remains constant, resources with an average annual economic value to society of nearly US\$4.4 million should be freed up. This should make it possible for the CGR to audit 60 additional entities, and for the ICEs to audit an additional 90.
- 4.6 The deconcentration of the NCS and the strengthening of the regional control offices should **lower auditors' travel expenses and per diem costs** for annual savings of over US\$50,000 beginning in year two, and of nearly US\$340,000 by the end of the period. The Internet connection between CGR in Lima and the regional control offices is also expected to generate **significant savings in communications costs**.
- 4.7 With better-trained auditors, improved control methods and greater clarity regarding the information that is needed, **time and money should be saved by the entities being audited**. Furthermore, by increasing the quantity and quality of recommendations based on special reviews and management audits, **greater compliance with standards and greater efficiency in the operations of the controlled entities can be expected**.
- 4.8 With a more effective NCS, a stronger Prosecutor's Office and more and better interagency coordination among the CGR, the Public Ministry and the judicial branch, the **misappropriated public funds recovered should increase** by nearly US\$1 million per year.
- 4.9 Finally, if the control entities succeed in strengthening their capacity to detect acts of corruption, if such acts are punished, if the participation of civil society in monitoring public spending increases, and if probity among public officials is effectively encouraged, **misappropriation of funds to the State's economic detriment can be expected to decline** by approximately US\$6 million annually

from year four onward. This will allow the State to “recover” the funds invested in the program, in addition to the other ways it benefits.<sup>18</sup>

#### **D. Environmental impact**

- 4.10 This operation does not involve activities with any adverse environmental or social impacts that would require assessment. However, since there will be specific training regarding control of environmental and natural resource activities to help the CGR more efficiently meet its responsibilities in those areas, the operation may indirectly have a positive impact on the environment by increasing awareness of environmental responsibility as a part of the institution’s mandate. The Committee on Environment and Social Impact (CESI) approved the project concept paper at its 23 January 2004 meeting, and its observations were incorporated into this report (see paragraphs 2.13, 2.14 and 2.20).

#### **E. Benefits**

- 4.11 A number of theoretical and empirical studies indicate that corruption impedes development and violates the basic principles of equity and ethics on which a society is built. As a result of corruption, public funds may not be invested in projects that significantly benefit society, but rather in those that create advantages for illicit activity. At the same time, the private sector spends time and money to garner some of the profit generated by corruption and/or avoid the costs imposed by a corrupt bureaucracy. Thus, strengthening the NCS helps to improve the country’s governance, making the NCS’s entities more efficient and effective, while discouraging corruption by heightening awareness of the risks involved.
- 4.12 **In terms of governance**, the program’s activities reinforce probity, due process, transparency, accountability and management assessment, promoting a shift in the culture of public administration in which results take priority over formal compliance with bureaucratic procedures. All this will contribute to better governance.
- 4.13 **In terms of enhancing equity**, more effective controls as a result of the program should offset some of the adverse effects of illegal levies on public services, which disproportionately affect vulnerable groups, since in addition to having to pay corrupt government agents, these groups tend to receive lower-quality services. The program’s special attention to controlling these activities and controlling the State’s

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<sup>18</sup> In view of the complexity of quantifying the harm that the corruption causes to society, only direct loss to the State was taken into account. However, the broader damage may be significant, since: (i) public funds are not used according to the priorities set by the community as reflected in the budget; (ii) fundamental principles of equity are violated as a result of a high volume of transfers of resources between individuals/groups; and (iii) misappropriated funds may exit the country, creating a net loss of resources to the community. Thus, discouraging corruption and recovering such funds would generate significant social, not merely financial, benefits.

social programs will address these problems, supporting government efforts to reduce social inequity.

- 4.14 **In terms of the efficiency of the management of public funds**, the improved control capacity resulting from institution-strengthening will represent progress, and the goals and objectives associated with each of the entities subject to control will be more fully achieved. Specifically, the reforms of control processes will provide the executive branch and society with more reliable and timely information. This will facilitate decision-making, as well as monitoring and evaluation of government programs. At the same time, strengthening the RCOs and ICEs will expand their control measures, make them more timely and create a culture of prevention in public administration, thus reducing corruption. Finally, the increased efficiency and soundness of fiscal management and, where appropriate, the use of joint jurisdiction, will discourage irresponsible and illegal behavior in public administration overall.

#### **F. Expected outcomes**

- 4.15 The program is expected, among other things, to: (i) expand the geographic coverage of controls of government activity are conducted and enhance the quality of control reports; (ii) increase the diversity of entities being controlled; (iii) make issues that are important to the society part of the process; (iv) increase the timeliness and quality of both actions and outcomes; (v) pave the way, in some cases, for other agents (prosecutors and judges) to initiate procedures and enforcement actions; (vi) encourage citizens to report wrongdoing; and (vii) promote probity on the part of government employees and private-sector businesspeople.

#### **G. Risks**

- 4.16 **Little interagency cooperation.** The possibility that it will be difficult to achieve substantial cooperation among the different entities in the control system constitutes a potential risk to the effective execution of the interagency coordination subcomponent. The program envisages activities to bring the different players together in the process of technical strengthening, redesign of procedures and joint training. With this in mind, the project team met with the different parties involved—the Office of the Attorney General, the Supreme Court and the Magistrature Academy—to encourage them to work together more closely and identify areas of common interest. A three-way agreement among the schools of the three entities is to be signed as a condition precedent to funding of such activities.
- 4.17 **Mirroring.** Though the new heads of ICEs are appointed by the CGR, the rest of the functional structure for audits is provided by the entity being controlled. The daily work of controller and controlled can create a certain “mirroring effect” that weakens the government control process. Though this is a risk to the NCS, rather

than to the program design, it could affect some program outcomes. The CGR is fully aware of this and plans to institute accountability and performance evaluation systems to ensure transparency in the control process. A human resources policy is to be instituted that includes rotation of ICE staff.

- 4.18 **Resistance to change.** As mentioned above, the CGR has principally worked in the area of due process controls and financial audits. Monitoring management and policy compliance is a new area, introduced by the new legal framework. This may trigger some resistance to change among personnel already working in the organization. To mitigate this, the program has a human resources training and incentives plan. The plan that the institution is developing to add human resources is based on the need for interdisciplinary teams and staff with experience in public administration and policy. These new personnel will also receive training.